GROWTH EQUITY PORTFOLIO REVIEW

First Quarter 2011

PERFORMANCE COMMENTARY

Natural and man-made upheavals and unrest around the globe made for an eventful first three months of 2011: political uprisings swept across Egypt, Libya, Syria, Bahrain, and elsewhere in Northern Africa and the Persian Gulf region, and a horrendously devastating earthquake and tsunami clobbered northern Japan, leading to the greatest public health disaster caused by a nuclear plant accident since Chernobyl. Reactions to the news headlines in late February through mid-March derailed the U.S. equity markets from their relatively steady climb upwards since the beginning of the year…but not for long. The impressive 7.1% year-to-date gain posted by the S&P 500 Index (a measure of the general U.S. equity market) through February 18th was completely wiped out by the middle of March, yet the remaining two weeks of the month saw the market soldier on, rewarding equity investors with a 5.9% total return for the quarter. Another broad index, the Russell 3000 Growth Index, posted similar results, up 6.3% for the quarter, while indices focused exclusively on the stocks of smaller, growth-oriented companies, such as the Russell 2000 Growth Index, did even better, generating a 9.2% return for the quarter.

	Periods Ending March 31, 2011				
	Quarter	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite – NET	**7.7%**	**28.0%**	**8.4%**	**5.1%**	**7.3%**
Russell 3000 Growth Index	6.3%	19.2%	5.6%	4.3%	3.3%
S&P 500 Index	5.9%	15.6%	2.4%	2.6	3.3%

Composite performance is reported **NET** of fees and expenses. Please refer to the disclosures at the end of this report.

Growth Equity enjoyed a very strong return for the quarter, well ahead of both the S&P 500 and Russell 3000 Growth Indices on a relative basis. The top contributor for the quarter was **BioLase Technology (BLTI)**, up over 180%. **Universal Display (PANL)**, **IPG Photonics (IPGP)**, **MAKO Surgical (MAKO)**, and **Cytori Therapeutics (CYTX)** followed, all with share price gains of 50% or more. At the same time the strategy's biggest detractors for the period **- Activision Blizzard (ATVI)**, **Cisco Systems (CSCO)**, **Cree (CREE)**, **Nektar Theraputics (NKTR)**, and **Rovi Corp. (ROVI) -** posted sizable losses ranging from -9 to -38%. There is usually a sizable distance between the top winners and top losers for a quarter given the nature of the stocks we buy for Growth Equity, but this quarter's differential was certainly larger than normal.

STOCK COMMENTARY

BioLase's stellar contribution certainly warrants an explanation. Biolaise is a maker of laser-based cutting tools for primarily the dental health market. Sharp-eyed readers of past Growth Equity letters may recognize the company's name because it has been mentioned as a loser several times in past letters. We have long been attracted to the value of BioLase's ownership of outstanding technology, but even we were amazed at the missteps by management in attempting to market and monetize its products. As recently as September of 2010, the stock was trading below $1 per share, in our judgment a price below liquidation value. As written in our Third Quarter 2010 letter, we were willing to wait and see what the company's new management (led by a former CEO and large stockholder) could do, believing the stock was worth more than $1 per share even if the CEO was wrong in his planned changes. As the last two quarters have shown, with the company's sales on the upswing, the market has returned to BioLase believing it to be a healthy company.

As for Universal Display's nearly 80% share price rise during the quarter, we refer you to our Second Quarter 2010 letter for the details of why we were attracted to this leader in organic light emitting diode (OLED) technology and its stock. While the company's share price appreciation has been substantial over the past twelve months, we believe the market remains reasonably rational in its expectations for the future, though we wouldn't be surprised by a bit of a pullback. Universal Display is not easy to value given the uneven expectations for OLED display production coming online in 2011 and 2012, but we believe the company's enterprise risk, that is, the risk of survival, will continue to diminish through 2011. In fact the stock has already begun to trade on 2012 earnings.

Lastly, IPG Photonics (the market leader in fiber lasers that was discussed as a new position in the Third Quarter 2010 letter) has handsomely rewarded investors with its dramatic increase in sales and earnings over the past two quarters. We continue to hold the stock, believing the future is bright for the company's outstanding fiber laser technology, with further upside in store for shareholders.

One of the names on the negative side of the ledger is Activision, a video game publisher with leading market positions across all categories of the rapidly growing interactive entertainment software industry. Since our initial purchase in October of 2009, the stock of Activision is down slightly, versus a very strong upward move in the market as a whole, especially over the past six months. Why did we buy it? Recall that our investment approach favors companies with a strong business model, exposure to a growth trend, and attractive valuation. In the case of Activision's business model, we were very attracted—and still are—to the Blizzard online platform of which *World of Warcraft* is the star subscription property. We particularly liked the Blizzard subscription model (in which players pay monthly in order to participate), and the growth of the Blizzard subscriber base. We were not so enamored with the Activision side of the business in which the company releases a disk costing $50 or more for the latest version of a blockbuster game such as *Call of Duty*. However, the company continues to show an ability to get new versions to market and exceed expectations, at least for the established properties. Our expectation was that the company would leverage the Blizzard online platform by moving some current Activision packaged properties to it as well as introducing new games for the platform. This dual track would provide a catalyst for further revenue growth and stability.

A couple of things have not happened. First, the company's new game introductions - either packaged or via the Blizzard platform - have mostly failed. Although Activision has been able to leverage their current game lineup via new products and services using the Blizzard platform and via direct digital download, they have not been able to generate a completely new franchise on par with existing ones. Secondly, the continued weakness in consumer spending in developed countries has not helped. Thus the revenue growth we were expecting has not materialized and the stock's price has languished. The stock's multiples including cash flow yield remain attractive, but it's difficult to see where the growth will come from.

Lastly, more than a few observers have suggested that new gaming platforms such as Facebook and mobile devices are eating Activision's lunch. We agree that some gamers' attention is being redirected to these newer, faster growing platforms, but the demographics of users of the newer platforms appear to be quite different from the classic console gamer (18 to 23 year old male) that is Activision's target market. Still, we admit the new platforms have had a negative effect.

What are we going to do with Activision? We generally allow two to three years for our expectations for a stock to unfold, unless a company or environmental event significantly changes our opinion about the company's business model or its potential growth prospects. A year and a half in, our expectations for Activision have not been met. The stock is on a very short leash. Good news in the near future should keep Activision off the chopping block. No news will likely have the same result as bad news.

Another disappointment in the quarter was our relatively small position in Cree, a stock that's had little exposure in our quarterly letters. Cree has a special place in the LED (not OLED) lighting value chain. The company is somewhat vertically integrated as it is in the chip design business that underpins LED lighting as well as in the LED lighting fixture business. For the uninitiated, LED white light generated from semiconductors is a very efficient method of illumination. LED-based lighting has been around for quite some time in specialty applications such as automobile tail lights and traffic lights. As the cost of manufacturing has declined, LED white light technology is now being planned for use by the general lighting industry such as in street lamps and light fixtures for the home. Cree specializes in the higher wattage semiconductors that can be used in fixtures destined for these larger markets. To be frank, we were always behind Cree when it comes to valuation as the stock raced ahead of optimistic expectations. However, of late two worries have hit the industry in general and Cree in particular. As the world came out of the recession in 2009 and 2010, consumers purchased computer monitors and LCD TV sets that were now backlit by LED's. This provided Cree with substantial growth but in a fairly small portion of its revenues. Nonetheless, as the LCD TV supply caught up with demand in late 2010 and early 2011, the entire LCD TV supply chain slowed, and Cree has suffered a bit as a result. Second, and more important, is the company's substantial exposure to the Chinese general lighting market. In addition to our worry that the Chinese government will slow its purchases of general lighting for municipalities, we see a potentially greater concern in China's support of homegrown producers of LED's, creating a threat to Cree's place in the greater-than-one-watt LED semiconductor market. We continue to evaluate the issues facing Cree; the outcome of our deliberations will determine if we take advantage of the stock's recent weakness to add to current positions or craft an exit strategy.

PORTFOLIO ACTIVITY

The major sales this quarter included liquidating positions in **Trimble Navigation (TRMB)** and **Aruba Networks (ARUN)**, and boy, did we hate selling them. We are huge fans of both companies' business models and managements. The top people at both organizations are a joy to talk to - focused on the idea at hand, letting the idea that satisfies the market need shape the company, approachable and enthusiastic. And each company is exposed to wonderful growth trends. Trimble is essentially the Garmin of the construction industry, providing hardware and software GPS solutions for various industries but especially the commercial construction and transportation industries worldwide. We first bought Trimble shares in the low-20's in 2009; in 2010 the stock's price blew by what we considered was a fair valuation, raising the risk of a significant correction to an unacceptable level. As a result, we sold all shares.

As written in prior communications, we love Aruba Networks **-** the company that is. Aruba and competitor Cisco share a duopoly in commercial wireless network infrastructure, selling wireless networking gear to mid-sized and large corporations, colleges and universities, healthcare organizations and the like. The trend for this business has been hot and is getting hotter: the economic case for installing wireless infrastructure versus the typical wired scheme in an office setting is compelling. To us, Aruba has the better product line versus Cisco, plus a burgeoning, focused sales staff. As such, they are increasing share in a fast growing segment of the network infrastructure market. Management is focused and is doing the right things **-** refreshing old product lines with new technology and introducing new products that leverage the basics. So why sell Aruba? Aruba is a very expensive stock. In terms of a simple cash earnings multiple based on analyst consensus estimates, the stock is selling for about 45 times fiscal (June) 2012 estimates. We had to stretch our assumptions for discounted cash flow to get a fair value around $19, so holding the stock at $30 was in our view beyond any rational justification. So we're out.

The only major purchase for the quarter was Cisco and it presents an interesting foil to Aruba. Cisco presents contradictions. Though it has a large collection of wireless networking products to offer, is has not been as responsive as smaller competitors, such as Aruba, despite the supposed flexibility of its largely decentralized management structure. When we talk to competitors of Cisco, they continue to be very concerned by Cisco's presence, waiting for timely thrusts of appropriate products and solutions presented by the company's extensive sales and support force. But the company continues to lag smaller competitors. To us, Cisco is in need of focus. In essence, Cisco is a collection of attractive and unattractive corporate assets in need of rationalization, supported by a sizable sales staff and a growing, profitable services business. Despite the negatives, we still believe Cisco can grow sales in the upper single digits, even 10% or so, while increasing margins if it really makes an effort. Unlike Aruba's rich valuation, Cisco is selling for 10 times fiscal (July) 2012 estimates. Despite the challenges at Cisco, we think the Aruba for Cisco swap makes sense. However, to say that our purchase of Cisco was untimely is an understatement. We made sure to initiate the position before Cisco's fourth quarter earnings announcement…just in time to hear yet another disappointment and enjoy a 22% price drop. Despite the current setback, we believe Cisco has the assets, size, and time, to realize higher value than is currently indicated by its stock price.

MARKET COMMENTARY

One of the Sunday school teachers of my youth was the CFO of a major chemical company whose stories about the business world were at times as enlightening as our bible studies. I recall him sharing with us his one rule for keeping his meetings at work focused and on time: anyone around the table could say anything they wanted, even something nasty about him, but they could only say it once. He also purposely kept no guest chairs in his office. His management style may not have translated into ten minute Sunday school classes, but those classes were instructive on several fronts. I recall to this day his dislike of repetitive messages, particularly as I am about to break his rule! The following is a point I've mentioned in prior quarterly letters. But in this case I think the message is worth repeating due to its relevance to how we view the markets and are structuring portfolios.

We continue to see a bifurcation in the market's valuations of equity securities. Those companies exhibiting above-average to very high current rates of sales or earnings growth are being generously rewarded by the market with superlative (high) valuations; those with moderate to low growth expectations sport very modest valuations. Obviously this is a blanket generalization and we recognize that there are always exceptions, but the actual valuations of the companies we follow support this observation. The market analysts who are saying that 'quality' is cheap (in other words, valuations are reasonable or low) in the U. S. markets are partially correct. Many companies with great balance sheets and awesome margins do currently sport moderate valuations, but most of those tend to have correspondingly modest measures of growth. On the other hand, we follow plenty of companies with great balance sheets and awesome margins whose growth has been strong and therefore sport high valuations. To us, the market's expectation for a company's growth is the key driver of valuation rewards currently.

The next question is twofold: 1) why is this so, and 2) how long will this last? We have to hop on the bandwagon here to explain why: the world's central banks, in an attempt to jump start economic growth in the developed countries, have expanded their balance sheets by historical proportions over the past three years. This leads, so say many, to negative real rates of return. In such an environment, it is the riskier assets and asset classes that deliver better returns, some times much better. Hence higher valuations for higher growth expectations. How long we will have a negative real rate of return environment is not so clear other than knowing that it can not last. Other than for angels, capital is neither free nor infinite. It must have a cost. When the unreality of negative real rates of return disappears, there will be competition in the securities markets for capital. When capital becomes dearer, the suppliers of such need not take as much risk. And when will we see positive real rates of return materialize? Who knows? It will probably show up in government bond rates first. We will be on the lookout.

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DISCLOSURES: The Growth Equity Composite is comprised of discretionary taxable and tax-exempt accounts of similar risk and investment objectives that are managed for growth. Accounts are included in the composite at the beginning of the first full calendar month each account is fully reflective of the investment strategy. The S&P 500 Index is an unmanaged index considered generally representative of the U.S. stock market. The Russell 3000 Growth Index is an unmanaged index constructed to provide a comprehensive, unbiased, and stable barometer of the growth segment of the broad U. S. stock market. Results are calculated internally using Advent portfolio accounting software and information provided by outside custodial firms. Composite and index performance valuations and calculations include dividends, interest and other earnings and are stated in US dollars. Performance figures for periods one year and longer are annualized. Composite returns are asset weighted and are reported net of fees and commissions. Performance results for individual accounts may vary due to the timing of investments, size of positions, fees, and other reasons. A client's returns may be reduced by other expenses incurred in the management of the client's portfolio. Additional information regarding policies for calculating and reporting returns is available upon request. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified or discussed were or will be profitable. The stocks named as the top or bottom five contributors to performance for the period are based on a representative portfolio (Princeton Capital's oldest Growth Equity wrap account portfolio; also a member of the Growth Equity composite) and have been identified through a report generated by Princeton Capital Management's Advent portfolio accounting system. Further detail on the contribution to performance calculation, which takes into consideration the weighting of every holding in the representative account, as well as a list showing every holding's contribution to performance for the period, is available by contacting Princeton Capital Management at info@pcminvest.com.