GROWTH EQUITY REVIEW

Second Quarter 2014

"Slowly I turned - step by step - inch by inch"

PERFORMANCE COMMENTARY

These first few words of this old vaudeville routine, popularized by Abbot and Costello, might be a good descriptor of how the market performed in the second quarter of the year. After an outstanding 2013, the broad market found its footing in mid May and inched its way higher "step by step" for the balance of the quarter. It could be described as a stealth rally, as the market defined by the S&P 500 was up 5.2%. The indices have had twenty-two new highs year to date with the majority of them coming in late May through June. Each week was incrementally better with historically low volatility and volume. In terms of what gave the market it strongest lift, energy stocks were up 12% and utilities rose almost 8% and are up almost 19% year to date. As in the first quarter, the market continued its rotation from growth to value.

			Periods Ending June 30, 2014				
	QTR	**YTD**	**1 Yr**	**3 Yrs**	**5 Yrs**	**7 Yrs**	**10 Yrs**
Growth Equity Composite - NET	**1.9**	**3.0**	**22.1**	**13.4**	**19.4**	**7.9**	**9.0**
Russell 3000 Growth Index	4.9	6.0	26.8	16.1	19.3	8.0	8.3
S&P 500 Index	5.2	7.1	24.6	16.6	18.8	6.2	7.8

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

Performance figures for periods one year and longer are annualized.

PORTFOLIO COMMENTARY

Vertex Pharmaceuticals (VRTX) announced another significant improvement in the treatment of cystic fibrosis sending the stock up 35% for the quarter. We expect there to be continued product advancements from the company. This is in concert with our investment philosophy of having a greater degree of exposure to scientific discovery and technological innovation than many other managers. There is specificity to product analysis and milestones that can lead to significant capital appreciation. However, requisites for success entail understanding, patience and perseverance as innovation is never immediate or linear. It is rewarding on multiple levels when it occurs. Three other larger companies benefiting from the drive for innovation responded well in the quarter. **Apple (AAPL)**, **Intel Corp (INTC)**, and **American Tower (AMT)** were up 22%, 20%, and 10% respectively. **Union Pacific (UNP)** rounded out the top five gaining 7%.

Scientifically oriented companies detracted from performance in the quarter. **Hansen Medical (HNSN)** was down 50% after being up 50% in the first quarter. Adoption rates and strength of marketing seem to be their biggest hurdles so they have uneven quarters in terms of sales. An activist shareholder is now involved. We see the company as having significantly greater worth to a larger company that can help with marketing and scale. **Unisys (UIS)** missed in the quarter and was down 19%. As a large contract systems provider, they have lumpy quarters in terms of sales and earnings. We invested in UIS because we see them as being an early provider of a transformational approach to encrypting data used in cyber-security. **Mesoblast (MBLTY)** a leading developer of stem cells, which we added to the portfolio in late March, was off 17%, while **Cree (CREE)** and **JDS Uniphase (JDSU)** were down 12% and 11%.

PORTFOLIO ACTIVITY

We completed selling the balance of the positions in **Vodafone (VOD)** and **Computer Sciences (CSC)**, and sold **Express Scripts (ESRX)** during the quarter. We added to our **American Movil (AMX)** position and in health care added two pharmaceutical companies: **Bristol-Myers Squibb (BMY)** and **Merck (MRK)**.

As world leading pharmaceutical companies, BMY and MRK need little introduction or description. We see immunotherapy as the next big breakthrough in the pharmaceutical space. Immunotherapy leverages the patient's immune system to eliminate or slow the growth and spread of cancerous cells. New advances in tumor biology are enabling the development of potent therapies that prevent the tumor from evading the immune detection with manageable safety profiles.

There are several companies active within immunotherapy. BMY has the lead in immuno-oncology research programs as well as a continued focus on specialty therapeutic areas and is transitioning from products addressing the primary care market, while MRK is just beginning to see results from its decision to narrow its focus on fewer therapeutic areas. They expect FDA approval in the fall for their immunotherapy treatment for metastatic melanoma and have promising drug candidates in the pipeline for hepatitis C diabetes, osteoporosis and HIV.

MARKET COMMENTARY

Over the past year, investors have had growing concerns over two potential negatives. The first is that the duration and magnitude of the current stock market "rally" off its March 2009 low makes it vulnerable to a meaningful reversal. In addition, the combination of an escalation of global military conflicts, continued domestic political contention, and a succession of perplexing economic reports has kept market participants uncharacteristically cautious.

We have written in recent letters on our strong belief that we are in a secular bull market that, with corrections along the way, has sufficient investible life left. This bullishness is grounded in our belief that the economy is on sound footing, the strengths of American corporations are underappreciated and their valuations in the marketplace remain reasonable.

The second worry is that the reversal in the Federal Reserve's policy of monetary accommodation will cause a rapid rise in interest rates with collateral damage to the economy. Again, we take issue with this pessimistic perspective.

In order for there to be dramatic declines in asset prices (stocks, bonds, real estate, commodities), they need significant overvaluation, ownership concentration, and excessive leverage. Currently in the case of bonds, only the first condition exits. From Fed Funds to junk bonds, both in the US and abroad, central bank policies have resulted in abnormally low interest rates. Thus, normalization will, by definition, cause rates to rise. But, without forced liquidations due to excessive leverage and concentrated sellers acting in unison, rates should advance in an orderly manner.

Importantly, the varied motivations of bond holders should act as a modifier to rapid rate increases. The wide range of rationales for ownership include; income, safety, diversification, legal requirements, and capital appreciation. Only in the latter case would holders appear to be vulnerable under the prospects of higher rates. This diversity of needs argues for the normalization process to be gradual.

In addition to diverse investment objectives, bonds are held by a wide range of investors, including speculators, individual retirement plans, pensions and endowments, financial firms, mutual funds and global central banks. Their differing goals, time horizons and decision making processes should obviate a rapid "run" on the bond market.

These structural characteristics of the fixed income markets, when combined with a continuing outlook for sub-par economic growth and contained inflation, give credence to our position that the worst fears of the bond market alarmists are without merit. Accordingly, we continue to see and find opportunities ahead of us in the equity markets.

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DISCLOSURES:

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The Growth Equity composite was created on January 1, 1993, representing actual separately managed taxable and tax-exempt equity client portfolios managed on a discretionary basis according to Princeton's Growth Equity investment strategy without client restrictions for the period(s) indicated.
Performance results are calculated internally using Advent portfolio accounting software. Accounts are included in each composite and its performance at the beginning of the first full calendar month in which the account is fully reflective of the investment strategy. Performance and index valuations and calculations include cash and cash equivalents and also include the reinvestment of dividends, interest and other earnings and are computed and stated in US dollars. All performance figures for periods one year and greater are annualized. Returns are weighted for the size of each underlying account. Net returns are reported net of management fees and commissions. A client's return will be reduced by our advisory fees and other expenses a client may incur in the management of the client's portfolio. Our advisory fees are disclosed in our Form ADV 2A. Also, there is a compounding effect of advisory fees over time on the value of a client's portfolio. As an example, the deduction of investment management fees would reduce the annualized return for the five years ended December 2013 from 21.2% to 20.0%. Actual investment advisory fees incurred by clients may vary.
The **S&P 500 Index** is an unmanaged index generally considered to be representative of the US stock market as a whole.
The **Russell 3000 Growth Index** is an unmanaged index that measures the performance of the broad growth segment of the US equity universe. These indices are unmanaged and include the reinvestment of dividends and earnings. Individuals cannot invest directly in any of these indices.
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