YOUNG ENTERPRISE SHARES REVIEW

First Quarter 2016

THE WIND AT OUR BACKS

PERFORMANCE COMMENTARY

Since the onset of the bull market in March of 2009, there have been periodic setbacks as wary investors continually reassessed the environment. Still emotionally scarred by the near death experience of 2008-9, they have been vigilant of potential risks, real or perceived. And there has been ample fodder fueling their frustrations. The stop-go, subpar US economic growth, dysfunctional political system, threat of Greek insolvency toppling the EU, unconventional monetary policies by the four leading central banks, and rise in global geopolitical tensions, to name a few, have kept investors in a constant state of anxiety. The technologically "advanced" structure of the financial markets, with algorithmic, high frequency trading strategies, transformed investors' concerns into inexplicable fits and starts of heightened market volatility. It is hard to believe that one of the historically great bull markets could be so frustrating and unappreciated.

The first quarter of 2016 has been no different. Investors' emotional fluctuations between concern and complacency over a US recession, a hard economic landing in China, economic and financial dislocations from the rapid decline in oil prices, the timing of Federal Reserve "tightening," and bizarre domestic politics were manifested with the stock market declining -4.96% in January, off -0.13% in February, and rising +6.78% in March. The summation of all these crosscurrents was a modest +1.35% gain in the S&P 500 Total Return for the quarter. Mixed returns were also registered by the Dow Jones Industrials +1.49% and Nasdaq -2.75%.

These rather mundane overall returns were also evident in investment styles with defensive stocks up +2% and cyclicals +1%. Value stocks rose +2%, with growth +1%. Again risk aversion was evident as large cap rose 1% versus a decline of 2% in small cap. These, however, masked some wide industry dispersions. The concerns over a global recession and the fragility of the financial system impacted the banks -13%. Fears of a Clinton victory, with possible price controls in healthcare, brought the pharmaceuticals down -8%. Seeking safety, investors buoyed utilities +16% and telecommunications +17%.

PORTFOLIO COMMENTARY

During the quarter, small capitalization stocks saw wide dispersions in performance. At the portfolio level, the largest positive contributor was **NeoPhotonics (NPTN)** up 30%. A manufacturer of photonics used in high-speed digital signal transmission equipment, the firm reported strong first quarter results and is clearly benefiting from the growth of high-speed data transmission needs in various metro, data centers, and fiber-to-the-home markets. **Biolase (BIOL)**, a maker of dental lasers, was up 56% on the back of improving first quarter sales results and progress towards commercializing its products. **FEI Company (FEIC)**, a maker of high-performance microscopic imaging solutions to the scientific and semiconductor markets, was up 12% as the company reported good first quarter results and guided to a progressively improving outlook for 2016. **Mesoblast (MESO)**, a biotechnology company engaged in the development of regenerative therapeutic cell-based products, was up 51%. Even though the company has been hitting all of its benchmarks in recent quarters, the stock was down significantly in the prior quarter as they struggled to complete a financing. While this rally in the stock was not sufficient to recoup the entire decline, we still have high hopes for the company. **Mentor Graphics (MENT)** suffered a significant decline in the 4th quarter on a miss to earnings. The stock recouped some of the decline in the quarter rising 10%. **IPG Photonics (IPGP)** was up 8% and has been a real winner. While it is no longer cheap, as investors continue to recognize the companies positioning and technological lead in fiber lasers, we see further appreciation ahead.

On the negative side, small and early-stage biomedical and biotechnology companies continued to lose investors' favor, reflecting broader weakness in the medical and pharmaceutical sectors, and were the single largest negative contributor to the portfolio. Topping the list on the portfolio was **Vertex Pharmaceuticals (VRTX)**, a company engaged in the development and commercialization of treatments for cystic fibrosis, which declined 37%. The stock has had a great run and corrected while waiting for the next trial announcements. **Ophthotech (OPHT)**, a developer of therapeutics to treat the diseases of back of the eyes such as age-related macular degeneration (AMD), saw its stock pull back 46%, with almost all declines in January. The company earlier initiated a mid-stage clinical trial for the dry-eye AMD but results aren't due until late in 2017 or in 2018. Investors will require patience but the potential for the AMD treatment remains large. **Microvision (MVIS)**, a developer and maker of pico-laser based projection components saw a 35% decline on lackluster results and dilution concerns due to a secondary offering at the very end of the quarter. **Qorvo (QRVO)**, a leading provider of RF components to the cell phone industry, has been buffeted back and forth over concerns over slowing growth of cell phones. While this is an issue for consideration, the opportunity for QRVO is the need for an ever-increasing number of components in cell phones to accommodate the surge in the transmission of data. **Sangamo Biosciences (SGMO)** was down 34% in the quarter. They are a leading player in the field of genome and gene editing. Their science is outstanding and their approach, if successful, offers the potential to not just treat certain diseases such as AIDs but to actually cure diseases. That being said, we are increasingly concerned about some of management's recent decisions and are waiting for more clarity around pending study results and a review of management. Management may be the catalyst for us to sell our position.

PORTFOLIO ACTIVITY

We made no changes to the portfolio in the quarter.

MARKET COMMENTARY

Does this rear view mirror of the past seven years give us any insight into the future of the US economy and stock market? Will the environment be as frustrating, yet as conducive to positive investment returns? As an investor, saddled with these irresolvable macro issues, how does one find an effective investment strategy?

From a macro point of view, the global economy has been in a state of gradual improvement. The Western world, although still tethered to the teats of central banks, has settled into a moderated rate of expansion; Europe at roughly 1% and the US at 2½%. Japan's three arrow stimulus program is very slowly taking hold and China's initiative to attain a more balanced economy is working with consumption up over 10%. In **relative terms,** the world has moved from teetering on the brink of depression to a subpar, but sustainable rate of growth.

In the US specifically, the economy is currently coming out of a moderate inventory correction and embarking on a period of 2-3% quarterly growth led by government fiscal deficits, consumer spending and housing. Since the output gap (gap between productive capacity and current output) is wide, the economy has sufficient financial liquidity, untapped labor, and productive plant and equipment to maintain the current expansion for a number of years.

Another perceived risk to the market is valuation. Entering its eighth year, naysayers feel the market is long in the tooth and overvalued. However, absolute measures of duration and valuation can be misleading. A better gauge is the sentiment of investors. Is there euphoria and speculation with broad based participation? In today's market, just the opposite exists. Although years have passed since the bear market, a high level of risk aversion still persists. Pension fund equity allocations are conservative, hedge funds cautious, and the public absent. Until there is a more spirited participation, valuation is not a risk factor.

Given a subpar, but long lasting, economic growth and few valuation excesses, what is the appropriate investment strategy? Persistent slow growth means most industries and companies find it very hard to show above average revenue and profit growth. Accordingly, corporations have responded with increased merger activity, higher dividend payouts and aggressive share buybacks. All of these are prevalent today, a sign of diminished opportunities. In this environment companies with above average revenue growth should present the best investment opportunities.

Our long held investment philosophy has always been to invest with the economic wind at our backs and limit the breadth of our holdings. We are firm believers in Warren Buffet's admonishments against over diversification. Thus, we focus the bulk of our investments in areas that will show, over the next three to five years, potential for growth well in excess of the general economy. We emphasize innovation and scientific advancement and major demographic changes. Moreover, within these growth industries, we select specific companies with the greatest risk adjusted growth potential. Today, these areas include Health Care, Technology, Telecommunications, Advanced Industrial Technologies, and Infrastructure.

As the economy regains its footing and the bull market resumes, investor anxieties, however, will not quickly dissipate. The next few years will most likely resemble the past six. The direction continuing up, the disbelief holding firm. In this environment, our selective, growth oriented philosophy should prove to be timely.

❖ ❖ ❖

DISCLOSURES:

Princeton Capital Management, Inc. ("Princeton") is an independent investment management firm established in 1988. Princeton is registered with the U.S. Securities and Exchange Commission and based in Princeton, NJ.

Young Enterprise Shares (YES) – (inception date January 1993) representing actual separately managed taxable and tax-exempt equity client portfolios managed on a discretionary basis according to Princeton's YES investment strategy primarily in the equities of smaller-capitalization growth companies 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. Gross returns are reported gross of management fees, and net of commissions. 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 Core Equity for the five years ended December 2013 from 19.4% to 18.7%. Actual investment advisory fees incurred by clients may vary.

The S&P 500 Total Return Index gauges the large-cap U.S. equity market. **The Russell Microcap Growth Total Return Index** is an unmanaged index that measures the performance of the Microcap growth segment of the US equity universe. These indices are unmanaged and include the reinvestment of dividends and earnings. Inclusion of index information is not intended to suggest that its performance is equivalent or similar to that of the historical investments whose returns are presented or that investment with our firm is an absolute alternative to investments in the index (if such investment were possible). Investors should be aware that the referenced benchmark funds may have a different composition, volatility, risk, investment philosophy, holding times, and/or other investment-related factors that may affect the benchmark funds' ultimate performance results. Therefore, an investor's individual results may vary significantly from the benchmark's performance.

Performance results, and advisory fees, for individual client portfolios will vary due to the timing of investments, additions/withdrawals of funds, diversification guidelines, length of relationship, and size of positions, among other reasons. Past performance is not necessarily indicative of future returns and the value of investments and the income derived from them can go down as well as up. Future returns are not guaranteed and a loss of principal may occur. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may also result in economic loss to the investor. For additional information about the performance of the YES Composite or our current fee schedules, please contact Princeton Capital Management.

Any securities listed in this material do not represent all the investments purchased, sold or recommended for client accounts by our Firm and may only be a representative list. Our investments and recommendations may and do change from time to time or at any time. Individual portfolios may have different characteristics due to a portfolio's start date, particular client needs, portfolio manager preferences, or other factors. One should not assume that an investment in any of the listed securities was or will be profitable or equal the performance of the securities listed. Princeton offers to provide a list of all recommendations for the prior one year period on request.

The stocks named as the top or bottom contributors to performance for the period are based on a model portfolio structured to represent the YES composite. 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

Princeton Capital Management claims compliance with the Global Investment Performance Standards (GIPS®).

A full GIPS compliant presentation and/or the Firm's list of composite descriptions can be obtained by contacting the Firm at (609) 924-6867.