

## Research Insights

An Interview with :



Nancy  
Prial



Marcy  
Carlin



Anne  
Marie  
McMichael

Q: How has your investment process changed/improved over time?

**Marcy:** Our philosophy and process has remained stable over the years. The refinement and tweaking typically occurs in the quantitative and qualitative screens we employ. Experience is the best teacher, so we look at where our models have been successful, as well as where they have shown some consistent weaknesses, then adjust them accordingly.

*"...Our core investment team has been together since 2000..."*

Q: How do you use "street research" within your investment process?

**Anne Marie:** We pride ourselves on our independence from the Street, which is one of the reasons for our successful approach over the years.

When we look at a company, we of course examine Street research (if it exists) on a company. Occasionally, it may influence how we think about a company, but the overwhelming number of times we use it as a barometer to see what the Street thinks, and helps us gauge what a company has to do in order to "earn" their respect. If Street sentiment on a company is dreadful, it may take investors much longer to come around to our way of thinking. If the Street is generally favorable, with caveats, our payoff should be sooner in coming.

Understand, though, if we truly believe in a company's growth story, it really doesn't matter what Wall Street thinks. If we're right, they'll come around eventually. We just have to be more patient with some of our investments.

Q: What is Essex' competitive advantage when it comes to small cap investing? What is your edge?

Nancy: We focus on companies with real products and services, with actual revenues, and whose business fundamentals are near an inflection point. Because these are early stage growth companies we're investing in, there will always be a strong element of risk in what we do, but we are very good at assessing the sustainability a company's prospects. Our screens are the result of years of work, and we have tremendous faith in every step in our process.

But I would be remiss if I didn't talk about my research team. They are truly exceptional people, wonderful analysts, and have added significant value to the portfolio over the years.

Q: What is Essex's long-term strategy?

Nancy: From an investing perspective, just keep on doing what we're doing, really. Look for interesting early growth stories, invest early, but not too early, and do right by our clients.

From a business perspective, we are in the process of implementing a 3-5 year institutional business plan to diversify our client base and increase our AUM. We have complete faith in our philosophy and process and have the infrastructure in place to leverage our investment capability.

Q: How do you think about benchmarks?

Marcy: We aren't really concerned with benchmarks. They are backwards-looking in how they are constructed, and view at things in a relativistic way.

Essex, on the other hand, looks forward. Because we go where the growth is, we are perfectly comfortable going naked on a particular sector or industry. If benchmarks are relativist, I guess you could say we are growth absolutists.

Q: Have there been any organizational changes?

Nancy: On our team, not particularly. We've lost and added a few junior analysts over the years but our core investment team has been together since 2000. At the firm level we have recently completed a succession plan that has extended the ownership to all key employees.

Q: Do you have plans to add new staff?

Nancy: We have a plan in place and are always on the lookout for good people. We have always managed this strategy with 4 investment professionals so we do not anticipate adding significantly. Based on our growth, we will monitor and hire support and client service as required.

Q: Describe compensation structure for the analysts.

Nancy: Compensation is fairly standard, in terms of the structure: salary, bonus, benefits. What we do is highly competitive within the industry. Our people are happy and that is evident through the retention on our team.