SMID, Small, Micro Cap Growth

PHILOSOPHY

Essex's investment philosophy is based on the belief that the small cap asset class is inefficient.

The firm looks for under-followed, under-owned, under-appreciated companies and industries in the early stages of acceleration. The investment approach is to execute a systematic, fundamental process to identify growth companies whose future growth prospects have yet to be priced into the stock. If and when the firm invests in one of these companies, it strives to invest shortly after the first or second quarter of acceleration.

Companies which pass the quantitative screen and survive the fundamental research process are allocated across SMID, small, and micro-cap portfolios. While this approach affords Essex a significant degree of independence from Wall Street's conventional wisdom, its success relies on Wall Street's eventual discovery of, and agreement with Essex's investment thesis.

INVESTMENT TEAM

The team considers themselves generalists with broad areas of sector coverage. The approach is collaborative, analysts support the portfolio manager with rigorous company analysis and insight, however, the portfolio manager, bears ultimate responsibility for all investment decisions.

A distinguishing feature that sets the team apart is that they have a long tenure together with very specific qualitative criteria for companies they should be looking at more closely.

PROCESS

The process begins with a quantitative screen, looking for micro to mid-cap companies with improving business fundamentals, as close to their inflection points as can be determined.

Relying on fundamental research, the team develops price targets using internal and external estimates. The next step is critical as they determine if anticipated growth is reflected in the stock price. In its final analysis, the team likes to see an upside of at least 25%.

Portfolio construction and risk is measured at the portfolio, sector and individual stock levels. In addition to the more traditional measures, the team pays attention to diversification across stages of growth and catalysts/inflection points as well as the underlying correlations between stocks, industries, and sectors in order to help manage volatility.

The sell discipline is a residual of the investment process. The team does not mandate selling a stock once it reaches a certain valuation, or if it comprises a certain percentage of the portfolio's value. They will let its "winners" run as long as the price supports the investment thesis' expectations for growth.

The portfolio manager will exhibit patience with a stock, so long as confidence in the investment thesis remains, there is a belief that the market will eventually come around, and the stock price is not plummeting. As a general rule, the firm will sell a stock if they no longer believe the investment thesis is accurate, if the long-term fundamentals no longer support the price, or if other, more promising opportunities are presented.