The Essex Exchange

ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

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Please see our website www.essexinvest.com for updated insights from our portfolio management and research team.

Lyft Off

By: Robert J. Uek, Co-Chief Executive Officer & Senior Portfolio Manager

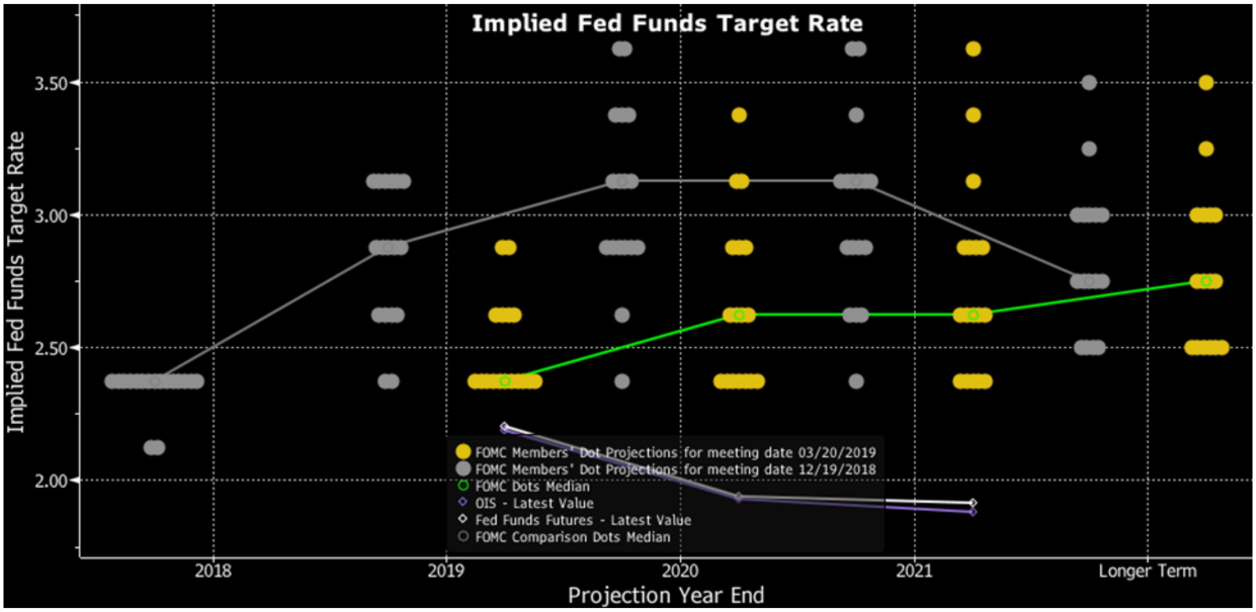
With a first quarter total return of 13.7% for the S&P 500 Index, 2019 has certainly started better than the prior year ended. Whereas the final quarter of 2018 was one of the worst quarters for the stock market in decades (with the S&P 500 Index posting a total return of -13.5%), the first quarter represents one of the best starts to a year in some time. Of course, the mathematically astute will point out that a 13.7% increase following a 13.5% decline does not get one back to even…but it's an impressive start to the year nonetheless. Are things really that much better today than they were three months ago? Or were things three months ago really not as bad as reflected in the stock market? As is often the case, we think that the answer lies somewhere in between; the market probably sold off more than it should have in Q4 2018 and things have gotten slightly better at the start of this year. To quote Warren Buffett, "Remember that the stock market is manic depressive."

There continues to be a number of significant issues that the stock market is trying to digest that will affect the three most important determinants of stock valuations: corporate earnings, inflation and interest rates. Among the greatest market concerns (in no particular order): Brexit, China economic growth, the direction and timing of the next change in the Fed Funds rate, US economic growth, trade tariffs, tech company regulations and politics. In our minds, with one exception, these issues remain largely unresolved, representing potential risk but also potential opportunity as these concerns abate.

The biggest catalyst for the market recovery in the first quarter was the change in the interest rate outlook by the Federal Reserve Bank in January. The message from the market late in 2018 was that the last Fed Funds rate hike in December was unnecessary in light of slowing economic data and could be potentially damaging to continued corporate earnings growth. The Fed relented in January with a decision not to hike further at that time and, later in the quarter, stated that they are not expected to raise rates again in 2019 unless warranted by new data. Investors reacted to this more dovish interest rate stance with an increased risk tolerance for stocks.

Lyft Off

By: Robert J. Uek



Source: Bloomberg, April 2019

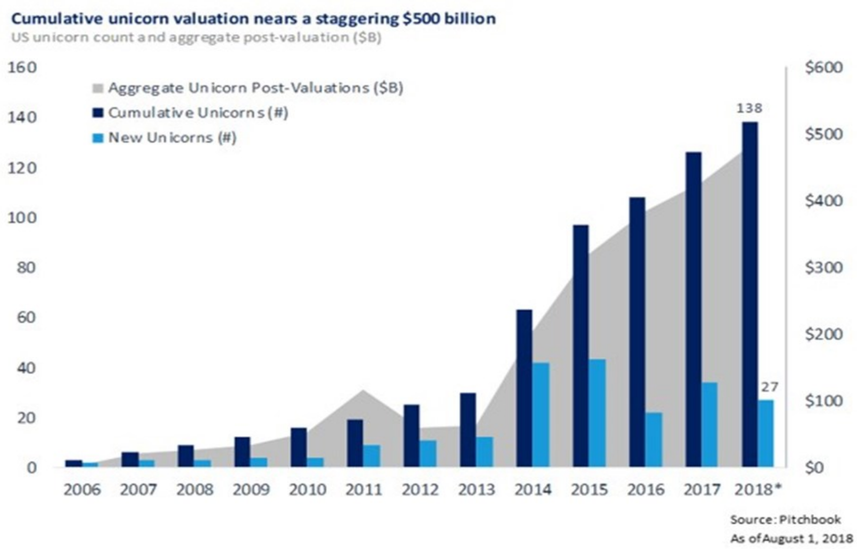
After many years of questioning the need for public listings as the world was awash in liquidity, Lyft, one of the higher profile tech "unicorns" has just completed its IPO. At an initial price of $72 per share, Lyft is valued at approximately $24 billion, or more than ten times its 2018 ***revenue***. Although the valuation is lofty, Lyft is growing very rapidly with revenue growth in excess of 100% last year and a robust outlook for future expansion. According to the U.S. Bureau of Labor Statistics, U.S. households spend approximately $1.2 trillion annually on personal transportation with most of this going towards car ownership for a vehicle that sits idle 95% of the time. Ride-sharing is currently a very small portion of this transportation spend and companies like Lyft have the opportunity to capture greater share of the personal transportation spend. Improvements to our transportation system will have a significant positive impact on our economy and environment, including higher levels of productivity and efficiency and a smaller environmental footprint. The company is loss making as management is investing aggressively in future growth initiatives and the biggest risks include competition and regulatory developments. The offering could be a watershed moment that might usher to market a number of other well-known venture startups, including Uber, Pinterest, Palantir, Slack, Airbnb, WeWork and Space X. This is a positive reflection on the strength of the markets and a good sign for supply that will improve overall liquidity.

In recent years, the argument was that a public offering made no sense for the new breed of successful startups. After all, why subject the company to public scrutiny and onerous quarterly reporting requirements when there was plenty of funding available outside of the public markets. Notably, in recent years, the amount of funding for startups, particularly in the tech arena, has skyrocketed.

Lyft Off

By: Robert J. Uek

Traditionally, venture funding was the domain of a small cadre of financiers, mainly in the San Jose area, willing to take significant risk in the hopes of generating giant returns from a small percentage of their investments. Over the past several decades, the number of entities providing venture funding has surged, as has the amount of capital managed by these firms. In particular, more institutional investors have allocated assets to venture capital and other alternative investments while adhering to the "Yale model" pioneered by David Swensen. In addition to dedicated venture capital firms, startup funding is readily available directly from family offices, sovereign wealth funds and corporations such as Google, Softbank and Amazon. The industry has come a long way: according to Pitchbook, in 1980 there were about 30 VC firms managing approximately $3bn whereas in 2016, one company alone (Softbank) launched a $100 bn fund with intentions to raise a second fund at twice the size. History would seem to suggest that the wave of money targeting venture capital will lead to lower returns for this asset class over the next few years. But while the returns of the venture capitalist might be trending lower, the most successful of these startups will make their way to the stock market providing future growth investment opportunities for the public.



After the sharp recovery in Q1 2019 from the losses in the prior quarter, the "easy" money has probably been made as much of the unwarranted sell-off was recouped. Further gains from this point will be predicated on the successful resolution of some of the macro issues outlined above and continued corporate earnings growth. Although we have just surpassed the ten year anniversary since the end of the global financial crisis and we are approaching the point where the current economic recovery will be the longest on record, neither the magnitude of the market ascension nor robustness of the economic expansion have been extreme. We continue to find good investment opportunities in growth stocks.

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ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

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Essex Strategies

The Essex Micro Cap Growth, Small Growth and SMID Cap Growth strategies each share a common investment philosophy and process. Our team in Evanston is focused exclusively on managing long-only small growth strategies and has worked together for more than 15 years.

Micro Cap Growth: We look for under-followed, under-owned, under-appreciated companies & industries in early stages of acceleration.
Small Growth: The process focuses on identifying companies in an inefficient sector of the market at an inflection point where their growth rate is improving.
Small/Mid (SMID) Cap Growth: Our approach is to execute a systematic, fundamental process to find companies whose future growth prospects are not fully reflected in the price of the stock.

Global Environmental Opportunities Strategy (GEOS) operates at the nexus of environment and finance, investing in companies that enable greater natural resource and energy efficiency. GEOS is a listed-equity, global, all-cap strategy investing across nine environmental technology themes in long-only fashion with about 40 holdings. GEOS is clean technology and energy infrastructure-focused, with companies that exhibit generally-high growth rates.

Essex Research Strategy is co-managed by a team of investment professionals seeking growth equity opportunities across an all-cap universe. By employing fundamental top down economic and sector analysis with bottom-up stock picking skills, the strategy provides the investment team a wide framework in which to identify growth candidates regardless of market capitalization restraint. Individual client portfolios are offered in two profiles: aggressive growth or growth and income.

Essex Evolution Long Only is an aggressive All-cap strategy which primarily aims to uncover small and mid-sized companies that exhibit the potential for meaningful growth over time. Seeks to maximize returns by utilizing both fundamental and technical analysis with an emphasis on thematic investing and tactical market positioning. The Strategy is concentrated within 40-70 names and is sector agnostic.

Essex Evolution Long/Short strategy is an aggressive All-Cap equity strategy that aims to maximize returns by utilizing both fundamental and technical analysis with an emphasis on thematic investing and tactical market positioning. Specifically, we aim to understand key themes within dynamic sectors to capture the growth in those trends and utilize short positions to both hedge portfolio risk and exploit specific stock mispricing's.

Growth Equity is an All-Cap strategy designed to provide investors with exposure to growth companies in a market capitalization range of $100 million and up. The strategy is a concentrated portfolio of 50-70 companies diversified across domestic industry sectors that show accelerating earnings and sustainable revenue growth. Individual client portfolios are offered in two profiles: aggressive growth or growth and income.

Please refer to our firm's website at www.essexinvest.com for more information about Essex and the strategies we manage.