

**BOUTIQUE OF THE WEEK**

WE SHOWCASE A LESSER-KNOWN MANAGER FROM A SMALLER SHOP RUNNING A UNIQUE OR IMPRESSIVE STRATEGY

# INSIDE... ESSEX INVESTMENT MANAGEMENT

**LOCATION**



**NICOLE PIPER**

**HOW THE FIRM WAS FOUNDED:**

The firm was founded by current chairman and chief investment officer Joe McNay in 1976.

'Joe has had a long career identifying dynamic growth trends early, and that continues to this day,' said co-chief executive officer and senior portfolio manager Nancy Prial (below).

Prial joined the firm in 2005 when the firm she was working for, Burridge Group, became part of Essex. She explained that the market in the mid- to late-1970s presented unique growth opportunities that inspired McNay to launch the firm. 'With a lot of innovation occurring under the radar and a number of smaller companies that were starting to gain market share – including technology-driven growth opportunities – Joe saw an opening for a firm that really focused on those neglected parts of the market,' she said.

**FLAGSHIP FUND OR STRATEGY:**

The firm's flagship offering is the Essex Small/Micro Cap Growth fund. The strategy spans micro-cap, small-cap and mid-cap growth, with an investment philosophy and process based on the belief that the small-cap asset class is inherently inefficient.

'In the small- and micro-cap space there is a tremendous opportunity to add value through active management and fundamental research due to the inherent inefficiencies in the space,' Prial said.

She added that the strategy targets firms that are undervalued and that the team believes are poised for growth. 'They're underfollowed, they're underowned, and in many cases, we believe they're underappreciated. That gives us the opportunity to identify those that are showing fundamental signs of business improvement.'

**PROCESS:**

Prial's investment team starts out with its in-house quantitative screen, which uses data from Bloomberg to scan firms for what

she calls the 'fundamental signs of business acceleration.' Next comes a bottom-up qualitative approach to determine the catalysts of this growth and other favorable factors. 'We want to understand what's driving this fundamental improvement, and we think about that in terms of the catalysts that are within a management team's control and that can help the firm to improve its fundamentals,' she said.

**PHILOSOPHY:**

Prial and her team are essentially aiming to locate small-cap firms with growth potential, but where that growth is not yet fully discounted in the stock price. Many of these firms are developing new technologies, taking advantage of emerging technologies or recovering from a period of underperformance.

'Our portfolio will encompass these different types of growth stories within one portfolio to give us full exposure across an inefficient part of the marketplace. Many of these growth stories are under the radar and have not yet been fully identified by other investors,' Prial explained.

**ONE THEY GOT RIGHT:**

Prial is particularly proud of the team's decision to invest in Tandem Diabetes last year. The firm develops the pumps that are used to treat diabetes in conjunction with continuous glucose monitoring systems.

Although Tandem had not reached its full growth potential at the time of the purchase and was initially losing money, Prial said that a \$5 million investment from another firm, Dexcom, improved Tandem's balance sheet and restored her faith in the firm.

'We have been really pleased over the past year or so that the company has continued to exceed expectations, having reported revenue and earnings growth,' she said. 'The company was really not followed by Wall Street when we bought it, but it has since picked up coverage and has now been recognized to some degree as the growth company that it really is.'

**ONE THAT COULD HAVE BEEN BETTER:**

Prial recalls one unfortunate investment in tire-equipment company Titan International. Her team identified a corporate restructure as a potential growth driver, as it seemed like a positive development for the firm amid a favorable outlook for the farm industry.

However, trade tensions have hit farming hard, and Titan's management didn't behave as the team expected. 'In early 2018, a couple of quarters in, we looked at it and said, "It's just not delivering on the reason why we bought this."' ■

**SPECIALTY**

GROWTH STOCKS

**FUND**

ESSEX SMALL/MICRO CAP GROWTH

**FOUNDED**

**1976**

**AUM**

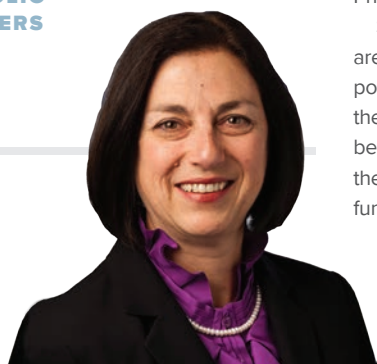
**\$690m**

**EMPLOYEES**

**17**

**PORTFOLIO MANAGERS**

**7**



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