The Essex Exchange

Autumn 2019

ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

Inside this issue:

Investment Team

- Joseph C. McNay
- Nancy B. Prial
- Robert J. Uek
- Stephen D. Cutler
- William H. Page
- Saralyn Sacks
- Alex Forse
- Marcy R. Carlin
- Anne Marie McMichael
- Martin P. Cournan

125 High Street
Suite 1803
Boston, MA 02110
1-617-342-3200

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

Don't Fight the Fed

By: Nancy B. Prial - Co-Chief Executive Officer and Senior Portfolio Manager

Don't fight the Fed! We have all heard this adage each time the Fed embarks on an easing cycle and yet, each time, the market goes through a period of time when it doubts that the Fed will in fact be able to stimulate economic growth. How many times have we heard that the Fed is pushing on a string, that this time is different, and that the easing will not translate into stronger growth. And, indeed, in the current easing cycle, worries abound. In fact, following the July cut in the federal funds rate (the first cut since the financial crisis), the yield curve inverted, investors started to discount the probability of an imminent recession, and the market sold off broadly.

So, is this the time that rate cuts won't work or is the market simply misinterpreting data? We think that we are starting to see some signs that not only are we not about to fall into a recession, but that the economy may in fact be accelerating modestly. Let's start by looking at the concerns that the market has been obsessing over to see if in fact they are as worrisome as we think.

The market has been held hostage by the see-sawing sentiment on trade and the resulting negative impact on global economic growth. Although we have yet to fully resolve the trade situation, especially with regards to China, recent actions would seem to indicate that trade will be a neutral at worst from here on as the tariff increases with China have been discounted , the US and Japan appear to be close to making an interim deal, the House is discussing changes that they would like to see with USMCA (US Mexico Canada Agreement), and tensions with the EU seem to have abated for now. In addition, central banks around the world are easing including countries such as Russia, India, Vietnam, Australia, Brazil, and several other emerging economies.

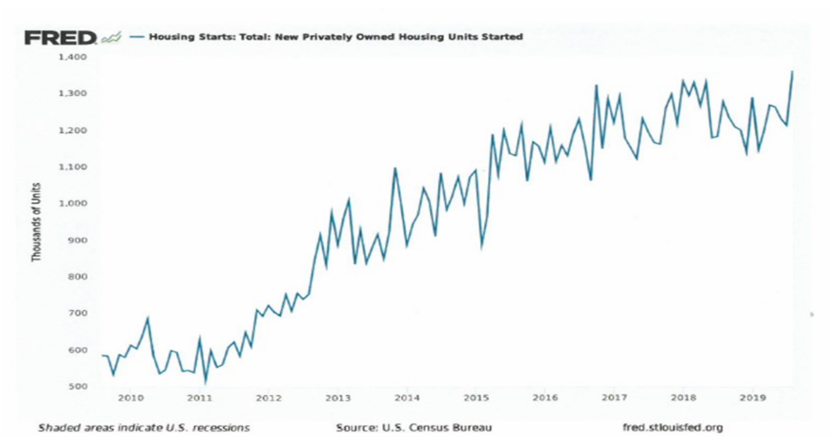
So, has it worked? Are we seeing any positive impacts from the rate cut and the subsequent market induced decline in rates? We believe that the evidence shows a number of green shoots that are promising for continued economic growth and, subsequently, continued profit growth for US companies.

Don't Fight the Fed

By: Nancy B. Prial - Co-Chief Executive Officer & Senior Portfolio Manager

One of the first areas that generally benefits from lower rates is housing and we are pleased to see that the sector has responded strongly to the interest rate trends both in terms of refinancing activity as well as home builder sentiment and activity. As seen in the graphic to the right, the National Association of Home Builders sentiment index is showing a continuation of the improvement that we have seen since the end of the financial crisis, following a modest dip induced by last year's tightening stance.

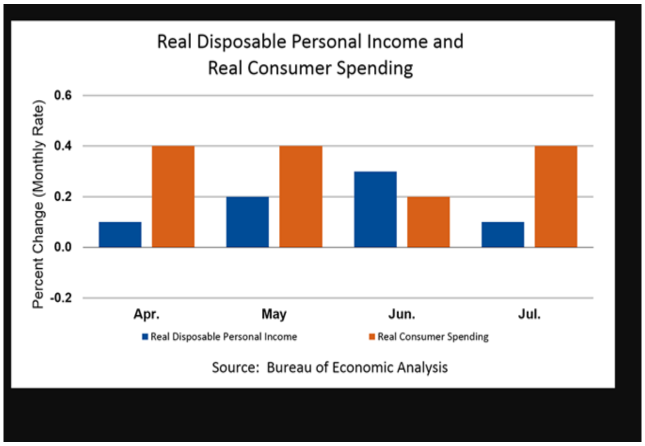
This improved sentiment is also translating into better housing starts, which are now at the highest level since 2007 after a 12% surge in August 2019. We have been bullish for some time about a return to healthy levels of housing starts as new household formations have started to increase and millennials have reached a point where they can start to buy houses. However, housing starts are still below replacement level, so we believe that the current strength can continue to drive domestic economic growth for some time to come.



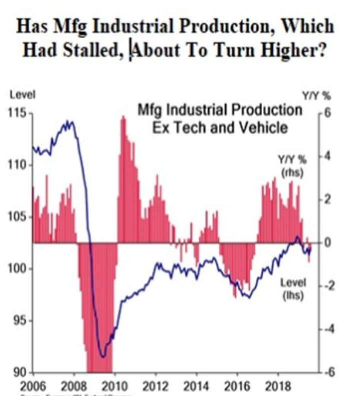
The confidence that we are seeing with new household formation and increased housing activity, has translated into other areas of consumer spending. Consumer confidence remains strong with solid employment and increased wages which is translating into solid real consumer spending.

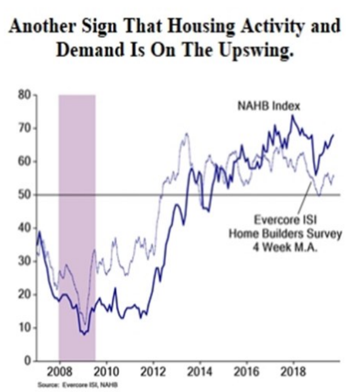
Don't Fight the Fed

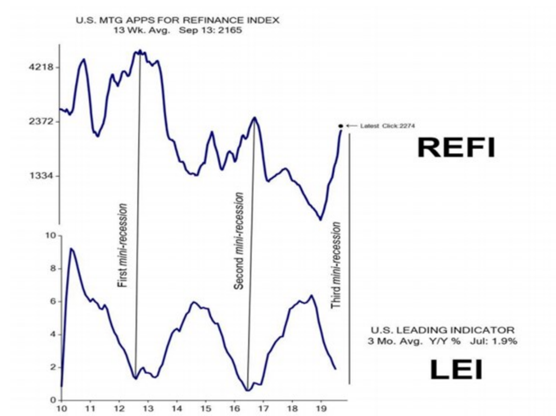
By: Nancy B. Prial - Co-Chief Executive Officer & Senior Portfolio Manager



The weak link in US economic activity lately has been industrial production. However, we are seeing the positive reaction to the easing cycle here as well, as manufacturing industrial production appears to be ready to turn higher. There is even hope on the US leading indicator as historically, an increase in refinancing activity has been a sign that the LEI is about to turn up. Combining a cyclical improvement in industrial production with continued strength in the growth areas of automation, the internet of everything, and climate solutions, could lead to a positive rather than a negative growth surprise later this year and into 2020.







Source: Evercore ISI, September 2019

Given the data that we are seeing on both the consumer and the industrial side, we believe that the current easing cycle will in fact serve to accelerate growth and that the recent recession concerns will prove to have been misplaced.

So, as investors, what are we supposed to do in this environment of worries about economic growth, yield curve inversions, political risks, and global concerns? As always, we suggest that we follow the evidence pointing us to those areas of growth where we can benefit. That means that our favorite areas of sustainable energy solutions, 5G rollout, automated vehicles, cars, and houses, technology solutions to healthcare problems, personalized medicine, financial technology, and housing remain well positioned to continue to grow faster than the market and the economy overall. We are pleased that our strategies are performing well in this current market environment and optimistic that our portfolios are focused on some of the most exciting opportunities for the future. We remain committed to our philosophy of identifying growth early, wherever that growth may exist within our investable universe.

ESSEX

ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

Client Service and Support:
Essex is fortunate to have great clients whom we are more than happy to assist. Please feel free to contact any of the following Essex personnel below should you need assistance or have questions:

Michael S. McCarthy
Chief Operating Officer
Phone: 617-342-3245 or
mmccarthy@essexinvest.com

Carly Semerjian
Senior Executive Administrator
Phone: 617-342-3202 or
csemerjian@essexinvest.com

Sue Bathalon
Operations Manager
Phone: 617-342-3204 or
sbathalon@essexinvest.com

Brendan Moar
Account Administrator
Phone: 617-342-3284 or
bmoar@essexinvest.com

Client Service & Support Fax Machine:
617-342-3280

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/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.

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.

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 , the strategies we manage and important disclosures.