The Essex Exchange

ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

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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.

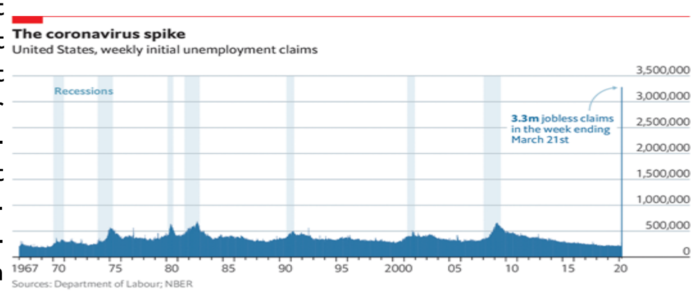
Opportunity Among the Rubble

By: Robert J. Uek - Co-CEO and Senior Portfolio Manager

Well that was quick.

A few short weeks ago, the stock market was hitting new highs, the U.S. economy was gaining steam and Donald Trump seemed to be destined for a relatively easy victory in the autumn's Presidential election. It would be a gross understatement to say that things have changed a bit; the landscape today resembles nothing like the picture described above. Never have we seen a stock market sell-off of this magnitude happen so swiftly. With the one-two punch of the coronavirus pandemic and a collapse in the price of oil caused by a price war between Saudi Arabia and Russia, the 11-year bull market has come to an abrupt end. More importantly, the economy will be negatively impacted in a way unwitnessed in our lifetimes. And as if to prove the adage that bad news comes in threes, amidst the stock market chaos and energy sector mayhem, Tom Brady announced that he is abandoning our beloved New England Patriots for a warmer climate down south. Truly, it has been a miserable six week stretch.

With the shutdown of most business activity across the nation as we try to "flatten the curve" of coronavirus infections, the forthcoming economic data will be grim. In just the first sign of the negative impact of the virus, the weekly initial unemployment claims for the week of March 21st were nearly 3.3 million, far in excess of the previous record of nearly 700,000 initial unemployment claims in the midst of the 1982 recession. Economists at Goldman Sachs recently forecast that Q2 US GDP could contract by 34% and unemployment could reach 15% in the near term. These are truly astonishing figures that highlight the magnitude of the short-term dislocation in our economy caused by the cessation of all but essential services.



However, as we know, the stock market is a discounting mechanism, and this near-term bad news is largely reflected in the lower market valuations. Looking forward, we are focusing on the trajectory of the recovery and trying to identify the best investment opportunities. In essence, 2020 is a "lost" year of economic growth; we now need to determine what company earnings will look like in 2021.

Opportunity Among the Rubble *By: Robert J. Uek - Co-CEO and Senior Portfolio Manager*

We are not in the business of market timing and do not think that we can call the bottom with any degree of accuracy (nor can anyone else). But we do think that we are in the process of bottoming and that there are some compelling investment opportunities caused by forced or indiscriminate selling. Collectively, we have learned a great deal from past crises. Chief among these lessons is that the best response for our economy is to have an aggressive government stimulus program. Thus far, we have seen cuts to the Fed Funds rate, a pledge for limitless quantitative easing, backstop programs to ensure funding for commercial paper and mortgage backed securities, support for small business lending, direct cash payments to individuals and families, a three month deferral of payment and filing of personal taxes, and many more pledges of support. It is highly likely that we will see additional efforts in the coming weeks. In total, these programs will sum to more than 15% of GDP – a gigantic effort. Clearly, the government has pledged to do everything it can to offset any prolonged or longer-term impact from the pandemic. We also believe that the duration of the downturn will be limited due to two other important considerations: our banking system is in robust health with very high levels of capital and our unemployment rate was at record lows entering this crisis.

While we generally don't like to extrapolate short term experiences into long term trends, we believe that the severity and economic shock of the pandemic will indeed cause long-term change in the behavior of individuals and corporations. Above all, corporations (and investors) will place a greater emphasis on the quality of balance sheets and the availability of liquidity. Working capital balances will grow as companies hold higher levels of cash and build inventory levels. The lean-manufacturing/just-in-time supply chain most likely becomes less lean as companies build buffer stock and plan for potential future supply chain interruptions. Over the medium-term, we anticipate that companies move away from single-source, Asian-based supply chains and overseas manufacturing facilities. Supply chains and manufacturing bases will be on-shored to the US, a dynamic that will create opportunities for companies that provide factory automation and logistics technologies. Globalization has been a powerful trend over the past 40 years resulting in faster global economic growth and a deflationary effect on prices. With the unwinding of this globalization (a trend that started several years ago with the surge in nationalistic practices, trade wars and imposition of tariffs), emerging market economic growth will slow and inflationary pressures could start to build for the first time in decades.

Elsewhere, we see the current crisis causing an acceleration in some well-established trends. For example, as we make our daily trek to Starbucks, we now fear that transacting in cash could result in the spread of disease, speeding the trend away from paper cash and checks towards digital payments. Companies are already accelerating changes in sales practices away from face to face meetings to video conferencing and digital document distribution and signing, putting pressure on airlines and hotels but creating opportunities for teleconferencing and collaboration technology. There will be an increased buildout in e-commerce capabilities among all retailers and distributors which is good news for cloud computing platforms, data analysis firms and logistics technology providers. As always, crises result in the establishment of new businesses and unexpected beneficiaries.

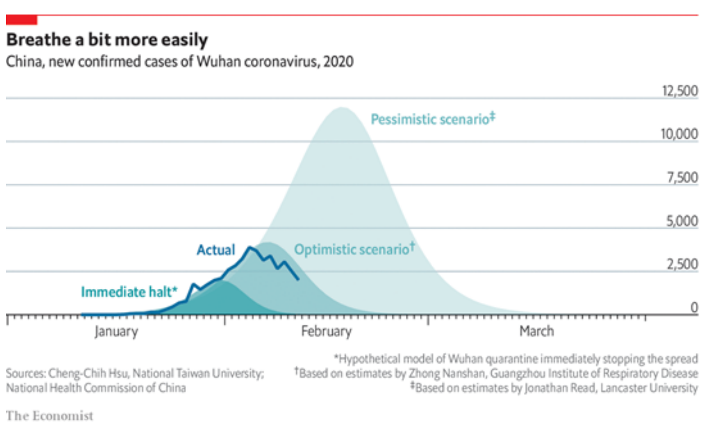
Opportunity Among the Rubble

By: Robert J. Uek - Co-CEO and Senior Portfolio Manager

One area in which we are not so keen is commercial real estate. Commercial real estate has benefitted tremendously from the economic boom and cheap and abundant financing. Both of those are ending and commercial real estate firms will face a few added challenges. First, WeWork, the country's largest office space tenant, will probably not survive this slowdown as they have a fundamental duration mismatch: long term fixed costs (leases in buildings) but customers that can (and most likely will) cancel with very short notice. Additionally, for the near term, many national tenants like retailers, restaurants and hotels have simply stopped paying rent to the commercial real estate owners. And finally, the transition to working from home during this coronavirus lockdown has been relatively seamless for many companies and will lead to a reassessment of the need for expensive urban office space.

There have been some pleasantly positive developments during this ordeal. First, on a personal note, we have enjoyed the unexpected bonding with the return home of our college-aged children from shuttered campuses – although I suspect the satisfaction of this togetherness will rapidly fade in the coming days and weeks. Elsewhere, it is encouraging to see examples of companies, organizations and individuals making efforts to cushion the blow of the economic slowdown and assist those that are most impacted. Starbucks has pledged to continue to pay its employees for a 30-day period despite the fact that nearly 40% of its US stores are closed and the remaining 60% of its stores are selling only via drive-thru windows. Walmart has announced that they are increasing the pay of all employees by about $2 per hour while Amazon has announced that it will pay double wages for overtime. Both companies are also hiring hundreds of thousands of new employees. Netflix has pledged $100 million to help workers at independent production companies affected by the suspension of activity. Ford, GM and Tesla have retooled manufacturing plants to make ventilators and Hanes and New Balance are making protective masks. And countless individuals have pledged millions of dollars to provide medical supplies, help with research for vaccines/treatment and assist those that have lost jobs. Even some of the politicians have shown signs of a willingness to put aside their bipartisanship to help us navigate this crisis. Coming out of this event, good corporate citizenship will be rewarded.

Indeed, there is some good happening. As in past times of turmoil, America will recover. If we look to other countries that were infected ahead of us, recovery is already underway. In the coming weeks, the coronavirus infection rates will peak and there will be positive developments on the treatment front. With the sharp sell-off in the stock market, particularly among some great small and mid-cap growth companies, we see opportunity. Further out, there will be new opportunities for companies that benefit from some of the societal and economic changes that will result from this pandemic.



Unfortunately, we can't say that we are as optimistic on the outlook for the Brady-less New England Patriots.

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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

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 all women Evanston, Illinois investment team is focused exclusively on managing long-only small growth strategies and has worked together for more than 15 years.

Micro Cap Growth Strategy: We look for under-followed, under-owned, under-appreciated companies & industries in early stages of acceleration.
Small Growth Strategy: 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 Strategy: 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.