The Essex Exchange

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ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

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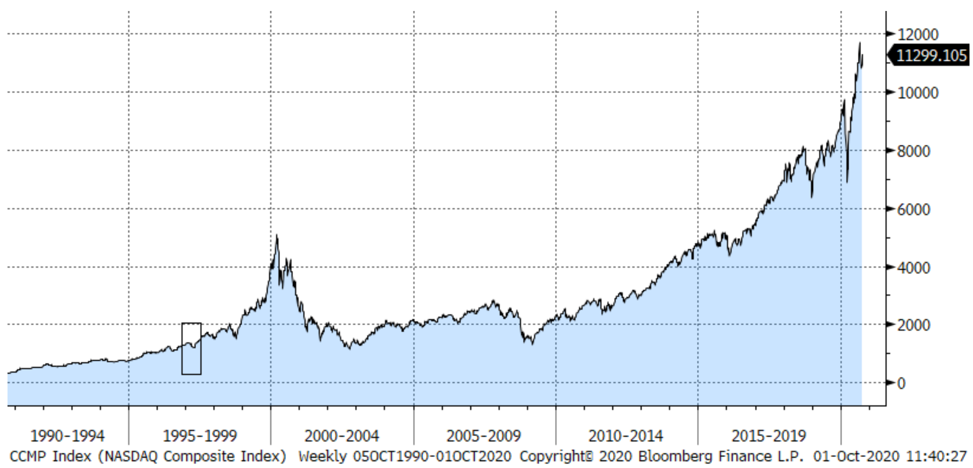
Please see our website www.essexinvest.com for updated insights from our portfolio management and research team.

Party Like It's 1996?

By: Nancy B. Prial Co-CEO & Senior Portfolio Manager

In December 2016, Fed Chair Greenspan famously implied that the stock market was suffering from "irrational exuberance". Specifically, during a speech to the American Enterprise Institute, Greenspan asked "How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contraction?" Although this query concerned the stock market following this presentation, we know, with the benefit of hindsight, that the market, and specifically the Nasdaq index went on a record run in the ensuing four years.



Source: Bloomberg; October 2020

We can barely see the post 1996 dip in this long-term chart given the performance since that time and although we can clearly see both the extraordinary gain in the Nasdaq leading up to 2000 and the subsequent sharp decline that took the index back down to it's 1996 levels, we can also see that, for long term patient money, even that meaningful bear market has been significantly eclipsed by the performance since then. So, why was Greenspan wrong in 1996, what happened in 2000, and, perhaps most importantly today, are we closer to 1996 or 2000 today?

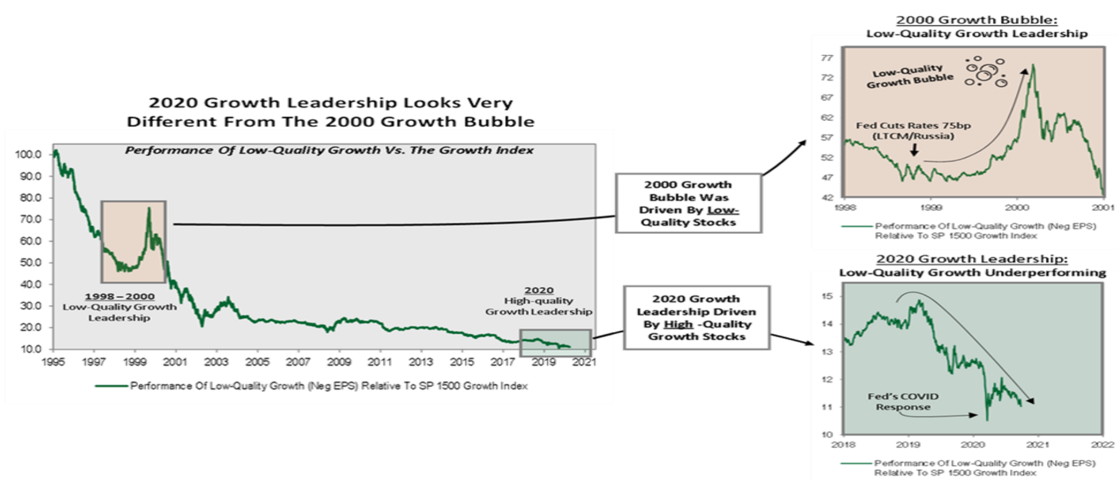
Party Like It's 1996? ***By: Nancy B. Prial - Co-CEO & Senior Portfolio Manager***

WHAT HAPPENED IN 1996?

By 1996, the US economy was in the developing stages of the internet explosion with the rebirth of Apple Computer, the early Web with Yahoo Cisco, and Microsoft and the early indications of the power of digital transformation to come. In addition, the economy was seeing the benefits of the end of the Cold War with the collapse of the Soviet Union leading to a peace dividend in both growth and higher multiples as well as real economic growth drivers from housing, capital investment, and productivity enhancements. Chair Greenspan solidified this overall bullish backdrop after the Fed lowered interest rates three times between July 1995 and January 1996 for a total of 75 basis points. Stock prices, and particularly the growth stocks in the Nasdaq, rationally followed the revenue and earnings growth during the early part of the 1996-2000 bull market until, following another 75 bp rate cut in late 1998, speculation overwhelmed fundamentals at the very end.

WHAT WENT WRONG?

Simply, starting in the late 1990's the influx of capital, both on the venture and the public market side, overwhelmed the growth prospects and led to the formation of the bubble in 2000 and the subsequent bursting of that bubble within technology during the 9 months following the peak. The bubble in 1999-2000 was fueled by low-quality stocks, most of which were not only losing money at the time, but also had unsustainable business models with little if any prospects for making money in the future. The following chart shows the performance of low quality versus high quality growth stocks in 2000 compared to today.



Source: Cornerstone Macro; September 2020

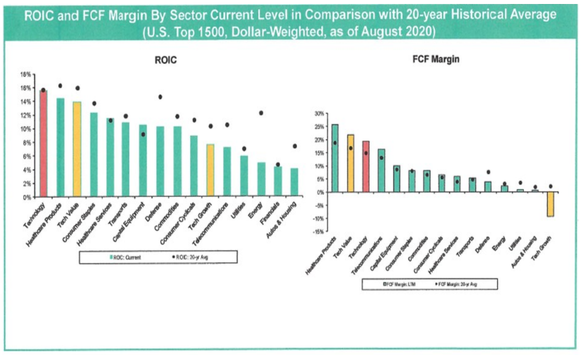
WHERE ARE WE TODAY?

As the large cap tech stocks, Apple, Microsoft, Tesla, Amazon, etc. peaked in August, the media and investors started wondering whether we were seeing a repeat of the bubble bursting in 2000? Following extraordinary moves during the first half of 2020, we would argue that these highly visible growth names were due for a pullback and perhaps some time to growth into their valuations, but we do not see the signs that we are either in bubble territory today or that these are the names that will create the next area of over-exuberance.

Party Like It's 1996?

By: Nancy B. Prial - Co-CEO & Senior Portfolio Manager

-Today's tech leaders have meaningful revenue and many, if not most, are profitable and cash flow positive

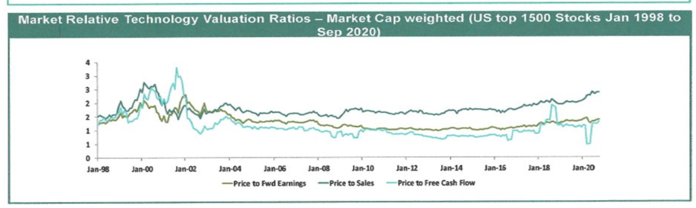


Source: Bernstein; August 2020

-Valuations lower for technology on both absolute and relative basis

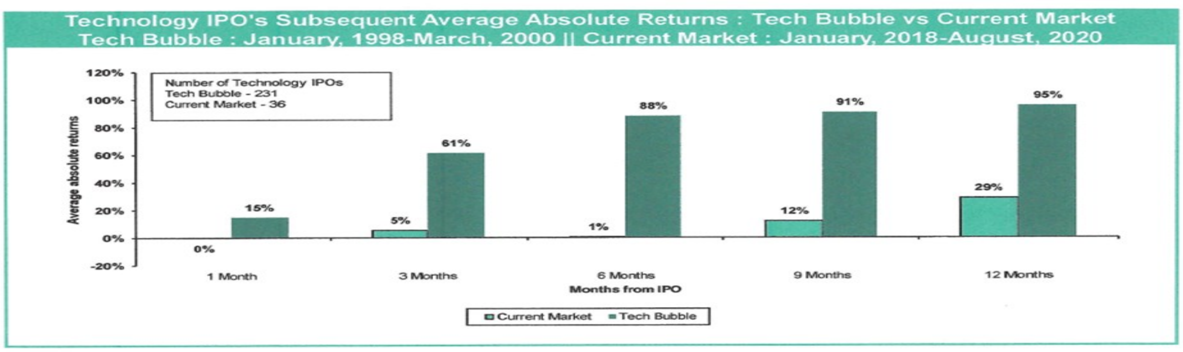
Snapshot of Tech Valuation on Relative Basis – Now vs. 2000

Date	Eq Wtd (Market Relative)			Cap Wtd (Market Relative)		
	Price to Fwd Earnings	Price to Sales	Price to Free Cash Flow	Price to Fwd Earnings	Price to Sales	Price to Free Cash Flow
Mar-00	2.46	3.35	3.93	2.03	2.68	2.18
Sep-20	0.97	1.73	0.97	1.38	2.37	1.30



Source: Bernstein; August 2020

-Fed Chair Powell has indicated rates will be lower for longer allowing valuations to expand



Source: Bernstein; September 2020

-Number of IPO's still relatively low with higher quality than in 2000

-Digital transformation is real and accelerating post-pandemic

As we look forward from the third quarter, we are optimistic that this acceleration in the digital transformation combined with the advances that we are seeing in the areas of health care and new technologies to solve environmental issues and the capital spending cycle that is beginning with the move to reshoring of manufacturing and changes in supply chain management can lead to a period of both above average economic growth and profit growth for US companies.

We remain committed to our search for growth wherever that growth may occur.

ESSEX

ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

Client Service and Support:
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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 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.