ESSEX

The Essex Exchange

ESSEX INVESTMENT MANAGEMENT COMPANY, LLC

Autumn 2021

Inside this issue:

Regime Change 1-3

By: Robert J. Uek

Essex Strategies 4

Investment Team

- Joseph C. McNay
- Nancy B. Prial
- Robert J. Uek
- William H. Page
- Saralyn Sacks
- Marcy R. Carlin
- Anne Marie McMichael
- Martin P. Cournan
- Jack Lloyd

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

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

Regime Change

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

The stock market has been strong through the first nine months of the year, with a total return of 15.9% as measured by the S&P 500 Index. While this YTD return is impressive enough on its own, it is truly remarkable considering the strength of the market in the prior two years (18.4% in 2020 and 31.5% in 2019 for a total return of more than 80% since the end of 2018) and considering the macro headwinds experienced year to date. In the first three quarters of 2021, the markets have had to digest a panoply of issues

- an exceptionally disorderly transfer of political power in the United States,
- a continuation of a global pandemic,
- widespread shortages and supply chain disruptions, trade disputes and increasing political tension with our most important partners,
- controversy at the Federal Reserve Bank,
- and inflationary pressures that we haven't witnessed since the 1970's.

Although nearly every company and every individual has been negatively affected by one or more of these events, the stock market continues its march upward, fueled by low interest rates and highly supportive governmental fiscal and monetary policies as well as a rebound in corporate earnings growth this year. Part of the strength of the market in the past 18 months is that many of these headwinds are anticipated to be temporary, or to borrow a favored phrase of the moment, these issues are "transitory". This forecast is predicated on the belief that many of the near-term issues are related to the COVID pandemic, and that our limited manufacturing capacities, logistical bottlenecks and other shortages will dissipate as we either eradicate or learn to more effectively deal with the pandemic.

Regime Change **_By: Robert J. Uek - Co CEO & Senior Portfolio Manager_**

We agree with most of this view. But what if some of the challenges that our economy is facing are not transitory? We suspect that there are some important shifts in some of the long-term underlying currents that are causing changes to our normal course of business. Globalization, and specifically the economic relationship with China, is no longer the positive economic force that it has been for the past three decades. We believe that we are amidst a regime change that will have important impacts on trade, political relationships, economics and, ultimately, investment allocations.

In Thomas Friedman's *The Lexus and the Olive Tree*, the concept of globalization, represented by the Lexus is contrasted against the traditions and cultures represented by the olive tree. Friedman defines globalization as follows:

> The driving idea behind globalization is free-market capitalism--the more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be. Globalization means the spread of free-market capitalism to virtually every country in the world. Globalization also has its own set of economic rules--rules that revolve around opening, deregulating and privatizing your economy.

Globalization began to flourish following the end of the Cold War with the collapse of the Soviet Union and the waning of communism, coupled with China's increasing embracement (or at least acceptance) of capitalism in an effort to improve the economic outlook and opportunities for hundreds of millions of its citizens. By most economic measures, this globalization has been a considerable success.

- China's economic development and improvement in per capita incomes has been remarkable.
- The western world has had access to cheap consumer goods and in effect, import dis-inflation. Manufacturers and technology providers have been able to sell more goods overseas while improving cost structures by moving manufacturing to cheaper locations.
- Our financial markets have benefitted tremendously from this faster economic growth.
- The elimination of inflationary pressures and free movement of capital across borders have contributed to a 40-year downward trend in interest rates and huge stock and bond bull markets.

In recent years, geo-political tensions, loss of trust among trade partners, and a more inward focus by political leaders is causing a move away from globalization. England has decided to exit the European Union, the United States has begun to implement greater tariffs on our overseas trading partners, and perhaps most significantly, there is a notable shift in the Chinese economic ideologies under President Xi.

The increased consumer demand in many goods during the pandemic coupled with COVID-driven factory curtailments and shipping challenges has caused shortages in what seems like nearly everything.

Regime Change ***By: Robert J. Uek - Co CEO & Senior Portfolio Manager***

The result is an upward trajectory in inflation expectations, at least in the near term. While these issues are challenging enough for management teams, we believe that companies are also having to grapple with the longer-term uncertainty around de-globalization and the need to re-think many common business practices.

A move towards de-globalization means that companies will have to consider factory relocations, redundancies of suppliers, and changes in logistics, warehousing and inventory planning. With a breakdown in the efficiencies of just-in-time manufacturing practices, companies need to hold greater levels of buffer inventory and tie up more working capital in raw materials and supplies. In short, de-globalization is causing friction throughout the economic engine, which can result in inflation of costs and lower profit margins. This regime change will impact economies and companies for many years. Inflation is probably here for longer than consensus believes. Shortages will last longer than people believe. If inflation continues to "run hot", interest rates will be moving higher.

While there are clear risks to this regime change, there are also burgeoning investment opportunities. If the prior decades have been marked by globalization, we believe that the coming decades will be marked by decentralization. Just as the world has benefitted tremendously from the decentralized shift in computing power from a mainframe centric construct in the 1970's to a computer in every pocket today, we believe that the industrial world will undergo the same shift with similar economic benefits. For example, supply chains are being redesigned to have manufacturing capabilities that are more flexible and closer to the end user, allowing the factories to be more nimble and able to efficiently and profitably produce smaller batches of different goods while reducing shipping challenges and transportation costs. Energy infrastructure will similarly move to a decentralized model, decreasing the power loss that occurs over high voltage transmission lines while increasing the resiliency and reliability of the electric grid.

We see key investment opportunities in the companies that can navigate this new landscape and companies that can help bring about this decentralized economy.

- Factory automation companies and providers of next generation 3D printing capabilities will be instrumental in building the flexible factories of the future.
- Logistics capabilities are more important than ever, bolstered by autonomous driving capabilities and smart warehouses.
- Decentralized power producers will similarly benefit as they can be located at the point of consumption and deliver reliable, cheap power with advanced storage and grid management capabilities. Deglobalization also means that we will be sourcing and processing key materials like rare earths and lithium closer to the point of use to reduce bottlenecks, shipping costs and political risk.
- New semiconductor manufacturing plants will be built in the U.S. and Europe.

Regime changes are important investment considerations. They don't happen often and they can affect nearly every aspect of the economy for long stretches of time. We believe we are amidst such a change now. We see some risks associated with this change, but also see much opportunity as we move to a more decentralized economy.

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

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

Essex Strategies

LONG EQUITY STRATEGIES

Micro Cap, Small Cap and SMID Cap Equity Strategies are managed by our all-women investment team based in Evanston, Illinois, which is focused exclusively on long-only growth equity strategies and has worked together for more than 15 years. The team manages three equity strategies that each share a common investment philosophy and process:

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

Essex Research Strategy is 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 risk profiles: aggressive growth or growth and income.
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 risk profiles: aggressive growth or growth and income.
Essex Global Environmental Opportunities Strategy (GEOS) is a thematic, all-cap global stock strategy that invests in clean technology and clean energy companies that help solve the world's environmental problems. The Strategy is focused on nine environmental technology themes and invests with a long investment horizon, typically holding about 40 companies. GEOS is clean technology and energy infrastructure-focused, with companies that exhibit generally high growth rates. ***This strategy is available as both a separate account and mutual fund.***

LIMITED PARTNERSHIP HEDGE FUNDS

Essex Performance Fund is an ultra-aggressive equity 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 will use leverage to enhance returns.
Essex Evolution Long/Short strategy is a hedged equity strategy that aims to provide competitive risk-adjusted 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 mispriced stock opportunities. The fund generally has an equity exposure less than that of the overall market.

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