



Nancy Prial, CFA
Co-CEO
Senior Portfolio
Manager

Executive Summary

This mid-year review updates our outlook on Healthcare, Industrials, and Technology. It reflects how each sector has evolved since our late-2024 and early-2025 outlooks, the macro environment shaping small-cap performance, and how our portfolio positioning has adapted to capture opportunities.

> Healthcare

We focus on companies with real product launches, strong late-stage data that support a path to FDA approval, and disciplined spending. If small cap M&A picks up, that could be another way to create value. Our current positioning reflects these shifts:

“...We continue to find attractive ideas in healthcare....”

Portfolio Positioning

- Companies with near-term launches and growing end markets, especially in medical devices and specialty pharmaceutical companies.
- Later-stage R&D with strong clinical data; limited exposure to programs that require significant funding, we have strong preference for management teams that control spending.
- Sector weight is modest and more concentrated than earlier in the year, with capital in our highest conviction names.

Key Takeaways

- Healthcare contributed to results, led by new product winners in devices and specialty pharmaceutical companies.
- Cost discipline is a must; we favor teams that invest carefully and preserve cash.
- We see a healthier setup for small cap M&A. Our holdings include names we believe could benefit as targets or as disciplined buyers.

> Industrials

Industrials began 2025 facing news about potential tariffs and delays in AI-related infrastructure projects. The second quarter brought a clear shift in confirmed orders, and earnings from grid modernization, defense programs, and specialty construction. Our current positioning reflects these shifts:

“...spending programs are now turning into actual purchase orders....”

Portfolio Positioning

- Increased sector weight from 30.6% to 36.0%, extending overweight versus the benchmark.
- Focus on niche service providers and specialty contractors tied to multi-year infrastructure programs.
- Stay away from commodity-driven materials in favor of specialized product that command higher prices with stronger margins.

Key Takeaways

- Demand supported by government programs and incentives in infrastructure, electrification, and reshoring.
- Recurring service and revenue models help sustain pricing power.
- A more accommodative Fed stance could benefit small-cap industrials.

➤ Technology

Technology saw a reset early in 2025 as concerns over AI adoption pace led to a pullback. By mid-year, the focus moved toward companies monetizing AI through infrastructure, compliance, and efficiency-driven tools. Our current positioning reflects these shifts:

“...The story has shifted from AI hype to monetization....”

Portfolio Positioning

- Sector weight steady near 26%, shifting towards companies that generate strong cash flow, and thus steadier stock prices..
- Selective semiconductor exposure in certain chip design and manufacturing equipment companies.
- Favor software and infrastructure that enables faster AI adoption, lower data costs, and improve network security.

Key Takeaways

- AI deployment is moving from pilots to scaled rollouts.
- Compliance and network optimization budgets remain resilient.
- Focus on monetization over hype reduces portfolio risk.

Conclusion

Across all three sectors, our emphasis remains on proven demand, pricing power, and selective exposure to secular growth drivers, positioning us to take advantage of opportunities in the second half of 2025.

.....

Disclosures:

This commentary is for informational purposes only. It does not constitute investment advice and is not intended as an endorsement of any specific investment. The opinions and analyses expressed in this commentary are based on Essex Investment Management LLC's ("Essex") research and professional experience and are expressed as of the date of its release. Certain information expressed represents an assessment at a specific point in time and is not intended to be a forecast or guarantee of future results, nor is intended to speak to any future periods. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties.

This does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product, nor does it constitute a recommendation to invest in any particular security. An investment in securities is speculative and involves a high degree of risk and could result in the loss of all or a substantial portion of the amount invested. There can be no assurance that the strategy described herein will meet its objectives generally or avoid losses. Essex makes no warranty or representation, expressed or implied; nor does Essex accept any liability, with respect to the information and data set forth herein, and Essex specifically disclaims any duty to update any of the information and data contained in the commentary. This information and data do not constitute legal, tax, account, investment or other professional advice. Essex being registered by the SEC does not imply a certain level of skill or training.