



## **Form ADV Part 2A**

### **Essex Investment Management Company, LLC**

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This Form ADV Part 2A (the “Brochure”) provides information about the qualifications and business practices of Essex Investment Management Company, LLC (“Essex” or “Firm”). If you have questions about the contents of this Brochure, please contact us at 617-342-3200. The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Essex is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Essex who are registered, or are required to be registered, as investment adviser representatives of Essex.

Although Essex is registered as an investment adviser under the Investment Advisers Act of 1940, such registration does not imply that Essex or our personnel have a certain level of skill or training.

## **Item 2 – Material Changes**

This item requires us to summarize any material changes to our Form ADV Part 2A since our last annual filing in March 2014.

On March 2, 2015, majority shareholder Joseph C. McNay, while retaining a minimum majority ownership, formally transferred the remaining minority interest to Essex existing and newly admitted key and/or investment professional employees.

### **Item 3 – Table of Contents**

## **Table of Contents**

Item 2 – Material Changes.....	2
Item 3 – Table of Contents .....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	5
Item 6 – Performance-Based Fees and Side-by-Side Management.....	9
Item 7 – Types of Clients .....	11
Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss .....	11
Item 9 – Disciplinary Information .....	16
Item 10 – Other Financial Industry Activities and Affiliations .....	16
Item 11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading .....	16
Item 12 – Brokerage Practices .....	18
Item 13 – Review of Accounts.....	25
Item 14 – Client Referrals and other Compensation.....	26
Item 15 – Custody .....	28
Item 16 – Investment Discretion .....	28
Item 17 – Voting Client Securities .....	29
Item 18 – Financial Information.....	30
Privacy Notice.....	31

## **Item 4 – Advisory Business**

Essex Investment Management Company, LLC (“Essex” or the “Firm”) generally provides investment management services on a discretionary basis to institutional clients, such as employee benefits plans, endowment funds, foundations, religious organizations, and mutual funds. Essex also provides investment management services to individuals (private clients), limited partnerships and limited liability companies.

Essex has been in business since 1976. Joseph C. McNay owns a minimum majority equity interest in the Firm with the remaining minority interest owned by Essex key and/or investment professional employees. Essex currently has approximately 20 employees working in the Firm’s Boston, MA and Evanston, IL offices. As of December 31, 2014, Essex had approximately \$683,070,000 in discretionary assets under management. Please see “Item 7 – Types of Clients” of this Brochure for more information with respect to Essex’s clients.

### **Advisory Services**

Essex is an investment management firm specializing in domestic (U.S.) growth equity strategies for institutional investors. We are research oriented, and primarily utilize fundamental analysis for the selection of equity investments. Further information on Essex’s investment strategies and methods of analysis is provided in Item 8.

Although Essex carefully considers the investment objectives of each client, it does not conduct a review of their entire financial affairs. On this basis, the investment advisory service is restricted to the securities portfolio under management by Essex. As an asset manager for our clients, Essex recognizes that all of our clients are unique and that, therefore, their investment needs may be different. As such, we may modify our primary investment strategies, as necessary, to meet the goals that our clients specify, in an effort to accommodate the particular investment objectives and accompanying restrictions requested by our clients. At the commencement of the client relationship, each of our clients executes an investment management agreement, which sets forth their investment objectives, investment strategy and any investment restrictions that will be applicable to our management of the assets in the client’s account. Prior to the execution of the agreement, we review requested objectives and restrictions and work with the client as needed to refine these objectives and restrictions to both meet the client’s needs and provide us with sufficient discretion to properly invest the client’s assets.

### **Wrap Fee Programs**

“Wrap arrangements,” “wrap fee programs,” and/or “wrap fee accounts” involve individually-managed accounts for individual or institutional clients. The wrap fee accounts are offered as part of a larger program by a “sponsor,” usually a brokerage, banking or investment advisory firm, and managed by one or more investment advisers. Essex may enter into agreements with various wrap fee program sponsors through which Essex’s services may be offered as an investment option within the wrap fee program and, accordingly, Essex may provide investment management services to those clients who select Essex as part of the program. As described in Item 5, the sponsor typically pays a portion of its program fee to Essex for its services.

In the event Essex enters into a wrap fee program, Essex's management of wrap fee accounts and other accounts under the same investment strategy will generally be consistent. Although we cannot necessarily offer the same level of portfolio customization to wrap fee accounts that is offered to other accounts within an investment strategy, Essex anticipates it will offer any wrap fee clients the opportunity to customize their portfolios by imposing reasonable investment restrictions on their account. Wrap fee accounts are considered directed brokerage accounts. (See Item 12 for a discussion of directed brokerage.). Clients who enroll in these programs should satisfy themselves that the sponsor is generally able to provide best price and execution of transactions.

## **Item 5 – Fees and Compensation**

### **Standard Fee Schedule**

Essex is compensated for its investment advisory services through payments of fees made by our clients. Essex's standard fee schedule is included below. Notwithstanding this fee schedule, and subject to applicable laws and regulations, Essex retains discretion over the fees that it charges to its clients, as well as any changes in its fee schedules. Fees may be negotiated or modified in Essex's sole discretion in light of a client's special circumstances, such as asset levels for tiered fee structures, service requirements or other factors. Essex may agree to offer clients a fee schedule that is lower than that of any other comparable clients in the same investment style. Also, there may be historical fee schedules with longstanding clients that differ from those applicable to new client relationships. For comparable services, other investment advisers may charge higher or lower fees than those charged by Essex. Advisory fees may be subject to a specified minimum annual fee; however, Essex reserves the right to waive all or a portion of its management fee and negotiate minimum annual fees. The annual standard fee schedule below may be modified from time to time.

Standard fee schedule for institutional and private clients with assets under management at Essex:

AUM Level	Micro Cap	Smicro Cap, Small Cap & Smid Cap,	GEOS	Growth Equity & Research	Leveraged or un- Leveraged Long/Short	Fixed Income
<b>All Assets</b>	1.0%	1.0%	1.0%	1.0%	1.0%	.500%

### **Minimum Account size is \$1,000,000.**

In addition to the management fees reflected above, standard performance fees for leveraged and un-leveraged long/short, or certain specialized strategies includes an annual performance fee of 20% of the net realized and unrealized gains and losses determined by multiplying the net realized and unrealized gains and losses at the close of business on the last business day of each year by 20%.

Fees for advisory services are generally billed separately at the end of each calendar quarter, in arrears, and are prorated to the date of termination if the client terminates his or her relationship

with Essex. Upon account termination, if any unearned fees were paid in advance, they will be refunded promptly. Fees are also prorated at the inception of the investment advisory agreement to cover only the period of time the account assets were under management. In certain instances, Essex has written authority from clients, as indicated in an executed investment management contract, to automatically deduct fees from client accounts through the client's custodian.

Fees charged to clients generally are computed as a percentage of the value of the assets under management. To calculate advisory fees, Essex generally relies on prices provided by third-party pricing services, custodians, and/or broker/dealers or platform sponsors for purposes of valuing portfolio securities held in client accounts. Essex may, on occasion, be required to "fair value price" a security when a market price for that security is not readily available or when Essex has reason to believe that the market price is unreliable. When "fair value pricing" a security, Essex will use various sources of information at its disposal to determine the price that the security would obtain in the marketplace if, in fact, a market for the security existed. For any fair valued securities, Essex maintains policies and procedures relating to the pricing process in an effort to mitigate any conflicts of interest with respect to valuation.

## **Fees for Specialized Accounts and Advisory Services**

### ***Private Funds Sponsored by Essex***

Essex sponsors various private funds, including, Essex Private Placement Fund III-A, Essex Private Placement Fund III-B, Essex Performance Fund, Essex Scout Fund, Essex Global Life Sciences Fund, Essex Micro Cap Growth Fund, Essex Climate Change Fund, Essex High-Technology Fund, LLC and Essex U.S. Energy Renaissance Fund, LLC. These funds are neither registered under the Securities Act of 1933, nor registered under the Investment Company Act of 1940. Accordingly, interests in these funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. No offer to sell these funds is made by the descriptions in this Brochure, and as noted these funds are available only to investors that are properly qualified.

The typical basic fee schedule for these funds is an annual management fee of 1.0% of client assets under management, plus a performance fee, of up to 20%, on all net profits allocated to each investor on an annual basis. Such performance fees may be subject to a "high water mark" or loss carry forward provisions. However, depending on the characteristics of the sponsored fund, fees may be higher or lower than the stated range. Fees for such services are generally set forth in the offering memorandum or other relevant document. With respect to each fund, Essex may in its sole discretion waive all or a portion of the management fee and the performance fee and may waive all or a portion of the management fees payable for partners who are employees or affiliates of Essex.

Other fees payable as an investor in a privately-offered investment vehicle sponsored by Essex are described below.

### ***Sub-advisory Arrangements***

Essex may, and has been engaged by certain investment advisers to manage mutual funds sponsored by such advisers. In its capacity as “sub-adviser” to these mutual funds, Essex’s fees and services are determined by contract with the adviser.

Information concerning these sub-advised funds, including a description of the services provided and advisory fees, is generally contained in each fund's prospectus, which can be found at the fund sponsor’s website. Other fees payable as an investor in a sub-advised fund or other account are described below, and also in the sub-advised fund’s prospectus or the adviser’s fee brochure or client investment management agreement.

### ***Wrap Fee Programs***

As noted above, Essex may be retained under wrap fee programs sponsored by broker/dealers. Under these arrangements, broker/dealers may, through their registered representatives, recommend retention of Essex as investment adviser to their clients. In addition, other investment management firms may retain Essex as a discretionary or nondiscretionary sub-adviser in a wrap fee program. In such programs, as noted further below, the client typically pays the broker/dealer an all-inclusive fee, a portion of which is paid to Essex as compensation for the investment advisory services it renders. With regard to wrap fee program accounts, the all-inclusive fee may exceed the aggregate cost of the services provided if such services were negotiated and purchased separately, depending on:

- the level of the all-inclusive fee;
- the amount of trading activity in a client’s account;
- the cost of brokerage commissions (which costs are typically negotiated between the client and the broker/dealer, rather than by Essex, with transactions being effected either by the broker/dealer or a third party);
- the value of any other services rendered to the client; and
- other miscellaneous factors.

Fees and minimums for these programs are set by the program sponsor and are as described in the client’s agreement with the sponsor.

Clients in these programs generally pay the wrap program sponsor a single fee (called a “wrap fee”) for consulting, brokerage, custodial, portfolio monitoring, and investment management services, typically up to 3% of the assets under management. The fees paid by clients for investing in a wrap fee account are set by the sponsor, and are generally disclosed in the sponsor’s contract established with each client. The sponsoring firm then pays Essex a portion of this wrap fee.

### ***Non-Discretionary Programs***

Essex may, and has been retained to manage investment advisory accounts not involving discretionary management services, such as multi-manager, multi-discipline investment products and diversified manager allocation products, which include the provision of a model portfolio. In these instances, another manager (which may be affiliated with Essex) is the discretionary investment manager, has investment discretion over the accounts, and is responsible for monitoring the individual needs of the client. Essex amends and updates the model portfolios

from time to time and provides updated information to the sponsor. Assets from these non-discretionary programs are not included in the assets shown previously in Item 4.

In such programs, the client typically pays the sponsor an all-inclusive fee, a portion of which is paid to Essex as compensation for the investment advisory services that it renders to the sponsor.

For detailed information on the fees charged by each sponsor, please refer to the sponsor's fee brochure or client investment management agreement.

### **Additional Fees and Expenses Payable by Clients**

Essex's fees do not include fees for brokerage commissions, transaction fees, service provider fees, and other related costs and expenses which will be incurred by the client. Execution of client transactions typically requires payment of brokerage commissions by clients. "Item 12 – Brokerage Practices" further describes the factors that Essex considers in selecting or recommending broker/dealers for the execution of transactions and determining the reasonableness of their compensation (e.g., commissions). Investment activity may also involve other transaction fees payable by clients, such as sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. In addition, clients may incur certain charges imposed by custodians, broker/dealers, third-party investment consultants, and other third parties, such as custodial fees, consulting fees, administrative fees, and transfer agency fees.

### **Mutual Funds and Other Pooled Investment Vehicles**

Essex may invest client assets in mutual funds or other pooled investment vehicles (such as Exchange Traded Funds ("ETFs"), private equity or venture capital funds) sponsored by third parties. To the extent that client assets are invested in these funds, such clients will also typically pay management and/or other fees (such as performance fees) to the mutual funds or other pooled vehicles that are exclusive of and in addition to the fees paid by the client to Essex. Those fees would be described in each fund's offering documents (e.g., prospectus or offering memorandum).

#### ***Mutual Funds***

Specifically, fees for mutual fund investments generally include two types: shareholder fees and annual fund operating expenses. Shareholder fees may include sales loads, redemption fees, exchange fees and account fees. Annual fund operating fees may include management fees, distribution and/or service fees and other expenses such as custodial, legal, accounting, transfer agent and other administrative expenses.

Clients whose assets are invested in mutual funds may pay some or all of these fees. Clients should review the prospectus of any fund in which their assets are invested in order to understand the fees that may be applicable to their particular investment.

#### ***Private Funds and other Pooled Investment Vehicles***



To the extent that Essex invests in private funds or other pooled vehicles sponsored by third parties, and as noted above, clients also typically pay fees to the issuers or sponsors of those funds in accordance with the funds' fee schedules as in effect from time to time. The terms of these funds, including fees and expenses, are described in the funds' offering memoranda. Various aspects of those terms, such as management and incentive fees, withdrawal and redemption conditions, and information rights, may be negotiable and varied in limited circumstances under side letters, depending on the size of the proposed investment, type of investor, and special legal requirements applicable to the proposed investor.

### **Fees for the Sale of Securities**

Neither Essex nor its employees receive, directly or indirectly, any compensation from the sale of securities or investments that are purchased or sold for your account. Essex is compensated through the stated management fee agreed upon in the investment advisory agreement or fund offering documents. Accordingly, Essex believes that it does not have any conflicts of interest regarding the receipt of additional compensation relating to the client assets that we manage, except as specifically disclosed from time to time.

### **Item 6 – Performance-Based Fees and Side-by-Side Management**

#### **Performance-Based Fees**

For some accounts, Essex receives performance-based fees for its investment management services. A performance-based fee is a fee representing an asset manager's compensation for managing an account which is based upon a percentage of the net profits of the account being managed. When calculating net profits, performance-based fees may be based on absolute or benchmark relative returns. For accounts managed in accordance with certain investment strategies, a performance-based fee represents our standard fee arrangement. However, in certain other instances, we may negotiate performance-based fees with specific clients. In any event, we may have both performance-based fee accounts and asset-based fee accounts within a particular investment strategy. Any such arrangement will be made in compliance with the Investment Advisers Act of 1940, as amended or other applicable requirements.

In a few selected instances, base fees may be increased or decreased based upon performance over specified periods, including in relation to the investment record of an appropriate index, all in accordance with Sections 205 and 206A of the Investment Advisers Act of 1940, as amended, and the rules and regulations there under.

Performance-based fees create certain inherent conflicts of interest with respect to Essex's management of assets. Specifically, our entitlement to a performance-based fee in managing one or more accounts may create an incentive for us to take risks in managing those assets that we would not otherwise take in the absence of such arrangements. Additionally, since performance-based fees reward us for strong performance in accounts which are subject to such fees, we may have an incentive to favour these accounts over those that have only asset-based fees (i.e., fees based simply on the amount of assets under management in an account) with respect to areas such as trading opportunities, trade allocation, and allocation of new investment opportunities.

## **Side-by-Side Management**

Investment teams and individual portfolio managers may manage multiple accounts, including separate accounts, private funds, and mutual funds, according to the same or a similar investment strategy (i.e., side-by-side management). Side-by-side management of various types of portfolios and varying fee arrangements raises the possibility of favorable or preferential treatment of a portfolio or a group of portfolios, including those in which Essex or its principals have an ownership interest. Essex is aware of these conflicts and other potential conflicts that may arise as a result of managing proprietary accounts, including our private investment funds, and has implemented policies and procedures in furtherance of its efforts to treat all portfolios fairly and equally over time, as further described in Item 11.

Nonetheless, each account within a strategy will not necessarily be managed the same at all times. In general, investment decisions for each client account will be made independently from those of other client accounts, and will be made with specific reference to the individual needs and objectives of each client account. There is no requirement that Essex use the same investment practices consistently across all accounts. In fact, different client guidelines and/or differences within particular investment strategies may lead to the use of different investment practices for accounts within a similar investment strategy. In addition, Essex will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible accounts, particularly if different accounts have materially different amounts of capital under management by Essex or different amounts of investable cash available. As a result, although Essex manages numerous accounts with similar or identical investment objectives, or may manage accounts with different objectives that trade in the same securities, the portfolio decisions relating to these accounts, and the performance resulting from such decisions, may differ from account to account.

## **Related Procedures and Controls**

To maintain fair and equitable treatment of all accounts in a particular investment strategy over time, Essex has implemented policies, procedures and controls to further its efforts to treat all accounts fairly, regardless of their corresponding fee structure. For example, Essex has implemented trade allocation and aggregation procedures, as further described in Item 12. With respect to trade allocation, Essex has adopted a general policy of pro rata allocation per client account based upon order size as determined by the portfolio manager at the time of order entry. The policy does permit, under certain circumstances, allocation on a basis other than pro rata or if it is believed that such allocation is fair and reasonable. Accounts are reviewed by Essex's Chief Compliance Officer or his designee on a periodic basis to ensure compliance with these policies. The overriding principle to be followed in applying the following guidelines is to be fair and reasonable to all clients based upon client investment objectives and policies and to avoid even the appearance of favoritism or discrimination among clients.

As further discussed in Item 12, Essex's Brokerage Committee oversees the Firm's brokerage practices and meets periodically to review various matters relating to brokerage, including dispersion and brokerage allocation, the costs of brokerage commissions incurred on behalf of clients and the overall quality of the execution by the Firm's trading desk. The Brokerage

Committee includes representatives from Compliance, Trading and Portfolio Management. In addition, Essex's Compliance and Operations Departments review asset allocation and dispersion reports on a periodic basis to monitor compliance with these policies. By utilizing these procedures, Essex believes that portfolios that are subject to side-by-side management are receiving fair and equitable treatment over time.

## **Item 7 – Types of Clients**

As noted in Item 4, Essex provides investment management services to institutional clients, such as employee benefits plans, endowment funds, foundations, religious organizations, and mutual funds. Essex also provides investment management services to individuals (private clients), limited partnerships and limited liability companies. In addition, as noted in Item 5, Essex acts as investment adviser for several limited partnerships and/or limited liability companies that are only available to investors who qualify for the fund. Each fund's fees and expenses are described in the fund's confidential offering memoranda.

## **Conditions for Managing Accounts**

As noted in Item 5, as a general rule, Essex requires a minimum account size of \$1,000,000. However, the minimum account size is negotiable and may be waived or modified at the Firm's discretion. In those circumstances where Essex serves as an adviser within the wrap fee program or is a sub-adviser to other funds or accounts, the account minimums are determined by the wrap fee program sponsor, fund or account. Generally, Essex requires each client to execute an investment management agreement that details the nature of the discretionary investment advisory authority given to Essex.

As previously noted, the private funds are only available to certain qualified investors and no public offering of a fund is being made by this disclosure or otherwise. Investors should review all documents relating to a fund prior to investing.

## **Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss**

### **Strategy Overview and Related Risks**

As noted in Item 4, Essex is primarily a discretionary asset management firm specializing in growth equity investments on behalf of institutional and private clients. The Firm offers a range of strategies and employs fundamental research combined with active portfolio management. Our investment strategies generally include investments in US traded common stocks, American Depositary Receipts (ADRs), Exchange Traded Funds (ETFs) and preferred stocks. Some of our investment strategies also include foreign equities. Our fixed income strategies include investment grade corporate bonds, U.S. Government and agency securities, municipal bonds and convertible securities (including stocks and convertible corporate bonds).

We believe a stock's performance is determined principally by the company's fundamentals, that is, its future revenue, earnings, and/or cash flow. We generally use fundamental analysis to determine a company's attractiveness. Fundamental analysis is a method of evaluating a company business by analyzing its financial statements and health, its management, products or services and competitive advantages, and its competitors and markets. Earnings, revenue and

cash flow growth rates, margins, expenses, assets, and liabilities are all important in determining the value of a company. The value is then compared to the current price of the issuing company's security to determine whether to purchase, sell or hold the security.

We may use technical analysis in our stock selection process. Technical analysis is a method of evaluating securities by analyzing market statistics, such as past prices and volume. In performing technical analysis, Essex uses charts and other tools to attempt to predict patterns relating to the future activity of a security.

We may also use quantitative methods for the selection of investments. Quantitative methods are based on proprietary models that have been developed and researched extensively. These models are built on objective analysis of security characteristics including, but not limited to valuation, yield and price momentum.

In evaluating securities, the main sources of information used by Essex include, but are not limited to, quantitative data provided by third-party vendors, financial newspapers and magazines, research materials prepared by third parties, corporate rating services relating to historical prices of securities, dividends, and earnings, annual reports, prospectuses, filings with the SEC, and company press releases. Essex may subscribe to other services (e.g., charting and timing), but does not rely on such services as a principal source of information.

With respect to portfolio construction, we generally hold stocks in three different lifestyle phases: recently purchased issues that have yet to catch Wall Street's attention, stocks whose growth is beginning to emerge, and sustainable growth stocks with attractive valuations and strong institutional interest. We seek to assemble portfolios that balance between these dynamic growth companies and sustainable growth companies, which we use in an effort to manage the risks associated with potential correlations among holdings. We further diversify our portfolios by sector and by industry.

Generally, we utilize Frank Russell profiles to assess sector exposure and Bloomberg for attribution analysis. The portfolio managers oversee all sector weightings and the individual analysts review the sectors in which they conduct research.

As further described below, each of our investment strategies is managed by a portfolio manager or group of portfolio managers in a manner consistent with our approach to investing.

### **Micro Cap Growth Strategy**

The Essex Micro Cap Strategy provides exposure to growth companies in a market capitalization range of \$50 million to \$500 million. The portfolio is actively managed and utilizes the Russell Micro Cap Growth index as its performance benchmark. The strategy is a concentrated portfolio of 70-100 companies diversified across domestic industry sectors that show accelerating earnings and sustainable revenue growth. The strategy is benchmarked to the Russell Micro Cap Growth Index.

### **Small/Micro Cap Growth Strategy**

The Essex Small/Micro Cap Growth strategy provides exposure to growth companies predominantly within the micro and small capitalization universes. The Small/Micro Cap Equity

portfolio utilizes a market capitalization range from \$50 million to \$1.5 billion. For comparative performance purposes we utilize the Russell 2000 Growth Index over a full market cycle, typically defined as a three to five year time period.

### **Small Cap Growth Strategy**

The Essex Small Cap Growth strategy provides exposure to growth companies predominantly within the small capitalization universe. The Small Cap Growth portfolio utilizes a market capitalization range from \$500 million to \$2.5 billion. For comparative performance purposes we also utilize the Russell 2000 Growth Index over a full market cycle, typically defined as a three to five year time period.

### **Small/Mid Cap Growth Strategy**

The Essex Small/Mid Cap Growth strategy provides exposure to growth companies predominantly within the small and mid capitalization universes. The Small/Mid Cap Equity portfolio utilizes a market capitalization range from \$500 million to \$7 billion. The industry exposure is broad with particular emphasis on Healthcare, Technology, Consumer and Business Services. For comparative performance purposes we utilize the Russell 2500 Growth Index over a full market cycle, typically defined as a three to five year time period.

### **Growth Equity Strategy**

The Essex Growth Equity strategy provides exposure to growth companies in the small, medium, and large capitalization universes. By managing a diversified equity portfolio utilizing the full market capitalization spectrum, our active portfolio management approach is not constrained by a company's market value. For comparative performance purposes we utilize the Russell 3000 Growth Index over a full market cycle, typically defined as a three to five year time period.

### **Essex Research Strategy**

The 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. The strategy is benchmarked to the Russell 3000 Growth Index.

### **Global Environmental Opportunities Strategy (GEOS)**

The Global Environmental Opportunities Strategy (GEOS) seeks to provide diversified exposure to companies that can profit from climate change action. GEOS is designed to leverage the technologies that will help mitigate and adapt to the implications of climate change. The portfolio management team evaluates companies based on a rigorous review of environmental and financial criteria. GEOS invests across nine climate themes to provide diversification and opportunity within each economic sector. The strategy is global, and invests across the full market capitalization spectrum. GEOS holds diversified large companies that are exposed to multiple climate themes, as well as smaller, specialized companies that we believe have leading technologies.

## **Investment Process**

Essex's investment philosophy is based on the principle that revenue growth, future profitability, and cash flow drive a company's price performance. Through an understanding of the factors that determine a company's growth and profitability, Essex is better able to anticipate inflection points in a company's performance before they are fully reflected in the stock price. The Firm has maintained this philosophy since its inception in 1976.

The portfolio management process at Essex combines bottom-up stock selection with top-down secular trend analysis. Our bottom-up process begins with our team of industry-focused research analysts. Each analyst focuses on understanding the long-term growth of his or her respective industry, and the specific outlook of each stock within that industry in terms of sustainable revenue growth, margin trends, and return trends.

Research analysts at Essex conduct primary research including contacting management, competitors, customers, suppliers, and industry experts to formulate their outlooks. They then perform financial and strategic analysis and utilize a variety of valuation disciplines to arrive at a target price range. Portfolio managers and analysts work together to identify top-down secular technological, demographic, behavioral, and macro-economic trends that influence long- and short-term demand and profitability.

Portfolio diversification and industry exposure are integral parts of managing the risk profile of our portfolios. We maintain diversified portfolios by investing across all growth market sectors. On a stock level, the companies in our portfolios are monitored through evaluation of their fundamentals. This includes, but is not limited to, the volatility of earnings growth, risk-adjusted reward potential, and the upside versus downside price potential.

In addition to monitoring the overall risk profile, our trading system and operational area monitor cash balances, stock position size constraints and specific restrictions related to each portfolio. The process is generally monitored daily.

In evaluating securities, the main sources of information used by Essex include, but are not limited to, quantitative data provided by third-party vendors, financial newspapers and magazines, research materials prepared by third parties, corporate rating services relating to historical prices of securities, dividends, and earnings, annual reports, prospectuses, filings with the SEC, and company press releases. Essex may subscribe to other services (e.g., charting and timing), but does not rely on such services as a principal source of information.

## **Certain Risk Considerations**

Investments in securities and other financial instruments and products are subject to many types of risk that can cause the permanent loss of capital. The investment strategies utilized by Essex carry different levels and types of risk. In each strategy, all securities include a risk of loss of principal and any profits that have not been realized. The stock and bond markets fluctuate substantially over time and, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets the Firm manages on your behalf, and such a loss may be out of our control. We cannot guarantee any level of performance and cannot guarantee that you will not experience a loss of value in your account. In addition, poor investment selection could cause our investment

strategies to underperform other investment accounts or products managed by other firms under similar investment strategies.

Equity securities are subject to certain risks. Market prices of equity securities may fall rapidly or unpredictably and will rise and fall due to changing economic, political or market conditions or in response to events that affect particular industries or companies. Equity investments generally have greater price volatility than fixed-income investments. Because their prices tend to reflect future investor expectations, growth stocks may be more sensitive to change in current or expected earnings than other types of stocks and tend to be more volatile than the market in general. Growth stocks also may underperform value stocks and other investments during given periods.

As noted above, each of Essex's strategies has the potential for clients' assets to decline in value. Some of the specific risks to which client assets may be susceptible include sector risk, concentration risk, foreign investment risk, small- and mid-capitalization company risk, and large-cap stock risk.

#### Sector Risk.

Investment strategies focused on or concentrated in a single sector may be affected by particular economic or market events and could be more volatile than a strategy with securities across industry sectors.

#### Concentration Risk.

Concentrated portfolios that invest in a relatively small number of securities may have more risk because changes in the value of a single security or the impact of a single economic, political or regulatory occurrence may have a greater adverse impact on the strategy's performance.

#### Foreign Investment Risk.

Securities or other investments of foreign issuers involve additional risks (such as risks arising from less frequent trading, changes in political or social conditions, and less publicly available information about non-U.S. issuers) that differ from those associated with investing in securities of U.S. issuers and may result in greater price volatility.

#### Small- and Mid-Capitalization Company Risk.

The stocks of small- and mid-capitalization companies often have greater price volatility, lower trading volume and less liquidity than the stocks of larger, more established companies.

#### Large-Cap Stock Risk.

Investment strategies focusing on large-cap companies may underperform other equity investment strategies as large-cap companies may not experience sustained periods of growth in the mature product markets in which they operate.

#### Geopolitical Risk.

Changes in the political status of any country can have profound effects on the value of securities within that country.

Essex maintains a series of policies and procedures relating to its investment management process. Portfolio Managers and Senior Management monitor the securities in the Firm's investment strategies to determine their continued appropriateness, as well as the mix of investments in those strategies, in view of the stated capitalization range of the strategy and other parameters and risk management objectives, in an effort to ensure that the strategy maintains certain levels of diversification. To further assist in the account review process, an open dialogue exists between the Portfolio Managers, the trading desk, and the Firm's account services groups. This cross functional interaction provides an additional mechanism for monitoring compliance with both clients' and the Firm's investment guidelines. The Firm also maintains automated systems in key areas, including trading and operations, which further enables Essex to establish and maintain internal controls around the portfolio management process.

#### **Item 9 – Disciplinary Information**

There are no applicable legal or disciplinary events relating to Essex.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

Essex is not registered, nor has an application pending to register, as a broker/dealer, futures commission merchant, commodity pool operator, or commodity trading advisor.

#### **Item 11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

Essex has established a variety of restrictions, procedures and disclosures designed to address conflicts of interest arising between and among client accounts as well as between client accounts and Essex and its personnel. All Essex personnel must act in accordance with the fiduciary standard.

##### **Code of Ethics**

Essex has a fiduciary duty to its clients, and accordingly has adopted a Code of Ethics (the "Code") that applies to all employees. The Code describes the standard of conduct Essex requires of its employees and sets forth restrictions on certain activities, including personal trading in accounts owned, managed or beneficially owned by the employee. The Code's provisions also include requirements relating to areas such as gifts and business entertainment, confidentiality of information, and certain contributions. By setting forth the regulatory and ethical standards to which Essex's employees must adhere, the Code supports our efforts to promote a high level of professional ethical conduct in furtherance of our fiduciary duty to our clients.

##### **Personal Trading**

Essex employees are permitted to buy, sell or hold such securities for their personal accounts, subject to the restrictions and reporting obligations contained in Essex's Code. Among other



things, the Code limits and monitors the personal trading activity of our employees, including members of our employees' households. These limitations seek to further Essex's efforts to prevent employees from personally benefiting from Essex's investment decisions for its clients and/or any short-term market effects of Essex's recommendations to clients. Specifically, the Code requires employees and certain members of their households to "pre-clear" their personal securities transactions with our firm's Compliance Department prior to execution, with some limited exceptions. With limited exceptions, the Code also prohibits such persons from trading in securities during specific periods of time when they may be considered for purchase or sale by the firm for our clients' accounts or within seven days after a purchase or sale in our client accounts (i.e., "blackout periods"). Limitations also exist for such persons on the participation in initial public offerings and private placements. All Employees must provide Essex with a listing of their securities holdings, as well as duplicate copies of trade confirmations with respect to their brokerage accounts. These restrictions and requirements of the Code apply to all accounts over which employees have investment discretion, or in which they have a direct or indirect beneficial ownership interest.

### **Participation or Interest in Client Transactions**

Certain principals of Essex and certain employees may invest their own or the firm's assets in accounts managed by Essex, including our private funds. These accounts may hold, purchase, or sell the same securities in which clients have interests. We may have an incentive to favor accounts in which our employees invest with respect to trading opportunities, trade allocation and allocation of investment opportunities. As such, Essex requires that any orders for employee-owned or firm-owned (i.e., proprietary) accounts that are managed by Essex must be executed in the customary trade rotation for a particular order or set of orders. Essex does not engage in principal trades with our clients, that is, Essex does not buy a security from, or sell a security to, the account of a client from its own account.

In addition, due to the nature of our clientele, Essex may, from time to time, trade in securities issued by our clients. In all such instances, Essex will do so in what it believes to be the best interest of its clients who are trading in such securities. Essex will not, under any circumstances, consider a security issuer's status as a client of the firm when determining to trade in that issuer's security on behalf of other client accounts.

Essex may recommend to its clients the purchase or sale of our private investment funds. Essex may earn both a management fee and a performance-based fee on the private investment funds. (A discussion of these fees may be found in Items 5 and 6.). Essex also receives an administrative services fee from these private investment funds. Therefore, potential conflicts of interest exist. To avoid the duplication of fees and the potential for conflicts of interest, we do not charge a management fee to clients on their assets which are invested in the private investment funds. A portion of Essex's corporate cash may be invested in mutual funds or in private investment funds for which Essex serves as investment adviser, sub-adviser, administrator, general partner, or manager. Employees may also own interests in the private investment funds. Therefore, potential conflicts of interest exist. We mitigate these conflicts by monitoring all such purchase or sale recommendations, where Essex has a financial investment, to ensure that any such investments are made in a manner consistent with our fiduciary duty to our clients.

## **Insider Trading/Material Non-Public Information**

All employees of Essex are subject to Essex's Insider Trading Policy, which includes policies and procedures prohibiting the use of material non-public information that are designed to prevent insider trading by an officer, principal or employee of Essex. In accordance with our policies, to prevent trading of public securities based on material, non-public information, Essex, from time to time, identifies securities that cannot be purchased for employee, client, or firm-owned accounts because material, non-public information may have been received by an employee of the Firm. These securities are coded as "prohibited" in Essex's trading and portfolio compliance system, thus blocking Essex from trading in these securities without the consent of Essex's Chief Compliance Officer.

## **Distribution of Code**

We are firmly committed to making our employees and clients (both current and prospective) aware of the requirements within our Code. All of our employees are provided with a copy of our Code at the time of hire and annually thereafter, and each employee must affirm that they have received a copy of the Code, and that they have read and understand its provisions. Additionally, we conduct periodic compliance training that addresses the requirements of the Code and the other policies described in this Item. A copy of Essex's Code is also available to clients or prospective clients upon request, and may be obtained by contacting Essex at the contact information listed on the cover sheet.

## **Item 12 – Brokerage Practices**

Generally, Essex is retained on a discretionary basis and is authorized to determine and direct execution of portfolio transactions within the client's specified investment objectives. Some clients limit Essex's authority in terms of the selection of broker/dealers in favor of their own brokerage arrangements. Essex has a fiduciary duty to seek best execution, and to ensure that trades are allocated fairly and equitably among clients over time.

## **Brokerage Relationships**

Essex's relationships with broker/dealers, particularly those affiliated with large financial services organizations, are complex. Essex uses various broker/dealers to execute trades on behalf of clients, but Essex may also have many other relationships with such firms. For example:

- Essex may invest client assets in securities issued by broker/dealers or their affiliates.
- Essex may provide investment management services to certain broker/dealers or their affiliates.
- Certain broker/dealers may provide both internally-generated and third-party research to Essex as part of a bundled service.
- Certain brokers/dealers may refer clients to Essex.

Notwithstanding such relationships or business dealings with these broker/dealers, Essex has a fiduciary duty to its clients to seek best execution when trading with these firms, and has implemented policies and procedures to monitor its efforts in this regard.

## **Best Execution – Selection Factors for Broker/Dealers**

As noted above, Essex has a duty to seek best execution of transactions for client accounts. “Best execution” is generally understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances. In seeking best execution, Essex looks for the best combination of transaction price, quality of execution (e.g., the speed of execution, the likelihood the trade will be executed, etc.), and other valuable services that an executing broker/dealer may provide. As such, best execution is not synonymous with “lowest price”.

Clients often grant Essex the authority to select the broker/dealer to be used for the purchase or sale of securities. Essex, in seeking best execution, will make this selection based on a number of factors, which may include, but are not limited to, the following: the broker/dealer’s financial soundness; the broker/dealer’s ability to effectively and efficiently execute, report, clear, and settle the order; the broker/dealer’s ability to commit capital; the broker/dealer’s ability to timely and accurately communicate with Essex’s trading desk and operations team; the broker/dealer’s research services provided in connection with soft dollar arrangements (explained in more detail in the “Soft Dollars” sub-section of this Item 12 below); the broker/dealer’s commission rates; and similar factors. Essex does not consider any client referrals from a broker/dealer when determining best execution, or when placing client trades.

Recognizing the value of these factors, Essex may select a broker/dealer that charges a commission in excess of that which another broker/dealer might have charged for effecting the same transaction. Essex is not obligated to choose the broker/dealer offering the lowest available commission rate if, in Essex reasonable judgment, the total cost or proceeds from the transaction may be less favorable than what may be obtained elsewhere or if a higher commission is justified by the service and/or research provided by another broker/dealer.

Essex has implemented a series of internal controls and procedures to address the conflicts of interest associated with its brokerage practices. The Firm executes all client trades through a centralized trading desk, which coordinates the aggregation of eligible client trades, creates the appropriate buy/sell orders, and then places the trades with the broker or brokers that the Firm believes will provide best execution and maximize the value of client accounts over time. Orders are aggregated where possible to obtain commission and other efficiencies to the benefit of the client. Upon completion, orders are allocated amongst client accounts in accordance with the Firm’s policies and procedures, and in a manner that the Firm believes to be fair and equitable over time. The Firm places trades with brokers-dealers, through ECN’s and directly with market makers.

The Firm’s process for assessing execution quality incorporates a variety of factors and involves an evaluation of the trading process and execution results over extended periods. Essex considers a number of factors in the broker selection process, and reviews its practices in order to ensure that the Firm does not become overly dependent on a particular broker or brokers. In addition, Essex uses a third party trade execution evaluation service which produces quarterly reports on the Firm’s trade execution capabilities. The results of these reviews are presented to the Brokerage Committee (as described further below) for consideration and discussion.

To determine that it is receiving best execution for its transactions over time, Essex will obtain information as to the general level of commission rates being charged by the brokerage community, from time to time, and will periodically evaluate the overall reasonableness of brokerage commissions paid on client transactions by reference to such data. To the extent Essex has been paying higher commission rates for its transactions, Essex will determine if the quality of execution and the services provided by the broker/dealer justify these higher commissions. Essex periodically reviews the past performance of the broker/dealers with whom it has been placing orders to execute portfolio transactions in light of the factors discussed above. Essex may cease to do business with certain broker/dealers whose performance may not have been competitive or may demand that such persons improve their performance before receiving any further orders.

In addition, the Firm periodically conducts a broker vote process, typically no less frequently than annually. Essex's investment management team and its traders participate in this process. Once votes are tabulated, the results are reported to the Brokerage Committee. Essex also provides feedback on the results to the brokers, so that they can work to improve upon their performance. Examples of this feedback have included information related to the perceived quality of the research provided, execution quality and other trading and operational issues.

Essex's Brokerage Committee oversees the Firm's brokerage practices and meets periodically to review various matters relating to brokerage, including the costs of brokerage commissions incurred on behalf of clients and the overall quality of the execution by the Firm's trading desk. The Brokerage Committee includes representatives from Compliance, Trading and Portfolio Management.

The Firm also conducts an annual survey of its investment personnel relating to the Firm's soft dollar products. The survey is designed to ensure that the products and services paid for with soft dollars continue to be useful to the investment management and trade execution processes and are reasonably valued. These services are also periodically reviewed by Compliance and the Brokerage Committee to ensure that they remain appropriate and consistent with current SEC soft dollar guidance, and that the amount of commissions remains reasonable in relation to the services provided.

### **Directed Brokerage**

Essex does not direct or require its clients to use a specified broker/dealer for portfolio transactions in their accounts. In some cases, clients have directed Essex to use a specified broker/dealer for portfolio transactions in their account. In these cases, Essex is not obligated to, and will generally not solicit competitive bids for each transaction or seek the lowest possible commission rates for the client as the commission rates have typically been pre-negotiated between the clients and the broker, and Essex is unable to supersede the terms of that agreement. As such, the client may pay higher commission costs, higher prices and transaction costs than it otherwise would have had it not directed Essex to trade through a specific broker, since Essex has not negotiated the rate and may not be able to obtain volume discounts. In addition, the client may be unable to obtain the most favorable price on transactions executed by Essex as a result of Essex's inability to aggregate/bunch the trades from this, account with other client trades.

Furthermore, the client may not be able to participate in the allocation of a security of limited availability (such as an initial public offering). As a result of the special instruction, Essex may not execute client securities transactions with brokers that have been directed by clients until non-directed brokerage orders are completed. Accordingly, clients directing commissions may not generate returns equal to clients that do not direct commissions. Due to these circumstances, there may be a disparity in commission rates charged to a client who directs Essex to use a particular broker and client accounts may experience performance and other differences from other similarly managed accounts. Clients who direct brokerage should understand that similar brokerage services may be obtained from other broker/dealers at lower costs and possibly with more favorable execution.

In some instances, pre-negotiated rates have not been made by the client. In those cases, the client will be charged the broker's applicable commission rate.

Essex reserves the right to reject or limit client requests for directed brokerage, and clients may be charged a premium for such arrangements.

### **Wrap Fee Programs**

In the event Essex enters into a wrap fee program, these typically call for Essex to only execute client transactions through the introducing wrap fee broker/dealer. In such cases, clients are not charged a separate commission per trade as long as the wrap fee broker/dealer executes the trade. There may be instances when Essex has the ability to trade with other brokers besides the wrap fee broker dealer. In evaluating such arrangements, clients should recognize that brokerage commissions for the execution of portfolio transactions executed by wrap fee brokers are not negotiated by Essex and that trades for wrap fee program accounts may be executed after trades for other accounts. For detailed information on the wrap fees charged by each wrap fee program sponsor, please refer to the specific sponsor's Form ADV Part 2A, Appendix 1.

### **Step-Outs**

Essex may use "step-out trades" when we determine that it may facilitate better execution for certain client trades. Step-out trades are transactions which are placed at one broker/dealer and then "given up" or "stepped out" by that broker/dealer to another broker/dealer for credit. Step-out trades may benefit the client by finding a natural buyer or seller of a particular security so that Essex can trade a larger block of shares more efficiently. Unless directed otherwise by the client, Essex may use step-out trades for any client account.

Essex may use step-out trades to accommodate a client's directed brokerage mandate. In the case of directed brokerage accounts, trades are often executed through a particular broker/dealer and then "stepped-out" to the directed brokerage firm for credit. In circumstances where Essex has followed the client's instructions to direct brokerage, there can be no assurance that Essex will be able to step-out the trades, or, if it is able to step-out the trades, that it will be able to obtain more favorable execution than if it had not stepped-out the trades.

Step-out trades may also be used by Essex in order to generate soft-dollar credits, provided that Essex has determined that such transactions are consistent with the principles of best execution and applicable regulations. Please see the discussion of Essex's soft dollar transaction practices in the "Soft Dollars" sub-section below.

## **Cross Trades**

Essex does not engage in cross trades in its client accounts.

## **Soft Dollars**

Essex may direct certain transactions for execution to certain broker/dealers in recognition of brokerage and research services provided by those broker/dealers and/or other third-party providers. The practice of obtaining research in this manner is referred to as using “soft dollars.” Soft dollar transactions generally cause clients to pay a commission rate higher than would be charged for execution only. The products and services received through soft dollar transactions include investment research (either directly or through publications or reports) as to the value of securities, the advisability of investing in, purchasing, or selling securities, the availability of securities or purchasers or sellers of securities, presentation of special situations and trading opportunities, advice concerning trading strategy, attendance at broker sponsored investment conferences, access to group and one-on-one meetings with company management and analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy, and the performance of specific strategies.

To the extent that Essex is able to obtain such products and services through the use of clients’ commission dollars, it reduces the need to produce the same research internally or through outside providers for hard dollars and thus provides an economic benefit to Essex and its clients. As an example, Essex has received research services relating to market data and research tools that allow Essex’s investment team to perform detailed analysis of securities being considered for purchase or held in accounts, which Essex has found useful in its research process. Essex may have an incentive to select a broker/dealer in order to receive such products and services whether or not the client receives best execution. However, Essex may give trading preference to those broker/dealers that provide research products and services, either directly or indirectly, only so long as Essex believes that the selection of a particular broker/dealer is consistent with Essex’s duty to seek best execution.

Essex also receives services which, based on their use, are only partially paid for through soft dollars. Any such service is considered “mixed-use” because it is used by Essex for both research or brokerage and non-research, non-brokerage purposes. This allocation between hard dollars, paid by Essex, and soft dollars, paid by client commissions, creates an inherent conflict of interest. In each such case, Essex makes a good faith determination of which portion of the service should be paid for with soft dollars and which portion should be paid for with hard dollars. Such determination is then reviewed by Essex’s Compliance Department. Essex thereafter retains documentation of the soft dollar to hard dollar allocation.

The research products/services provided by broker/dealers through soft dollar arrangements benefit Essex’s investment process for client accounts and may be used in formulating investment advice for any and all clients of Essex, including accounts other than those that paid commissions to the broker/dealers on a particular transaction. Nonetheless, not all research generated by a particular client’s trade will benefit that particular client’s account. In some instances, the other accounts benefited may include accounts for which the accounts’ owners have directed their portion of brokerage commissions to go to particular broker/dealers other than those that provided the research products/services. However, research services obtained

through soft dollar transactions may be used in advising all accounts, and not all such services would necessarily be used by Essex in connection with the specific account that paid commissions to the broker/dealer providing such services.

As noted previously, Essex maintains a series of internal controls and procedures relating to its brokerage practices, including its use of soft dollars. These controls and procedures are designed to mitigate the potential conflicts of interest described in this Item. As noted above, Essex's Brokerage Committee reviews on a periodic basis Essex's soft dollar arrangements, including the products and services received through soft dollars and the commissions allocated to brokers to ensure these products and services remain useful. Essex also maintains a Soft Dollar Policy that sets forth the Firm's policy and procedures for using soft dollars.

### **Commission Sharing Arrangements**

In addition to traditional soft dollar arrangements, Essex uses commissions to obtain products or services from broker/dealers that are produced by third parties, through commission sharing arrangements. In commission sharing arrangements, Essex enters into agreements with broker/dealers so that certain commissions from transactions placed by the Firm at those broker/dealers may be directed by Essex to one or more third-party investment research providers. Essex utilizes these arrangements to gain access to research produced by certain third-party investment research providers, some of which are broker/dealers that may not be able to provide overall trade execution as favorable to our clients as the broker/dealer executing the trade. Through these arrangements, products and services that provide lawful and appropriate assistance to the Firm's investment decision-making process may be paid for with commissions generated by client accounts.

### **Trade Aggregation**

When two or more portfolios are simultaneously engaged in the purchase or sale of the same security, Essex may, but is not obligated to, combine and aggregate the transactions to form a "bunched trade" or "block trade." In such cases, these accounts will receive the average price of the transactions in that security for the day. Trades in the same security for different accounts will be accumulated for a reasonable period of time to allow for aggregation, unless a particular account's interest would be unduly prejudiced. Essex may, but is not required to, aggregate orders into block trades where Essex believes this is to be appropriate, in the best interests of the client accounts, and consistent with applicable legal requirements.

Since more than one account's orders are included in a block trade, Essex has adopted a policy of using a "pro rata allocation" to allocate the trade among each account whose order makes up part of the block. Under a pro rata allocation, as securities are being purchased or sold as part of the block trade, the securities are being allocated to (or away from, in the case of a sale) accounts in the proportion by which each account's order size (as determined by the portfolio manager at the time of order entry) makes up a percentage of the entire block. In cases where Essex is unable to fulfill a block trade the same day (i.e., purchase or sell all securities within the block trade), those securities that have been purchased or sold by the end of the day will generally be allocated pursuant to Essex's pro rata allocation methodology.

Essex believes that, in most instances, a pro rata allocation of block trades will assure fairness. However, we also recognize that no rigid formula will necessarily lead to a fair and reasonable result, and that a degree of flexibility to adjust the formula to accommodate specific circumstances is necessary when determining how to allocate block trades. Therefore, under certain circumstances, allocation of block trades on a basis other than strictly pro rata may occur if we believe that such allocation is fair and reasonable. Nevertheless, all securities purchased or sold through a block trade, including expenses incurred in the transaction, will be allocated on a fair and equitable basis over time, to the extent practicable, without favoring any account or type of account or client (including any proprietary or affiliated account).

The ability of a client account to participate with other accounts in bunched/block transactions may produce better execution for the individual client account. However, in some instances, a client may have designated a specific broker/dealer to whom the client's trades must be directed (see the "Directed Brokerage" sub-section above). This designated broker/dealer may not (or, in some cases, will not) execute bunched or block trades, and even if it does, Essex may not be able to direct the entire block trade to this designated broker/dealer because it would conflict with Essex's duty to obtain best execution. In such cases, since Essex will place the client's trade with the designated broker/dealer as instructed rather than include the client's order in the block trade, the client may not necessarily get the better price and/or level of execution that those clients who participate in the block may receive.

In the case of proprietary and affiliated accounts, Essex may aggregate orders for those accounts with orders for other client accounts placed on the same day at approximately the same time; provided that Essex will only aggregate trades by proprietary or affiliated accounts with trades for other accounts if Essex believes at the time the order is placed that aggregation is appropriate, in the best interest of the various accounts, and consistent with the duty to seek best execution for its clients and is not prohibited by the terms of the investment advisory agreement with any client for which trades are being aggregated. Trades for proprietary accounts may be aggregated with trades for other client accounts unless Essex determines at the time the order is placed that the inclusion of the trades for the proprietary accounts would adversely affect either the price at which the order is executed or best execution for non-proprietary accounts.

### **Initial Public Offerings**

An initial public offering is a company's first offer of stock for sale to the public. Depending on the interest in this initial offering, Essex's access to these newly offered shares may be limited in amount at the time of the initial offering.

In the event that Essex participates in any initial public offerings and other securities with limited availability (collectively, "IPOs"), Essex allocates IPOs among accounts in a fair and equitable manner over time, taking into consideration factors such as account type, client account objectives and preference, investment restrictions, account sizes, cash availability, and current specific needs.

Where the actual allocation of an IPO to Essex for its accounts is significantly lower than that originally requested by Essex, the original allocation proportions that we determined for our accounts may result in allocations that are not meaningful to certain accounts. In those situations, Essex may allocate the securities received to significantly fewer accounts than



originally intended. Those accounts chosen to receive the smaller allocations are selected based on a combination of factors, such as size, cash position, sector allocations, number of positions, diversification among similar companies, and minimization of custodian transaction costs to the client. While Essex's intention is to allocate similar proportional amounts of IPOs to all eligible accounts over time, using this methodology, some accounts may not receive small allocations. Portfolio managers and compliance personnel periodically monitor the allocations to client accounts and the dispersion of performance for accounts in an effort to ensure that all accounts are treated fairly and equitably over time. Essex does not allocate IPOs to proprietary or related accounts of the Firm.

### **Prime Brokers**

Essex's private funds have one or more prime brokers through which trade clearance and financing is coordinated. Prime brokers may also provide Essex with research, reporting and analysis tools as part of their services.

### **Trade Errors and Trade Error Accounts**

Essex has established Error Correction procedures which provide that the resolution of all errors will be made in light of the Firm's fiduciary duties. It is Essex's policy to resolve any error identified in a client account in a manner which ensures that the account is made whole. Essex prohibits the use of soft dollars to resolve trade errors.

Essex maintains a trade error account. This account allows for the netting of gains and losses relating to trade errors occurring with respect to the Firm's clients. Any net losses residing in this account requires reimbursement from Essex. Any net gains will accumulate to be used to offset future trade error losses (unless the brokerage program specifies the trading gains are required to be allocated to the client's account). If a trade error is discovered prior to settlement, and the trade cannot practicably be broken, the trade will be settled in an Essex trade error account currently maintained at a broker/dealer. Securities acquired in an error account are not held for investment, but rather an offsetting transaction will be executed in the error account to either sell or cover the securities transacted in error, at Essex's discretion, as soon as practicable. Essex may elect to close such a position while client orders to buy or sell are pending.

### **Item 13 – Review of Accounts**

Essex's portfolio management, trading, operations, and compliance teams are responsible for the regular review of the assets of the accounts under their supervision. The number of reviewers and accounts assigned to each varies depending on the nature of the product, service, or strategy. In addition, Essex has established various oversight committees consisting of appropriate representatives within the Firm, including senior members, to assist with the review of activity affecting client accounts.

Our investment professionals, including both portfolio managers and investment research analysts, review the holdings of client accounts on a regular basis. Specifically, portfolio managers review the assets of each account on a regular basis for portfolio strategy and asset allocation purposes. Additionally, individual holdings within client accounts are reviewed by investment research analysts on a regular basis. Essex's investment research analysts are

typically responsible for tracking a variety of companies and/or industries or sectors and making recommendations for Essex's portfolios. In addition, Essex typically holds regular investment meetings to discuss the securities that Essex is monitoring for potential purchase or sale.

Regular reviews of client accounts are also conducted periodically by compliance personnel for adherence to internal investment guidelines, client-mandated or contractual guidelines, and regulatory requirements. Compliance will also compare individual client accounts against other accounts invested in a similar manner on a regular basis to assess the consistency of holdings and performance, and to reconcile any outliers or other exceptions that are found.

Essex also performs reconciliations of its records of the securities and cash within its clients' accounts against the records of the custodians who actually hold the securities and cash. These reconciliations are performed by Essex's operations personnel. At a minimum, positions and cash are reconciled on a monthly basis. Depending on the client's custodian, daily automatic reconciliation may be performed. To the extent any discrepancies are identified through the performance of these reconciliations, our operations personnel will work with both our internal team and the custodian to resolve any such discrepancies. The statements and records of the custodian are the official books and records for the account.

## **Reporting**

Essex provides its clients with account reports on a quarterly basis, unless they request these reports more frequently. The reports typically include:

1. Listing of individual holdings, including number of shares and current market value;
2. Quarterly, year-to-date, and/or since-inception time-weighted rates of return;
3. Historical statement of changes describing clients' original capital and additions of capital, together with income earned and a combination of realized and unrealized appreciation or depreciation;
4. Purchase and sale transactions occurring during the quarter; and
5. Comments on markets and strategy.

Due to the variety of accounts we manage, we may provide additional reports to meet each client's individual needs. These reports may be supplemented by trade confirmations and the other reports on clients' portfolio holdings and transactions provided to clients from their respective custodians and/or broker/dealers, as described above.

In addition, each client will also generally receive reports at least quarterly from their custodian. As noted, the custodian statements reflect the official books and records for the accounts we manage, rather than Essex's statements.

## **Item 14 – Client Referrals and other Compensation**

### **Relationships with Consultants**

Many of our clients and prospective clients retain investment consultants to advise them on the selection and review of investment managers. Essex may have certain accounts that were introduced to Essex through consultants. These consultants or their affiliates may, in the

ordinary course of their investment consulting business, recommend Essex's investment advisory services, or otherwise place Essex into searches or other selection processes for a particular client.

Essex has extensive dealings with investment consultants, both in the consultants' role as adviser for their clients and through independent business relationships. Specifically, we provide consultants with information on portfolios we manage for our mutual clients, pursuant to our clients' directions. Essex also provides information on our investment styles to consultants, who use that information in connection with searches they conduct for their clients. Essex may also respond to "Requests for Proposals" from prospective clients in connection with those searches.

Clients obtained from these consultants may instruct Essex to direct some or all of their brokerage transactions to these consultants, which may also be a broker/dealer, or to the particular broker/dealers with whom they have relationships. Essex, within its normal trading practices, may trade with and allocate brokerage to such consultants or broker/dealers.

Other interactions that Essex may have with consultants include, but are not limited to, the following:

- Essex may invite consultants to events or other entertainment hosted by Essex.
- Essex may, from time to time, purchase software applications, access to databases, and other products or services from some consultants.
- Essex may pay registration or other fees for the opportunity to participate, along with other investment managers, in consultant-sponsored industry forums or conferences. These conferences or forums provide Essex with the opportunity to discuss a broad variety of business topics with consultants, clients, and prospective clients.
- In some cases, Essex may serve as investment adviser for the proprietary accounts of consultants or their affiliates, or as adviser or sub-adviser for funds offered by consultants and/or their affiliates.

In general, Essex relies on each consultant to make appropriate disclosure to its clients of any conflict that the consultant may believe to exist due to its relationship with our firm.

### **Consulting Databases**

Essex may pay consultants or other third parties to include information about Essex's investment approaches in databases that they maintain to describe the services provided by investment managers to prospective clients.

### **Relationships with Solicitors**

From time to time, Essex may become a party to an agreement with an unaffiliated third party solicitor. Should an agreement be entered into, and in accordance with Rule 206(4)-3, Essex will compensate the unaffiliated third party solicitor for referring clients to us. Essex could also be party to agreements pursuant to which Essex pays a fee for services rendered to Essex to support Essex's retention of and provision of investment advisory services to certain clients.

## **Compensation from Third Parties**

Essex does not receive any monetary compensation or any other economic benefit from a non-client for Essex's provision of investment advisory services to a client, other than as described above in Item 12 – Brokerage Practices.

## **Item 15 – Custody**

Essex does not act as a custodian over the assets in the accounts we manage for our clients (except as deemed a "custodian" by applicable law, as discussed below). Clients must make their own arrangements for custody of securities in their accounts. Such custodians may be broker/dealers, banks, trust companies, or other qualified institutions. The qualified custodian is required to provide the client with at least quarterly account statements relating to the assets held within the account managed by Essex. Each client should carefully review the qualified custodian's statement upon receipt to determine that it completely and accurately states all holdings in the client's account and all account activity over the relevant period. Any discrepancies identified by a client should be immediately reported to Essex and the qualified custodian.

In addition to the account statements provided by qualified custodians to our clients, Essex also provides account statements to clients on a quarterly basis. As such, we encourage clients to compare the statements provided to them by Essex against those provided to them by the qualified custodians who hold the assets of their accounts, and to report any questions, concerns, or discrepancies to both Essex and the qualified custodian promptly. Such questions, concerns, or discrepancies may be communicated to Essex by contacting us at the contact information listed on the cover sheet.

Our statements may vary from custodial statements based on accounting methods, reporting dates, and/or valuation methodologies of certain securities. However, custodian statements reflect the official books and records for the accounts we manage.

Essex is also deemed, under the federal securities laws, to have custody of client assets by virtue of its role as sponsor of the private funds listed in Item 5 – "Private Funds Sponsored by Essex" of this Brochure, and by virtue of Essex's authority to deduct fees from client accounts. Essex does not have actual physical custody of any client assets or securities invested in such funds; rather, all such assets are held in the name of each of the applicable funds by an independent qualified custodian. Such funds are audited annually by independent Certified Public Accountants, and investors receive annual financial statements, as required by applicable law.

## **Item 16 – Investment Discretion**

Essex is typically granted discretionary authority by a client at the outset of an advisory relationship to determine the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts of securities for purchase or sale, Essex observes the investment policies, limitations, and restrictions that are applicable to our clients' accounts, as set forth by our clients. Any

investment guidelines and restrictions, including amendments, must be provided to Essex by our clients in writing. A client will grant Essex discretionary authority by executing an investment management agreement, which includes, among other items, a statement giving Essex full authority to invest the assets identified by the client in manner consistent with the investment objectives and limitations delineated by the client, and to engage in transactions on a discretionary basis in the client account. Please refer to Item 5 for information regarding Essex's non-discretionary client accounts.

### **Item 17 – Voting Client Securities**

Since client accounts may hold stocks or other securities with voting rights, our clients often have the right to cast votes at the corporate issuers' shareholder meetings. However, since shareholders often do not attend shareholder meetings, they have the right to cast their votes by "proxy." In such cases, Essex's clients will either retain proxy voting authority or delegate it to Essex. If a client has delegated such authority to Essex (whether in the client's investment management agreement with Essex or otherwise), Essex will vote proxies for that client. If a particular client for whom Essex has investment discretion has not explicitly delegated proxy voting authority to Essex, Essex will not vote such client's proxies, and the client will retain the voting authority for its account. In such a case, the client will receive proxy solicitations from the custodian, and the client may contact Essex with any questions about a particular solicitation. Where clients have delegated proxy voting authority to Essex, as an investment adviser and fiduciary of client assets, Essex has implemented proxy voting policies and procedures intended to protect the value of shareholder investments and designed to reasonably ensure that Essex votes proxies in the best interest of clients. In voting proxies, we seek to both maximize the long-term value of our clients' assets and to cast votes that we believe to be fair and in the best interest of the affected client(s).

#### **Voting Agent**

Essex has contracted with an independent third-party provider of proxy voting and corporate governance services ("proxy agent") which specializes in providing a variety of services related to proxy voting. Specifically, this proxy agent has been retained to conduct proxy research, execute proxy votes, and keep various records necessary for tracking proxy voting materials and proxy voting actions taken for the appropriate client account.

Essex has adopted the proxy agent's proxy voting policy guidelines as its own and, as such, votes Essex's clients' proxies (for those client accounts over which it has proxy voting authority) according to those policy guidelines.

#### **Conflicts of Interest**

As noted, Essex has an agreement with the proxy agent and has adopted the proxy agent's proxy voting policy guidelines (the "Policies"). By adopting the Policies, Essex has essentially removed discretion that Essex would have otherwise had to determine how to vote proxies in cases where Essex has a material conflict of interest.

Notwithstanding the appointment of the proxy agent, there may be some instances where Essex votes proxies. Specifically, there may be a situation where the proxy agent itself may have a

material conflict of interest with respect to a proxy vote that it is voting on Essex's clients' behalf. In those situations, the proxy agent is obligated to fully or partially abstain from voting the proxy, and Essex's Proxy Committee will provide the voting recommendation after a review of the vote(s) involved. Essex's Chief Compliance Officer must approve any decision made on such vote prior to the vote being cast. Essex's Chief Compliance Officer will also become involved in any other situation, though expected to be rare, where Essex determines to remove voting discretion from the proxy agent. In both of the preceding circumstances, Essex's Proxy Committee will work to ensure that prior to a vote being made, conflicts of interest are identified and material conflicts are properly addressed such that the proxy may be voted in the best interest of clients.

### **Proxy/Share blocking**

In general, unless otherwise directed by the client, Essex will make reasonable efforts to vote client proxies in accordance with the proxy voting recommendations of the proxy agent. Essex may decline to vote proxies if to do so would cause a restriction to be placed on Essex's ability to trade securities held in client accounts in "share blocking" countries. Accordingly, Essex may abstain from votes in a share blocking country in favor of preserving its ability to trade any particular security at any time.

If you would like a copy of Essex's Proxy Policy, if you would like to review how Essex voted on a particular security in your account, or if you would like further information on the proxy agent's proxy voting policy guidelines, please contact us at the contact information on the cover page.

### **Class Action Suits and Other Legal Actions**

Essex is not obligated to, and typically does not take any legal action with regard to class action suits relating to securities purchased by Essex for its clients. Essex provides instructions to custodians and brokers regarding tender offers and rights offerings for securities in client accounts. However, Essex does not provide legal advice to clients and, accordingly, does not determine whether a client should join, opt out of or otherwise submit a claim with respect to any legal proceedings, including bankruptcies or class actions, involving securities held or previously held by the client. Essex generally does not have authority to submit claims or elections on behalf of clients in legal proceedings. Should a client, however, wish to retain legal counsel and/or take action regarding any class action suit proceeding, Essex will attempt to provide the client or the client's legal counsel with information that may be needed upon the client's reasonable request.

### **Item 18 – Financial Information**

Essex has no financial condition that impairs our ability to meet our contractual and fiduciary commitments to our clients, and Essex has not been the subject of a bankruptcy proceeding.

## **Privacy Notice**

Essex Investment Management Company, LLC and its limited partnerships and limited liability companies

### **Information We Collect**

In the course of doing business with you, we collect nonpublic personal information about you from the following sources:

- Information we receive from you on applications or other forms, such as your social security number, income, net worth, other personal financial information, family relatives, occupation and birth date;
- Information about your transactions with us, our affiliates, or others, such as payment history, account balance, assets and past transactions; and
- Information we collect from you through your account inquiries by mail, email or telephone.

### **Disclosure of Information to Nonaffiliated Third Parties**

Essex typically does not share nonpublic client information with unaffiliated third parties other than as necessary to carry out the performance of the investment management services it has been hired to provide. Thus for example, permitted disclosures include information provided to our service providers, including but not limited to, transfer agents, auditors, custodians, clearing firms, and investment companies. Information about our clients may be shared with Wrap program sponsors in accordance with the Wrap program arrangements. Essex may also use such information in the account intake process including conducting anti-money laundering screening. We require our service providers not to disclose your information or reuse it in any way. In addition, we may share information with your advisor or anyone else that you designate, but only if you have given us permission to do so.

### **Security Standards**

We restrict access to nonpublic personal information about you to those employees who need to know that information to provide products or services to you. We maintain physical, electronic, and procedural safeguards to ensure the integrity and confidentiality of your nonpublic personal information.