

**BOARD OF PENSION TRUSTEES  
FOR THE  
CITY OF JACKSONVILLE RETIREMENT SYSTEM  
Thursday, July 6, 2023, at 12:30 PM  
City Hall Conference Room 3C**

**AGENDA**

**1. CALL TO ORDER**

**2. PUBLIC COMMENT**

**3. INVESTMENT AND FINANCIAL MATTERS**

Pinnacle – SMID Growth

**4. INFORMATION**

- a. Next regular BOT meeting scheduled for Thursday, July 27, 2023, at 2 PM
- b. Eagle Capital- LCV Equity discussion scheduled for Thursday, August 3, 2023, at 12:30 PM

**5. PRIVILEGE OF THE FLOOR**

**6. ADJOURNMENT**



# *CITY OF JACKSONVILLE RETIREMENT SYSTEM*

**Richard Rosen, CFA**  
Senior Portfolio Manager

**Andrew Eras, CFA**  
Director of Institutional Marketing

July 6, 2023



### *Pinnacle's Keys to Success*

- ❑ **Founded in 1984**
- ❑ ***Employee owned* and debt free since inception**
- ❑ ***Disciplined* investment approach and stable investment team since inception**
- ❑ ***Experienced & Proficient* - Pinnacle's investment team has worked together since 1996, successfully navigating multiple market cycles**
- ❑ ***Commitment* to in-depth fundamental, bottom-up research**

# Small/Mid Cap Strategy Product Snapshot



<b>Product Inception:</b>	<b>1996</b>
<b>Number of Holdings:</b>	<b>50-80</b>
<b>Starting Position Size:</b>	<b>0.5% - 3.0%</b> <b>max 5.0% at market</b>
<b>Median Market Cap:</b>	<b>\$3.3bn</b>
<b>Active Share:</b>	<b>95.25%</b>
<b>Average Annual Turnover:</b>	<b>10-20%</b>

## Assets Under Management\*

<b>SMID:</b>	<b>\$1.30 billion</b>
<b>Firm:</b>	<b>\$6.91 billion</b>

\* Preliminary as of March 31, 2022

## *Depth, Stability, Expertise*

- ❑ 4 Member Portfolio Team supported by Research Analysts
- ❑ Stable investment team with no departures since inception
- ❑ Current team responsible for long term track record
- ❑ Team utilizes collaborative approach to investment decisions
- ❑ Principals invested in strategy

	<u>Yrs. w/ Firm</u>
<b>Peter Marron, CFA, PM /Analyst</b>	<b>31</b>
<b>John Passios, PM/Analyst</b>	<b>36</b>
<b>Kimon Passios, PM/Analyst</b>	<b>28</b>
<b>Rich Rosen, CFA, PM/Analyst</b>	<b>5</b>
<b>Monica Jalife, CFA, Analyst</b>	<b>20</b>
<b>Max Schaul, Analyst</b>	<b>10</b>
<b>Ryan Byrne, Analyst</b>	<b>6</b>

Pinnacle Associates Ltd.  
 PERFORMANCE HISTORY  
 GROSS OF FEES  
*7366 City of Jacksonville Retirement System*  
 From 12-31-2021 to 12-31-2022

<u>Time Period</u>	<u>Percent Return Per Period</u>	
	<u>Account</u>	<u>Russell 2500 Growth w/Income</u>
12/31/2021 to 3/31/2022	-5.12	-12.30
3/31/2022 to 6/30/2022	-20.94	-19.55
6/30/2022 to 9/30/2022	-2.25	-0.12
9/30/2022 to 12/31/2022	3.73	4.72
<u>Date to Date</u>		
12/31/2021 to 12/31/2022	-23.94	-26.21

# Portfolio Attribution – 2022



## Performance Attribution - Summary

Gross of Fees

12/31/2021 - 12/31/2022

Industry Sector	7366 City of Jacksonville Retirement			Russell 2500 Growth Index w/ Income			Variance		
	Average Weight	Base Return(%)	Contrib	Average Weight	Base Return(%)	Contrib	Stock Select	Group Weight	Total
Health Care	13.51	-3.66	-0.01	19.04	-32.21	-6.45	3.38	0.37	3.75
Consumer Discretionary	12.03	-11.71	-1.25	14.49	-31.93	-5.21	2.47	0.18	2.65
Communication Services	11.73	-20.03	-2.28	2.43	-37.75	-0.97	2.12	-1.18	0.94
Industrials	15.52	-16.85	-2.57	16.53	-21.33	-3.23	0.53	-0.05	0.47
Energy	3.31	77.43	1.06	4.11	31.61	0.68	0.42	-0.11	0.32
Real Estate	2.21	-30.99	-0.65	2.76	-34.22	-1.07	0.24	0.03	0.27
Financials	2.19	7.13	0.11	6.83	-17.04	-0.94	0.38	-0.38	0.00
Utilities	0.00	0.00	0.00	0.99	-17.08	-0.11	0.00	-0.03	-0.03
Consumer Staples	0.00	0.00	0.00	3.49	-12.71	-0.31	0.00	-0.41	-0.41
Materials	0.47	-71.73	-0.54	4.40	-17.15	-0.64	-0.39	-0.19	-0.58
Information Technology	39.04	-42.95	-19.22	24.93	-29.21	-7.96	-6.07	-0.44	-6.50
<b>Total</b>	<b>100.00</b>	<b>-25.35</b>	<b>-25.35</b>	<b>100.00</b>	<b>-26.21</b>	<b>-26.21</b>	<b>3.08</b>	<b>-2.22</b>	<b>0.86</b>

Pinnacle Associates Ltd.  
 PERFORMANCE HISTORY  
 GROSS OF FEES

***7366 City of Jacksonville Retirement System***

From 12-31-2022 to 05-31-2023

<u>Time Period</u>	<u>Percent Return Per Period</u>	
	<u>Account</u>	<u>Russell 2500 Growth w/Income</u>
12/31/2022 to 3/31/2023	8.62	6.54
3/31/2023 to 5/31/2023	-1.13	-1.37
<u>Date to Date</u>		
12/31/2022 to 5/31/2023	7.39	5.08



# Portfolio Attribution –YTD 2023



## Performance Attribution - Summary

Gross of Fees

12/31/2022 - 05/31/2023

Industry Sector	7366 City of Jacksonville Retirement			Russell 2500 Growth Index w/ Income			Variance		
	Average Weight	Base Return(%)	Contrib	Average Weight	Base Return(%)	Contrib	Stock Select	Group Weight	Total
Health Care	13.58	14.69	1.95	18.30	6.33	1.19	1.13	-0.06	1.06
Consumer Discretionary	15.18	13.47	1.95	13.63	8.22	1.07	0.79	0.04	0.82
Information Technology	36.01	11.87	4.28	22.68	13.38	2.95	-0.59	1.14	0.56
Energy	3.45	-14.29	-0.53	4.98	-17.60	-0.96	0.13	0.42	0.55
Financials	2.15	-14.75	-0.35	7.46	-7.62	-0.61	-0.21	0.73	0.52
Materials	0.19	-44.86	-0.11	5.24	0.08	0.02	-0.13	0.26	0.13
Real Estate	1.23	4.73	0.06	2.07	1.95	0.05	0.03	0.03	0.06
Utilities	0.00	0.00	0.00	1.38	1.83	0.02	0.00	0.05	0.05
Industrials	16.58	3.90	0.50	17.93	4.40	0.74	-0.16	0.02	-0.14
Consumer Staples	0.00	0.00	0.00	4.15	10.09	0.41	0.00	-0.21	-0.21
Communication Services	11.63	-1.44	-0.11	2.19	9.25	0.20	-1.27	0.41	-0.86
<b>Total</b>	<b>100.00</b>	<b>7.63</b>	<b>7.63</b>	<b>100.00</b>	<b>5.08</b>	<b>5.08</b>	<b>-0.28</b>	<b>2.83</b>	<b>2.54</b>

# Small/Mid Cap Equity Portfolio Annualized Performance\*



	YTD %	1 YR %	3 YRS %	5 YRS %	7 YRS %	10 YRS %	Since 12/31/95 %
<b>Pinnacle Small/Mid Cap (Gross)</b>	<b>7.24</b>	<b>-1.82</b>	<b>10.51</b>	<b>8.84</b>	<b>11.58</b>	<b>10.38</b>	<b>14.41</b>
<b>Pinnacle Small/Mid Cap (Net)</b>	<b>6.80</b>	<b>-2.81</b>	<b>9.42</b>	<b>7.76</b>	<b>10.47</b>	<b>9.28</b>	<b>13.28</b>
Russell 2500 Growth w/Income	5.08	2.30	5.16	5.56	9.64	9.42	8.27
Russell 2500 w/Income	0.25	-5.34	10.31	4.97	8.43	8.37	9.25

\*As of May 31, 2023

# Small/Mid Cap Equity Rolling Returns\*



Monthly Rolling Return Period	Total Number of Periods	Pinnacle SMID (Gross)	Pinnacle SMID (Net)	Benchmark-Russell 2500 Growth	Pinnacle Alpha (Gross)	Pinnacle Alpha (Net)	%Pinnacle (Gross) Outperformed
1 Year	320	18.27	17.12	11.17	<b>7.10%</b>	<b>5.95%</b>	70.00%
3 Year	304	16.16	15.02	9.74	<b>6.42%</b>	<b>5.28%</b>	79.28%
5 Year	288	14.57	13.45	9.11	<b>5.46%</b>	<b>4.34%</b>	81.25%
10 Year	230	13.81	12.64	8.90	<b>4.91%</b>	<b>3.74%</b>	94.78%
20 Year	110	13.69	12.53	8.62	<b>5.07%</b>	<b>3.91%</b>	100.00%

\*As of 3/31/23

# 2022 Buys And Sells

<i>Buys</i>		<i>Sells</i>	
<b><u>NEW POSITIONS ESTABLISHED</u></b>  <b><u>Cyclical</u></b>  Canada Goose Holdings Inc Sinclair Broadcast Group	<b><u>ADD TO EXISTING</u></b>  <b><u>Cyclical</u></b>  CAE Inc Coherent Corp OneSpaWorld Warner Bros Discovery Inc	<b><u>COMPLETE SALE</u></b>  <b><u>Cyclical</u></b>	<b><u>PARTIAL SALE</u></b>  <b><u>Cyclical</u></b>  TEGNA Inc
<b><u>Sustainable</u></b>  3D Systems Corp Ichor Holdings Inc Itron Inc Manchester United PLC A	<b><u>Sustainable</u></b>  3D Systems Corp Aerie Pharmaceuticals Ambarella Inc Cara Therapeutics Cerence Inc Edgio Inc Ichor Holdings Inc Intercept Pharmaceuticals Manchester United PLC A nLight Inc Stratasys Inc Telos Corp Unifi Inc Vimeo Inc	<b><u>Sustainable</u></b>  Aerie Pharmaceuticals* Cyrusone Inc* Clovis Oncology Inc Corbus Pharmaceuticals Holdings	<b><u>Sustainable</u></b>  Iridium Communications Mandiant Inc Regeneron Pharmaceuticals Rogers Corp SeaGen Inc SeaWorld Entertainment

# 2023 Buys And Sells

<i>Buys</i>		<i>Sells</i>	
<p style="text-align: center;"><b><u>NEW POSITIONS</u></b></p> <p style="text-align: center;"><b><u>Cyclical</u></b></p> <p style="text-align: center;">Spirit Aerosystems Lindblad Expeditions Warner Bros Discovery Inc</p>	<p style="text-align: center;"><b><u>ADD TO EXISTING</u></b></p> <p style="text-align: center;"><b><u>Cyclical</u></b></p> <p style="text-align: center;">Canada Goose Holdings Inc Cerence Helmerich &amp; Payne Warner Bros Discovery Inc</p>	<p style="text-align: center;"><b><u>COMPLETE SALE</u></b></p> <p style="text-align: center;"><b><u>Cyclical</u></b></p>	<p style="text-align: center;"><b><u>PARTIAL SALE</u></b></p> <p style="text-align: center;"><b><u>Cyclical</u></b></p> <p style="text-align: center;">Boyd Gaming Corporation</p>
<p style="text-align: center;"><b><u>Sustainable</u></b></p> <p style="text-align: center;">Bloom Energy</p>	<p style="text-align: center;"><b><u>Sustainable</u></b></p> <p style="text-align: center;">Ambarella Edgio Inc Plug Power Rogers Corp</p>	<p style="text-align: center;"><b><u>Sustainable</u></b></p>	<p style="text-align: center;"><b><u>Sustainable</u></b></p> <p style="text-align: center;">Form Factor Immunogen Manchester United PLC A SeaGen Inc</p>

Portfolio weights are a residual of our bottom-up stock selection process

## By Industry

## By Security

<u>Industry Breakdown</u>	<u>% of Portfolio</u>	<u>Ten Largest Holdings</u>	<u>% of Portfolio</u>
Semiconductors & Semiconductor Equipment	14.16	Lam Research	4.3
Electronic Equipment & Instruments	11.46	Boyd Gaming Corporation	4.1
Biotechnology	11.29	Iridium Communications	3.7
Hotels Restaurants & Leisure	10.27	Evoqua Water Tech Corp	3.2
Aerospace & Defense	4.90	Qorvo Inc	2.9
Media	4.51	Regeneron Pharmaceuticals	2.9
Diversified Telecommunication Services	3.73	SeaWorld Entertainment	2.9
Software	3.60	Cognex Corp	2.2
Road & Rail	3.54	Coherent Corp	2.1
Machinery	<u>3.16</u>	Golar Lng Ltd	<u>2.1</u>
<b>Total</b>	<b>70.62</b>	<b>Total</b>	<b>30.4</b>

The information listed above is accurate as of March 31, 2023. The list of specific industry weightings on this page are included merely to reflect the SMID portfolio's concentration and investment process, not best performing positions. The list of weightings are as of the date listed and are subject to change without notice and may no longer reflect current positions or percentages. At the time of investment, the model portfolio may contain much different industry weightings than the list set forth on this page. Nothing herein should be construed as an indicator of past or future performance of the portfolio for a specific client, nor considered a recommendation to purchase or sell any particular security. There can be no assurance that any industries or investments discussed on this page will be or remain a part of the portfolio, or, if sold, will not be repurchased.

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# Portfolio Characteristics



Characteristic	Pinnacle	Russell 2500 Growth Index	Russell 2500 Index
Number of Stocks	78	1319	2500
P/Sales	2.09x	0.89x	1.17x
Yield	0.43%	0.83%	1.81%
Price/Book	2.73x	2.64x	2.15x
Median Market Cap	3.3b	1.7b	1.4b
1-Year Turnover	9.4		

The information listed above is accurate as of March 31, 2023. The list of specific industry weightings on this page are included merely to reflect the SMID portfolio's concentration and investment process, not best performing positions. The list of weightings are as of the date listed and are subject to change without notice, and may no longer reflect current positions or percentages. At the time of investment, the model portfolio may contain much different industry weightings than the list set forth on this page. Nothing herein should be construed as an indicator of past or future performance of the portfolio for a specific client, nor considered a recommendation to purchase or sell any particular security. There can be no assurance that any industries or investments discussed on this page will be or remain a part of the portfolio, or, if sold, will not be repurchased.

## ❑ Market is in Transition Phase, Similar to Post-Tech Bubble Period

- Market darlings from 2010-2020, such as Momentum/"Disruptor" bubble stocks with little/no profitability and unprecedented valuations, had been fueled by ultra-low interest rates and COVID/stay-at-home conditions
- Interest Rates are normalizing = Valuation Matters
- Momentum stock valuations have contracted significantly, and are unlikely to reach previous valuations

## ❑ Pinnacle SMID's Focus on Growth Fundamentals and Valuation

- SMID's Technology stocks poised to outperform previous Tech favorites, i.e., "growth at any price", "stay at home" stocks
  - Semiconductor/semi capital equipment, industrial automation/robotics have secular demand drivers
- Cyclical Growth stocks poised to outperform after decade of market dominance by Momentum Tech
  - Travel & leisure, aerospace & defense and manufacturing stocks should outperform both in earnings growth and stock performance vs. "Disruptor" bubble stocks

## ❑ Market Environment Resembles 2000-2009 – Aftermath of Asset Valuation Bubble

- Pinnacle SMID outperformed Growth indexes by 500 basis points/year during this period



# Why SMID is a Key Portfolio Allocation in 2023 and Beyond



## ❑ Long-Term Effects from Geopolitical Crises

- De-Globalization - Companies' increased priority on dependable supply chains and predictability of shipments mean bringing supply chains closer to home. Portfolio beneficiaries – **Cognex, Stratasys, 3D Systems, Werner Enterprises, nLight, Coherent**
- Energy Security – A More Pragmatic Approach – Countries will continue pursuit of long-term environmental and decarbonization goals, while investing in traditional fuels as a bridge. Portfolio beneficiaries - **Plug Power, Array Technologies, Itron, Hexcel, Coherent, Vishay, Diamondback Energy, Helmerich & Payne, Golar LNG**
- National Defense – **AeroVironment, Hexcel, CAE, nLight**

## ❑ Other Promising Intermediate and Long-Term Investments

- Growth of Semiconductors, the foundation of all technological innovation - **Lam Research, Lumentum, Ambarella, Ultra Clean Holdings, Formfactor**
- Return to Normalization in Biotechnology - many trials/treatments for non-COVID diseases were put on pause during pandemic, impairing progress on drug trials and launches of new drugs
- Higher Levels of Infrastructure Spending – **Evoqua, Itron, Tutor Perini, Trimble**
- Automotive Technology/Electric Vehicles – **Ambarella, Cerence, Lumentum, Coherent, Vishay**
- Monetization Opportunities of Global Sports Franchises - **Madison Square Garden Sports, Manchester United PLC**

## ❑ Exposure to Artificial Intelligence (AI)

- Direct - **Ambarella, Cognex, Trimble, Cerence**
- Indirect - Enablers of AI (Near Term and Long-Term Beneficiaries):
  - Semiconductor Capital Equipment **Lam Research, Ultra Clean, Ichor, Advanced Energy Industries, Coherent**
  - Data Centers: **Digital Realty Trust, Coherent, Lumentum**
  - Data/Information Security: **Tenable Holdings, Telos, Commvault Systems**

# Capitalizing on Distress

**Following previous market drawdown periods, Pinnacle SMID portfolio has delivered strong relative returns**

		<b>PINNACLE SMID CAP Gross of fees</b>	<b>PINNACLE SMID CAP Net of fees</b>	<b>RUSSELL 2500 Growth Index</b>
<b>Aggressive Fed Rate Hikes</b>	<b>2022</b>	<b>-24.60%</b>	<b>-25.30%</b>	<b>-26.20%</b>
<b>Global Pandemic</b>	<b>2020</b>	<b>33.60%</b>	<b>32.30%</b>	<b>40.50%</b>
	<b>2021</b>	<b>13.30%</b>	<b>12.20%</b>	<b>5.00%</b>
<b>US-China Trade War</b>	<b>2018</b>	<b>-10.70%</b>	<b>-11.60%</b>	<b>-7.50%</b>
	<b>2019</b>	<b>41.70%</b>	<b>40.40%</b>	<b>32.70%</b>
<b>US Debt Downgrade/ Flash Crash</b>	<b>2011</b>	<b>-9.80%</b>	<b>-10.70%</b>	<b>-1.60%</b>
	<b>2012</b>	<b>25.50%</b>	<b>24.30%</b>	<b>16.10%</b>
	<b>2013</b>	<b>39.20%</b>	<b>38.00%</b>	<b>40.70%</b>
<b>Financial Crisis</b>	<b>2008</b>	<b>-43.70%</b>	<b>-44.40%</b>	<b>-41.50%</b>
	<b>2009</b>	<b>50.00%</b>	<b>48.60%</b>	<b>41.70%</b>
	<b>2010</b>	<b>38.70%</b>	<b>37.40%</b>	<b>28.90%</b>
<b>11-Sep</b>	<b>2002</b>	<b>-25.20%</b>	<b>-26.00%</b>	<b>-29.10%</b>
	<b>2003</b>	<b>57.50%</b>	<b>56.10%</b>	<b>46.30%</b>

\*Past performance is not indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment or investment strategy will be profitable or equal historical performance levels.

- ❑ **Conduct fundamental, bottom-up research to identify inefficiencies in under-researched companies in the small cap universe**
- ❑ **Unique *hybrid approach* seeks durable, long-term growth at reasonable valuations, supported by visible catalysts**
- ❑ **Experienced and stable investment team provides confidence in repeatability of our strong track record**

## Two Types of Growth Opportunities – Sustainable and Cyclical

- ❑ **Universe includes two Growth Categories:**
  - Sustainable Growth
  - Cyclical Growth
- ❑ **Apply Fundamental, Bottom-Up Analysis**
- ❑ **Investment Criteria**
  - Strong Growth
  - Reasonable Valuation
  - Visible Catalysts
- ❑ **Hybrid approach helps deliver alpha even when growth asset class is out of favor**

# Sustainable Growth Segment

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- ❑ **Identify quality companies with above-average cash flow or earnings growth**
  - Earnings are sustainable beyond the economic cycle
  
- ❑ **Industries include:**
  - Biotechnology
  - Alternative Energy
  - Technology
  - Industrial Automation
  
- ❑ **Traditional valuation measures not always appropriate for these securities**
  - Expenses often precede revenues
  
- ❑ **Key Valuation measures:**
  - Price to cash flow ratio
  - Price to private market value
  - Price to sales ratio
  
- ❑ **Identify positive catalysts for change**
  
- ❑ **Portfolio holdings include:**
  - Ambarella (Technology)
  - Cognex (Industrial Automation)
  - Plug Power (Alternative Energy)
  - Intra-Cellular Therapies (Biotechnology)

# Investment Process in Action: Stock Example

## Ambarella Inc.

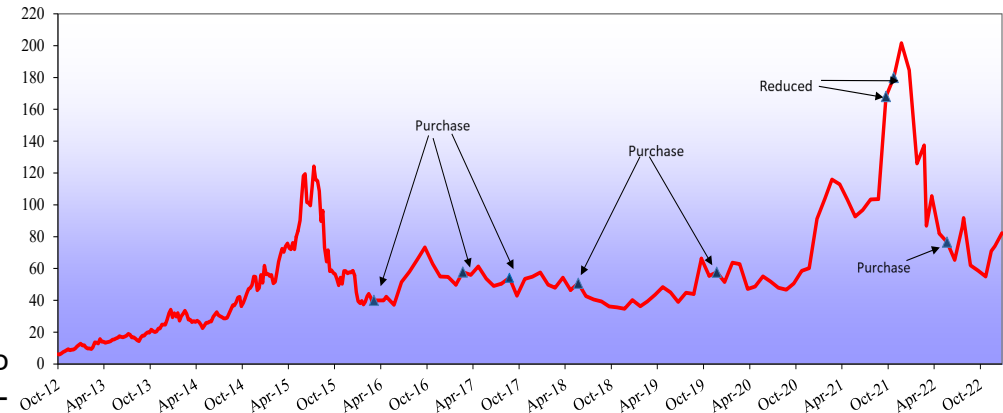
Symbol:	AMBA
Market Cap at original purchase:	\$1.4 billion
Market Cap (as of 12/31/2022):	\$3.0 billion
Initial Cost:	\$42.00
Price as of 12/31/2022:	\$82.23

### DESCRIPTION

- Ambarella is the leading manufacturer of high-definition video compression and image processing semiconductors, which enable high-resolution object detection and classification, and complex data analytics in real time. Its technology is used in autonomous vehicles, security cameras, warehouse robots, drones and other high value applications.

### ANALYSIS

- Accelerating design wins for AMBA's best-in-class technology in automotive and security camera segments allowing 20%+ sales growth visibility through 2024, with margins improving as revenues scale.
- New government-mandated safety regulations on driver monitoring systems or autonomous driving platforms will boost demand for AMBA technology chips.
- Company is incorporating artificial intelligence (AI) and computer vision capabilities into its video chipsets to make security cameras and automotive safety/driving applications more intelligent.
- Company TAM growing rapidly, driven by demand for AI-based video analytics and advanced driver-assisted/monitoring technology.
- Strong balance sheet with \$240 million in net cash (\$12 per share) allows for strategic M&A and to fund internal growth.



### DEVELOPMENTS

- AMBA continues to invest in innovation, with the recent introduction of a new family of AI-processing computer vision chips designed to enhance driver safety and boost perception accuracy in the automotive market.
- The company continues to take market share in increasingly diverse, high-margin markets. Its blue-chip global customer base includes Mercedes Benz, Ford, Toyota, Amazon, Google, Honeywell, Bosch and others. Companies are attracted to AMBA's open platform that allows for customer customization and integration of different technologies.
- AMBA is pursuing an active R&D and M&A strategy to incorporate multiple methods of sensing, fusing them with its camera-based computer vision technology. Their new AI-processing chips will include high-resolution vision, radar, ultrasonic and lidar for multiple sensor applications in autonomous vehicles.

PLEASE NOTE: The above security was not selected for the purpose of presenting the firm's profitable decisions to the exclusion of less profitable decisions. It should not be assumed that any securities recommendations made by the firm in the future will be profitable. A list of all recommendations made within the preceding one year is available upon request.

# Cyclical Growth Segment

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- ❑ **Identify equities with above-average cash flow or earnings growth**
  - Earnings are typically not sustainable beyond the economic cycle
  - Secular growth factors can make these cyclical companies more sustainable
  
- ❑ **Industries include:**
  - Aerospace & Defense
  - Machinery
  - Travel & Leisure
  - Energy
  - Transportation/Logistics
  
- ❑ **Valuation measures used:**
  - Price to book value ratio
  - Price to sales ratio
  - Peak earnings power
  
- ❑ **Identify positive catalysts for change**
  
- ❑ **Portfolio holdings include:**
  - Werner Enterprises (Transportation/Logistics)
  - Xylem (Machinery)
  - SeaWorld Entertainment (Travel & Leisure)
  - Golar LNG (Energy)

# Investment Process in Action: Stock Example

## SeaWorld Entertainment Inc.

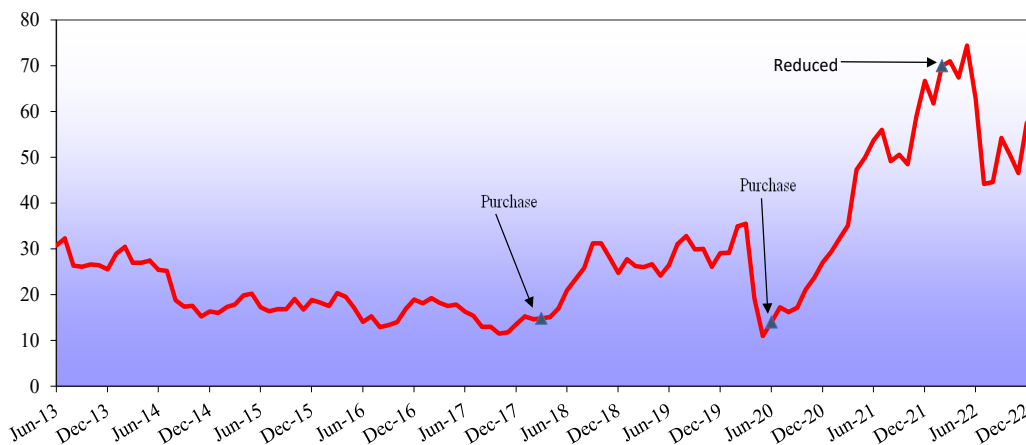
Symbol:	SEAS
Market Cap at purchase (2/28/18):	\$1.3 billion
Market Cap (as of 12/31/2022):	\$3.6 billion
Average Cost:	\$20.03
Price as of 12/31/2022:	\$53.51

### DESCRIPTION

- SeaWorld Entertainment, Inc. is a theme park and entertainment company. The Company owns or licenses a portfolio of brands, including SeaWorld, Busch Gardens and Sesame Place.

### ANALYSIS

- Prior to our purchase, Stock had significantly underperformed as SeaWorld parks suffered from a series of negative media portrayals. Stock traded at 8.5x cash flow, a meaningful discount to peers, while we expected double digit cash flow growth
- Believed challenged public image was a temporary impact that company was addressing; attendance started to turn in positive direction. Company re-emphasized longstanding animal rescue efforts with 'Park to Planet' campaign.
- 2017 results also impacted by unusual 'one time' impacts not likely to repeat such as two major hurricanes.
- Busch Gardens franchise fundamentally strong. SeaWorld properties moving away from live animals and toward traditional theme park experiences. Company investing in a pipeline of new attractions.
- Company holds substantial real estate value with Orlando property.



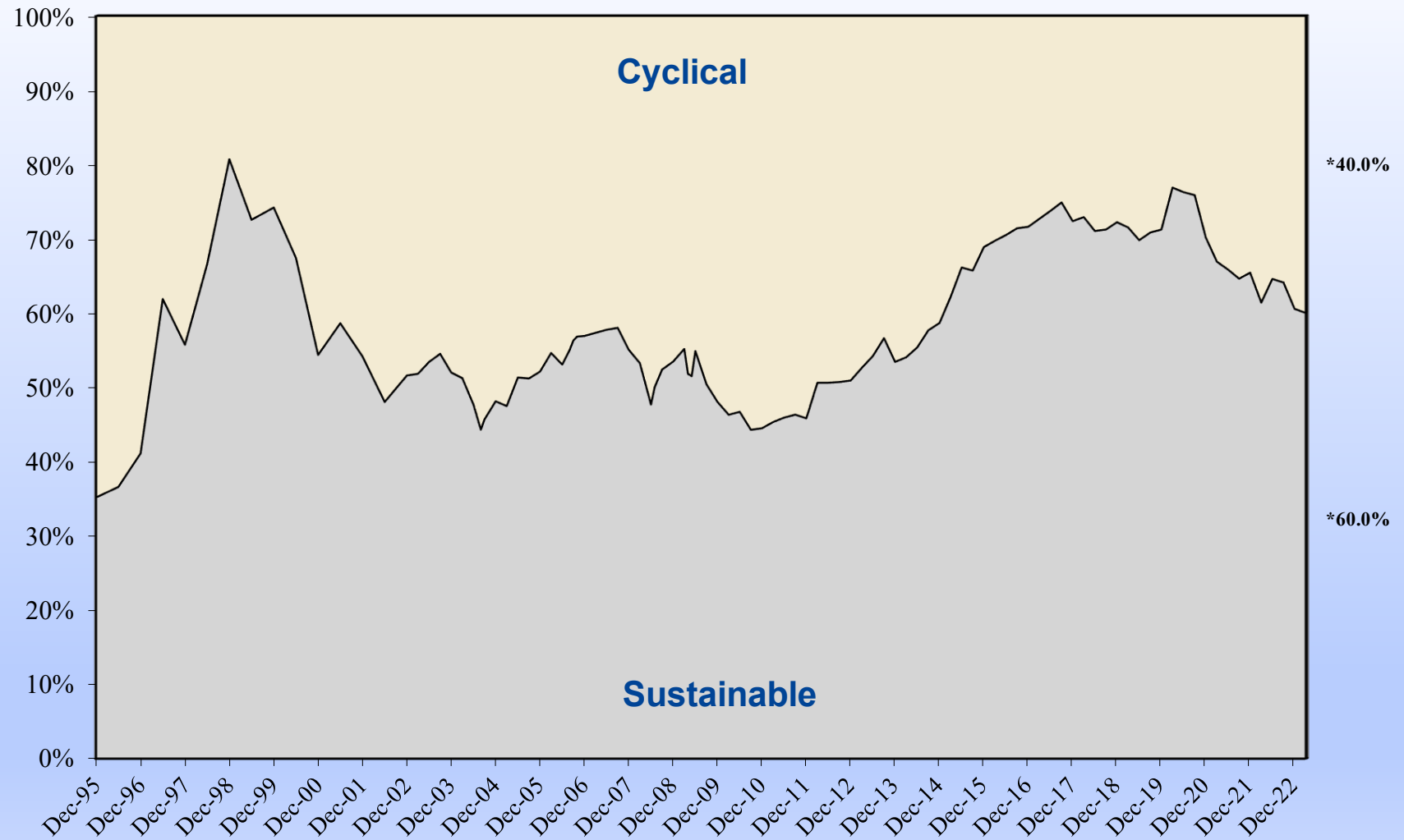
### DEVELOPMENTS

- Successful turnaround in attendance growth at SeaWorld parks which has been durable.
- Covid-19 pressured stock materially. We took advantage and added to our position after confirming balance sheet strength.
- Covid recession has resulted in permanent efficiency gains and higher cash flow margins.
- Theme parks well positioned for a return to normal economic conditions but also has become a favored outdoor destination during Covid

PLEASE NOTE: The above security was not selected for the purpose of presenting the firm's profitable decisions to the exclusion of less profitable decisions. It should not be assumed that any securities recommendations made by the firm in the future will be profitable. A list of all recommendations made within the preceding one year is available upon request.

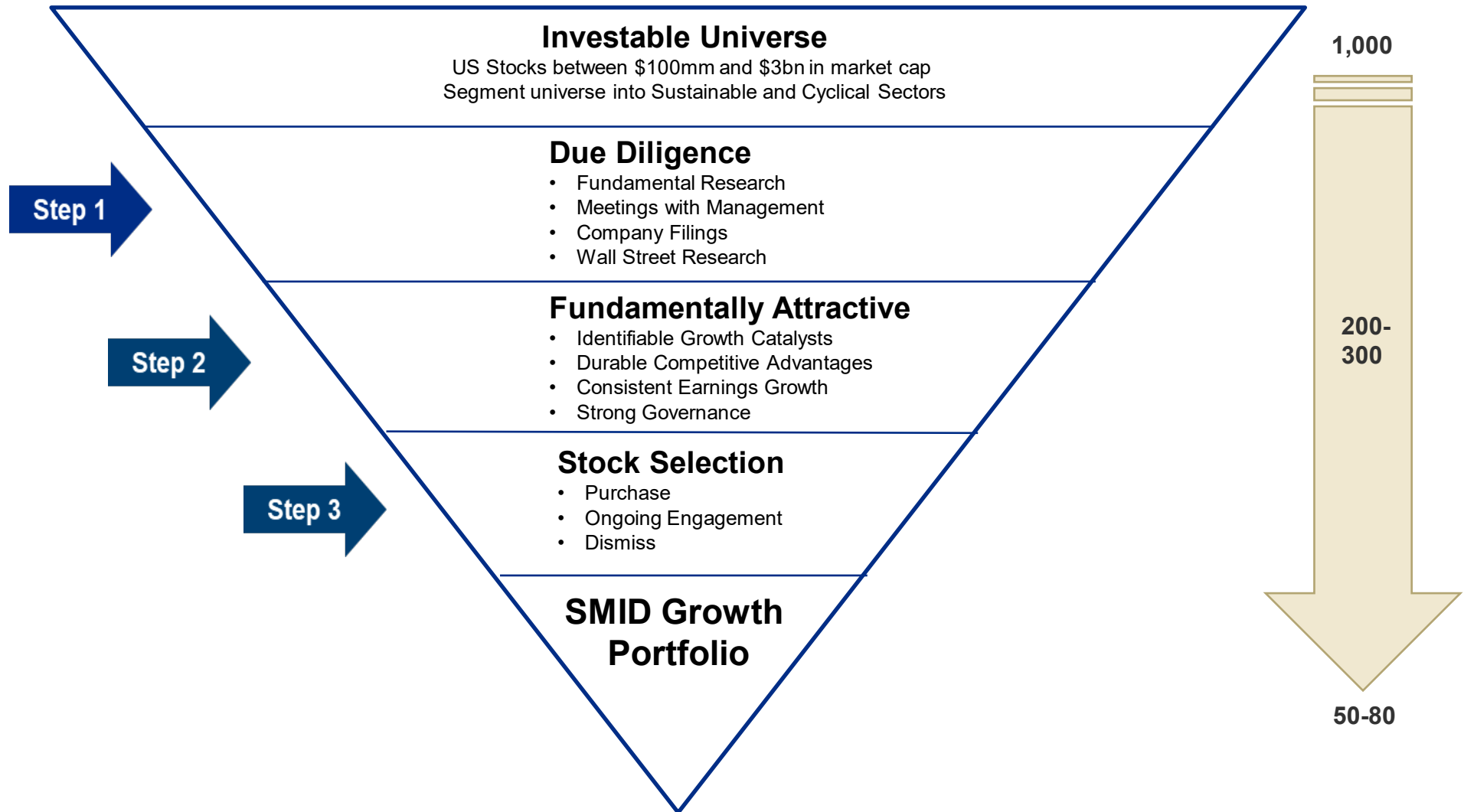


# Small/Mid Cap Portfolio Composition



\* As of March 31, 2023

# SMID Growth Investment Process



## Purchase Criteria:

- ❑ U.S. stocks between \$100 million and \$3 billion capitalization
- ❑ Portfolio typically holds between 50 - 80 stocks
- ❑ Individual equity position size up to 3% of the portfolio at purchase; 5% with appreciation
- ❑ Fully invested portfolio, with cash position a residual of the investment process
  - Cash typically below 5%
- ❑ All portfolios managed identically
  - Low dispersion between accounts

## Risk Controls:

- ❑ Industry: Individual Industry weight limited to 15% of portfolio at cost
- ❑ Stock: Maximum position size 5% of portfolio
- ❑ Biotechnology: Maximum position size 0.50% at purchase

## ❑ Valuation

- Cyclical growth companies typically have rigid upside price objectives
- Price objective of sustainable growth companies can change over time

## ❑ Change in Company Fundamentals

- Active monitoring as the stock price fluctuates

## ❑ Portfolio Diversification

- Maximum position of any security at 5% of portfolio

## ❑ No sales based on market capitalization alone

# Appendix

# Why Pinnacle Associates?

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- ❑ **Independent firm with more than 30 years of experience and stability**
- ❑ **Tradition of bottom-up fundamental analysis**
- ❑ **Unique longevity of SMID investment team**
- ❑ **Strong track record of long-term sustainable performance**
- ❑ **Committed to providing the highest level of client service**
  - Client meetings as needed
  - Customized monthly or quarterly reports
  - Quarterly Economic and Stock Market Report
  - Access to Small/Mid Cap Investment team members

# Socially Responsible Investing Capabilities

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- ❑ Pinnacle’s portfolio managers meet with clients regarding implementation of their ESG guidelines. We customize the screening process for their portfolio to meet specific needs. We attend socially responsible conferences annually and have been a service provider to the RCRI conference (formerly NATRI) since 1985.
- ❑ Pinnacle ESG Analyst – Monica Jalife, CFA, CFP
- ❑ Pinnacle currently screens portfolios for a variety of issues. We have a relationship with Sustainalytics, which helps screening for the following (among others);
  - ❑ Adult Entertainment
  - ❑ Alcoholic Beverages
  - ❑ Animal Testing
  - ❑ Controversial Weapons
  - ❑ Diversity
  - ❑ Fur and Specialty Leather
  - ❑ Fair Lending
  - ❑ Gambling
  - ❑ Genetically Modified Plants
  - ❑ Non-military Firearms
  - ❑ Sudan Involvement
  - ❑ Human Rights
  - ❑ Environment
  - ❑ Nuclear Power
  - ❑ Pesticides
  - ❑ Predatory Lending
  - ❑ Thermal Coal
  - ❑ Tobacco Products
  - ❑ Abortion
  - ❑ Contraceptives
  - ❑ Human Embryonic Stem Cells

## **PETER MARRON, CFA**

### **Executive Vice President/ Portfolio Manager**

Peter joined Pinnacle in 1993 after three years with Prudential Securities Investment Management as a Senior Portfolio Manager. Previous experience includes Bear Stearns Asset Management as Chief Investment Officer supervising \$3.5 billion in assets; Bernstein Macaulay Inc. as Director of Research & Institutional Portfolio Manager; and Lexington Investors, a private investment partnership as an Analyst. Other credentials: Member of the New York Society of Security Analysts; B.A. in Economics from Brooklyn College; M.B.A. in Finance from Pace University; Peter is also a CFA® charter holder. Peter is also a member of the Investment Committees of the Brooklyn College Foundation..

## **JOHN PASSIOS**

### **Executive Vice President/ Portfolio Manager**

John is a senior member of our domestic research team. John joined Pinnacle in 1986. He works closely with senior portfolio managers on equity portfolios. In this capacity, he conducts primary and secondary research on new purchases and implements these ideas throughout the portfolios. Previously, John worked for Salomon Brothers Inc. in their fixed income department. He graduated from the University of Connecticut in 1985 with a B.S. degree in Finance.

## **KIMON PASSIOS**

### **Executive Vice President/ Portfolio Manager**

Kimon's primary role is portfolio management and security analysis as a part of the firm's domestic research effort. Additionally, Kimon participates in Pinnacle's marketing and client servicing efforts for institutional and retail clients. Prior to joining Pinnacle in 1996, he was with Chase Manhattan Bank providing performance appraisals and analysis of the bank's Middle Market Banking, Private Banking and Foreign Exchange & Derivatives divisions to senior management. Kimon earned an M.B.A. in Finance from Fordham University and has a B.S. degree in Finance/Accounting from the University of Vermont.

## **RICHARD A. ROSEN, CFA**

### **Senior Vice President/ Portfolio Manager**

Rich joined Pinnacle in March 2018. Rich brings with him over 30 years of institutional experience, including institutional roles at Prudential, Advent Capital and MacKay Shields, where he was Senior Managing Director and managed a group responsible for \$3.5 billion of institutional assets. Most recently, Rich was Managing Member of Satucket Capital. Other credentials: Member of the New York Society of Security Analysts; B.A. from Drew University; M.B.A. in Finance from Boston University Graduate School of Management. Rich is a CFA charter holder. Rich is also a member of the Investment Committee of the Overlook Hospital Foundation.



# Small/Mid Cap Equity Investment Team



## **MAX J. SCHAU, CFA®**

### **Associate Portfolio Manager and Senior Derivatives Analyst**

Max joined Pinnacle in 2011 as an Analyst directly after graduating from the University of Richmond's Robins School of Business with a BS/BA in Economics. Max is a research analyst who is responsible for several sectors within the portfolio including enterprise software, technology, and semiconductors. Max earned his Chartered Financial Analyst (CFA®) designation in 2015.

## **RYAN J. BYRNE**

### **Associate Portfolio Manager**

Ryan joined Pinnacle in 2014 as a Junior Analyst working under the guidance of the research team, and became an Associate Portfolio Manager in 2017. Currently he works with both high-net Worth managers and institutional managers providing various support services. Ryan earned a B.S. in Finance with high honors from the Jack Welch College of Business at Sacred Heart University.

## **MONICA JALIFFE, CFA®**

### **Wealth Advisor**

Monica is Vice President and Portfolio Manager. Prior to joining Pinnacle in 2002, Monica was employed at the Mexican Consulate in New York as a financial analyst. She earned her B.S. in Industrial Engineering from Universidad Iberoamericana in Mexico City where she graduated with honors. She earned her M.B.A. from the Stern Business School at New York University, with concentrations in both Finance and Global Business. Additionally, she holds the Chartered Financial Analyst® Designation (CFA) and is a Certified Financial Planner™. She is a member of the New York Society of Security Analysts (NYSSA) and the CFA Institute, and the Financial Planning Association of New York (FPANY).

# Performance Since Inception



	<b>PINNACLE SMALL/MID CAP (GROSS OF FEE)</b>	<b>PINNACLE SMALL/MID CAP (NET OF FEE)</b>	<b>RUSSELL 2500 GROWTH INDEX</b>	<b>RUSSELL 2500 INDEX</b>
2022	-24.6%	-25.4%	-26.2%	-18.4%
2021	13.3%	12.2%	5.0%	18.2%
2020	33.6%	32.3%	40.5%	20.0%
2019	41.7%	40.4%	32.7%	27.8%
2018	-10.7%	-11.6%	-7.5%	-10.0%
2017	25.9%	24.7%	24.5%	16.8%
2016	5.3%	4.3%	9.7%	17.6%
2015	0.4%	-0.6%	-0.2%	-2.9%
2014	8.6%	7.5%	7.1%	7.1%
2013	39.2%	38.0%	40.7%	36.8%
2012	25.5%	24.3%	16.1%	17.9%
2011	-9.8%	-10.7%	-1.6%	-2.5%
2010	38.7%	37.4%	28.9%	26.7%
2009	50.0%	48.6%	41.7%	34.4%
2008	-43.7%	-44.4%	-41.5%	-36.8%
2007	13.6%	12.5%	9.7%	1.4%
2006	14.9%	13.8%	12.3%	16.2%
2005	14.2%	13.1%	8.2%	8.1%
2004	10.5%	9.4%	14.6%	18.3%
2003	57.5%	56.1%	46.3%	45.5%
2002	-25.2%	-26.0%	-29.1%	-17.8%
2001	3.8%	2.8%	-10.8%	1.2%
2000	2.0%	1.0%	-16.1%	4.3%
1999	134.0%	132.1%	55.5%	24.1%
1998	33.4%	32.1%	3.1%	0.4%
1997	39.1%	37.8%	14.8%	24.4%
1996	8.6%	7.5%	15.1%	19.0%
Since 12/31/95 - Cumulative	3,634.4%	2,770.6%	739.7%	1,028.1%
Since 12/31/95 - Annualized	14.4%	13.2%	8.2%	9.4%

Results shown net of an advisory fee or other charges would reduce an investor's return and would have a compounded effect over a period of years. Net performance returns are presented net of a pro forma 1.0% annual management fee and transaction expense. Gross performance returns are presented net of transaction expenses but without deduction of a pro forma 1.0% annual management fee. Returns presume investment for the entire period and reinvestment of all dividends and other distributions. Performance returns are unaudited estimates and have been computed by Pinnacle Associates, Ltd., ("Pinnacle"). Depending on the timing of an investor's investment, net performance for such investor may vary from the net performance as stated herein. Past performance is not indicative of future results.

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