

**BOARD OF PENSION TRUSTEES
FOR THE
CITY OF JACKSONVILLE RETIREMENT SYSTEM
August 9, 2018**

MINUTES

City Hall - St. James Building, Conference Room 3C: 2:00 P.M.

Members Present

Jeff Bernardo, Chair
Diane Moser
Sam Mousa
Shari Shuman
Terry Wood

Staff Present

Randall Barnes, Senior Debt Manager and Assistant Treasurer
Paul Barrett, Senior Investment Officer
Joey Greive, Treasurer
Tom Stadelmaier, Pension Administrator

Guests Present

Peter Marron, Pinnacle Associates Senior Portfolio Manager
Ken Sobolewski, Pinnacle Associates Director of Marketing

1. CALL TO ORDER

The Chair called the meeting to order at 2:08 PM

2. PUBLIC COMMENT

None

3. INVESTMENT AND FINANCIAL MATTERS

Pinnacle Associates Small/Mid Cap Equity Review

Mr. Greive introduced Pinnacle Associates and asked for Pinnacle guests to introduce themselves and provide a background on their fund and to address recent performance struggles vs. benchmarks.

Mr. Marron and Mr. Sobolewski introduced themselves and provided a brief history of their careers and time working with the City. They quickly introduced that Pinnacle is not a momentum growth provider and that is why they are trailing their benchmarks in

this strong and prolonged growth market. Mr. Sobolewski described their fund as much more value oriented but emphasized they are not pure value or pure growth so it can be hard to find an adequate benchmark. They recapped their long positive history of performance and indicated the recent downturn is not from any change in approach. They believe the underperformance will be short-lived when viewed in the context of their overall history. Mr. Marron did express their frustration with the recent results but also expressed confidence that their approach was proven and they remain convinced the numbers will turn around.

Mr. Marron reviewed three examples of their approach and described why they were lagging. Examples included Regeneron, Lam Research and Royal Caribbean. In all cases Pinnacle believes the market is not evaluating these cases correctly and there is great value and upside in the long-term for these companies and others in their portfolio. Mr. Sobolewski summarized their approach as identifying undervalued stocks that are misinterpreted by the market.

Chairman Bernardo asked about their idea generation. Mr. Marron responded new ideas are generated internally, reviewed using bottom-up fundamentals and discussions with industry experts for the holdings.

Mr. Marron indicated turnover is consistent at about 13-15%. He said they are slow to buy, slow to sell. They currently have 72 holdings and have a four member team. He said 90% of the team's time is spent on research.

Chairman Bernardo asked about their measure of active share and Mr. Sobolewski said they do not measure to active share. Chairman Bernardo asked about their risk management approach and Mr. Marron said they hold no more than 5% of a holding in their overall portfolio.

Ms. Shuman remarked that the volatility in the fund is high when compared to the return. She asked Pinnacle to comment on their long-range view and time horizon for recovery. Mr. Marron commented that they have been in this spot before and they do not expect to take years to recover. Mr. Sobolewski pointed out they have never underperformed for two years in a row.

Ms. Moser asked about the technology and health care holdings and how they will recover. Mr. Marron indicated that the examples he covered have earnings growth and valuations that are screaming as buys.

Mr. Marron emphasized that they will not change their approach and they believe strongly that is the key to a strong bounce-back based on their history. Mr. Sobolewski asked staff and the Board to consider the track record in any decision.

4. PRIVILEGE OF THE FLOOR

None

5. ADJOURNMENT

Chairman Bernardo adjourned the meeting at about 3:12 PM.