

# Pinnacle Associates Ltd.

SEC File Number: 801 – 20841

## Brochure

**Dated: January 28, 2014**

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This Brochure provides information about the qualifications and business practices Pinnacle Associates Ltd. (“Pinnacle Associates”). If you have any questions about the contents of this Brochure, please contact us at (212) 652-3200 or [compliance@pinnacle-ny.com](mailto:compliance@pinnacle-ny.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Pinnacle Associates Ltd. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

References herein to Pinnacle Associates Ltd. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

## **Item 2           Material Changes**

There have been no material changes to Pinnacle Associates Ltd.'s Brochure since its most recent annual amendment filing on March 28, 2013.

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#### Item 4            **Advisory Business**

- A. Pinnacle Associates is a corporation formed on January 26, 1984 in the State of New York. Pinnacle Associates became registered as an Investment Adviser Firm in March 1984. Pinnacle Associates is principally owned by Thomas Passios, Pinnacle Associates's President.
- B. As discussed below, Pinnacle Associates offers to its clients (individuals, investment companies, investment limited partnerships, pension and profit sharing plans, business entities, trusts, estates and charitable organizations, etc.) investment advisory services. Pinnacle Associates **does not** hold itself out as providing financial planning, estate planning or accounting services.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage Pinnacle Associates to provide discretionary investment advisory services on a *fee* basis. Pinnacle Associates's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under Pinnacle Associates' management, generally between negotiable and 1.50%.

#### **MISCELLANEOUS**

**Limited Consulting/Implementation Services.** Although Pinnacle Associates does not hold itself out as providing financial planning, estate planning or accounting services, to the extent specifically requested by the client, Pinnacle Associates *may* provide limited consultation services to its investment management clients on investment and non-investment related matters, such as estate planning, tax planning, insurance, etc. Pinnacle Associates shall not receive any separate or additional fee for any such consultation services. Neither Pinnacle Associates, nor any of its representatives, serves as an attorney, accountant, or licensed insurance agent, and no portion of Pinnacle Associates's services should be construed as same. To the extent requested by a client, Pinnacle Associates may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.), including certain representatives of Pinnacle Associates in their individual capacities as registered representatives of a broker-dealer. The client is under no obligation to engage the services of any such recommended professional. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify Pinnacle Associates if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Pinnacle Associates's previous recommendations and/or services.

**Private Investment Funds.** Pinnacle Associates currently serves as investment adviser and/or General Partner of certain investment limited partnerships (i.e., the "*Partnership(s)*"). The *Partnerships* rely on an exemption from registration under The Investment Company Act of 1940 which is available to investment limited partnerships that generally have less than 100 investors or less than 500 investors depending on the exemption. The *Partnerships*

include:

1. Pinnacle Equity Fund, L.P. – a Delaware limited partnership that seeks long-term growth of capital by primarily investing in equity securities of small to medium-sized companies that are believed to be undervalued and offer opportunities for above-average market performance;
2. Pinnacle All-Cap Fund, L.P. – a Delaware limited partnership that seeks long-term growth of capital primarily by investing in the equity securities of domestic and foreign (i.e., non-U.S.) companies;
3. Pinmar Investors, L.P. – a Delaware limited partnership that seeks to achieve annual rates of return in excess of the S&P 500 stock index by utilizing a disciplined investment style of purchasing the equity securities of undervalued domestic (i.e., U.S.) companies. Pinnacle Associates is the Co-General Partner of Pinmar. The other General Partner is Metronome Associates, L.L.C., which is principally owned by Peter N. Marron, a Senior Vice President of Pinnacle Associates;
4. Pinnacle Opportunity Fund, L.P. – a Delaware limited partnership that seeks long-term growth of capital primarily by investing in equity securities of domestic and foreign (i.e., non-U.S.) companies;
5. Pinnacle International Small Cap Partners, L.P. - a Delaware limited partnership that seeks long-term growth of capital primarily by investing in the equity securities of foreign (i.e. non-U.S.) small companies; and

To the extent certain of Pinnacle Associates's individual advisory clients qualify, they will be eligible to participate as limited partners of the *Partnerships*. All relevant information, terms and conditions relative to the *Partnerships*, including the compensation to be received by Pinnacle Associates as the General Partner, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Offering Memorandum (the "*Memorandum*"), Limited Partnership Agreement (the "*Agreement*"), and Subscription Agreement, which each limited partner is required to receive and/or execute prior to being accepted as a limited partner of any of the *Partnerships*.

As General Partner, Pinnacle Associates, pursuant to the terms of each specific *Memorandum*, shall receive a quarterly basic management fee. In addition, Pinnacle Associates, in accordance with the terms and conditions specifically set forth in the *Memorandum* and *Agreement*, may also receive performance related compensation in accordance with the requirements under Rule 205-3 of the Investment Advisers Act of 1940.

*Partnership* funds are held by a qualified custodian and no fees, allocations, distributions or other payments will be made to Pinnacle Associates as General Partner by such custodian until calculated by Pinnacle Associates's Limited Partnership Administrator and the calculation verified by Pinnacle Associates's Controller. Relative to payments to be received by Pinnacle Associates for its investment management services to the *Partnership*, Pinnacle Associates does not maintain custody or possession of *Partnership* assets within the meaning of Rule 206(4)-2 under the Investment Advisers Act of 1940.

Pinnacle Associates will devote its best efforts with respect to its management of both the *Partnerships* and its individual client accounts. Given the above discussion relative to the

objectives, suitability, risk factors, and qualifications for participation in the *Partnerships*, Pinnacle Associates may give advice or take action with respect to the *Partnerships* that differs from that for individual client accounts. To the extent that a particular investment is suitable for both the *Partnerships* and certain individual client accounts, such investments will be allocated between the *Partnerships* and the individual client accounts pro-rata based on the assets under management or in some other manner which Pinnacle Associates determines is fair and equitable under the circumstances to all of its clients.

**Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Valuation.** In the event that Pinnacle Associates references private investment funds owned by the client on any supplemental account reports prepared by Pinnacle Associates, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price.

**Please Also Note:** Because Pinnacle Associates *may* earn compensation from the *Partnerships* that may exceed the fee that Pinnacle Associates would earn under its standard "assets under management" fee schedule referenced at Item 5.A below, the recommendation that a client become a *Partnership(s)* investor presents a **conflict of interest**. No client is under any obligation to become a *Partnership(s)* investor. **Pinnacle Associates's Chief Compliance Officer remains available to address any questions regarding this conflict of interest.**

**Please Note (Wrap/Managed Account programs):** In the event that Pinnacle Associates is engaged to provide investment management services as part of an unaffiliated wrap-fee program, Pinnacle Associates will be unable to negotiate commissions and/or transaction costs. Under a wrap program, the wrap program sponsor arranges for the investor participant to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately. In the event that Pinnacle Associates is engaged to provide investment management services as part of an unaffiliated managed account program, Pinnacle Associates will likewise be unable to negotiate commissions and/or transaction costs. If the program is offered on a non-wrap basis, the program sponsor will determine the broker-dealer through which transactions must be effected, and the amount of transaction fees and/or commissions to be charged to the participant investor accounts.

**Please Note: Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), Pinnacle Associates *may* maintain cash positions for defensive purposes. All cash positions (money markets, etc.) shall be included as part of assets under management for purposes of calculating Pinnacle Associates's advisory fee. **Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above fee billing practice.**

**Cross Transactions.** In limited circumstances, Pinnacle Associates may engage in cross-transaction pursuant to which Pinnacle Associates may effect transactions between two of its managed client accounts (i.e., arranging for the clients' securities trades by "crossing" these trades when Pinnacle Associates believes that such transactions are beneficial to its clients). For all such transactions, neither Pinnacle Associates, nor any affiliate will be acting as a broker, and will not receive any commission or transaction-based compensation. The client may revoke Pinnacle Associates's cross-transaction authority at any time upon written notice to Pinnacle Associates.

**Client Obligations.** In performing its services, Pinnacle Associates shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify Pinnacle Associates if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Pinnacle Associates's previous recommendations and/or services.

**Disclosure Statement.** A copy of Pinnacle Associates's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*.

- C. Pinnacle Associates shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, Pinnacle Associates shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on Pinnacle Associates's services.
- D. Pinnacle Associates does not offer a wrap fee program for its investment advisory services. However, Pinnacle Associates is a participating investment adviser in certain unaffiliated wrap and managed account fee programs. There is no significant difference between how Pinnacle Associates manages wrap fee accounts and non-wrap fee accounts. **Please Note:** When managing a client's account on a wrap fee basis, Pinnacle Associates shall receive as payment for its investment advisory services, the balance of the wrap fee after all other costs incorporated into the wrap fee have been deducted.
- E. As of December 31, 2012, Pinnacle Associates had \$5,207,000,000 in assets under management on a discretionary basis.

## Item 5 Fees and Compensation

### A. INVESTMENT ADVISORY SERVICES

If a client determines to engage Pinnacle Associates to provide discretionary investment advisory services on a *fee* basis, Pinnacle Associates's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under Pinnacle Associates's management (between negotiable and 1.50%) as follows:

<u>Assets Under Management</u>	<u>Range of Fees (Annual)</u>
Initial \$5 Million	1.25% to 1.50%
Next \$5 Million	1.00% to 1.25%
All additional assets	0.75% to 1.00%

- B. Clients may elect to have Pinnacle Associates's advisory fees deducted from their custodial account. Both Pinnacle Associates's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of Pinnacle Associates's investment advisory fee and to directly remit that management fee to Pinnacle Associates in compliance with regulatory procedures. In the limited event that Pinnacle Associates bills the client directly, payment is due upon receipt of Pinnacle Associates's invoice. Pinnacle Associates shall deduct fees and/or bill clients quarterly in advance or arrears, based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, Pinnacle Associates shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*"), Chase Manhattan Bank ("*Chase*") Citigroup, TD Ameritrade ("*Ameritrade*"), Fidelity Investments ("*Fidelity*") and/or Morgan Stanley Smith Barney ("*Morgan Stanley*") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab*, *Chase*, *Citigroup*, *Ameritrade*, *Fidelity* and *Morgan Stanley* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Pinnacle Associates's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

**Tradeaway/Prime Broker Fees.** Relative to its discretionary investment management services, when beneficial to the client, individual fixed income transactions may be effected through broker-dealers other than the account custodian, in which event, the client generally will incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate "tradeaway" and/or prime broker fee charged by the account custodian.

- D. Pinnacle Associates's annual investment advisory fee shall be prorated and paid quarterly, in advance or arrears, based upon the market value of the assets on the last business day of the previous quarter. The *Investment Advisory Agreement* between Pinnacle Associates and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination,

Pinnacle Associates shall either refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter or debit the account for the pro-rated portion of the unpaid advanced advisory fee based upon the number of days that services were provided during the billing quarter.

- E. Neither Pinnacle Associates, nor its representatives accept compensation from the sale of securities or other investment products.

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

Rule 205-3 of the Investment Advisers Act of 1940 permits a registered investment adviser to enter into a performance fee agreement with certain sophisticated clients who have the capacity to bear the potential additional risks of such a fee arrangement. An adviser can rely on Rule 205-3 only if the performance fee agreement is with "eligible" clients. Eligible clients are defined in the Rule as natural persons and companies that have *either* at least \$1,000,000 under management with Pinnacle Associates immediately after entering into a performance fee agreement *or* a net worth at the time the agreement is entered into in excess of \$2,000,000 Million (i.e. a natural person's net worth may include assets held jointly with a spouse).

Consistent with the parameters of Rule 205-3 of the Investment Advisers Act of 1940 (to the extent Rule 205-3 is applicable), Pinnacle Associates (and/or Pinnacle Associates's affiliated entities) may also receive, both for managed accounts and for the *Partnerships*, incentive or performance fee compensation on a fully disclosed written basis. Because Pinnacle Associates and its representatives manage client accounts that charge both an asset-based fee and/or a performance based fee, this arrangement creates a **conflict of interest**, as Pinnacle Associates and its representatives have an incentive to favor investments where Pinnacle Associates receives both an asset-based fee and a performance fee. **Pinnacle Associates's Chief Compliance Officer remains available to address any questions regarding this conflict of interest.**

## **Item 7                    Types of Clients**

Pinnacle Associates's clients shall generally include individuals, investment companies, investment limited partnerships, pension and profit sharing plans, business entities, trusts, estates and charitable organizations. Pinnacle Associates generally requires a \$1,000,000 minimum asset level for investment advisory services. Pinnacle Associates, in its sole discretion, may reduce its investment management fee and/or reduce or waive its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).



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

- A. Pinnacle Associates may utilize the following methods of security analysis:
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)

Pinnacle Associates may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)

**Please Note: Investment Risk.** Investing in securities involves risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Pinnacle Associates) will be profitable or equal any specific performance level(s).

- B. Pinnacle Associates's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis Pinnacle Associates must have access to current/new market information. Pinnacle Associates has no control over the dissemination rate of market information; therefore, unbeknownst to Pinnacle Associates, certain analyses may be compiled with outdated market information, severely limiting the value of Pinnacle Associates's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Pinnacle Associates's primary investment strategy- Long Term Purchases- is a fundamental investment strategy. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

- C. Currently, Pinnacle Associates primarily allocates client investment assets among various individual equity (stocks), debt (bonds) and fixed income securities, and, to a much lesser extent, among no load and load-waived mutual funds, on a discretionary basis in accordance with the client's designated investment objective(s).

## **Item 9            Disciplinary Information**

Pinnacle Associates has not been the subject of any disciplinary actions.

## Item 10 Other Financial Industry Activities and Affiliations

- A. Neither Pinnacle Associates, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither Pinnacle Associates, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

C.

**Private Investment Funds.** As disclosed in Item 4.B above, Pinnacle Associates currently serves as investment adviser and/or General Partner of certain investment limited partnerships (i.e., the “*Partnership(s)*”). To the extent certain of Pinnacle Associates’s individual advisory clients qualify, they will be eligible to participate as limited partners of the *Partnerships*. All relevant information, terms and conditions relative to the *Partnerships*, including the compensation to be received by Pinnacle Associates as the General Partner, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Offering Memorandum (the “*Memorandum*”), Limited Partnership Agreement (the “*Agreement*”), and Subscription Agreement, which each limited partner is required to receive and/or execute prior to being accepted as a limited partner of any of the *Partnerships*. As General Partner, Pinnacle Associates, pursuant to the terms of each specific *Memorandum*, shall receive a quarterly basic management fee. In addition, Pinnacle Associates, in accordance with the terms and conditions specifically set forth in the *Memorandum* and *Agreement*, may also receive performance related compensation in accordance with the requirements under Rule 205-3 of the Investment Advisers Act of 1940.

- 3. **Other Investment Adviser.** Pinnacle Associates provides investment advisory services to clients of Pinnacle Wealth Management Advisory Group, LLC, D/B/A PWM Advisory Group, LLC, which is an affiliated SEC-registered investment adviser.

- D. Pinnacle Associates does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. Pinnacle Associates maintains an investment policy relative to personal securities transactions. This investment policy is part of Pinnacle Associates’s overall Code of Ethics, which serves to establish a standard of business conduct for all of Pinnacle Associates’s Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, Pinnacle Associates also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Pinnacle Associates or any person associated with Pinnacle Associates.

- B. As disclosed in Item 4.B above, Pinnacle Associates currently serves as investment adviser

and/or General Partner of certain investment limited partnerships (i.e., the “*Partnership(s)*”). To the extent certain of Pinnacle Associates’s individual advisory clients qualify, they will be eligible to participate as limited partners of the *Partnerships*. All relevant information, terms and conditions relative to the *Partnerships*, including the compensation to be received by Pinnacle Associates as the General Partner, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Offering Memorandum (the “*Memorandum*”), Limited Partnership Agreement (the “*Agreement*”), and Subscription Agreement, which each limited partner is required to receive and/or execute prior to being accepted as a limited partner of any of the *Partnerships*. As General Partner, Pinnacle Associates, pursuant to the terms of each specific *Memorandum*, shall receive a quarterly basic management fee. In addition, Pinnacle Associates, in accordance with the terms and conditions specifically set forth in the *Memorandum* and *Agreement*, may also receive performance related compensation in accordance with the requirements under Rule 205-3 of the Investment Advisers Act of 1940.

**Please Note:** Because Pinnacle Associates *may* earn compensation from the *Partnerships* that may exceed the fee that Pinnacle Associates would earn under its standard “assets under management” fee schedule referenced at Item 4.B above, the recommendation that a client become a *Partnership(s)* investor presents a **conflict of interest**. No client is under any obligation to become a *Partnership(s)* investor. **Pinnacle Associates’s Chief Compliance Officer remains available to address any questions regarding this conflict of interest.**

- C. Pinnacle Associates and/or representatives of Pinnacle Associates *may* buy or sell securities that are also recommended to clients. This practice may create a situation where Pinnacle Associates and/or representatives of Pinnacle Associates are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if Pinnacle Associates did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of Pinnacle Associates’s clients) and other potentially abusive practices.

Pinnacle Associates has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Pinnacle Associates’s “Access Persons”. Pinnacle Associates’s securities transaction policy requires that an Access Person of Pinnacle Associates must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings quarterly and at least once each twelve (12) month period thereafter on a date Pinnacle Associates selects; provided, however that at any time that Pinnacle Associates has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. Pinnacle Associates and/or representatives of Pinnacle Associates *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where Pinnacle Associates and/or representatives of Pinnacle Associates are in a position to materially benefit from the sale or purchase of those

securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, Pinnacle Associates has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Pinnacle Associates's Access Persons.

## **Item 12 Brokerage Practices**

- A. In the event that the client requests that Pinnacle Associates recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Pinnacle Associates to use a specific broker-dealer/custodian), Pinnacle Associates generally recommends that investment management accounts be maintained at *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley*. Prior to engaging Pinnacle Associates to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Pinnacle Associates setting forth the terms and conditions under which Pinnacle Associates shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Pinnacle Associates considers in recommending *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley* (or any other broker-dealer/custodian to clients) include historical relationship with Pinnacle Associates, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Pinnacle Associates's clients shall comply with Pinnacle Associates's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Pinnacle Associates determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Pinnacle Associates will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Pinnacle Associates's investment management fee. Pinnacle Associates's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

### **1. Schwab Referrals**

Pinnacle Associates receives client referrals from Charles Schwab & Co., Inc. ("*Schwab*") through Pinnacle Associates's participation in Schwab Advisor Network™ ("the Service"), designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Pinnacle Associates. Schwab does not supervise Pinnacle Associates and has no responsibility for Pinnacle Associates's management of clients' portfolios or Pinnacle Associates's other advice or services. Pinnacle Associates pays Schwab fees to receive client referrals through the Service. Pinnacle Associates's participation in the Service may raise potential conflicts of interest described below.

Pinnacle Associates pays *Schwab* a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by Pinnacle Associates is a percentage of the fees owed by the client to Pinnacle Associates or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. Pinnacle Associates pays *Schwab* the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Pinnacle Associates quarterly and may be increased, decreased or waived by *Schwab* from time to time. The Participation Fee is paid by Pinnacle Associates and not by the client. Pinnacle Associates has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Pinnacle Associates charges clients with similar portfolios (pursuant to Pinnacle Associates's standard fee schedule as in effect from time to time) who were not referred through the Service.

Pinnacle Associates generally pays *Schwab* a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from *Schwab*, unless the client was solely responsible for the decision not to maintain custody at *Schwab*. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed in custody other than at Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Pinnacle Associates generally would pay in a single year. Thus, Pinnacle Associates will have an incentive to recommend that client accounts be held in custody at *Schwab*.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Pinnacle Associates's clients who were referred by *Schwab* and those referred clients' family members living in the same household. Thus, Pinnacle Associates will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at *Schwab* and to instruct *Schwab* to debit Pinnacle Associates's fees directly from the accounts.

For accounts of Pinnacle Associates's clients maintained in custody at *Schwab*, *Schwab* will not charge the client separately for custody but will receive compensation from Pinnacle Associates's clients in the form of commissions or other transaction-related compensation on securities trades executed through *Schwab*. *Schwab* also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades to be executed through *Schwab* rather than another broker-dealer. Pinnacle Associates nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at *Schwab* may be executed through a different broker-dealer than trades for Pinnacle Associates's other clients. Thus, trades for accounts custodied at *Schwab* may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.**

Ameritrade AdvisorDirect

Pinnacle Associates participates in the institutional advisor program (the “Program”) offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (“*Ameritrade*”), an unaffiliated SEC-registered broker-dealer and FINRA member. *Ameritrade* offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Pinnacle Associates receives some benefits from *Ameritrade* through its participation in the Program.

Pinnacle Associates may receive client referrals from *Ameritrade* through its participation in *Ameritrade* AdvisorDirect (the “*AdvisorDirect*”). In addition to meeting the minimum eligibility criteria for participation in *AdvisorDirect*, Pinnacle Associates may have been selected to participate in *AdvisorDirect* based on the amount and profitability to *Ameritrade* of the assets in, and trades placed for, client accounts maintained with *Ameritrade*. *Ameritrade* is a discount broker-dealer independent of and unaffiliated with Pinnacle Associates and there is no employee or agency relationship between them. *Ameritrade* has established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. *Ameritrade* does not supervise Pinnacle Associates and has no responsibility for Pinnacle Associates’s management of client portfolios or Pinnacle Associates’s other advice or services. Pinnacle Associates pays *Ameritrade* an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to Pinnacle Associates (“Solicitation Fee”). Pinnacle Associates will also pay *Ameritrade* the Solicitation Fee on any advisory fees received by Pinnacle Associates from any of a referred client’s family members, including a spouse, child or any other immediate family member who resides with the referred client and hired Pinnacle Associates on the recommendation of such referred client. Pinnacle Associates will not charge clients referred through *AdvisorDirect* any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to *Ameritrade* to its clients.

Pinnacle Associates’s participation in *AdvisorDirect* raises potential conflicts of interest. *Ameritrade* will most likely refer clients through *AdvisorDirect* to investment advisors that encourage their clients to custody their assets at *Ameritrade* and whose client accounts are profitable to *Ameritrade*. Consequently, in order to obtain client referrals from *Ameritrade*, Pinnacle Associates may have an incentive to recommend to clients that the assets under management by Pinnacle Associates be held in custody with *Ameritrade* and to place transactions for client accounts with *Ameritrade*. In addition, Pinnacle Associates has agreed not to solicit clients referred to it through *AdvisorDirect* to transfer their accounts from *Ameritrade* or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. Pinnacle Associates’s participation in *AdvisorDirect* does not diminish its duty to seek best execution of trades for client accounts.

In addition, Pinnacle Associates may receive additional benefits from participation in *AdvisorDirect*. There is no direct link between Pinnacle Associates’s participation in the program and the investment advice it gives to its clients, although Pinnacle Associates receives economic benefits through its participation in the program that are typically not available to *Ameritrade* retail investors. These benefits include the receipt of duplicate client statements; access to a trading desk serving adviser

participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Pinnacle Associates by third party vendors. The benefits received by Pinnacle Associates or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to *Ameritrade*. As part of its fiduciary duties to clients, Pinnacle Associates endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Pinnacle Associates or its representatives creates a conflict of interest.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.**

Fidelity Wealth Advisor Solutions®. In addition to the above, Pinnacle Associates participates in the Fidelity Wealth Advisor Solutions® Program (the "WAS Program"), through which Pinnacle Associates receives referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC, the parent company of *Fidelity*. Pinnacle Associates is independent and not affiliated with *SAI* or FMR LLC. *SAI* does not supervise or control Pinnacle Associates, and *SAI* has no responsibility or oversight for Pinnacle Associates' provision of investment management or other advisory services.

Under the WAS Program, *SAI* acts as a solicitor for Pinnacle Associates, and Pinnacle Associates pays referral fees to *SAI* for each referral received based on Pinnacle Associates' assets under management attributable to each client referred by *SAI* or members of each client's household. More specifically, Pinnacle Associates pays an amount equal to the sum of: (a) an annual percentage of 0.10% of any and fixed income and cash assets in such account, and (b) an annual percentage of 0.25% of all other assets held in such accounts as a result of the referral from *SAI*, for a period of seven (7) years.

The WAS Program is designed to help investors find an independent investment advisor, and any referral from *SAI* to Pinnacle Associates does not constitute a recommendation or endorsement by *SAI* of Pinnacle Associates particular investment management services or strategies. These referral fees are paid by Pinnacle Associates and not the client. To receive referrals from the WAS Program, Pinnacle Associates must meet certain minimum participation criteria, but Pinnacle Associates may have been selected for participation in the WAS Program as a result of its other business relationships with *SAI* and its affiliates, including Fidelity Brokerage Services, LLC ("*FBS*").

Under an agreement with *SAI*, Pinnacle Associates has agreed that it will not charge clients more than the standard range of advisory fees disclosed in its Form ADV 2A Brochure to cover solicitation fees paid to *SAI* as part of the WAS Program. Pursuant to these arrangements, Pinnacle Associates has agreed not to solicit clients to

transfer their brokerage accounts from affiliates of *SAI* or establish brokerage accounts at other custodians for referred clients other than when Pinnacle Associates' fiduciary duties would so require; therefore, Pinnacle Associates may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of *SAI*. However, participation in the WAS Program does not limit Pinnacle Associates' duty to select brokers on the basis of best execution.

As a result of its participation in the WAS Program, Pinnacle Associates may have a potential conflict of interest with respect to its decision to use certain affiliates of *SAI*, including *FBS*, for execution, custody and clearing for certain client accounts, and Pinnacle Associates may have a potential incentive to suggest the use of *FBS* and its affiliates to its advisory clients, whether or not those clients were referred to Pinnacle Associates as part of the WAS Program.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.**

#### Soft Dollar Arrangement

In return for effecting securities transactions through certain broker-dealer/custodian arrangements, Pinnacle Associates may receive the use of commissions or "soft dollars" to pay for certain eligible investment research and/or brokerage products or services which assist Pinnacle Associates in its investment decision making process for clients pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as a "soft-dollar" arrangement). Eligible soft dollar investment research and/or brokerage products or services received by Pinnacle Associates may include, but are not limited to, analyses pertaining to specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications, portfolio management systems, statistical and pricing services, and certain services and software related to the execution, clearing and settlement of securities transactions. Although the commissions paid by Pinnacle Associates' clients shall comply with Pinnacle Associates' duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Pinnacle Associates determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Pinnacle Associates will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. Although the investment research and/or brokerage products or services that may be obtained by Pinnacle Associates will generally be used to service all of Pinnacle Associates' clients, a brokerage commission paid by a specific client may be used to pay for research and/or brokerage products or services that are not used in managing that specific client's account. With respect to investment research and/or brokerage products or services obtained by Pinnacle Associates that have a mixed use of both a soft dollar-eligible and non-eligible (i.e., administrative,



etc.) functions, Pinnacle Associates shall make a reasonable allocation of the cost of the product or service according to its use - the percentage of the product or service that provides assistance to Pinnacle Associates' investment decision-making process will be paid for with soft dollars while that portion which provides administrative or other non-research assistance will be paid for by Pinnacle Associates with hard dollars. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Pinnacle Associates' investment management fee.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.**

#### Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Pinnacle Associates may receive from *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist Pinnacle Associates to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Pinnacle Associates may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Pinnacle Associates in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist Pinnacle Associates in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Pinnacle Associates to manage and further develop its business enterprise.

Pinnacle Associates's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley* as a result of this arrangement. There is no corresponding commitment made by Pinnacle Associates to *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

2. As set forth above, Pinnacle Associates may receive client referrals from *Schwab, Ameritrade* and/or *Fidelity*.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

3. Pinnacle Associates will accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Pinnacle Associates will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Pinnacle Associates. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

**Please Note:** In the event that the client directs Pinnacle Associates to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Pinnacle Associates.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that Pinnacle Associates provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless Pinnacle Associates decides to purchase or sell the same securities for several clients at approximately the same time. Pinnacle Associates may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Pinnacle Associates's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Pinnacle Associates shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13      Review of Accounts**

- A. For those clients to whom Pinnacle Associates provides investment supervisory services, account reviews are conducted on an ongoing basis by Pinnacle Associates's Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise Pinnacle Associates of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with Pinnacle Associates on an annual basis.

- B. Pinnacle Associates *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Pinnacle Associates may also provide a written periodic report summarizing account activity and performance.

#### **Item 14      Client Referrals and Other Compensation**

- A. As referenced in Item 12.A.1 above, Pinnacle Associates may receive an indirect economic benefit from *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley*. Pinnacle Associates, without cost (and/or at a discount), may receive support services and/or products from *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley*.

Pinnacle Associates's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley* as a result of this arrangement. There is no corresponding commitment made by Pinnacle Associates to *Schwab, Chase, Citigroup, Ameritrade, Fidelity* and/or *Morgan Stanley* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

- B. If a client is introduced to Pinnacle Associates by either an unaffiliated or an affiliated solicitor, Pinnacle Associates *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Pinnacle Associates's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Pinnacle Associates by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of Pinnacle Associates's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Pinnacle Associates and the solicitor, including the compensation to be received by the solicitor from Pinnacle Associates.

#### **Item 15      Custody**

Pinnacle Associates shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts.

Pinnacle Associates may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that Pinnacle Associates provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by Pinnacle Associates with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of Pinnacle Associates's advisory fee calculation.

## **Item 16          Investment Discretion**

The client can determine to engage Pinnacle Associates to provide investment advisory services on a discretionary basis. Prior to Pinnacle Associates assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming Pinnacle Associates as the client's attorney and agent in fact, granting Pinnacle Associates full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage Pinnacle Associates on a discretionary basis may, at anytime, impose restrictions, **in writing**, on Pinnacle Associates's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe Pinnacle Associates's use of margin, etc.).

## **Item 17      Voting Client Securities**

Pinnacle Associates utilizes the services of two (2) outside proxy firms, Proxy Edge and ISS Proxy, for domestic and international proxies, respectively. In addition, Pinnacle Associates may utilize a third-party service to assist it in voting client proxies. Unless the client directs otherwise in writing, Pinnacle Associates is responsible for voting client proxies (**However**, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits.). Pinnacle Associates shall vote proxies in accordance with its Proxy Voting Policy, a copy of which is available upon request. Pinnacle Associates shall monitor corporate actions of individual issuers and investment companies consistent with Pinnacle Associates's fiduciary duty to vote proxies in the best interests of its clients. Although the factors which Pinnacle Associates will consider when determining how it will vote differ on a case by case basis, they may, but are not limited to, include the following: a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation. With respect to individual issuers, Pinnacle Associates may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), Pinnacle Associates may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. Pinnacle Associates shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. Copies of Rules 206(4)-6 and 204-2(c)(2) are available upon written request. In addition, information pertaining to how Pinnacle Associates voted on any specific proxy issue is also available upon written request. Requests should be made by contacting Pinnacle Associates's Chief Compliance Officer.

## **Item 18      Financial Information**

- A. Pinnacle Associates does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. Pinnacle Associates is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. Pinnacle Associates has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: Pinnacle Associates's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**