

Form ADV Part 2A  
Investment Adviser Brochure  
January 1, 2012

## *Hallmark Capital Management, Inc.*

---

*1195 Hamburg Turnpike  
Wayne, New Jersey 07470-5055*

Telephone: (973) 808-4144

Fax: (973) 808-3272

*This Brochure describes the services, qualifications and business practices of Hallmark Capital Management, Inc., an investment advisory firm registered with the United States Securities and Exchange Commission ("SEC"). Please contact Steve Erikson, President, Chief Executive Officer and Chief Compliance Officer of Hallmark Capital Management, Inc. at 973-808-4144 if you have any questions about the contents of this Brochure.*

*The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. Registration with the SEC does not imply that Hallmark Capital Management, Inc. or any individual providing investment management services on behalf of Hallmark Capital Management, Inc. has a certain level of skill or training. Additional information about Hallmark Capital Management, Inc. is available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **HALLMARK CAPITAL MANAGEMENT, INC.**

---

### **MATERIAL CHANGES**

#### **Annual Update**

Hallmark reviews and updates this brochure in connection with the firm's annual updating amendment. A summary of material changes, if any, will be provided to clients annually, within 120 days of the close of our fiscal year. On an interim basis, we will provide an amendment disclosing any material changes and may provide a revised and updated Brochure as necessary.

#### **Summary of Material Changes**

We have not made material changes since the last annual update to this brochure dated January 1, 2011.

## HALLMARK CAPITAL MANAGEMENT, INC.

---

### Table of Contents

---

<b>MATERIAL CHANGES.....</b>	
Annual Update .....	
Summary of Material Changes .....	
<b>ADVISORY BUSINESS .....</b>	<b>1</b>
Our Company .....	
Our Services .....	
Investment Management Services .....	
Financial Planning Services .....	
Our Assets Under Management .....	
<b>FEES AND COMPENSATION .....</b>	<b>2</b>
Investment Management Fees .....	
Financial Planning Fees .....	
Important Additional Information .....	
Fee Only .....	
Fees Negotiable .....	
Employee Fees.....	
Direct Debiting of Client Accounts .....	
Termination of Services .....	
Mutual Fund and Exchange-Traded Funds ("ETF") Fees.....	
Trading Costs .....	
Custody Costs .....	
<b>PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>4</b>
<b>TYPES OF CLIENTS .....</b>	<b>4</b>
Engaging the Services of Hallmark .....	
Conditions for Managing Accounts .....	
Investment Management Services .....	
Financial Planning Services .....	
<b>METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS ...</b>	<b>5</b>
Valuation Model for Equity Selection .....	
Risk of Loss.....	
Sources of Information .....	
<b>DISCIPLINARY INFORMATION .....</b>	<b>7</b>
<b>OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....</b>	<b>7</b>

## HALLMARK CAPITAL MANAGEMENT, INC.

---

### Table of Contents

---

<b>CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>7</b>
Our Code of Ethics .....	
Participation or Interest in Client Transactions .....	
<b>BROKERAGE PRACTICES .....</b>	<b>8</b>
Research Services .....	
Third-Party Research/Soft Dollars .....	
Brokerage for Client Referrals .....	
Directed Brokerage .....	
Charles Schwab & Co., Inc. ....	
Trade Aggregation/Allocation .....	
<b>REVIEW OF ACCOUNTS .....</b>	<b>10</b>
Investment Management Services .....	
Reviews.....	
Reports.....	
Financial Planning Services .....	
<b>CLIENT REFERRALS AND OTHER COMPENSATION .....</b>	<b>11</b>
Charles Schwab & Co., Inc. – “The Schwab Adviser Network” .....	
Employee Referrals .....	
Important Note .....	
<b>CUSTODY .....</b>	<b>12</b>
<b>INVESTMENT DISCRETION .....</b>	<b>13</b>
<b>VOTING CLIENT SECURITIES .....</b>	<b>13</b>
<b>FINANCIAL INFORMATION .....</b>	<b>13</b>
Prepayment of Fees .....	
Financial Condition .....	
Bankruptcy .....	
<b>PRIVACY NOTICE .....</b>	<b>14</b>
<b>ADDITIONAL INFORMATION AND OTHER INQUIRIES.....</b>	<b>14</b>

## ADVISORY BUSINESS

### Our Company

Hallmark Capital Management, Inc. ("Hallmark"), a New Jersey corporation, provides investment management and financial planning services to institutional and individual investors. Hallmark began providing investment management services as an independent SEC-registered investment adviser in 1986 and in 1999 began offering financial planning services. Hallmark became part of the Wealth Management & Insurance Division of Valley National Bank in 2000 as a wholly-owned subsidiary of Valley National Bank, a national banking association that provides commercial and retail financial services. Valley National Bank, in turn, is a wholly-owned subsidiary of Valley National Bancorp, a New York Stock Exchange listed bank holding company headquartered in Wayne, New Jersey.

### Our Services

#### Investment Management Services

Hallmark's investment management services provide for the continuous management and discretionary investment of funds entrusted to us by our clients based on the specific needs, objectives and risk tolerance of each client. Investment goals may include long-term capital appreciation, capital preservation, the generation of current income or any combination thereof.

The investment process begins with an agreement between Hallmark and each client on guidelines that quantify the client's risk profile, goals and objectives. Most importantly, these guidelines include an appropriate percentage or a permissible range of exposure to equities (common stocks).

Based on these parameters, each client's portfolio assets are allocated among equities, bonds and cash reserves based on Hallmark's assessment of the relative attractiveness of those sectors. The guidelines for any particular client might result in:

- a "balanced" account invested in a mix of stocks and bonds.
- an "equity" account invested entirely or largely in common stocks.
- a "fixed-income" account entirely or largely invested in bonds.

For the most part, client portfolios are comprised of individual stocks and bonds, although mutual funds and exchange-traded funds are used to achieve exposure to specific investment areas, such as international markets, or to address unique client constraints. Clients may impose reasonable restrictions on investing in certain securities or types of securities in their accounts. At all times, clients retain individual ownership of all securities.

#### Financial Planning Services

Hallmark's personal financial planning service is primarily an analytical process designed to organize financial data, identify needs and opportunities and evaluate alternative courses of action; it may include analysis of current net worth, income taxes, cash flow and budgeting, investments and asset allocation, retirement planning, employee benefit plan analysis, estate and gift tax planning, education pre-funding and risk management focusing on life, health and disability coverage. Hallmark meets with the client to conduct a personal interview to gather appropriate information in order to evaluate the client's current financial status, future goals

and attitudes towards risk. Related documents supplied by the client are reviewed, including a questionnaire the client completes that provides relevant information and authorizations. Hallmark performs a financial analysis and prepares a written plan that describes the client's current situation, identifies needs and opportunities and makes suggestions designed to help the client achieve stated goals.

While financial analyses may include investment advice concerning mutual funds and securities, it may also include investment advice with respect to products that may or may not constitute "securities," such as life insurance and annuities. The analysis also takes into consideration estate tax planning issues that may not constitute "investment" advice. Should a client choose to implement the suggestions contained in the analysis, Hallmark suggests the client work closely with an attorney, accountant, insurance agent and/or stockbroker. Financial analysis suggestions are not limited to any specific product or service offered by a broker-dealer or insurance company. Implementation of financial analysis suggestions is entirely at the client's discretion. In performing its services, Hallmark is expressly authorized to rely on information received from the client or from the client's other professionals and is not required to verify such information. If specifically requested by the client, Hallmark may suggest other professionals for implementation services; however, the client is under no obligation to engage such services.

### **Our Assets Under Management**

As of December 31, 2011, the total amount of client assets managed by Hallmark is approximately \$608,000,000. Of this total amount, \$607,000,000 of client assets are managed on a discretionary basis and \$1,000,000 of client assets are managed on a non-discretionary basis.

## **FEES AND COMPENSATION**

### **Investment Management Fees**

The annual fee for Investment Management Services is charged as a percentage of assets under management, generally in accordance with the following fee schedule:

<b>Account Assets</b>	<b>Annual Rate</b>	<b>Equivalent Quarterly Rate</b>
For accounts over \$500,000:		
First \$3 million	1.0%	0.250%
Next \$2 million	0.8%	0.200%
Balance over \$5 million	0.6%	0.150%
For accounts over \$15 million	0.6%	0.150%
For accounts over \$50 million	0.5%	0.125%
For accounts over \$100 million	0.4%	0.100%

Minimum Quarterly Fee:      \$1,250 per quarter

Fees are billed quarterly in advance based on the market value of the client's portfolio at the close of business on the last business day of the previous quarter. The initial quarterly fee is pro-rated and covers the period from the date the client's account is accepted for management by Hallmark through the last business day of the next full calendar quarter. Clients are billed if additional cash, securities or other investments in excess of 20% of the prior quarter-ending market value are accepted for management during the first two months of any quarter. The fee is pro-rated for the number of days remaining in the fee period and covers the total value of the accepted assets. Clients have the option of being billed directly or having the fee deducted from their custodial account. Details of the investment management fee charged are more fully described in the Investment Agreement entered into with each client.

### **Financial Planning Fees**

Hallmark is compensated for its Financial Planning Services on an hourly basis at the rate of \$200 per hour and the total fee will depend on the nature and complexity of the client's circumstances. At the beginning of the relationship, an estimate of hours required to complete the plan is normally determined with a maximum fee established. At the start of each engagement, 50% of the estimated total fee is due with the balance due upon completion and delivery of the financial plan or specialized analysis.

### **Important Additional Information**

#### Fee Only

Hallmark is compensated solely by fees paid by its clients and does not receive commissions or compensation from any other source, i.e., mutual funds, insurance products or any other investment product.

#### Fees Negotiable

Hallmark's fees and minimums are typically not negotiable, but Hallmark retains the right to modify fees, including minimum annual fees and minimum account sizes, in its sole and absolute discretion, on a client-by-client basis, based on the size, complexity and nature of the investment management or financial planning services provided.

#### Employee Fees

Hallmark offers to provide investment management services to its employees and members of their immediate families at one-half the prevailing fee schedule.

#### Direct Debiting of Client Accounts

Investment management fees may be debited on a quarterly basis from a client account only if the client provides written authorization permitting Hallmark's fees to be paid directly from the client's account held by an independent custodian and the custodian agrees to send the client a statement, at least quarterly, indicating all amounts disbursed from the account, including the amount of investment management fees paid directly to Hallmark. It is solely the client's responsibility to verify the accuracy of the fee calculation.

### Termination of Services

Hallmark's services may be canceled at any time, by either party, for any reason. Upon termination of an account, any prepaid, unearned fees will be pro-rated from the date of termination through the end of the billing period and promptly refunded. Refunds are processed by credit to the client's account or by direct payment to the client. Any earned and unpaid fees will be due and payable. The client has the right to terminate an Agreement without penalty within five (5) business days after entering into the Agreement.

### Mutual Fund and Exchange-Traded Funds ("ETF") Fees

Fees paid to Hallmark for investment management services are separate and distinct from fees and expenses charged by mutual funds, including exchange-traded funds, to their shareholders. These fees and expenses are described in each fund's prospectus and generally include a management fee, other fund expenses and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. Accordingly, the client should review both the fees charged by the funds and the fees charged by Hallmark to fully understand the total amount of fees incurred by the client.

### Trading Costs

Fees paid to Hallmark for investment management services are separate and distinct from transaction fees charged by broker-dealers to execute the purchase and sale of equity securities and mutual funds. Please see the section entitled "BROKERAGE PRACTICES" for additional information on brokerage and other transaction costs.

### Custody Costs

Hallmark does not provide custodial or other administrative services. Clients are responsible for all custodial, ancillary and miscellaneous fees, if any, charged by custodians.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Hallmark does not offer or accept performance-based fees, e.g., fees based on a share of capital gains on, or capital appreciation of, the assets in a client's account.

## **TYPES OF CLIENTS**

Hallmark provides investment management services to institutional clients such as pension and profit sharing plans, charitable organizations, corporations and other types of business entities, as well as to individual investors, including high net worth individuals and families, trusts and estates.

## **Engaging the Services of Hallmark**

Clients wishing to engage Hallmark for investment management services must sign the applicable Investment Agreement and complete and provide any other documents or questionnaires requested by Hallmark. The Investment Agreement describes the services



and responsibilities of Hallmark to the client and outlines Hallmark's fees in detail. Clients are responsible for completing custodial documentation as required by broker-dealers and banks. Hallmark will accept an account and notify a client upon determining all documents and all required criteria is acceptable. Clients are responsible for informing Hallmark in a timely manner of any changes in investment objectives, risk tolerance or other circumstances which would impact the management of their portfolios.

## **Conditions for Managing Accounts**

### Investment Management Services

Hallmark requires new clients have a minimum account of \$500,000 for discretionary investment management services, although Hallmark retains the right to reduce or waive this minimum account size in consideration of unique client circumstances. Hallmark will consider related accounts of the same client family or organization in meeting the minimum account size. Accounts of less than \$500,000 may be accepted when the client and Hallmark anticipate the client will add additional funds to the account bringing the total to \$500,000 within a reasonable time.

### Financial Planning Services

Financial planning services are offered as a stand-alone service and a client need not establish an investment management relationship to utilize Hallmark's financial planning services. Investment management clients are not normally charged for financial planning services.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Hallmark's investment process begins with consideration of each client's equity exposure guidelines and any unique investment constraints. Hallmark then executes the tactical allocation of each client's portfolio between three broad asset classes (stocks, bonds and cash reserves) within the pre-approved range of each client's guidelines, based on the investment outlook of Hallmark's Market Advisory Group. The Market Advisory Group includes Hallmark investment professionals and a group of professional financial strategists selected by Hallmark who provide their advice about the relative attractiveness of the stock and bond markets. Hallmark carefully weighs the collective opinion about the prospects for the markets and adjusts each client's asset mix, where appropriate, after considering the risk/return trade-off of any such changes. Hallmark manages each portfolio on a continuous basis, evaluating current positions and opportunities as revealed by established disciplines.

Common stocks are selected from a universe of large and mid-sized companies that are members of the Russell 1000 Index and/or the Standard & Poor's 500 Index. Hallmark may choose to utilize mutual fund and/or exchange-traded fund investments in the portfolios it manages. Hallmark can tailor its equity investment process to accommodate clients with either more aggressive or income-oriented goals. Fixed-income investments may include U.S. Treasury and agency securities, mortgage-backed or other asset-backed bonds, as well as corporate and municipal bonds and, in some cases, exchange-traded funds and mutual funds. Bonds are used to generate income and reduce portfolio volatility. For clients who desire exposure to non-U.S. markets for a portion of their portfolio, Hallmark utilizes exchange-

traded funds and, in some cases, mutual funds that target specific regions of the non-U.S. equity markets.

## **Valuation Model for Equity Selection**

Hallmark's stock selection strategy seeks an attractive relationship between the quality of a company's business, its earnings outlook and the reasonableness of its stock price. The stock selection process is strongly influenced by Hallmark's proprietary Valuation Model, supplemented by the experienced judgment of the investment staff.

The Valuation Model awards a Value Score that ranks each stock in our investment universe on its statistical attractiveness. A Value Score incorporates the following metrics:

- A Business Profile Score that is comprised of various measurements of corporate growth, profitability and balance sheet strength.
- The projected change in earnings per-share for the next twelve months.
- The Price/Earnings ratio using estimated earnings.

Hallmark's investment team generally selects from among the highly-ranked stocks, based on their Valuation Score, and performs further fundamental analysis on select companies for potential investment. Equity portfolios are constructed to obtain diversification among industries and economic sectors and lower-ranked stocks may be used for diversification or risk control.

## **Risk of Loss**

Hallmark's investment approach keeps the risk of loss in mind, but all investment programs have certain risks that are borne by the investor. Investing in securities involves risk of loss that each client should be prepared to bear, including the following: loss of principal risk, interest-rate risk, market risk, inflation risk, currency risk, reinvestment risk, business risk, liquidity risk, financial risk and geopolitical risk. Historically, common stocks have had more volatile returns than fixed-income instruments and stocks are generally viewed as riskier than bonds.

## **Sources of Information**

Hallmark's investment team may utilize the following sources of supplemental information to perform analysis: research materials prepared and provided by others (particularly Wall Street investment firms), financial newspapers and magazines, corporate rating services, conference calls, annual reports, prospectuses, filings with the SEC and company press releases.

## **DISCIPLINARY INFORMATION**

Neither Hallmark, as a firm, nor any of its supervised persons have any reportable disciplinary history.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Hallmark is a wholly-owned subsidiary of Valley National Bank, a national banking association that provides commercial and retail financial services. Valley National Bank is the principal subsidiary of Valley National Bancorp. Valley National Bank provides marketing and administrative support to Hallmark. Hallmark provides investment management and/or financial planning services to certain Directors, Officers and customers of Valley National Bank, the Valley National Bank Pension Plan, Valley National Bank and/or other subsidiaries or affiliates and/or Valley National Bancorp.

Gerald H. Lipkin, President, Chief Executive Officer and Chairman of the Board of Valley National Bank is also Chairman of the Board and a Director of Hallmark. Hallmark has an arrangement with Valley National Bank in which Valley National Bank may recommend the investment management services of Hallmark to its banking clients.

Hallmark will not purchase the security or securities of Valley National Bancorp for a client's portfolio unless specifically directed by the client.

New Century Asset Management, Inc. is an investment adviser registered with the SEC and is also a wholly-owned subsidiary of Valley National Bank. The investment advisory services provided by New Century Asset Management, Inc. are provided separately and independently from those provided by Hallmark.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Our Code of Ethics**

Hallmark has adopted a Code of Ethics which is predicated on the principle that Hallmark and its employees owe a fiduciary duty to its clients. Accordingly, Hallmark requires all employees to conduct themselves with honesty, integrity and dignity and act in an ethical and professional manner. Hallmark maintains a policy of strict compliance with federal and state securities laws, and all other applicable laws, rules, regulations and legal requirements in the conduct of its business. Hallmark and its employees are required to adhere to its Code of Ethics and, at all times, must (i) place client interests ahead of Hallmark's; (ii) engage in personal investing in full compliance with Hallmark's Code of Ethics; and (iii) avoid taking advantage of their positions. Further, Hallmark adopted policies and procedures concerning the misuse of material non-public information that are designed to prevent insider trading by any employee or other persons associated with Hallmark. Hallmark will provide a copy of Hallmark's Code of Ethics to clients and prospective clients upon request.

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

To maintain the fiduciary responsibility Hallmark owes to its clients, Hallmark's officers, employees and their immediate families are prohibited from executing transactions in securities if transactions in such securities are contemplated or pending for client accounts and/or prior to completion of the recommended securities transactions programs for Hallmark's clients. Hallmark's written compliance policies and procedures require that all trades made by employees and/or supervised persons of Hallmark require prior approval from the senior investment officers for all securities held in client accounts or currently listed on Hallmark's Purchase Candidate List. Hallmark also reviews and maintains monthly statements on all personal securities transactions.

Valley National Bank, Hallmark's sole shareholder, and Valley National Bancorp, Hallmark's ultimate parent, and its affiliates, generally have discretionary authority to purchase and sell securities for trust and advisory clients, as well as for their own investment portfolios and the Valley National Bank non-contributory Pension Plan. It is possible that securities which are purchased or sold for Hallmark's clients may at the same time and without Hallmark's knowledge be held by, or may be in the process of being purchased or sold for, Valley National Bank's or Valley National Bancorp's investment portfolios, the officers and directors of Valley National Bank or Valley National Bancorp, the Valley National Bank Pension Plan and/or other accounts managed by Valley National Bank, Valley National Bancorp, another subsidiary of Valley National Bank or Valley National Bancorp, or an independent investment manager retained by Valley National Bancorp.

## **BROKERAGE PRACTICES**

### **Research Services**

Hallmark has a fiduciary duty to engage in brokerage practices that are in the best interests of its clients. In the absence of a specific written direction from a client, brokers are selected by Hallmark on the basis of "best execution." In determining best execution, Hallmark considers the quality and nature of brokerage services provided, the commission or other remuneration charged and the value of research services provided by the broker. Hallmark selects broker-dealers based on their ability to provide high-quality research to Hallmark and trading capability that best satisfies the needs of our clients. Commission rates that are negotiated by Hallmark on behalf of our clients reflect Hallmark's experience and in our judgment are deemed fair and reasonable relative to the value of research and trading services received. In general, research services include economic and investment strategy reports, industry and company analyses, financial databases and screening tools, and statistical and technical market reports. In recognition of the value to our clients of brokerage and/or research services provided by the broker, Hallmark may pay commissions in excess of that which another broker might charge for effecting the same transactions.

Brokers providing research may be used in servicing all of Hallmark's client accounts even if the research services are not used by Hallmark in connection with the specific client accounts paying the commissions.

### **Third-Party Research/Soft Dollars**

Hallmark also obtains research products and other services from independent third-party providers in exchange for commission dollars generated by the placement of client trades with broker-dealers through "soft dollar" arrangements, in accordance with Section 28(e) of the Securities Exchange Act of 1934. Hallmark will enter into such an arrangement only if the commissions paid by clients to a broker-dealer are reasonable in relation to the value of the brokerage and research services received by Hallmark for the benefit of its clients. Clients may be charged higher commissions than those charged by other broker-dealers which do not provide research. Third-party research includes statistical data for Hallmark's proprietary Valuation Model, as well as economic and investment strategy reports, industry and company analyses, and other financial and technical reports. The use of client commission dollars in soft dollar arrangements provides benefits to Hallmark, since Hallmark would otherwise have to bear the cost of producing or purchasing these products or services. All clients may not benefit from soft dollar arrangements in equal proportion to commission dollars paid. Hallmark monitors and regularly evaluates its broker-dealer relationships, including those used exclusively for third-party research, for performance and quality of execution and directs transactions to broker-dealers based on previous experience, judgment and prevailing market conditions as well as soft dollar commission commitments.

### **Brokerage for Client Referrals**

In selecting broker-dealers, Hallmark does not consider whether or not Hallmark receives referrals from a broker-dealer and does not direct client transactions to a particular broker-dealer in return for client referrals.

Please see the disclosure in the section "CLIENT REFERRALS AND OTHER COMPENSATION" about Charles Schwab & Co., Inc. – "The Schwab Adviser Network."

### **Directed Brokerage**

Pursuant to written direction, when a client designates the use of a particular broker-dealer and/or utilizes a broker-dealer as a custodian:

- Hallmark may or may not be able to negotiate commission rates on the client's behalf and, as a result, the client may pay higher or lower commissions, depending upon the client's arrangements with the broker-dealer.
- The client may receive higher or lower prices than non-directed clients receive.
- Trading will usually not commence for directed trading clients until after the completion of a particular transaction for clients without such restrictions; therefore, higher or lower prices may result for directed accounts. A client who places custody with a brokerage firm is, by virtue of such arrangement, a directed trading account. Orders for such an account, if eligible for prime broker execution, may be aggregated along with non-directed trading clients for purposes of block trading at a broker of Hallmark's choosing. Hallmark is not obligated to aggregate prime broker eligible and non-directed clients in any single transaction, but may do so if Hallmark believes that favorable market conditions exist at the time of the transaction.

### **Charles Schwab & Co., Inc.**

Hallmark's clients may use any custodian they wish, but Hallmark endeavors to explain the benefits of custody at Charles Schwab & Co. ("Schwab"), especially relative to client account service. While there is no relationship between the investment advice given by Hallmark and

the use of Schwab as custodian of clients' accounts, economic benefits are received by Hallmark in the form of products and services which would not be received if Hallmark did not give investment advice to Schwab's clients. Some of these products and services assist Hallmark in managing and administering clients' accounts, such as the receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk serving Schwab Institutional participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment management fees deducted directly from client accounts with client authorization; access to an electronic communication network for client order entry and account information; access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors. Schwab also makes available to Hallmark other services intended to help Hallmark manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to Hallmark by independent third parties.

### **Trade Aggregation/Allocation**

It is the objective of Hallmark to allocate trading and investment opportunities among advisory clients on a fair and equitable basis. Hallmark may purchase or sell a particular security for many clients, or client-related groups of accounts, for which the security is appropriate.

Hallmark may, but shall be under no obligation to, aggregate securities to be purchased or sold in an effort to obtain the most favorable price and/or lower brokerage commissions or obtain efficient executions. Hallmark will aggregate orders only when such aggregation is consistent with Hallmark's duty to seek best execution and is consistent with the investment objectives of each client. Hallmark will take reasonable precautions to ensure that no client account will be unfairly favored over any other account. Each client that participates in a completed aggregated order will receive the average execution price of that particular trade. Partially completed orders are generally allocated on a pro-rata basis, depending upon the targeted equity exposure of each account unless the pro-rata allocation results in a *de minimis* position, in which case that client could receive a full allocation.

On occasion, Hallmark will aggregate orders from directed trading accounts along with non-directed trading accounts in order to achieve a better overall execution for a particular purchase or sale, utilizing a broker of Hallmark's choosing. Hallmark's ability to include directed trading accounts may be limited or precluded by "Prime Broker" qualifications.

## **REVIEW OF ACCOUNTS**

### **Investment Management Services**

#### Reviews

Investment management accounts are monitored on a continuous basis by members of the Hallmark investment team. Changes are made to portfolios whenever they are considered advantageous to the client based upon changes in the assessment of a security's relative

investment value, general market conditions or the client's objectives and circumstances. The Hallmark investment team consists of:

- Thomas S. Moore, CFA®, Executive Vice President and Chief Investment Officer
- Steve Erikson, CFP®, President, Chief Executive Officer and Chief Compliance Officer
- Jeffrey P. Braff, First Vice President and Director of Securities Trading
- Peter S. Hagerman, Vice Chairman of the Board
- Steven A. Tussi, Financial Associate and Portfolio Manager

Additional information regarding the qualifications and experience of Hallmark's investment team is available in the Brochure Supplement Part B which is provided separately.

### Reports

Hallmark provides clients with a written quarterly portfolio appraisal which includes a Summary of Changes in the Portfolio, a Portfolio Summary of Assets by Sector, a Portfolio Holdings report, a report of Portfolio Growth from inception and Portfolio Activity including purchases, sales, cash contributions/withdrawals and corporate reorganizations/capital change activity. Trade confirmations and/or periodic account statements are provided directly to investment management clients independently of Hallmark by broker-dealers and the clients' custodians.

### **Financial Planning Services**

The goals and objectives of financial planning clients are reviewed as deemed necessary relative to each client's circumstances. The nature and frequency of reports for clients utilizing financial planning services are determined by the particular needs of each client. Updates to a financial plan or analysis will be prepared based on significant changes in a client's personal objectives, goals or situation.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Clients may be referred to Hallmark through appointed "solicitors." Such clients enter into an Investment Agreement directly with Hallmark. All solicitors must enter into a written agreement with Hallmark and Hallmark ensures compliance with the Cash Payment for Client Solicitations Rule 275.206(4)-3. The solicitor provides the client with a copy of Hallmark's Brochure as required by Brochure Rule 275.204-3(b). Solicitors' compensation is based upon a percentage of the investment management fee at various rates and for periods of time as negotiated between Hallmark and solicitor. The agreement is disclosed to each prospective client in a separate written disclosure document containing basic information that explains the solicitation arrangement. Solicitors' activities in representing Hallmark are limited to an explanation of services and the fee schedule and solicitors are prohibited from making investment recommendations or giving investment advice.

### Charles Schwab & Co., Inc. -- "The Schwab Adviser Network"

Hallmark has an agreement with Charles Schwab & Co., Inc. ("Schwab"), an independent and unaffiliated broker-dealer, to participate in an advisor-referral service ("Referral Service") designed to help investors find independent investment advisors. Schwab does not supervise

Hallmark and has no responsibility for Hallmark's management of clients' portfolios or Hallmark's other advice or services. Hallmark pays Schwab fees to receive client referrals through the Referral Service. These fees are paid by Hallmark and clients referred through the Referral Service are not charged fees or costs greater than the fees or costs Hallmark charges clients with similar portfolios who were not referred through the Referral Service. Although not required by Schwab, investment managers participating in this Service are likely to execute transactions for clients referred through the Referral Service with Charles Schwab & Co., and Hallmark acknowledges its duty to select brokers on the basis of best execution. For accounts of Hallmark's clients maintained in custody at Schwab, Schwab will not charge clients separately for custody but will receive compensation on securities trades executed through Schwab. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Hallmark's other clients. Thus, trades for accounts in custody at Schwab may be executed at different times and different prices than trades for other accounts executed at other broker-dealers.

### Employee Referrals

Hallmark may pay a percentage of the first year's investment management fee as compensation to certain employees for client referrals.

### Important Note

Compensation and referral fee payments for client referrals, as described above, will be made solely by Hallmark; clients will not incur additional fees or costs as a result of such payments by Hallmark and investment management fees will remain the same regardless of any such compensation paid. Hallmark has sole discretion in accepting or declining client accounts referred under any agreement with a solicitor, Charles Schwab & Co., Inc., or an employee.

## **CUSTODY**

Custody of client assets is maintained with an independent custodian selected by the client who is solely responsible for paying all fees or charges of the custodian. Clients authorize Hallmark to give their custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the client's account and authorize the custodian to accept such instructions.

Hallmark does not have physical custody of any assets in the client's account. According to a ruling by the SEC, Hallmark is deemed to have custody solely because we are authorized to deduct investment management fees from client accounts. Clients receive a written statement directly from their custodian, at least quarterly, showing all transactions, including deduction of investment management fees, occurring in the client's account during the period covered by the account statement, and also shows the funds, securities and other property in the client's account at the end of the period. Clients are urged to carefully review statements received from the custodian to ensure the accurate reporting of such information.

Clients retain ownership of all assets in their accounts. Under no circumstances does Hallmark, its supervised persons or its employees have any right to withdraw, or otherwise access or take possession of, cash or securities from the client's account, *except as permitted for the direct deduction for payment of management fees as authorized by the client.*



## INVESTMENT DISCRETION

Hallmark requires that it be provided with written authority, e.g., limited power of attorney contained in Hallmark's Investment Agreement, to manage securities accounts on behalf of clients. Hallmark has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. Discretionary trading authority facilitates placing trades for clients' accounts on their behalf so that Hallmark may promptly implement clients' investment guidelines and objectives. Clients may change or amend these guidelines and all such amendments will be confirmed in writing.

## VOTING CLIENT SECURITIES

Voting proxies solicited by companies held in its clients' portfolios is Hallmark's responsibility, unless a client reserves the right to do so. Issues are reviewed on a case-by-case basis to determine how to vote, with the knowledge that the primary purpose and fiduciary responsibility of Hallmark in voting is to maximize shareholder value. On each and every issue, Hallmark will vote in a prudent and diligent fashion and only after careful evaluation of the issues presented on the ballot in accordance with Hallmark's Proxy Voting Policies and Procedures.

In the event a particular proxy issue presents a potential conflict of interest between Hallmark and its clients, Hallmark is committed to placing the best interest of clients ahead of its own. Hallmark may take any of the following courses of action to resolve the conflict:

- Disclose the conflict to clients and obtain consent before voting;
- Suggest that clients engage another party to determine how the proxy should be voted;
- Vote according to the recommendation of an independent third party, such as a proxy consultant, research analyst, proxy voting department of a mutual fund or pension fund, or a compliance consultant.

Clients may direct a proxy vote at any time by calling or writing to inform Hallmark of their desired vote. Hallmark maintains the books and records of proxy votes cast and this information, as well as the full text of Hallmark's Proxy Voting Policies and Procedures, is available by written request.

## FINANCIAL INFORMATION

### Prepayment of Fees

Because Hallmark does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, Hallmark is not required to include a balance sheet with this Brochure.

**Financial Condition**

Hallmark does not have any adverse financial conditions to disclose.

**Bankruptcy**

Hallmark has never been the subject of a bankruptcy petition.

**PRIVACY NOTICE**

Hallmark views protecting its clients' private information as a top priority and has instituted policies and procedures to ensure that client information is private and secure. Hallmark does not disclose any nonpublic personal information about its clients or former clients with anyone, including affiliated or non-affiliated third parties, except as permitted or required by law. In the course of servicing a client's account and only as necessary to provide our services, Hallmark may share some information with service providers, such as contracted data processing support, custodians, broker-dealers, etc. Hallmark restricts internal access to nonpublic personal information about the client to those persons who need access to that information in order to provide services to the client and to perform administrative functions for Hallmark. As emphasized above, it has always been and will always be Hallmark's policy never to sell information about current or former clients or their accounts to anyone. It is also Hallmark's policy not to share information unless required to process a transaction, at the request of a client, or as required by law. The full text of Hallmark's Privacy Policy is available upon request.

**FOR ADDITIONAL INFORMATION AND OTHER INQUIRIES**

Please contact Steve Erikson, President, Chief Executive Officer and Chief Compliance Officer of Hallmark Capital Management, Inc. at 973-808-4144. Written inquiries can be sent to Hallmark Capital Management, Inc., 1195 Hamburg Turnpike, Wayne, NJ 07470-5055.