

# HALLMARK CAPITAL MANAGEMENT, INC.

Integrity  
Professionalism  
Responsiveness

FORM ADV DISCLOSURE BROCHURE  
MARCH 28, 2017

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*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 and Chief Executive 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). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Hallmark Capital Management, Inc. is 108879.*

**Item 2 – MATERIAL CHANGES**

**Annual Update**

Hallmark Capital Management, Inc. 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**

There have been no material changes since the last filing and distribution of this Disclosure Brochure on April 27, 2016.

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## **Item 4 – ADVISORY BUSINESS**

### **A. 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 Services 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. In 2016 Hallmark merged with New Century Asset Management, Inc., another registered investment advisor and wholly-owned subsidiary of Valley National Bank. As a result of the merger, the New Century Asset Management division (“New Century”) was created within Hallmark.

### **B. Our Advisory Services**

#### **Hallmark**

##### **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, with the remainder in cash reserves.
- an “equity” account invested entirely or largely in common stocks, with the remainder in cash reserves.
- a “fixed-income” account entirely or largely invested in bonds, with the remainder in cash reserves.

For the most part, client portfolios are comprised of individual stocks and bonds. Mutual funds and exchange-traded funds may be used to achieve exposure to additional investment

areas, due to unique client constraints or to address specific client objectives. 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 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, stockbroker, and/or investment manager (which could include Hallmark). 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.

### New Century Division

New Century provides investment management services to its clients by effecting purchases and sales of mutual fund shares and individual securities in its clients' accounts. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, New Century identifies investment allocations for a client and creates and manages a portfolio based on those investment allocations. Each portfolio will be designed with the goal of meeting a client's individual needs. Account supervision is guided by the stated objectives of the client. Clients will retain individual ownership of all securities.

### 401(k) Advisory Services

New Century provides 401(k) Advisory Services to both the sponsor of the retirement plan (the "Client") and plan participants (the "Plan Participants").

*Services Provided to the Client*

New Century shall provide to the Client the scope of services in connection with the investment and reinvestment of securities, cash and/or other investments held from time to time in the Client's plan account (the "Plan"). New Century shall be a fiduciary of the Plan, as defined under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), with respect to the investment advice New Century provides to the Plan.

The scope of services to the Client includes:

- Consultations with the Client with respect to the Plan's investment policy statement.
- Consultations with the Client regarding selection of investments offered under the Plan.
- Ongoing research and evaluation of Plan investment choices.
- Consultations with the Client with regard to a broad range of investment alternatives offered under the Plan.
- Qualitative and quantitative analysis of Plan investment choices.

*Services Provided to the Plan Participants*

To the extent the Client is a plan sponsor of an individual account plan as defined under Section 404(c) of ERISA, New Century shall provide Plan Participants the services set forth in the scope of services in connection with the investment and reinvestment of securities, cash and/or other investments held from time to time in the Plan Participants' accounts under the Plan. A Plan Participant shall exercise control over the assets in his or her account by providing the record-keeper with investment instructions in the form requested by the plan administrator regarding the investment of the account. New Century also provides Plan Participants with sufficient information to make informed decisions with regard to investment alternatives available under the Plan in accordance with ERISA regulation Section 2550.404c-1(b)(2)(i)(B)(1) and (2).

The scope of services to Plan Participants includes:

- Provide Plan Participants with general financial and investment information unrelated to the investment alternatives under the Plan.
- Provide Plan Participants with general asset allocation models based on generally accepted investment theories.
- Provide Plan Participants with investment materials.
- 401(k) employee enrollment documents.
- Group employee educational meetings.

### **C. Client Tailored Services and Client Imposed Restrictions**

Hallmark offers investment advisory services which are tailored to meet the specific needs of each client. In order to provide appropriately individualized services, Hallmark works with each client to obtain information regarding the client's financial circumstances, investment objectives, overall financial condition, income and tax status, personal and business assets, risk profile and other information regarding the client's financial and investment needs.

In order for Hallmark to provide effective advisory services, it is critical that clients provide accurate and complete information to Hallmark and inform Hallmark whenever such information needs to be updated or there is a change in financial circumstances, investment objectives and/or risk profile.

Generally, clients are permitted to impose reasonable restrictions on investing in certain securities or types of securities in their investment management accounts. A restriction request may not be honored if it is fundamentally inconsistent with Hallmark's investment philosophy, runs counter to the client's stated investment objectives, or would prevent Hallmark from properly servicing other client accounts. In addition, some restrictions may not be accommodated when utilizing Exchange Traded Funds, mutual funds or with respect to certain third-party products or services made available through New Century.

### **D. Wrap Fee Programs**

Certain Hallmark clients participate in the Janney Montgomery Scott, LLC ("Janney") Classic wrap fee program (the "Classic Program").

Pursuant to the Classic Program, these clients enter into an agreement directly with Hallmark for the provision of Hallmark's investment management services (as described above) and pay Hallmark a negotiated Investment Management Fee. In addition, these clients also enter into an agreement for custodial and trade execution services directly with Janney (the "Janney Agreement").

Pursuant to the Janney Agreement, these clients pay Janney a separate fee based on the value of the account assets that are part of the Janney Classic wrap program. The Janney fee may be considered a "wrap" fee because transaction costs are based on the value of account assets and not on per trade commissions.

### **E. Our Assets Under Management**

As of December 31, 2016, the total amount of client assets managed by Hallmark is approximately \$1,327,317,000. Of this total amount, \$1,261,011,000 of client assets are managed on a discretionary basis and \$66,306,000 of client assets are managed on a non-discretionary basis.

**Item 5 – FEES AND COMPENSATION****A. Advisory Fees****Hallmark****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 for fixed income only accounts are discounted at 50% of the prevailing rate. 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. The initial fee is invoiced at the same time as the first full quarter end billing. 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. 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.

### **New Century Division**

#### **Investment Management Fees**

The annual fee for Investment Management Services is equal to 1% of assets under management (.25% on a quarterly basis). The fees for fixed income only accounts are discounted at 50% of the prevailing rate.

Clients will be billed in arrears at the end of each calendar quarter based upon the market value of the assets in the client's account at the end of that quarter. Market value will be determined by the account custodian. In the event that the account custodian cannot provide a market value for an asset, New Century will determine a fair market value for that asset. If an account is terminated during a calendar quarter, fees will be adjusted pro rata based upon the number of calendar days in the calendar quarter that the agreement was effective. Fees will be deducted directly from the Client's account within approximately thirty (30) days of the end of the quarter in which the fees are incurred.

Details of the investment advisory fee charged are more fully described in the advisory agreement entered into with each client.

#### **401(k) Advisory Fees**

The fees for 401(k) Advisory Services will not exceed .75% of the value of the Plan account.

The fees for 401(k) Advisory Services are payable quarterly in advance, based upon the value (market value as determined by the account custodian or fair market value in the absence of market value as determined by New Century in its sole discretion, plus any credit balance or minus any debit balance), of the Plan account at the beginning of that quarter. New Century will be paid by the custodian/administrator of the Plan.

For those 401(k) accounts held at Fidelity Advisor 401(k) Program, the fees for 401(k) Advisory Services are billed in arrears on a quarterly basis during the twelve-month annual billing cycle which ends on November 30<sup>th</sup>. Quarterly basis for purposes of billing is defined as February 28<sup>th</sup>, May 31<sup>st</sup>, August 31<sup>st</sup> and November 30<sup>th</sup> for each calendar year.

### **B. Payment Method**

Clients have the option of authorizing the deduction of the investment management fee from their custodial account or being billed directly.

### Custodian Deduction

Each quarter, Hallmark will notify the client's independent qualified custodian of the amount of the fee due and payable according to the Investment Agreement. The qualified custodian will not validate or check Hallmark's fee, the corresponding calculation or the assets on which the fee is based unless the client has retained their services to do so. It is solely the client's responsibility to verify the accuracy of the calculation. With the client's pre-approval, the qualified custodian will "deduct" the fee from the client's account or, if the client has more than one account, from the account(s) the client designates to pay Hallmark's investment management fee.

At least quarterly, the client will receive a statement directly from the qualified custodian showing all transactions, positions and all amounts deposited to or disbursed from the client's account. Statements will also reflect the investment management fee paid by the client to Hallmark.

### Direct Billing

Each quarter, Hallmark will issue the client an invoice for the investment management fee and the client will pay Hallmark by check.

## **C. Other Fees and Expenses**

### 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.

A client could invest in a mutual fund directly, without the services of the New Century division. In that case, the client would not receive the services provided by New Century which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. To the extent that client assets are invested in money market funds or cash positions, the fees for monitoring those assets are in addition to the fees included in the internal expenses of those funds paid to their own investment managers, which are fully disclosed in each fund's prospectus.

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, fixed income securities, options, 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.

#### **D. Termination and Refunds**

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.

A client agreement with New Century may be canceled by either party, for any reason upon thirty (30) days written notice. Upon termination of any account, any earned, unpaid fees will be due and payable and any prepaid fees will be refunded within thirty (30) days of the termination of the agreement.

#### **E. 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.

#### **Item 6 - PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Hallmark does not accept performance-based fees or engage in side-by-side management of client accounts. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client’s account. Side-by-side management refers to the practice of managing accounts that are charged performance-

based fees while at the same time managing accounts that are not charged performance-based fees. Hallmark's fees are calculated as described above in Item 5 - Fees and Compensation - and are not charged on the basis of a share of the capital gains upon, or capital appreciation of, the funds in a client's account.

## **Item 7 - TYPES OF CLIENTS**

Hallmark provides investment management services to institutional clients such as pension and profit sharing plans, charitable organizations, banks and thrift institutions, 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 are 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, in its sole and absolute discretion, retains the right to reduce or waive this minimum account size. Hallmark will consider related accounts of the same client family or organization in meeting the minimum account size.

#### 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.

### **Engaging the Services of New Century**

All clients wishing to engage New Century for investment advisory services must first complete the applicable investment advisory agreement as well as any other document or questionnaire provided by New Century. The investment advisory agreement describes the services and responsibilities of New Century to the client. It also outlines New Century's fee in detail. In addition, clients must complete certain

broker-dealer/custodial documentation. Upon completion of these documents, New Century will be considered engaged by the client. Clients will be responsible for ensuring that New Century is informed in a timely manner of changes in investment objectives and risk tolerance.

## **Conditions for Managing Accounts**

### Investment Management Services

New Century generally requires new clients have a minimum account size of \$250,000. New Century retains the right to reduce or waive this minimum account size. New Century will consider related accounts of the same client or family, and other accounts related to one another, in meeting the recommended minimum account size. Accounts of less than \$250,000 may be accepted when the client and New Century anticipate the client will add additional funds to the accounts bringing the total to \$250,000 within a reasonable time.

### 401(k) Advisory Services

New Century requires a minimum annual fee of \$3,500 for 401(k) Advisory Services clients. New Century retains the right to reduce or waive the minimum annual fee.

## **Item 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Methods of Analysis and Investment Strategies**

#### Methods of Analysis

Hallmark's investment process begins with consideration of each client's equity exposure guidelines and any unique investment constraints. For "balanced" accounts, Hallmark then executes the tactical allocation of each client's portfolio among 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. For "equity" accounts, bonds may be excluded or utilized as part of cash reserves. For "fixed income" accounts, stocks are normally excluded. 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.

#### Valuation Analysis 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 Analysis, supplemented by the experienced judgment of the investment staff.

The Valuation Analysis 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.

Generally, portfolio selections are made from those companies ranked within the top third of Valuation Scores, after the investment team has done further fundamental analysis.

#### New Century Investment Strategies

New Century may utilize different investment strategies, based upon the needs of the client, including: long-term purchases, short-term purchases, trading, short sales, margin transactions and option writing. New Century also utilizes asset allocation strategies to match client goals and objectives.

##### *Long-Term Purchases*

Securities are purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

##### *Short-Term Purchases*

Securities are purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

##### *Trading*

Securities are purchased with the expectation that they will be sold within a very short period of time, generally less than 30 days, in an effort to capture significant market gains and avoid significant market losses during a volatile market.

### *Short Sales*

A securities transaction in which an investor sells borrowed securities in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price.

### *Margin Transactions*

A securities transaction in which an investor borrows money to purchase a security, where the security serves as collateral on the loan.

### *Option Writing*

An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. An investment strategy utilizing option writing involves selling (writing) an option. When an investor sells (writes) an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The seller receives from the buyer a premium (the market price of the option at a particular time) in exchange for writing the option.

### 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.

In addition, New Century may also use various programs and third-party providers for sources of information for the development of investment strategies, methods of analysis and security selections such as Standard & Poor's, Schwab Advisor Center, Morningstar, Performance Technologies, Thompson Reuters, Value Line, Bloomberg and Fidelity Advisor Channel.

### Investing Involves Risk

Investing in securities involves risk of loss that each client should be prepared to bear. The value of a client's portfolio managed by Hallmark may be affected by one or more of the following risks, any of which could cause a client's portfolio return, the price of the portfolio's shares or the portfolio's yield to fluctuate:

- *Market Risk.* The value of portfolio assets will be heavily influenced by the overall performance of the stock and/or bond markets. The value of investments may decline, sometimes rapidly and unpredictably, because of economic changes or other events that affect large portions of the market.
- *Issuer Specific Risk.* The value of an equity security or debt obligation may decline in response to developments affecting the specific issuer of the security or obligation, even if the overall industry or economy is unaffected. These developments may



comprise a variety of factors, including, but not limited to, management issues or other corporate disruption, political factors adversely affecting governmental issuers, a decline in revenues or profitability, an increase in costs, or an adverse effect on the issuer's competitive position.

- *Capitalization Risk.* Certain companies in the universe of stocks Hallmark screens might be considered to be small-to-mid-capitalization companies that may be more volatile than investments in large-capitalization companies.
- *Liquidity Risk.* Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing Hallmark from selling out of such illiquid securities at an advantageous price.
- *Concentrated Portfolio Risk.* Certain, more aggressive strategies may result in holding fewer stocks than other, more diversified, portfolios at Hallmark. As a result, changes in the prices of these securities are more likely to have a larger impact on portfolio performance than a more broadly invested strategy. Concentrated portfolios are much more likely to experience dramatic price swings and may experience larger loss of value.
- *Foreign (Non-U.S.) Risk.* A portfolio's investments in securities of non-U.S. issuers may fluctuate widely in price and may be less liquid due to adverse market, economic, political, regulatory or other factors.
- *Currency Risk.* Fluctuations in currency exchange rates may negatively affect the value of a portfolio's investments or reduce its returns.
- *Legal or Legislative Risk.* Legislative changes or court rulings may impact the value of investments or the securities' claim on the issuer's assets and finances.
- *Derivatives Risk.* Certain strategies involve the use of derivatives to create market exposure. Derivatives may be illiquid, difficult to price and leveraged so that small changes may produce disproportionate losses for a client's portfolio and may be subject to counterparty risk to a greater degree than more traditional investments. Because of their complex nature, some derivatives may not perform as intended. As a result, a portfolio may not realize the anticipated benefits from a derivative it holds or it may realize losses. Derivative transactions may create investment leverage, which may increase a portfolio's volatility and may require the portfolio to liquidate portfolio securities when it may not be advantageous to do so.
- *Emerging Markets Risk.* Securities of companies in emerging markets may be more volatile than those of companies in developed markets. By definition, markets, economies and government institutions are generally less developed in emerging market countries. Investment in securities of companies in emerging markets may entail special risks relating to the potential for social instability and the risks of expropriation, nationalization or confiscation. Investors may also face the imposition of restrictions on foreign investment or the repatriation of capital and a lack of hedging instruments.



## **B. Risks Associated with Investment Strategies and Methods of Analysis**

- *Management Risk.* Hallmark will apply its investment techniques and risk analysis in making investment decisions for a client's portfolio, but there is no guarantee that these techniques and Hallmark's judgment will produce the intended results.
- *Quantitative Tools Risk.* Some of Hallmark's investment techniques may incorporate, or rely upon, quantitative models. There is no guarantee that these models will generate accurate forecasts, reduce risks or otherwise produce the intended results. Data is provided by outside vendors and while Hallmark believes the information to be correct, we do not independently verify its accuracy.
- *Allocation Risk.* The allocation of investments among different asset classes may have a significant effect on portfolio value when one of these asset classes is performing more poorly than the others. In addition, there is a risk that certain asset allocation decisions may not achieve desired results and a client's portfolio may incur significant losses.

### **New Century Division**

- *Long-Term Purchases.* Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or your particular investments will decrease in value even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost (e.g., "locking-up" assets that may be better utilized in the short-term in other investments).
- *Short-Term Purchases.* Using a short-term purchase strategy generally assumes that the performance of the financial markets can be accurately predicted over the short-term. The risk associated with a short-term purchase strategy is that there are many factors that may affect market performance in the short-term including interest rate fluctuations, cyclical earnings, etc. Such factors may have a smaller impact over the longer-term. In addition, short-term trading may incur a disproportionately higher amount of transaction costs compared to long-term trading.
- *Trading.* Strategies involving frequent trading of securities can affect investment performance through increased brokerage and other transaction costs and taxes.
- *Short Sales.* Short selling is very risky. The primary risk associated with selling a security that was borrowed in anticipation of a price decline is that if the price of those borrowed shares *increases*, the potential losses are *unlimited*.
- *Margin Transactions.* When buying stocks on margin, you are employing leverage as an investing strategy. Leverage allows an investor to extend their

financial reach by investing using borrowed funds while limiting the amount of their own cash they expend. This can involve a high degree of risk, including, but not limited to:

- Losing more money than you have invested;
  - Paying interest on your loan;
  - Being required to deposit additional cash or securities in your account on short notice to cover market losses;
  - Being forced to sell some or all of your securities when falling stock prices reduce the value of your securities; and/or
  - Having your brokerage firm sell some or all of your securities without consulting you to pay off the loan it made to you.
- 
- *Option Writing.* There are numerous risks associated with transactions in options on securities or securities indexes and therefore, are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss of principal. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. For example, as the writer of covered call options, the client forgoes, during the option's life, the opportunity to profit from increases in the market value of the underlying security or the index above the sum of the option premium received and the exercise price of the call, but has retained the risk of loss, minus the option premium received, should the price of the underlying security decline. In the case of index options, the client incurs basis risk between the performance of the underlying portfolio and the performance of the underlying index (e.g., the underlying portfolio may decline in value while the underlying index may increase in value, resulting in a loss on the call option while the underlying portfolio declines as well).

#### *Risk Associated with Methods of Analysis*

The analysis of securities requires subjective assessments and decision-making by experienced investment professionals, however, there is always the risk of an error in judgment.

New Century's securities analysis methods rely on the assumption that the companies whose securities the firm purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While New Century is alert to indications that data may be incorrect, there is always the risk that the firm's analysis may be compromised by inaccurate or misleading information.

### **C. Risks Associated with Specific Securities Utilized**

#### Common Stocks

The major risks associated with investing in common stocks relate to the quality of the issuer's management, quality and cost of the issuer's services, the issuer's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk and the issuer's ability to generate sufficient level of profits to support the value of the company's stock price.

#### Preferred Stocks

Preferred stock dividends are generally fixed in advance. Unlike requirements to pay interest on certain types of debt securities, the company that issues preferred stock may not be required to pay a dividend and may stop paying the dividend at any time. Preferred stock may also be subject to mandatory redemption provisions and an issuer may repurchase these securities at prices that are below the price at which they were purchased by the investor. Under these circumstances, a client account holding such preferred securities could lose money.

#### Real Estate Investment Trusts (REITS)

Investing in Real Estate Investment Trusts ("REITs") involves real estate risk, market risk and interest rate risk, among others.

REITs that invest directly in real estate are exposed to the following risks: possible decline in the value of the underlying property investment, risks related to general and local economic conditions, including increases in the rate of inflation, possible lack of availability of mortgage funds, overbuilding, extending vacancies of properties, increases in competition, property taxes and operating expenses, changes in zoning laws, costs resulting from cleanup of, and liability to third-parties for damages resulting from, environmental problems, casualty and condemnation losses, uninsured damages from floods, earthquakes or other natural disasters, limitations on and variations in rents and changes in interest rates.

The value of shares in publicly traded REITs can fluctuate. An investor who sells shares in a REIT could receive more, or less, than the original purchase price. Factors that can influence market risk include the general level of real estate property values, which tend to rise and fall with current market conditions. As with any active business, a factor in successful performance lies with management skill. REITs are not diversified and are subject to cash flow dependency, default by borrowers and self-liquidation. The REIT structure falls under the provisions of specific U.S. Federal income tax law, which could change. The REIT is exempt from corporate income tax, but shareholders have to pay tax at their individual income tax rate on any dividends.

Another risk is dependent on interest rates. Shares of REITs, especially mortgage REITs, are sensitive to changes in the general level of interest rates. Mortgage REITs respond much like bonds, generally increasing in value as interest rates fall and decreasing in value if interest rates rise.

### Fixed-Income Securities

Different forms of fixed-income instruments, such as bonds, money market funds, and certificates of deposit may be affected by various forms of risk, including:

- *Interest Rate Risk.* Changes in interest rates will generally affect the value of a portfolio's investments in fixed-income securities. When interest rates rise, the value of investments in fixed-income securities tend to fall. Interest rate risk is generally greater for fixed-income securities with longer maturities or durations.
- *Liquidity Risk.* The inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. While certain types of fixed-income securities are generally liquid (*e.g.* corporate bonds), there are risks which may occur such as when an issue trading in any given period does not readily support buys and sells at an efficient price. Conversely, when trading volume is high, there is also the risk of not being able to purchase a particular issue at the desired price.
- *Credit Risk.* An issuer or guarantor of a fixed-income security may be unable or unwilling to make timely payments of interest or principal, or to otherwise honor its obligations. The issuer or guarantor may default, causing a loss of the full principal amount of a security. The degree of risk for a particular security may be reflected in its credit rating. There is the possibility that the credit rating of a fixed-income security may be downgraded after purchase, which may adversely affect the value of the security. Investments in fixed-income securities with lower ratings tend to have a higher probability that an issuer will default or fail to meet its payment obligations. Rating agencies may misjudge the riskiness of any individual creditor.
- *Reinvestment Risk.* With declining interest rates, investors may have to reinvest income or principal at a lower rate.
- *Duration Risk.* Duration is a measure of a bond's volatility, expressed in years to be repaid by its internal cash flow (interest payments). Bonds with longer durations carry more risk and have higher price volatility than bonds with shorter durations.

### Municipal Bonds

In addition to the risks set forth under "Fixed-Income Securities" above, municipal bonds are susceptible to events in the state, county, or municipal agency that issued the bond or the security posted for the bond. These events may include economic or political policy changes, changes in law, tax base erosion, state constitutional limits on tax increases, budget deficits or other financial difficulties and changes in the credit rating assigned to municipal issues.

### Federal Agency Securities

Although the issuer may be chartered or sponsored by an Act of Congress, the issuer is not funded by Congressional appropriations and its debt and equity securities are neither guaranteed nor insured by the U.S. Government. Without a more explicit commitment, there can be no assurance that the U.S. Government will provide financial support to such issuers or their securities.

### Exchange Traded Funds

ETFs are subject to risks similar to those of stocks. Investment returns will fluctuate and are subject to market volatility, so that when shares are sold they may be worth more or less than their original cost. ETF shares are bought and sold at market price (not Net Asset Value) and are not individually redeemed from the fund. There is also the risk that a manager may deviate from the stated investment mandate or strategy of the ETF which could make the holdings less suitable for a client's portfolio. ETFs may also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees. In addition, while many ETFs are known for their potential tax efficiency and higher "qualified dividend income" (QDI) percentages, there are asset classes within these ETFs or holding periods that may not benefit the client. Shorter holding periods, as well as commodities and currencies that may be part of an ETF's portfolio, may be considered "non-qualified" under certain tax code provisions.

### Equity Funds

The major risks associated with investing in equity mutual funds is similar to the risks associated with investing directly in equity securities, including market risk, which is the risk that investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Other risks include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification and the type and amount of sector diversification within specific industries. In addition, there is the risk that a manager may deviate from the stated investment mandate or strategy of the mutual fund which could make the holdings less suitable for a client's portfolio. Also, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold their shares in the fund. Mutual funds may also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees.

### Fixed-Income Funds

In addition to the risks associated with investing in equity mutual funds, fixed-income mutual funds also carry the same risks as set forth under "Fixed-Income Securities" listed above.

### Index Funds

Index Funds have the potential to be affected by "tracking error risk" which means a deviation from a stated benchmark index. Since the core of a portfolio may attempt to closely replicate a benchmark, the source of the tracking error (deviation) may come from a "sample index" that may not closely align the benchmark. In addition, while many index mutual funds are known for their potential tax efficiency and higher "qualified dividend income" (QDI) percentages, there are asset classes within these funds or holding periods that may not benefit the client. Shorter holding periods, as well as commodities and currencies that may be part of a fund's portfolio, may be considered "non-qualified" under certain tax code provisions.

### Options

There are numerous risks associated with transactions in options on securities or securities indexes. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. In the case of index options, the client incurs basis risk between the performance of the underlying portfolio and the performance of the underlying index. For example, the underlying portfolio may decline in value while the underlying index may increase in value, resulting in a loss on the call option while the underlying portfolio declines as well.

### Master Limited Partnerships

Master Limited Partnerships (MLPs) are a type of limited partnership that is publicly traded and sells like a common stock on the major stock exchanges. There are two types of partners in this type of partnership: The limited partner is the person or group that provides the capital to the MLP and receives periodic income distributions from the MLP's cash flow, whereas the general partner is the party responsible for managing the MLP's affairs and receives compensation that is linked to the performance of the venture. MLP investors face several kinds of risk that are inherent in these types of investments and in the market, including loss of money, volatility and interest rate risk.

### Alternative Investments

The performance of alternative investments (e.g., commodities, futures, hedge funds; funds of hedge funds, private equity or other types of limited partnerships) can be volatile. Alternative investments generally involve various risk factors and liquidity constraints, a complete discussion of which is set forth in the offering documents of each specific alternative investment. Due to the speculative nature of alternative investments a client must satisfy certain income or net worth standards prior to investing.

**Please note that there may be other circumstances not described here that could adversely affect a client's investment and prevent the portfolio from reaching its objective.**

## **Item 9 - DISCIPLINARY HISTORY**

Hallmark is required to disclose any legal or disciplinary events that are material to a client's or a prospective client's evaluation of the firm's advisory business or the integrity of Hallmark's management. Neither Hallmark, as a firm, nor any of its management have ever had any reportable disciplinary history.

## **Item 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. Broker-Dealer Registration and Registered Representatives**

Hallmark is not registered, nor does it have an application pending to register, as a broker-dealer. No management person is registered, nor does any management person have an application pending to register, as a registered representative of a broker-dealer.

### **B. Futures and Commodity Registration**

Hallmark is not registered, nor does it have an application pending to register, as a futures commission merchant, commodity pool operator or a commodity trading advisor. No management person is registered, nor does any management person have an application pending to register, as an associated person of a futures commission merchant, commodity pool operator or a commodity trading advisor.

### **C. Financial Industry 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.

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.

### **D. Other Investment Advisers**

Hallmark does not recommend or select other investment advisers for our clients or have other business relationships with other investment advisers.

## **Item 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Our Code of Ethics**

Hallmark maintains 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 maintains 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 required to conduct all personal securities transactions in a manner consistent with Hallmark's Code of Ethics and to avoid any actual or potential conflict of interest or any abuse of a position of trust and responsibility. Hallmark 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.

## **Item 12 - BROKERAGE PRACTICES**

### **A. Brokerage Selection**

#### 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 Analysis, as well as economic and investment strategy reports, industry and company analyses, and other financial and technical reports that aid in the investment decision-making process. 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.

### Wrap Fee Programs

With respect to certain transactions, including, without limitation, block trades in which Hallmark aggregates securities purchases or sales for a client account with those of one or more of its other clients, Hallmark may, pursuant to its duty to seek best execution, determine to execute using step-out transactions (also referred to as "trade-aways"), even though such transactions require payment of a commission that is not covered by the wrap fee.

### 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.

## **B. Trade Aggregation/Allocation**

It is the objective of Hallmark to allocate trading and investment opportunities among advisory clients on a fair and equitable basis and in compliance with all applicable state and federal guidelines. 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.

#### 401(k) Advisory Services

New Century's 401(k) Advisory Services practice, due to the nature of its business and client needs, does not include blocking trades, negotiating commissions with broker dealers or obtaining volume discounts, nor necessarily obtaining the best price.

### **Item 13 - REVIEW OF ACCOUNTS**

#### **Investment Management Services**

##### Reviews

Hallmark periodically reviews clients' financial circumstances, investment objectives and risk profile. 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<sup>®</sup>, Executive Vice President and Chief Investment Officer
- Jeffrey P. Braff, First Vice President and Director of Securities Trading
- Matthew L. Grosser, Associate Portfolio Manager
- Gregory M. Pizzano, Vice President and Senior Portfolio Manager
- Steven A. Tussi, Vice President and Portfolio Manager
- Kathleen Buske, CFP<sup>®</sup>, Vice President and Senior Director of Investment Strategy  
New Century Division
- Leanne Polizzano, CFP<sup>®</sup>, Vice President and Portfolio Manager New Century  
Division

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, an Executive Summary of Assets by Sector, a Portfolio Holdings report, a report of Portfolio Growth from inception and an Economic and Market Commentary. Trade confirmations and/or periodic account statements are provided directly to investment management clients independently of Hallmark by broker-dealers and the clients' custodians.

### **401(k) Advisory Services**

In addition to ongoing research and evaluation of plan investment choices, New Century will undertake a semi-annual quantitative and qualitative analysis of plan investment choices.

### **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.

## **Item 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. Economic Benefits**

Hallmark does not receive any economic benefits such as sales awards or other prizes from any non-client for providing investment advisory services to the firm's clients.

### **B. Client Referrals**

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.

Valley National Bank Employee Referrals

Valley National Bank, Hallmark’s sole shareholder, may provide its employees with some economic benefit for referring a Valley National Bank customer to Hallmark for advisory services.

Important Note

Clients will not incur additional fees or costs as a result of compensation and referral fee payments for client referrals, as described above. 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 of Valley National Bank.

**Item 15 - 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.*

## **Item 16 - INVESTMENT DISCRETION**

For those client accounts over which Hallmark has 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.

Clients will retain ownership of all assets in their accounts.

## **Item 17 - VOTING CLIENT SECURITIES**

### **Proxy Voting**

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.

### **Class Actions**

When requested by the client, Hallmark will assist with handling client claims in class action lawsuits or similar settlements involving securities owned by the client in a managed account.

### **New Century Division**

### **Proxy Voting**

New Century does not vote proxies on behalf of its clients. Therefore, although New Century may provide investment advisory services relative to client investment assets, it is the client that maintains exclusive responsibility for directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted. New Century and/or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets. Clients can contact Lesley Murray, Division Director of New Century, at 973-305-5505 if they have questions regarding a particular solicitation.

### **Class Action Settlements**

Although New Century has discretion over client accounts, it will not be responsible for handling client claims in class action lawsuits or similar settlements involving securities owned by the client. Clients will receive the paperwork for such claims directly from their account custodians. Each client should verify with their custodian or other account administrator whether such claims are being made on the client's behalf by the custodian or if the client is expected to file such claims directly.

## **Item 18 – FINANCIAL INFORMATION**

### **A. 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.

### **B. Financial Condition**

Hallmark does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our Clients.

### **C. Bankruptcy**

Hallmark has never been the subject of a bankruptcy petition.

## **Item 19 – ADDITIONAL INFORMATION**

### **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 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 and Chief Executive 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.