

## **Adalta Capital Management LLC**

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*Form ADV Part 2A*

**March 28, 2024**

This Brochure provides information about the qualifications and business practices of Adalta Capital Management LLC. If you have any questions about the contents of this Brochure, please contact us at (212) 832-5135. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("the SEC") or by any state securities authority.

Adalta Capital Management LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Adalta Capital Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Since our last annual updating amendment filing with the United State Securities and Exchange Commission (“SEC”) on March 31, 2023, there have not been any material changes to this Brochure.

We will provide you with a new Brochure as necessary based on changes or new information without charge.

A copy of our current Brochure may be requested by contacting Zoë Vlachos at (212) 832-5135.

Additional information about Adalta Capital Management LLC is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about persons affiliated with Adalta Capital Management LLC who are registered, or are required to be registered, as investment adviser representatives of Adalta Capital Management LLC.

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## **Item 4 – Advisory Business**

Adalta Capital Management LLC (“Adalta,” the “Adviser” or the “Firm”) is a SEC-registered investment adviser that provides asset management services to individual, family office and institutional clients primarily through separately managed accounts.

Adalta seeks long-term capital appreciation for its clients by investing in securities of companies with sound, long-term fundamentals based on a value-driven investment discipline. Adalta also seeks such appreciation through allocation to select third-party managers. Principal owners David E. Rappa and Zoë A. Vlachos and veteran investment manager Peter A. Vlachos are responsible for the day-to-day operations of the Firm. The Firm, formed in 2016, is a limited liability company organized under the laws of the state of Delaware.

This brochure describes primarily the services that Adalta provides to separate account clients. Adalta also renders advice to private investment funds. The services Adalta renders to those funds are described in the respective fund offering documents.

Separate account portfolios are customized for taxable and tax-exempt investors. Investment strategies for each client are developed after completing an examination of the client's financial condition and establishing the client's investment objectives. Such objectives and needs are defined at the onset of a relationship and periodically reviewed thereafter on an ongoing basis.

Adalta manages the investment and reinvestment of its clients' assets including making decisions with respect to all purchases and sales and other transactions of securities. Most accounts are discretionary, meaning the Firm makes and executes investment decisions about particular securities for the client's account without getting the client's prior permission. As of March 28, 2024, the Firm had approximately \$258.0 million in regulatory assets under management, \$254.3 million on a discretionary basis and \$3.7 million on a non-discretionary basis. Clients that determine to engage Adalta on a non-discretionary investment advisory basis must be willing to accept that Adalta cannot affect any account transactions without obtaining prior consent to such transaction(s) from the client. Thus, in the event that Adalta would like to make a transaction for a client's account (including in the event of an individual holding or general market correction), and the client is unavailable, Adalta will be unable to effect the account transaction(s) (as it would for its discretionary clients) without first obtaining the client's consent.

The structure of each portfolio is determined according to the specific objectives and risk tolerance of the client. Equity investments are made typically in financially strong companies

which appear to have attractive prospects for growth in earnings and dividends. High-quality, fixed-income securities are used to provide a basic return. Portfolios are comprised primarily of publicly traded U.S. domestic securities as well as foreign securities. These securities include: exchange listed shares and shares traded over-the-counter; securities convertible into or exercisable for common stocks; preferred stocks; warrants; fixed and floating rate bonds; U.S. Treasuries; and municipal bonds.

Securities in which an account is invested can be restricted by the client by sector, industry or company or by type of security should a client want or need to do so for any reason; such restrictions are either incorporated into the investment policy statement for the account or indicated separately in writing to the Firm. Clients should be aware that imposing restrictions on an account may cause the account to perform differently than an account managed without such restrictions. A few client accounts, generally testamentary trusts or the equivalent, limit applicant purchases to securities contained on an approved list. Such list is created and maintained by the client and provided to Adalta on a regularly scheduled basis. Typically, a taxable account strategy encompasses the purchases of marketable securities for long-term holding. Tax-free accounts, while generally seeking to invest for long term appreciation, can become involved with marketable security purchases with short-term potential. The Firm does not make short sales or utilize margin debt (unless specifically directed by the client). The Firm does not utilize options in any of its investment strategies with the exception of the periodic purchase of warrants for client accounts. At any specific time, depending upon perceived or anticipated market conditions or events (there being no guarantee that such anticipated market conditions or events will occur), Adalta may maintain cash positions in accounts for defensive purposes.

Adalta may provide investment advice regarding affiliated and/or unaffiliated private funds. Adalta, on a non-discretionary basis, may also recommend that certain qualified clients consider an investment in affiliated and/or unaffiliated private funds. Adalta's role relative to the private funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become an investor in an unaffiliated private fund, the amount of assets invested in the issuance shall be included as part of "assets under management" for purposes of Adalta calculating its investment advisory fee. Adalta's clients are under absolutely no obligation to consider or make an investment in a private fund(s).

The recommendation by Adalta that a client invest in a private fund sponsored by an affiliated entity of Adalta presents a conflict of interest, as Adalta's interest in the affiliated entity may provide an incentive to recommend investment in the affiliated entity based on funds received, rather than on a particular client's need. In an attempt to mitigate this conflict, Adalta will not include the value of such affiliated private funds in calculating Adalta's advisory fee. Clients invested in affiliated private funds will only be subject to the private fund's management fee, which is typically performance-based, as described in Item 6

below. No client is under any obligation to invest in the affiliated entity or any other private offering. Adalta's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.

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

In the event that Adalta references private funds owned by the client on any supplemental account reports prepared by Adalta, the value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the issuer. If no subsequent valuation post-purchase is provided by the issuer, the valuation shall reflect the initial purchase price (and/or a value as of a previous date), or the current value(s) (either the initial purchase price and/or the most recent valuation provided by the fund sponsor). If the valuation reflects initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be significantly more or less than original purchase price. The client's advisory fee shall be based upon reflected fund value(s).

From time to time the Firm evaluates initial public offering investments in the same manner it assesses other equity investments – portfolio managers look for attractively priced shares of companies with high quality management, finances and business prospects. Shares in initial public offerings will be allocated to client accounts with regard to: (i) a client's risk tolerance; (ii) the appropriateness of the investment for a given portfolio; and, (iii) the availability of adequate funds to purchase shares in the equity portion of the account. If the Firm anticipates the purchase of shares in an initial public offering may be for less than one year, it may restrict the purchase of shares to tax-exempt accounts to avoid adverse tax treatment of short-term capital gains.

Adalta does not have any direct or indirect affiliation with any broker, commercial bank, investment bank or other organization giving investment advice or soliciting securities orders. Neither the Firm, nor any of its representatives, serves as an attorney, accountant, or insurance agent, and no portion of the Firm's services should be construed as the services of such professionals.

Although the Firm tries to remain current with regard to each client's financial situation, each client is advised that it is the client's responsibility to promptly notify Adalta if there is

ever any change in the client's financial situation or investment objectives for the purpose of reviewing, evaluating, or revising the Firm's previous recommendations and/or services.

As an investment adviser, the Firm has a duty to protect the privacy of client information. Confidential client information will not be disclosed to third parties except as necessary to provide the services that the client has requested or authorized. A copy of the Firm's privacy policy is sent to existing clients annually and upon request.

Adalta has a fiduciary duty to provide services consistent with the client's best interest. As part of its investment advisory services, Adalta will review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including, but not limited to, the portfolio's securities allocations, investment performance, and/or a change in the client's investment objective. Based upon these factors, there may be extended periods of time when Adalta determines that changes to a client's portfolio are neither necessary nor prudent. Of course, as indicated below, there can be no assurance that investment decisions made by Adalta will be profitable or equal any specific performance level(s).

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

While Adalta may recommend allocating investment assets to mutual funds that are not available directly to the public, Adalta may also recommend that clients allocate investment assets to publicly-available mutual funds that the client could obtain without engaging Adalta as an investment adviser. However, if a client or prospective client determines to allocate investment assets to publicly-available mutual funds without engaging Adalta as an investment adviser, the client or prospective client would not receive the benefit of Adalta's initial and ongoing investment advisory services.

## **Item 5 – Fees and Compensation**

Investment advisory fees are calculated based on a percentage of the client's assets under management. Such percentage may vary based on the size of the account, the number of a client's portfolios under management, the type of securities in which an account is invested, and other factors deemed significant by the Firm. All fees are subject to negotiation.

Annual fees for separately managed accounts generally range between 0.75%-1.50% depending on the factors described above. For equities (i.e., assets not treated as fixed-income investments), the quarterly fee is typically one-quarter of 1.50% of the first \$500,000 of market value, 1.25% of the next \$2,000,000 of market value, 1.00% of the next \$2,500,000 of market value, and 0.75% of the balance of market value in the account. For accounts with fixed-income investments in addition to equities, the fixed-income portion accrues fees at a different quarterly rate, typically one-quarter of 0.40% of the market value of such securities in the account. The Firm requires a minimum account size of \$1,000,000, although that minimum may be waived based on various factors, such as the relationship of the account to other present or potential accounts, or other factors deemed significant to the Firm. The Firm aggregates family and related accounts for fee calculation purposes. Adalta shall price its services based upon various objective and subjective factors. As a result, Adalta's clients could pay diverse fees based upon the market value of their assets, the complexity of the engagement, and the level and scope of the asset management services to be rendered. The services to be provided by Adalta to any particular client could be available from other advisers at a higher or lower fee. All clients and prospective clients should be guided accordingly.

The specific manner in which fees for separately managed accounts are charged by Adalta is established in a client's written agreement with the Firm. Advisory fees for separately managed accounts are payable on a quarterly basis in advance of each calendar quarter and are based on the aggregate market value of the client's account as of the close of business on the last business day of the prior quarter. Clients may elect to authorize Adalta to directly debit fees from client accounts or to be billed directly for fees. If an account is established on any day other than the first day of a calendar quarter, the initial quarterly fee will be based upon the value of the account at the date of opening, adjusted pro rata based upon the remaining days in the billing quarter. If assets are added to an account during a calendar quarter, no advisory fee is payable with respect to the added assets until the start of the next quarter. If assets are withdrawn from an account during a calendar quarter, no refund is made with respect to any advisory fees paid in advance for that quarter. However, if an account is terminated during a quarter, a pro rata refund of fees paid in advance is made for that quarter.

A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If Adalta recommends that a client roll over their retirement plan assets into an account to be managed by Adalta, such a



recommendation creates a conflict of interest if Adalta will earn a new (or increase its current) advisory fee as a result of the rolled over assets. No client is under any obligation to roll over retirement plan assets to an account managed by Adalta. Adalta's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation.

Adalta's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by a client. Clients may incur certain charges imposed by custodians, brokers, third party investments and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Adalta's fee, and Adalta shall not receive any portion of these commissions, fees, and costs.

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

Item 12 further describes the factors that Adalta considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Adalta may charge performance-based fees to clients who have at least \$1,100,000 in portfolio assets managed by the firm, or who together with their spouse have a net worth of at least \$2,200,000 excluding principal residence. Clients are advised that performance-based fees involve a sharing of any portfolio gains between the client and the Adviser. Such performance-based fees could create an economic incentive for Adalta to take additional risks in the management of a client portfolio that may be in conflict with the client's current investment objectives and tolerance for risk. No performance-based fees will be assessed until the portfolio, on a cumulative basis from account inception, is in a net gain position.

Performance-based fees are in addition to the asset-based fees detailed in Item 5 of this Brochure, with the exception of affiliated private funds, in which case the performance-based

fee collected is in lieu of the asset-based fees detailed in Item 5 above. Clients are also advised that as a result of the standard asset-based fee and the performance-based fee, the Adviser has an economic incentive to recommend a performance-based fee structure.

Performance-based fees may only be offered to clients who meet one of the following criteria:

- A natural person who or a company that immediately after entering into the investment advisory agreement has at least \$1,100,000 under the management of the Adviser;
- A natural person who or a company that the Adviser (and any person acting on his behalf) reasonably believes, immediately prior to entering into the investment advisory agreement, either:
  - Has a net worth (together, in the case of a natural person, with assets held jointly with a spouse, excluding principal residence) of more than \$2,200,000, at the time the investment advisory agreement is entered into; or,
  - Is a qualified purchaser as defined in section 2(a)(51)(AA) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(51)(A)) at the time the investment advisory agreement is entered into; or,
- A natural person who immediately prior to entering into the investment advisory agreement is:
  - An executive officer, director, trustee, general partner, or person serving in similar capacity of the Adviser; or,
  - An employee of the Adviser (other than an employee performing solely clerical, secretarial, or administrative functions with regard to the Adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of the Adviser, provided that such employee has been performing such functions and duties for or on behalf of the Adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months.

## **Item 7 – Types of Clients**

The Firm provides portfolio management services to individuals, high net worth individuals, trusts, estates, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, and family offices. The Firm requires a minimum account size of

\$1,000,000, although that minimum may be waived based on various factors, such as the relationship of the account to other present or potential accounts, or other factors deemed significant to the Firm.

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

Adalta applies a long-only, value-based investment discipline where in-depth research is conducted by portfolio managers to assess the soundness of a given company's fundamentals and the conservativeness of the given company's management team and methods. Portfolio managers seek-out companies that are financially strong and possess high quality assets and above average appreciation and/or growth potential. The Firm's portfolio managers look to identify sectors, industries and companies that are out of favor or are experiencing growth but whose growth has not yet been recognized by the market. The Firm aims to purchase portfolio securities at low price levels relative to a company's earnings and the portfolio managers' intrinsic valuations. Market capitalizations of the companies in which the Firm invests on behalf of its clients vary from small to large. The Firm applies this same methodology in its evaluation of select third-party managers and their underlying investment portfolios.

Investment research and economic analysis are performed by portfolio managers with extensive and specialized backgrounds in security analysis who discuss their work at regularly scheduled meetings and more frequently as circumstances suggest or require. The Firm's fundamental research is based on analysis of company, sector and industry data combined with direct company contact in the form of company visits, phone interviews or webcast meetings. Portfolio managers also study political and economic developments in various countries to determine which countries may offer the best foreign investment opportunities. Factors considered for such evaluations include gross domestic product, interest rate movements, employment costs, currency fluctuations, and laws and taxes relating to foreign investors.

Portfolio construction for the Firm's clients varies according to the given client's needs and objectives as discussed above in Item 4. Accounts range from 100% equity holdings to balanced accounts that hold both equities (stocks) and fixed-income (bonds) and accounts including select third-party managers.

There are a number of factors that contribute to the decision to sell all or part of the holdings in a given security from an account. Portfolio managers monitor securities for fundamental changes in a company's financial condition; a decline in such condition or the erosion of a company's profitability, earnings or cash flow may result in a decision to sell the security. Portfolio managers may also sell a security if the value of the security has appreciated to a

point where the intrinsic value of the security has been realized (meaning the security is overvalued compared to its fundamentals) or price appreciation has caused the security to be overweight relative to the other securities held in the portfolio. Negative trends in inflation, recession or interest rates may also factor into a decision to sell a security.

Investing in securities involves risk of loss that clients should be prepared to bear. The value of and return on a client's portfolio will fluctuate according to the changes in value of the portfolio's underlying securities. Different types of investments involve varying degrees of risk, and it should not be assumed that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Adalta) will be profitable or equal any specific performance level(s). The following may contribute to the fluctuation in the value of securities held in a client's portfolio: turbulence in financial markets and reduced liquidity in equity, credit and fixed-income markets worldwide; movement in stock prices over short or extended periods of time will affect portfolio valuations; securities of companies with large market capitalizations in an industry that has gone out of favor based on market and economic conditions may underperform other market segments; securities of smaller market capitalization companies may be more volatile with the price of smaller companies declining more than other segments of the market in response to selling pressure; the value of fixed income securities will fluctuate with movements in interest rates (as interest rates rise, the value of debt securities will generally fall, and issuers of fixed income securities may pre-pay when interest rates fall) and with changes in the financial strength of the issuer; and/or, the value of foreign securities may be affected by international trade, currency, political, regulatory or diplomatic events.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Adalta or the integrity of Adalta's management. Adalta has no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Adalta does not have any other financial industry activities, affiliations, relationships or arrangements to disclose.

## **Item 11 – Code of Ethics**

Adalta has adopted a Code of Ethics for all supervised persons of the Firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics is designed to outline the fundamental expectations the Firm has for its partners and employees and to serve as a guideline for their conduct. The Code is intended to address potential conflicts, and all partners and employees are expected to adhere not only to the letter, but also to the spirit, of the policies contained therein. The fundamental tenants of the Code include, but are not limited to: duties to the client, avoiding conflicts of interest, avoiding misuse of non-public information, maintaining the confidentiality of client information, proper execution of personal securities transactions, adequate record keeping, and the enforceability of the policies and procedures. The Firm has appointed a Chief Compliance Officer to oversee adherence to the Firm's Code of Ethics and compliance policies and procedures. All supervised persons at Adalta must acknowledge the terms of the Code of Ethics annually, and when it is amended.

Adalta anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Adalta has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Adalta, its affiliates and/or clients, directly or indirectly, may have a position of interest. Adalta's employees and persons associated with Adalta are required to follow Adalta's Code of Ethics. Subject to satisfying this policy and applicable laws, partners and employees of Adalta may trade for their own accounts in securities which are recommended to and/or purchased for Adalta's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Adalta will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Adalta's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Adalta and its clients.

It is Adalta's policy that the Firm will not affect any cross securities transactions on either a principal or agency basis for client accounts. Adalta will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser,

acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to an advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or a person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and the person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. Adalta is not currently registered as a broker-dealer.

It is the policy of the Firm that all clients are entitled to fair and equal treatment in connection with investments made on their behalf, and in that connection, Adalta will not intentionally favor one group of clients over any other group when placing orders. Adalta will ordinarily place bunched orders in order to seek a better price or better execution for its clients. The Firm does not include in the same bunched order clients who have designated particular broker-dealer for execution of their transactions, nor trades made for a fund managed by Adalta. Rather, Adalta will normally wait until the completion of the order for one group of clients or a fund before placing an order for the other group of clients or a fund, rotating the order in which trades are executed so that neither group of client accounts nor the fund will always receive the first or last executions. In this manner, all groups of accounts (i.e., those for which Adalta selects the executing broker-dealer, those which designate the executing broker-dealer, and a fund managed by the Firm) will have the opportunity, on a rotational basis, to obtain the first executions of a transaction, and will not be consistently benefited or disadvantaged as to time of execution. Those accounts which are included in a bunched order will pay or receive the average price (including commissions or mark-ups/mark-downs) for all trades made as part of that bunched order on any day, but since transactions for each group of accounts may be executed by different broker-dealers, there can be no assurance that all groups of accounts will pay or receive the same execution price for transactions in the same security.

Subject to the provisions of the Firm's Code of Ethics, Adalta's associated persons are not prohibited from buying, selling or holding securities that have been bought or sold for clients' accounts. As a result, if associated persons are buying or selling the same securities at the same time as they are being bought or sold for clients, such employees' orders may be included in a bunched order being placed for clients. If the entire order can be filled on the day the order is placed, all participants in that order, including both clients and Adalta's associated persons, will receive the average price obtained in filling that order.

However, if the entire order cannot be filled on the same day, Adalta's policy is as follows:

- (1) All associated persons will be eliminated in order to determine whether all client orders can be satisfied with the portion of the order that was filled.

(2) If the quantity filled is still insufficient to satisfy all of the client orders after elimination of the associated persons' orders, Adalta will attempt to allocate the amount filled on a pro rata basis based upon the amount of the order that was intended to be bought or sold for each client account (e.g., if only 60% of an order was filled, each client account would receive 60% of the amount originally intended for such account). Adalta may employ a different method to allocate a partially filled order if the Firm deems an alternative means to be in the best interest of its clients.

(3) If an order cannot be completely filled on a trading day, it is Adalta's policy to cancel the unfilled balance of the order at the end of the regular trading day. Depending upon the market in that security on the following trading day(s), an order may be placed for the unfilled balance of the order on another day, with allocations to be made among the accounts in a manner that will fill, as nearly as possible under the circumstances, the original amounts intended for each of the clients' accounts. Orders for associated persons which had been eliminated in the previous allocation may be included with such later orders if inclusion of those orders will not prevent the filling of client orders.

Adalta's clients and prospective clients may request a copy of the Firm's Code of Ethics by contacting the Firm's Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

Prior to engaging Adalta to provide investment management services, clients will be required to enter into a formal investment advisory agreement with Adalta setting forth the terms and conditions under which Adalta will manage the client's assets and into a separate custodial/clearing agreement with a designated custodian/broker-dealer. In the event a client requests that Adalta recommend a custodian/broker-dealer for custodial services and/or execution (exclusive of those clients that may direct Adalta to use a specific custodian/broker-dealer), Adalta generally recommends that investment management accounts be held in custody at Charles Schwab & Co.

Factors that Adalta considers in recommending any custodian or broker-dealer to clients include historical relationship with Adalta, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Adalta's clients shall comply with Adalta's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Adalta determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services,

including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Adalta will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Adalta's investment management fee. Adalta's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

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

As indicated above, certain of the support services and/or products that may be received may assist Adalta in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Adalta with the management and further development of its business enterprise.

Adalta's clients do not pay more for investment transactions effected and/or assets maintained at Charles Schwab & Co. as a result of Adalta's recommendation of Charles Schwab & Co. There is no corresponding commitment made by Adalta to Charles Schwab & Co. or any other entity to invest any specific amount or percentage of client assets in any specific securities or other investment products.

In return for effecting securities transactions through a designated broker-dealer/custodian, Adalta may receive certain investment research products or services which assist Adalta in its investment decision-making process for the client pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as a "soft-dollar" arrangement). Investment research products or services received by Adalta may include, but are not limited to, analyses pertaining to specific securities, companies or sectors; market, financial and economic studies and forecasts; and/or, financial publications, portfolio management systems, and statistical and pricing services. Although the commissions paid by Adalta's



clients shall comply with Adalta's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Adalta determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Adalta will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. Although the investment research products or services that may be obtained by Adalta will generally be used to service all of Adalta's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. With respect to investment research products or services obtained by Adalta that have a mixed use of both a research and non-research (i.e., administrative, etc.) function, Adalta shall make a reasonable allocation of the cost of the product or service according to its use; the percentage of the product or service that provides assistance to Adalta's investment decision-making process will be paid for with soft dollars while that portion which provides administrative and/or other non-research assistance will be paid for by Adalta with hard dollars. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Adalta's investment management fee.

Certain custodians/broker-dealers may also provide Adalta with other services intended to help Adalta manage and further develop its business enterprise, including assistance in the following areas: consulting, publications and presentations, information technology, business succession, and marketing. In addition, such custodians/broker-dealers may make available or arrange and/or pay for these types of services provided by independent third parties, including regulatory compliance.

Except as otherwise provided, a given custodian/broker-dealer's responsibility is limited to executing transactions pursuant to the direction of Adalta. No custodian/broker-dealer has assisted in the selection of Adalta and the client has the sole and exclusive responsibility for the selection of Adalta. Clients agree that Adalta is solely responsible for the management of client's portfolio. Adalta does not receive referrals from broker-dealers.

In the event a client requires that account transactions be effected through a specific broker-dealer (a "directed brokerage arrangement") the client will negotiate terms and arrangements for the client's account with that broker-dealer, and Adalta will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Adalta. As a result, clients may pay higher commissions or other transaction

costs or greater spreads, or receive less favorable net prices, on transactions for the account than might otherwise be the case.

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

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

### **Item 13 – Review of Accounts**

Separately managed accounts are generally reviewed by portfolio managers with the client on a quarterly basis, both in person and in writing. Client accounts are reviewed within the Firm by the responsible portfolio manager whenever an investment purchase or sale opportunity is developed by the Firm's investment committee. As a result, each client account is generally reviewed at least monthly. In addition, on a regular basis, but not less frequently than quarterly, all separately managed accounts are reviewed on an individual basis to consider the particular account's portfolio holdings, performance and adherence to the account's investment objectives and any limitations or restrictions. Account reviews may also occur as a result of (a) client requests, (b) when the Firm is advised of changes in the client's personal or financial condition, (c) changes in tax laws or in economic factors that would affect a client's financial position, or (d) special circumstances such as a significant change in the market place. All reviews are made with a view toward long-term preservation of capital and appreciation.

Separate account clients usually receive statements monthly from their third-party qualified custodian. The Firm sends appraisals to clients on a regular basis, typically semi-annually or quarterly. When a client's needs require, more frequent appraisals are provided. Each client

receives confirmations of every transaction made in his or her account as well as monthly statements from the custodian of the account showing all activity during the month and positions held at the end of the month.

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

Adalta does not currently have in place any referral relationships with an unaffiliated third party. Any clients solicited by a third party would be made aware of the applicable compensation arrangement (acknowledgment of solicitor's disclosure statement disclosing the terms of the solicitation arrangement would be required). As referenced in Item 12 above, Adalta may receive economic benefits from certain custodians/broker-dealers including support services and/or products without cost (or at a discount).

#### **Item 15 – Custody**

The Firm does not accept custody of client cash or securities. Client's assets must be maintained at a qualified, third-party custodian (meaning independent financial institutions that are either federally regulated banks or broker-dealers registered with and regulated by the SEC). Adalta will work with any such qualified custodian and can recommend such qualified custodians upon a client's request. Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the client's investment assets. Adalta urges its clients to carefully review such statements and compare such official custodial records to the account statements provided by Adalta. Adalta's statements may vary from custodial statements based on accounting procedures, reporting dates and/or valuation methodologies of certain securities.

According to the Investment Advisers Act of 1940, as amended in December 2009, investment advisers are deemed under certain circumstances to have custody of clients' assets even though their clients' assets are held at a qualified custodian separate from the investment adviser. If an investment adviser is deemed to have custody of clients assets as a result of the certain circumstances, the investment adviser may be required to subject itself to an annual surprise audit by a third-party accounting firm. On this basis, Adalta is deemed to have custody of client assets (i) where Adalta is authorized to deduct portfolio management fees directly from client accounts, (ii) where partners or employees of the Firm serve as trustees on clients' accounts, and (iii) in the event a Standing Letter of Authorization ("SLOA") is in place at a given custodian giving the Firm the right to transfer client funds to third parties. Adalta is required to conduct a surprise audit only on those accounts where

partners or employees of the Firm serve as trustees on clients' accounts and where a SLOA is in place giving the Firm the right to transfer client funds to third parties.

#### **Item 16 – Investment Discretion**

As discussed above in Item 4, Adalta usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Such discretion is assumed by the Firm through (i) the execution of an investment advisory agreement with Adalta by the client and (ii) by appointment as or power of attorney to be the investment manager for the respective custodial account. In all cases, such discretion is exercised in a manner consistent with the stated investment objectives for the particular client account. Investment guidelines and restrictions must be provided to the Firm or agreed to with the Firm in writing. When selecting securities and determining amounts, Adalta observes the investment policies, limitations and restrictions of the clients for which it advises.

#### **Item 17 – Voting Client Securities**

Clients may elect to have the Firm vote proxies on their behalf or may choose to vote proxies themselves for their accounts. The Firm has created proxy voting policies and procedures to represent the best interest of its clients and to comply with applicable law. These policies stipulate that proxies be exercised only in the best interest of a client. Adalta votes and maintains records of how all proxies for companies in which the Firm's clients have an equity interest were voted other than for those clients who have elected to vote proxies themselves. Clients may obtain a copy of Adalta's complete proxy voting policies and procedures upon request. Clients may also obtain information from Adalta about how the Firm voted any proxies on behalf of their account(s) where the client has appointed Adalta to vote proxies for the client's account(s). A client can direct a vote for a specific solicitation only if the client has apprised the Firm of the client's desire to do so for a particular company in advance. If a client elects to vote proxies for the client's account(s), such proxies will be provided directly to the client by the custodian. Clients voting their own proxies may contact the Firm to discuss any specific votes.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Adalta’s financial condition. Adalta has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

ANY QUESTIONS: Adalta’s Chief Compliance Officer, Zoë Vlachos, is available to address any questions regarding this Form ADV Part 2A.