

Litman Gregory Asset Management, LLC

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November 30, 2012

This brochure provides information about the qualifications and business practices of Litman Gregory Asset Management, LLC (Litman Gregory). If you have any questions about the contents of this brochure, please contact us at 925-254-8999 and/or information@lgam.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Litman Gregory is a registered investment advisor. Registration of an investment advisor does not imply any certain level of skill or training. The oral and written communications of an advisor provide you with information which you may use to determine to hire or retain an advisor.

Additional information about Litman Gregory is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

Last Annual Update:

March 28, 2012 was the last date of the last annual update of this brochure. Litman Gregory has no material changes to disclose.

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Item 4 – Advisory Business

Founded in 1987, Litman Gregory has provided independent investment management services to individuals, family groups, nonprofits, banks, trusts, estates, charitable organizations, pension and profit sharing plans, private investment funds, and third-party investment advisors (through Litman Gregory Portfolio Strategies).

Our Private Client Relationships

When working with a private client, we take a comprehensive approach to determining an appropriate investment strategy that best fits the client's needs. Only after we fully understand the client's tolerance for risk, investment time horizon, investment-income needs, tax circumstances, and overall financial goals do we create an investment plan that supports the client's particular financial situation. Understanding a client's tax circumstances may include collaborating with a client's tax advisor to customize the investment strategy so that the underlying investment vehicles are appropriate given a client's tax circumstances. We will re-evaluate the suitability of each client's strategy periodically and as a client's personal and financial situation evolves.

We seek to add value to our strategies over the long term through both our expertise in asset class allocation and also through our in-depth money manager research. Our intensive asset class research is the basis for our tactical asset allocation decisions where we either a) increase our allocation in an asset class when we believe it is priced at bargain levels and is likely to deliver a strong return relative to its risk, or, b) decrease our allocation in an asset class when we believe it has become overpriced or too risky for a particular investment strategy.

Our in-depth money manager research, which we use to find managers we think can outperform their appropriate benchmarks over the long term, takes into account quantitative factors such as performance and risk, but emphasizes qualitative factors such as a manager's process and investment team. Our underlying investment philosophy demands that both our asset class allocations and our manager selections be based on a very high level of conviction, so our focus on and investment in research is a fundamental aspect of our investment services.

The investments we recommend to our clients include mutual funds, exchange-traded funds (also known as ETFs), private funds, and alternative investments, and they consist of a wide range of asset classes.

We generally have discretionary authority in managing our clients' investments, which means that we are able to make decisions with respect to the following without obtaining the consent of the client:

- Which securities are bought or sold and at what price
- The total amount of securities bought or sold
- The brokers used to buy and sell securities, and the rates paid for securities transactions

We work with each client to develop an Investment Policy Statement that reflects our understanding of the client's goals, outlines the guidelines for managing a client's investments, and identifies which

transactions and decisions we are authorized to make without the client's consent as well as those transactions/decisions that require prior client approval. Through the Investment Policy Statement, a client may impose restrictions on which securities or asset classes we buy and sell and also the minimum and maximum percentage that we can allocate to each asset class. For example, a client might specify that their portfolio should exclude a specific asset class, or the client may require that transactions be made through a specified broker.

The Investment Policy Statement may also include restrictions on "alternative" asset classes, which generally include any asset class other than fixed income (e.g. bonds, bond mutual funds, and bond indexes) and equities (e.g. stocks, stock mutual funds, and stock indexes). Some examples of alternative asset classes include real estate, commodities, private equity, and hedge funds. In some instances, when noted in the Investment Policy Statement, we must obtain client approval before we sell, buy, or reallocate assets within an alternative asset class.

As described above, although clients may place restrictions on certain securities, asset classes, and money managers, we retain the authority to make decisions on a client's behalf for most of our private client investments under management. Therefore, as a whole, we classify our private client investment advisory services as "discretionary."

Our Private Funds Relationships

We are the general partner and investment advisor to two private investment funds (the "Private Funds") organized as limited partnerships.

While the investment objectives of the private funds vary, they are managed with the same underlying investment approach as the portfolios in the "Private Client Relationships" section above. For our private funds, we do not tailor these advisory services to any individual's particular circumstances and do not accept client restrictions on how we manage these investments.

All relevant information, terms and conditions relative to the Private Funds, including the compensation we or our affiliates receive as the general partner and/or investment manager, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Offering Memorandum (the "Memorandum"), Limited Partnership Agreement (the "Agreement"), and Subscription Agreement (together, the "Offering Documents"), which each investor is required to receive and/or execute prior to being accepted as an investor in one of the Private Funds.

Litman Gregory Portfolio Strategies

Through the Litman Gregory Managed Portfolios, we provide third-party investment advisors (who have no affiliation with Litman Gregory) with investment strategies by which to manage their client accounts. These strategies are delivered through what are commonly referred to as turn-key asset management platforms (TAMPs). TAMPs are generally offered through established asset management companies and enable independent financial advisors to outsource the management of their clients' assets. The strategies we construct for the TAMPs follow the same overall asset allocation strategies and may use many or all of the same funds that we use with our private clients (discussed above).

Litman Gregory does not provide advisory services to the clients of the advisors that access the Litman Gregory Managed Portfolios through TAMP programs. While we manage models other advisers that access us through the TAMP program, we do not directly manage on behalf of those end clients.

Wrap Fee Programs

As a model portfolio adviser in a managed account platform, Litman Gregory provides recommendations and investment advice regarding model portfolios which is delivered and administered by a platform to other investment professionals that may have “wrap” fee or non-wrap managed account programs. A wrap fee program is considered any arrangement under which clients receive investment advisory and securities brokerage services for a specified fee or fees not based upon transactions in their accounts. Litman Gregory does not, however, serve as the sponsor of any wrap fee programs.

Total Assets Under Management

As of 12/31/2011, we managed \$1,107,842,000 of assets on a discretionary basis, and \$4,301,117,000 on a non-discretionary basis.

Item 5 – Fees and Compensation

Private Client Accounts

We receive from each private client a quarterly fee, payable in advance, equal to a percentage of the total net asset value (as of the last day of the previous quarter) that the client has placed under our management. The annual fee is generally calculated as follows:

For accounts under \$10,000,000:

1.25% on the first \$1,000,000
0.75% on the next \$1,000,000
0.50% on the balance above \$2,000,000

For accounts greater than \$10,000,000:

0.50% on the first \$20,000,000
0.30% on the next \$10,000,000
0.25% on the balance above \$30,000,000

We allow for some flexibility in our fee structure depending on individual circumstances.

We either deduct fees from clients’ accounts or bill clients for fees incurred. The client may select either method.

A client will obtain a refund for any pre-paid fees if the advisory contract is terminated before the end of the billing period. When providing a refund, we will take the pre-paid quarterly fee, divide it by the number of days in the quarter, and refund the amount that corresponds to any unused days in that billing quarter.

In addition to our fees, clients may pay custodian and in some cases transaction fees, and the investment vehicles we use in our strategies (such as mutual funds) charge fees that are deducted from their share prices. See Item 12 of this brochure for more information regarding Brokerage Practices. In the case where client assets are invested in a mutual fund managed by Litman Gregory Fund Advisors, LLC (an investment advisory firm that is affiliated with us), we subtract the fees paid to the Litman Gregory Fund Advisors, LLC from the fees we charge the same private clients. As a result we have no financial incentive to use our own funds.

Private Funds

We receive management fees with respect to the private funds that are based on the value of each investor's investment in the fund. These fees range from 0.5% to 1.25% per year, depending on the value of the investor's investment, and are paid quarterly in advance. Additional information regarding fees is available in the Offering Documents.

See Item 12 of this brochure for more information regarding Brokerage Practices. In the case where a private fund's assets are invested in a mutual fund managed by Litman Gregory Fund Advisors, LLC (an investment advisory firm affiliated with us) we subtract the fees paid to the Litman Gregory Fund Advisors, LLC from the fees we charge the fund. This ensures that we are not being paid twice by any of the funds.

To avoid double-charging, investors in any of the private funds that are also our private advisory clients do not pay us advisory fees with respect to amounts they have invested in the private fund(s).

The Department of Labor regulations generally require that an ERISA plan's annual returns for periods beginning in or after 2009 disclose the direct and indirect compensation paid to the ERISA plan's service providers. Under this general requirement, an ERISA plan that invests in any of our private funds would need to report its share of direct and indirect compensation paid to the general partner.

The above and all other fee disclosures, which can be found in the private funds' offering documents, fulfill the disclosures required by ERISA plans in order to use the "alternative reporting option" to report Litman Gregory's compensation as "eligible indirect compensation" on the Schedule C of the plan's Form 5500 Annual Return/Report of Employee Benefit Plan.

Managed Portfolios - Services for Advisors:

The clients of the third-party investment advisors pay advisory fees to those advisors who utilize our Managed Portfolios through various TAMP organizations. The TAMP organizations, in turn, pay us quarterly fees, payable in advance, equal to a percentage of the total net asset value that is invested on their platform in one of our strategies. These fees are negotiated separately between us and each platform and fees vary. The annual fees typically range from 0.04% to 0.10% of the total net asset value.

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

We do not charge any performance-based fees.

Item 7 – Types of Clients

Types of Clients

We offer investment management services to the following client types:

- Individuals (other than high net worth individuals and includes trusts, estates, IRAs and 401(k) plans)
- High net worth individuals (includes trusts, estates, IRAs and 401(k) plans)
- Pooled investment vehicles (other than Investment Companies)
- Pension and profit sharing plans (but not the plan participants)
- Charitable organizations
- Corporations
- Non-profits
- Third-party investment advisors (through Litman Gregory Managed Portfolios)

Minimum Account Sizes

Our minimum initial investment requirement for a private client account is \$3,000,000. Information regarding minimum investments in the Private Funds is contained in the Offering Documents.

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

Our Investment Strategies

We construct diversified investment strategies that contain a mix of fixed-income investments (such as bond funds) and equity investments (such as stock funds). These fixed-income and equity investments can vary by the sector, size, quality, and geographic location of the issuer. Additionally, as appropriate, we may use alternative investments or strategies, such as real estate funds, arbitrage funds, commodity futures funds, absolute-return-oriented funds, private equity, venture capital, distressed debt, hedge funds, and privately held investments. The percentage allocated to each asset class is dependent upon our asset allocation process, which is described below.

Methods of Analysis: Our Asset Allocation Process

Our Strategic Allocations and Risk Tolerance Thresholds

When we originally created our strategies, we did so by determining varying levels of risk tolerance and then creating default long-term strategic allocations (explained below) suitable for each risk level.

Investment Strategy*	Investment Strategy Objectives**
Global Defensive	The investment objective for the Global Defensive Balanced strategy is to maximize long-term total return while minimizing the frequency and

Balanced	magnitude of a 12-month decline in portfolio value in excess of 2.5%. Although this is the stated goal of the risk-management strategy, declines in excess of 2.5% can occur during periods of high volatility, such as an extreme bear market. As a result, the portfolio will consist of a combination of growth and income oriented investments, with a primary emphasis on income oriented assets.
Global Conservative Balanced	The investment objective for the Global Conservative Balanced strategy is to maximize long-term total return while minimizing the frequency and magnitude of a 12-month decline in portfolio value in excess of 5%. Although this is the stated goal of the risk-management strategy, declines in excess of 5% can occur during periods of high volatility, such as an extreme bear market. As a result, the portfolio will consist of a combination of growth and income oriented investments, with a slight emphasis on income oriented assets.
Global Balanced	The investment objective for the Global Balanced strategy is to maximize long-term total return while minimizing the frequency and magnitude of a 12-month decline in portfolio value in excess of 10%. Although this is the stated goal of the risk-management strategy, declines in excess of 10% can occur during periods of high volatility, such as an extreme bear market. As a result, the portfolio will consist of a combination of growth and income oriented investments, with a slight emphasis on growth oriented assets.
Global Equity-Tilted Balanced	The investment objective for the Global Equity-Tilted Balanced strategy is to maximize long-term total return while minimizing the frequency and magnitude of a 12-month decline in portfolio value in excess of 15%. Although this is the stated goal of the risk-management strategy, declines in excess of 15% can occur during periods of high volatility, such as an extreme bear market. As a result, the portfolio will consist of a combination of growth and income oriented investments, with a primary emphasis on growth oriented assets.
Global Equity	The investment objective for the Global Equity strategy is to maximize long-term total return while minimizing the frequency and magnitude of a 12-month decline in portfolio value in excess of 20%. Although this is the stated goal of the risk-management strategy, declines in excess of 20% can occur during periods of high volatility, such as an extreme bear market. As a result, the portfolio will consist of growth oriented investments.
Global Conservative Opportunity	The investment objective for the Global Conservative Opportunity strategy is to maximize long-term total return of at least 3% above inflation as represented by the Consumer Price Index ("CPI") over rolling 5-year periods while minimizing the frequency and magnitude of a decline in portfolio value over a 2-year period. Although this is the stated goal of the risk-management strategy, declines over a 2-year period can occur during periods of high volatility, such as an extreme bear market. As a result, the portfolio will consist of a combination of growth and income oriented investments.

* For certain assets with well-defined investment guidelines that do not fall within the investment strategies described above, Litman Gregory will prepare a customized investment policy and implementation strategy which coincides with the investment guidelines.

** Losses up to the threshold are tolerable. Though we don't believe it is likely this maximum loss threshold would be breached in a typical market cycle, losses in excess of the threshold do occur, and significant breaches of this loss threshold can be expected during extreme bear markets.

These strategic allocations reflect sensible, long-term asset allocations that attempt to maximize investment return for a hypothetical long-term investor based on long-term historical data and realistic and reasonable expectations going forward. These strategic allocations serve three important functions:

1. They represent the asset allocation that we will implement when our conviction level about the relative attractiveness or unattractiveness of any specific asset class is not high enough to justify changing the asset allocation mix.
2. They give us a constant frame-of-reference against which to measure decisions, thereby increasing the odds that we will consistently apply our methodology.
3. They provide a benchmark against which to measure our value added through changes to our asset allocation percentages.

It is important to note that at times we may identify compelling tactical opportunities, and so our current client strategies usually differ from the strategic allocations.

Our Process for Implementing Tactical Asset Allocation Changes to Our Strategies

Through our tactical asset allocation discipline we seek to increase the potential return to our investment strategies, without increasing their risk. We do this by increasing our investment in asset classes that we believe have higher return potential as a result of being priced cheaply, and reducing our investment in asset classes that we believe are overpriced and, as a result, have lower potential returns and/or higher risks. In assessing return potential, our analysis is based on a five-year timeframe because we are more confident in our ability to predict outcomes over the longer term. Conversely, we manage risk to a one-year loss threshold because it is difficult to predict what will happen over shorter time spans.

In order to warrant a change to our strategic asset allocation, an asset class needs to be significantly under- or overvalued relative to competing asset classes and/or to the asset class's history, and we must be highly confident that the reason for the mis-valuation is temporary rather than permanent. Our longer-term focus in assessing asset class return potential usually results in our buying a cheap asset class before it has reached a bottom and selling it before it reaches an eventual peak. The percentage we allocate to each asset class is dependent upon a number of factors:

- The individual strategy's risk threshold, defined as maximum losses over a 12-month period (as noted in the previous tables)
- Litman Gregory's five-year risk/return outlook for each asset class relative to all other asset classes
- The individual client's tax considerations and/or limits imposed on a specific asset class as laid out in the Investment Policy Statement (detailed in Item 4 of this brochure)

Assessing Risk to Our Strategies Using Economic Scenario Analysis

We use economic scenario analysis to assess the risk in our strategies. We consider different possible five-year economic outcomes ranging from pessimistic to optimistic, and in each scenario we consider what the key variables such as interest rates, inflation, and economic growth are likely to be. We can then use these variables to determine likely return ranges for asset classes. We consider the probability

of each scenario playing out, and also what the magnitude to our portfolios would likely be. Considering these scenarios helps us make judgments about risk and return opportunities.

We seek to maintain well-diversified portfolios, both by asset class and at the fund manager level. In fact, we typically implement our clients' portfolios using up to 10 sub-asset classes—including alternative investments where appropriate—and using at least 12 funds. The process for selecting the funds we use in our asset allocation is outlined below.

Our senior investment advisors are also members of our investment committee, which usually meets monthly to discuss the state of financial markets, asset class and manager developments, and issues related directly to the implementation of our clients' investment strategies. Our research team, which makes the portfolio allocation decisions, usually meets at least weekly.

The Use of Alternative Investments in Our Strategies

As with all asset classes, we utilize alternative investments in ways that we think increase the expected return potential of a portfolio without materially increasing the risk of losses, or reduce the risk of losses without negatively impacting the return potential. We believe alternative investments can provide access to value-added strategies, investors with special skills, and portions of the capital markets that may be less efficiently priced but also less liquid.

Ultimately, the allocation to alternative investments in any client's investment strategy will be a function of the client's objectives and comfort with alternatives (as outlined in the Investment Policy Statement), the quality of available alternative investments at any given time, and the expected return from more traditional (liquid) asset classes.

Our initial alternative investment allocations were to private real estate. Over the past 10 years we have built up our expertise to include multiple alternative investment categories, with more members of our research team now directly involved in alternative investment research.

Using Index Funds or Exchange-Traded Funds (ETFs) in our Strategies

To fulfill our longer-term asset class allocations, we use actively managed funds that we have selected through our in-depth due diligence process (outlined below). However, there are instances when we will use index funds or exchange-traded funds in our strategies.

We believe it makes sense to use index funds or ETFs rather than active managers when making a tactical allocation because our investment decision is based on capturing the return of the overall asset class during our ownership period. Since we don't know how long it will take for a tactical position to pay off, we don't want to risk using an active manager, whose performance could deviate from the index over the shorter term. However, for asset classes or investment strategies that we want to own but for which there is no investable ETF or index fund alternative, or for which there is not an index fund or ETF that we find suitable, we will use actively managed funds.

We will also use an index fund or ETF for an asset class category where we have not found a manager in whom we have a high degree of confidence. While we believe that value can be added through active management, we know that truly skilled stock pickers are not easy to find. Investors should only pay up

for active management when they can identify a manager in whom they have a lot of conviction and are willing to stick with for the long term.

Our Fund Manager & Alternative Investment Manager Due Diligence Process

Our research team uses both quantitative and qualitative data to evaluate fund managers. For our quantitative evaluation, our research team uses both internal and external sources of data on fund managers. We use Morningstar/Principia for compiling some of the quantitative data such as expense ratios, average market capitalization of holdings, etc. We also use a proprietary database and analysis program, compiled internally and updated quarterly, to track performance, risk, and other statistics, some of which aren't available elsewhere. Once we have completed our initial screening on a fund, which includes an initial view of the strategy (via marketing materials, third-party materials, and, for alternative investments, offering materials) and an initial review of the firm (via news articles and our industry contacts), we begin our six-step fund evaluation process, which is outlined below.

Step One: Performance Screens — We want funds with strong, long-term track records, but that alone is not sufficient to warrant further research. We also look at expenses and rule out funds that are above our expense thresholds (e.g., 1.2% for the larger-cap domestic equity fund category or 1.5% for the international equities fund category). When looking at a fund's performance numbers we also take into account:

- Performance consistency relative to the fund's peer group and benchmarks
- Special factors that positively impacted performance that may not be repeatable
- The level of assets on which the record was based

Here are two very brief examples that illustrate what we look for in analyzing a track record:

- We try to determine if an apparently successful long-term track record resulted from a much shorter period of exceptional performance that we might not expect can be repeated.
- We try to determine whether a manager earned a strong record through many modestly successful stock picks or through a much smaller number of very large winners. We generally favor consistency.

Step Two: Questionnaire Review — If the fund passes our performance screens the next step is for the fund's management team to complete a detailed due diligence questionnaire. As we recognize that past performance is no guarantee of future returns, we spend a great deal of time trying to understand a manager's investment philosophy, getting familiar with the dynamics of the portfolio management team, and determining how a successful manager has added value. We also assess a manager's personal characteristics against those that our many years of experience have shown us contribute to investment success. Thus, qualitative factors are an extremely important aspect of our investment management process. In fact, quantitative analysis is used primarily as a tool for narrowing down the available universe of managers into a more manageable sub-set so that we can apply our very arduous qualitative analysis. Through our years of evaluating investment management organizations, we have identified certain qualitative characteristics that are common to great investment managers. These characteristics include, but are not limited to:

- A clearly defined and repeatable investment process

- An obsession for seeking an investment “edge”
- Independent thinking
- A highly focused stock-picking team
- Ethical management
- A stable organization
- An organization whose decisions reflect their concern for their shareholders

Step Three: Initial Portfolio Manager Interview — After reviewing the management team’s responses to our questionnaire, the fund’s portfolio (this information may not be available for all alternative investments) and, for alternative investments, any financials or audited financials, we then set up an interview with the lead portfolio manager or managers to discuss their responses to the questionnaire and fill in any gaps. This is an important part of our process because it allows us to begin the qualitative assessment of the manager’s discipline and skill. We also want to understand the reasoning behind the manager’s investment philosophy and process. If after this interview we have a favorable impression of the manager’s investment process, discipline in executing that process, and plans for managing asset growth, we move on to the next step.

Step Four: Site Visit — Next, we will spend more time with the manager(s) and the analyst team in order to:

1. Further explore the manager’s investment process. We want to know if the way that each stock was researched and the justification for the buy decision are in line with the investment philosophy. If we find inconsistencies, this tells us that either the manager is not disciplined in executing the strategy or his/her description of the firm’s investment process was marketing spin.
2. Determine if there is consistency among all team members to gain further clues as to whether the process is executed as described.
3. Evaluate how smart, driven, focused, passionate, experienced, humble, confident, and performance-oriented the analysts are.
4. Evaluate the culture and incentive structure of the firm so we can determine if the firm has a healthy work environment, as we believe stability is critical to the ability of an investment organization to stay focused.
5. Understand management’s vision for their business. We require a balanced approach to business growth that reflects an understanding of the responsibility to shareholders, so we talk to management to gain an understanding of their vision. We want to know how they see the firm changing over time, how the team might change, what other products they may launch, and how big they want to get.

Step Five: Final Follow-Up — If the site visit tells us that the team has a definable process that is repeatable and consistently followed, we will move on to the final follow-up stage, which often involves further contact with the portfolio management team after we have had time to “digest” the site visit. In addition, we use our extensive contacts in the industry to do more detective work. Sometimes we know someone who previously worked at the firm we are investigating or who worked with some of the key

members of the team. At times these contacts are invaluable. We also check firm references in situations when we think it may be useful.

Step Six: Litman Gregory Research Team Approval — As a final step, the lead Litman Gregory analyst presents his or her recommendations to the rest of the research team, as he/she must be able to get the team to “buy in” to a recommendation. We deliberately set a very high bar, and so any recommendation requires a very high level of conviction that a manager will be able to beat their benchmark over the long term, and thereby add value to our portfolios.

The Importance of Our Manager Due Diligence Discipline – Going through all these steps does not guarantee success. Critically important to mitigating mistakes is our acceptance that not many managers will make the cut. This does not bother us because we do not need to identify many good managers. We only need a few. And the reality is there are only a few that have an identifiable edge, who we believe will also maintain their focus, team stability, and grow their businesses with shareholders in mind (as opposed to maximizing their own bottom line). While it may be frustrating to spend 50-plus hours investigating a fund company only to decide that they do not make the cut, maintaining a very high standard helps us to avoid mistakes, so we pass on a manager if we do not get all the information we need, if our conviction level is not extremely high, if we are not sure if the firm is being straightforward, or if we have doubts about any of the above keys to success.

If a fund of a manager is added to our recommended list, then the analysts will conduct regular meetings with that manager, typically around twice a year, either in person or by phone. As needed, we will ask questions regarding strategy, performance attribution, and the team. We will also monitor his/her communications to investors, documents, and, for alternative investments, financials.

For each of the fund managers we use to implement our client portfolios, performance numbers are reviewed relative to an appropriate benchmark, over both the short term and over longer periods of time. In the short term, we are not concerned with underperformance because, in most cases, the styles of the managers we utilize are non-benchmark focused and in many cases the funds are concentrated. However, we are quick to delve more deeply when there are significant periods of poor performance versus the benchmark.

The benefits of all this work go beyond increasing our chance of success when it comes to fund/manager selection. It also allows us to be patient with managers who go through a slump, as they all do eventually. One of the most damaging investment mistakes is made when investors buy a fund after a period of strong performance, then sell after a period of weakness in favor of another fund that is doing well. This is apparent in data from Morningstar that computes that the return received by fund investors--taking into account their actual holding periods--is, in aggregate, well below the return that would have been earned by simply buying and holding the same funds (you can compare the *investor return* and *fund return* statistics on Morningstar’s website to see this effect).

Our expectation that a manager will outperform is based on our confidence that he or she has an investment edge, and so our decision to own one of his or her funds—even one that is currently underperforming—requires us to determine whether or not this edge remains intact. To assess this, we circle back, look at the reasons for the underperformance and relate them to what we know about how the fund manager invests, and assess whether something significant has changed with the team or process, or if we missed something in our initial analysis. If we come away without the same confidence

in the manager's edge--which for example could happen if key personnel left, or if assets were growing to levels that we believed restricted their flexibility (to name just two brief examples)--then we would sell the fund without hesitation. But, as is usually the case, if the original reasons for our confidence in the manager remain intact, then we have the confidence to stick with that manager regardless of a performance slump.

We are not reliant on specific reports to ensure a manager stays within his or her "box." Rather we spend a tremendous amount of time ensuring that a given manager manages money the way he or she presents his/her approach long before we make any decision to invest. This mitigates the need to micromanage the process on a regular basis. Further, we look to develop long lasting relationships with the managers we follow and throughout this relationship we become very familiar with the managers and the construction of their portfolios.

Risk of Loss for All Investments

We invest primarily in mutual funds, closed-end funds and, on a more limited basis, debt securities and privately placed securities. Markets for mutual funds, closed-end funds, debt securities, and privately placed securities, and the securities held by the mutual and closed-end funds in which we invest, are generally subject to fluctuations, and the market value of any particular investment may vary substantially. Investment portfolios may not generate any income or appreciate in value.

It is impossible to learn all relevant information concerning a mutual fund, a company, or a security. Further, we may misinterpret or wrongly analyze the information available about a particular fund, company, or security. These and other factors may cause us to (a) invest in funds or securities at times that will lead to losses or (b) refrain from investing in particular funds or securities at times that would have resulted in gains if we had chosen to invest.

At times we may invest a portion of private clients' assets and/or one or more of the funds' assets in securities that may be traded at a low volume and that are relatively illiquid or that may cease to be traded after we have made the investment. These may include, among others, securities of closed-end funds, secured debt securities, interests in other private investment funds, and other privately placed securities. In such cases, if there were an event of extreme market activity, we may not be able to liquidate these investments promptly if needed. In addition, the private clients' and/or funds' sales of these securities could depress their market value, thereby reducing the private clients' and/or funds' profitability or increasing their losses. In these circumstances, the investment that a private client or one of the private funds has could materially decrease or, conversely, miss out on a potentially material gain. Privately placed or "restricted" securities may be subject to substantial holding periods or may not be traded in public markets. Restricted securities generally are difficult or impossible to sell at prices comparable to the market prices of similar securities that are publicly traded. No assurance can be given that any restricted securities will be eligible to be traded on a public market even if a public market for securities of the same class were to exist or develop. It is highly speculative as to whether and when an issuer will be able to register its securities so that they become eligible for trading in public markets.

Private clients and/or funds may invest indirectly in real estate by investing in an investment fund that invests in real estate. These investments are subject to the same, numerous risks associated with real estate investments, including, but not limited to, adverse changes in general economic and local market conditions, adverse developments in employment or local economic performance, changes in supply of

or demand for similar or competing properties, unfavorable changes in applicable taxes, governmental regulations or interest rates, and lack of available financing. The real estate funds in which private clients and/or funds may invest may improve and operate real properties as well as buying and selling them, and accordingly those investments are also subject to risks associated with improving and operating property, such as the inability to maintain rental rates and occupancy levels in highly competitive markets, unavailability or increases in the cost of insurance, unexpected increases in the costs of refurbishment and improvements, unfavorable rent control laws, and costs of complying with environmental regulations.

Investing in securities involves risk of loss that clients should be prepared to bear.

Item 9 – Disciplinary Information

Registered investment advisors like Litman Gregory are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Litman Gregory or the integrity of our management. There is no information about Litman Gregory that would fall under this category.

Item 10 – Other Financial Industry Activities and Affiliations

Three of the Litman Gregory managing partners, Craig Litman, Ken Gregory, and Jeremy DeGroot, are members of the board of trustees of the Litman Gregory Funds Trust (the “trust”), a registered investment company. The trust consists of six separate funds: Litman Gregory Masters Equity Fund, Litman Gregory Masters International Fund, Litman Gregory Masters Value Fund, Litman Gregory Masters Smaller Companies Fund, Litman Gregory Masters Focused Opportunities Fund, and Litman Gregory Masters Alternative Strategies Fund.

Craig Litman and Ken Gregory are also the managers of Litman Gregory Fund Advisors, LLC, a California limited liability company that is also registered as an investment advisor with the SEC and is an affiliate of ours. Litman Gregory owns 50% of Litman Gregory Fund Advisors, LLC and provides investment advisory services to that company in exchange for its ownership. Litman Gregory Fund Advisors, LLC is the investment advisor to the Litman Gregory Masters mutual funds listed above and as such receives a management fee based on each of the individual fund’s net assets. Craig Litman, Ken Gregory, and Stephen Savage are also directors and officers of Litman Gregory Research, Inc., a California corporation that provides investment research services to Litman Gregory and to Litman Gregory Fund Advisors, LLC. Litman Gregory Research, Inc., an affiliate of Litman Gregory, publishes the *No-Load Fund Analyst* newsletter and may provide subscriptions to Litman Gregory’s clients upon request and at Litman Gregory’s expense.

Litman Gregory Analytics, an affiliate company of Litman Gregory Asset Management, is the publisher of AdvisorIntelligence.com, a research service for investment advisors, and may provide discounts on its subscription fees to advisors who have assets in the Litman Gregory Masters Funds and various third-party turnkey asset management platforms through which our investment strategies are offered. Because our affiliates earn revenue from other advisors’ investments in our investment products, we discount the subscription fees those advisors pay for Litman Gregory Analytics publications.

Litman Gregory Analytics also receives revenue from some fund companies, including some companies whose funds we use in our investment strategies, in exchange for allowing the fund companies to post research content on AdvisorIntelligence.com. Fund companies may also provide benefits such as educational events or occasional business entertainment to our employees. This creates a potential conflict of interest because we could be influenced to research or include in our investment strategies the mutual funds of a company that provides these other benefits to our company or our employees. However, the fact that a particular fund company provides these benefits does not in any way obligate us to research that company's funds or include them in our investment strategies. It is our policy not to take into account any funds' arrangements with Litman Gregory Analytics in deciding which funds to research or recommend. This is disclosed to fund companies before they are allowed to participate in AdvisorIntelligence.com.

We recommend to some of our clients that they invest in private investment funds managed by Prana Real Estate Income Funds, LLC and its affiliates. Prana funds issue either equity ownership interests or notes to investors, depending on the fund. Ken Gregory serves as Agent for the Note Holders in several Prana funds. Neither, Mr. Gregory, Litman Gregory, nor any of their affiliates receives any commission, fee, or other compensation in connection with Mr. Gregory's activities as Agent for the Note Holders. As described in the Prana fund offering documents, the appointment of an Agent for the Note Holders is intended as a mechanism for providing information to those investors and facilitating group action by them. Mr. Gregory's relationship with the Prana funds is disclosed here because it may be deemed to create a conflict of interest with respect to us advising our clients to invest in Prana funds.

Item 11 – Code of Ethics

We have adopted a Code of Ethics policy for all Litman Gregory employees that describes our high standard for business conduct and fiduciary duty to our clients. The Code of Ethics policy includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All employees must acknowledge the terms of the Code of Ethics policy annually, and whenever it has been amended.

We may invest our clients' assets in the Litman Gregory Masters Funds and other mutual funds for which Litman Gregory Fund Advisors, LLC is the investment advisor. In the case where our private client assets are invested in a fund managed by Litman Gregory Fund Advisors, LLC, we subtract the fees paid to the Litman Gregory Fund Advisors, LLC from the management fees we charge the same private clients. Similarly, if we invest assets of our private funds into one of our funds, we will also offset our management fees in this way. As a result we have no financial incentive to use our own funds, which eliminates any conflict of interest.

From time to time we may recommend that a client invest in one of our private funds. Our managers, members, and employees may from time to time buy or sell securities recommended to clients, which creates a conflict of interest. Because of our almost exclusive use of mutual funds, no price impact is anticipated from such transactions. Nevertheless, we have created trading rules for the real estate partnerships, exchange-traded funds, and other limited availability securities that we use. In any event, our personnel may invest in securities being purchased in clients' accounts only if there are securities

available after all clients, for whom the security is appropriate, have had the opportunity to purchase securities, and after receiving pre-clearance from our Compliance department consistent with our employee trading policies.

Clients or prospective clients may request a copy of our Code of Ethics policy by contacting us at 925-254-8999.

Item 12 – Brokerage Practices

We generally recommend that clients utilize the brokerage and clearing services of an independent broker-dealer for investment management accounts. We may only implement its investment management recommendations after clients have arranged for and furnished us with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to any broker-dealers we recommend, broker-dealers directed by the client, trust companies, banks etc. (collectively referred to herein as the “Financial Institutions”).

When recommending a Financial Institution, we generally seek the “best execution” in light of the circumstances involved in transactions. In determining the best execution, we take into consideration not only the available prices and rates of brokerage commissions, but also other relevant factors that may include (but may not be limited to): (a) the execution capabilities of the Financial Institution; (b) research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice, and market analysis); custodial and other services provided by such Financial Institution that are expected to enhance our general portfolio management capabilities; (c) the size of the transaction; (d) the difficulty of execution; (e) the operational facilities of the Financial Institution; (f) the risk in positioning a block of securities, and (g) the quality of the overall brokerage and research services provided by the Financial Institution.

Financial Institutions may offer our clients access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. Financial Institutions may offer to us products and services that assist us in managing and administering clients’ accounts, such as software and other technology that: (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing, and other market data; (iv) facilitate payment of management fees from client accounts, and (v) assist with back-office functions, recordkeeping, and client reporting. In addition, we may receive services to help manage and further develop our business. This may include access to publications or complimentary attendance at industry events. Financial Institutions may make available, arrange and/or pay third-party vendors for services delivered to us. Financial Institutions may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to our firm. Financial Institutions may also provide other benefits such as educational events or occasional business entertainment of our employees and may refer clients to us.

The products and services available from Financial Institutions create a conflict of interest for us in allocating client brokerage business among firms that provide such products and services, and in allocating such business between Financial Institutions that do provide such products and services, and those that do not. In evaluating whether to recommend that clients custody their assets at a particular

Financial Institution, or whether to use a particular Financial Institution to execute a client transaction, we may take into account the availability of any or all of the above-mentioned products and services and other arrangements as part of the total mix of factors, rather than considering only the nature, cost, or quality of custody services or transaction-specific execution services provided by the Financial Institution. In some cases, the commissions charged by a particular Financial Institution for a particular transaction or set of transactions may be greater than the amounts another Financial Institution who did not provide brokerage or research services or products might charge. In some cases, a client's transaction may be executed by a Financial Institution in recognition of services or products that are not used in managing that client's account. We may not only consider that client's particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in the performance of our overall investment responsibilities to all of our clients. We may use any products and services we obtain from Financial Institutions to benefit all of our clients. Some clients may direct us to use a Financial Institution that does not provide goods and services to us, even though those clients' accounts, or our operations as a whole, benefit from other clients' relationships with Financial Institutions that do provide such goods and services. The conflict of interest for us in selecting Financial Institutions is particularly strong to the extent that Financial Institutions provide products and services that we would otherwise be required to pay for ourselves.

We monitor transaction results to evaluate the quality of execution provided by Financial Institutions we may use, determine that compensation rates are competitive, and otherwise evaluate the reasonableness of the compensation paid to Financial Institutions in light of all the factors described above.

Currently, unless otherwise directed by a client, we recommend that most of our clients maintain their investment accounts managed by us at Charles Schwab & Co. (Schwab) or Fidelity Investments (Fidelity). We execute the vast majority of our trades through Schwab and Fidelity. Schwab and Fidelity (and potentially other Financial Institutions) provide us with access to institutional trading, custody, and a variety of other services, many of which are typically not available to retail investors. These Financial Institutions generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the Financial Institution or that settle into accounts. The Financial Institutions' provision of products and services to us is currently not contingent upon us maintaining any specific level of client assets in custody at such Financial Institution, or generating any specific level of commissions for the Financial Institution.

We do not currently use direct commission dollars generated by our clients' accounts to pay for research or other goods and services.

At times, because of a prior relationship between a client and one or more Financial Institutions or for other reasons, a client may instruct us to execute securities transactions for its account with or through one or more Financial Institutions designated by the client. When using a Financial Institution designated by a client, we do not negotiate the terms and conditions (including, but not limited to, commission rates) relating to services provided by such Financial Institution. We are not responsible for obtaining for that client from any such Financial Institution the best prices or any particular commission rates for transactions with or through that Financial Institution. That client may not participate in aggregated security transactions as described below and may trade after such aggregated orders and

receive less favorable execution. A client must promptly inform us in writing if that client desires that we cease executing transactions through any Financial Institution previously designated by the client.

We owe each client the same duty of loyalty. When buying or selling individual securities in client accounts, it may not be possible to execute all trades in the same security for all clients simultaneously, or to purchase enough of a given security to satisfy all client account needs. Account situations may prevent the client from participating in the execution of a trade of a particular security among similar investment styles. We will allocate transactions in an equitable manner among our clients. In general, client accounts with risk parameters that fit a particular security will receive allocations ahead of client accounts with less well-matched risk parameters. When an allocation cannot be made on this basis, allocation based on rotation or some similar nondiscriminatory basis will be followed. Before entering an aggregated securities transaction, a written pre-allocation statement specifying the participating client accounts and how we intend to allocate the transaction among those client accounts will be submitted to the Chief Compliance Officer or his or her delegate for approval. If an investment opportunity arises unexpectedly and an employee cannot prepare a pre-allocation statement before the investment can be made in client accounts' best interests, we may complete the pre-allocation statement immediately after the trade. Such statements, as well as any record of deviation, are maintained in our records. We will make a reasonable effort to complete trading in clients' portfolios in a reasonable amount of time. When making firm-wide investment strategy changes, we will use a fair and equitable method to sort client relationships for portfolio review and trade execution.

Proprietary accounts are not included in any aggregated securities transaction. "Proprietary Account" means (1) a securities investment or trading account held in the name of an employee or any of his or her family members, or of which that employee or any of his or her family members has beneficial ownership, or (2) a proprietary investment or trading account maintained for the Company or its employees, except that the term "Proprietary Account" does not include any such account to which we serve as an investment advisor.

Item 13 – Review of Accounts

Private Client Accounts

Our investment advisor representatives routinely perform the following reviews for their respective clients' accounts:

- Review each account at least once per quarter, or when investment guidelines change, to ensure conformity with the stated strategy and client needs
- Implement strategy changes as necessary

Reviews are conducted by our investment advisor representatives who manage the respective client relationships and portfolio reports are provided quarterly.

There are a few things that trigger a more frequent review other than every three months, which are cash flows in or out of an account, asset class changes within a strategy, and manager changes within a strategy. If there has not been a change of this type then the investment advisor representatives review private client accounts every quarter.

The Financial Institutions provide monthly or quarterly written reports to clients. These reports are automatically generated. We provide quarterly written reports to clients. Our reports contain total portfolio appraisal (with holdings), individual account appraisal (without holdings), performance on a time-weighted basis by quarter-to-date, year-to-date, 1-year, 3-year, 5-year, 10-year and since-inception and are done automatically.

Private Funds

The nature, frequency, and triggers for the reviews of the private funds are the same as the private client account reviews. Information regarding the private funds is further disclosed in the respective Offering Documents.

Managed Portfolios

The investment strategies provided to the TAMPs are monitored on an ongoing basis by Litman Gregory's Chief Investment Officer and other members of the Litman Gregory research team. Written reports for the investment strategies are given to each TAMP sponsor, typically quarterly, including commentary on the financial markets, performance trends and portfolio positioning.

Item 14 – Client Referrals and Other Compensation

In limited situations, we may provide compensation for client referrals in accordance with applicable laws, rules and regulations. All referral fees are paid solely by Litman Gregory and do not result in any additional charges to the firm's clients. Any prospects referred to Litman Gregory are advised of the underlying solicitation relationship and are provided with the appropriate Form ADV disclosure documents prior to or at the time the investment advisory agreement is executed. All third-party solicitors who are not affiliated with Litman Gregory also provide prospective clients with a separate disclosure statement containing the terms and conditions (including compensation) of the solicitation arrangement.

Item 15 – Custody

The custodian sends monthly or quarterly statements to each private client. We urge you to carefully review your statements and compare those statements to the account statements that we provide to you. Investors in our private funds receive audited financial statements for those funds each year.

Item 16 – Investment Discretion

Private Client Accounts

Clients must complete an Investment Management Agreement at the beginning of the relationship giving us discretionary authority to determine, without obtaining the consent of the client: (i) which securities are brought or sold, and (ii) the total amount of the securities bought or sold.

Our authority to determine which securities to buy and sell for a client and which Financial Institutions to use may be subject to conditions imposed by the client, such as where the client restricts or prohibits transactions in securities of specific industry, and/or the client directs that transactions be effected through specified Financial Institutions. Investment guidelines and restrictions must be provided to us in writing.

Private Funds

As the general partner and investment advisor to three private funds, we have discretionary authority to manage the funds' assets, pursuant to each fund's limited partnership agreement.

Managed Portfolios

We are the strategist for the Managed Portfolios. Our Managed Portfolios are made available to investment advisors through various TAMPs. Those advisors' clients are not our clients, and we do not have any investment discretion over their accounts.

Item 17 – Voting Client Securities

Private Clients/Private Funds

We have the authority to vote proxies (except to the extent that a client instructs us otherwise in writing) relating to securities that we manage in our clients' accounts. If a client account holds securities that the client or a third party acquired and placed in the account independently of us or if the client account holds securities that the client instructed us to purchase for the account, those securities are not included among the assets we manage and we do not vote proxies relating to them. For proxies that we do vote, we will vote as we deem appropriate in accordance with our written policies and procedures. These policies and procedures outline pre-determined guidelines for voting many typical proxy proposals.

However, each proxy issue will be considered individually so that we may determine what we believe would be in the client's best interest. Where a proxy proposal raises a material conflict of interest between the interests of us and our client, including proxies of funds managed by us or its affiliates (*e.g.*, funds in the Litman Gregory Masters Funds Trust), we seek to avoid material conflicts of interest by applying our pre-determined proxy voting guidelines in an objective and consistent manner across client accounts. If we have discretion to deviate from, or do not have specific guidelines with respect to, the proposal in question, we will cast the proxies in the same proportion as the other shareholders of the issuer who are not affiliated with us have done, to the extent we have available information from the issuer or its agent to permit that form of voting. This form of voting is known as shadow or mirror voting. To the extent that shadow voting is not available on a timely basis, we will abstain from voting

the securities held in that client's account; provided, however, that if we determine that it is in a client's best interest to vote the proxy, we will forward the proxy voting materials to the client.

Clients may obtain a copy of our proxy voting policies and procedures and information on how we have voted the client's securities by contacting us at 925-254-8999.

Managed Portfolios

We do not have an obligation to exercise any voting, consent, or similar rights associated with any funds or other securities held by the clients of the third-party TAMPs. Also, we do not have an obligation or responsibility to make recommendations on how an individual, advisor, or TAMP should exercise any voting, consent, or similar rights associated with these securities.

Item 18 – Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients, and we have not been the subject of a bankruptcy proceeding.

Item 19 – Requirements for State-Registered Advisers

We are an SEC-Registered Investment Adviser; therefore, this item is inapplicable.