

## **Litman Gregory Fund Advisors, LLC**

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March 8, 2012

This brochure provides information about the qualifications and business practices of Litman Gregory Fund Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 925-254-8999. 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 Fund Advisors, LLC 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 Fund Advisors is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission published amendments to Form ADV, which is the disclosure document that we provide to clients as required by SEC Rules. This brochure, dated March 21, 2011, is prepared according to the SEC's new requirements and rules. As such, this document is materially different in structure and contains certain new information that was not previously required.

In the future, this Item will discuss only specific material changes that are made to the brochure and provide clients with a summary of those changes. We will also note the date of our last annual update of this brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will provide clients with a summary of any material changes to this and subsequent brochures within 120 days of the close of our fiscal year. We may provide other disclosure about material changes as necessary. We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

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#### Item 4 – Advisory Business

Litman Gregory Fund Advisors, LLC has provided investment management services to the Litman Gregory Funds (the funds) for over 14 years. The funds are mutual funds registered as such with the Securities and Exchange Commission. Litman Gregory Fund Advisors was founded in 1996 by Craig Litman and Ken Gregory, who remain the principal owners.

Each of the funds is sub-advised by multiple investment managers, which means that we hire a number of investment management firms to provide stock selection and investment management services to allocated portions of the funds we manage, subject to our oversight. As the advisor to the funds, we have overall responsibility for the assets of the funds, including recommending the selection and removal of investment managers to the Board of Trustees of the funds, evaluating the performance of the investment managers, monitoring changes at the investment managers' respective organizations that may impact their abilities to deliver future superior performance, determining when to rebalance the investment managers' assets, determining the amount of cash equivalents (if any) that may be held in addition to cash held in each of the investment managers' portfolios, coordinating with managers with respect to diversification, compliance with applicable federal securities laws and federal income tax regulations, overseeing the distribution of fund shares and managing the operational aspects of the funds.

We seek to add value to the funds we manage through our in-depth investment manager research, which we use to find investment managers who we believe can outperform their appropriate benchmarks and peer groups over the long term. Our underlying investment philosophy demands that our manager selections be based on a very high level of conviction, so our focus on investment research is a fundamental aspect of our investment services. Our research process takes into account quantitative and qualitative factors such as:

- Intermediate and long-term performance relative to an appropriate benchmark and peer group
- A manager's disciplined adherence to a well-defined investment process
- The depth and experience of the investment management and research team
- A business structure that allows the investment manager and research team to focus on the jobs investment research, stock selection and portfolio management

We generally have discretionary authority in managing the funds, which means that we are able to make decisions with respect to the following without obtaining the consent of the client.

- Establishing target allocations of fund assets among the investment managers of each fund
- Periodically re-balancing the allocation of assets among the investment managers
- Selecting new investment managers or terminating the contracts of existing investment managers with approval of the Board of Trustees and without obtaining shareholder approval

- Changing the terms of agreements with investment managers after an event that would otherwise cause the automatic termination of services
- Adding investment managers to a fund to expand capacity in order to avoid closing a fund, with the approval of the Board of Trustees
- Temporarily closing a fund to new investors or to additional investment by existing shareholders, with the approval of the Board of Trustees

Discretionary authority also means making decisions with respect to the following, which is delegated to the investment managers with respect to the portion of the funds they each manage:

- The securities bought or sold
- The brokers used to buy and sell securities, and the rates paid for securities transactions
- Voting the proxies on securities held in the portfolio

The investment policies for each of the funds we manage are set forth in the fund's offering documents (the fund's Prospectus and Statement of Additional Information). We work with each investment manager to develop investment guidelines with respect to the portion of a fund's assets that they manage. The guidelines are intended to identify the types of investment decisions the investment managers are authorized to make without our prior approval as well as those decisions that require prior approval. The guidelines may also include restrictions on "alternative" asset classes, which generally include any asset class other than cash equivalents, equities (stocks) and fixed income (bonds). Some examples of alternative asset classes include illiquid investments, debt or equity of distressed companies, commodities, and derivatives.

As described above, although we delegate certain investment decisions to the investment managers, we retain the authority to make investment decisions on a fund's behalf. Therefore, as a whole, we classify our investment advisory services as "discretionary."

### **Total Assets Under Management**

As of 12/31/2011, we managed \$2,147,260,158 of assets on a discretionary basis.

### **Item 5 – Fees and Compensation**

We receive management fees from each fund, payable monthly in arrears, equal to a percentage of the total net asset value that the fund has placed under our management. The gross annual fee is calculated as follows:

	Over \$1 billion	1.00%
Litman Gregory Masters Value Fund	First \$1 billion	1.10%
	Over \$1 billion	1.00%
Litman Gregory Masters Smaller Companies Fund	First \$450 million	1.14%
	Over \$450 million	1.04%
Litman Gregory Masters Focused Opportunities Fund	First \$1 billion	1.10%
	Over \$1 billion	1.00%
Litman Gregory Masters Alternative Strategies Fund	Up to \$2 billion	1.40%
	Between \$ and \$3 billion	1.30%
	Between \$3 and \$4 billion	1.25%
	Excess over \$4 billion	1.20%

We have entered into contractual fee waiver agreements with the International Fund, the Value Fund and the Focused Opportunities Fund whereby we have agreed to reduce our management fees on these funds through April 30, 2013. We may also voluntarily waive portions of our management fees for all of the funds for the purpose of reducing the effective management fee charged to the funds.

We, and not the funds we manage, are responsible for paying sub-advisory fees to the investment managers, each of whom is compensated monthly on the basis of the assets committed to the investment manager's discretion.

In addition to our fees, the funds pay other direct operating expenses, including but not limited to custodian and fund accounting, transfer agency, auditing and legal fees, administrative fees, the cost of printing and mailing shareholder reports, chief compliance officer fees, trustee fees and brokerage commissions. See Item 12 of this brochure for more information regarding Brokerage Practices.

In calculating the net assets of the funds, the following guidelines are followed:

- For marketable securities, we use the current market price as of the close of respective exchange on which the securities are traded
- For securities for which there exists no active market, the value is determined by the Pricing Committee of the funds, which includes at least one member of the funds' Board of Trustees who is not an "interested person" of the funds or us (an "independent trustee"). All decisions of the Pricing Committee are reviewed by the full Board of Trustees, the majority of which are independent trustees, which means, in general, they have not been affiliated with a fund or service provider to the fund for at least two years.

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 funds would need to report its share of direct and indirect compensation paid to the advisor.

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

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

We do not charge any performance-based fees.

## **Item 7 – Types of Clients**

We offer investment management services to Registered Open-End Investment Companies (mutual funds).

### **Minimum Account Sizes**

We do not have a minimum account size for our clients. Each fund that we manage establishes the minimum investment for its shareholders.

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

### **Our Investment Strategies**

We believe that it is possible to identify skilled investment managers who, over time, have the ability to out-perform appropriate passive benchmarks and peer groups. We also believe that at any point in time, most investment managers' portfolios contain only a small number of great ideas—stocks that they are highly confident will outperform a benchmark and a more-diversified portfolio over a market cycle. Holding only a small number of high-conviction stocks may not be considered prudent from a diversification/risk-management standpoint or practical given the large dollar amounts managed by many successful managers; many managers hold more than 50 stocks in their mutual fund portfolio. To mitigate the risk of concentrated investment portfolios, we combine multiple investment managers in each fund we advise in order to increase the diversification level of each fund. In this regard we use managers who each employ a distinct investment process and who may seek investment opportunities in varying segments of the equity markets with respect to economic sector and industry, balance sheet quality, earnings growth, market capitalization and location. We consider how each manager's investment approach complements and contrasts with that of the other managers when we recommend them for inclusion on a fund. Two of the funds we advise are classified as non-diversified for federal income tax purposes, which means they may concentrate more of their assets in a smaller number of securities.

### **Our Investment Manager Research Due Diligence and Monitoring Process**

The core of our investment research is the extensive due diligence we conduct on prospective investment managers, combined with rigorous ongoing monitoring of the investment managers once we hire them to work on a fund. We have longstanding relationships with the majority of the investment managers who we employ on the funds. In some cases we have covered a manager or their respective firm for upwards of 20 years.

Our research team uses a combination of quantitative and qualitative methods in the evaluation and monitoring process. For the quantitative evaluation, the research team uses both internal and external sources of data on fund managers and a proprietary analysis program to track performance, risk, and other statistics. We also utilize a third party vendor to provide attribution analysis software to further assess the performance of the investment managers relative to each of their more-diversified portfolios as well as a manager's appropriate passive index benchmark.

Performance reviews are an important step in our research process for both prospective and existing investment managers. When looking at a prospective manager's performance history we take the following factors into account:

- Performance relative to an appropriate peer group and passive index benchmark
- Special factors that positively impacted performance that may not be repeatable, including market conditions or reliance on certain types of investments
- The makeup of the investment team at the time the record was compiled
- The level of assets on which the record was based.

For prospective managers it is important that we understand how a manager's investment process lends itself to managing a concentrated portfolio of his or her highest conviction ideas. To do so we require a prospective manager to provide a preliminary model portfolio, which we discuss in detail to understand the rationale for including or excluding certain stocks within that portfolio, as well as to understand a manager's framework for position size.

When evaluating the ongoing performance of the investment managers after they have become sub-advisors to the funds we manage, we take into account:

- The performance of the manager's account relative to appropriate passive benchmarks over relevant intermediate and long time periods
- The performance of the manager's account relative to more diversified portfolios that he or she may manage over relevant intermediate and long time periods
- The consistent application of the manager's articulated investment process with respect to purchases and sales of portfolio securities

We believe that qualitative factors are an extremely important aspect of the investment management process. 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, determining how a successful manager has added value and assessing the likelihood that this success can continue. We also assess a number of qualitative factors that our many years of experience have shown us contribute to long-term investment success. These characteristics include, but are not limited to:

- A clearly defined and repeatable investment process
- A manager's obsession for seeking an investment "edge"
- Independent thinking
- A highly focused stock-picking team



- Ethical management
- A stable organization
- Shareholder orientation

Measuring these qualitative factors requires a thorough and disciplined approach to due diligence. Our research team conducts telephone interviews and site visits with portfolio managers and research analysts in order to determine that the factors we value are in place at the firms we employ. Following is an example of the types of inquiry our researchers make during their interviews and visits:

1. We continually re-test our investment thesis.. We do this through conducting in-depth interviews, focusing on a manager's rationale for owning (and selling) stocks and understanding why a stock qualifies as a best idea, and therefore makes its way into our portfolio, reviewing the investment team's vetting process and how decisions are made, reviewing mistakes, and more generally, whether the team is adhering to the investment process that our confidence is based on. We look for consistency between the way the manager describes his/her investment process and the stocks actually held. 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. We want to understand why certain stocks that appear in a manager's more broadly diversified portfolio are included or excluded from the portfolios they manage on behalf of our funds, or why trading patterns differ between their diversified and concentrated portfolios.
3. We seek to determine if there is consistency among all team members. By talking to members of the analyst team we can see if everyone is on the same page and gain further clues as to whether the process is executed as described.
4. We evaluate the quality of the team. We evaluate how smart, driven, focused, passionate, experienced, humble, confident, and performance-oriented the analysts are. We understand that human behavior is not static, so we continually reassess these factors as our experience with a team matures.
5. We evaluate the culture and incentive structure to determine if the team is likely to stay together. We believe stability is critical to the ability of an investment organization to stay focused, so we look for firms that have healthy work environments and assess the effects of changes in the work environment on the investment team over time.
6. We try to gain an understanding management's vision for their business. We require a balanced approach to business growth that reflects an understanding of the responsibility to shareholders. We want to understand a firm's plans for growth, how the team might change, what other products they may launch, and how big they want to become, and how changes that have occurred have affected the manager and the team.

Our expectation that a manager will outperform is based on our confidence that they have a sustainable investment edge, and that this edge is, and will remain, intact. During periods of underperformance by a manager, we revisit our due diligence and seek to understand the reasons for the underperformance. We then relate our findings to what we know about how the 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 we would recommend terminating the manager's contract. But if the original reasons for our confidence in the underperforming manager remain intact, then we have the confidence to retain a manager.

Our oversight of the investment managers and their firms extends beyond investment performance. All investment managers employed as sub-advisors to the funds we advise are required to respond to quarterly requests for information that focus on compliance with investment guidelines and federal securities and income tax laws, brokerage selection and the receipt of products or services from brokers they select to execute trades for our client accounts. We also conduct an annual review of each management firm's compliance staff, review changes to the compliance programs, assess financial strength, review manager compensation, review the implementation of the firm's best execution, brokerage and soft-dollar policies and procedures, review their proxy votes on behalf of securities held in our client accounts and consider their regulatory examination history.

## **Risk of Loss for All Investments**

The principal risks for each of the five Equity funds that we advise are described below:

### **Distressed Companies Risk**

Investments in distressed companies typically involve the purchase of high-yield bonds, or comparable unrated debt securities, or the purchase of direct indebtedness (or participations in the indebtedness) of such companies. Indebtedness generally represents a specific commercial loan or portion of a loan made to a company by a financial institution such as a bank or insurance company. Loan participations represent fractional interests in a company's indebtedness and are generally made available by banks or insurance companies. By purchasing all or a part of a company's direct indebtedness, a fund, in effect, steps into the shoes of the lender. If the loan is secured, the fund will have a priority claim to the assets of the company ahead of unsecured creditors and stockholders. A fund also may purchase trade claims and other similar direct obligations or claims against companies in bankruptcy. Trade claims are generally purchased from creditors of the bankrupt company and typically represent money due to a supplier of goods or services to the company.

The purchase of indebtedness or loan participations of a troubled

company always involves a risk as to the creditworthiness of the issuer and the possibility that principal invested may be lost. Purchasers of participations, such as a fund, must rely on the financial institution issuing the participation to assert any rights against the borrower with respect to the underlying indebtedness. In addition, a fund takes on the risk as to the creditworthiness of the bank or other financial intermediary issuing the participation, as well as that of the company issuing the underlying indebtedness. When a fund purchases a trade claim, there is no guarantee that the debtor will ever be able to satisfy the obligation on the trade claim.

### **Emerging Markets Risk**

Emerging market countries are those with immature economic and political structures, and entail greater investment risk than developed markets. Emerging markets may be under-capitalized, have less developed legal and financial systems or may have less stable currencies than markets in the developed world. Emerging market securities are securities that are issued by companies with their principal place of business or principal office in an emerging market country; or securities issued by companies for which the principal securities trading market is an emerging market country. Emerging market securities typically present even greater exposure to the risks described under “Foreign Company Risk” and may be particularly sensitive to certain economic changes. For example, emerging market countries are more often dependent on international trade and are therefore often vulnerable to recessions in other countries. Emerging markets may have obsolete financial systems and volatile currencies, and may be more sensitive than more mature markets to a variety of economic factors. Emerging market securities also may be less liquid than securities of more developed countries and could be difficult to sell, particularly during a market downturn.

### **Foreign Company Risk**

Foreign investments, including American Depositary Receipts (ADRs) and similar investments, are subject to more risks than U.S. domestic investments. These additional risks may potentially include lower liquidity, greater price volatility and risks related to adverse political, regulatory, market or economic developments. Foreign companies also may be subject to

significantly higher levels of taxation than U.S. companies, including potentially confiscatory levels of taxation, thereby reducing the earnings potential of such foreign companies. In addition, amounts realized on sales or distributions of foreign securities may be subject to high and potentially confiscatory levels of foreign taxation and withholding when compared to comparable transactions in U.S. securities. Investments in foreign securities involve exposure to fluctuations in foreign currency exchange rates. Such fluctuations may reduce the value of the investment. Foreign investments are also subject to risks including potentially higher withholding and other taxes, trade settlement, custodial, and other operational risks and less stringent investor protection and disclosure standards in certain foreign markets. In addition, foreign markets can and often do perform differently from U.S. markets.

#### **Market Risk**

The market price of securities owned by a fund may go up or down, sometimes rapidly or unpredictably. Securities may decline in value or become illiquid due to factors affecting securities markets generally or particular industries represented in the securities markets. The value or liquidity of a security may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline or become illiquid due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline or become illiquid in value simultaneously.

#### **Multi-Style Management Risk**

Because certain portions of a fund's assets are managed by different portfolio managers using different styles, a fund could experience overlapping security transactions. Certain portfolio managers may be purchasing securities at the same time that other portfolio managers may be selling those same securities. This may lead to higher transaction expenses and may generate higher short-term capital gains compared to a fund using a single

investment management style.

**Non-Diversification Risk**

A non-diversified fund may hold larger positions in a smaller number of individual securities than a diversified fund. A probable result of non-diversification is that increases or decreases in the value of any of the individual securities owned by a fund may have a greater impact on the fund's net asset value ("NAV") and total return than would be the case in a diversified fund holding a larger number of securities. This may make a fund's performance more volatile than would be the case if it had a diversified investment portfolio.

**Small Companies Risk**

Securities of companies with smaller market capitalizations are generally more volatile and less liquid than the securities of large-capitalization companies. Small companies may be more reliant on a few products, services or key personnel, which can be riskier than owning larger companies with more diverse product lines and structured management. Smaller companies may have no or relatively short operating histories, or may be newer public companies. Some of these companies have aggressive capital structures, including high debt levels, or are involved in rapidly growing or changing industries and/or new technologies, which pose additional risks.

The Principal risks for the Alternative Strategies fund that we advise are described below:

- **Equity Securities Risk.** This is the risk that the value of equity securities may fluctuate, sometimes rapidly and unpredictably, due to factors affecting the general market, an entire industry or sector, or particular companies. These factors include, without limitation, adverse changes in economic conditions, the general outlook for corporate earnings, interest rates or investor sentiment; increases in production costs; and significant management decisions. This risk is greater for small- and medium-sized companies, which tend to be more vulnerable to adverse developments than larger companies.
- **Debt Securities Risk.** This is the risk that the value and liquidity of debt securities may be reduced under certain circumstances. The value of debt securities can fluctuate in response to issuer activity and changes in general economic and credit market conditions, including changes in interest rates.

- **Below Investment-Grade Fixed Income Securities Risk.** This is the risk of investing in below investment-grade fixed income securities (also known as “junk bonds”), which may be greater than that of higher rated fixed income securities. These securities are rated Ba through C by Moody’s Investors Service (“Moody’s”) or BB through D by Standard & Poor’s Rating Group (“S&P”) (or comparably rated by another nationally recognized statistical rating organization), or, if not rated by Moody’s or S&P, are considered by the sub-advisors to be of similar quality. These securities have greater risk of default than higher rated securities. The market value of these securities is more sensitive to corporate developments and economic conditions and can be volatile. Market conditions can diminish liquidity and make accurate valuations difficult to obtain. There is no limit to the Alternative Strategies Fund’s ability to invest in below investment-grade fixed income securities; however, under normal market conditions, it does not expect to invest more than 50% of its total assets in below investment-grade fixed income securities.
- **Interest Rate Risk.** This is the risk that debt securities will decline in value because of changes in interest rates. A fund with a longer average portfolio duration will be more sensitive to changes in interest rates than a fund with a shorter average portfolio duration.
- **Credit Risk.** This is the risk that the Alternative Strategies Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty of a derivatives contract or other transaction, is unable or unwilling (or is perceived to be unable or unwilling) to make timely payment of principal and/or interest, or to otherwise honor its obligations.
- **Convertible Securities Risk.** This is the risk that the market value of convertible securities may fluctuate due to changes in, among other things, interest rates; other general economic conditions; industry fundamentals; market sentiment; the issuer’s operating results, financial statements, and credit ratings; and the market value of the underlying common or preferred stock.
- **Mortgage-Backed Securities Risk.** This is the risk of investing in mortgaged-backed securities, which includes interest rate risk, prepayment risk and the risk of defaults on the mortgage loans underlying these securities.
- **Foreign Investment and Emerging Markets Risks.** This is the risk that an investment in foreign (non-U.S.) securities may cause the Alternative Strategies Fund to experience more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies, due to factors such as currency conversion rate fluctuations, currency blockages, political and economic instability, differences in financial reporting, accounting and auditing standards, nationalization, expropriation or confiscatory taxation, and smaller and less-strict regulation of securities markets. These risks are greater in emerging markets. There is no limit to the Alternative Strategies

Fund's ability to invest in emerging market securities; however, under normal market conditions, it does not expect to invest more than 50% of its total assets in emerging market securities.

- **Currency Risk.** This is the risk that investing in foreign currencies may expose the Alternative Strategies Fund to fluctuations in currency exchange rates and that such fluctuations in the exchange rates may negatively affect an investment related to a currency or denominated in a foreign currency. The Alternative Strategies Fund may invest in foreign currencies for investment and hedging purposes.
- **Leverage Risk.** This is the risk that leverage may cause the effect of an increase or decrease in the value of the Alternative Strategies Fund's portfolio securities to be magnified and the Alternative Strategies Fund to be more volatile than if leverage was not used. Leverage may result from certain transactions, including the use of derivatives and borrowing.
- **Derivatives Risk.** This is the risk that an investment in derivatives may not correlate completely to the performance of the underlying securities and may be volatile and that the insolvency of the counterparty to a derivative instrument could cause the Alternative Strategies Fund to lose all or substantially all of its investment in the derivative instrument, as well as the benefits derived therefrom.
- **Short Sale Risk.** This is the risk that the value of a security the Alternative Strategies Fund sells short does not go down as expected. The risk of loss is theoretically unlimited if the value of the security sold short continues to increase. In addition, short sales may cause the Alternative Strategies Fund to be compelled, at a time disadvantageous to it, to buy the security previously sold short, thus resulting in a loss. To meet current margin requirements, the Alternative Strategies Fund is required to deposit with the broker additional cash or securities so that the total deposit with the broker is maintained daily at 150% of the current market value of the securities sold short.
- **Merger Arbitrage Risk.** This is the risk that a proposed reorganization in which the Alternative Strategies Fund invests may be renegotiated or terminated.
- **Multi-Strategy Management Risk.** This is the risk that the Alternative Strategies Fund could experience overlapping security transactions as a result of having different portfolio managers using different strategies to manage the Alternative Strategies Fund's assets. Certain portfolio managers may be purchasing securities at the same time other portfolio managers may be selling those same securities, which may lead to higher transaction expenses compared to a fund using a single investment strategy.
- **Portfolio Turnover Risk.** This is the risk that the Alternative Strategies Fund may experience high portfolio turnover rates as a result of its investment strategies. High

portfolio turnover rates may indicate higher transaction costs and may result in higher taxes when shares of the Alternative Strategies Fund are held in a taxable account.

- **Unfavorable Tax Treatment Risk:** This is the risk that a material portion of the Alternative Strategies Fund's return could be in the form of net investment income or short-term capital gains, some of which may be distributed to shareholders and taxed at ordinary income tax rates.

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

### **Item 9 – Disciplinary Information**

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

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

Craig Litman, Ken Gregory and Jeremy DeGroot, are members of the board of trustees of the Litman Gregory Funds Trust. Each is considered an "interested person" under federal securities law, which means they are affiliated with the advisor to the mutual funds of the trust.

Craig Litman, Ken Gregory and Jeremy DeGroot are also the managers of Litman Gregory Asset Management, 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 Asset Management, LLC owns 50% of Litman Gregory Fund Advisors, LLC and provides investment advisory services to that company in exchange for its ownership. Craig Litman, Ken Gregory, and Stephen Savage are also directors and officers of Litman Gregory Research, Inc., a California corporation that publishes the *No-Load Fund Analyst* newsletter and may provide subscriptions to Litman Gregory Asset Management's clients upon request and at Litman Gregory Asset Management'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 Funds. Because we earn revenue from other advisors' investments in the funds we manage,



our affiliate discounts 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 managers we employ as investment managers for the funds, in exchange for allowing the fund companies to post research content on AdvisorIntelligence.com. This creates a potential conflict of interest because we could be influenced to retain the services of an investment manager from a company that pays Litman Gregory Analytics to post research content on AdvisorIntelligence.com. However, the fact that a particular management company pays Litman Gregory Analytics to distribute its research does not in any way obligate us to research that company's investment managers, include their employees as one of our investment managers or refrain from terminating the company as an investment manager to a portion of one of the funds we manage. It is our policy not to take into account any management company's arrangements with Litman Gregory Analytics in deciding which investment managers to research, recommend for hiring or recommend for termination. This is disclosed to fund companies before they are allowed to participate in AdvisorIntelligence.com.

## **Item 11 – Code of Ethics**

We have adopted a Code of Ethics for all Litman Gregory employees that describes our high standard for business conduct and fiduciary duty to our clients. The Code of Ethics 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 annually, or whenever it has been amended.

Litman Gregory Asset Management LLC, an affiliate of Litman Gregory Fund Advisors LLC, may invest its clients' assets in a fund for which Litman Gregory Fund Advisors, LLC is the investment advisor. In the case where our affiliate's client assets are invested in a fund managed by Litman Gregory Fund Advisors, LLC, the fees paid to the Litman Gregory Fund Advisors, LLC are subtracted from the management fees charged by Litman Gregory Asset Management on those assets. As a result, the affiliate has no financial incentive to use funds managed by Litman Gregory Fund Advisors for its client accounts, which should eliminate any conflict of interest.

We have created trading rules that require all personnel with access to private information about the funds to pre-clear all transactions in reportable securities, which are defined as individual stocks and bonds, exchange traded funds, real estate partnerships and limited availability securities. Clients or prospective clients may request a copy of our Code of Ethics by contacting us at 925-254-8999.

## **Item 12 – Brokerage Practices**

We have delegated the discretion over the selection of the brokers to be used and the commission rates paid to the investment managers that sub-advise the funds we advise. When

selecting a broker, we expect the investment managers to seek the “best execution” in light of the circumstances involved in transactions. In determining the best execution, the investment managers should 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 broker, (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 broker 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 broker, (f) the risk in positioning a block of securities, and (g) the quality of the overall brokerage and research services provided by the broker.

Brokers may offer the investment managers products and services that assist them 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.

Brokers may also offer the investment managers services intended to help manage and further develop their business. These services may include (i) compliance, legal, and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants, and insurance providers. Brokers may make available, arrange and/or pay third-party vendors for services delivered to the investment managers. Brokers 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 the investment managers’ firms. Brokers may also provide other benefits such as educational events or occasional business entertainment of the investment managers’ employees and may refer clients to them

The products and services available from brokers create a conflict of interest for the investment managers in allocating client brokerage business among firms that provide such products and services, and in allocating such business between brokerage firms that do provide such products and services, and those that do not. In evaluating whether to recommend that clients use a particular broker to execute a client transaction, the investment managers 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 broker. In some cases, the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide brokerage or research services or products might charge. In some cases, a client’s transaction may be executed by a broker in recognition of services or products that are not used in managing that client’s account. The investment managers 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 their overall investment responsibilities to all of their clients. They may use any products and services they obtain from brokers to benefit all of their clients. Some clients may direct them to use a broker that does not provide goods and services to them, even though those clients’ accounts, or the investment managers’ operations as whole, benefit from other clients’ relationships with brokers that do provide such goods and services. The conflict of interest for

the investment managers in selecting brokers is particularly strong to the extent that brokers provide products and services that we would otherwise be required to pay for ourselves.

We do not currently use direct commission dollars generated by trading activity in the funds we manage to pay for research or other goods and services, however the some of the investment managers that sub-advise the funds may do so. Although we do not engage in traditional soft dollar practices , we use as a guide the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934 in considering which products and services the investment managers may accept from brokers. Section 28(e) provides a “safe harbor” for an investment manager who uses commissions or transaction fees paid by its client accounts (“soft dollars”) to obtain brokerage and research services that provide lawful and appropriate assistance to the manager in discharging its investment decision-making responsibilities, as long as the manager determines that the commissions paid are reasonable in relation to the value of the brokerage and research products and services provided by the broker.

We monitor transaction results to evaluate the quality of execution provided by brokers we may use, to determine that compensation rates are competitive, and otherwise to evaluate the reasonableness of the compensation paid to brokers in light of all the factors described above, and report this information to the Board of Trustees of the funds that we manage on a quarterly basis.

### **Item 13 – Review of Accounts**

Our portfolio managers, research team and chief compliance officer routinely perform the following reviews for the funds. Reports are generated from the accounting and custodial records kept by State Street Bank and the compliance records maintained by US Bancorp Fund Services, which is the Administrator of the funds. Results are presented to the Board of Trustees quarterly, however most reviews are conducted monthly.

- Portfolio trades, brokerage selection, and brokerage commission rates for each fund and each investment manager
- Soft-dollar commission trades and soft-dollar benefits for each investment manager
- Market capitalization and economic sector allocation for each fund and each investment manager
- Region and country allocation of for international portfolios and each investment manager of the international fund
- Performance for each fund and each investment manager relative to appropriate peer group and passive benchmark

- Compliance with Prospectus limitations and investment guidelines for each fund and each investment manager
- Compliance with applicable federal securities law for each fund

State Street Bank is the custodian of the funds' assets, and provides us with daily access to portfolio holdings and portfolio trades. State Street also provides a monthly reconciliation of the custodial and accounting records. US Bancorp Fund Services provides monthly performance reporting for each fund including monthly, quarter to date, year to date and trailing one year, three year, five year, ten year and since inception.

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

We currently do not compensate any person for client referrals.

#### **Item 15 – Custody**

All fund assets are held by a qualified custodian.

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

We have executed an Investment Management Agreement with the Litman Gregory Funds Trust giving us discretionary authority to determine, without obtaining the consent of the funds:

- which securities are bought or sold;
- the total amount of the securities bought or sold;
- the brokers used to buy and sell securities,
- the commission rates paid for securities transactions.

The Investment Management Agreement is subject to annual renewal by the Board of Trustees.

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

We have the authority to vote proxies relating to securities that are held in the funds' accounts. We delegate this authority to the investment managers by virtue of the investment sub-advisory agreements with each of the sub-advisors we employ on behalf of the funds. Each proxy issue is considered individually so that the investment managers may determine what they believe would be in the client's best interest. Where a proxy proposal raises a material conflict of interest between the interests of our funds and other funds the investment managers advise. The investment managers seek to avoid material conflicts of interest by applying their pre-determined proxy voting guidelines in an objective and consistent manner across their client accounts. We review the proxy voting procedures of each of the investment managers along with the results of all proxy votes cast by the investment managers on behalf of the funds,

Clients may obtain a copy of our proxy voting policies and procedures and information on how the investment managers have voted the client's securities by contacting us at 925-254-8999 or visiting the SEC website, SEC.gov and viewing Form NPX, which is filed annually no later than August 31.

#### **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 a SEC-Registered Investment Adviser; therefore, this item is inapplicable.