

# Masters' Select Funds

LITMAN/GREGORY FUND ADVISORS, LLC

## Masters' Select Smaller Companies Adds Sub-Advisor

June 4, 2007 - Litman/Gregory Fund Advisors is pleased to announce that we have hired Reed Conner & Birdwell (RCB) as a new sub-advisor on the Masters' Select Smaller Companies Fund, effective this month. RCB takes the place of Ariel Capital Management.

Jeff Bronchick and Tom Kerr are the co-portfolio managers of RCB's small-cap portfolios. Bronchick joined RCB in 1989, and serves as Chief Investment Officer, leading the firm's seven-person equity research team. He has 22 years of investment experience. Kerr joined RCB in 1994, and serves as a portfolio manager/analyst. He has 20 years of investment experience, and prior to joining RCB he was a financial analyst.

We began our due diligence on RCB in January 2007. Over the following five months we had multiple conference calls with Bronchick, Kerr, and other team members. We also spent a day at RCB's Los Angeles office, meeting individually with the investment team. Our due diligence enabled us to gain an in-depth understanding of RCB's investment process and the discipline with which it is executed, and to assess their enthusiasm and approach to running a highly concentrated portfolio for Masters' Select. In each of these areas, RCB has been very impressive.

RCB invests in smaller-cap value stocks. The objective of RCB's bottom-up fundamental research is to identify the best combination of attractive business, valuation, and shareholder-oriented management, and to invest in a concentrated, high-conviction portfolio of such companies. Analysis of return on invested capital or "economic value" generation is the main driver in determining an attractive business. Discounted cash flow modeling is the primary valuation tool, but the team also looks at leveraged buyout statistics, private-market comparables, as well as implied market expectations. Assessing and minimizing downside risk is also important, and if there is not an adequate margin of safety, they will not invest.

Ariel had been a sub-advisor since the inception of Masters' Select Smaller Companies Fund, almost four years ago. It is Litman/Gregory policy not to comment on the reasons for removing a Masters' Select manager. Nevertheless, we feel compelled to say that we continue to have a very high level of respect for the Ariel organization and we are disappointed that the relationship did not work out as we both expected. The Q&A posted on [www.mastersfunds.com](http://www.mastersfunds.com) generically lists the reasons for making a sub-advisor change.

## About the Masters' Select Smaller Companies Fund

Masters' Select Smaller Companies Fund seeks long-term growth by investing in stocks of small and mid-sized companies. Working independently, each manager runs a portfolio composed of no fewer than 8 or more than 15 of his most compelling stock picks. The multi-manager structure results in a broadly diversified portfolio in terms of styles, industries, and stocks. Typically, the fund holds between 50 and 75 stocks.

Sub-Advisors	Firm	Target Allocations	Style
Bob Rodriguez	First Pacific Advisors	20%	Value
Jeff Bronchick and Tom Kerr	Reed Conner & Birdwell	20%	Value
Dick Weiss	Wells Capital Management	20%	GARP
Mike Malouf and Tucker Walsh	Copper Rock	20%	Growth
Bill D'Alonzo & Team	Friess Associates	20%	Growth

**Mutual fund investing includes risk, loss of principal is possible. Investing in small companies subjects investors to additional risks, including security price volatility and less liquidity than investing in larger companies.**

*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1-800-960-0188 or visiting [www.mastersfunds.com](http://www.mastersfunds.com). Read it carefully before investing.*

**Litman/Gregory Fund Advisors, LLC has ultimate responsibility for the performance of the Masters' Select Funds due to its responsibility to oversee the Funds' investment managers and recommend their hiring, termination and replacement.**

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