PartnerSelect Funds
LITMAN GREGORY

PartnerSelect SBH Focused Small Value Fund

PFSVX

Overview

- The Fund seeks long-term growth of capital; that is, the increase in the value of your investment over the long term.
- We believe what differentiates this strategy is the managers' potential, through fundamental analysis, to identify the building blocks of higher profitability before it is recognized by the market; that is their edge.
- Led by experienced and successful co-managers who are disciplined and committed stewards of investor capital
- A focused portfolio in a less-efficient asset class
- Limited asset capacity (approximately $300M)
- Litman Gregory's 30+ years of intensive manager due diligence

Fund Facts

Min. Initial Investment (Instl)	$10,000
Min. Initial Investment (Retirement)	$1,000
Gross Expense Ratio	1.29%
Net Expense Ratio	1.15%
Institutional Cusip #	53700T 306

The gross and net expense ratios can be found in the most recent Summary Prospectus (7/23/2020). There are contractual fee waivers in effect through 4/30/2021. While the fund is no-load, management and other expenses still apply.

Contact

To learn more, contact our team at (925) 254-8999 or team@mastersfunds, or visit www.mastersfunds.com.

Fund Sub-Advisor

Segall Bryant & Hamill—Mark Dickherber & Shaun Nicholson

Small-cap value-oriented investors who seek to identify companies with the potential for significant improvement in return on invested capital (ROIC) before it is recognized by the market. Evaluating managements' plans for improving returns is critical, as is having managements' financial incentives aligned with higher ROIC goals. The team looks for stocks with a 3:1 upside/downside ratio, and stocks are sold when improved returns are reflected in stock prices.

Q&A

Why did we create this fund?

Our new offering in the PartnerSelect Funds lineup is an exceptional example of the value we're hoping to bring to the marketplace. It's a focused portfolio in an asset class that we believe is less efficient. The fund has very limited asset capacity and is led by Shaun Nicholson and Mark Dickherber, two skilled portfolio managers with a strong commitment to shareholders.

Our due diligence work has identified these managers as having an edge over the market in identifying companies with the high potential to significantly improve profitability. Not only do we believe they have an edge, we think it can persist over time.

Nicholson and Dickherber have demonstrated a strong desire to succeed for shareholders and personal financial gain is not what drives them. They have stepped away from significant assets to focus solely on this value strategy, whereas many managers often go the other direction and add strategies, which ultimately dilutes their focus. And they have committed to managing a very low overall asset level that preserves their ability to execute this strategy without the negative effects that come from too large an asset base. For that reason, the capacity for this fund is extremely limited. Our conviction in Nicholson and Dickherber as strong, committed stewards of capital and as exceptional investors is extremely high and is supported by an exceptional track record running this concentrated strategy, which they created more than six years ago at our urging.

Please describe the research process for selecting securities.

The research process is both quantitative and qualitative. The team runs proprietary quantitative screens to identify potential investment candidates. The team then ranks the universe by deciles at the industry level to create a list of the most attractive names based on relative underperformance over two-year and five-year timeframes versus peers. This process allows the team to identify underperforming companies with low embedded expectations while mitigating downside risk. The most significant portion of this screening process is applying this output into their proprietary ROIC Dashboard to confirm which companies are candidates for additional research by the team. The analysis focuses on a contrarian, independent, and bottom-up approach that seeks to identify companies with the potential for large improvements in ROIC. Also, each analyst will review the environmental, social, and governance factors—primarily social and governance—within each company to better understand the management team's goals before being selected for further due diligence.

The team independently analyzes each company within its ROIC Dashboard and scenario-tests the company's valuation to understand the opportunities and risks, identify catalysts, and better determine what the market may be missing. This deep understanding is accomplished through rigorous communication with management teams as well as site visits to analyze the operations of potential investments. The team also focuses significant attention on how a potential investment has structured its management's incentive compensation programs to gauge how aligned the company is with its view of value creation. Through this process, the team determines the merits of purchase based on reward/risk ratios and expected catalysts. While companies with assets and multiple divisions are more conducive to the philosophy and process, the investment approach and the ROIC Dashboard helps to assess service-related businesses and companies with only one division very well.

What do you see as the key return drivers of the investment approach (top-down, bottom-up, etc.)?

Security selection is most integral to the portfolio construction process. The managers will purchase securities with a significant discount to intrinsic value, where they believe improving ROIC can have a large impact on company valuation. Sector selection, asset allocation, and diversification are taken into consideration when screening stocks for more in-depth due diligence. The focus is specifically on companies with substantial relative underperformance versus peers and with the potential to significantly improve ROIC. The managers do not look at traditional valuation measures of price-to-earnings but rather how the company is trading relative to its ROIC improvement potential. The team's consistent process has led to the strategy consistently adding value via security selection since the strategy's inception. The strategy has outperformed the Russell 2000 Value Index in 100% of sectors since the strategy's inception.

What makes this fund distinct from others in the category?

The goal is to identify companies with improving ROIC, which the team believes is the biggest driver of long-term shareholder value. ROIC, in its simplest form, is the return a company earns on each dollar it invests. The ROIC formula takes net operating profit after tax and divides it by total invested capital. When a company earns an ROIC above its weighted-average cost of capital (WACC), it is generating value for shareholders. We believe the market is inefficient due primarily to investors' lack of focus on investing in those companies with the potential to drive improvements in ROICs (e.g., undertaking new projects, management/culture change, or a new strategic direction).

The team uses a rigorous and proprietary research process to identify companies believed to have the largest opportunities for significant improvement in ROIC that are not reflected in the current stock price of the company. This process is designed to uncover investments that have the potential to offer consistent returns over time and downside mitigation through market cycles.

What is the return expectation over a full market cycle?

We expect the fund to outperform the Russell 2000 Value benchmark over a market cycle, while being cognizant of downside risk. The fund does not have set risk/return objectives or specific targets but instead runs scenario analysis to understand risk and reward. Securities in the fund need to have a minimum 3:1 upside/downside ratio to be considered for purchase, while existing holdings are continually monitored for reward/risk to determine the appropriate position size throughout the ownership period.

How do the managers manage risk?

The PartnerSelect SBH Focused Small Value team thinks about risk at the individual security level, but risk is defined on an absolute basis and relative basis. They strive to understand how market volatility can affect each company's ROIC profile. If they believe they are being adequately compensated for taking on the risks associated with the company's ROIC profile, they will begin executing due diligence.

They manage this risk by mitigating exposure in the portfolio and continually monitoring the performance and allocation of capital through their ROIC Dashboard. Individual positions for a single security are limited to 10%, but to mitigate risk, in practice individual securities are usually capped at 5% to 6%. When the team conducts scenario and sensitivity testing, they determine what the initial position size of the security should be. In addition, the team does not exceed greater than 225% of any sector compared to the benchmark.

How do you expect the fund to perform in bull and bear equity markets?

The success of the product is evaluated based on the team's historical ability to generate consistently strong risk-adjusted returns over time on behalf of shareholders. Evaluating the PartnerSelect SBH Focused Small Value strategy from a relative performance and peer group comparison perspective, the strategy is engineered to add value while preserving capital, with a focus on investing in companies that have lower embedded expectations, which mitigates downside risk. The strategy has typically done well in more "normal" steady-growth environments as well as in volatile markets. The strategy has outperformed its benchmark (Russell 2000 Value Index) in most years since inception and through multiple market cycles[1]. We believe this outperformance is attributable to the team's detailed research process, which focuses on companies that are driving improvement in their ROIC.

[1]As of May 31, 2020. For information regarding the performance of the strategy, please read the prospectus. You should not consider strategy performance as an indication of future performance of the Fund.

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How confident are you that the managers will be able to continue delivering a similar level of relative outperformance?

When evaluating fund managers, we look for an "edge," something that distinguishes an investment team from the pack. What we think differentiates these managers is their clear focus on identifying positive change with respect to capital allocation, which is often a precursor to improved and sustained profitability. We are aware of managers who look at returns on capital as an indicator of company performance, but Dickherber and Nicholson use it as a tool to understand where there's room for improvement. They study a business, breaking it down into segments (when applicable), to understand the drivers and detractors of returns. This analysis is used to challenge management on their capital-allocation plans. Their analysis is not just about listening to management's plans for cost-cutting, acquisitions, divestures, etc. It's about understanding the whys and hows around specific return-improving strategies as well as a compensation structure that appropriately motivates management to maximize returns. Our sense is that their approach puts them a step ahead of most investors via their goal of identifying potential drivers of improving (as well as deteriorating) returns.

They have demonstrated a desire to learn from their mistakes and have implemented process improvements. For example, they have studied portfolio attribution and reduced the number of holdings from 110 to roughly 80 after learning that their biggest contributors to performance have come from their larger positions. (This analysis led to the development of this 30-stock separate account.) The PartnerSelect SBH Focused Small Value Fund has the flexibility to hold between 20 and 40 holdings, with 30 holdings being the center of gravity.

Fewer holdings is a positive in our view, as fewer names helps to ensure the team is not stretched in their coverage and allows them to put more time into existing names. But most importantly, we think their reduction in names can result in better absolute and relative performance.

We are confident that the fund can outperform the small-cap value benchmark over time. We also expect the fund to outperform the blend benchmark over a market cycle. Investors should keep in mind that the managers are benchmark agnostic, and there may be periods where the fund is out of sync with the value benchmark.

Past performance does not guarantee future results. Index performance is not illustrative of fund performance. An investment cannot be made directly in an index. This fund is new and performance information is not available. Once performance is available, it may be obtained by calling 1-800-960-0188 or by visiting www.mastersfunds.com.

The performance goals are not guaranteed, are subject to change, and should not be considered a predictor of investment return. All investments involve the risk of loss and no measure of performance is guaranteed. The fund aims to deliver its return over a full market cycle, which is likely to include periods of both up and down markets.

The fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 1-800-960-0188. Read it carefully before investing.

Investing in small companies subjects investors to additional risks, including security price volatility and less liquidity than investing in larger companies. Though not an international fund, the fund may invest in foreign securities. Investing in foreign securities exposes investors to economic, political and market risks and fluctuations in foreign currencies. These risks are greater for investments in emerging markets.

Diversification does not assure a profit nor protect against loss in a declining market.
Mutual fund investing involves risk. Principal loss is possible.

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

Return on Invested Capital (ROIC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. Return on invested capital gives a sense of how well a company is using its money to generate returns.

Net Operating Profit After Tax (NOPAT) is a financial measure that shows how well a company performed through its core operations, net of taxes.

The weighted average cost of capital (WACC) is a calculation of a firm's cost of capital in which each category of capital is proportionately weighted. All sources of capital, including common stock, preferred stock, bonds, and any other long-term debt, are included in a WACC calculation.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Price to earnings ratio (P/E Ratio) is a common tool for comparing the prices of different common stocks and is calculated by dividing the current market price of a stock by the earnings per share. Similarly, multiples of earnings and cash flow are means of expressing a company's stock price relative to its earnings per share or cash flow per share, and are calculated by dividing the current stock price by its earnings per share or cash per share. Forecasted earnings growth is the projected rate that a company's earnings are estimated to grow in a future period.

Upside/downside capture is a statistical measure that shows whether a given fund has outperformed--gained more or lost less than--a broad market benchmark during periods of market strength and weakness, and if so, by how much.

Indexes are unmanaged, do not incur expenses, taxes or fees and cannot be invested in directly.

The Fund is new and has a limited operating history.

The Litman Gregory PartnerSelect Funds are Distributed by ALPS Distributors, Inc.

LGM000965 exp. 2/28/2021