BARRON'S
THE DOW JONES BUSINESS AND FINANCIAL WEEKLY www.barrons.com MARCH 24, 2014

David Rolfe limits his RiverPark/Wedgewood fund to about 20 stocks. Risky? Maybe. But the fund has a strong record.

(this article has been excerpted)

Talking With David Rolfe

Porfolio Manager, RiverPark/Wedgewood Retail fund

High Conviction

by Lawrence C. Strauss

DAVID ROLFE'S INTRODUCTION TO PORTFOLIO MANAGEMENT CAME AFTER A ROCKY START at the University of Missouri in 1980. Many students "went to the big party school, and they would come home with their tail between their legs," recalls Rolfe, now 52.

Count Rolfe among them.

Having washed out as an engineering student, Rolfe returned home and re-enrolled at the university's St. Louis campus, switching his focus to finance and economics. Rolfe signed up for an investing class, "and I was hooked the very first day," he says.

Thirty years later, Rolfe is now running $7.7 billion as the chief investment officer of Wedgewood Partners, a suburban St. Louis asset manager. The firm subadvises the RiverPark/Wedgewood Retail fund (ticker: RWGFX), a $1.5 billion large-company growth fund.

Rolfe hews to an investment philosophy that he began early in his career, managing money at a trust bank in St. Louis: He likes a very concentrated portfolio, now 21 holdings; low turnover, 20% last year; and above-average earnings growth without above-average pricing. Add to that a contrarian streak, such as making Apple (AAPL) the fund's second-largest holding at a time when many growth managers have thrown in the towel on that stock.

The large growth-stock sector is a tough place in which to shine, given how many analysts and money managers follow these companies. But Rolfe "knows he's trafficking in an efficient, competitive space, and that he might not be able to out-trade, out-analyze" or get more information than some investors do, says Daniel Culloton, associate director of fund analysis at Morningstar. "But he can outwait people, focus on a small subset of companies, try to buy them at an inefficient price, and hold them for a long time." And

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that is what Rolfe does, with good results.

Launched 3½ years ago, the fund's three-year total return is 18.7%, besting the S&P 500 by 2.7 percentage points and putting it in the top 12% of Morningstar's large-cap growth category. Rolfe's track record for the same strategy in Wedgewood's separately managed accounts is similarly impressive, and goes back more than 20 years.

RiverPark/Wedgewood Retail

	Total Returns* 1-Yr	3-Yr	5-Yr
RWGFX	25.9%	18.7%	N/A
S&P 500	23.2	16.0	N/A

Top 10 Holdings	Ticker	% Of Portfolio**
Berkshire Hathaway	BRK.B	9.3%
Apple	AAPL	8.8
Express Scripts Holding	ESRX	6.6
Qualcomm	QCOM	6.2
Cognizant Tech Solutions	CTSH	5.9
EMC	EMC	5.8
M&T Bank	MTB	4.8
Cummins	CMI	4.4
Stericycle	SRCL	4.3
Perrigo	PRGO	4.2
Total:		**60.3%**

*All returns are as of 3/18/14; three and five year returns are annualized.
** as of 3/07/14. Source: Morningstar, Wedgewood Partners

The biggest risk in such a concentrated fund—the top 10 holdings account for 60% of assets—is that one or two bad picks can stymie performance. But for Rolfe, a 22nd stock wouldn't add any meaningful diversification. "We don't own two or three megabanks or two or three pharmaceutical companies," he says. "A portfolio of 20 businesses that have largely different business models and different paths to profitability is more than enough diversification."

So far, Rolfe's fund has shown that to be true: RiverPark/Wedgewood Retail has not been demonstrably more volatile than the broad market. One measure of a fund's riskiness is standard deviation, which analyzes volatility. This fund's standard deviation over three years is 12.6, barely higher than the S&P 500's 12.5, according to Morningstar.

Berkshire Hathaway (BRK.B) is the fund's largest holding. Rolfe insists that Warren Buffett "has built an underappreciated, perpetually growing cash-generation machine," with underlying businesses—especially insurance, railroad freight, and manufacturing—that will "continue to prosper." Buybacks also play a big role: In his most recent letter to shareholders, Buffett noted that if the shares go down to 1.2 times book value, "we will be aggressive" in repurchasing stock. The B shares, he estimates, are worth at least $150, versus their recent price of $123.

Buffett himself was on the syllabus for the pivotal class that shaped Rolfe's investment philosophy and introduced him to big thinkers, such as Sir John Templeton, Benjamin Graham, David Dodd, and John Maynard Keynes. Rolfe began his career at PaineWebber, but he never settled into the role of a "transaction-oriented stockbroker," as he puts it. A high-conviction approach, culled from his studies, struck him as necessary "to have any chance to outperform."

In 1992, Rolfe joined Wedgewood Partners, a small money manager in the St. Louis area that was seeking a chief investment officer. Tony Guerrerio, president and CEO, hired the 30-year-old because his investing style dovetailed with the firm's view. "We are not overly concerned with shortterm ups and downs, and Dave was right in line with that," says Guerrerio.

Rolfe's style and success at Wedgewood got the attention of RiverPark Capital founders Morty Schaja and Mitch Rubin, who tapped him to subadvise one of their first funds. "You should be able to apply a value orientation to growth investing, and that's something David had been doing for 20-plus years," Schaja says.

That mindset led Rolfe to Apple. "Its growth rates hit a brick wall, and many growth managers have just thrown Apple into the dustbin of history, thinking it will never be a decent growth company again," says Rolfe, who disagrees, citing the company's successful rollout of the iPhone 5s and 5c. Plus, "Apple can buy back an enormous amount of shares," adds Rolfe, who puts Apple's fair value at $675, more than 25% higher than its recent price of $531.

Similarly, Rolfe likes the fiscally responsible Express Scripts Holding (ESRX), a pharmacy-benefit manager that paid $29 billion to buy Medco in 2012. The company is paying down debt and buying back shares, and the expected rollout of more generic drugs in the next few years will help its bottom line. "It's a unique situation—you can have flat revenue but double-digit earnings growth," Rolfe says. He argues that the stock is worth at least $90, versus $77 now.

Another favorite is M&T Bank (MTB). It trades at 15.4 times expected 2014 earnings, very reasonable for a bank that should have double-digit earnings growth in 2015, Rolfe says, thanks in part to its pending acquisition of Hudson City Bancorp (HCBK). M&T's purchase of the large New Jerseybased bank should close by the end of this year, and will add scale to an already wellrun, cost-efficient company. M&T has loyal customers and a lot of employees with strong ties to their communities, fostering strong, long-term banking relationships. ■

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Standard Performance as of 12/31/2013: **RWGFX**: 1 Year: 29.18%, Since Inception: 19.55%. Gross Expense Ratio: 1.05%. Inception Date: 9/30/2010.

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