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New Growth, Rooted in Experience

By Christopher Davis

RiverPark's founders apply the lessons they learned at Baron Capital to their own slate of funds.

To get back to your roots, sometimes you have to uproot yourself first.

That is what Morty Schaja and Mitch Rubin did. The Baron Capital expatriates founded RiverPark in 2006 believing that their longtime former employer had become too big for its breeches. By the time they left, Baron had amassed more than $15 billion in assets—a tremendous sum for the small-cap-focused firm.

Baron had become large for good reason. Flagship offering Baron Growth BGRFX boasted a sterling long-term record and sailed through the early-2000s bear market relatively unscathed. However, such success changed the firm. Unable to invest in smaller names as easily, its portfolios became less concentrated and increasingly reliant on mid-caps. The small-cap funds were already closed to new investors, but Schaja, then Baron's president and COO, says he urged firm founder Ron Baron to turn away money from existing shareholders as well. Baron refused, and assets swelled further.

"What had made Baron special no longer was the case," Schaja says.

In March 2006, both Schaja, now RiverPark's CEO, and Rubin jumped ship. (We asked Baron for a comment, but as of our publication deadline, we hadn't heard from the firm.) Between 2006 and the recent launch of their retail offerings, the pair operated a hedge fund, which they fortuitously shut down before 2008's autumn credit crisis.

Keeping It Lean

Not surprisingly, the pair at RiverPark will seek to avoid Baron's mistakes. RiverPark launched two mutual funds in September 2010, with Rubin taking the lead manager role of RiverPark Large Growth RPXFX. While capacity issues are unlikely to afflict that fund, Rubin and Schaja pledge to close RiverPark Small Cap Growth RPSFX when assets reach between $1.5 billion and $2 billion. (With around $4 million in assets, the fund is a very long way from reaching this feat.) Instead of attempting to manage unwieldy amounts themselves, Schaja says that they'll grow the firm by partnering with other asset managers, such as St. Louis-based Wedgewood Partners. RiverPark is also seeking SEC approval to launch actively managed ETFs. Schaja expects to do so through the partnership route initially, though the Large Growth strategy could be available in the ETF format as early as the second half of 2012 or in 2013. (RiverPark previously offered its funds as ETFs through Grail Advisors, but the agreement ended after Grail sold itself to Ameriprise in May 2010.)

Baron hired a raft of analysts to accommodate growth, but Rubin emphatically says that he won't ever build a large team of his own. "Baron was at its best when it was me and [firm founder] Ron Baron going out and visiting companies," he says. At RiverPark, Rubin and cohort Conrad van Tienhoven, a former Baron analyst with whom he worked closely, meet with company managements and use a lean supporting cast to back them up. This group includes a former reporter, who provides on-the-ground research, and an accounting specialist, who helps build financial models. An army of analysts with industry specialties, Rubin argues, creates pressure to hold stocks across all sectors to justify its existence. Rubin says that he has the flexibility to direct his Spartan staff toward wherever he and van Tienhoven sniff out opportunities.

Baron's First Analyst

This isn't to say Baron didn't leave a positive mark. Rubin joined the firm in 1995 after a stint as a Smith Barney analyst covering emerging-growth stocks, where he grew disenchanted with the broker's fixation on quarterly earnings. If a company fell short of its earnings expectations by a whisker, Rubin's boss would press him to downgrade its stock, even if its long-term prospects remained strong. But these sorts of names were fodder for one client: Ron Baron, a small-cap growth investor with a long-term approach. Baron asked Rubin to join his firm as its first analyst.

Early on, Rubin cut his teeth covering retail, gaming and lodging, and real estate stocks, areas that have long been the Baron firm's bread and butter. He also built financial models and dug deep into companies' accounting, nicely complementing Ron Baron's softer expertise, which was to size up the quality of company managements. Baron strongly favored entrepreneurial CEOs, an affection Rubin embraced as well. "I don't like professional managers, but I like entrepreneurs," he says.

Baron also helped solidify Rubin's belief in "time-horizon arbitrage"—the idea that a long time horizon gives investors an edge. Much of Wall Street obsesses over near-term factors, enabling longer-term investors to profit from opportunities that the competition has yet to notice. Just as at Baron, Rubin and van Tienhoven build detailed financial models projecting companies' revenues and earnings five years into the future.

Such perspective enables the managers to stick with stocks when they fall from favor. Take the top holding of the Large Growth fund, Equinix EQIX, which operates data centers for companies around the globe. Last October, the company announced its revenues would slightly fall short of Wall Street expectations in the coming quarter, leading to a big drop in its share price. Yet earnings still topped investor estimates, and the revenue shortfall stemmed from one-time items. Rubin and van Tienhoven still believed that the company's long-term prospects remained strong, citing data indicating that demand for data centers was twice as high as supply in the United States and even higher abroad. They pointed out that two competitors sold at a substantial premium to Equinix's valuation, validating their conviction the stock was mispriced.

Big Themes

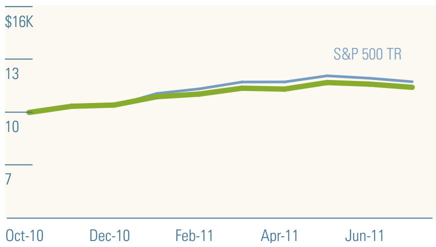
Top-down considerations also drove the managers to Equinix. They don't attempt to predict macroeconomic factors like interest rates and GDP growth. But they identify "megatrends," (such as the explosion of data and Internet use) translate these trends into investment themes, and look for companies poised to benefit. With data-storage needs increasing rapidly, users increasingly find it cheaper and more convenient to store data in centralized warehouses, accessible anywhere there's an Internet connection, than on their own hardware—a heady tailwind for data-storage providers like Equinix.

The managers don't bet big on any one stock. Rubin expects Large Growth to hold between 40 and 60 stocks, making it relatively compact but not extremely concentrated. (The average large-growth fund has about 100 positions.) No single position soaks up more than 5% of assets. Rubin doesn't formally bind the fund's sector exposure, though he won't invest more than 15% of the portfolio in any one theme.

These constraints are loose enough to give Rubin plenty of room to distinguish Large Growth from the competition. While top-10 holdings Apple AAPL and Google GOOG are commonplace in large-growth portfolios, others, such as Equinix and Dollar Tree Stores DLTR, aren't. In fact, no other fund in the category has higher stakes in the stocks. These aren't isolated examples, either. In fact, Rubin's portfolio is notably different than those of his rivals or major growth benchmarks. Large Growth's active share, a measure of portfolio overlap, versus the Russell 1000 Growth Index clocked in at 81%, meaning just 19% of its holdings matched the bogy's. There's no doubting Rubin's predilection for

Mitch Rubin

RiverPark Large Growth RPXFX



Category Large Growth	**Expense Ratio** (%) 1.25*
Morningstar Rating —	**6-Mo Anl Total Rtn** (%) 4.89
Minimum Investment $1,000	**6-Mo Anl TR % Rank Cat** 64

*Prospectus
Data as of June 30, 2011

growth stocks. More than 80% of Large Growth's holdings land in the growth column of the Morningstar Style Box. Even so, the financial sector, typically a favorite area for value hounds, accounts for 25% of assets, far more than the 7% large-growth average and 4% for the Russell 1000 Growth Index. Rubin's holdings are driven by big-picture trends, such as growing use of electronic payments—explaining the fund's investments in credit and debit card issuers Visa V, MasterCard MA, and American Express AXP.

Little Room for Error

Meanwhile, technology also soaks up one fourth of the Large Growth fund, though that's about 5 percentage points less than the Russell 1000 Growth Index's weighting and the large-growth norm. Rubin steers clear of highly cyclical, commoditylike semiconductor producers, preferring service and software providers like Cognizant Technology Solutions CTSH and Salesforce.com CRM. These firms tend to sign long-term contracts with customers, creating steadier, more-predictable earnings streams.

Tech can pose a challenge to Rubin's valuation discipline. He looks for stocks trading at reasonable price multiples, but the sector has historically traded at lofty valuations. Rubin will invest where prices appear high based on Wall Street expectations as long as they look a lot cheaper when he plugs in his own earnings estimates. For his numbers to work, he has to rightly identify companies with misunderstood growth prospects.

That's the case, Rubin says, with Apple, Large Growth's third-largest holding. Rubin says that even with a market cap second only to Exxon Mobil XOM, Apple has room for rapid growth, explaining that its share in most of the end markets it serves remains small, especially overseas. Investors continue to underestimate the iPhone's potential in developing markets, he argues, and he expects the iPad to dominate tablet sales. Given these prospects, he says Apple is a bargain.

Rubin will have to get calls like those consistently right, as his portfolio's valuations give him little margin of safety. Large Growth's median holding trades at 19.4 times next year's earnings estimates, well above 15.7 for the Russell 1000 Growth Index and 16.7 for the large-growth average. Even where Rubin correctly gauges companies' long-term prospects, his reliance on relatively pricey stocks will likely bite in volatile markets.

To be sure, Rubin's short manager tenure says nothing about whether he can make such volatility worthwhile. His success at Baron inspires confidence, though. His first solo assignment, Baron iOpportunity BIOPX, the firm's more-cautious answer to a tech fund, launched in March 2000. Despite the highly inauspicious launch date, Rubin acquitted himself well: Between March 2000 and February 2006, the fund returned 0.4% per year, nothing to write home about in absolute terms but a lot better than the 5.3% slide suffered by the typical large-growth fund and far superior to the typical tech fund's 15.6% plunge during the period. Rubin also led Baron's first foray into large caps at Baron Fifth Avenue Growth BFTHX in May 2004. Between then and his March 2006 departure, Rubin returned 15.2% annually, beating the large-growth average by 3.4%.

Tiny-Asset-Base Dilemma

Despite those numbers, Rubin's young fund has evaded notice, with a minuscule $3.2 million in assets. Some advisors see this as an advantage. "Sometimes there's a gap between investing expertise and marketing expertise," says Jim Lebenthal of Alexander & James, a New York-based wealth-management firm. "It's a good situation to find yourself in." Lebenthal likes Rubin's willingness to go off the beaten path. "With Mitch and his team, you get new, innovative ideas," he says.

The fund's diminutive size presents a chicken-and-egg dilemma, though.

Joel Isaacson, founder of planning firm Joel Isaacson & Co., has known Schaja and Rubin since their days at Baron, and he's confident in their abilities. But Issaacson says that he can't establish a meaningful position for his clients—he says he has about $4 billion under management—without swamping the fund with money. So, Isaacson wants RiverPark to get more traction before fully diving in. (For now, he's invested a slice of his employee profit-sharing plan in RiverPark funds.)

Lebenthal shares this concern. He's happy to be an early investor but says that he's been putting client dollars to work slowly.

Schaja and Rubin acknowledge the difficulty of attracting investors to their shop. But the pair appears passionate and happy to be rooted in their new soil. It just may take time to show that their firm's funds can bear fruit.

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Performance through 6-30-2011 for the RiverPark Large Growth Fund: 0.89% (3 month) and 14.41% (since inception) for the Institutional share class and 0.89% (3 month) and 14.26% (since inception) for the retail class. Inception date is 9/30/2010. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 888-564-4517. Expense ratios are: Institutional class: 2.40% (gross); 1.00% (net); retail class: 2.65% (gross); 1.25% (net). Fee waivers are contractual and subject to annual approval by the Board of Trustees. Waivers will remain in effect unless the Board approves modification or termination.

To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information may be found in the Fund's prospectus, which may be obtained by calling 1-888-564-4517 or by visiting the website at www.riverparkfunds.com. Please read the prospectus carefully before investing.

Mutual fund investing involves risk including possible loss of principal.

Top 10 holdings of the RiverPark Large Growth Fund as of 6-30-2011 are: Equinix; Dollar Tree; Google; Monsanto Co.; CME Group; American Express; Apple, eBay; Carnival Corporation and Blackstone Group, LP. Top 10 holdings represent 35.4% of the portfolio. Holdings are subject to change and current and future holdings are subject to risk.

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Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Investors cannot invest directly in an index

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