RIVERPARK FUNDS

# RiverPark Large Growth Fund
## (RPXIX/RPXFX)

### Second Quarter 2023 Performance Summary

**Performance: Net Returns as of June 30, 2023**

| | Current Quarter | Year to Date | One Year | Three Year | Five Year | Ten Year | Since Inception |
|---|---|---|---|---|---|---|---|
| **Institutional Class (RPXIX)** | 13.23% | 32.02% | 30.74% | 0.38% | 6.92% | 9.88% | 11.29% |
| **Retail Class (RPXFX)** | 13.19% | 31.82% | 30.40% | 0.11% | 6.63% | 9.59% | 11.00% |
| **Morningstar Large Growth Category** | 11.00% | 23.92% | 22.54% | 9.35% | 10.98% | 12.62% | 12.64% |
| **Russell 1000 Growth Total Return Index** | 12.81% | 29.02% | 27.11% | 13.73% | 15.14% | 15.74% | 15.64% |
| **S&P 500 Total Return Index** | 8.74% | 16.89% | 19.59% | 14.60% | 12.31% | 12.86% | 13.46% |

*Inception date of the Fund was September 30, 2010.*

*Performance quoted represents past performance and does not guarantee future results. Performance shown for periods greater than one year are annualized. 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 higher or lower than the performance quoted. High short-term performance is unusual and investors should not expect such performance to be repeated. For performance data current to the most recent month end, please visit the website at www.riverparkfunds.com or call 1-888-564-4517.*

*Gross expense ratios, as of the prospectus dated 1/26/2023, for Institutional and Retail classes are 0.95% and 1.23%, respectively.*

*Index performance returns are for illustrative purposes only and do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an Index.*



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Markets performed well for the second quarter of 2023 with the S&P 500 index ("S&P") and the Russell 1000 Growth index ("RLG") returning 8.7% and 12.8%, respectively. The RiverPark Large Growth Fund Institutional and Retail shares also both performed well, returning 13.2% and 13.2% respectively.

Beyond the company-specific news, which we discuss below, the macroeconomic picture continued to benefit our portfolio.

First, inflation data continued to improve, including better than expected readings in PPI, ISM Prices Paid, average hourly earnings growth, and University of Michigan One Year Inflation Expectations. June inflation measured by the Consumer Price Index (CPI) came in at 3.0%, down from 9.1% in June of 2022, and 7.0% in December 2022. Core CPI, which excludes food and Energy, declined from a peak of 6.6% in September of 2022 to a June reading of 4.8%.

Second, the macroeconomy held up better than expected in the face of historical rate increases. 1Q GDP growth (reported in June) was 2.0%, ahead of economists' expectations of 1.4%. In addition to better-than-expected GDP growth, strong payroll numbers, sustained low unemployment, and rebounding consumer sentiment and retail sales have caused expectations for 2Q GDP growth to rise.

As a result, a soft-landing scenario is now more likely. In addition, the market's expectation of any Fed-led macro slowdown seems to have been pushed out several quarters and likely into 2024.

Although we do consider the macroeconomic picture when deciding on position sizing, our bottom-up process does not attempt to predict macro moves. Regardless of the timing or severity of any Fed-induced macro slowdown, we believe we own an amazing portfolio that, by and large, already suffered a recession-like selloff last year, and that, even after a strong rally in growth stocks, trades at deep discount to 2021/2022 highs and a deep discount to individual company intrinsic values.

A note on portfolio construction. There has been much commentary on the narrowness of today's stock market and how a few, mostly tech companies, are driving market returns. These top stocks have been dubbed the "Magnificent Seven" in many recent articles[1]. We agree that these stocks are magnificent and in fact own six of them (Apple, Microsoft, Alphabet, Amazon, Nvidia, and Meta Platforms, but not Tesla).

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[1] Francia, C. A. (2023, June 23). Markets brief: The "magnificent seven" stocks have driven the rally, but are they too expensive now? Morningstar, Inc. https://www.morningstar.com/markets/markets-brief-magnificent-seven-stocks-have-driven-rally-are-they-too-expensive-now and Phillips, M. (2023, June 16). The stock market's high-flyers have a new nickname - Axios. https://www.axios.com/2023/06/16/the-stock-markets-high-flyers-have-a-new-nickname

These seven names together generated 72% of the Russell 1000 Growth's returns for both 2Q23 and YTD. While these names contributed a healthy 49% of RPX's 2Q23 positive returns, where we differ from the index is that our next seven names, (UBER, Shopify, Intuitive Surgical, Netflix, DataDog, ServiceNow, and Adobe) also generated a similar percent of our overall returns (47%). Thus, we are less reliant on the Magnificent Seven than the market as a whole, and, even though we are very bullish on the prospects for the Magnificent Seven (or in our case Six), which represent some of our largest holdings, our risk management position limits actually cause us to be underweight those stocks relative to their extreme weightings in most indices, particularly the RLG.

Thus, while we are sensitive to the analysis that this is not a very broad rally, we believe we have a deep bench of attractively valued strong growers that make the Fund's recent outperformance more robust than that of the indices.

## Portfolio Review

### New Investments

**Costco**, founded in 1983, is the world's third-largest retailer with 850 stores, $240 billion in revenue and 68 million members spread across North America, Europe, Asia, and the Southern Pacific Region. The company is known for its strong value proposition driven by high-quality low-cost offerings including a well-regarded private-label brand. Costco regularly ranks at the top of customer surveys related to brand trust, product price and quality, and all-around experience. Historically, 90% of the company's shoppers renew their memberships, which generate more than 50% of operating income.

Through expanding market share, new store openings, increasing member productivity, and omnichannel expansion, we believe the company can grow revenues annually in the high single digit percentage range. This revenue growth should yield steadily growing margins and EPS growth in the low-to-mid-teens, which should drive shareholder returns in the same range.

**Zoetis** is the global leader in animal health with more than $8 billion in annual revenue from the discovery, manufacture, and commercialization of animal health medicines, vaccines and diagnostic products serving both livestock and companion animals. The company has a $50 billion addressable market today with its traditional market segments growing 6%-8% annually, driven by the secular drivers of a growing global population, increased protein consumption and growing middle class spending on pets. ZTS expects double-digit growth from its nascent markets, including immunotherapies as an alternative to antibiotics in food-producing animals, through its partnership with Colorado State University, nutrition-focused animal health enhanced by its acquisition of Platinum Performance, and detection capabilities through its acquisition of point-of-care diagnostics provider Abaxis in 2018.

The company has a durable and diversified revenue stream with a portfolio containing 12 blockbuster drugs in the market, each generating more than $100 million in annual revenue and having an average market lifespan of about 29 years, which together represent about 40% of revenue. ZTS has shifted towards higher-margin products, driving gross margin improvements and consistent growth of net income faster than revenue. The company's high operating margin (39% for 2022) allows it to invest in growth and return capital to shareholders. In 2022, the company spent $1.1 billion on research and development and capital expenditures while returning $2.2 billion to shareholders through buybacks and dividends. Over the long term, we expect the company to generate at least low-to-mid-teens EPS growth and mid-teens-plus shareholder returns.

## Top Contributors

| Top Contributors to Performance for the Quarter Ended June 30, 2023 | Percent Impact |
|---|---|
| Meta Platforms, Inc. | 1.53% |
| Uber Technologies, Inc. | 1.35% |
| Shopify Inc. | 1.30% |
| NVIDIA Corp. | 1.15% |
| Amazon.com, Inc. | 1.10% |

*Portfolio Attribution is produced by RiverPark Advisors, LLC (RiverPark), the Fund's adviser. Although RiverPark believes that its attribution methodology adheres to generally accepted standards in the industry, attribution analysis is not an exact science and different methodologies may produce different results.*

*Performance attribution is shown gross of fees. Holdings are subject to change.*

**Meta Platforms:** META shares, continuing their rebound, were the top contributor for the second quarter. The company reported 1Q23 results, beating revenue expectations and lowering guidance for operating expenses and capital expenditures, while increasing revenue expectations.

META owns multiple social media platforms, each with more than one billion users, has an 80% gross margin, and generated $20 billion of FCF in 2022. Both its Facebook and its Instagram franchises have more than 2 billion Daily Active Users and generate the bulk of the company's revenue. Recently, the company's short form video offering, Reels, has gained mass user engagement and growing advertiser adoption, which we believe will return the company to strong revenue and free cash flow growth. After its advance, META shares trade at 19x Wall Street's consensus estimates for 2024 EPS, estimates that we think could prove to be too low.

**Uber:** UBER was a top contributor for the quarter following better than expected 1Q23 earnings and 2Q23 guidance. Gross bookings of $31.4 billion were up 22% year over year. Mobility gross bookings of $15 billion grew 44% over the last year driven by a combination of product innovation and driver availability. Delivery gross bookings, also $15 billion, were up 12% from last year and accelerated through the quarter. 1Q Adjusted EBITDA of $761 million, up $593 million year over year, significantly beat management's $660-$700 million guidance and the company generated $549 million of free cash flow versus a loss last year. Management guided to continuing growth in 2Q Gross Bookings (13%-17% growth) and Adjusted EBITDA (of $800-$850 million).

UBER remains the undisputed global leader in ride sharing, with a greater than 50% share in every major region in which it operates. The company is also a leader in food delivery, where it is number one or two in the more than 25 countries in which it operates. Moreover, after a history of losses, the company is now profitable, delivering expanding margins and substantial free cash flow. We view UBER as more than just ride sharing and food delivery, but also as a global mobility platform with the ability to sell to its 130 million users (by comparison, Amazon Prime has 200 million members) and penetrate new markets of on-demand services, such as package and grocery delivery, travel, truck brokerage (the company had $1.4 billion in Freight revenue for 1Q23), and worker staffing for shift work. Given its $4.2 billion of unrestricted cash and $5 billion of investments, the company today has an enterprise value of $84 billion, indicating that UBER trades at 20x next year's estimated free cash flow.

**Shopify:** Shopify shares were a top contributor in the quarter following strong 1Q results and the announced divestiture of its logistics business. Gross Merchandise Volume (GMV) grew 15% year over year as e-commerce sales broadly rebounded and Shopify continued to take market share. Revenue grew 25% driven by increased merchant adoption of multiple products, especially Shop Pay. The company generated $86 million of free cash flow, up from a $46 million loss last year, and announced expectations to be free cash flow positive for each quarter for the rest of the year. The company had previously announced several cost savings plans, which are driving margin and free cash flow improvement, and now plans to divest its capital-intensive logistics arm. Faster growing revenue, lower operating expenses, and a less capital-intensive future were all cheered on by the market.

Last year, 10% of US retail e-commerce sales flowed through SHOP, second only to Amazon, and the company is still enjoying significant tailwinds as retail merchants of all sizes adopt SHOP's software tools to display, manage and sell their products across a dozen different sales channels. We believe that the overall growth of e-commerce, combined with the development of new products and services, such as its digital wallet Shop Pay, should continue to drive revenue growth of more than 20% per year over the next several years, accompanied by re-acceleration of operating margin growth and FCF generation.



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**NVIDIA:** NVDA shares were our next top contributor in reaction to blowout 1Q results and 2Q guidance. The company reported revenue of $7.2 billion and EPS of $1.09, 10% and 18% ahead of expectations. Revenue guidance for 2Q of $11 billion was 53% above expectations. The artificial intelligence arms race kicked-off by generative AI applications ChatGPT and Alphabet's Bard has generated tremendous demand for Nvidia's next generation graphic processors.

NVDA is the leading designer of graphics processing units (GPU's) required for powerful computer processing. Over the past 20 years, the company has evolved through innovation and adaptation from a predominantly gaming-focused chip vendor to one of the largest semiconductor/software vendors in the world. Over the past decade, the company has grown revenue at a compound annual rate of over 20% while expanding operating margins and, through its asset light business model, producing ever increasing amounts of free cash flow. Following 1Q's strong results, Jensen Huang, founder and CEO of NVIDIA stated in the company's press release, "[a] trillion dollars of installed global data center infrastructure will transition from general purpose to accelerated computing as companies race to apply generative AI into every product, service and business process."

**Amazon:** Amazon was a top contributor in the second quarter, in reaction to a solid 1Q23 earnings report. The company generated $127 billion of revenue (2% ahead of expectations) and nearly $5 billion of operating income (57% better than expectations) driven by rebounding online sales and strong incremental gross margins. During the company's earnings conference call, Amazon management pointed to easing inflationary pressures, higher productivity gains, and lower expected capital spending for the remainder of the year. The only negative in the quarter was slowing AWS revenue growth, which we believe will rebound later in the year.

With its ability to continue its market share gains in three leading businesses (e-commerce, web services and online advertising), plus a multi-year operating margin expansion opportunity (from improved e-commerce margins and greater contribution from the faster growing, higher margin AWS and advertising segments), we believe Amazon remains one of the best-positioned global growth companies in the world. AMZN shares trade at a 10-year trough EPS multiple, despite what we believe to be currently depressed margins and earnings.

## Top Detractors

| Top Detractors From Performance for the Quarter Ended June 30, 2023 | Percent Impact |
|---|---|
| Illumina, Inc. | -0.46% |
| The Walt Disney Co. | -0.41% |
| PayPal Holdings, Inc. | -0.36% |
| NIKE, Inc. | -0.35% |
| Autodesk, Inc. | -0.06% |

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*Performance attribution is shown gross of fees. Holdings are subject to change.*

**Illumina:** Illumina was our top detractor in the quarter despite reporting first quarter results that were generally in line with expectations and reaffirming full-year guidance. Uncertainty around activist investor Carl Icahn's impact on the business, the change of CEO and the possible forced divestiture of liquid biopsy subsidiary Grail (early-stage cancer screening via blood samples) all weighed on Illumina's stock price.

We continue to view the company's core genomics industry as offering one of the larger total addressable markets that we cover, and ILMN is the clear innovation leader in sequencing and array-based solutions for genetic analysis. With less than 0.02% of humans having been sequenced and 99% of the variants discovered in the genome having not yet been deciphered, Illumina, at less than $5 billion of TTM revenue, is still in its infancy in what is potentially a greater than $50 billion genetics analysis tools market opportunity. We believe Carl Icahn's involvement is neutral to slightly positive to the extent he can help the company be more disciplined on expenses. We are cautiously optimistic that EU regulators' push to force Illumina to divest Grail will lead to either or both 1) much higher core earnings or 2) a big valuation for Grail in a sale. We added to our ILMN position during the quarter; it is a core holding.

**Disney:** DIS was a top detractor in the quarter following mixed FY2Q results. Revenue of $22 billion was up 13% year over year, although EPS, at $0.93, was down 14% year over year. Disney Plus, part of the company's direct-to-consumer business (DTC), had better subscriber numbers than anticipated despite a price increase, although losses at the DTC business as a whole are growing. The linear TV business also continues to suffer secular headwinds with -10% revenue growth, and the company faced inflationary cost pressures at its theme parks.



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DIS is nevertheless blessed with a deep library of unique content that includes both live sports (providing large, non-time shifted audiences) and incomparable brands including Disney, Marvel, Pixar and Lucasfilm, as well as the ABC network. The company also has a wealth of upcoming new content, with a plan to release over 100 original titles per year on a $30 billion annual content production budget. Now that the disruption in its theme park, cruise and theatrical businesses has come to an end, we believe that Disney is among the best-positioned media companies in the new landscape to combine multi-channel and DTC distribution.

We think the return of long-time CEO Bob Iger will lead to higher and more consistent profitability at the theme parks, better value realization in the linear assets, and consolidation of the company's DTC assets leading to higher profitability sooner. We therefore expect DIS to grow its free cash flow significantly over the next 3-4 years, from its depressed $1 billion last year, returning to and exceeding its previous $10 billion peak in 2018.

**PayPal:** PayPal shares were a top detractor in the quarter despite reporting better than anticipated 1Q earnings and raising guidance for the remainder of 2023. Revenue of $7 billion grew 9% year over year, an acceleration from the prior year and quarter. EPS of 1.17 grew 33% year over year on better cost discipline leading to better operating margins. The disappointment was centered around weaker gross margins, as unbranded checkout, which has lower gross margins, accelerated faster than branded checkout. Management anticipates this trend to continue and therefore guided to lower gross margins for the remainder of the year. Despite the gross margin headwind, operating margins continue to expand due to expense discipline.

PayPal is the most accepted digital wallet – with almost triple the acceptance of Apple Pay, the number two digital wallet - providing the purest exposure to the secular growth in ecommerce-driven digital payments. PayPal is also a key beneficiary of consumer-to-consumer payment trends through its Venmo peer-to-peer (P2P) payment service. With a 1Q non-GAAP operating margin of 23%, PYPL also has significant margin expansion potential given that competitors Adyen, Visa and Mastercard have 50%-65% operating margins. We believe the combination of the secular growth of eCommerce and P2P payments, along with expanding operating leverage and the strategic use of the company's significant and growing cash balance should fuel at least a high teens earnings growth rate over the next five years. This, to us, presents an excellent risk/reward given that PYPL trades at a below market multiple.

**NIKE:** NKE shares were a top detractor in the quarter following FY3Q earnings and guidance that disappointed investors. NIKE generated 19% constant currency revenue growth, reduced excess inventory, had strong China sales, and delivered better than expected earnings of $0.79 (investors were looking for $0.64). Despite this, a 330 basis point decline in gross margins and disappointing FY4Q guidance, including continued gross margin declines and a surprise increase in SG&A, pressured the stock.



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Nike is, by far, the leading athletic footwear, apparel, and equipment company in the world with over $50 billion in revenue, $4.5 billion in 2022 annual free cash flow, and over $11 billion of excess cash. We believe that over the long term, the global secular growth trend towards active wear will continue to aid Nike's top-line growth, while we expect gross and operating margin improvements as it shifts its product mix to more premium products and adopts a more direct to consumer approach, driving long-term mid-teens or higher annual EPS growth for the foreseeable future. In the short term, we believe the company will continue to make progress working though the excess inventory the company amassed last year, similar to most US retailers, as COVID-slowed supply chains re-opened and stock-outs turned into supply gluts.

**Autodesk:** Autodesk was our next top detractor despite quarterly results reported in late May that were in line with expectations. For 1Q, revenue grew 12%, Remaining Performance Obligation (RPO) grew 15%, and the company generated $714 million of FCF, which increased 69% year over year. Profitability for the company was strong, with a 32% non-GAAP operating margin for the quarter, and management reiterated its outlook for the year.

Autodesk has a near monopoly on software for designing, building, and managing buildings, as well as software for infrastructure and manufacturing plants, prototyping software for manufacturers of products (including autos, machinery, and consumer products) and document sharing. As a result, we believe ADSK's business is very sticky. The company expects to grow revenue mid-teens annually over the next several years, and, as we have seen in similar SaaS businesses, as revenue scales, operating margins are expected to expand significantly from their current 32% to more than 40%, more in-line with peers. We believe that ADSK shares can grow along with its mid-teens free cash flow growth over the next several years.



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## Top Ten Holdings

The below charts depict the top 10 holdings as of the end of the quarter.

| Holdings | Percent of Net Assets |
|---|---|
| Microsoft Corp. | 5.2% |
| Alphabet Inc. | 4.9% |
| Apple Inc. | 4.8% |
| Meta Platforms, Inc. | 4.5% |
| Amazon.com, Inc. | 4.3% |
| Uber Technologies, Inc. | 4.1% |
| Shopify Inc. | 3.5% |
| Netflix, Inc. | 3.5% |
| Mastercard Inc. | 3.3% |
| Blackstone Inc. | 3.2% |
| | **41.3%** |

*Holdings are subject to change. Current and future holdings are subject to risk.*



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Below is a list of the weightings of these various themes in our portfolio as of the end of the quarter.

| Portfolio Themes | |
|---|---|
| Internet Media | 13.6% |
| AI/Cloud Computing | 12.4% |
| Payments | 10.2% |
| Application Software | 8.9% |
| E-Commerce | 7.8% |
| Content Streaming | 6.7% |
| Alternative Asset Managers | 5.4% |
| Healthcare Technology | 4.9% |
| Mobile Compute | 4.8% |
| Rides/Delivery | 4.1% |
| Athletic/Leisure | 3.8% |
| Communication Services | 3.6% |
| Travel Services | 2.9% |
| Healthcare Insurance and Services | 2.7% |
| Online Broker | 2.6% |
| Consumer Staple | 1.3% |

*Holdings are subject to change. This is a representative (non-exhaustive) list of the largest current themes.*

## Summary

We believe that our portfolio is comprised of an exciting group of companies that are attractively valued, are benefiting from strong secular growth trends and are poised to generate substantial and growing excess cash flow in the years to come. We believe that this bodes well for our future absolute and relative returns.

We will continue to keep you apprised of our process and portfolio holdings through these quarterly letters and welcome your feedback. Please do not hesitate to contact us if you have any questions or comments about anything we have written or about any of our other strategies.

We thank you for your interest in the RiverPark Large Growth Fund.

Sincerely,

Conrad van Tienhoven
Portfolio Manager

**To determine if the 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 summary or full 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.**

*Investing involves risk including possible loss of principal. There can be no assurance that the Fund will achieve its stated objective.*

*This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the Fund or any security in particular.*

*The Russell 1000 Growth Total Return Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The S&P 500 Total Return Index is an unmanaged capitalization-weighted index generally representative of large companies in the U.S. stock market and based on price changes and reinvested dividends. Morningstar Large Growth portfolios invest primarily in big U.S. companies that are projected to grow faster than other large-cap stocks. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an Index.*

*The RiverPark funds are distributed by SEI Investments Distribution Co., One Freedom Valley Drive, Oaks, PA 19456, which is not affiliated with RiverPark Advisors, LLC or their affiliates.*



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