RiverPark Long/Short Opportunity Fund (RLSFX) – November 2012

A Mutual Fund Observer "Star in the Shadows Fund"

Objective and Strategy

The fund pursues long-term capital appreciation while managing downside volatility by investing, long and short, primarily in U.S. stocks of all sizes. The managers describe the goal as pursuing "above average rates of return with less volatility and less downside risk as compared to U.S. equity markets." They normally hold 40-60 long positions in stocks with "above-average growth prospects" and 40-75 short positions in stocks representing firms with challenged business models operating in declining industries. They would typically be 50-60% net long, though their "target window" is 20-70%. They can invest in non-U.S. stocks but the managers do not view that as a primary focus.

Adviser

RiverPark Advisors, LLC. Executives from Baron Asset Management, including president Morty Schaja, formed RiverPark in July 2009. RiverPark oversees the six RiverPark funds, though other firms manage three of them. RiverPark Capital Management runs separate accounts and partnerships. Collectively, they have $567 million in assets under management, as of July 31, 2012.

Managers

Mitch Rubin, RiverPark's CIO. Mr. Rubin came to investing after graduating Harvard Law and working in the mergers and acquisitions department of a law firm, then the research department of an investment bank. The global perspective taken by the M&A people led to a fascination with investing and, eventually, the opportunity to manage several strategies at Baron Capital. Rubin also manages the **RiverPark Large Cap Growth Fund** and co-manages **Small Cap Growth**. CEO Morty Schaja and Conrad van Tienhoven, a long-time associate of his and co-manager on **Small Cap Growth**, assist.

Management's Stake

The managers and other principals at RiverPark have invested about $4.2 million in the fund, as of July 2012. Mr. Schaja describes it as "our favorite internal fund" and object of "the greatest net investment of our own money."

Opening Date

March 30, 2012. The fund started life as a hedge fund on September 30, 2009 then converted to a mutual fund in March 2012. The hedge fund's "investment policies, objectives, guidelines and restrictions were in all material respects equivalent to the Fund's."

Minimum Investment

$1000

Expense Ratio

3.50%, after waivers, on assets of $26 million. That includes 1.5% attributable to investment related expenses on the fund's short positions, which are unavoidable in a true long/short equity fund.

Comments

All long-short funds have about the same goal: to provide a relatively large fraction of the stock market's long-term gains with a relatively small fraction of its short-term volatility. They all invest long in what they believe to be the most attractively valued stocks and invest short, that is bet against, the least attractively valued ones. Many managers imagine their long portfolios as "offense" and their short portfolio as "defense."

That's the *first* place where RiverPark stands apart. Mr. Rubin intends to "always play offense." He believes that RiverPark's discipline will allow him to make money, "on average and over time," on both his long and short portfolios. Most long-short managers, observing that the stock market rises more often than it falls and that a rising market boosts even bad stocks, expect to lose money in the long-term on their short positions even while the shorts offer important protection in falling markets.

How so? RiverPark started with the recognition that some industries are in terminal decline because of enduring, secular changes in society. By identifying what the most important enduring changes were, the managers thought they might have a template for identifying industries likely to rise over the coming decades and those most likely to decline. The word "decade" here is important: the managers are *not* trying to identify relatively short-term "macro" events (e.g., the failure of the next Eurozone bailout) that might boost or depress stocks over the next six to 18 months. Their hope is to identify factors which are going to lift up or grind down entire industries, year after year, for as far as the eye could see.

And that establishes a second distinction for RiverPark: <u>they're long-term investors</u> who have been in the industry, and have been together, long enough (17 years so far) to learn patience. They're quite willing to short a company like JCPenney even as other investors frantically bid up the share price over the arrival of a new management team, new marketing campaign or a new pricing scheme. They have reason to believe that Penney "is a struggling, sunset business[1] attempting to adapt to . . . changes" in a dying industry (big mall-based department stores). The enthusiasm of other investors pushed Penney's stock valuation to 40-times earnings, despite the fact that "our research with vendors, real estate professionals, and consumers has produced no evidence to indicate that any of the company's plans were actually working. In fact, we have seen the opposite. The pricing strategy has proven to be confusing, the advertising to be ineffective, and the morale at the company to be poor."

[1] RiverPark defines a "sunset business" as one that has lost their competitive advantage, has their peak profits behind them, and/or has management teams whose strategic focus is misplaced.

Finally, <u>they know the trajectory of the firms they cover</u>. The team started in small cap investing, later added large caps and finally long-short strategies. It means that there are firms which they researched intensively when they were in their small cap growth products, which grew into contributors in the large cap growth fund, were sold as they became mature firms with limited growth prospects, and are now shorted as they move into the sunset. This has two consequences. They have a tremendous amount of knowledge from which to draw; Mr. van Tienhoven notes that they have records of every trade they've made since 1997. And they have no emotional attachment to their stocks; they are, they tell me, "analysts and not advocates." They will not overpay for stocks and they won't hold stocks whose prospects are no longer compelling. They been known to "work on a company for 15 years that we love but that we've never owned" because the valuations have never been compelling. And they know that the stocks that once made them a great deal of money as longs may inevitably become candidates for shorting, which will allow them to again contribute to the fund's shareholders.

All of which is fine in theory. The question is: can they pull it off in practice?

Our best clue comes from Mr. Rubin's long public track record. RLSFX is his eighth fund that he's either managed or co-managed. Of those, seven – dating back to 1995 – have met and in many cases substantially exceeded its benchmark either during his tenure or, in the case of current funds, from inception through the end of the first quarter of 2012. That includes five long-only products and two long-short funds. At the point of its conversion to a mutual fund, the RiverPark Opportunity Fund LLC was only half as volatile as the S&P 500 whether measured by maximum drawdown (that is, the greatest peak to trough fall), downmarket performance or worst quarter performance. The fund returned 14.31% from inception, barely trailing the S&P's 14.49%. The combination of the same returns with a fraction of the volatility gave the fund an outstanding Sharpe ratio: 4.2%. He is, it's clear, quite capable of consistently and patiently executing the strategy that he's described.

There are a couple potential concerns which investors need to consider.

1. The expense ratio, even after waivers, is a daunting 3.5%. About 40% of the expenses are incurred by the fund's short positions and so they're beyond the manager's immediate control.
2. The fund's performance after conversion to a mutual fund is more modest than its preceding performance. The fund gained 21% in the first quarter of 2012 while still a hedge fund, smashing its peer group's 4.8% return. In the four months since conversion, it leads its peers by a more modest 0.8%. Mr. Rubin is intensely competitive and intensely aware of his fund's absolute and relative performance. He says that nothing about the fund's operation changed in the transition and notes that no fund outperforms every quarter in every kind of market, but "we've never underperformed for very long."

Bottom Line

Mr. Rubin is an experienced professional, working on a fund that he thinks of as the culmination of the 17 years of active management, research and refinement. Both of his long-short hedge funds offered annual returns within a few tenths of a percent of the stock market's but did so with barely half of the volatility. Even with the drag of substantial expenses, RLSFX has earned a place on any short-list of managed volatility equity funds.

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 888.564.4517, or by visiting the website at www.riverparkfunds.com. Please read the prospectus carefully before investing.

Standard Performance as of 9/30/2012: 1 Year: 32.15%, Since Inception (9/30/2009): 12.27%, Since Inception of Mutual Fund (3/30/2012): 1.30%. Total Gross Annual Operating Expense equals 3.65% as of Prospectus dated 1/31/2013.

The performance data quoted for periods prior to March 30, 2012 is that of the Predecessor Fund. The Predecessor Fund commenced operations prior to the periods shown. The Predecessor Fund was not a registered mutual fund and was not subject to the same investment and tax restrictions as the Fund. If it had been, the Predecessor Fund's performance might have been lower. Performance shown for periods less than one year is cumulative; periods of one year and greater are annualized. Inception Date of the Predecessor Fund is 9/30/2009. Performance as of the most recent month end can be found at www.riverparkfunds.com.

The performance quoted herein 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 higher or lower than the performance.

The expense ratio stated reflects operating expense after contractual fee waivers and reimbursement of Fund expenses. This agreement is in effect until March 30, 2013. Expenses excluded from the waiver may increase expenses incurred by the investor. In the absence of these waivers, total returns would be reduced.

Mutual fund investing involves risk including possible loss of principal. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations.

The use of leverage by the fund managers may accelerate the velocity of potential losses. Furthermore, the risk of loss from a short sale is unlimited because the Fund must purchase the shorted security at a higher price to complete the transaction and there is no upper limit for the security price. The use of options, swaps and derivatives by the Fund has the potential to significantly increase the Fund's volatility. There can be no assurance that the Fund will achieve its stated objectives.

The RiverPark/Wedgewood Fund is sub-advised by Wedgewood Partners Inc, the RiverPark Short Term High Yield Fund is sub-advised by Cohanzick Mangagement, Inc, and the RiverPark Gargoyle Hedged Value Fund is sub-advised by Gargoyle Investment Advisor LLC. The RiverPark mutual funds are distributed by SEI Investments Distribution Co., which is not affiliated with RiverPark Advisors, LLC, Wedgewood Partners, Inc., Cohanzick Management, LLC, Gargoyle Investment Advisor LLC, *or their affiliates.*