# Wedgewood Partners Third Quarter 2012 Review and Outlook

## Philosophy and Process

For the past 20 years, Wedgewood Partners has adhered to an investment philosophy that hinges on thinking and acting like business owners. To paraphrase Warren Buffett; *"…being an investor has made me a better owner - and being an owner has made me a better investor."* The four members of the Wedgewood Partners' Investment Committee hold the entire equity stake of Wedgewood, so similar to Buffett, the business owner-approach is pervasive at Wedgewood. As such, we are not concerned about short-term fluctuations in the market price of our businesses, nor are we interested in using these fluctuations to measure or characterize risk. Instead, we view risk as a permanent loss on an investment and we view reward as the long-term appreciation of equity, relative to the underlying growth of the business. We recognize that the byproduct of this successful execution is a concomitant increase in equity value which, *prima facia*, reduces the risk that we will experience a permanent loss of capital (the ultimate bane of any investment strategy). Said another way, we believe the philosophy of the business owner repeatedly trumps the whimsy of the easily influenced speculator. We believe this approach allows us to exercise a much higher level of conviction, relative to most of our peers.

This philosophy has yielded a process that revolves around analyzing a potential holding for five fundamental factors that are important markers for a potential, favorable risk/reward opportunity. These five factors are at the company, security and portfolio levels and include: sustainably superior competitive advantage(s), compelling valuation, double-digit growth, exceptional financial strength, and limited overlap with existing portfolio holdings. Every company in our portfolio must exhibit all five of these factors, otherwise they are avoided or sold.

We do not think these factors change very quickly or very often, with the exception of valuation. So the rate at which these factors change is about the same rate that we think about adding new names to the portfolio. In other words, we become more interested in a company as it exhibits more of our process factors. But that can take a long time and other ideas might take precedence. For example, we began following Coach (COH) in early 2008 after observing the Company's track record of profitability, double-digit growth, steady financials and compelling valuation. These factors were byproducts of Coach's long history of proliferating "affordable luxury" products – or accessories that confer a higher level of status at a fraction of the price. However, we were unsure about the sustainability of this edge.

In July 2012, we initiated positions in Coach as we are convinced that the Company managed to solidify its competitive edge, which we believe is evidenced by a return on invested capital superior to its competitive peer group of publicly traded suppliers, rivals & substitutes. The Company's competitive edge has been strengthened over the past decade as Coach has maintained rigorous contact with consumers, interviewing tens of thousands per year. Of course, this helps with short-term fashion trends, but more importantly and more sustainably, we think this helped Coach understand that luxury consumers were less interested in exclusivity related to physical shortages of a product and more interested in exclusivity related to "virtual rarity" – or the abstract feelings of privilege and of exclusivity. Further, we found evidence that consumers have deemphasized elements such as country of origin and even the quality of materials, in favor of accessibility.[1] We think Coach has taken advantage of this and now manufactures most of their products in China, which reduces cost of goods relative to European and American made luxury products. Further, Coach sells the majority of its products through direct channels, which protects gross margins from the pricing pressures of wholesalers. Finally, prior to the Coach acquisition, the Fund lacked a holding that was focused on retail apparel and accessories, so we think this Company adds diversity to our collection of business models.

Coach is just one example of our idea generation, however at any one time, our list of potential holdings that exhibit four out of five factors, usually hovers in a range of about 15 to 25 names. Most often, the majority of those names lack what we believe to be are compelling valuations. But valuation is a very dynamic element and it can change especially rapidly in volatile markets. On the other hand, during market rallies or other periods of market placidity, the valuations of our potential ideas tend to be less compelling. For example, over the past 12 months (through the end of September 2012), we added just two new stocks to the portfolios - Charles Schwab (SCHW) in January and Coach (COH) in July. Our long-term historical turnover is about 25%, so our purchase of two new ideas over 12 months is at the lower-end of a "typical" year. Of course, the S&P 500 rallied 30% over this same time period, so we do not think it is a coincidence that we saw fewer stocks trading at compelling valuations. But, as business owners, a dearth of new idea activity does not bother us, as we welcome this "prescribed patience" as an opportunity as much as we welcome its virtue.

## Review and Outlook

The RiverPark/Wedgwood Fund outperformed the Russell 1000® Growth Index during the third quarter of 2012. Leading performers during the quarter were Google (GOOG) and Cognizant Technology Solutions Corp. (CTSH), and Gilead Sciences (GILD) while the leading detractors were Cummins Inc. (CMI), Expeditors International of Washington (EXPD), and Varian Medical Systems (VAR). During the Quarter, we initiated a new position in Coach and added to our Cummins weight. We trimmed our weights in Verisk (VRSK), Gilead, Visa (V), American Express (AXP), Google & National Oilwell Varco (NOV).

[1] Jean-Noël Kapferer, Abundant rarity: The key to luxury growth, Business Horizons, Volume 55, Issue 5, September–October 2012, Pages 453-462, ISSN 0007-6813, 10.1016/j.bushor.2012.04.002.

| TABLE I<br>Fund returns for period ended September 30, 2012 | | | | |
|---|---|---|---|---|
| | INSTITUTIONAL SHARES (RWGIX) | RETAIL SHARES (RWGFX) | RUSSELL 1000 GROWTH | S&P 500 |
| **THIRD QUARTER 2012** | 8.35% | 8.31% | 6.11% | 6.35% |
| **YEAR TO DATE** | 21.65% | 21.44% | 16.80% | 16.44% |
| **ONE YEAR** | 34.50% | 34.17% | 29.19% | 30.20% |
| **SINCE INCEPTION – ANNUALIZED (SEPTEMBER 30, 2010)** | 17.91% | 17.63% | 15.77% | 14.74% |

** Total returns presented for periods less than 1 year are cumulative, returns for periods one year and greater are annualized. The performance quoted herein represents past performance. Past performance does not guarantee future results. High short-term performance of the fund is unusual and investors should not expect such performance to be repeated. 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. For performance data current to the most recent month end, please call* ***888.564.4517.***
*RiverPark Advisors, LLC, the Fund's investment adviser, has agreed contractually to waive its fees and to reimburse expenses of the Fund, to the extent necessary to ensure that operating expenses do not exceed, on an annual basis, 1.00% for the Institutional Class Shares and 1.25% for the Retail Class Shares of the Fund's average net assets. This agreement is in effect until at least January 30, 2013, and subject to annual approval by the Board of Trustees of RiverPark Funds Trust. In the absence of these waivers, total returns would be reduced.*

Our view of the current investing environment is largely unchanged from our thoughts expressed in our "Great Bull Market" writings, but with increasing headwinds from a weakening macro environment. Our early year expectations that the next leg of the Great Bull Market - which we expected to be characterized by the classic "wall-of-worry," as well as a significant leadership rotation - has come to fruition. Current headlines out of Europe are rotating from Greece to Spain – where an astonishing 57% of Spain's budget is devoted to pensions, unemployment benefits and debt interest payments. The growth miracle in China is even sputtering. In the U.S., investors are now faced with a weaker economy that is barely growing above stall speed, including a confidence sapping "fiscal cliff" on the near horizon. Ominously, "Shadow Leading Economic Indices" have rolled over.

Consider that the Fed has *tripled* the size of its balance sheet in order kept short and long-term interest rates at generational lows for months on end. Not to be out done, our politicians have cranked up the printing presses to the tune of $1.1 trillion dollar budget deficits during 2012, according early October estimates from the Congressional Budget Office. The U.S. "high-powered" monetary base has ballooned from $800 billion in 2008 to $2.6 trillion. Yet with so much "stimulus," the U.S. economy can only muster a recession-like 1.5% GDP growth. Indeed, the gain in GDP in the three years of this expansion was the worst of any recovery period since World War II. As for the potential burden of servicing the interest burden on our burgeoning federal debt, it would take a little more than an up-tick in interest rates for the Fed's *monetary* policy to suddenly morph into *fiscal* policy. Non-stop threats to raise taxes has led to unprecedented levels of public policy uncertainty – and attenuated paralysis in the private sector. Indeed, $1.4 trillion in excess bank reserves, plus $2 trillion on the books of S&P 500 companies are "frozen" because businesses simply do not know what the policy-related myriad of their respective cost structures are going to be over the next year or two; much less over the next decade or two.

In our opinion, the short-interest rate risk premium lows in the U.S. stock market (as high in the fall of 2011 as since the brutal bear market lows during 1974) appear to have dissipated with the recent advance in stocks. We also worry that corporate profit margin expectations continue to be unsustainably high, and even a slight reversion to mean historic levels could produce an expectantly high number of earnings disappointments - and the attendant increase in stock price volatility throughout the remainder of 2012 and into 2013. Indeed, year-over-year earnings expectations at the beginning of the year for a robust +10% increase have since steadily fallen to just +1%. We suspect that after a dismal 3rd quarter earnings season that such earnings expectations will fall markedly further. Yet, that is the nature of investing. Uncertainty breeds volatility, yet, without fail, volatility breeds opportunity. Temperament is the rare attribute required to be a successful investor. The current environment requires it in spades. We endeavor to be up to the task.

As for our outlook for the Fund, since we view risk in terms of permanent capital loss, we believe a stock's valuation relative to company fundamentals is paramount for measuring risk. In terms of reward, we believe growth rates are the most relevant proxy. The Fund's portfolio, as constructed at the end of September 2012, based on Institutional Brokers' Estimate System estimates of three to five year earnings growth, prospectively offers 10% more growth than the Russell 1000® Growth Index, while the Fund's portfolio comes with a forward Price to Earnings multiple that is 20% lesser than the Russell 1000® Growth Index. We like such risk/reward odds.

**Table I**
**Top Contributors to Performance for the Quarter Ended September 30, 2012**

| | **Percent Impact** |
|---|---|
| **Google Inc.** | 1.98% |
| **Apple Inc.** | 1.24% |
| **Gilead Science Inc.** | 1.20% |
| **National Oilwell Varco inc.** | 0.80% |
| **Qualcomm inc.** | 0.79% |

Google (GOOG) contributed to the Fund's relative outperformance, after the stock appreciated 30% during the Quarter. We believe this was a relief rally, as much as it was the stock catching up to the Company's torrid growth from the past few years. Much of the relief had to do with Google's strategy for newly acquired Motorola Mobility. While the Company has been light on specifics, rumors emerged that Google would sell the commodity feature-phone and set-top box units of Motorola by year-end, in order to focus exclusively on Android smartphones. We think a more focused Motorola is a good strategy that could drive increased adoption of Android-based smartphones, which ultimately drives Google's rapidly growing mobile advertising business. As the stock's forward price to earnings multiple expanded back to double-digits, we trimmed positions. The Company's competitive edge is still very robust and we continue to think the stock is undervalued, especially relative to its potential growth rate.

Gilead Sciences was among our top performers during the third quarter. The stock's strong performance over the past three months, as well as the past year is quite warranted as the company is on the cusp of revolutionizing the treatment and cure of hepatitis. The company's journey down this path began last November with the stunning $11 billion purchase of Pharmasset, Inc. Pharmasset has been on the cutting research edge in developing a cure for hepatitis. Hepatitis is an inflammation of the liver, as well as group of viral infections that affect the liver. The most common types are Hepatitis A, Hepatitis B, and Hepatitis C. Viral hepatitis is the leading cause of liver cancer and the most common reason for liver transplantation. An estimated +4.5 million Americans alone are living with chronic hepatitis. Tragically, most do not know they are infected. On a worldwide basis, the estimated numbers are even more daunting – 1.5 million with Hep A, 2 billion with Hep B and 350 million with Hep C. Pharmasset was founded in 1998 by Emory University scientists with the primary research goal of developing an oral, 12-week therapeutic treatment and cure of the hepatitis C virus (HCV). Gilead's $11 billion wager is that Pharmasset's lead drug candidate (PSI-7977, now GS-7977) would ultimately be FDA approved for the oral treatment of Hep C. Other pharmaceutical companies such as Abbott Labs, Merck and Vertex have too been hot on the trail to advance their respective cures for HCV. Thus far, GS-7977 has proven to be the most effective and as equally critical, the safest thus far in the HCV cure race. If ultimately approved by the FDA, Gilead could possess a multi-year, multi-billion revenue opportunity. Gilead's 25-year founding franchise of oral therapeutic HIV treatments quite formidable too. The company's latest advancement in the chronic care of HIV is Stribild, referred to as "Quad" prior to FDA approval, combines four compounds in one convenient daily tablet. The stakes are high and significant risk remains, but if GS-7977 delivers upon its promise, Gilead could well become a singular great pharmaceutical growth company for quite a few years to come.

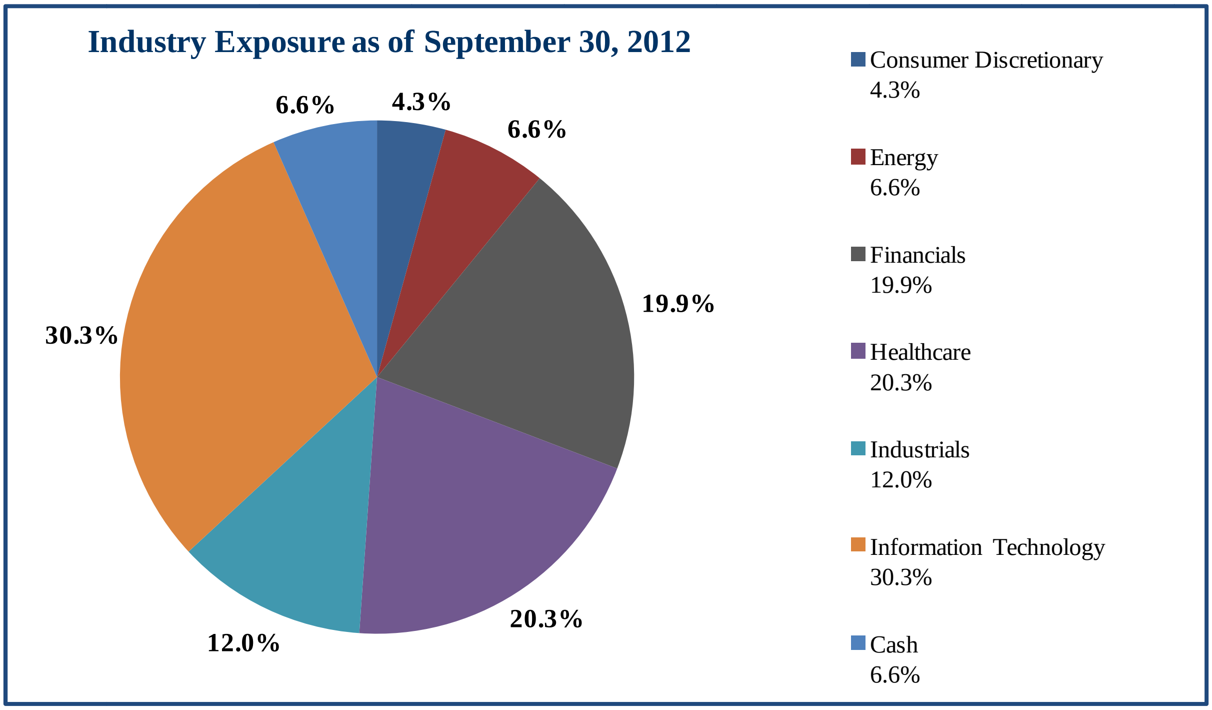
**Table II**
**Top Detractors From Performance for the Quarter Ended September 30, 2012**

| | Percent Impact |
|---|---|
| **Expeditors International of Washington, Inc.** | -0.27% |
| **Cummins, Inc.** | -0.12% |
| **Verisk Analytics Inc.** | -0.09% |
| **American Express Co.** | -0.08% |
| **Varian Medical Systems Inc.** | -0.08% |

Expeditors International of Washington Inc. detracted from performance during the quarter. We believe Expeditors continues to exhibit a best-in-class return on invested capital relative to its domestic and international third-party logistics rivals and suppliers due, in part, to a lean capital base and highly integrated network of agents in 60 countries around the globe. Not only does Expeditors negotiate shipping rates and consolidate customer freight for forwarding, but they also perform the extremely important function of customs broker for around 75% of their customers, by our estimates. To paraphrase a popular saying in the logistics industry, "you date your forwarder but you marry your customs broker." In other words, freight forwarding and consolidation is, typically, a commodity, where rivals primarily compete on price. We believe it is the customs brokerage functions that add the most value for Expeditors' clients, particularly for smaller to mid-size businesses that do not possess the scale or expertise necessary for worldwide distribution. We think these clients tend to be stickier than non-custom brokerage clients. However, we think these small and mid-sized businesses have been disproportionately affected by the global macroeconomic slowdown, which has resulted in substantially fewer profitable opportunities for Expeditors. In terms of growth, while Expeditors has registered a contraction in earnings per share, year to date versus 2011, we believe these depressed results are transitory, as Expeditors has, what we estimate to be high, single-digit market share, and the ability to generate double-digit growth over the next three to five years. In the meantime, the Company has over $1.35bn of net cash on its balance sheet as of the most recent quarter ended June, while the stock trades near decade-low valuations.

Verisk Analytics detracted from our performance during the quarter. While little known to investors even today, Verisk has a long and rich history dating back to its incarnation in 1971. Prior to Verisk's IPO, it was discreetly called Insurance Services Office (ISO) and began as a nonprofit association for U.S. property and casualty insurance companies. Such insurance companies are regulated by the states and these regulations were quite burdensome and required significant data and documentation. Yet from state to state, insurance companies' regulatory filings became a duplicitous task. This is where ISO stepped in to become a central – and quite critical - depository and gatherer of data for the association of insurance companies. Over the course of the next 25 years ISO would morph into a private for-profit company, leveraging their access to reams of valuable data and then in turn creating even more valuable analytical products and services. They branched into actuarial loss estimation, standardized policies and proprietary risk classification. In late 2009, the association of insurance companies desired, and needed, the considerable liquidity embedded in their joint ownership of Verisk, so the association sold their respective stakes in Verisk through an IPO that raised $1.9 billion. (An aside: Warren Buffett was the only association shareholder who kept Berkshire Hathaway's respective shares.) We first invested in these shares in August of 2011. Today, the Company's suite of risk assessment services and decision analytical tools includes, of course, the P&C insurance industry, but also covers the reinsurance, mortgage & financial services, healthcare industries and government entities. Verisk counts all of the top 100 P&C insurance companies as clients – with a not-so-insignificant renewal rate of 98%, while over 70% of the company's revenues are prepaid, booked subscriptions. This unique franchise, as one would suspect, generates uniquely attractive operating margins in excess of 40%. The Company's products and services significantly underpenetrate all of the non-P&C industry verticals. We believe Verisk will continue to capitalize on an annual double-digit growth opportunity, as well as to continue to execute a smart consolidation of industry actuarial peers in conjunction with meaningful, opportunistic share buybacks.

Varian Medical Systems also detracted from performance during the quarter. During the quarter, the Centers for Medicare and Medicaid Services (CMS) proposed to reduce reimbursement rates for radiation therapy in free-standing clinics by more than what investors were expecting. We estimate that the free-standing clinic market represents about 15% of Varian's 2011 US Oncology revenues and about 5% of the Company's total revenues. Interestingly, hospital radiation therapy reimbursement rates were proposed higher, despite identical value propositions. We think that, similar to 2009, the ultimate rate cut will be lower and clinics will have more certainty about future reimbursement, which should boost the currently depressed demand for Varian Oncology products in the US.




On behalf of Wedgewood Partners we thank you for your interest in the RiverPark/Wedgewood Fund. Despite the dire headlines of a U.S. economy that is no better than stall speed, as well as the non-stop numbing headlines out of Europe, we believe that our portfolio today represents a balance of both growth and value and remain optimistic about our positioning for the future.

We hope these letters give you some added insight into our portfolio strategy and process. As always, please do not hesitate to contact us if you have any questions or comments about anything we have written in our letters or about any of our Funds.

And, for those of you that have invested alongside us in any of our RiverPark Funds, we thank you for your confidence and support.

Sincerely,

David A. Rolfe
Chief Investment Officer
Portfolio Manager

**To determine if a 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** clicking here **or calling 1-888-564-4517. Please read the prospectus carefully before investing.**

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions at a specific point in time; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact. The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. This information is for educational purposes only.

## Objective and Risks

The RiverPark/Wedgewood Fund's investment objective seeks long-term capital appreciation. There can be no assurance that the Fund will achieve its objective.

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. Narrowly focused investments typically exhibit higher volatility. There can be no assurance that the Fund will achieve its stated objectives. Diversification does not protect against market risk. See the prospectus for a complete description of the principal risks.

RiverPark Capital and Wedgewood Partner's are both committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. Forward-looking statements can be identified by words like "believe," "expect," "anticipate," or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

**Table III**
**Top Ten Holdings as of September 30, 2012**

| | **Percent of Net Assets of the Fund** |
|---|---|
| **Apple Inc.** | 8.4% |
| **Berkshire Hathaway Inc.** | 7.8% |
| **Google Inc.** | 7.2% |
| **Express Scripts Holding Co.** | 6.1% |
| **QUALCOMM, Inc.** | 6.0% |
| **Cummins Inc.** | 5.2% |
| **Cognizant Technology Solutions** | 5.1% |
| **Coach, Inc.** | 4.3% |
| **Visa Inc.** | 4.3% |
| **Varian Medical Systems, Inc.** | 4.2% |
| | **58.7%** |

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

*The RiverPark funds are distributed by SEI Investments Distribution Co., which is not affiliated with Wedgewood Partners, RiverPark Advisors, LLC, or their affiliates.*