RIVERPARK FUNDS

RiverPark Structural Alpha Fund

(RSAIX / RSAFX)
Q4 2013

Impatience Eventually Replaces Fear

2013 was a year where risk was handsomely rewarded as the U.S. stock market never dipped below its 200-day moving average. Despite a choppy start, December was yet another positive month for equities as momentum continued to favor the bulls. As careful observers of market psychology, we believe we also witnessed the hangover from the financial crisis finally come to an end in 2013. From the hot IPO market to the speculative ride of Bitcoin, investors rushed to embrace risk and chase returns. For the first time since we began managing the portfolio in September of 2008, there wasn't a moment during the year when it felt like the market might totally unravel. With momentum accelerating into year-end, it was therefore not surprising to see the punditry deliver very bullish forecasts for the coming year. This is, after all, the prime time for analysts and strategists to display their recency bias, believing the environment in which we've just been will somehow be permanent. Impatient investors, most of whom have lagged the markets in terms of performance all year, are not immune to this bias. As the Grateful Dead sang in *Estimated Prophet*, they are inclined to believe that "It's gonna be just like they say, them voices tell me so." As is often the case with financial news, the cavalcade of predictions and prognostications may make for entertaining content, but offers very little in the form of true advice. So, in keeping with our own tradition, as we turn the calendar page from 2013 to 2014, we offer no forecasts of our own. Rather, as the type of investors who favor planning over predictions, we'll simply agree with the legendary financier J.P. Morgan, who when asked what the market will do, famously responded "It will fluctuate."

Our Performance

Persistently low levels of implied volatility and a strong risk-on investor sentiment made 2013 a challenging year for the Fund. The past 12 months have been the longest uninterrupted period of time during which this type of environment has persisted since we implemented our strategy in 2008. Such relentlessly bullish momentum hurts the strategy in two primary ways. First, it diminishes the returns that we receive from our short-dated non-directional components. While low volatility alone is not predictive of low absolute returns, when combined with continued strong equity returns, it creates a significant headwind. As systematic option sellers, we believe that harvesting the premiums from constantly selling puts and calls will contribute to a stable return stream over time. This year, the calls we sold brought in very little option premium, and

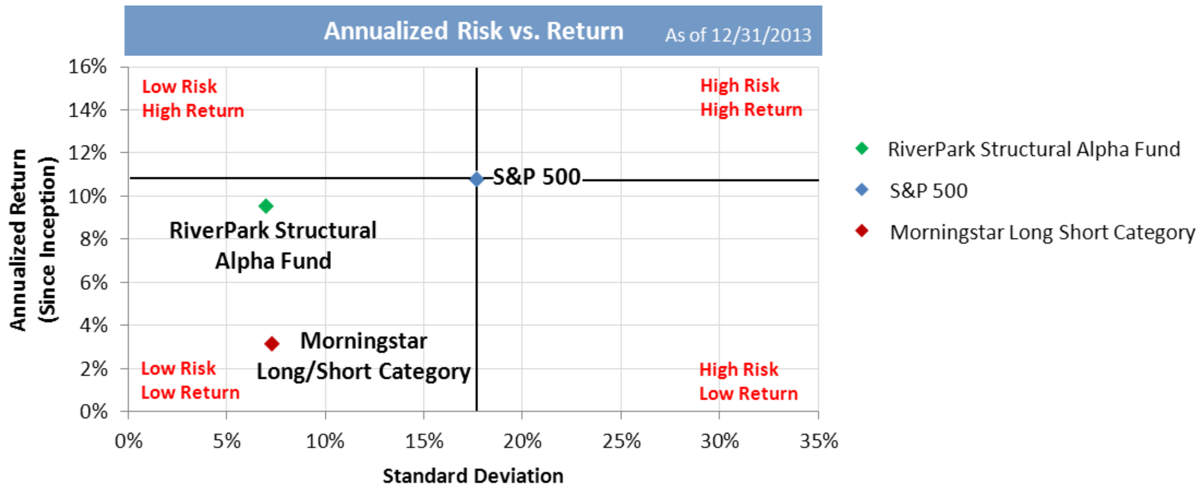
often finished in the money. The puts we sold mostly expired worthless, but the premiums received were not enough to offset the losses on the calls. Second, the sustained rally moved far beyond the return caps of our longer dated, long-biased component. In summary, the persistent uptrend in equities and accompanying muted volatility throughout 2013 led to the following performance attribution: the Fund's short-dated non-directional options were flat for the year, while the longer-dated, long biased positions gained about 10.5%. The constant hedge position lost about 5.5% (which is to be expected when equities rise over 30%).

Fund Performance							
	Net Returns as of 12/31/2013		Net Returns as of Quarter End: 12/31/2013*				
	Dec 2013	Year To Date	4Q 2013	One Year	Three Year	Five Year	Since Inception
RiverPark Structural Alpha Fund, Institutional	0.75%	4.86%	1.85%	4.86%	6.62%	9.30%	9.54%
RiverPark Structural Alpha Fund, Retail	0.75%	4.76%	1.75%	4.76%	6.59%	9.28%	9.52%
S&P 500 Index	2.53%	32.39%	10.51%	32.39%	16.18%	17.94%	10.76%
Morningstar Long/Short Category[1]	1.22%	14.62%	4.75%	14.62%	5.74%	9.19%	3.15%

Total returns presented for periods less than one year are cumulative, returns for periods one year and greater are annualized. Inception date was September 26, 2008. 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 quoted. For performance data current to the most recent month end, please call 888.564.4517. The performance data quoted for periods prior to June 28, 2013 is that of the Predecessor Fund. The Fund will be managed in a materially equivalent manner to its predecessor. The Predecessor Fund was not a registered mutual fund and was not subject to the same investment and tax restrictions as the Fund. If the annual returns for the predecessor partnership were charged the same fees and expenses as the Fund, the annual returns for the predecessor partnership would have been higher.

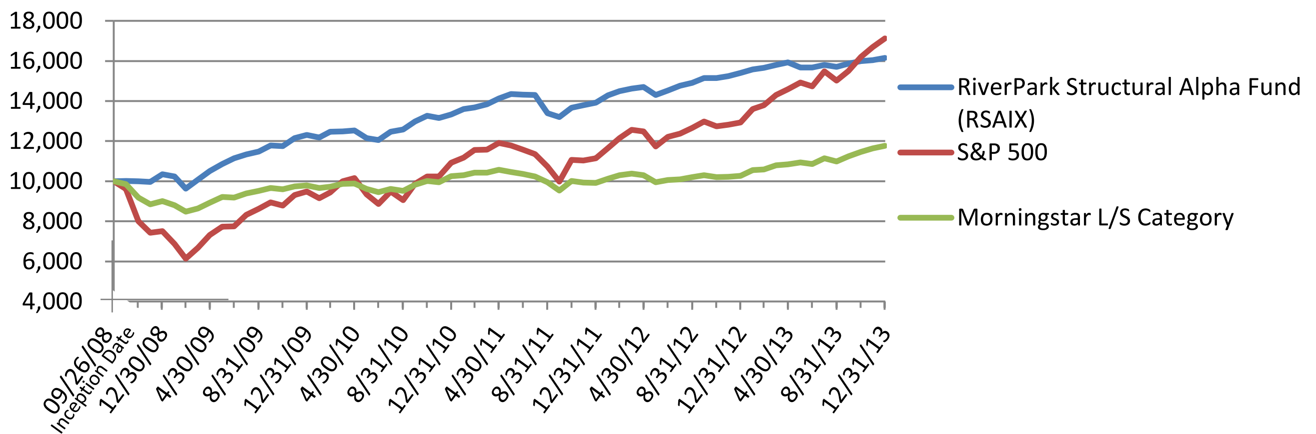
Current expenses are as follows: Institutional Class: 2.15% gross, 1.75% net. Retail Class: 2.40% gross, 2.00% net. Contractual fee waiver is in effect until at least 9/30/14.

Despite its modest returns, the portfolio's volatility remained extremely low. Measured daily, the Fund realized only 3.3% volatility, as measured by standard deviation*. This was far lower than broad equities and was even lower than the U.S. bond market for the year. The Fund's volatility was only 30% of the S&P 500, a level which has been consistent throughout our history (35% on a daily basis since inception). Measured monthly, our volatility for 2013 was only 2.8%, making our Sharpe ratio* for the year 1.74. This is actually higher than our historic Sharpe of 1.36 when measured since inception.



While it may have been tempting to break our process and chase returns this past year, that is not who we are. We remain convinced that systematically making trade-offs between pursuing upside returns and downside protection is the best way to provide stable returns and manage the risks associated with market volatility. In strong markets, underperformance versus broad equities is more likely to occur.

Growth of $10,000 from 09/26/2008 to 12/31/2013



Past performance does not guarantee future results. Index returns are for illustrative purposes only and does not represent fund performance. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an Index.

Our Observations

What does 2014 have in store? We'll find out along with everyone else, but if history is a guide, a period of consolidation (like what occurred in 1953, 1984, 1994, and 2004-05) is probably a safe assumption for the coming year. There have been many years where the S&P 500 has risen 20% or more, and they are often followed by more moderate return years. On the political front, 2014 will also be a mid-term election year, which usually is one of the weakest years in the four-year Presidential cycle. In addition, an improving economy should reduce the tailwind of accommodative policies that have helped drive returns.

All of these forces may contribute to a market that is well suited for our Fund. The long-dated, long-biased component of the portfolio is designed to take advantage of more moderate market moves. Since the portfolio is repeatedly making trade-offs between pursuing upside participation and downside protection, a prolonged period of more muted gains could reduce the potential for underperformance versus the broad indices.

A key component of our strategy, the short duration non-directional component, is designed to take advantage of higher overall volatility levels. Systematically selling puts and calls may enhance market returns when the broad indices are more range-bound. Over time, this component has been one of the largest contributors to overall portfolio returns, but as we previously stated, it did not perform well in 2013. We believe that a reversion to the mean in market volatility would have a positive impact on this piece of the portfolio. In their recent 2014 outlook, the strategists from MKM partners wrote about an interesting trend in implied volatility that supports the case for mean reversion in volatility levels for the coming year.

> *Since the inception of implied volatility indexes in the mid-1980s, there has been a clear cyclical pattern where the VIX has tended to increase late in economic expansions and remain elevated through recession troughs before shifting structurally lower – generally range-bound between 10 and 25 – for the core years of the recovery. These regimes of high and low volatility have averaged 5½ years in length, which is precisely the duration between July 2007 and January 2013.*

When passive investing works as well as it has this year, it is tough to justify strategies that actively hedge. In 2013, the S&P 500's maximum decline from its peak, using closing prices, was the smallest since 1995. Yet, while hedging clearly wasn't necessary in 2013, the past is not indicative of future returns. Deciding when to hedge and when not to hedge is akin to market timing, which is not something to which we subscribe. The key is to deploy the hedge in the most efficient manner, and remain committed to it.

Constantly hedging by buying puts during strong and consistent markets can create fatigue for investors who tire of paying premiums for protection they didn't need. We believe that buying volatility in the form of puts is not an effective way to remain fully invested and hedged. Instead of buying, the Structural Alpha strategy systematically sells volatility. Hedging this way addresses both the need for a constant hedge while solving the problem of constantly paying out premium. Therefore, we would welcome slightly higher levels of volatility in 2014 as the premiums we receive would increase.

Investors have become increasingly conditioned to minimize hedges and add long exposure on the dip. Over the past few years, they have been well compensated for this strategy, but more exposure carries more risk. We believe that volatility may have fallen to levels that are too low to be sustainable, and that even a slight uptick in volatility would be healthy and well received. In 2013, the biggest fear was missing the next rally by not having enough long equity exposure. It will be interesting to see if this remains the case.

Our Conclusions

So concludes another trip around the sun for Mr. Market. Each year begins with the same difficult questions to which there are no simple solutions. With all of the predictions and resolutions that swirl around this time of year, a little sensible skepticism is healthy. Just because it is written does not mean it will come to pass. Markets work in cycles, and predictions for specific returns over an arbitrary time period like a calendar year are not realistic guidelines for investing. We don't know what the coming year has in store, but we do know that our strategy has shown that it can help smooth out some of the inevitable bumps in the road. As the great songwriter J.J. Cale, (who passed away earlier this year) sang in *Anyway the Wind Blows*, "If you can't hear the music, turn it up loud. There's movement in the air and movement in the crowd." We wish you all a happy, healthy, and prosperous New Year.

Sincerely,

Justin Frankel
Portfolio Manager

Jeremy Berman
Portfolio Manage

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 summary and full prospectuses, 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.

Mutual fund investing involves risk including possible loss of principal. 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 limit for the security price. The use of options, swaps, derivatives, and futures by the Fund has the potential to significantly increase the Fund's volatility. 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. There can be no assurance that the Fund will achieve its stated objectives. Diversification does not protect against market loss. The Fund may not be suitable for all investors.

Due to the inherent leveraged nature of options, a relatively small adverse move in the price of the underlying instrument may result in immediate and substantial losses to the Fund. Options and futures options carry a high level of risk and are not suitable for all investors. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. The seller of a "naked call" is subject to the risk of a rise in the price in the underlying instrument above the strike price. The seller of a "naked" put is subject to the risk of a decline in price of the underlying instrument below the strike price. Risk is reduced only by the proceeds received from selling the option.

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*Glossary

Standard deviation: A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance.

Sharpe ratio: a measure of risk-adjusted performance, it is calculated by taking an asset's return, subtracting the appropriate risk free rate, and dividing that result by the volatility (standard deviation)