RIVERPARK FUNDS

RiverPark Structural Alpha Fund

(RSAIX / RSAFX)

***Oh! Sweet Nuthin'* (in memory of Lou Reed)**

After a relatively short government shutdown that no one but those furloughed seemed to care about, the markets quickly got back to the business of buying stocks, sending broad market indices to new all-time highs. Despite evidence suggesting that quantitative easing policies have done more to fuel asset prices and lower interest rates than to expand employment and wage growth, equity investors continue to put their faith in the Federal Reserve's commitment to further easing. All of this attests to the power of liquidity to drive markets. While contentious debate in the legislative branch may not be helping the markets, the Fed certainly is. In the final analysis, any volatility surrounding the government shutdown turned out to be nothing at all.

Our Observations

The S&P 500 has been on a nearly uninterrupted run since early in the month after it became clear that the government was close to a deal. Since October 9th, when the S&P 500 was at 1646, the market was up 13 out of 15 days, and gained over 7.5%. The spot measure of the VIX dropped about 30% in the 3 days after the debt ceiling agreement was made, making it the 4th largest 3-day decline ever. From the beginning of the month through that decline, VIX options experienced their most active 10 trading days in history. However, despite all of the activity, volatility levels finished the month right where they had been for most of the year. Historically, the market is entering a time-frame that has been characterized by lower levels of volatility. In 10 out of the last 13 years, realized volatility has dropped from October through December, exhibiting its lowest levels during December. As Bob Johnson, the director of economic analysis at Morningstar put it, "People are losing their sense of fear... we've screamed so many times the sky is falling that nobody believes it this time."

With so many professional investors and market pundits calling for a continuation of the current bullish trend, it is not surprising that the consensus remains positive for stocks. Behavioral finance studies have shown that consensus views can be very powerful in terms of shaping investment behavior. The proliferation of multiple media outlets and the relentless news cycle constantly bombards us with information and so-called expert opinion. While this has a tendency

to exaggerate the importance of each story and data point, there is also evidence to suggest that these "expert" opinions can have an outsized impact on independent thought and analysis.

In her book "Eyes Wide Open: How to Make Smart Decisions in a Confusing World," Noreena Hertz, a professor of economics at University College London references a 2009 experiment conducted at Emory University where a group of adults, being monitored by a functional M.R.I. scanner gauging their brain activity, was asked to make a decision while contemplating a financial expert's claims. The results of this experiment showed the independent decision-making parts of many subjects' brains had switched off in the expert's presence. In other words, these subjects effectively ceded their decision making to the expert.

Other studies show that anxiety and stress can distort our decision making ability as well. Stress often results in tunnel vision, making it less likely to digest and evaluate the information we need to make rational decisions. Anxiety makes us more risk-averse and more deferential. When confronted with what we perceive to be expert advice about topics like money and investing, which are known causes of stress and anxiety, our emotional and behavioral reactions lead to serious impairment of our analytical functions. In terms of making smart investment choices, this is a dangerous combination.

Obviously, the best solution is to better understand how our emotions are impacting our decisions, but changing how our brains are wired is a difficult task that requires a focused intensity which is nearly impossible to maintain. We can't escape our biases, but by better understanding what they are and how they impact us, we can find solutions. One such solution is to follow an investment process that mitigates the influence of our behavioral biases.

By taking a systematic approach to investing that consistently makes trade-offs between upside participation and downside protection, our strategy is able to ignore the emotional triggers that market gyrations can create. Since the strategy is not driven by fundamental research, there are few risks of having a myopic focus on any particular data point or driver which can distort its importance. Finally, by ignoring the noise and minutia of the constant news cycle, the strategy is never reactionary. We believe that all of these characteristics combine to give investors a smoother and more efficient way to gain exposure to equities.

Our Conclusions

As the recently departed Lou Reed sang in the Velvet Underground & Nico song *Sunday Morning,* “Watch out, the world’s behind you. There’s always someone around you, who will call… It’s nothin’ at all.” The hand wringing and concern over a possible government shutdown quickly turned out to be nothing at all, and equity markets responded by getting back to the business of rallying to new highs. By the end of the month, the rally had extended enough to give President Obama’s presidential term the distinction of having presided over a larger gain than during President Reagan’s 8 years. As the amount of attention dedicated to the business of investing has increased, it has become increasingly difficult to determine which data points are true signals, and which are merely static. This should make a systematic investment strategy that doesn’t rely on the successful interpretation of these signals even more compelling to investors looking for new approaches to risk management.

Sincerely,

Justin Frankel
Portfolio Manager

Jeremy Berman
Portfolio Manager

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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