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MUTUAL FUND PROFILE

This Stock Fund Has Soared More Than 30% This Year. Here's How.


Mitch Rubin manages the RiverPark Long/Short Opportunity fund.
Photograph by Celeste Sloman

For 25 years, Mitch Rubin has plied an increasingly unfashionable trade—picking individual stocks. Yet he has done it with exceptional skill, and over the past couple of years, his fund, which can take both long and short positions, has been a rare outperformer among actively managed funds beating the market.

So far this year, RiverPark Long/Short Opportunity (ticker: RLSFX) is up 36.6%, beating the average long/short fund and the S&P 500 index by a wide margin. For the past three years, the fund is up 18.2% a year on average. The S&P 500 is up 6.7% and 13%, respectively. With an expense ratio of 2%, it isn't a cheap fund, and assets are just $330 million. This year, that expense ratio was worth it.

Rubin does it by buying compelling businesses that can capitalize on changing trends in society and, in turn, double or triple cash flow in the coming years. He typically owns these stocks for five to 10 years.

For each business, Rubin builds full seven-to-10-year models. That requires scouring 10-K and 10-Q filings, focusing on excess free cash flow, and looking for companies with a massive change in their structural advantage—"the ability to grow a ton or shrink a lot." When he finds companies whose business models will languish, he takes a short position—which means borrowing shares to then sell them, in a bet their price will fall. He will hold that short for up to three years.

The market's precipitous decline in March, as the Covid-19 pandemic gathered steam, created opportunities to buy and sell those companies. "No matter what the market is, there are businesses that will thrive and fail structurally, and our business is to find them at good prices," said Rubin in an interview from his home office in upstate New York, where he and his family decamped during the pandemic.

"Before Covid, we believed we were entering a period of massive destruction and innovation—many innovators were taking share and many incumbents were poorly positioned," Rubin says. The pandemic "massively accelerated" the trend, "showing which businesses are prepared for a digital world and which aren't." While Covid-19's economic impact was enormous, it would have been even more destructive to companies six years ago, without today's cloud and work-from-home technology.

For hotels and restaurants, the hope is that Covid-19 is a one-off. But for car-rental businesses being hit by ride-sharing, or movie theaters that were already seeing consumers buy fewer tickets, "this just accelerated their demise," says Rubin.

An affable 54-year-old, Rubin was reared in New Jersey, where his father sold textiles and his mother worked as a nurse. Rubin helped out with the household finances, cutting lawns and delivering pizza and newspapers. He went to college in Michigan, where he studied economics and political science, and then attended law school at Harvard. Afterward, he became a corporate attorney working on leveraged buyouts and private-equity deals.

(over please)

RiverPark Long/Short Opportunity

	Total Return		
	1-Yr	3-Yr	5-Yr
RLSFX	41.4%	18.2%	13.8%
S&P 500	15.3	13.0	13.7

Top 10 Holdings Company / Ticker	% of Total Portfolio
Amazon.com / AMZN	5.3%
Microsoft / MSFT	4.6
Blackstone Group / BX	4.6
Alphabet / GOOG	4.4
Apple / AAPL	4.4
Exact Sciences / EXAS	3.3
Apollo Global Management / APO	3.2
PayPal Holdings / PYPL	3.1
Snap / SNAP	3.0
Pinterest / PINS	2.9
Total	**38.8%**

Note: Holdings as of August 31. Returns through Sept. 15; three- and five-year returns are annualized.

Sources: Morningstar; RiverPark Funds

Throughout, he was fascinated by the big trends animating society and the economy. Laws changed in response; so did businesses. After law school, Rubin read all the books about investing that he could by renowned investors Warren Buffett, Benjamin Graham, and Phil Fisher, a proponent of owning a concentrated fund of stocks with strong growth prospects. He left corporate law for Smith Barney, where he researched emerging growth stocks before joining Baron Capital, where investor Ron Baron taught him how to find "great teams and own them for a long period." In 2009, he formed his own firm, RiverPark Advisors, along with Baron Capital's former president, Morty Schaja. He is chief investment officer and managing partner of RiverPark Funds.

During the March downturn, Rubin "traded a ton" and was able to "double down and buy," particularly when the Federal Reserve and Congress intervened to shore up the economy. While leveraged financial institutions were the epicenter of the last financial crisis, the pandemic exposed risks in leveraged travel companies, airlines, rental-car companies, casinos, and cruise ships. Rubin shorted them.

Today, the fund has increased its holdings in social-media companies. All have become critical for advertisers as consumers spend more of their time on these platforms. Facebook (FB), which is 2.8% of the total portfolio, has become hugely relevant in a mobile world. Even as some advertisers have withdrawn to protest the platform's handling of hate speech and misinformation, and Facebook has invested more on security, Rubin expects profit margins of around 50% for the year on an earnings before interest, taxes, depreciation, and amortization basis.

Rubin boosted holdings of Pinterest (PINS), now 3% of the total portfolio, and Snap (SNAP), now at 2.9%, both of which are increasing focus on better tools for advertisers to measure the return on ad dollars more accurately. Both stocks are also cheaper than Facebook, which is currently valued at $400 per daily average user. By contrast, Snap is valued at $144.

Pinterest, which reports only monthly active users, is valued at $47, versus Facebook at $263 on the same measure. Rubin reckons that if Snap and Pinterest grew revenues to Facebook's current levels, Snapchat's revenues would grow fivefold and Pinterest's, sevenfold.

Another favorite stock is Twitter (TWTR). Rubin notes that while CEO Jack Dorsey may have been distracted by running two businesses, Twitter is valued at $141 per daily average user, notably cheaper than Facebook using that metric.

Rubin has found short opportunities too, including commercial landlords like Simon Property Group (SPG), Boston Properties (BXP), SL Green Realty (SLG), and Vornado Realty Trust (VNO). Even before the pandemic, many landlords suffered from shrinking retail square footage and overbuilding. They are also heavily leveraged. Now, "Covid represents a potential game-changer in long-term city office demand," says Rubin.

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For performance data current to the most recent month end and quarter end please click here and for portfolio holdings as of the most recent month end please click here.

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