



## RiverPark/Wedgewood Fund (RWGIX / RWGFX)



### Fourth Quarter 2013 Review and Outlook

The Riverpark/Wedgewood Fund gained approximately +10.5% during the fourth quarter. This is in line with the gains in the Standard & Poor's 500 Index of +10.5% and +10.4% in the Russell 1000 Growth Index. For the full year we are quite pleased to report that the Fund gained +29.5%. However, we are not so pleased to report that our performance for the year trailed the gains in both the stock market +32.4% (S&P 500 Index) and our benchmark +33.5% (Russell 1000 Growth Index). Through the prism of risk/reward, we are most pleased with our 2013 upside/downside capture ratio versus the S&P 500 Index. We only "captured" approximately 86% of the upside in 2013, but just 46% of the downside for a ratio of +1.84 - one of our best calendar years in our firm's 21-year history.

**TABLE I**  
**Fund Returns for Quarter ended December 31, 2013**

	INSTITUTIONAL SHARES (RWGIX)	RETAIL SHARES (RWGFX)	RUSSELL 1000 GROWTH	S&P 500 (with dividends)
<b>FOURTH QUARTER 2013</b>	10.54%	10.55%	10.44%	10.51%
<b>YEAR TO DATE</b>	29.46%	29.18%	33.48%	32.39%
<b>ONE YEAR</b>	29.46%	29.18%	33.48%	32.39%
<b>THREE YEAR</b>	18.69%	18.40%	16.45%	16.18%
<b>SINCE INCEPTION – ANNUALIZED (SEPTEMBER 30, 2010)</b>	19.83%	19.55%	19.09%	18.49%

*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.*

*Gross expense ratio for Retail and Institutional classes are 1.05% and 0.88%, respectively.*

The smallest gainers during the fourth quarter included **EMC** (-1.6%), **Stericycle** (+0.7%) and **Verisk Analytics** (+1.2%). These three stocks, plus **National Oilwell Varco**, were also the largest performance detractors versus the benchmark Russell 1000 Growth Index. Amongst the largest gaining and relative outperforming stocks during the quarter were **Monster Beverage** (+29.7%), **Google** (+27.9%), **Perrigo** (+24.5%) and **Cognizant Technology Solutions** (+22.9%). **Apple**, given its outsized weighting – and a gain of +18.4% – was also tops in the relative outperformance derby during the quarter.

For the year, the largest relative performance detractors were EMC, Coach and Varian Medical Systems. Apple is once again noteworthy on this score – literally a tale of two different stocks during the year. Apple started the year at \$532 and ended the year at \$561 – for a piddling gain of just 5.5%. However, dear client, as most of you are well aware Apple breached \$400 twice during 2013 – in mid-April and late-June. The subsequent rally to \$560 has been substantial, +40%. Given that we added to your Apple holdings at more propitious prices during 2013, the *relative* performance of Apple in your portfolio was close to par versus the market and the benchmark.

2013 also produced a few heady gains. Gilead Sciences was up +104.5% (adding to its gain of +79% in 2012), Priceline +87.4%, American Express +59.8% and Google +58.4%. Charles Schwab was our largest relative contributor to performance. The stock gained +83% in 2013 – after a gain of 30% in 2012. We trimmed the position throughout the year and fully exited the position at the end of October. Our sale rationale is quite succinct. Schwab remains a best-in-class business, but the stock, in our view, had become less than best in class (read: overvalued). Cognizant (+36.7%) and Perrigo (+48.0%) were both notable performers in absolute terms. They each were both among our best relative performers during 2013 as the market served up corrections in both whereby we added to our existing positions. Cash is a big drag on performance in ebullient markets (see 2013), but the optionality of cash in a focused portfolio can be a big arrow in our investment process quiver.

During the quarter we trimmed positions in Priceline and Gilead Sciences. We also added to existing positions in EMC and M&T Bank.

We ended the year with a higher than usual cash position, as our new-buy cupboard is quite bare. There are plenty of outstanding businesses that we would like to add to our portfolio, but such outstanding (great) companies are currently valued at outstanding (poor) valuations.

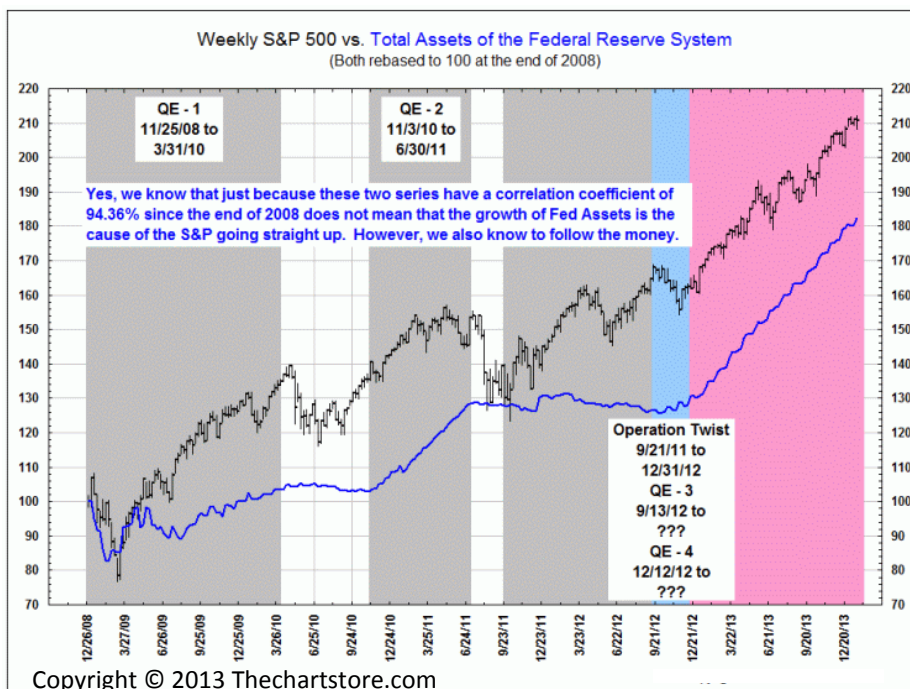


*Booyah!!* 2013 will enter the financial history books as the greatest year (yet?) of the Great Bull Market of 2009-2013 (2014?). The S&P 500 Index was up 32% in 2013 - its best year since 1997. Bernanke & Co. turned up the Quantitative Easing-music in 2013 to the delight of all. Seemingly every segment of the stock market has heartily attended the stock market party and fattened on the feast. It didn't matter in which style box you invested in 2013, as Morningstar Large, Mid, Small, plus both Value and Growth categories all posted strong returns. Since the beginning of the Great Bull Market in early March 2009, the S&P 500 Index is up +175%, and the equal-weighted S&P 500 Index is up nearly +250%. Furthermore, according to Bloomberg, ten S&P sectors have increased at least 10% in 2013 – the highest since 1995. According to DoubleLine, the market's 2013 peak-to-trough drawdown of just 5% was the fourth lowest over the past 43 years. To date, it's been 27 months since Mr. Market delivered the last +10% correction in the stock market.

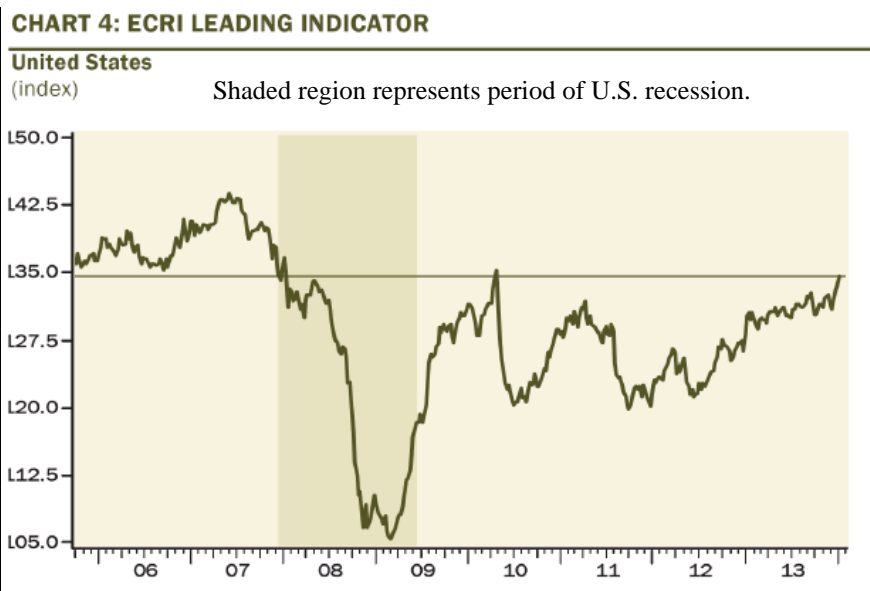
We began chronicling the “Great Bull Market” in our investment letters starting back in late 2008. Rereading those letters we are struck on how markedly different the investing environment was just five short years ago. Then the doom and gloom was palpable – and Wall Street was overflowing with bargains! If asked then what was one's favorite stock, the simple reply of “*Yes!*” would have perfectly sufficed. Today though, as the New Year rolls in, stock market Bears are in full hibernation. Bullish sentiment indicators are at their highest (worst) levels in over two decades. In a world of “QE zero-bound” interest rates, floating on \$470 billion of margin debt, is it any wonder that irrational exuberance is the “rational” order of the day?



distortion throughout the term structure of interest rates to us. Bernanke & Co. has been unusually successful in talking up asset prices - with the oft-stated goal that wealth creation will accelerate economic growth - and lower inflation. Indeed, it appears, to us anyway, that “Bull Markets” have become official government policy. According to Dallas Fed Chairman Richard Fisher, 75% of the Federal Reserve’s “held loans and securities” had maturities in excess of *five* years. We ponder the thought of how successful Yellen & Co. might be in selling such an out-sized supply of Treasury and MBS securities. One hopes that she is as successful as Bernanke & Co. was in purchasing them.



While our primary task is to be “bottom-up” owners of terrific businesses, rather than the less predictable, less profitable and certainly less satisfying task of economic or stock market forecasting, we would like to offer our views on the current investing environment. In short, we expect much of 2014 to be the opposite of 2013. Further, we expect Main Street to outperform Wall Street. We expect better than expected economic growth, better employment - and correspondingly higher than expected inflation and interest rates. Even a cursory dive into the latest employment figures shows that the college-plus segment is near full employment. Leading economic indicators have currently crept back up to 3-year highs. Relatedly, what may be better for the economy, may very well likely challenge current exuberant financial markets - particularly the stock market. Higher interest rates and higher inflation could cause a deflation-obsessed Fed to “taper” much sooner than their official policy statements.



Source: Haver Analytics, Gluskin Shef  
Economic Cycle Research Institute (ECRI)

As such, any surprises in interest rates and inflation could well be to the upside and prove to be, in our opinion, a considerable headwind for the stock market. 2013 was a year of Price/Earnings multiple expansion<sup>2</sup>. 2014 may well be the opposite. We also expect more volatility (read: downside) throughout 2014. Our more specific evolving view on the broad stock market echo our thoughts from our last couple of Client Letters. As much as pessimism and fear ruled the day back in late 2008 and early 2009, we are of the current view that we are in the midst of a bull market in optimism. In short, we expect evolving Risk-avoidance to trump Reward-chasing in 2014.

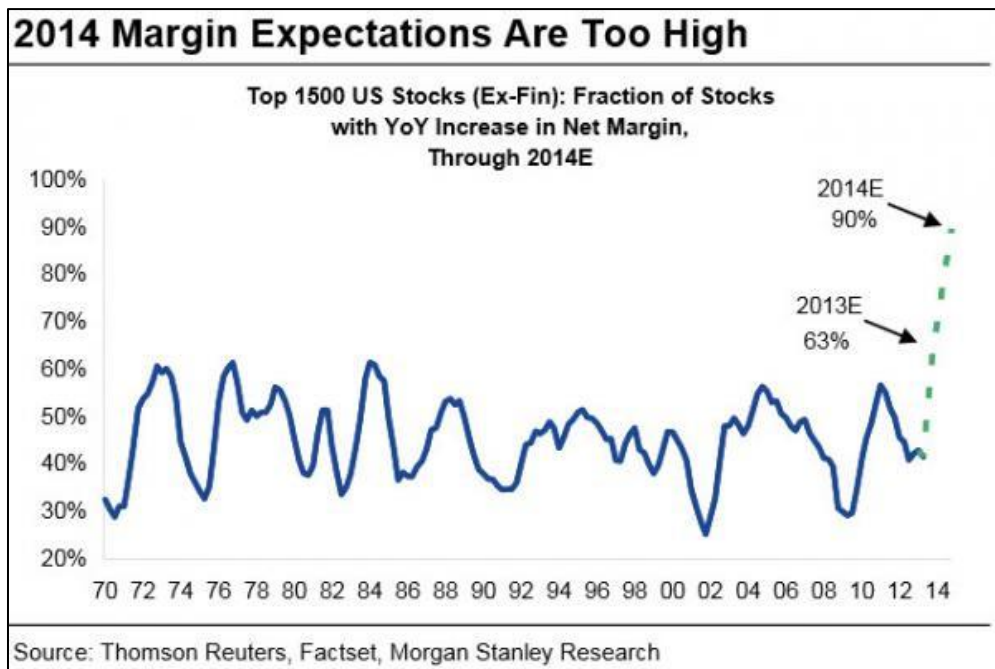
Continuing our recent quarterly discussions on corporate profits, we believe that corporate profit margins could surprise to the downside in 2014. Thanks to generational low interest rates, corporate interest expense is also at generational lows. Said another way, the best refinancing/borrowing in a generation may have ended in July 2012 (and May 2013). In addition, wage and compensation expenses are also near multi-decade lows. Furthermore, the constant and increasingly vocal drumbeat of corporate managers unable to find enough skilled labor to fill growing job openings is no doubt good news for the skilled employed – but bad news for corporate profit margins. Wage pressures (plus healthcare expenses) are certainly on the rise.

<sup>2</sup> **Multiple Expansion:** An increase in the price-earnings ratio, or multiple, of a stock or group of stocks.



Here are a few more of our thoughts on corporate profit margins from last July:

*According to BCA Research, compensation expenses, adjusted for consumer prices, are still at year-end 2008 levels. In addition, while measures of productivity remain steady at elevated levels, previous margin tailwinds such as falling interest rates, and declining depreciation charges (largely from 2008 through late 2012) are likely to become headwinds. Corporate tax burden is volatile (and linked to economic activity), yet remains quite low by historical standards. Even the juice from low tax-regime overseas profits seem to be as good as it can get. The combination of these factors leaves revenue growth as the likely key driver of future profit growth. Furthermore, if margins do recede even a bit, it would take double-digit growth in revenues just to maintain single-digit earnings growth.*



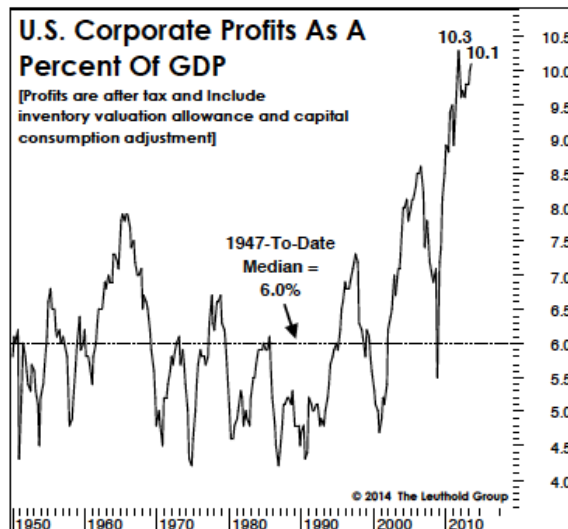
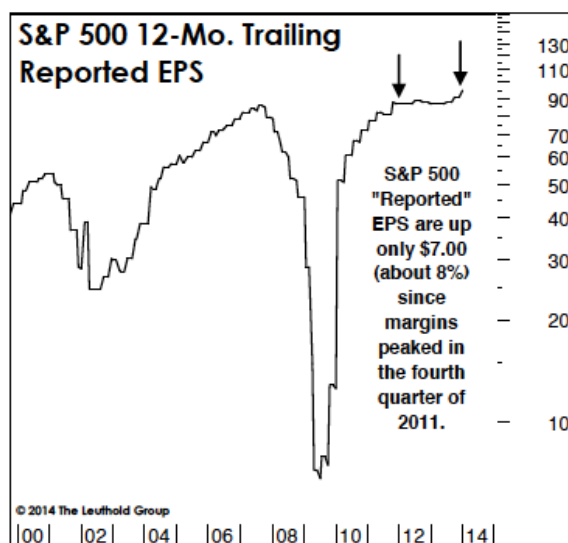


Chart 2



Lastly, we cannot help but be minimally observant at the stretched valuations of many stocks and the broader stock market indices too. According to Standard & Poor's, since the 1930's the current Great Bull Market ranks third out of eighteen measured bull markets in terms of gains and fourth (currently 254 weeks) in terms of duration. In fact, if the current mighty Bull makes it to its official 5-year anniversary in early March, it will become the second longest bull market since the early 1930's.

The Wall Street Journal reports that the trailing P/E multiple of 18.6X on the S&P 500 Index is now higher than 24 of the past 35 bull market peaks. The Shiller CAPE (cyclically-adjusted P/E) multiple of nearly 26X is higher too than 29 of the prior bull market highs over the past 113

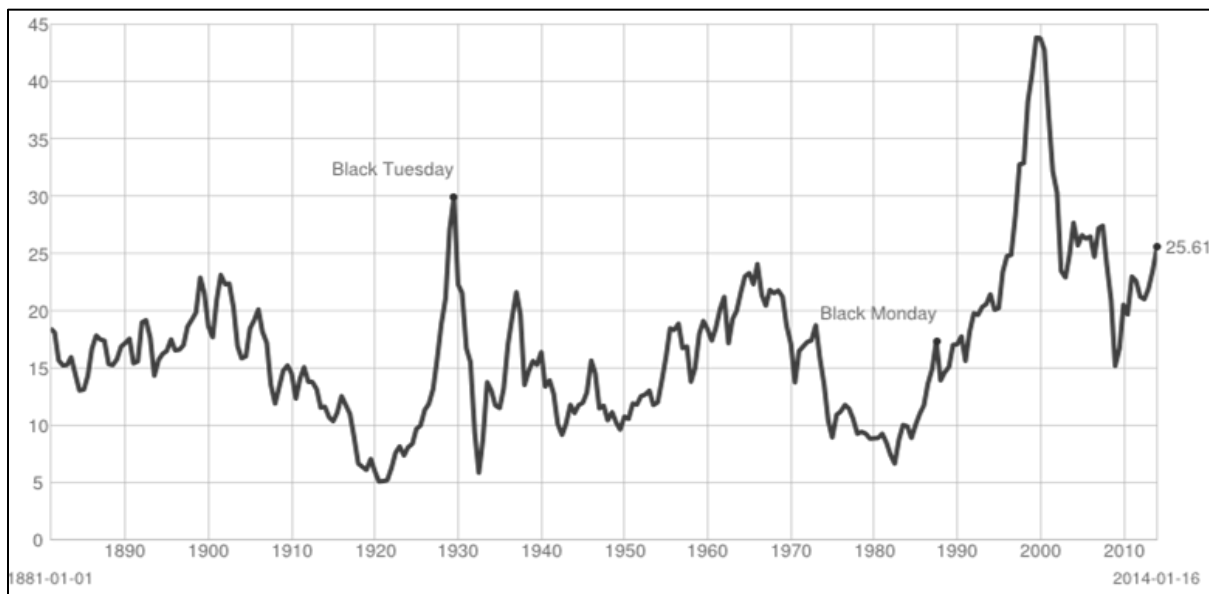




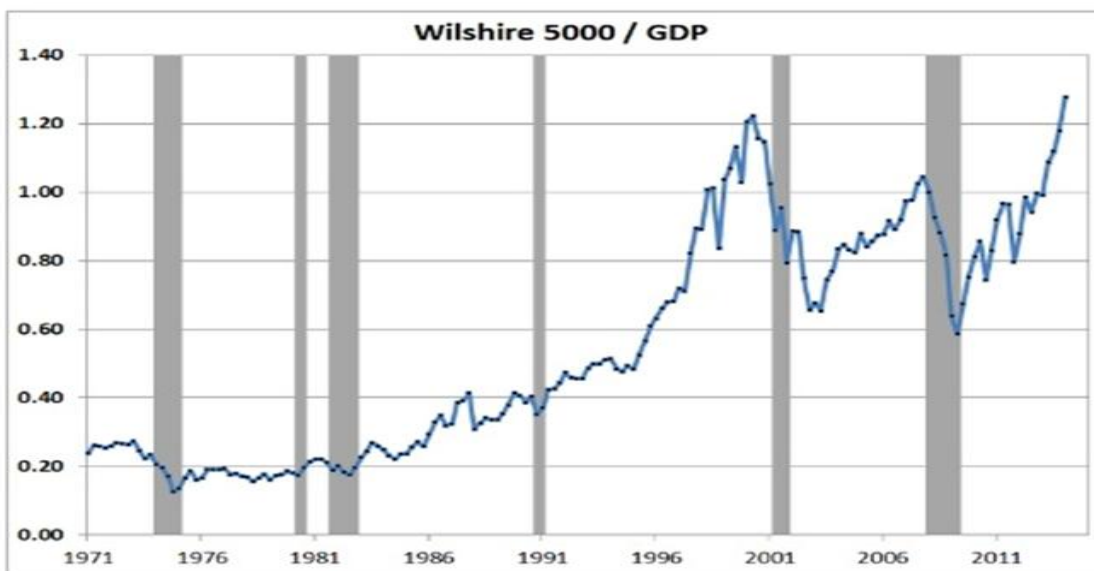
years. In addition, the S&P 500 Index's Price/Book ratio of 2.7X is higher than all five of the past 28 bull market peaks over the past 90 years and the Price/Sales ratio of 1.6X is now higher than all but two of the 18 bull market tops since 1995. (See Supplement at the end of this Letter for more historic bull market comparisons.)

On this score, three of our favorite stock market valuation measures (Shiller P/E, Wilshire 5000/GDP (Warren Buffett's favorite measure) and the Value Line 3-5 Year Market Appreciation Potential - VLMAP) are all at multi-decade bearish extremes. In addition, GMO's 7-Year Asset Forecast is flashing red as well. It is important to note, we list such measures and forecasts not in any attempt on our part to "time the market." That important caveat aside, all three measures, plus GMO's forecast, depict the current investing environment as one that will deliver, at best, low single digit returns over the next five to seven years and, more critically, *negative* compounded returns, at worst. Thank goodness our task (difficult still in circa-2014) is to populate our portfolio with just 20 stocks...

### Shiller Price Earnings Ratio for the S&P 500

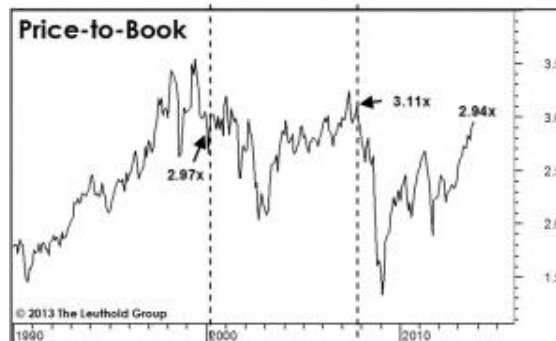
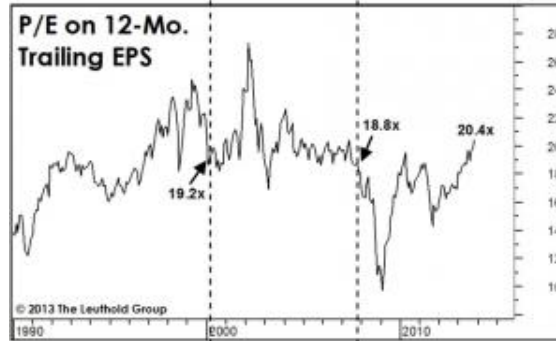


Source: <http://www.multpl.com/shiller-pe/>



Source: Hussman Funds

**Valuation Of "Median"  
S&P 500 Stock Almost Identical  
To Levels Seen At 2007 Peak  
(And Above The 2000 Peak)**



Mar 2000      Oct 2007



In summary, as the 5<sup>th</sup> year of the Great Bull Market of 2009-2013(4) rolls along, we are no doubt finding the current investing environment limiting and challenging. The most favorable investment opportunities that we can find largely, if not exclusively, reside in your current portfolio. Again, our task of building a +20 stock portfolio of what we believe are best-of-breed companies - that additionally must sport attractive valuations - can be accomplished in the current ebullient environment. That said, we believe there is mounting evidence that the stock market has advanced so far, so fast over the past year as to render future returns quite poor on a risk-adjusted basis. We leave this subject with further sober words from John Hussman of Hussman Funds:

*In contrast, high market durations are associated with lower prospective returns, and also make equities appropriate for a smaller fraction of a portfolio. The duration of the S&P 500 was 33 years at the 1929 pre-crash peak; 37 years in January 1973, just before stocks lost half their value; 38 years at the August 1987 peak; 90 years at the 2000 peak, from which the S&P 500 has – even now – seen annual total returns averaging little more than 3% (with the likelihood of still another decade of similarly low returns); and 58 years at the 2007 peak. Again, the duration of the S&P 500 is presently 50 years – about double its historical average.*

**January 2014**

## **Philosophy and Process**

Often, we are asked where we come up with new stock ideas for your portfolio. Our usual response starts off with a disclaimer that as focused investors; we are decidedly *not* a new idea generating shop. Quite frankly, how many best of breed companies truly exist? 5% of publicly traded companies? Maybe, 10%? In addition, it typically requires an outsized investment opportunity (great company and compelling valuation) to make its way through our investment due diligence process in order to displace an existing holding. Said another way, our research process is where new ideas go to die. Of course, by this we mean that both our turnover and quantity of holdings have been, historically, much lower than our peer group<sup>3</sup>. All of this is a byproduct of both our philosophy and process, which, generally speaking, stress that we approach investing almost as if we did not have the luxury (vice?) of the daily liquidity offered by equity markets. For one, we believe that instant liquidity would be necessary only if we had an informational advantage that could be exploited - which today means turnover measured in seconds (or less). Since we do not attempt to gain any sort of informational advantage and, instead, rely on public information available to both lay and institutional investors, instant liquidity is largely unnecessary to us. But if we are in fact giving up instant liquidity, what are we getting in return?

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<sup>3</sup> Based on Morningstar Principia data as of 12/31/2013. The peer companies chosen by RiverPark are well-known growth managers and direct competitors



Time. Quite valuable time to our minds.

We seek to own growing businesses that exhibit peer leading profitability, so the longer time frame in which we own our businesses, the more opportunity they have to increase shareholder value. Compounding growth companies are a wonderful thing. Indeed, one of Warren Buffett's most influential investment maxims is *"Time is the enemy of the poor business and the friend of the great business. If you have a business that's earning 20%-25% on equity, time is your friend. But time is your enemy if your money is in a low return business."*

Consider if you will, in 2005 we could not have known that Apple was going to release the paradigmatic iPhone, two years hence. But our early investment in the Company was due to Apple's unique – and in turn, repeatable - approach to consumer electronics (iPod and Mac), which generated profitability that was notably superior to its portable electronics peers. Apple's arguably "insanely-great" core competency was then applied to a number of different addressable markets, collectively measured in the trillions of dollars, and a virtuous cycle of reinvestment and cash-flow generation ensued.

While we continue to own Apple, this does not mean we hold investments forever.

Rising valuations are a particularly important risk to our holding period. All else equal, the more profits accounted for today, the less opportunity a business has for future compounding. So, in order to characterize valuation we typically refer to historical and relative price/earnings ratios - as well as absolute methods that include discounted cash flow and/or sum of the parts analysis. For instance, we liquidated our stakes in Charles Schwab during the fourth quarter, as we believe several years of Schwab's future earnings power were sufficiently recognized by Mr. Market in current prices. While the Company has continued to grow and take profitability share via its superb low-cost, internet-based platform, our analysis of the stock's valuation suggests that the implied earnings power of the business is not only taking current business momentum into account, but also giving shareholders ample credit for higher short-term interest rates, even though short-term rates are currently anchored near zero. Admittedly, valuation is somewhat of a blunt tool, given the wide array of future assumptions, however, we believe that valuation becomes clarified and much sharper too as time passes.

During the quarter, we did not add any new companies to the portfolio. Critically, illustrating our "less is more" view on stock picking, over the past nine months we added just one new stock to the portfolio, M&T Bank - during the second and third quarters. Now, at any given time, we have around twenty other companies we would like to own, each exhibiting the exceptional growth, profitability and financial strength characteristics that we require. Currently, however, the majority of these candidates are trading at valuations that skew too far towards the "risk" end of the balance that we are trying to maintain. Suffice it to say, we are much less comfortable with valuations on our "short list" today than, say, the summer and fall of 2011. However, this is far



from a short-term “market-timing” call as our philosophy and process are not necessarily applicable to broad equity markets.

In any case, while new ideas and bull markets are exciting, the valuation discipline inherent to our process ensures that time, rather than excitement, is always on our side.

## Company Commentaries

### EMC

EMC’s stock was flat over the course of 2013. In fact, the stock has been flat over the past three years – significantly underperforming the near 50% gain in the S&P 500 Index. The stock has been buffeted over fears that the Company’s current decelerated growth is in secular decline due to a number of competitive threats. The first threat is that flash storage and software-defined storage will cannibalize traditional hard disk drives. Two, the public cloud is only a threat (and not an opportunity) that disintermediates information technology (IT) spend from both EMC and VMware (EMC maintains an over 80% ownership stake in VMW). Third, VMware’s entrenched vSphere gets displaced by Open-Source and Microsoft’s Hyper-V. Fourth, recent premium-priced acquisitions of Data Domain and Isilon are evidence of lack of internal product development.

EMC’s products – both hardware and software - are literally a geek’s wonderland alphabet soup, which include Storage Area Network (SAN), Network Attached Storage (NAS), Direct Attached Storage (DAS), Virtual SAN, All-Flash XtremIO, Atmos, Avamar, Data Domain, Isilon, Pivotal, ViPR Software Defined Storage, VMAX, VNX, VNXe, VPLEX, VSPEX (none of these are typos). Information storage makes up 70% of revenues and virtualization 23% of revenues. Products generate 55% of revenues. Services generate 45% of revenues. The Company’s gross profit split is approximately 67% data storage and 31% virtualization.

The bear case on the Company has been so relentless as to render EMC a “broken growth company.” Indeed, the stock’s forward P/E<sup>4</sup> is just 11.5X. In addition, if you exclude the Company’s 80% stake in VMware (\$30 billion – cost of all of VMW in 2003 just \$635 million) and net cash (\$8.5 billion), the remaining EMC business “stub” is valued at only 4-5X earnings. Mr. Market has thus concluded the Company’s entrenched ecosystem; sticky customers and unparalleled distribution (direct sales force) are of little value. In addition, such an undemanding valuation assumes further that the Company’s key new products such as Pivotal (“the Android operating system of cloud computing”), XtremIO and ViPR will never ramp-up quickly in the hundreds of millions of dollars. On the contrary, we expect EMC to post consolidated revenue growth in the mid-to-high digits, with modestly expanding margins – mostly thanks to VMware’s relentless push deeper into data center virtualization and automation. Further, the

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<sup>4</sup> **Forward Price Earnings:** a comparison of the current price to a projection of next year’s earnings – not a forecast of future performance



stock's attractiveness has not gone unnoticed as the Company recently announced a new dividend and multibillion stock buyback. These factors should combine to generate the double-

digit bottom-line growth we expect over the next few years. In our view the stock's downside over the next year or so is just -10%, while the prospective upside to fair value is +33%.

## **Apple**

Our thesis that innovation is alive and well at Apple – a minority position to be sure over the past year – has been vindicated, in our view, given that the Company refreshed their entire suite of hardware and operating software systems in the second half of 2013. Apple continued to expand its iPhone franchise, selling close to 34 million units during the September quarter, representing a 25% increase over the year ago period. Much of this growth can be attributed to the successful roll-out of the iPhone 5S and 5C, Apple's most recent updates to this key business line. The Company also continues to upgrade the broad array of services that make up the platform in support of the iPhone (as well as the iPad and Mac), including content (iTunes, App Store, iCloud) and software (iOS). We think Apple's platform approach drives a differentiated user experience which leads to a "stickier" customer, which in turn drives customer intentions to repurchase Apple products at significantly higher rates –and profits - than their competitors. As smartphones proliferate, we expect consumers will become increasingly critical and demanding of their user experience - a trend that we expect Apple will be able to capitalize upon as competitors continue to maintain their focus on selling an experience that is only "good enough" for smartphone newbies. We expect the Company to generate renewed earnings growth over the course of calendar 2014 approaching \$50 per share. Even after the +45% advance in the stock from past summer, we view the current risk/reward in the shares (and in consideration of the cash build on the balance sheet) quite favorable.

## **Cognizant Technology Solution**

Cognizant continued to execute well on its value proposition of providing deep domain expertise for outsourced enterprise IT. As IT has rapidly evolved in the face of a "devolving" macroeconomic backdrop, outsourcing customers are demanding more value-added services to not only convert fixed IT costs into variable costs, but to improve business agility and drive revenues. Cognizant has aggressively reinvested to meet and exceed these demands, cultivating a relationship-based approach that relies on a much larger on-site presence compared to transactionally-based peers. In turn, customers have given Cognizant more "wallet share," to the point where revenues have routinely grown at a 20% clip. We expect emerging trends, such as the proliferation of mobile IT as well as the perpetual trend of IT infrastructure transformation to drive double-digit growth well into the future.



## Perrigo

During the quarter, Perrigo announced strong September quarter adjusted earnings growth of 20%. We say “adjusted” because the Company incurred what we believe are non-recurring charges related to the recent purchase of Elan Corporation, which is a branded-drug company domiciled in Ireland. Upon the closing of this purchase, Perrigo has “re-domiciled” itself in Ireland, with an effective tax rate meaningfully below what they were subjected to in the U.S. Given that the Company actively pursues a strategy of inorganic growth as much as it pursues organic growth - having acquired six new businesses over the past 18 months (including Elan) - we expect that this new tax structure should make future acquisitions, particularly those U.S. based businesses, much more attractive. Further, Perrigo’s core business, which includes private-label over-the-counter (OTC) pharmaceuticals and infant formula, drove much of the year-over-year growth. The Company’s unrivaled scale in manufacturing and marketing of store-branded offerings continues to enable retailers to mimic the value proposition of OTC pharmaceuticals and infant formula. This “store-brand conversion” is a multi-year trend that we expect will continue for the foreseeable future as consumers continue to become more value-conscious, yet more comfortable with store-brand quality that Perrigo helps engineer.

David A. Rolfe, CFA  
Chief Investment Officer

Dana L. Webb, CFA  
Senior Portfolio Manager

Michael X. Quigley, CFA  
Portfolio Manager

**Table II**  
**Top Ten Holdings For the Quarter Ending December 31, 2013**

	Percent of Net Assets of the Fund
Apple Inc.	9.4%
QUALCOMM, Inc.	6.6%
Cognizant Technology Solutions	6.2%
Berkshire Hathaway Inc.	6.1%
EMC Corp.	5.9%
Express Scripts Holding Co.	5.6%
Google Inc.	5.3%
M&T Bank Corp.	4.9%
Perrigo Co.	4.3%
Cummins Inc.	4.3%
	<b>58.6%</b>

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





**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 full or summary prospectus, which may be obtained by calling 888.564.4517, or by visiting the website at [www.riverparkfunds.com](http://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 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 Fund is not suitable for all investors.*

*This material represents the portfolio manager's opinion and is an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any security in particular.*

*The S&P 500 Index is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation, with each stock's weight in the Index proportionate to its market value. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-book ratios and higher forecasted growth values.*

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

## Supplement: Historical Charts of Past Bull Markets

