RIVERPARK FUNDS

# RiverPark/Wedgewood Fund

(RWGIX / RWGFX)

Wedgewood. PARTNERS, INC.

## Second Quarter 2014 Review and Outlook

The RiverPark/Wedgewood Fund gained approximately +1.50% during the second quarter of 2014. This tiny gain is below the Standard & Poor's 500 Index of +5.23% and below the gain of +5.13% in the Russell 1000 Growth Index.

**TABLE I**
**Fund Returns for Quarter ended June 30, 2014**

| | INSTITUTIOAL SHARES (RWGIX) | RETAIL SHARES (RWGFX) | RUSSELL 1000 GROWTH INDEX | S&P 500 TOTAL RETURN INDEX | MORNINGSTAR LARGE GROWTH CATEGORY[1] |
|---|---|---|---|---|---|
| **SECOND QUARTER 2014** | 1.50% | 1.45% | 5.13% | 5.23% | 4.21% |
| **YEAR-TO-DATE** | 3.68% | 3.60% | 6.31% | 7.14% | 4.73% |
| **ONE YEAR** | 24.68% | 24.43% | 26.92% | 24.61% | 26.29% |
| **THREE YEAR** | 17.84% | 17.59% | 16.26% | 16.58% | 14.22% |
| **SINCE INCEPTION – ANNUALIZED (SEPTEMBER 30, 2010)** | 18.11% | 17.84% | 18.29% | 18.01% | 16.22% |

[1]*Source: Morningstar Principia*

*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 Fund's worst performers during the second quarter were **Coach** (-30.6%), **Express Scripts** (-7.7%) and **Perrigo** (-5.7%). The best performers during the quarter were **Apple** (+21.9%), **Schlumberger** (+21.4%) and **National Oilwell Varco** (+18.0%).

The foundation of our investment philosophy is that investing in the stock is most successful when it's most business like. Investing through the prism of a "successful business owner" requires the right combination of temperament and behavior. Specifically, success requires, no, *demands*, the temperament to view booming stock prices as increasing *risk* and crushing stock price declines as increasing *opportunity*. Many professional and lay investors profess to possess a contrarian element to their investment behavior and attitude, but far fewer are able to repeatedly execute when the chips of extreme fear or greed are on the table. Furthermore, successful stock market investing requires the preparation and execution of a marathoner, not a sprinter. At Wedgewood we attempt to amplify this "business owner" edge through significantly higher conviction by means of a focused portfolio of just twenty stocks. Such high conviction investing is quite the exception, rather than the norm in the world of institutional investing.

Our "marathon" goal, as it were, is to outperform both the stock market - and our peers - over the course of multiyear investment cycles, *and* without taking imprudent risk. Lofty goals indeed. Nonetheless, that is our mission at Wedgewood. Critical to our mission ends is the means to which we construct our twenty stock portfolio that by investment process definition *must* look very different than stock market indices, any related style benchmarks - and the portfolios of our peers. Said another way, the successful focused investor *must* accept the reality that the return set from a high conviction portfolio will by definition look very different over the sprinted course of a month, quarter, as well as over a year or two. In our view, the most critical attribute of a successful focused investor is not to go wobbly when one is in the midst of periods of poor performance. High conviction focused investing requires, well… *high conviction.* Again, in our view, easier said than done.

A survey of our +22-year track record (see here) will reveal countless months and quarters of lousy performance – plus more than a few twelve-month stretches of real stinkaroo performance. We are in the midst of such a period right now.

The Fund's year-to-date gain of +3.68% is just half of the S&P 500's return of 7.14%, and little more than half of the Russell 1000 Growth Index's return of 6.31%. Our second quarter return is the main culprit. Our return during the second quarter was quite small, while the market and benchmark has gained about 5% each. Indeed, our poor relative return in the second quarter was so poor that only *four* of our twenty stocks outperformed the S&P 500 Index during the quarter – and only eight are currently ahead of the S&P 500 Index through the first half of the year.

So, what are we to make of such lackluster performance? If we may offer our humble and respectful opinion,…not much. Just as this past April, May and June were as rotten of relative months of performance as we typically post (we have outperformed in just 3 out of the last 12 Aprils and 4 out of the last 12 Mays) the out-sized relative outperformance as recently as say November 2012, July 2013, September 2013 or January 2014 are no more indicative of future longer-term returns either. For those clients who have invested along with us over complete investment cycles (bless you all), such shorter-term performance variations are old hat.

David Snowball is the proprietor and writer of the *Mutual Fund Observer*. Don't let the title of his website fool you, his monthly newsletter is a must read for any investor. In his partner's (Ed Studzinski) latest missive, we found his view on both the selection and *psychology* of investing in outperforming managers to be quite informative.

***John Templeton once said that if your portfolio looks like everyone else's, your returns also will look the same. The great (and I truly mean great) value investor Howard Marks of Oaktree Capital puts it somewhat differently but equally succinctly. Here I am paraphrasing but, if you want to make outsized returns than you have to construct a portfolio that is different than that held by most other investors. Sounds easy right?***

***But think about it. In large investment organizations, unconventional behavior is generally not rewarded. If anything, the distinction between the investors and the consultant intermediaries increasingly becomes blurred in terms of who really is the client to whom the fiduciary obligation is owed. Unconventional thinking loses out to job security. It may be sugar coated in terms of the wording you hear, with all the wonderful catch phrases about increased diversification, focus on generating a higher alpha with less beta, avoiding dispersion of investment results across accounts, etc., etc.***

***But the reality is that if 90% of the client assets were invested in an idea that went to zero or the equivalent of zero and 10% of them did not because the idea was avoided by some portfolio managers, the ongoing discussion in that organization will not be about lessons learned relative to the investment mistake. Rather it will be about the management and organizational problems caused by the 10% managers not being "team players."***

***The motto of the Special Air Service in Great Britain is, "Who dares, wins." And once you spend some time around those people, you understand that the organization did not mold that behavior into them, but rather they were born with it and found the right place where they could use those talents (and the organization gave them a home). Superior long-term investment performance requires similar willingness to assess and take risks, and to be different than the consensus. It requires a willingness to be different, and a willingness to be uncomfortable with your investments. That requires both a certain type of portfolio manager, as well as a certain type of investor.***

*I have written before about some of the post-2008 changes we have seen in portfolio management behavior, such as limiting position sizes to a certain number of days trading volume, and increasing the number of securities held in a portfolio (sixty really is not concentrated, no matter what the propaganda from marketing says). But by the same token, many investors will not be comfortable with a very different portfolio. They will also not be comfortable investing when the market is declining. And they will definitely not be comfortable with short-term underperformance by a manager, even when the long-term record trashes the indices.*

*From that perspective, I again say that if you as an investor can't sleep at night with funds off the beaten path or if you don't want to do the work to monitor funds off the beaten path, then focus your attention on asset-allocation, risk and time horizon, and construct a portfolio of low-cost index funds.*

*At least you will sleep at night knowing that over time you will earn market returns. But if you know yourself, and can tolerate being different – than look for the managers where the portfolio is truly different, with the potential returns that are different.*

*But don't think that any of this is easy. To quote Charlie Munger, "It's not supposed to be easy. Anyone who finds it easy is stupid." You have to be prepared to make mistakes, in both making investments and assessing managers. You also have to be willing to look different than the consensus. One other thing you have to be willing to do, especially in mutual fund investing, is look away from the larger fund organizations for your investment choices (with the exception of index funds, where size will drive down costs) for by their very nature, they will not attract and retain the kind of talent that will give you outlier returns (and as we are seeing with one large European-owned organization, the parent may not be astute enough to know when decay has set in).*

*Finally, you have to be in a position to be patient when you are wrong, and not be forced to sell, either by reason of not having a long-term view or long-term resources, or in the case of a manager, not having the ability to weather redemptions while maintaining organizational and institutional support for the philosophy.*

In the rest of this Client Letter we will try to be as transparent as possible (as we always attempt in these Letters) discussing our mistakes, our underperforming holdings and why we continue to hold an out-sized cash position.

Coach has been by far the worst performing stock of our holdings over the past twelve-months, declining -37%. We have more to say on Coach below. The recent declines in both Perrigo and Express Scripts were borne of a worse than expected first quarter earnings report. Despite the weak earnings reports, our opinion of the longer-term growth potential of each has not materially changed.

Our patience in Apple has been rewarded quite nicely over the past twelve months as the stock has sharply appreciated +60% since those seemingly dark days of last summer. More too on Apple below. The price of crude oil is up 19% since late January, so it's probably no coincidence that both Schlumberger and National Oilwell Varco have responded in kind. However, we view the strong competitive positioning of both businesses as key to their sustained, superior long-term operating performance, regardless of the direction of oil prices.

Our views on our new investment opportunity set are little changed from our views expressed in our last Letter as the stock market continues its relentless bull charge with nary a correction. Relentless indeed, the S&P 500 Index has been up six quarters in a row – the best streak since 1998 and the fourth best since 1950. According to Bespoke (7/1), the S&P 500 has not corrected by at least 10% in 1002 days. This one-way stretch is the longest since August 1987 and the fifth-longest stretch since 1928. Small caps stocks have done even better. The Russell 2000 Index has been up *eight* quarters in a row – smashing its old record by two quarters. Since the March 2009 lows, the S&P 500 Index has gained +195%, the S&P 500 Equal Weighted Index has gained +283% and the Value Line Arithmetic Index is up +357%.

As you could imagine (and we hope, expect) we have been net sellers of stock year-to-date and our cash position has correspondingly risen to our maximum level of 10%. We can't add much to what we wrote just 90 days ago in our 1st quarter Letter:

***Investment restraint continues to be the driving narrative among Wedgewood's investment team. Bargains are few and far between in the current ebullient environment. That said, Mr. Market is still serving up enough investment opportunities to complete our focused portfolio of +20 stocks.***

***Indeed, our current portfolio sports the usual valuation discount to the benchmark (Russell 1000 Growth Index), with higher prospective earnings growth. All told, our expectations of future returns from our portfolio (and the stock market too) should be considerably less than the past few years.***

***We welcome any meaningful correction in the stock market to temper outsized enthusiasm and to serve up investment opportunity to us. These risks are certainly higher today and very much at the forefront in our minds as the current bull market just passed its 5-year anniversary. Prudent, repeatable investment "process" implies investment "discipline."***

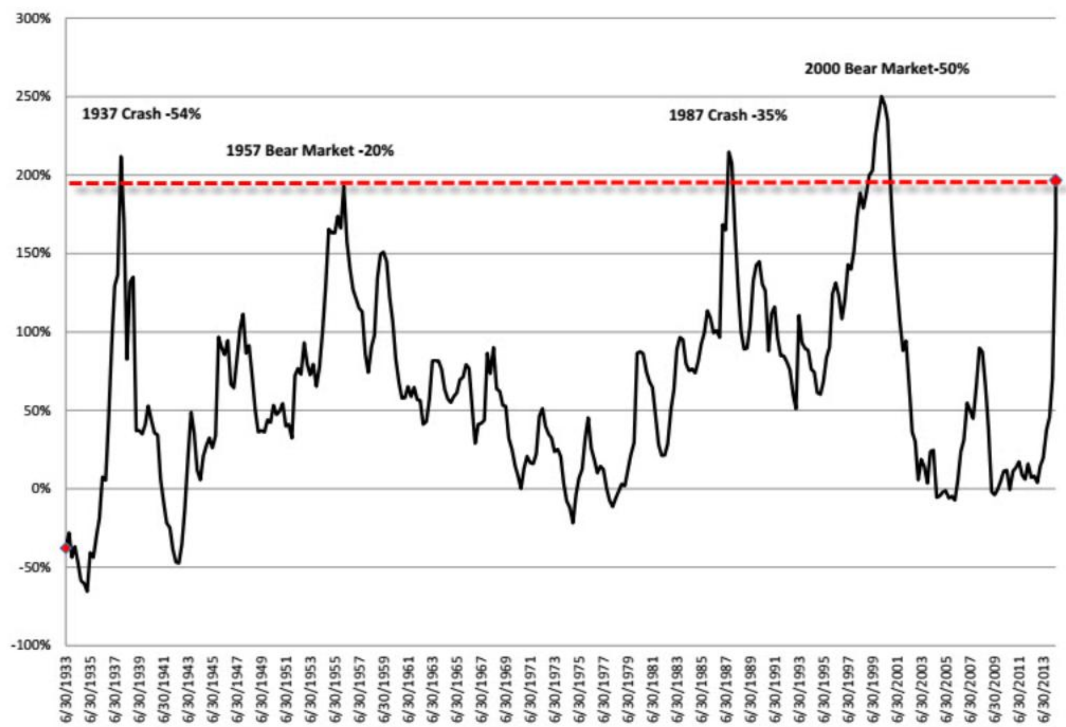
*Our focus on value in the current bull-run environment requires more rarified investment "restraint."*

***"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria"***

John Templeton

From a historical perspective the Great Bull Market of 2009-2014 has been only average in length of time, but exceptional in terms of gains. Rare is the bull market that *triples* in gain in just six years. Rarer still is a bull market of such quick and heady gains that does not correct very sharply. If… no, when, history repeats, we look forward to the inevitable served-up bargains that are all too rare to find today.

**Stock Market Rolling 23 Quarter Return**

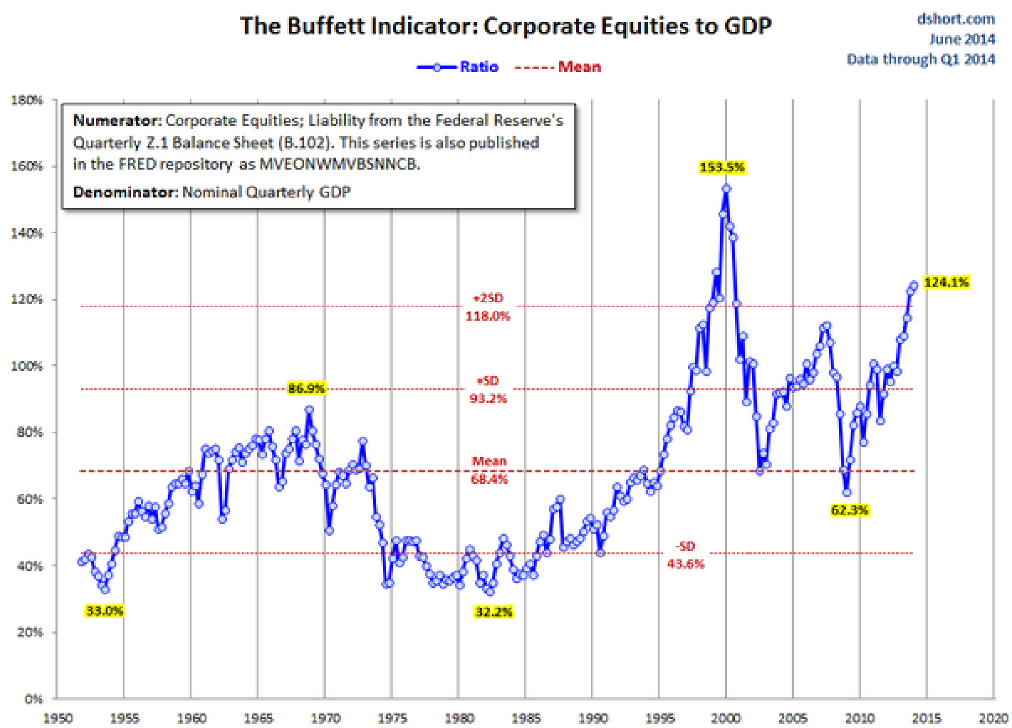



**Source: Zero Hedge based on the Dow Jones Industrial Average and the S&P 500 Index.**

In our past Letters we have also discussed the quite favorable stock price elixir of an improving economy, +50-year high corporate profit margins and an *über*-expansive monetary policy engineered by the stock market's best buddy, the QEternity Federal Reserve. Indeed, interest rates continue to be so low that rate-sensitive utility stocks are up nearly 20% year-to-date and every Monday morning brings news of bigger and more audacious mergers and acquisitions. According to Bloomberg, the year-to-date global deal mark of $1 trillion was eclipsed just this past June.  If the Fed's QEternity script was to revive investors' (and, unfortunately savers') animal spirits, Bernanke and Yellen could hardly be happier.

As the Great Bull Market of 2009-2014 begins lap six, Wall Street is "all in."  So too apparently are global public sector institutions "all in."  According to the *Financial Times* (and reported by *Grant's Interest Rate Observer)* public sector institutions (which include central banks, sovereign wealth funds and public pension funds) now own a collective portfolio of investments approaching *$30 trillion.*

Lastly, the ratio of stock market capitalization to GDP, described by Warren Buffett as *"…probably the best single measure of where valuations stand at any given moment"* is certainly not a ringing endorsement that the current +5-year bull market is *not* getting long in the tooth.




## Investment Process

The majority of our research process revolves around analyzing what we deem to be attractive fundamental characteristics and then constructing a portfolio that we believe represents a superior risk-reward proposition for our long-term investors. We believe these fundamental characteristics include exceptional profitability, with the opportunity for multi-year double-digit growth, along with excellent financial strength, and requisite attractive valuations.

However, over the years and after many conversations with clients and prospective clients, we are well aware of the fact that these are fundamental characteristics most *every* investor looks for. (Does anyone *really* want to own a bunch of sub-par, slow-growth, money-losing businesses at nosebleed valuations?)

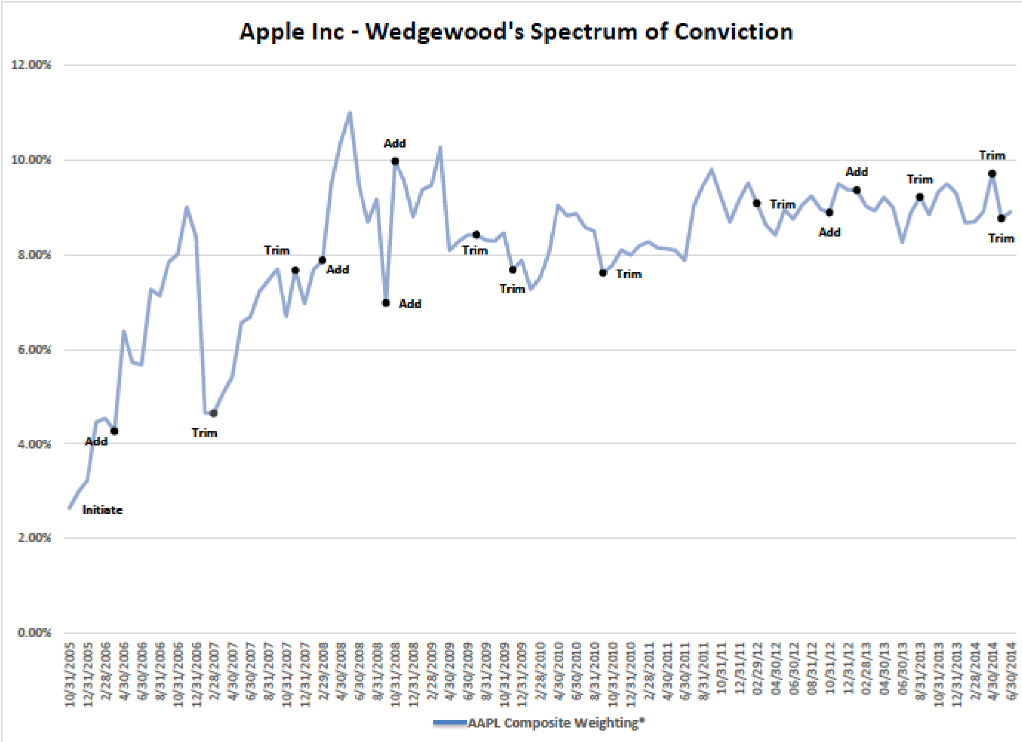
Fair enough.

But, as we often state, we believe our philosophy of *focused* investing is what differentiates us from our peer group. While we think our portfolio of about 20 stocks is different enough, the implications go deeper than simply carrying fewer holdings compared to everyone else.

For instance, when talking to prospective clients, the topic of idea generation often dominates the process discussions, so we deduce that idea generation must be important to the rest of the active management industry. However, our research emphasis is more generalized, where we are simply trying to find the next great risk/reward, regardless of where it might be, within the context of a roughly 20 stock portfolio. And while we believe markets are not particularly efficient, we have observed repeatedly, over the course of our firm's +22-year history of investing, that Mr. Market does not consistently cough up scores of inefficiently priced large cap stocks on a monthly or even quarterly basis (much less after a record-breaking, multi-year bull-run). So we always emphasize that the binary decision to either "buy" or "don't buy" a *new* idea does not represent the preponderance of our research. Instead, it is the *sizing* of a holding that is most crucial to our process and where we spend the majority of our time - we are constantly trying to determine where we are on a "spectrum of conviction."

Our positioning on this spectrum of conviction - the sizing of a position within the portfolio - *depends on the investment committee's confidence that a holding exhibits the process characteristics, relative to our existing opportunity set.*

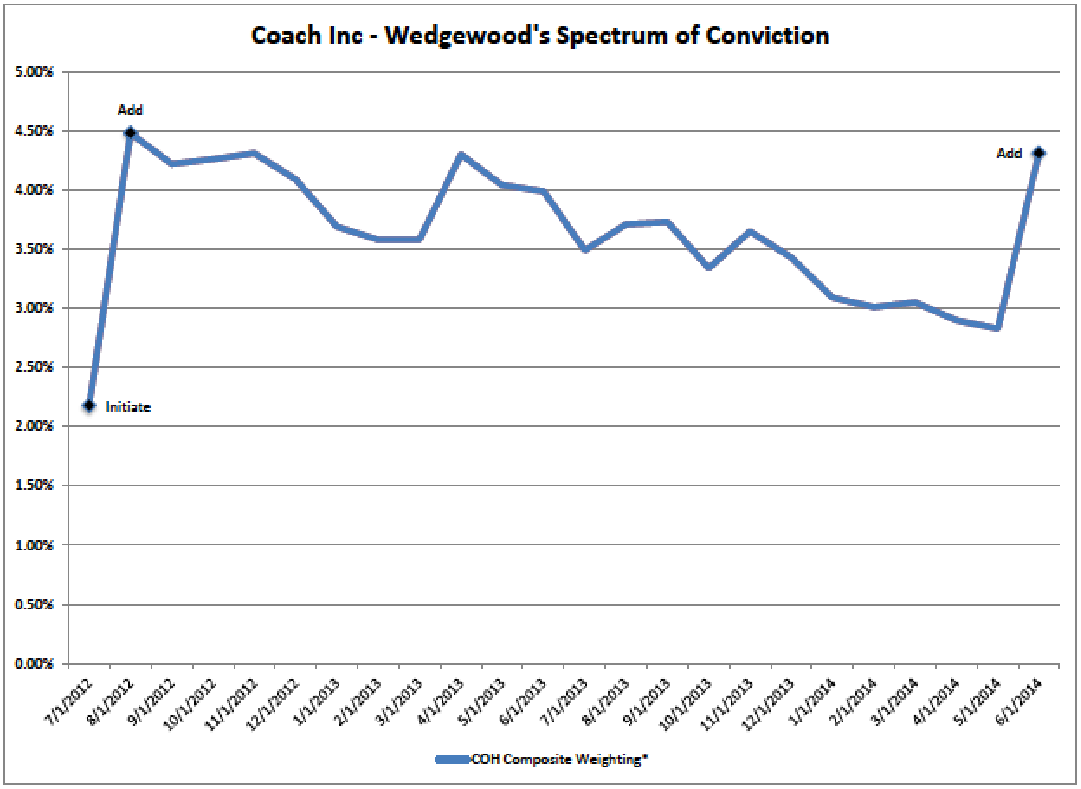
For example, we want to own Apple because it exhibits all of the characteristics of our process. Therefore Apple, at the minimum, gets a weighting of around 2%. However, Apple is currently one of the largest positions in the portfolio. Over time, we have added and subtracted from Apple, several times, to the point where our investment committee's current collective conviction in Apple's competitive profile, growth prospects, valuation and financial strength is meaningfully higher than most other available opportunities. So it has been this constant push-pull between our buy and sell processes - with our Investment Committee playing the role of referee - that has placed Apple at one of the highest levels on our "spectrum of conviction."




**Source: Wedgewood Partners**

Now, some might refer to this as "trading around a position" but we do not consider ourselves traders. To illustrate, over the past 10 quarters, we have owned about 27 stocks (7 new buys and 7 eliminations - we own around 20 today) and we have added to existing holdings about 30 times and trimmed about 40 times. That works out to a simple average of one increase and a little more than one trim, per holding, over the past two and a half years - hardly the turnover statistics of a trader.

Coach is another example of how a holding can move around on our spectrum of conviction. Until recently, we had mostly refrained from increasing our Coach weightings, subsequent to adding it to portfolios in July 2012.




**Source: Wedgewood Partners**

Without making a sale, Coach's size in the portfolios contracted over the past three years, which reflected our lower relative level of conviction, particularly with respect to future earnings power. However, in spite of our concerns over this period, we viewed Coach's risk-reward proposition as being superior to any non-portfolio opportunities (including cash). So it stayed in the portfolio. While that has cost us dearly on a relative basis, in our opinion there are few businesses with Coach's level of profitability (over 20% return on assets) that are not only operating in an industry with near double-digit addressable market expansion, but are also trading at levels that imply a permanent impairment of the majority of its revenues. Such is the reason for our recent add.

In summary, our portfolio is a byproduct of a process that is designed to think in terms of a focused opportunity set. Rather than chasing dozens upon dozens of new ideas every quarter or year and hoping that the market is so woefully inefficient that it actually can serve up such a mass of potential alpha with any level of regularity, we instead ply our focused ideas around a wide spectrum of conviction. Ultimately, our goal is to add value by investing in only our best risk and reward opportunities.

## Company Commentaries

### Coach

Coach shares significantly declined during the quarter and have been a relative detractor since we first began purchasing shares in July 2012. With clearer hindsight, where did we go wrong on our initial timing? Our view then was that the Company's lackluster North American sales slump was largely due to a pause in creative new product. Thus, our initial investment in these shares came far too early in the Company's efforts to reinvigorate their iconic brand.

Of course, the journey in our ownership in Coach, thus far, has been long...and wrong. When we initiated Coach, we recognized that there was increasing competitive encroachment in the North American handbag and accessories market. However, we underestimated the aggressive expansion of Coach’s competitors, as well as the pernicious effects of brand underinvestment during the previous business cycle. The core risk of Coach has been centered on its North American business, which has been losing share over the past, roughly 3 years. Competitors Michael Kors, Kate Spade and Tory Burch have all successfully copied key aspects of the high return on capital Coach playbook, and now the original progenitor of "accessible luxury" finds itself at the crossroads of not only redefining and rebuilding its own brand, but fighting off it's well entrenched progeny. We still think Coach has a sustainable competitive advantage, and we do not think that the competitive inroads of Coach's peer group are sustainable over the next 3 to 5 years.

In our view, the Company’s competitors have expanded too quickly and will soon reach a point of saturation. For instance, Michael Kors reported roughly $400 million in sales for its fiscal 2009; the Company recently guided to just above $4 billion in sales for the period ending June 2015 - a roughly ten-fold increase in just six years. For more perspective, consider the growth of the Company’s well-known peers: Burberry - an iconic affordable luxury brand that is over 100 years old - eclipsed $400 million in sales 2001. According to IBES estimates, the Company will surpass $4 billion in March 2017. In other words, it has taken Burberry, roughly 16 years to go from $400 million to $4 billion in sales. But that's actually about normal: Ralph Lauren took at least 15 years. Coach: 16 years. Hermes: 22 years, and Tiffany's: 25 years. All told, we think the exclusivity of the Kors value proposition is at risk, and therefore not sustainable.

We attended Coach's Investor Day last month in New York. Over the course of the Company's four-hour presentation we found ourselves nodding our head in agreement as the Company addressed mistakes and shortcomings in their current brand and marketing strategy. We agree too that the Company's comprehensive remedies are welcome news for frustrated shareholders. However, as we sat throughout the detailed presentations from all of the Company's top executives it became quite clear that the "fix” at Coach will be very expensive, inducing a sharp decline in the Company's earnings power over the next 12-18 months - and the projected brand and earnings renewal won't be quick. In fact, the fix will take a few years to fully complete in order for the Company to reclaim their once vaunted industry leading profitability.

While the effects of these competitive pressures and unforced-errors are being felt by shareholders today, we still think Coach's steady-state earnings power over the next three to five years will be significantly higher compared to what the business will earn over the next 12-18 months. Further, the Company's international segment continues to grow at a robust pace, as their revenues represent a still small share of each of their geographical addressable markets. We believe the success of the Company's growth efforts in China and Europe, combined with flat market share in the more mature Japanese market, and a robust balance sheet, is enough to justify a substantial portion of the current market capitalization.

Several months ago, Coach embarked on an aggressive plan to reinvest in the brand and buttress its competitive positioning in North America. We think this is very necessary after years of underinvestment. This reinvestment plan has included the hiring of a new head of creative, and repositioning the brand by curtailing dilutive impressions, particularly by closing underperforming stores and online "flash-sales" as well as elevating flagship full-price stores to dictate Coach's value proposition of modern luxury. While these investments have hurt sales growth over the past 6 months and will continue to do so for the next 12 months, we think it will lead to a healthier brand impression and a much higher, sustainable level of earnings power in 3 to 5 years.

In our opinion, the Company's competitive positioning remains relatively unassailed in its international markets - especially in faster growing markets, such as Greater China. As the North American business remains challenged, we expect international will come to represent 40% or more of revenues.

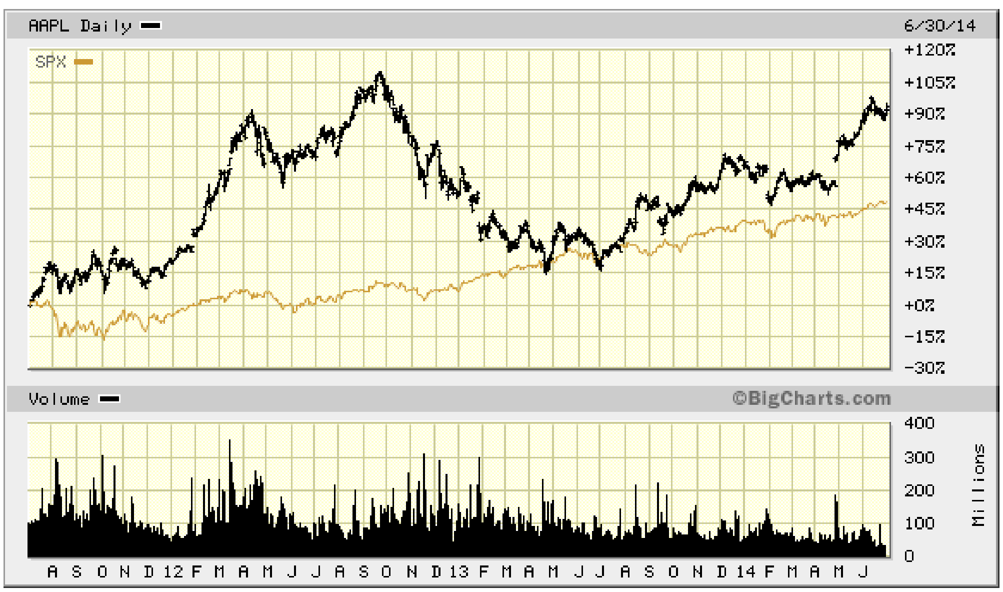
We look at future earnings power, particularly over the next 3 to 5 years. While we underestimated the rate of competitive incursion and its effects on Coach's business in the near-term, we still think Coach has the ability to post earnings that are two to three times higher than trough earnings estimates, over the next 3 to 5 years. We estimate that the Company's total addressable market is expanding at a robust mid to high-single digit rate and should be close to $50 billion in 5 years. We expect that the negative leverage from the Company's aggressive reinvestment will subside over the next 12 to 18 months, and double-digit earnings growth will resume.

Despite the planned sales declines and a dramatic increase in overhead (as a percent of revenues), Coach is still immensely profitable. This speaks to the Company's financial strength and competitive positioning. Currently, we estimate the market is assigning a $2.5 billion value to the Company's North American business - we expect sales in North America to bottom around a similar level, leading to a price to sales multiple of just 1X. We believe that a 1X price/sales is much too low for a Company that has a profitability profile and growth opportunities similar to Coach. That said, our valuation assumptions for North America are predicated on the continued success of Coach's international franchise. In addition, the Company remains dedicated to paying its current dividend, which is nearing a 4% yield. If Coach runs into difficulties overseas, there is a good chance we will move on, as the international business is the financial engine that will drive the near-term transformation in North America and support the Company's fortress balance sheet. Last, and as always, if we find a meaningfully more attractive risk-reward opportunity, we will sell Coach.

Philosophically, we expect stocks to track in-line with earnings growth, over a multi-year time horizon. We continue to think that the Company's aggressive reinvestment in the brand will yield earnings that are at least twice as high as today, particularly over the next 3 to 5 years. All told, we believe that the market has amply discounted the North American business at current prices and that the shares offer an excellent risk-reward profile at current valuations, so we added to positions.

## Apple

Apple, circa 2012-2014, is Exhibit A on how investing with the conviction of a successful business owner is a prerequisite for repeatable investment success. Before we explain, we would like to offer up a pop quiz. Quick, off the top of your head, what is the 1-year, 2-year and 3-year return (roughly) of Apple stock (and the S&P 500 too) as of the end of the second quarter? Here is a graphic hint:



We have had the opportunity to do this quiz with more than a few clients of late and the most common response is surprise on how well Apple (the stock - +95%) has done versus the perception of how not-so-well Apple (the company) has been doing over the past couple of years – particularly against the backdrop of a gain of nearly 50% in the S&P 500 over the trailing three years. Over the past twelve months Apple has gained +60% versus a gain of +22% in the S&P 500. However, in a reversal of fortunes, Apple has only gained 10% over the past 24 months versus a gain of +45% in the S&P 500 Index.

With the benefit of hindsight, the roller coaster stock ride in Apple over the past few years could have been ripe (NPI) for a clairvoyant speculator to make a killing on the upside - and downside. Similarly, the long-term Apple investor has nearly doubled their money in the stock - if only they had the courage of their conviction to tune out the cacophonous consensus view that rang daily last summer purporting that Apple was without question a permanently broken growth company.

Now, to be fair, from the fall of 2012 through the spring of 2013, Apple's game was certainly guilty of disappointing Wall Street. The Secretariat of Silicon Valley was becoming a distant memory as Apple began a course of failure – at least in the eyes of Wall Street. Act I was Apple's failure of their once prodigious growth rate to crush Wall Street's quarterly earnings estimates. Act II was Apple's failure to crush their laughably conservative earnings guidance. Act III was Apple's failure to even offer quarterly earnings guidance at all. Act IV was Apple's failure to release new products with the same meter as once before.

Act IV was complete by last summer. Wall Street's critics had had their say. In just eight short months Apple stock had plummeted -45%. In fact, the crash of the stock was worse than that. Even though Apple's earnings growth rate had ground to a halt, the Company was still generating billions in cash each and every quarter. If balance sheet cash is excluded, the enterprise value had in fact crashed by more than -60%.

By then the critic's reviews came pouring in: Apple was nothing without the irreplaceable Steve Jobs. CEO Tim Cook was the wrong person for the big chair. Innovation was no longer possible without Steve Jobs. $150 billion of cash on the balance sheet was irrelevant because the Company will no doubt squander it on foolish capex or acquisitions. The high-end smartphone market was saturated. Other smartphones have caught up to the iPhone's best-in-class features. Samsung had indomitable smartphone market share. iMac innovation? Who cares? iPad innovation? Who cares? Apple will be nothing more than The iPhone Company. Apple's only salvation (said the legions of bears) is for the Company to compete on price, which in turn, will crush margins and earnings even further. Game over said the bears…

Well. Here is a recent, yet perfect, headline that reflects Wall Street's and tech punditry's 180 degree reversal on Apple (the company): *"How Apple Got its Groove Back"* In the past six quarterly Client Letters we have had a running commentary in five of those Letters on the soap opera that Apple has become. In those Letters we offered our thoughts - and hopefully plenty evidence - that Apple was not a broken growth company, nor lost its groove.

***You've seen how our operating systems, devices, and services, all work together in harmony. Together they provide an integrated and continuous experience across all of our products, and you've seen how developers can extend their experience further than they've ever done before and how they can create powerful apps even faster and more easily than they've ever been able to.***

***Apple engineers platforms, devices, and services together. We do this so that we can create a seamless experience for our users that is unparalleled in the industry. This is something only Apple can do. You've seen a few people on stage this morning, but there are thousands of people that made today possible.***

Tim Cook, CEO, Apple
2014 Apple WWDC

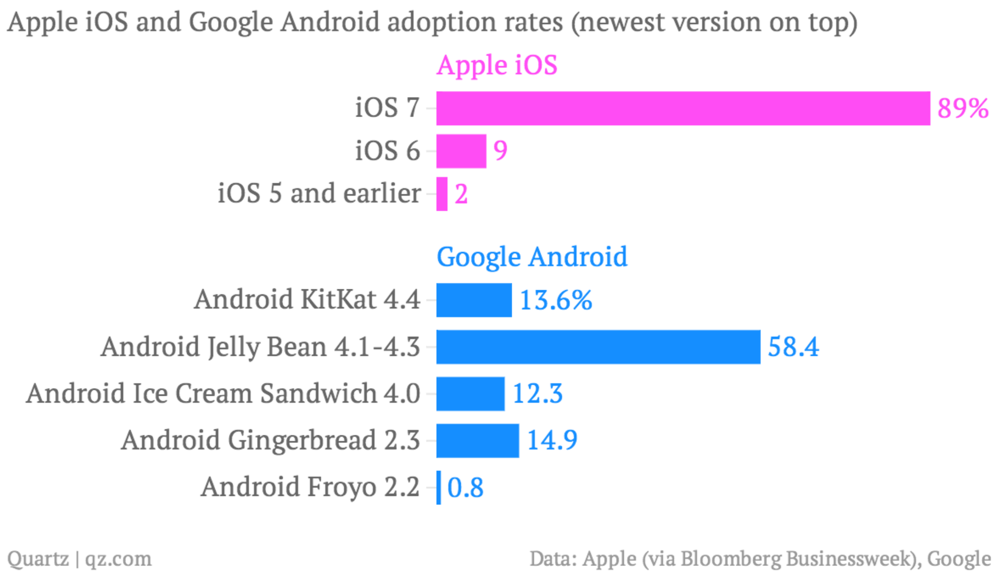
So, speaking of groove, Apple's groove in the summer of 2014 may be the grooviest in years. In our opinion, far too many still focus solely on Apple's hardware products without enough regard to the critical role software plays in both the Company's user experience *and* ecosystem growth. To that end, the Company's recent Worldwide Developers Conference was a must see *tour de force*

Without question Apple's hardware and software vertical innovation is alive and kicking, but the speed on innovation was new uncharted territory for the Company. The Company unveiled to near rave reviews *both* a new computer operating system (OS X Yosemite) and a new mobile operating system (iOS 8). Among the numerous new features of each new operating system, the most ground breaking was a significant stride in the evolutionary integration of each operating system with one another. A key new revolutionary feature called *Continuity* will forever change how Apple devices *automatically* communicate with one another. Here are Continuity's key features:

- Initiate a phone call while using your iMac or MacBook. Your iMac or MacBook just became a big speakerphone.
- A new feature called Handoff allows a yet to be completed email or text message on your iPhone start an email or SMS message to be completed on your Mac. The immediate syncing of your iPad or iPhone via Handoff allows for example for your currently composed email on an iPad, but you desire to attach a photo stored on your Mac hard drive. With Handoff, you simply pick up where you left off on the Mac, attaching the photo file.
- Airdrop – long a favorite application – is now synched between iOS and OS X.
- Instantly create a hotspot link with your iPhone's 3G or 4G connection with your Mac. No configuration required. There's no need to enter a password or fiddle with your

iPhone or Mac settings. Your OS X and iOS devices now know each other and automatically configure with each other without the mess of changing each device's settings or remembering a whole new set of passwords.

Key to making such advancements in user experience possible is, of course, best-in-class hardware and software, but also providing the means to access and update latest software advancements to Apple customers as cheap and easy as possible. Apple no longer charges their customers for Mac OS X software upgrades. In addition, the frequency of iOS upgrades is at such a rapid pace, as compared to the Company's main competitors, that Apple has by far the largest percentage of adoption by their customers of their latest software. The graphic below speaks volumes of Apple's "closed" ecosystem versus Android's "open" ecosystem.




More on software. In 2007 and early 2010 Apple received just plaudits and industry awards for both the iPhone and iPad. If we could go back in time to the launch of the Company's App Store in 2008, we think the Company would have hit the Product of the Year trifecta in those three short years. Recall that the App Store – released with the iPhone OS 2.0 in summer of 2008 - officially introduced third-party app development and distribution to the iOS platform. Through the lens and landscape of 2014 the App Store has been nothing but revolutionary.

*App Store: Time Magazine's 2009 Product of the Year (a prediction)*

***"I would now like to talk about the App Store for a few minutes. One area we completely changed the value proposition from mobile devices is the App Store. Customers will download the 200 millionth application from the App Store tomorrow. Only 102 days since its launch on July 11th - the 200 millionth***

***App! We've never seen anything like this in our careers. There are now over 5,500 applications offered on the App store in 62 countries around the world, and the rate of new applications being submitted is increasing every week. Competitors are scrambling to keep up with our App store, but it's not as easy as it looks, and we are far along in creating the virtuous cycle of cool applications begetting more iPhone sales, thereby creating an even larger market, which will attract even more iPhone software development. It is clear that customers are now attracted to iPhone if only for its amazing functionality and revolutionary multi-touch user interface, but also for its unique ability to let users easily purchase, download, and use thousands of different applications, ranging from free games to financial planning and health management. All of this in only 102 days!"***

**Steve Jobs, earnings conference call, October 2008**

***"The rate of App Store downloads continues to accelerate with users downloading a staggering two billion apps in just over a year - including more than half a billion apps this quarter alone. The App Store has reinvented what you can do with a mobile handheld device, and our users are clearly loving it."***

**Steve Jobs, September 2009**

*As we mentioned earlier, we predict Apple will again grace the cover of Time magazine - for a sixth time. And the reason for the accolade will be the mighty App Store. The App Store now offers nearly 100,000 apps - written by over 125,000 developers in the iPhone Developer Program – to the installed base of over 50 million iPhone and iPod touch users. The global reach for this massive installed base is 77 countries. Can anyone say, "game over" for the competition?!*

**Wedgewood View. 3rd Quarter 2009 *iCash***

Steve Jobs' succinct explanation of Apple's ecosystem circa-2009 was without a doubt powerful then. Fast-forward just a half of a decade in the future from 2009 and Apple's App Store size, scale and scope of the Company's ecosystem would make John D. Rockefeller green with cash-envy. Consider the following metrics from Apple's June 2014 Worldwide Developers Conference:

- 600 million paid iTunes customer accounts.
- 1.2 million apps – up from 5,500 in 2009.
- 75 billion apps downloaded – up from 200 million at the three-month post-launch mark in 2009 – and a 50% increase over the last twelve months.
- 300 million people visit the App Store every week.
- Cumulative iOS platform App revenue has reached $25 billion - +$10 billion more than cumulative Android.
- Cumulative payout to App Store developers by January 2014 - $15 billion and $7 billion over the past twelve months and $5 million in calendar 2013.

- iOS users spend 3 to 4 times Android users.

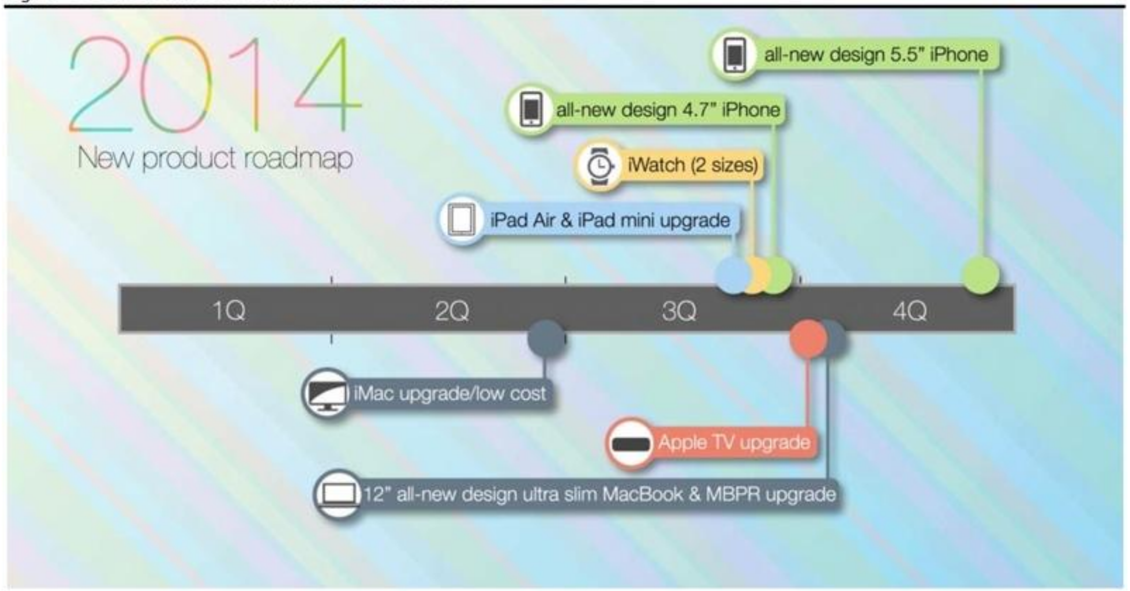
- According to App analytics firm App Annie, Apple mobile app developers earned around 2.6 times more revenue than Android developers in the first quarter of this year.

- According to App analytics firm Distimo, among the top 200 grossing apps in both Apple and Google App Store stores, Google Play applications brought in $1.1 million in daily revenue, compared with $5.1 million in the Apple App Store by April 2013.

The root of our long-term growth thesis on Apple continues to be buttressed by Apple's competitively advantaged ecosystem size, scale and scope. The result of both repeat and new customer hardware purchases, growth in apps, app purchases and app developers, growth in iTunes accounts and growth in new services (iCloud) continues to foster and grow the current crop of iOS users, which has now exceeded *700 million*. The focus of just three hardware platforms (iPhone, iPad and Mac), with relatively few iterations of each, is a growing competitive advantage as well. Apple is so large now that if they choose to offer, say, a cutting-edge 64-bit processor to drive a cutting edge user experience, so be it. Apple circa-2014 need not marshal the support of a complex global supply chain of component manufacturers and product assembly, who most likely in turn are conflicted with other customers which too have great demands on scare resources. No, circa-2014 finds Apple's supply chain partners most willing to do business with Apple first. In the Company's 2013 Annual Report, $18.6 billion was listed in future non-descript purchase obligations. In later reporting periods *zero* purchase obligations were listed. Apple has the fattest wallet on the planet – bar none. In the six months ending in March, the Company sold 95 million iPhones and 42 million iPads. Given such numbers of essentially just two products, the Company's vendors cannot be fatted more by Apple's competitors.

Over the course of the next six months Apple's customers will be feted with significant hardware upgrades across all of their product categories. The advantage of larger phone sizes – woefully missing from Apple's iPhone lineup – which the Company's competitors have enjoyed is set to be significantly challenged with the expected release of larger iPhones. The Company's recent hires over the past twelve months certainly point to a new product category. The eponymous *iWatch* – or other biometric sensor rich "smartwearables" - is the expected new health and fitness hardware product that developers have been kick started to write new apps for in conjunction with the Company's just released HealthKit development app. The resultant ecosystem and I-device tie-ins are innumerable to ponder.

Figure 1: **Product launch schedule forecast in 2014**




Source: KGI Research

The current State of Apple post-Steve Jobs is in full flower under CEO Tim Cook. Cook's earlier career path at Apple – starting as SVP of worldwide operations in 1998, to EVP of worldwide operations, to COO in 2007 – built the global logistics infrastructure that is the envy of the Company's competitors. Under Cook's CEO leadership, since he took the reins in August 2011, the combined competitive advantages of Apple have never been better on all key fronts: user experience, product design and focus, hardware and software integration, ecosystem growth, new product and service introductions, unmatched scale in global logistics and a fortress balance sheet. Even through the growth pause in fiscal 2013, the Company still generated +$53 billion in operating cash flow and a return on equity of 30%, as well as initiating a huge $130 billion capital return program. Apple circa-2014 is Tim Cook's Apple.

Apple's reaccelerated growth and heightened competitive advantage has certainly not gone unnoticed by the market. After peaking in March 2012 at 47.4% - and relentlessly falling to 36.9% in June 2013 - gross margins have increased three quarters in a row and are currently back to 39.3%. Given the stock's 25% gain over the past three months (and 60% over the past twelve months) we have trimmed back our position in the stock.

July 2014

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Chief Investment Officer

Michael X. Quigley, CFA
Chief Investment Officer

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Institutional Client Liaison

**Table II**
**Top Ten Holdings For the Quarter Ending June 30, 2014**

| | Percent of Net Assets of the Fund |
|---|---|
| **Apple Inc.** | 8.7% |
| **Berkshire Hathaway Inc.** | 8.4% |
| **Express Scripts Holding Co.** | 6.3% |
| **QUALCOMM, Inc.** | 5.9% |
| **EMC Corp.** | 5.8% |
| **Cognizant Technology Solutions** | 5.4% |
| **Stericycle, Inc.** | 4.7% |
| **Perrigo Co.** | 4.7% |
| **M&T Bank Corp.** | 4.5% |
| **Coach, Inc.** | 4.3% |
| | **58.4%** |

*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. 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.*

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