



# Wedgewood Fund

## (RWGIX/RWGFX)



### Third Quarter 2021 Review and Outlook

#### Performance: Net Returns as of September 30, 2021

	Current Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year	Since Inception
<b>Institutional Class (RWGIX)</b>	2.63%	20.33%	34.93%	21.06%	19.69%	16.14%	14.91%
<b>Retail Class (RWGFX)</b>	2.65%	20.18%	34.66%	20.74%	19.39%	15.90%	14.68%
<b>Russell 1000 Growth Total Return Index</b>	1.16%	14.30%	27.32%	22.00%	22.84%	19.68%	18.12%
<b>S&amp;P 500 Total Return Index</b>	0.58%	15.92%	30.00%	15.99%	16.90%	16.63%	15.12%
<b>Morningstar Large Growth Category</b>	-0.07%	12.73%	26.85%	19.19%	20.07%	17.39%	15.62%

*Total returns presented for periods less than 1 year are cumulative, returns for periods one year and greater are annualized. The inception date of the fund was September 30, 2010. 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 ratios, as of the most recent prospectus dated January 28, 2021, for Institutional and Retail classes are 0.86% and 1.13%, respectively.*

*Index performance returns are for illustrative purposes only and do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an Index.*



For the third quarter of 2021, the Fund gained +2.6%. The S&P 500 Index gained +0.6%. The Russell 1000 Growth Index gained +1.2%. The Russell 1000 Value Index fell -0.8%. Year-to-date, the Fund gained +20.3%. The S&P 500 Index gained +15.9%. The Russell 1000 Growth Index gained +14.3%. The Russell 1000 Value Index gained +16.1%.

Top first quarter performance contributors include Alphabet, Edwards Lifesciences, Motorola Solutions, Tractor Supply Company, and Keysight Technologies. Top performance detractors for the first quarter include PayPal, Progressive, Visa, Facebook, and UnitedHealth.

During the quarter we trimmed Alphabet, Keysight Technologies, and Starbucks. We increased our position in Taiwan Semiconductor Manufacturing and purchased UnitedHealth.

<b>Top Contributors to Performance for the Quarter Ended September 30, 2021</b>	<b>Average Weight</b>	<b>Percent Impact</b>
Alphabet Inc.	9.62%	0.91%
Edwards Lifesciences Corp.	6.98%	0.60%
Motorola Solutions, Inc.	6.92%	0.49%
Tractor Supply Co.	5.49%	0.44%
Keysight Technologies, Inc.	4.78%	0.35%

<b>Top Detractors to Performance for the Quarter Ended September 30, 2021</b>	<b>Average Weight</b>	<b>Percent Impact</b>
PayPal Holdings, Inc.	5.61%	-0.58%
Progressive Corp.	3.32%	-0.26%
Visa Inc.	3.98%	-0.16%
Facebook, Inc	7.99%	-0.16%
UnitedHealth Group Inc.	0.55%	-0.16%

*Portfolio Attribution is produced by RiverPark Advisors, LLC (RiverPark), the Fund's adviser, using FactSet Research Systems Portfolio Analysis Application. Please take into account that attribution analysis is not an exact science, but may be helpful to understand contributors and detractors.*

*Performance attribution is shown gross of fees. Holdings are subject to change.*



## I, Pencil

*I am a lead pencil—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write... I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove....Simple? Yet, not a single person on the face of this earth knows how to make me. This sounds fantastic, doesn't it?... Pick me up and look me over. What do you see? Not much meets the eye – there's some wood, lacquer, the printed labeling, graphite lead, a bit of metal, and an eraser... Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others... Here is an astounding fact: Neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants me... I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies – millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and in the absence of any human masterminding!... The lesson I have to teach is this: Leave all creative energies uninhibited. Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men and women will respond to the "Invisible Hand." This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth.*

– Leonard E. Read, 1958.

PayPal reported +40% growth in total payment volume to \$311 billion during the second quarter's most recent report. In spite of this impressive growth, the stock detracted from performance as the market became overly concerned about the pace at which its legacy eBay business rolled off. Despite the stock's premium valuation, we continue to hold PayPal as a core position and think eBay represents short-term noise in PayPal's longer-term drive to become a "super-app" with payments at its core.

Progressive reported higher than expected loss trends during the summer months. Much of this was due to inflation in the automobile supply chain. Over the past few years, its policy pricing actions have been relatively benign, so we think the Company has plenty of room with customers and pent-up goodwill with regulators to take up pricing and offset this pressure while maintaining its double-digit policy volume growth. The stock trades at a significant discount to the market, as financials – particularly insurers – are out of favor with "growth technology" investors. Progressive represents the rare financial that can post attractive growth due to its best-in-class ability to segment its markets and leverage its low-cost direct distribution.

UnitedHealth Group detracted from performance due to investor concerns about Medicare premiums as well as post-COVID medical cost trends. Medicare enrollment should continue to grow at double-digits at UnitedHealthcare. Meanwhile the Company's Optum segment should be



able to help bend the cost curve if indeed post-COVID volumes pick up to above pre-COVID levels. In any case, we do not think the long-term normalized trend of medical care in the U.S. has changed substantially and would look to add to our new position on any continuing short-term concerns.

Taiwan Semiconductor Manufacturing detracted from performance as the market attempted to price in a downturn in the semiconductor cycle. Although there are some signs that memory markets might be somewhat oversupplied, we have yet to see any tangible signs that logic semiconductors – particularly at the leading-nodes where the Company dominates – are in anything but short supply. In addition, and as a result of this strong demand, the Company should be able to pass through price increases to help fund very attractive returns on the rare leading-edge capacity that serves this demand.

Facebook detracted from performance despite posting a staggering +56% growth in advertising revenues. Much of the stock's underperformance was driven by nonoperating concerns that we view as mostly political in nature. The Company's digital properties command a massive audience of over 2.7 billion daily users, so any government or state actor would be able to wield tremendous power by controlling that audience and it should not be a surprise when those actors attempt to do that. However, Facebook has invested aggressively in its content curation capabilities that address many of the concerns raised by media and political critics. We continue to carry Facebook at our maximum weighting as the stock is trading in line with a market multiple despite unrivaled competitive positioning and rapid growth, representing one of the best risk-rewards available in the market.

Alphabet's core Google search business accelerated to multiyear highs, up nearly +70% driven in part by advertisers rushing to the Company's Android platform. We estimate Android runs on nearly three-quarters of all smartphones; however, its share of ad spend is lower. Recent policy changes to Apple's iOS operating system have made it more difficult for advertisers to get a return on its ad spend across the Apple ecosystem. These changes should help close the gap between Android and iOS advertising share and sustain Alphabet's torrid growth.

Edwards Lifesciences returned to a double-digit 2-year growth rate during the quarter. Life-saving medical procedures, such as severe aortic stenosis valve replacement, got back to some semblance of normal in the late stages of the pandemic. The Company is still in the early years of leading the charge of replacing open surgical procedures with minimally invasive transcatheter therapies. As medical visits continue to return to normal, Edwards should be able to expand its lead, particularly after a major competitor has had issues with product efficacy. Edwards should be able to maintain its market leadership by focusing its higher than peer average research and development budget on just a handful of product lines.



Motorola Solutions revenue grew over +20% as pent-up project spending returned at its public safety and corporate customers. Many of these state and local government customers will likely receive relief funding thanks to the federal American Rescue Plan Act of 2021. The public safety and communication budgets of the Company's customers has proven to be very resilient in past economic downturns as emergency responders need Motorola's mission critical networks to operate regardless of GDP growth. However, added state and local funding from the federal government should enable more budget flexibility which could accelerate network upgrade plans that utilize more high-margin software and services offered by Motorola. (See more on Motorola below.)

Tractor Supply had a dominant business model before COVID, but COVID has only made it better by driving more customers into its arms and providing windfall profits that allowed them to accelerate a variety of initiatives in omnichannel as well as store upgrades and remodels. We continue to expect a premium business, that has had some long-term secular tailwinds handed to it by the pandemic should trade well above the current market multiple; however, Tractor Supply is trading just about at parity with the broader market and around the upper end of its longer-term historical range. For a great business that became sustainably better as a result of the pandemic, along with a multiple that we think is too low, we continue to hold the Company in an overweight position.

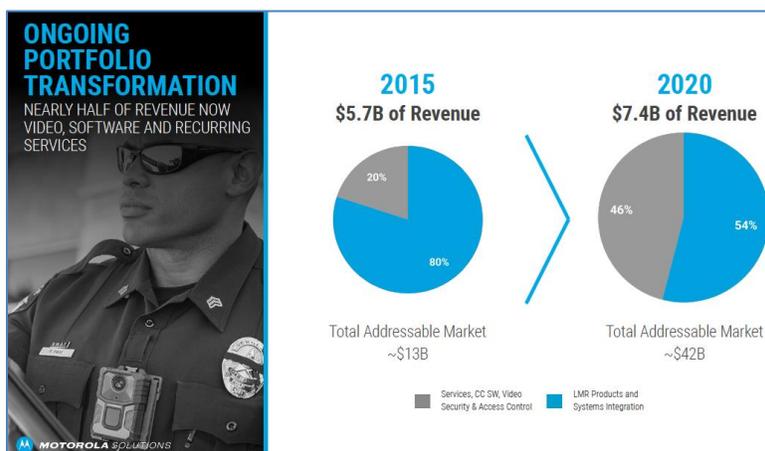
Keysight's revenue and earnings growth surged as a combination of easy comparisons and pent-up demand converged with excellent execution in the face of widespread competitive supply chain disruptions. Keysight primarily serves research and development labs across most industries, providing hardware and, increasingly, software content that enables bleeding-edge product testing. Many of the technologies that Keysight helps enable will not come to market for several years, so Keysight must develop many of its own custom parts, especially microprocessors. The Company's captive fabrication plant has helped it avoid many of the shortfalls seen at companies that rely on more off-the-shelf silicon. As customer R&D budgets move inexorably higher, we expect the Company to grow its share of wallet and drive attractive growth for the next several years.

### [Company Commentaries](#)

#### **Motorola Solutions**

We have owned Motorola Solutions for more than two years and have been happy to see the Company continuing to execute on the strategy that attracted us to the stock. As a reminder, Motorola is the dominant market leader in its core Land Mobile Radio (LMR) business: providing infrastructure, handsets, and related software and services for customized, highly resilient, secure networks for global police and emergency services, a variety of government and military

applications, and other commercial and public safety applications where security and reliability are of the utmost importance. The Company has continued to find success in using its entrenched position in these mission-critical networks to layer in faster-growing and higher-margin software, service, and video products. Although Motorola has some credible competition in these ancillary products, in contrast to its dominance in the LMR business, it is the only player capable of fully integrating the entire service offering with its core LMR network backbone.



Source: Company Presentation

Motorola has assembled this stable of complementary products and services largely through acquisition, using the steady, recurring cash flows the LMR business has provided. These purchases not only have been attractive strategically; they have been extremely attractive financially, as well. The Company recently pointed out it had made \$4.5 billion of acquisitions since 2015; those businesses currently, in 2021, generate roughly \$800 million in EBITDA, with margins and organic growth both running well ahead of the corporate average. This works out to a notional total purchase price of just over 5.5X the EBITDA these businesses are now generating, whereas Motorola’s stock currently trades over 20X this year’s anticipated EBITDA. While this is only one way to evaluate the Company’s acquisition strategy, we believe this data illustrates how well the Company has used its strong competitive and financial position in LMR to evolve into an even more attractive business.



Source: Company Presentation

While the first part of our ownership went according to our expectations, we did not, of course, anticipate a pandemic. Despite the fundamentals of the Company holding up quite well relative to the broad market during the massive economic downturn that ensued, the stock underperformed for much of 2020. We believe some of this was due to the market’s general lack of familiarity with the Company. We also believe some highly politicized police funding debates led to irrational pressure on the stock, as did misplaced worries about public safety customers’ budgets in the middle of the severe recession that temporarily accompanied the pandemic. We, on the other hand, know the company provides an absolutely critical service to its public safety customers, and it cannot be turned off if, for example, police funding is diverted elsewhere, or if sales tax receipts fall off for some period of time. Furthermore, it was very clear to us that the pandemic had created additional long-term opportunities for the Company.

While some investors were worrying about customers’ lower sales tax receipts, the U.S. federal government has been creating (and continues to create) massive stimulus funding for state and local governments, as well as other Motorola customers such as FEMA, school districts, and airport and transit operators. Although this funding typically does not appear immediately and may take some time to find its way from a news headline to an actual customer’s budget, the Company has highlighted funding already available to customers in the region of \$350 billion for state and local governments, \$170 billion for education, and \$38 billion for airport and transit. The Company has begun to see significant interest from these customers in deploying some of these funds in much needed upgrades to its emergency call centers (known as Next-Gen 911 or NG911), school security, and airport security, among other areas. Motorola has said only a minimal amount of this government funding has actually appeared in its results as of yet – these funds are just starting to reach Motorola’s customers. Those customers are only now deciding how they wish to allocate the funds. The Company expects to see the benefit of this funding through 2024, when the current rounds of stimulus expire. As we are sure you have noticed, however, political debate



continues about staggering potential sums of additional government funding, much of which eventually will find its way to Motorola's customers' budgets.

Looking at the opportunity in NG911 alone, Motorola has pointed out many times that approximately 80% of 911 call centers still are only capable of receiving phone calls – in 2021, the vast majority of 911 centers still can't even receive a text message. This means, of course, that they also cannot receive pictures or videos; therefore, they are unable to pass any of this potentially useful data on to responding officers in the field.

This highlights an additional problem with these outdated call centers, which unfortunately was brought into sharp focus by the pandemic: with their lack of capabilities in mobile data or video, and a lack of software or cloud connectivity built into the call centers, public safety customers realized their shortcomings in being able to coordinate their responses among the call center, police officers, emergency medical personnel, schools, or hospitals. Imagine, for example, trying to coordinate a dinner reservation for six people without your mobile phone, without the ability to send group texts, without access to Google, and without the ability to make a reservation online. Now consider that 80% of America's emergency response call centers were trying to handle something as critical and complex as a response to a pandemic without the most basic of modern technology resources.

We note that not only in these NG911 upgrade initiatives, but also in use cases beyond the traditional call center business, including areas such as school or airport security, Motorola's newer capabilities in areas such as video and software have worked hand-in-hand with integration into its highly reliant, highly secure LMR networks to create opportunities for the Company, allowing Motorola to present a full solution to a customer looking to solve many of these issues that were highlighted by COVID.

So while the stock lagged the market for much of last year, we saw clear longer-term catalysts emerging as a result of the pandemic, leading us to take a few opportunities to increase our position size significantly last summer, after the stock retreated roughly to our original purchase price.

Finally, a core component of our original thesis was that the broad market was not familiar with this Company – in fact, even in financial news services, many of the news stories we see tagged with “MSI” still have nothing to do with MSI and instead are about the long-divested mobile phone business. We continue to expect Motorola Solutions' fundamental performance to attract more investor attention and to lead to expansion of the Company's valuation. We would note that the stock has in fact seen some multiple expansion during our holding period, but this has mostly mirrored the seemingly eternal multiple expansion in the market as a whole. Since the Company's growth and financial return profile remains superior to the broad market, we still see plenty of opportunity for the stock's valuation to move favorably relative to market multiples.



## UnitedHealth Group

UnitedHealth Group is the largest healthcare service provider in the U.S., managing over \$250 billion in healthcare spend and serving over 165 million people. The Company has first-mover advantage at providing integrated service offerings aimed at bending the cost curve of providing access to care that improves the health outcomes for its members. Over the past five years or so, the Company has aggressively expanded beyond traditional health benefits by making several key acquisitions in large and adjacent healthcare verticals including pharmacy benefits, walk-in care clinics, specialized outpatient service providers, and physician practices. As much of the industry plays catch-up to United's solutions, we expect United's addressable market will continue to expand, along with the aging of the general U.S. population. The Company should be able to drive double-digit earnings growth, through a combination of competitively differentiated operating performance as well as capital deployment at attractive multiples.

After making several important acquisitions over the past 5 to 10 years, UnitedHealth Group segmented its business into two well-known subsidiaries: Optum and UnitedHealthcare. Like much of the healthcare benefits industry, the Company formerly had a heavy reliance on contracting with outside service providers for care. The Company's health care benefits group now more exclusively relies on its internal Optum group to increasingly provide value-based care, rather than fee-based, while Optum offers its services to all comers often on a fee-basis. For example, Optum acquired urgent care facilities to help address all the patient issues that might require something more than a regular doctor visit yet are not serious enough for the emergency room (ER). By routing UnitedHealth plan members to Optum-owned urgent care clinics, those patients receive proper care while the health plan incurs substantially less cost than the ER visit. Many healthcare plans still do not cover this sort of outpatient "gap" in care and are at a disadvantage compared to UnitedHealthcare. Of course, while the Company's plan designs often exclusively rely on Optum, Optum is still free to offer its services to outside healthcare plans, which helps the Company maximize the utilization of those Optum assets. For example, the Company has over 26 million people covered by its employer and individual plans; however, the entire Optum umbrella consists of nearly 100 million customers. Many of those outside plan customers come to Optum via the pharmacy benefit manager ([PBM] OptumRx) which the Company has scaled into one of the largest PBMs in the U.S. through acquisition and share gains.

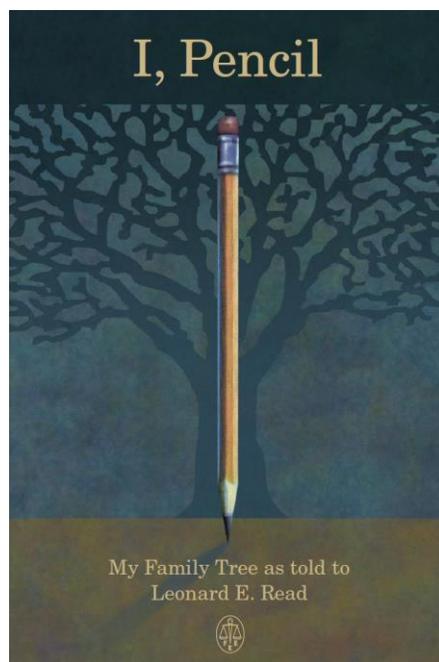
UnitedHealth Group serves a couple of very large addressable markets that remain relatively underpenetrated. OptumHealth generated \$40 billion in revenue during 2020 and has a nearly \$1 trillion addressable market. The subsidiary employs (or is affiliated with) 53,000 physicians, more than double the number from 5 years ago, and the Company expects to add another 10,000 physicians during 2021. This aggressive consolidation of the highly fragmented physician market has helped drive out administrative and operational inefficiencies (costs) while maintaining or improving the health outcomes of patients. OptumRx is the Company's PBM that pools together over \$100 billion in purchasing power to lower the net cost of drugs for beneficiaries. After acquiring Catamaran in 2015, the Company insourced its pharmacy benefit from Medco Health



(now part of Cigna) and turned the business into one of the top-3 scale buyer of pharmaceuticals. OptumRx is focused on faster growing segments such as specialty pharmacy and infusion services, and although margins are often lower than the rest of the business, our experience is that PBMs are not particularly capital intensive and generate high returns as a result.

As for UnitedHealthcare, they handle roughly 20% of the U.S. Medicare Advantage plan population. With over 10,000 baby boomers aging into qualifying for the U.S. Medicare system every day, enrollment growth has compounded at over 10% for the past 5 years and should continue at similar rates through 2025. The Company achieves this market share and growth by consistently maintaining medical costs that are below traditional Medicare. The Company also serves about 26 million employer and individual members, one of the largest private payer books in the industry. Many of these members eventually find their way into the Company's Medicare Advantage program, which enables the Company to have a much more detailed picture of member health status over time, allowing for more personalized, effective, and lower-cost care.

The combined scale of the Company's business segments along with supportive demographic trends in the U.S. should help the Company sustain double-digit earnings per share growth for the next several years. UnitedHealth Group should be able to supplement this growth through continued consolidation of the highly fragmented healthcare industry. The stock currently sports a below-market multiple, despite peer-leading profitability metrics and unrivaled scale, which made it an attractive addition to the portfolios during the quarter.



“I, Pencil” has long been a favorite soliloquy on and celebration of free market economies for over 60 years. We reference it in our Letter as not only a compelling treatise on the mind-numbing complexities of making, well, a simple pencil but also a juxtaposition against the truly unfathomable complexities of our modern day, just-in-time global supply system. We hope by comparison we can convey our worries that Corporate America and Jane and Joe Consumer will continue to face uncharted waters of a mismatch between soaring consumptive demand and near-structural matériel and finished-goods shortages in *everything!* The manifest combination of COVID-related global shutdowns and the spun-off symptoms of labor shortages, raw material shortages, intermediate and finished goods shortages, double and triple ordering masking true demands, chain-reaction transportation gridlock, innumerable commodity, manufacturing, and labor inflation spikes has, as our greatest fear, both structural supply shortages and systemic (not *transitory*) inflation, that grinds well into 2023.

If compound interest is the 8th Wonder of the World, the Just-in-Time Inventories surely ranks a close 9th. When does the U.S. economy (and the global economy) get back to Normal? What is Normal? Is Normal post-COVID, 2019? 2018? Could 2021...2022...2023 be the New, New Normal? Yes, unfortunately, we think so.

Over the past few quarters, we cannot recall a single earnings conference call when the forecast or question of “getting back to normal” was not either prophesied or queried very early on in the call. Without fail, the forecasted or answered “Normal” continues to be “2019.” To be fair to corporate



managers, this new, new operating environment circa-2021 is well beyond their collective career experiences. In essence, they are collectively flying by the seat of their pants. Charles Lindbergh they ain't.

The psychological desire of investors and Corporate America to get back to a time pre-COVID is quite powerful. (Well, that goes for the lot of us too.) Once the pandemic began, the global economy suffered through unprecedented rolling shutdowns over the past 18 months, along with the concomitant collapse of the economic miracle of a just-in-time global supply chain – which we now realize was truly a modern economic miracle. Our evolving answer to the “getting-back-to-Normal” question is that today, 2021, is the New, New Normal. In all of its symphonic logistical elegance, 2019 was, in brutal hindsight, perfectly Abnormal. The year 2019 was Spinal Tap at 11 – 2019 was, indeed, perfectly unprecedented.

We are all brutally aware of the collapse of global supply chains due to COVID shutdowns. Product orders in 2019 to be manufactured by early 2020 were never manufactured, completed, or shipped. Once global economies staggeringly reopened, backorders began to be filled, slowly at best. Then came a wave of unprecedented demand as trillions of fiscal stimulus checks flooded the market. All at once, global consumers who were locked down at home were denied the usual services (travel, vacations, restaurants, movies, and theater) decided *en masse* to cure their collective cabin fever by splurging on capital goods (cars, trucks, decking, pools, home repair). It didn't take long to lay bare the shelves of capital goods – particularly home goods. (How goes that new kitchen you were promised would be completed back in February?) The modern global supply chain has never had to deal with collapsing supply, coupled with surging demand. Price increases across the commodity complex have exploded at rates of increase rarely seen by the current class of corporate managers. In addition, rolling factory reopening plans have been countlessly delayed due to spikes of the Delta COVID variant across the globe.





Consider the last two reports from The Institute of Supply Management (ISM); they reported the August PMI at 59.9% and September PMI at 61.1% -- both within market expectations. That said, it was the survey's respondents' remarks that really caught our eye, capturing the global zeitgeist better than we can tell the unfolding story.

## WHAT RESPONDENTS ARE SAYING

- "The **chip shortage** is impacting **supply** lines. So far, we've been able to manage it without impacting clients." [Computer & Electronic Products]
- "Some **factories** have been impacted by **COVID-19 cases**. Malaysian government says factories can operate at only **60 percent of capacity**." [Computer & Electronic Products]
- "We continue to see extended lead times due to **port delays** and sea container tightness. Manufacturing capacities are impacted by a **lack of workers reducing output**. Several chemical facilities have experienced fires, explosions and spills, further challenging suppliers' ability to deliver on time and in full." [Chemical Products]
- "Strong sales continue, but production is limited due to **supply issues** with chips." [Transportation Equipment]
- "**Supply chain functions** have been relentlessly challenging. All things from freight (both over the road and ocean), already constrained labor forces are further exacerbated by COVID-19 absenteeism. Also, **high prices** everywhere are wearing our employee base down." [Food, Beverage & Tobacco Products]
- "**Oil prices have remained higher** than planned and is helping to secure capital funds and project sanctions for 2021-22 projects." [Petroleum & Coal Products]
- "Bookings/sales continue to be strong. **Persistent supply issues** — including availability of materials, freight/logistics/containers, and allocation of key commodities — continue to hamper production ramp to meet demand. Also struggling with **lack of labor** in several factories. Commodities are still inflationary, but price increases have leveled." [Furniture & Related Products]
- "Business is strong. **Part shortages** are our largest business constraint. We cannot fulfill orders to customers in reasonable lead times. Now booking out into 2022, and it will get worse as we hit our cyclical high demand in the fourth quarter." [Electrical Equipment, Appliances & Components]
- "Business is going strong, but **raw material prices still under increasing price pressure**. Labor is still an issue." [Plastics & Rubber Products]
- "Continue to be unable to hire hourly personnel or machine operators due to **few applicants**. Steel and aluminum remain in **short supply**. New business continues to grow and come in. Unable to handle influx of orders without staff, both hourly and salaried." [Fabricated Metal Products]
- "Customer **order backlog continues to climb** because we are unable to raise production rates due to **supplier** parts and manpower challenges. Continue to see price increases with key commodities, and logistics is an ongoing challenge that has no end in sight." [Machinery]



## WHAT RESPONDENTS ARE SAYING

- “Many electronic components and assemblies **shortages** showing up (due to) port issues, lack of containers and other issues. Problematic, but nothing completely shut down yet. Watching COVID-19 restrictions country by country.” [Computer & Electronic Products]
- “The impacts from Hurricane Ida on the petrochemical industry has put additional stress on an already **fragile supply chain**. Logistics with intermodal containers and motor carriers continues to be a challenge for planning deliveries of materials.” [Chemical Products]
- “In the U.S., **labor availability is the most significant supply challenge** for our company, with raw materials just behind. Plastic resin, polyurethanes, small-volume steel purchases and electronics are the biggest material challenges.” [Transportation Equipment]
- “**Lack of labor and escalating costs from every direction** are very concerning.” [Food, Beverage & Tobacco Products]
- “Ocean **freight delays** creating disruptions in many areas. Southeast Asia **supply** continues to be **challenged** due to COVID-19 outbreaks.” [Furniture & Related Products]
- “Delivery and availability of **raw materials**, primarily carbon steel, are becoming **more and more difficult to source**. This has resulted in delaying order deliveries. Computer numerical control (CNC) machining services are at a premium; it’s difficult to get the deliveries needed to complete jobs. Traditional in-house machining now has to be outsourced due to a lack of experienced machinists. All this has had a negative impact on production throughput.” [Fabricated Metal Products]
- “Customer demand continues to swell as we prepare for the fourth quarter, and overall growth has been extremely good for the year. **Supply chain concerns are growing** beyond electronics and chips into most other commodities. Lead times are extending, shipping lanes are slowing, and **we will not see an end to this in 2021.**” [Electrical Equipment, Appliances & Components]
- “We are still amazed by the labor market. **We used to have 100 applicants for an opening; we are now seeing about 10 — and often, the applicant does not show for the interview.**” [Paper Products]
- “Our company’s entire **supply chain** continues to have **significant challenges** getting **manpower**, which is impacting production of parts and ability to meet daily build schedules. Additionally, the logistics problems — especially port delays and a shortage of shipping containers — are significantly impacting inbound and outbound shipments. **Raw materials costs** still are at **record highs**, and we have **raised customer pricing, with additional increases in the near future due to labor costs going up.** Huge customer orders are nine months out (due to) backorders. Seeing this domestically and internationally.” [Machinery]
- “**Global supply chain constraints** are still a major concern and focus. Inventory builds continue to compensate for potential **supply disruption.**” [Miscellaneous Manufacturing]

Nearly a century ago, the sunset at Long Beach, California, was blocked by Signal Hill oil rigs. Today, the ports of Long Beach and L.A. are clogged with record numbers of container ships (+70 as of this writing) at anchor waiting to unload +500,000 containers. Ports around the country are queued up at record levels as well. The cost of containers traveling to the West are so high that *empty* containers are being rushed back to Greater Asia instead of waiting to be loaded with U.S. exports.

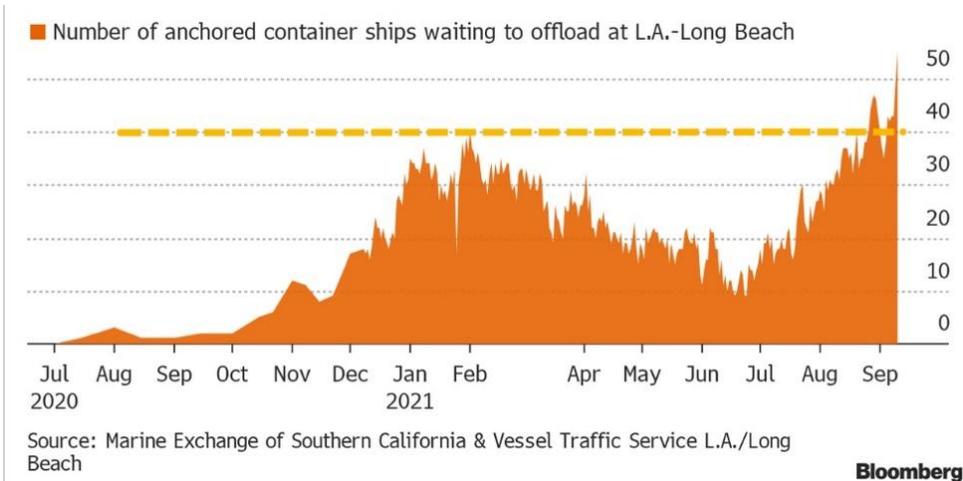


Source: Los Angeles Public Library photo collection



Source: Bloomberg

As of this writing, Marine Exchange of Southern California reports the following: “Ship report 10/8: 154 total ships inport Port of L.A. and Long Beach, includes 86 at anchor or drift areas & 68 at berths. Of the 154, 90 are container ships including 60 at anchor or in drift areas & 30 at berth. 30 vessels in drift areas; 20 container ships, 4 tankers, 6 bulk, 0 general cargo.”



Source: Getty

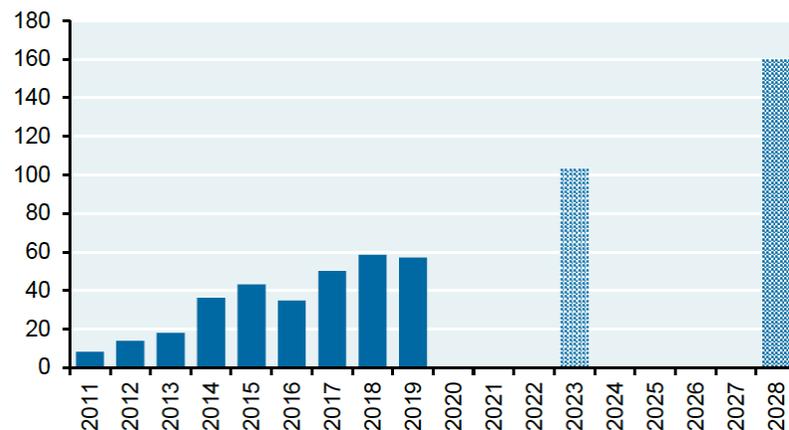


A date to watch next summer is the July 1 expiration of the current labor contract between the West Coast dockworkers union. The last contract negotiation was quite contentious and lasted months. During those negotiations, container ships piled up in ports.

As far as container ships go, the expected new orders have surged since last year. However, according to Maritime Strategies International, the vast majority of the tonnage on order won't be delivered until late 2023 at the earliest. Even if such tonnage could be delivered today, that wouldn't solve the problem in the U.S. of land-based capacity shortages – far too many container ships would arrive at terminals that are at max capacity today, plus there would be capacity issues (and critical labor shortages) down the transport chain of rail, trucking, and warehousing.

### US truck driver shortage

Thousands of drivers



Source: American Trucking Associations. 2019. Dotted bars = forecasts.

Source: J.P. Morgan

The following graphics put an exclamation point on the current tale of woe, plus the *non-transitory* creeping inflation. Again, the current crop of C-suite executives and their associated purchasing managers, inventory managers, operation managers, logistic managers, suppliers, and end customers have little to no experience in this New, New Normal. Better start shopping for Christmas...yesterday!

2020 & 2021

### The Vicious Ocean Market Cycle



Source: Flexport

### CHART 5: China to U.S. Transit Time

Global  
(number of days)

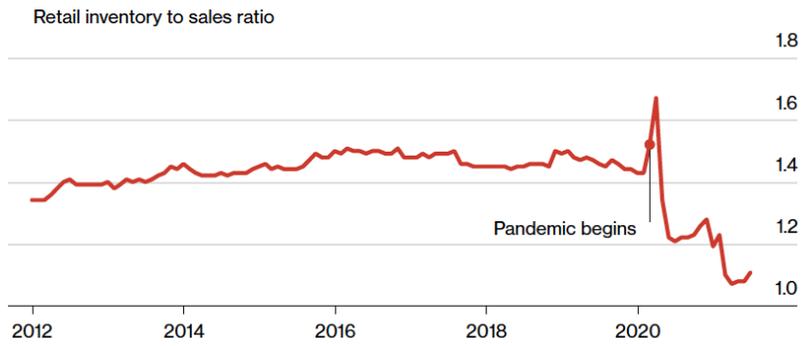


Source: Freightos



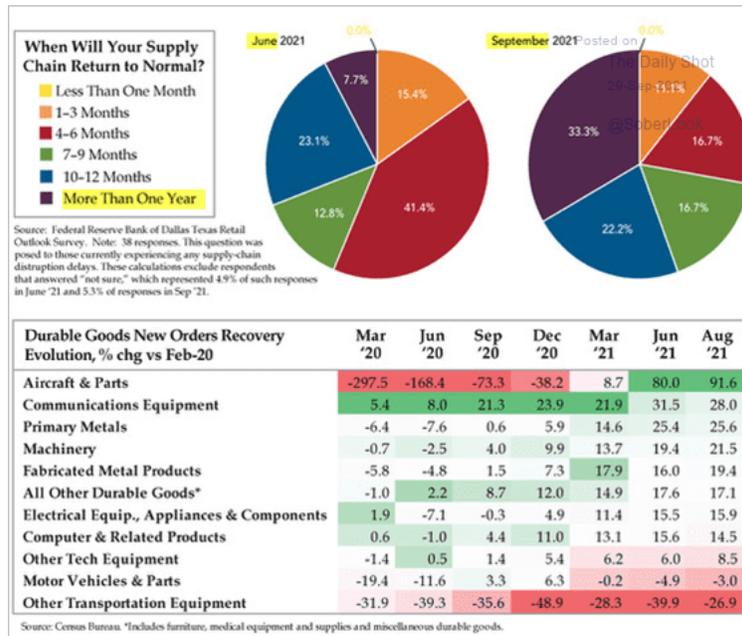
#### Enough Stuff?

Inventories at U.S. retailers are way below historical levels



Source: U.S. Census Bureau

Note: This ratio indicates the number of months of inventory that are on hand. For example, a ratio of 1.5 means that retailers have merchandise to cover one-and-a-half months of sales.



Source: Quill Intelligence



Source: Flexport

**Charlie Bilello** @charli...  
Commodity prices over last year...

- Natural Gas: +141%
- Heating Oil: +120%
- WTI Crude: +101%
- Brent Crude +100%
- Gasoline: +93%
- Coffee: +79%
- Cotton: +65%
- Aluminum: +64%
- Sugar: +46%
- Copper: +42%
- Corn: +42%
- Wheat: +27%
- Lumber: +24%
- Soybeans: +22%
- Silver: -8%
- Gold: -8%
- Palladium: -20%

Source: @CharlieBilello

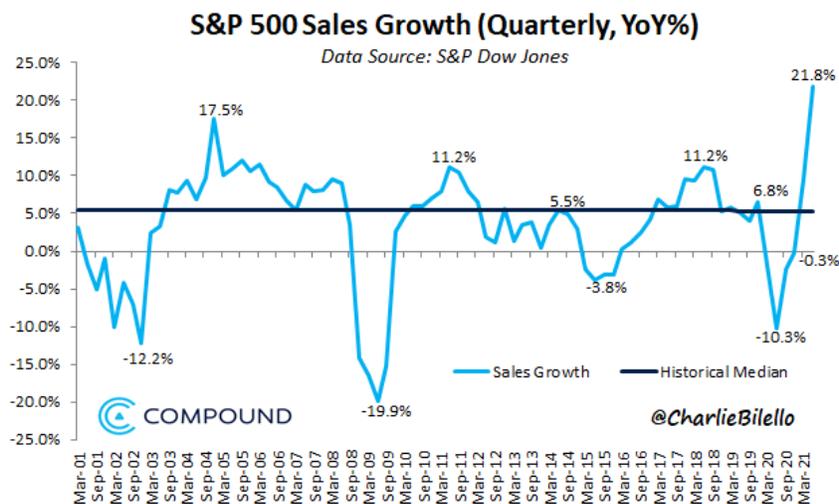
### US: High inflationary pressures



Source : Oxford Economics/Haver Analytics



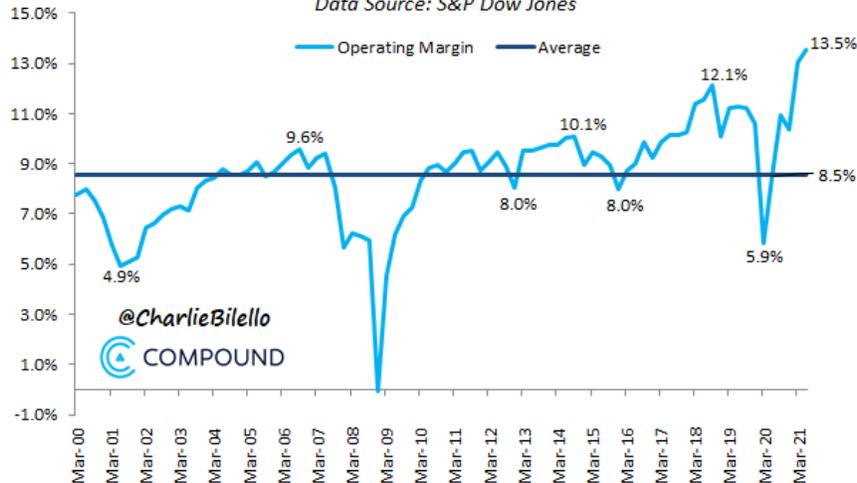
The New, New Normal could not be unfolding at a more inauspicious time. Corporate America post-COVID sales growth has been booming at a record pace, plus profit margins are at sharp records as well. We believe the stage is set for one of the most difficult operating environments for Corporate America since the Great Recession of 2007-2008. Never before have global economies been shuttered as if flipping a switch. Again, the sheer economic impossibility of a global demand boom, coupled with a global supply shock, is certainly not a staple in economic textbooks. As both corporate purchasing and logistics managers scramble frantically to source products, to meet backlog demand we expect that current demand indicators may not be as strong as current readings may indicate due to double and triple ordering. Plus, don't discount the first and second order effects when Washington turns down the fiscal spigots.





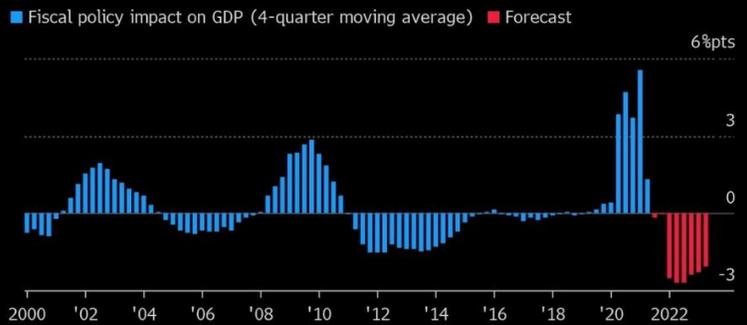
### S&P 500 Operating Profit Margins

Data Source: S&P Dow Jones



### Becoming a Drag

The U.S. government spent historic sums to support the economy in the pandemic. Its withdrawal will create an unusually big fiscal cliff



Source: Hutchins Center on Fiscal and Monetary Policy, Brookings Institution  
Note: Figures include budgets of federal, state and local governments.

Bloomberg

What has emerged in the New, New Normal is a scramble to build inventories. This has long been anathema in the long era of just-time inventory management. We suspect too that a long-tail structural change in inventory management will source away from Greater Asia and back to the U.S. That will take years (and many billions) to build manufacturing plants.



In the meantime, over the next several quarters, we are preparing ourselves for enormous pressure on corporate revenues, profits, and ultimately, earnings estimates. Wall Street analysts were late to catch up to the immediate late-pandemic corporate earnings boom - +54% in Q1 and +96% in 2Q. We expect the reverse to unfold on the downside in the New, New, Normal. Whispered fears of the *ghosts of stagflation* might spook the markets just in time for Halloween. Buckle up.



October 2021

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## Top Ten Holdings

The below charts depict the top 10 holdings as of the end of the quarter.

Holdings	Percent of Net Assets
Alphabet Inc.	9.2%
Facebook, Inc.	7.8%
Edwards Lifesciences Corp.	7.2%
Motorola Solutions, Inc.	7.2%
Tractor Supply Co.	5.9%
Apple Inc.	5.9%
Microsoft Corp.	5.4%
CDW Corp.	5.3%
PayPal Holdings, Inc	5.3%
Keysight Technologies, Inc.	4.2%
<b>Total</b>	<b>63.3%</b>

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



**The information and statistical data contained herein have been obtained from sources, which we believe to be reliable, but in no way are warranted by us to accuracy or completeness. We do not undertake to advise you as to any change in figures or our views. This is not a solicitation of any order to buy or sell. We, our affiliates and any officer, director or stockholder or any member of their families, may have a position in and may from time to time purchase or sell any of the above mentioned or related securities. Past results are no guarantee of future results.**

*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](http://www.riverparkfunds.com). Please read the prospectus carefully before investing.*

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