INVESTOR'S BUSINESS DAILY®

WWW.INVESTORS.COM WEEK OF MARCH 21, 2022

MUTUAL FUNDS

This Best Mutual Fund Awards Winner Still Loves Tesla

BY KATHLEEN DOLER
FOR INVESTOR'S BUSINESS DAILY

Baron Partners Retail, a growth fund with a passion for Tesla, nabbed the top slot in three categories of IBD's Best Mutual Funds 2022 Awards. That includes the No. 1 spot on the wide-ranging U.S. Diversified Stock Funds list — for the second year in a row.

But don't think it was easy.

The past two years "were shockingly different," said Michael Baron, who co-manages Baron Partners Retail **(BPTRX)** along with his father, Ron Baron. And yet, he told Investor's Business Daily, "We followed up a phenomenal year with a very strong year. We're very pleased with those results."

Beating the benchmark S&P index was challenging in last year's choppy stock market. Baron Partners did so, with a total return of 31.39% in 2021 vs. 28.71% for the S&P 500. That was good, but nothing like 2020, when the fund's 149% return far outpaced the benchmark's 18.4% return.

To make the annual list of IBD Best Mutual Funds, funds must do more than just beat their benchmark in the latest year. They also must outperform their benchmark in the past three, five and 10 years. The list ranks award winners by 10-year returns.

Baron Partners, which had $8.66 billion in assets at year-end, had a 10-year average annual return of 27.89% vs. 16.55% for the S&P 500. The fund's three-year average return was an impressive 67.92% vs. the S&P 500's 26.07%. It averaged 43.58% the past five years vs. the benchmark's 18.47%.

Besides ranking at the top of the class in U.S. Diversified Stock Funds in the IBD Best Mutual Fund Awards, the fund led the Growth Funds and Large-Cap Funds categories. Last year, in addition to grabbing awards for U.S. Diversified Stock Funds and Growth Funds, it took one home for the Mid-cap Fund category. An increase in the average market cap of the fund's holdings pushed the fund into Morningstar's Large Cap Growth category.

So far 2022 has been even tougher than 2021. This year through March 10, the fund was down a whopping 23.9% vs. a 10.37% slide in the S&P 500 on a total return basis.

But the fund hasn't changed its approach. Baron Partners holds equities for the long term. "The average fund holds stocks for just 10 months; we hold stocks for eight years," said Baron.

However, the fund managers aren't afraid to dump a position if warranted.

Tesla Devotee

Unlike most diversified stock mutual funds, Baron Partners takes outsize positions in stocks. At the end of the fourth quarter, shares of electric-car-maker Tesla **(TSLA)** accounted for 50% of the fund's holdings. Additionally, Space Exploration Technologies (SpaceX), a separate business controlled by Tesla CEO Elon Musk, accounted for 5.2% of holdings. Baron said his fund has participated in some of SpaceX's private funding rounds.

The fund's next largest position, at 6.7% at the end of 2021, was CoStar Group **(CSGP)**, a provider of commercial real estate analytics and online marketplaces. The stock has plunged 45% from its peak on Oct. 26. But Baron says he continues to have faith.

"Investors are rotating away from growth stocks," he said. "CoStar is being penalized right now by the market, as people want safe havens. But CoStar is growing its opportunities. It's investing $200 million in the residential segment of the market, and they feel it will be a $1 billion opportunity in five years."

Baron's holdings fit into four categories: disruptive growth, financials, real/irreplaceable assets and core growth.

"Disruptive growth is our major category," said Baron. "And companies that were able to show growth in difficult environments, like Tesla, were rewarded last year." TSLA shares gained 50% last year, rising from $705.67 on Dec. 31, 2020, to $1,056.78 on Dec. 31, 2021.

Baron said that in the fourth quarter, Tesla "delivered 308,650 vehicles for 71% growth." Deliveries in the fourth quarter of 2020 were 180,570. And it's a "vertically integrated carmaker," which makes for strong margins. "Tesla improved margins to 30% gross in the (fourth quarter) and 23% EBITDA (earnings before interest, taxes, depreciation and amortization), and that's three times higher than traditional carmakers," he said.

"So we feel down the road, no pun intended, the company should be able to introduce new, more affordable products and at better cost. They should be able to dominate the automobile industry."

Exiting Zillow Position

But in the fourth quarter, Baron Partners said goodbye to another disruptive growth company, Zillow Group **(ZG)**, which had been 3.41% of the fund. Zillow shares plunged 30% on Nov. 2 and 3, 2021, after the company said it was closing its homebuying/flipping business and taking a pretax loss of $422 million. Back in February 2021, Zillow stock was trading at an all-time high, above 200. By Dec. 31 it was down 72%.

"We liked the basis of the company and the management team," said Baron. "They just got it wrong. They'd moved from an asset-light business to a capital-intensive business." The fund's fourth-quarter report says it exited Zillow "to find more promising growth companies."

It first started purchasing Zillow in late 2014 and "had accumulated a total stake at an average split-adjusted cost of approximately $29 a share," said Baron. Thus, "The long-term investment had been successful, and even with the decline in Zillow's stock price in 2021, the fund exited its position with a gain," he said.

The fund is still steering clear of the popular FAANG stocks: Facebook parent Meta Platforms **(FB)**, Amazon.com **(AMZN)**, Apple **(AAPL)**, Netflix **(NFLX)** and Google parent Alphabet **(GOOGL)**.

"We focus in the midcap space, and we make investments to hold," said Baron. "Buying FAANG companies just because the prices have fallen off a bit doesn't make sense for this portfolio." While the fund may let its winners run even as they graduate into large-cap stocks, it focuses on midcap stocks when making purchases.

The fund reduced its use of leverage, or borrowed money, in 2020, bringing it down to 5.3% on Dec. 31, 2020. At the end of 2021, leverage was up a touch to 6.5%. "We will only increase (or decrease) leverage when we believe market conditions and opportunities are appropriate," Baron said. The fund has the ability to increase leverage to 33% of the portfolio, according to its prospectus.

Investors Moving to Safety

Baron acknowledges the fund's giant position in Tesla but said "this is much a more diversified fund than we get credit for."

He said Baron Partners has "supplemented the fund with more stable businesses." Idexx Laboratories **(IDXX)**, which sells diagnostic products and services to veterinarians and other markets, was 6.1% of the fund at the end of 2021. And the fund is invested in the financial and real asset segments with companies including Charles Schwab **(SCHW)**; Arch Capital **(ACGL)**, an insurance and reinsurance company; and Hyatt Hotels **(H)**.

"As interest rates rise, Arch is able to write more policies at better rates," he said.

And inflation can have benefits too. The real assets of companies like Hyatt "become more valuable," said Baron.

He also noted that Hyatt "made smart moves during the pandemic" lowering costs and making acquisitions.

This reprint has been provided to you by Baron Capital, although the information has been obtained from sources believed to be reliable, Baron Capital does not guarantee its accuracy, completeness or fairness. Opinions and estimates are subject to change without notice. The information contained in this document is distributed for informational purposes only and should not be considered investment advice or recommendations of any security or Fund.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Baron Partners Fund's annualized returns for the Institutional Shares as of December 31, 2021: 1-year, 31.73%; 5-years, 43.97%; 10-years, 28.23%; Since Inception (1/31/1992), 17.00%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 1.30% (comprised of operating expenses of 1.05% and interest expense of 0.25%). The **S&P 500 Index**'s annualized returns as of December 31, 2021: 1-year, 28.71%; 5-years, 18.47%; 10-years, 16.55%; Since Fund Inception (1/31/1992), 10.75%.

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2032, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

Performance for the Institutional Shares prior to 5/29/2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to 5/29/2009 did not reflect this fee, the returns would be higher.

Risks: The Fund is non-diversified which means, in addition to increased volatility of the Fund's returns, it will likely have a greater percentage of its assets in a single issuer or a small number of issuers, including in a particular industry than a diversified fund. Single issuer risk is the possibility that factors specific to an issuer to which the Fund is exposed will affect the market prices of the issuer's securities and therefore the net asset value of the Fund. As of the date of the latest prospectus supplement, about 40% of the Fund's assets are invested in Tesla stock. Therefore, the Fund is exposed to the risk that were Tesla stock to lose significant value, which could happen rapidly, the Fund's performance would be adversely affected. Specific risks associated with leverage include increased volatility of the Fund's returns and exposure of the Fund to greater risk of loss in any given period.

Investor's Business Daily's 2022 Best Mutual Funds Award winners have beaten their respective benchmark index in the past one, three, five and 10 year time periods as-of December 31, 2021.

Portfolio holdings as a percentage of total investments as of December 31, 2021 for securities mentioned are as follows: **IDEXX Laboratories, Inc.** – 5.7%; **The Charles Schwab Corp.** – 3.6%; **Arch Capital Group Ltd.** – 3.2%; **Hyatt Hotels Corp.** – 3.4%.

As of December 31, 2021, the Baron Partners Fund did not hold shares of **Zillow Group, Inc.**

Top 10 Holdings
Baron Partners Fund **12/31/2021**

Holding	% Holding
Tesla, Inc.	47.0
CoStar Group, Inc.	6.3
IDEXX Laboratories, Inc.	5.7
Space Exploration Technologies Corp.	4.8
FactSet Research Systems, Inc.	3.7
The Charles Schwab Corp.	3.6
Vail Resorts, Inc.	3.6
Hyatt Hotels Corp.	3.4
Arch Capital Group Ltd.	3.2
Gartner, Inc.	2.5
Total	83.8
Long Equity Exposure	106.5
Cash & Equivalents	(6.5)

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The index and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The index is unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.