Ron, Michael, and David Baron: Growth Investing in the Current Environment

This is an edited version of a May 26, 2021 Q&A with Ron Baron, Michael Baron, and David Baron. Ron is CEO of Baron Capital and portfolio manager of Baron Partners Fund and Baron Focused Growth Fund. Michael is portfolio manager of Baron Partners Fund. David is portfolio manager of Baron Focused Growth Fund.

To access the full recording, please dial 800-954-0689, passcode #21993851.

Key Discussion Points

Introduction

Baron Focused Growth Fund
Fund performance, management of the portfolio, current outlook for the market and the Fund

Baron Partners Fund
Fund performance, outlook for the Fund's disruptive, core-growth, real assets, and financials holdings

Thoughts on Tesla and SpaceX

Introduction

Baron Partners Fund is a focused all-cap fund that invests in growth stocks, while Baron Focused Growth Fund is a smid-cap fund comprised of the highest conviction ideas of its portfolio managers. Both are fairly concentrated: top 10 holdings comprise 82.1% of Baron Partners Fund's assets by weight and 73.8% of Baron Focused Growth Fund's asset by weight.

This approach has had outstanding results for both Funds. Baron Partners Fund ranked in the top 1% of its Morningstar category and Baron Focused Growth Fund ranked in the top 4% for the 12-month period ended 3/31/21. Their long-term performance is equally as impressive. Baron Partners Fund ranked in the top 1% for the 3-, 5-, and 10-year periods and Baron Focused Growth Fund ranked in either the top 2% or top 3% for the 3-, 5-, and 10-year periods.

Morningstar calculates the Morningstar Mid-Cap Growth Category Average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

The Morningstar Mid-Cap Growth Category consisted of 595, 560, 500, and 379 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Partners Fund in the 1st, 1st,1st, 1st, and 1st percentiles for the 1-, 3-, 5-, 10-year, and since conversion periods, respectively. The Fund converted into a mutual Fund 4/30/2003, and the category consisted of 221 share classes.

Morningstar ranked Baron Focused Growth Fund – Retail Share Class in the 4th, 3rd, 3rd, 4th, and 5th percentiles for the 1-, 3-, 5-, 10-year, and since conversion periods, respectively. The Fund converted into a mutual Fund 6/30/2008, and the category consisted of 318 share classes.

Baron Focused Growth Fund

David Baron: During the first quarter of 2021, the returns of Baron Focused Growth Fund were flat, underperforming its benchmark, the Russell 2500 GrowthIndex, by approximately 250 basis points. This underperformance was driven by the rotation into low-quality, cyclical, value-oriented stocks as the growing pace of vaccinations suggested an economic reopening was on the horizon, a spike in interest rates, and concerns around inflation.

This growth-to-value rotation resulted in declines in the share price of high-growth, high-quality names in the Fund such as **CoStar Group, Inc., GDS Holdings Limited, Guidewire Software, Inc.**, and **Tesla, Inc.,** which together comprised about 50% of the portfolio at the beginning of the year. However, these declines in the portfolio were offset by other holdings that were hit hard by the pandemic and benefited from the "reopening" trade in the first quarter, including **Red Rock Resorts, Inc., Penn National Gaming, Inc.,** and **Hyatt Hotels Corp.**

Looking ahead, we think Red Rock, Penn, and Hyatt will continue to grow, as they've all found better, more efficient ways to operate their businesses, which should increase earnings beyond pre-pandemic levels and help them emerge from the pandemic in a financially stronger position. For instance, Penn, which operates regional casinos in the U.S., is already bringing in 90% of its pre-pandemic revenue and earning more than 100% of its pre-pandemic EBIDTA due to cost reductions and efficiencies as well as a younger and more affluent customer base than before. We see additional growth potential through the leveraging of the database of customers of sports betting website Barstool, which Penn partnered with last year.

We added to our positions in **Arch Capital Group Ltd.,** a property and casualty insurer, and English premier league soccer team **Manchester United plc,** as we believed their stock prices undervalued both companies.

We also sold another 10% of our Tesla position to manage position size and take some profits.

How would you expect the Fund to perform in a rising rate environment?

David Baron: Historically, Baron Focused Growth Fund has done quite well during periods of rising rates. For instance, in 2013, when the 10-year Treasury yield increased from 1.68% to 3.04%, the Fund returned 26%. In 2018, when the 10-year Treasury yield increased from 2.46% to 3%, the Fund returned 4%, while its benchmark declined 4%. We attributed these results to our investments in companies that can grow no matter what the market environment happens to be. Although we don't have a crystal ball, we continue to believe the earnings growth of our companies will more than offset any multiple contraction and/or higher rates.

You recently invested in BioNTech SE. Historically, the Fund has not invested in biotechs. What has changed to help you build greater conviction in these types of businesses?

David Baron: Simply put, we brought in a great biotech analyst, Josh Riegelhaupt, who joined us a few years ago and is assistant portfolio manager of Baron Health Care Fund.

BioNTech is a leader in the emerging field of mRNA drugs, and has programs in engineered cell therapies, antibodies, and immunomodulators as well. While BioNTech hit the headlines in November 2020 with the announcement that, in partnership with pharmaceutical firm Pfizer, Inc., it had developed a vaccine to combat COVID-19 using mRNA therapeutics, the company has been studying and working with mRNA for two decades. The COVID-19 vaccine has been a strong proof point of the speed and efficacy of the mRNA platform, and we believe BioNTech has potential to disrupt the biopharma space with a pipeline spanning oncology, infectious diseases, and rare diseases.

Baron Partners Fund

Could you review the Fund's performance and provide an update?

Michael Baron: It was a challenging quarter for secular growth investors like us, but we think the Fund held up well. It fell 0.38%, roughly in line with its benchmark, the Russell Midcap Growth Index. Even with flat performance for the quarter, the Fund was up 213% over the past 12 months ended March 31, 2021, significantly ahead of the index, which appreciated 69%.

Baron Partners Fund made these returns during one of the most tumultuous markets in memory. Yet we did not reposition the portfolio in response to macro conditions, as dramatic as they were. We continued to apply our approach: investing for the long term in companies that we believe will become significantly larger over time. If you look at our top 10 holdings, we owned all of them well before the onset of the pandemic.

Despite its concentrated nature, the Fund is diversified across four categories: disruptive businesses, core growth businesses, companies with irreplaceable assets, and financials. During the first phase of the recovery, our core growth businesses outperformed as investors recognized they were well positioned to continue to grow in any environment, including a pandemic.

In the second half of 2020, our disruptive businesses took off as digitization accelerated due to the pandemic. These businesses included Tesla, real estate website company **Zillow Group, Inc.,** music streaming company **Spotify Technology S.A.**, privately held reusable rocket company **Space Explorations Technology Corp. (SpaceX),** and e-commerce platform **Shopify Inc.**

All these companies grew significantly during the pandemic. Tesla increased vehicle production by over 36% despite factory shutdowns. In the fourth quarter of 2020, Zillow's core premier agent division grew 24%. It also gained traction in newer services such as mortgages, which were up 114%. At Spotify, the monthly average number of subscribers was up 27% in the fourth quarter. SpaceX had a record number of launches in 2020 and has increased its satellite fleet significantly, enabling the launch of its Starlink Network broadband system.

In the first quarter of 2021, companies that lagged during the economic shutdown did well. This was especially true for travel-related businesses like **Marriott Vacations Worldwide Corp.** and **Hyatt Hotels Corp.,** Financials holdings like **The Charles Schwab Corp.**, and real estate holdings like **Brookfield Asset Management, Inc.**

Looking ahead, we don't think we are going back to the pre-pandemic days. We think the pandemic has accelerated many of the secular trends in which we are invested. People are going to continue to use Zillow to search for homes and research the real estate markets. The shift from gas combustion engines to electric vehicles (EVs) will continue until it reaches a tipping point as legacy car manufacturers enter the market and consumers become more aware of and comfortable with EVs. As the leader in this space, we think Tesla will benefit from this increasing adoption of EVs. Businesses will continue to shift their IT operations from on-premise equipment and software to the cloud, benefiting software-as-a service providers like **Guidewire Software, Inc.**

Historically, you've managed Baron Partners Fund with 20% to 30% leverage on average. Can you talk about any adjustments you've made to the leverage component and why you've made those changes?

Michael Baron: The Fund uses leverage to enhance returns, but not in the typical way. We do not lever the entire portfolio pro-rata to enhance market exposure, since we do not make bets on short-term market moves, which we believe are almost impossible to predict. Rather, we draw on a credit line to add to or buy positions in specific companies in which we have our highest conviction to increase our exposure to these names. This use of leverage reflects our stock-specific, bottom up, fundamental approach to investing.

Over the past five years, we averaged 24% leverage for the Fund. However, over the past year, we have substantially reduced leverage and have just 3.3% leverage as of March 31, 2021. We did this to better manage risk, given Tesla's weighting in the portfolio after its extraordinary run last year. Given the increased concentration in the Fund due to appreciation and increased market volatility, we thought it would be prudent to lower leverage to take risk down.

Tesla and SpaceX

Can you explain how you manage single asset risk as it pertains to Tesla?

Ron Baron: While we don't have fixed rules, we are conscious of our obligation as fiduciaries to manage our portfolios with as low risk as possible and in accordance with the kind of returns we're trying to achieve.

As Michael mentioned, we reduced leverage to help manage risk in Baron Partners Fund given the size of our position in Tesla.

In addition, while I don't think reducing the position is justified by the fundamentals, I do feel it is justified by the position size. I felt uncomfortable having so much tied up in one stock for our clients. Since last August, we have been selling stock in Tesla. In total we've sold 1.77 million shares of the seven million shares our clients owned, or roughly 25%, including in Baron Focused Growth Fund and Baron Partners Fund. We realized $1.13 billion from those sales compared to our initial $375 million investment for the entire position. It's still a very large position in both Funds, but we're okay with that. If it doubles again in the next five or six years, then we'll reduce further. But we are as confident as you can be that we'll be successful.

SpaceX was one of the bright spots in the first quarter. Can you talk about what drove that performance and your thesis behind this business?

Ron Baron: The stock price increased 50% in in the quarter because SpaceX, which is a private company, issued a new offering. The offering was extremely successful: five times oversubscribed within a week at a price that was 50% higher than a year ago, so we marked to market.

SpaceX's advantage over legacy businesses is its innovation and speed to market, which makes it difficult for rivals to compete. For example, NASA used to take two years to build a rocket. SpaceX is building a rocket every three days. Even better, SpaceX invented reusable rockets, which, as you can imagine, creates tremendous cost efficiencies. That's how SpaceX disrupted this entire industry. Elon Musk, who founded SpaceX, has stated that he thinks Starlink, the company's satellite-based broadband internet service, alone will eventually generate $30 billion. 3.5 billion homes in the world don't have broadband, so there's tremendous growth opportunity. I think we could earn 30X our investment in SpaceX over the next 10 years.

Michael Baron: If you like the Baron investment approach but are interested in an option that provides greater diversification of risk, you can invest in Baron WealthBuilder Fund. It's our first equity allocation fund. The Fund invests exclusively in an array of Baron Capital funds. These investments span market caps, sectors and geographies and create growth equity diversification under one portfolio, so you gain exposure to our top funds while mitigating the risk involved in investing in a concentrated portfolio or a specific sector, market cap, or geographic region. As of March 31, 2021, the Fund's one-year performance was over 100%.

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 March 31, 2021: 1-year, 213.03%; 5-years, 38.03%; 10-years, 23.14%; Since Inception (1/31/1992), 16.36%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 1.31% (comprised of operating expenses of 1.06% and interest expense of 0.25%). The **Russell Midcap Growth Index**'s annualized returns as of March 31, 2021: 1-year, 68.61%; 5-years, 18.39%; 10-years, 14.11%; Since Fund Inception (1/31/1992), 10.73%.

Baron Focused Growth Fund's annualized returns for the Institutional Shares as of March 31, 2021: 1-year, 167.83%; 5-years, 31.27%; 10-years, 18.02%; Since Inception (5/31/1996), 14.52%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 1.07%. The **Russell 2500 Growth Index**'s annualized returns as of March 31, 2021: 1-year, 87.50%; 5-years, 19.91%; 10-years, 14.21%; Since Fund Inception (5/31/1996), 9.43%.

Baron WealthBuilder Fund's annualized returns for the Institutional Shares as of March 31, 2021: 1-year, 102.31%; 3-years, 27.20%; Since Inception (12/29/2017), 25.78%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 1.22%, but the net annual expense ratio was 1.11% (includes acquired fund fees of 1.06%, net of the Adviser's fee waivers). The S&P 500 Index's annualized returns as of March 31, 2021: 1-year, 56.35%; 3-years, 16.78%; Since Fund Inception (12/29/2017), 15.12%.

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, 2031, 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 **Baron Partners Fund** reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 20% performance fee after reaching a certain performance benchmark. The predecessor partnership's performance is only for periods before the Fund's registration statement was effective, which was April 30, 2003. Performance for **Baron Focused Growth Fund** reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 after reaching a certain performance benchmark. The performance is only for the periods before the Fund's registration statement was effective, which was June 30, 2008. During these periods, the predecessor partnerships were not registered under the Investment Company Act of 1940 and were not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected their performance. If the annual returns for the Funds did not reflect the performance fees the returns would be higher. The Funds' shareholders will not be charged a performance fee.

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: **Baron Focused Growth Fund** is non-diversified, which means 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. **Baron Partners Fund** is non-diversified, which means 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. **Baron WealthBuilder Fund** is a non-diversified fund because it invests, at any given time, in the securities of a select number of Baron mutual funds (the "Underlying Funds"), representing specific investment strategies. The Fund can invest in funds holding U.S. and international stocks; small-cap, small to mid-cap, large-cap, all-cap stocks; and specialty stocks. Each of the Underlying Funds has its own investment risks, and those risks can affect the value of the Fund's investments and therefore the value of the Fund's shares. To the extent that the Fund invests more of its assets in one Underlying Fund than in another, it will have greater exposure to the risks of that Underlying Fund. For further information regarding the investment risks of the Underlying Funds, please refer to the Underlying Funds' prospectus.

Diversification does not guarantee a profit or protect against a loss.

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

Diversification does not guarantee a profit or protect against a loss.

Portfolio holdings as a percentage of net assets as of December 31, 2020 for securities mentioned are as follows: **CoStar Group, Inc.** - Baron Partners Fund (9.4%*), Baron Focused Growth Fund (8.6%); **GDS Holdings Limited** - Baron Partners Fund (0.8%*), Baron Focused Growth Fund (1.9%); **Guidewire Software, Inc.** - Baron Partners Fund (1.3%*), Baron Focused Growth Fund (1.5%); **Tesla, Inc.** - Baron Partners Fund (40.2%*), Baron Focused Growth Fund (32.0%); **Red Rock Resorts, Inc.** - Baron Partners Fund (0.3%*), Baron Focused Growth Fund (1.0%); **Penn National Gaming, Inc.** - Baron Focused Growth Fund (9.4%); **Hyatt Hotels Corp.** - Baron Partners Fund (3.5%*), Baron Focused Growth Fund (4.2%); **Arch Capital Group Ltd.** - Baron Partners Fund (3.6%*), Baron Focused Growth Fund (3.4%); **Manchester United plc** - Baron Partners Fund (1.3%*), Baron Focused Growth Fund (2.4%); **BioNTech SE** - Baron Focused Growth Fund (1.6%); **Zillow Group, Inc.** - Baron Partners Fund (5.2%*); **Spotify Technology S.A.** - Baron Partners Fund (0.8%*), Baron Focused Growth Fund (2.0%); **Space Exploration Technologies Corp.** - Baron Partners Fund (4.9%*), Baron Focused Growth Fund (4.0%); **Shopify Inc.** - Baron Partners Fund (1.1%*); **Marriott Vacations Worldwide, Inc.** - Baron Partners Fund (1.8%*); **The Charles Schwab Corp.** - Baron Partners Fund (3.7%*); **Brookfield Asset Management, Inc.** - Baron Partners Fund (0.6%*).

*% of Long Positions.

Top 10 holdings as of March 31, 2021

Baron Partners Fund

Holding	% Assets
Tesla, Inc.	40.2
CoStar Group, Inc.	8.7
IDEXX Laboratories, Inc.	5.6
Zillow Group, Inc.	5.2
Space Exploration Technologies Corp.	4.9
Vail Resorts, Inc.	4.2
The Charles Schwab Corp.	3.7
Arch Capital Group Ltd.	3.6
Hyatt Hotels Corp.	3.5
FactSet Research Systems, Inc.	3.1
Total	82.7
Long Equity Exposure	103.3
Cash & Equivalents	(3.3)

Baron Focused Growth Fund

Holding	% Assets
Tesla, Inc.	32.0
Penn National Gaming, Inc.	9.4
CoStar Group, Inc.	7.6
Vail Resorts, Inc.	5.8
Hyatt Hotels Corp.	4.2
Space Exploration Technologies Corp.	4.0
FactSet Research Systems, Inc.	3.4
Arch Capital Group Ltd.	3.4
Choice Hotels International, Inc.	2.5
Iridium Communications Inc.	2.5
Total	74.8

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

The **Russell Midcap® Growth Index** measures the performance of medium-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large cap U.S. companies. The **Russell 2500® Growth Index** measures the performance of small to medium-sized U.S. companies that are classified as growth. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group. The indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index.

Non-mutual fund products are available to institutional investors only.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **Upside Capture** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture** measures how well a fund performs in time periods where the benchmark's returns are less than zero. **Sharpe Ratio** is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance.