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Tesla Poised for 550% Gain, Says Fund Manager Unfazed by Wipeout

- David Baron expects SpaceX valuation to triple in five years
- He aims to boost his fund's assets to $2 billion by year-end

by Isabelle Lee and Esha Dey
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Tesla Inc.'s slowing growth and shrinking profit have made it the weakest stock on the Nasdaq 100 this year. Fund manager David Baron is betting it will be a bump in the road for Elon Musk's company before another parabolic rally.

It's a tough wager to make right now, after the electric-vehicle maker warned on Wednesday that it will expand at a "notably lower" pace this year, prompting a 12% plunge in the stock. It has now lost some $209 billion in market value this month through Thursday's close.

But Baron is putting his faith in the controversial chief executive officer to steer the company through the rocky times.

The manager of the Baron Focused Growth Fund expects Tesla's stock to reach $1,200 by 2030, up some 550% from current levels, citing its strong brand. Tesla and Musk's privately held SpaceX were the fund's largest holdings as of Dec. 31. Last year, it climbed 28%, beating the 18% rise in its benchmark, the Russell 2500 Growth Index, and the S&P 500's 24% gain.

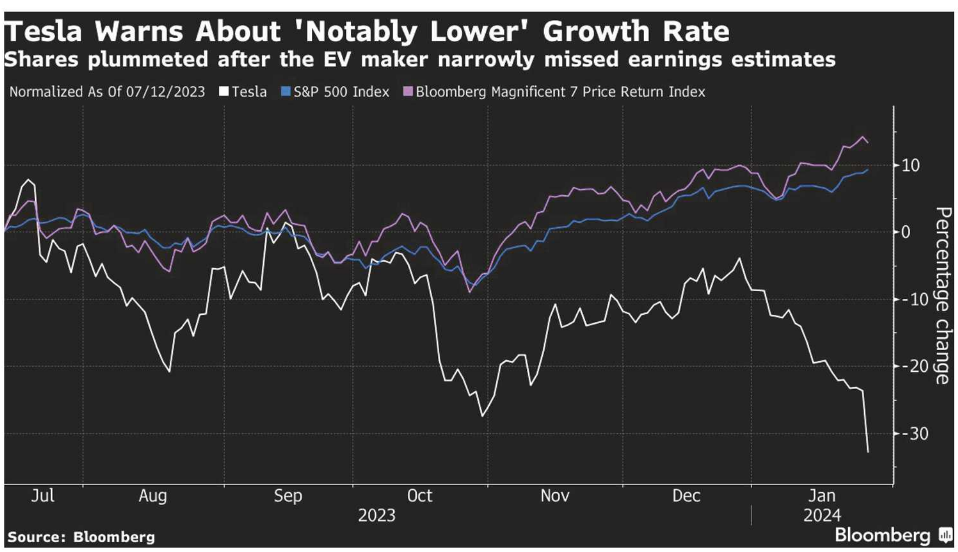
And despite Tesla's outlook for slower sales growth this year – a result in part of the EV winter that's gripping the entire industry – Baron still expects the stock to touch around $300 in about 12 months, from around $183 at Thursday's close.

"While he may not be growing 50% a year as the company thought," Baron said in an interview, "this year in a tough environment he's still growing volume by 15% to 20% per year and making us $7,000 per car of gross profit."

Tesla delivered 1.8 million cars in 2023, up 38% from the year before. This year, Wall Street analysts project unit sales will increase 17%. The company didn't respond to an email seeking comment.

The Tesla holding is a key to Baron's goal of boosting his fund's assets to $2 billion this year, from $1.3 billion as of Dec. 31.

David Baron *Source: Bloomberg*



The fund manager's father, Wall Street veteran Ron Baron, is famously a big Musk bull. The elder Baron oversees the Baron Partners Fund, which a Bloomberg Intelligence study published in August found was alone among thousands of rivals to beat the Nasdaq 100 over the prior five, 10 and 15 years.

As for SpaceX, David Baron projects its valuation will rise 20% in a year, double within three years and triple within five. The space and satellite company is worth $175 billion or more, Bloomberg reported last month.

Baron, 43, became co-portfolio manager in 2018 with his father. The small- and mid-cap fund first bought Tesla shares in 2014. Its outperformance last year came as Tesla's stock doubled, powered in no small part by its artificial-intelligence potential.

Replicating that success in 2024 will be tough should Tesla struggle amid waning EV demand.

"More investors are beginning to increasingly question the company's growth narrative," Toni Sacconaghi, an analyst at Sanford C. Bernstein, wrote in a note after the latest quarterly results. And while Tesla bulls often say innovation by the company can allow it to sustain a cost advantage and strong margins, "the counterargument is that the automotive industry is hyper-competitive, and carmakers have historically been unable to sustain cost advantages," the analyst added.

David Baron's approach echoes the investment thesis his father has championed: Invest only in companies whose leaders have significant stakes in the business, and which the money manager believes can double in market value in five to six years, reflecting a compounded growth of 15% per year.

Baron Focused Growth Fund's Top 10 Holdings

The $1.3 billion fund grew 28% in 2023 to beat S&P 500 and its benchmark

Security	Percent of net assets
Tesla Inc.	11.4%
Space Exploration Technologies Corp.	9.4
Arch Capital Group Ltd.	5.0
Hyatt Hotels Corp.	4.9
FactSet Research Systems Inc.	4.5
Vail Resorts Inc.	4.3
Guidewire Software Inc.	4.3
CoStar Group Inc.	4.2
MSCI Inc.	3.8
Red Rock Resorts Inc.	3.8
Total	55.6

Source: Baron Capital
Note: Data as of Dec. 31, 2023
Bloomberg

"We are OK if that capital is not generating a return for the company in the near-term, as long as we believe there is a path to generating strong returns over time," David Baron said.

He's also banking on CoStar Group Inc., for which he sees as much as 20% upside as its residential investments start to generate returns. He also expects holdings including Arch Capital Group Ltd., Figs Inc., and Choice Hotels International Inc. to produce strong cash flows this year.

But Musk and his car and space companies remain crucial to his portfolio.

"His interests are aligned with ours," Baron said. "He's not going to do anything stupid to change the trajectory of the companies."

– With assistance from Denitsa Tsekova

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Baron Focused Growth Fund's annualized returns for the Institutional Shares as of December 31, 2023: 1-year, 27.78%; 5-year, 26.01%; 10-year, 15.54%. The annual expense ratio for the Institutional Shares as of December 31, 2022 was 1.06%.

The **Russell 2500 Growth Index**'s annualized returns as of 12/31/2023: 1-year, 18.93%; 5-year, 11.43%; and 10-year, 8.78%.

The **S&P 500 Index**'s annualized returns as of 12/31/2023: 1-year, 26.29%; 5-year, 15.69%; and 10-year, 12.03%.

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 may reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2034, 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 baronfunds.com or call 1-800-99-BARON.

Performance 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. If the annual returns for the Fund did not reflect the performance fees for the years the predecessor partnership charged a performance fee, the returns would be higher. The Fund's shareholders will not be charged a performance fee. The performance is only for the periods before the Fund's registration statement was effective, which was June 30, 2008. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was 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 its performance.

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. Specific risks associated with investing in small and medium-sized companies include that the securities may be thinly traded and more difficult to sell during market downturns.

Portfolio holdings as a percentage of net assets as of December 31, 2023 for securities mentioned are as follows: **: FIGS, Inc. –** Baron Focused Growth Fund (3.0%); **Choice Hotels International, Inc. –** Baron Focused Growth Fund (3.0%).

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

The **Russell 2500® Growth Index** measures the performance of small to medium-sized companies that are classified as growth. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The Fund includes reinvestment of dividends, net of withholding taxes, while the Russell 2500® Growth Index and S&P 500 Index include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

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