Alex Umansky and Guy Tartakovsky: In an Uncertain Environment, A Long-Term View is Key

This is an edited version of an October 21, 2020 Q&A with Alex Umansky, Portfolio Manager of Baron Global Advantage Fund and Strategy, Baron Fifth Avenue Growth Fund, Baron Large Cap Growth Strategy, and Baron Durable Advantage Fund; and Guy Tartakovsky, Assistant Portfolio Manager of Baron Global Advantage Fund. To access the full recording, please dial 800-633-8284, passcode #21969440.

Key Discussion Points

Introduction

Overview of Funds' performance

Q&A with Alex Umansky and Guy Tartakovsky

- Funds' performance over the course of the COVID-19-drive mini-cycle
- Antitrust scrutiny of Big Tech
- New ideas: private companies and SPACs
- Cash, market cap exposure and geographic exposure
- Alibaba: investment premise and growth potential
- Possible impacts of upcoming U.S. elections

Introduction

Alex Umansky manages Baron Global Advantage Fund, Baron Fifth Avenue Growth Fund, and Baron Durable Fund. Alex has over 27 years of investment experience. He joined Baron as a portfolio manager in 2011 from Morgan Stanley, where he was the portfolio manager for a number of different strategies.

Baron Global Advantage Fund received a 5-star Overall Morningstar Rating™. The Fund ranked in the top 1% in the Morningstar World Large Stock Category in the 3-year, 5-year, and since inception periods and in the top 2% for the 1-year period as of September 30, 2020.

Baron Fifth Avenue Fund's performance is strong as well. It also received a 5-star Overall Morningstar Rating™. As of September 30, 2020, the Fund ranked in the top 10% for its 1-year return, top 7% for its 3-year return, top 5% for its 5-year return, and top 6% since Alex took over management of the Fund on November 1, 2011.

Morningstar calculates its category averages 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.

As of 9/30/2020, the Morningstar US Fund World Large Stock Category consisted of 823, 725, 608, and 421 share classes for the 1-, 3-, and 5-year and since inception (4/30/2012) periods. Morningstar ranked Baron Global Advantage Fund Institutional Share Class in the 1st percentile for the 3-year, 5-year, and since inception periods and in the 2nd percentile for the 1-year period.

As of 9/30/2020, Baron Global Advantage Fund Institutional Share Class received 5 stars for its 3-year, 5-year, and overall performance.

As of 9/30/2020, the Morningstar Large Growth Category consisted of 1328, 1229, 1095, and 813 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Fifth Avenue Growth Fund Institutional Share Class in the 10th, 7th, 5th, and 8th percentiles, respectively.

As of 9/30/2020, Baron Fifth Avenue Growth Fund Institutional Share Class received 5 stars, 5 stars, 4 stars, and 5 stars for its 3-, 5-, and 10-year and overall performance, respectively.

The Morningstar Ratings™ are for the Institutional share class only; other classes may have different performance characteristics.

Q&A with Alex Umansky and Guy Tartakovsky

How have your Funds performed in the third quarter and year-to-date?

From a market perspective, the third quarter was more or less a continuation of the prior three months. The three strategies we manage performed well, with gains of 13.1% for Baron Global Advantage Fund, 11.7% for Baron Fifth Avenue Fund, and 8.9% for Baron Durable Advantage Fund, broadly in line with their benchmarks.

So far 2020 can be divided into three distinct segments. It started with continued momentum from 2019, with markets rising until the peak of February 19, followed by a massive selloff until the bottom on March 23. And then of course the unprecedented rally and market recovery from there, essentially until now.

In a way, it is reasonable to look at this period as a full market cycle in terms of magnitude and impact to stocks and performance, albeit a mini-cycle in terms of time. When examined in that framework and compared to our benchmarks, all three strategies outperformed in all three stages. We generated excess returns on the way up. We held up better on the way down. And outperformed again on the way up.

In order of performance, the largest amount of excess return was generated in [global growth fund] Baron Global Advantage Fund, where we believe the opportunity to create alpha is the highest because we're dealing with companies in emerging markets and smaller capitalized businesses, which tend to be less efficient. [U.S. large-cap growth fund] Baron Fifth Avenue Growth Fund, where we create opportunities by investing in big ideas and with conviction, followed. Third in line was [U.S. large-cap growth fund] Baron Durable Advantage Fund, which is designed differently, with a lower tracking error and lower optionality set.

It's fair to point out that this has been a favorable investing environment for the companies we invest in. But we also think it is important to understand that, as investors focused on disruptive change and implications and consequences of that disruptive change, it is not unusual for us to find ourselves in this type of a situation.

The COVID-19 pandemic is an obvious and unmistakable disruptive change with meaningful and likely long-lasting implications. We believe our process of thinking probabilistically and making investment decisions against the entire range of outcomes as opposed to the best case and worst case or even the most likely scenario is what enables us to come out with more good decisions than bad ones.

It's been a good quarter and good year so far across the board. We're happy the process is proving to be the right process, but our attention is focused on what's yet to come.

Some of the larger cap tech names owned in the three Funds are facing antitrust scrutiny. Just yesterday, the Justice Department announced an antitrust suit against Google. What are your thoughts?

My thoughts on this haven't changed. I think it goes beyond the fact that big isn't necessarily bad or that it is difficult to fathom a legitimate argument that **Amazon.com, Inc. (AMZN)** or Google parent **Alphabet, Inc. (GOOGL)** or even **Apple Inc. (AAPL)** are hurting the consumer, which is how the antitrust laws are written in the United States. My argument is simply that the regulators are too late. We believe Big Tech's power comes from consumer adoption and preferences, and there's little to nothing that regulators can do about that. Instead of trying to figure out how to break up these companies, we believe that, in every relevant case, one plus one is likely to yield a value greater than two. Regulators need to realize these tech giants are really competing with each other and that is the best system of checks and balances available to them today.

When the government went after **Microsoft Corporation (MSFT)** back in 1998, Microsoft stock rose 900% over the time it was fighting that case. I believe Google's stock was up yesterday when the action was filed. So, from our perspective, it's just noise. It's noise we have to pay attention to, and I will at some point read the Justice Department's report. But we really don't think there is much regulators can do.

Where are you seeing the next big idea or just new ideas in general?

There are pockets of the market where valuations have become stretched, where consensus has determined that certain companies are the future winners, and they've reached an escape velocity. Investors are learning from Amazon, Google, **Facebook, Inc. (FB)** and the like and identifying these kinds of companies earlier. They have piled into these names and there is simply no margin of safety left to allocate new capital to them.

That said, our list of new ideas is larger today than it's ever been. Two areas where we are finding a lot of ideas are private companies and SPACs (Special Purpose Acquisition Companies). Historically we have not invested in either. This past quarter, we invested in three private companies. We have also committed to invest in some SPACs, but we can't talk about them on this call because they haven't been publicly disclosed.

Guy Tartakovsky: Thanks to Baron's reputation as long-term investors, private companies will frequently seek us out fairly early in their process -- usually a year or two before they become public. This means we get to meet with them early and get to know them and do a deep due diligence dive.

ZoomInfo Technologies, Inc. (ZI) is a good example. We got to know the company early last year when it was still private. Early this year, the lead analyst, other portfolio managers, and I spent the day at its headquarters where we met with the CEO, CFO, and CTO. We spoke about how they think about building AI algorithms, and I was able to see how the sales team works and what metrics they look at. Bottom line we had more time to do due diligence and build a relationship with management, which helps during the IPO process.

Alex Umansky: It is important to understand that this strategy is not intended to provide a venture capital component to the strategies. We do not anticipate investments in private companies to have any material results. Our three private investments combined represent less than 1% of net assets. We plan to keep all private investments very small. These investments are made with the purpose of learning about the business, getting a seat at the table, and basically partnering with the company. The goal is to get to know these businesses early on to be able to allocate larger amounts of capital when they go public.

Another example is **Schrodinger, Inc. (SCHR.E)**. We met them a year and a half or maybe two years before the company went public. The investment was made in another Baron Fund, and it was a tiny investment. But it allowed us access to the management team, and we were talking to them every three months. We knew what their milestones where, where the goalposts were, and how the company was progressing. At the IPO, while no one else really knew what this company did, we were able to invest with conviction and quickly build a significant position. The stock came public in February at $17 per share and is now trading at $58.

SPACs are a little different. Just to explain, a SPAC is a blind pool of capital raised by a sponsor who will use that money to purchase a private company and take that company public. In other words, a SPAC is a way for a private business to get into the public market as an alternative to the IPO process.

The SPAC environment has really changed. Many of them now have very sophisticated sponsors, highly reputable management teams with proven track records as exceptional stewards of capital. There are presently about 150 SPACs that have raised about $8 billion looking for acquisitions and another 50 SPACs that have raised about $3 billion and have a target in hand.

We don't get involved until the sponsor has found a company it wants to invest in. When that happens, the sponsors and investment bankers will contact us to introduce the target company. This gives us the chance to do significant due diligence and allows us to allocate meaningful amounts of capital at an attractive valuation, provided we have conviction. Typically, just a handful of investors are offered the opportunity to invest before the company becomes public. I think SPACs will prove to be fertile ground for us over the next 12 to 24 months.

Cash levels across the three strategies are a bit higher than normal. Is this a function of how you're perceiving risk in the portfolio or the market, or is there something else at play?

We're sitting on about 9% cash right now. This is not the case in the separate accounts in the large cap strategy or the UCITs fund in the global strategy, where the average cash balance is 1%.

All the cash in the Funds is the result of unusual amounts of inflows. We have not made any sales in Baron Global Advantage Fund in the last six months. While our process dictates that we would normally do a buy program across the entire portfolio, we also are operating in one of the most uncertain environments I have ever experienced as a capital allocator. While we're trying to put this cash to work as quickly as we can, we have always been very judicious in the way we allocate capital. We pride ourselves on being very disciplined and deliberate before we make new investments. We take many months to due diligence an idea.

As a side note, we don't think it's a bad idea to have cash on hand given the unusually high levels of uncertainty and range of possible outcomes we expect to see over the short term.

Baron Global Advantage Fund has relatively higher exposure to small- and mid-cap names. Can you talk about why that is?

The Fund's strategy is to invest in in best ideas anywhere in the world. It is not to give investors exposure to small caps, emerging markets, or a particular sector. Rather, we view all of these as characteristics of the business. The market capitalization tells you about the stage of the company's growth lifecycle. If it's in the earlier stage of its lifecycle, it will have a smaller market cap. We think our ability to invest in smaller companies is a competitive advantage. As part of our process, we focus on the duration of growth and our conviction on that duration. So, we think investing in the earlier stages of a company's lifecycle is an advantage.

Baron Global Advantage Fund also has relatively higher exposure to emerging markets. Can you touch on that as well?

While we're not looking for EM investments specifically, we have been massively overweight EM since inception. EM is a very fertile ground for big ideas. We think EM will be an even larger percentage of the Fund in the future because we are tilted towards growth. You can find significantly more attractive growth in the EM arena than in the developed world. It's true that hurdle rates are higher in EM. You need to be really disciplined about risk management. But we believe we have an advantage in terms of our research ability, our time horizon, and our ability to analyze and due diligence these businesses.

Alibaba Group Holding Limited (BABA) is the top position in Baron Global Advantage Fund. Do you have any concerns about the alignment of interest of shareholders versus that of the Chinese government?

I'm not sure I have any particular insight into the company's relationship with the Chinese government. I will say that given the higher risks inherent in investing in an EM or Chinese company, we require a higher rate of return to allocate capital to it as compared to a company like Amazon. Having said that, we think the thesis on Alibaba is exceptionally strong. It has the most comprehensive ecosystem of e-commerce platforms, logistics, and payments to support the China's digital transformation, which is the second largest economy in the world.

[Alibaba subsidiary] Ant Financial is going public on November 6. Ant Financial owns Alipay, China's leading mobile payments platform, with over 1.3 billion active users. I think usership has doubled in the last two years. Ant Financial is also China's largest provider of financial services, such as loans, wealth management, and insurance products. 70% of Ant Financial customers use at least three of its services. The endgame is incredibly large. We think Alipay potentially could be worth more than Alibaba is today. The multiple for Alibaba is lower than that of Amazon, Facebook, Microsoft, and Apple, yet its growth rate is significantly higher than any of them. And we believe that growth is durable.

We understand the implications trade wars and a global slowdown in growth could have on the Chinese economy. But we think the margin of safety on Alibaba is such that it is still a pretty compelling investment, which is something you would expect us to believe since it is our single largest position.

Any thoughts on the upcoming election and how that outcome may impact the markets?

The elections are different this time because typically one party or the other wins. I think we now have to consider three possible outcomes. Two are favorable and one is unfavorable. The favorable outcomes are where we have a clear winner. I believe the market will function well in that case. Market participants will make adjustments to what the regulatory regime will look like, which sectors will do better short-term, etc. The wildcard is what happens if there is no clear outcome because markets in general hate uncertainty. But if that were to happen and the markets got nervous, I actually think it would provide a good opportunity to use that weakness to reallocate capital or allocate cash. I believe our institutions are strong enough and common sense will prevail at the end of the day, and the markets will recover.

But more importantly, we do not spend a lot of time thinking about this. We spend our time focusing on transformative change. PayPal announced today that it will now accept digital currencies. What does that mean? What is happening to the Blockchain ecosystem? How is it evolving? Is it making certain companies more investible as a result? What is happening with electric, autonomous, shared mobility? How is that playing out? Is something that was out of reach for us in the past because there was no margin of safety or no conviction now suddenly coming into play because of COVID-19?

We're focused on the future, which to me is three to five years out. The good results we're enjoying today are the outcomes of decisions we made years ago, when the groundwork for these portfolios was put into place.

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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 Global Advantage Fund's annualized returns for the Institutional Shares as of September 30, 2020: 1-year, 71.70%; 5-years, 29.35%; Since Inception (4/30/2012), 19.49%. Annual expense ratio for the Institutional Shares as of December 31, 2019 was 1.00%, but the net annual expense ratio was 0.90% (net of the Adviser's fee waivers). The **MSCI ACWI Index**'s annualized returns as of September 30, 2020: 1-year, 10.44%; 5-years, 10.30%; Since Fund Inception (4/30/2012), 8.83%.

Baron Fifth Avenue Growth Fund's annualized returns for the Institutional Shares as of September 30, 2020: 1-year, 49.93%; 5-years, 23.52%; 10-years, 18.25%. Annual expense ratio for the Institutional Shares as of September 30, 2019 was 0.80%, but the net annual expense ratio was 0.75% (net of the Adviser's fee waivers). The **Russell 1000 Growth Index**'s annualized returns as of September 30, 2020: 1-year, 37.53%; 5-years, 20.10%; 10-years, 17.25%.

Baron Durable Advantage Fund's annualized returns for the Institutional Shares as of September 30, 2020: 1-year, 23.34%; Since Inception (12/29/2017), 14.84%. Annual expense ratio for the Institutional Shares as of September 30, 2019 was 4.91%, but the net annual expense ratio was 0.70% (net of the Adviser's fee waivers). The **S&P 500 Index**'s annualized returns as of September 30, 2020: 1-year, 15.15%; Since Fund Inception (12/29/2017), 10.84%.

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 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.

Baron Global Advantage Fund's 3-month, and 3- and 5-year and Baron Fifth Avenue Growth Fund's 3-month historical performances were impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Funds' level of participation in IPOs and secondary offerings will be the same in the future.

Risks: Growth stocks can react differently to issuer, political, market and economic developments than the market as a whole. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell.

The **Morningstar Rating™** for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10- year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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.

Portfolio holdings as a percentage of net assets as of September 30, 2020 for securities mentioned are as follows: ZoomInfo Technologies, Inc. – Baron Fifth Avenue Growth Fund (2.1%), Baron Global Advantage Fund (2.4%); **Schrodinger, Inc.** – Baron Global Advantage Fund (0.8%)**.**

Baron Fifth Avenue Growth Fund, Baron Global Advantage Fund, and Baron Durable Advantage Fund did not hold **Apple, Inc.** as of September 30, 2020.

Top 10 holdings as of September 30, 2020

Baron Global Advantage Fund

Holding	% Holding
Alibaba Group Holding Limited	7.1
Amazon.com, Inc.	5.0
Facebook, Inc.	4.0
Acceleron Pharma Inc.	3.2
GDS Holdings Limited	3.0
Alphabet Inc.	3.0
Fiverr International Ltd.	2.5
Wix.com Ltd.	2.5
MercadoLibre, Inc.	2.5
ZoomInfo Technologies Inc.	2.4
Total	35.2

Baron Fifth Avenue Growth Fund

Holding	% Holding
Amazon.com, Inc.	10.0
Veeva Systems Inc.	5.0
Alibaba Group Holding Limited	4.9
Mastercard Incorporated	4.1
Intuitive Surgical, Inc.	3.6
Facebook, Inc.	3.4
Twilio Inc.	3.4
Alphabet Inc.	3.2
Visa, Inc.	3.0
ServiceNow, Inc.	3.0
Total	43.6

Baron Durable Advantage Fund

Holding	% Holding
Microsoft Corporation	5.8

Adobe Inc.	5.0
Danaher Corporation	5.0
S&P Global Inc.	4.9
Moody's Corporation	4.8
AstraZeneca PLC	4.5
Facebook, Inc.	4.4
Thermo Fisher Scientific Inc.	4.3
Accenture plc	3.8
Alphabet Inc.	3.8
Total	46.3

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

The **MSCI ACWI Growth Index** and the **MSCI ACWI Index** cited are unmanaged, free float-adjusted market capitalization weighted indexes. The **MSCI ACWI Growth Index** measures the performance of large, mid and small cap growth securities across developed and emerging markets, including the United States. The **MSCI ACWI Index** measures the equity market performance of large and midcap securities across developed and emerging markets, including the United States. **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. 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 foreign 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.

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