The Importance of a Disciplined Investment Approach in a Volatile Environment

This is an edited version of a June 3, 2020 Q&A with Ron Baron, Neal Rosenberg, and Michael Baron. Ron is CEO of Baron Capital and portfolio manager of Baron Growth Fund and Baron WealthBuilder Fund. Neal is co-portfolio manager of Baron Growth Fund, and Michael is assistant portfolio manager of Baron WealthBuilder Fund.

To access the full recording, please dial 866-595-5357, passcode 5127662#.

Key Discussion Points

Baron Growth Fund
Fund performance, management of the portfolio, takeaways from conversations with management, changes in the portfolio, new investments, opportunities generated by the crisis

Baron WealthBuilder Fund
Update on the Fund and navigating the current environment

Baron Growth Fund

How has Baron Growth Fund performed prior to and during the crisis?

Neal Rosenberg: The Fund has had strong relative performance so far this year. Through the end of May, the Fund was down just over 3% on a year-to-date basis. We were around 350 basis points ahead of our benchmark, the Russell 2000 Growth Index, which had declined about 6.65% over the same period. Most important, the Fund had generated almost 700 basis points of outperformance from positive stock selection, which is where we devote our time and our resources with our team of 37 analysts and investment and portfolio managers.

That positive stock selection has been partially offset by allocation, mainly by being overweight Consumer Discretionary stocks and underweight Health Care stocks.

The Fund's risk metrics continue to stay strong as well. As of March 31, 2020, the beta of the portfolio was about 0.85 as measured over the prior five-year period, and the upside capture was 90% and the downside capture just 74%. More recently, over the prior three-year period, our upside capture was 104% while our downside capture was still just 79%.

Ron Baron: I would like to touch briefly on the penalty we have borne by our investments in travel and leisure stocks such as **Vail Resorts, Inc. (MTN), Choice Hotels International, Inc. (CHH), Marriott Vacations Worldwide Corp. (VAC), Penn National Gaming, Inc. (PENN)**, which represented about 16% of our assets in the Fund at the start of the year. When the pandemic hit and travel shut down, many of these stocks fell by 50% or so. Now they're starting to recover, and we believe these stocks will double in price in the next two or three years to make up for what's happened to them so far.

How are you managing the portfolio?

Neal Rosenberg: Baron Growth Fund is a fundamentally oriented strategy. When times are good, we conduct research to understand what can go right and what can go wrong. When times are unusual or unprecedented, we do research to understand what's happening to businesses, how their management teams are adapting, and what the short-, intermediate-, and long-term financial implications will be. The goal of the strategy since inception has always been to deliver superior returns over time with less risk. We've historically achieved that by being diligent and disciplined regarding the quality of the businesses in which we invest.

Our investments share a set of common attributes. These include items like large addressable markets; powerful and favorable secular trends; high and growing barriers to entry; recurring, or at least highly visible, revenue; high margins and higher incremental margins; strong free cashflow conversion; and what we believe are best-in-class management teams.

Can you share some perspective on what you're seeing in end markets? I presume your conversations with management teams have evolved a bit since we last spoke.

Neal Rosenberg: Since our last update call, we've had the opportunity to review March and April quarterly results. We've spoken with management teams several more times and have had the opportunity to continue to do more primary due diligence. I would say, at a high level, most business activity came to a sudden stop in mid-to-late March, consistent with the series of state lockdown orders.

Those trends remained depressed into April before starting to climb off the bottom in mid-to-late April and more significantly through May. At this point, almost every company that we've spoken with has reported the trends are improving day over day and week over week, which is obviously very encouraging. There are some geographic differences and based on our research, the Northeastern United States continues to lag on a relative basis. But let me drill down on a few industries.

Financials: In Financials, Baron Growth Fund has large investments in market data and analytics vendors. These are companies like **MSCI, Inc. (MSCI), FactSet Research Systems, Inc. (FDS),** or **Morningstar, Inc. (MORN).** Here, we've seen revenue and bookings trend remain largely intact. We've observed consistent demand for data and analytical tools and ESG products and only very modest delays in some of the largest-ticket items. Margins remain high, variable costs are being well controlled, cashflow generation remains robust and balance sheets are appropriately scaled.

Information Technology: In IT, we own a lot of software and internet businesses. Generally, these businesses are thriving. For example, **Wix.com Ltd. (WIX**), a leading provider of website design and hosting services, has seen an acceleration in its business. It's been less expensive to acquire new customers, easier to convert registered users to paying customers and so far, easier to retain customers. With our investments selling larger-dollar-value deals, we've observed some slowdown in the pace of business. Those deals aren't lost for good but are just being pushed out to later in the year. We think deal closure rates have really started to pick up in May and should improve over the remainder of the year. Many of our IT investments are focused on facilitating digital transformation. This is a theme we've talked about with customers and companies for three or four years now. We think that, pre-COVID-19, digital transformation was in the early adoption phase; post-COVID-19, we think that all businesses will be forced to adopt a digital-first strategy or risk becoming obsolete. So we think this bodes very well for demand for all of our IT investments.

Health Care: In Health Care, our companies are seeing consistent underlying demand since they provide critical supplies and devices to essential businesses. A few are benefiting from the global search for a COVID-19 vaccine. For example, with **West Pharmaceutical Services, Inc. (WST)** the world's leading provider of drug delivery devices, we saw accelerated growth pre-COVID-19 from long-term durable secular drivers. Now we think West is poised to be a critical supplier to all the pharmaceutical companies pursuing a COVID-19 vaccine, which could add billions of units annually.

Industrials: In Industrials, our largest position is **CoStar Group, Inc. (CSGP),** the leading provider of information and marketing services to the commercial real estate industry. We've seen a significant acceleration in CoStar's digital marketplace businesses. Customers are using more technology to advertise properties, conduct virtual tours, analyze pricing, and execute sales and leases. This has been partially upset by slower trends in its commercial real estate data licensing business. We think the company's revenue streams are extremely well-diversified, its contracts are extremely sticky, and its competitors are sub-scale, under-managed and undercapitalized.

The Fund has significant exposure to the Consumer Discretionary sector. How are you analyzing those businesses and why do you remain confident that they will be long-term winners given the uncertainty?

Ron Baron: Let me give you an example. **Penn National Gaming, Inc. (PENN)** is a regional casino company. Before the pandemic, it had revenues of $5 billion a year and $1.5 billion in EBITDA. The revenue went to zero when the pandemic hit and the economy shut down. But as a regional casino company, most of Penn Gaming's customers are local so when it re-opened its locations, people were standing in line to get inside. Because the company is a major source of tax revenue for the states in which it operates, these states will do anything to ensure they can re-open. In addition, Penn Gaming recently acquired online sports betting company Barstool Sports, which we believe is a multi-billion-dollar opportunity.

We have a view of what Penn Gaming and other travel and leisure businesses are worth. They're now selling at half price and we think they will double in value in the next two or three years.

Where are you finding new investment ideas?

Neal Rosenberg: Given the renewed focus on health care as a result of the pandemic, we're looking hard for ideas in that industry that meet our investment criteria. Most of our current Health Care investments are in devices and animal health, which are niche areas that offer compelling fundamentals and attractive investment opportunities.

Historically, we've shied away from biotech and pharma for a couple of reasons. First, most of the small-cap biotechs are pre-revenue and tend to have binary outcomes. They will have one product in development and either it will work and there'll be lots of equity value or it will fail and there'll be no equity value. We've also always struggled with evaluating competitive advantage for these businesses. As hard as it is to assess one therapeutic in development, it's even harder to know what competitors might be working on. Finally, we've always struggled with the need to reduce health care costs and have worried about the possibility of an unexpected price reduction of a key product.

However, we've started to find more ideas in Health Care that meet our investment criteria. We own a couple of small biotech positions. We invested in **Schrodinger, Inc. (SCHR.E)** when it was still a private company along with investors like Bill Gates and David E. Shaw. We added to our position the first quarter when it came public. Schrodinger is a hybrid software/biotechnology company that enables users to search for drugs on a computer rather than in the lab. We think it is well positioned to benefit from the increase in drug development research as a result of the pandemic.

More broadly, we think the search for a COVID vaccine is like this generation's Manhattan project. There's lots of money and innovation being poured into vaccine programs and novel therapeutics. We think the outcome won't only be a vaccine but a variety of leaps forward to scientific manufacturing, distribution, and regulatory practices. We're focusing on what these outcomes could be and which businesses could benefit.

We're also looking hard for more names in IT. We think more industries will adopt hybrids of in-office and work-from-home arrangements, so we're looking at companies that provide services, technology, or productivity tools to support a more geographically diverse, independent, and staggered workforce.

In terms of where we are not focused, while the Fund has owned traditional brick and mortar retailers in the past, we think many were already facing secular headwinds that will only be accelerated by the pandemic. We exclusively invest in growth businesses with a long-time horizon, and we won't compromise on quality just because a stock or an industry seems cheap at a moment in time.

Is the crisis creating investment opportunities for the Fund?

Ron Baron: We are seeing opportunities everywhere. I'll just give you one example. We've been investing in property and casualty insurer **Arch Capital Group Ltd (ACGL)** since 2002. The stock has increased 10 or 15 times since our initial investment. It fell from a high of about $48 on February 20 to about $22 on May 13 because investors were afraid that its mortgage insurance business would be subject to more defaults and face increased competition.

Home prices are increasing 5% to 6.5% a year. With the shortage of homes and historically low interest rates, we think it's unlikely prices are going down. Arch also has a big reserve. Arch's two largest competitors, AIG and Lloyd's of London, have left the market, which is also a positive for the company. The stock is now up to about $33, less than a month after it hit its recent low.

In such a volatile market, there's very little liquidity. That's why it's so important to be disciplined about what you want to own, the price you want to pay for it, and what you think is going to be worth in five or ten years. If we think we can double our money in five or six years and double it again in five or six years after that, that's an opportunity for us. And there are lots of these kinds of opportunities that the market creates every day.

Let's talk a little about Baron WealthBuilder Fund. This Fund allows investors to gain access to a variety of our compelling strategies in a single fund, logging the exposure across market caps, sectors, and geographies. Can you give a brief update on the Fund and how you've been navigating the current environment?

Ron Baron: Year-to-date through May 31, WealthBuilder is up 4.31%, compared to its benchmark, the S&P 500 Index, which is probably down about 4%–5%. So we're significantly outperforming the benchmark year to date.

The top four mutual funds in WealthBuilder, representing 57% of our Firm's assets under management, have produced about 60% of the Firm's profits. Among the other Funds in the portfolio, Baron Global Advantage Fund is up 20%, and Baron Opportunity Fund is up 17%–18% year-to-date.

Michael Baron: We haven't changed much around the WealthBuilder portfolio throughout the crisis. We took a bit of a tax loss and reallocated some incremental dollars to some of our sector funds because we liked some of the opportunities we were seeing coming out of the crisis. However, this is not atypical. We make incremental changes; we're not trying to make huge sector or region-based bets.

We created WealthBuilder because our clients were asking for it. People knew us, they liked us, they liked our returns, and they wanted to invest with us. But with 16 different funds, we were constantly being asked which funds we thought they should in invest in.

WealthBuilder allows investors to gain a broad exposure to the Baron Capital investment philosophy across different market caps, across different geographies and across different sectors. It's something that's worked out very well over the 2.5 years since we created the product, despite some challenging market conditions. In 2018, when we launched WealthBuilder, there were trade wars going on, the government was shut down, and we had rising interest rates. Obviously, today we are in the midst of the COVID-19 pandemic. Yet we have still been able to deliver annualized returns of 12.63% since inception.

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 Growth Fund's annualized returns for the Institutional Shares as of March 31, 2020: 1-year, -10.27%; 5-years, 5.67%; 10-years, 10.71%; Since Inception (12/31/1994), 12.19%. Annual expense ratio for the Institutional Shares as of September 30, 2019 was 1.04%. The **Russell 2000 Growth Index**'s annualized returns as of March 31, 2020: 1-year, -18.58%; 5-years, 1.70%; 10-years, 8.89%; Since Fund Inception (12/31/1994), 6.78%.

Baron WealthBuilder Fund's annualized returns for the Institutional Shares as of March 31, 2020: 1-year, -6.37%; Since Inception (12/29/2017), 1.83%. Annual expense ratio for the Institutional Shares as of December 31, 2019 was 1.33%, but the net annual expense ratio was 1.23% (includes acquired fund fees, net of the Adviser's fee waivers). The **S&P 500 Index**'s annualized returns as of March 31, 2020: 1-year, -6.98%; Since Fund Inception (12/29/2017), 0.48%.

Baron Opportunity Fund's annualized returns for the Institutional Shares as of March 31, 2020: 1-year, 8.11%; 5-years, 13.26%; 10-years, 13.00%; Since Inception (2/29/2000), 7.31%. Annual expense ratio for the

Institutional Shares as of September 30, 2019 was 1.09%. The **Russell 3000 Growth Index**'s annualized returns as of March 31, 2020: 1-year, -0.44%; 5-years, 9.74%; 10-years, 12.68%; Since Fund Inception (2/29/2000), 4.27%.

Baron Global Advantage Fund's annualized returns for the Institutional Shares as of March 31, 2020: 1-year,

6.49%; 5-years, 13.04%; Since Inception (4/30/2012), 13.38%. 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 March 31, 2020: 1-year, -11.26%; 5-years, 2.85%; Since Fund Inception (4/30/2012), 5.96%.

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, 2030, 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.

The **Baron Global Advantage Fund's** 1-, 3-, and 5-year and the **Baron Opportunity Fund's** 1-, 3-, 5-, and 10-year historical performance were impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

Risks: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. 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. Companies propelled by innovation, including technology advances and new business models, may present the risk of rapid change and product obsolescence, and their success may be difficult to predict for the long term. Even though the Funds are diversified, they may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Funds' returns.

There is no guarantee that the goals discussed in this material will be met.

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 total investments as of March 31, 2020 for securities mentioned are as follows: Schrodinger, Inc. – 0.7%; **Wix.com Ltd.** – 0.6%; **Marriott Vacations Worldwide Corp. - 1.6%; Penn National Gaming, Inc. - 1.3%; Morningstar, Inc. - 2.4%; West Pharmaceutical Services, Inc. – 1.5%.**

Baron Growth Fund Top 10 holdings as of March 31, 2020

Holding	% Holding
MSCI, Inc.	9.5
CoStar Group, Inc.	8.0
ANSYS, Inc.	6.4
FactSet Research Systems, Inc.	6.0

Vail Resorts, Inc.	5.5
Arch Capital Group Ltd.	5.0
IDEXX Laboratories, Inc.	4.5
Iridium Communications Inc.	3.6
Gartner, Inc.	3.4
Choice Hotels International, Inc.	3.4
Total	55.3

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

Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth. **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. **MSCI ACWI Index** measures the equity market performance of large and midcap securities across developed and emerging markets, including the United States. **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 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.

Beta measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **Downside Capture** measures how well a fund performs in time periods where the benchmark's returns are less than zero. **Upside Capture** explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a limited purpose broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).