



## Alex Umansky: Big Ideas for Long-Term Growth

This is an edited version of a January 31, 2023, webinar with Portfolio Manager Alex Umansky of Baron Global Advantage Fund, Baron Fifth Avenue Growth Fund, and Baron Durable Advantage Fund. The webinar was joined by Guy Tartakovsky, assistant portfolio manager of Baron Global Advantage Fund. To access the video recording, please visit [our website](#).

### Executive Summary

- We use times of stress to increase positions in which we have greater conviction.
- Artificial Intelligence (AI) is one of our “Big Idea” themes. We believe AI will have an enormous impact in a variety of industries, and the global economy, over the next decade.
- We believe Tesla’s competitive advantage remains unchallenged and retain long-term conviction in this name.

*For those who may be unfamiliar, please describe the three Baron Funds that you manage.*

**Alex Umansky:** All Baron Funds share the same philosophy, core principles, and investment process. Each Fund applies these criteria to a different market segment. Long-term ownership and a growth mindset are fundamental to every strategy at Baron. We try to identify and invest in unique, high-quality businesses managed by talented people with good track records of successful capital allocation. Probably most importantly, we seek competitively advantaged businesses that we believe will be able to compound their intrinsic values for long periods of time.

Baron Global Advantage Fund and Baron Fifth Avenue Growth Fund are “Big Idea” Funds. The focus is on companies benefiting from or leading disruptive change, building platform businesses with power law distribution and network effects, and in the earlier stages of their growth life cycles. They are typically creators, disruptors, or major beneficiaries of disruptive change in fast-growing industries, and businesses that we believe are likely to become significantly larger than they are today. These companies have high (and typically rising) returns on invested capital, spend years reinvesting their cash flow into the businesses, and, as a result, have little or no current earnings.

The difference between the two Funds is their investible universe.

- Baron Global Advantage Fund currently has about 55% of its portfolio invested outside the U.S., with about 22% in emerging markets; roughly 35% of the portfolio is invested in small-cap and 30% in mid-cap equities.
- Baron Fifth Avenue Growth Fund is about 80% U.S. large-cap equities and 20% foreign large-cap or U.S. mid-cap equities.

The two Funds typically have 40% to 50% overlap. Our highest-conviction U.S. large-cap companies may make up 20% to 25% of Baron Global Advantage Fund, while our highest-conviction large-cap ideas outside of the U.S. will make up about 20% of Baron Fifth Avenue Growth Fund.

Baron Durable Advantage Fund takes a different approach than the other two, with little to no overlap in their respective portfolios. The Fund is a home for high-quality, competitively advantaged businesses that can no longer reinvest all their free cash flow at high rates of return, and instead use their capital for dividends and share buybacks. These companies are typically more mature industry leaders with proven pricing power and leading market share and growth prospects in the high-single or low double-digit range. They are still

growth stocks, but more “growth at the right price” than “Big Ideas.” With this portfolio, we seek to outperform the S&P 500 Index over full market cycles with less risk of permanent loss of capital.

### *Please share the Funds' performances last year.*

**Alex Umansky:** Baron Durable Advantage Fund was down 24.8%, trailing behind its benchmark, the S&P 500 Index. The Fund was up by more than 32% in 2021, and up over 30% on average over the prior three years.

Baron Global Advantage Fund and Baron Fifth Avenue Growth Fund lost more than half of their net asset values in 2022, and that's hard to stomach, let alone explain. I don't want to call it a loss because we do not believe it will result in a permanent loss of capital, but we do mark to market and we have to own it.

Roughly 80% of Baron Global Advantage Fund's underperformance resulted from industry or style factors. For example, the Fund has owned **Meta Platforms, Inc.**, the parent company of Facebook, for almost 10 years. We decided to sell a sizable stake at the end of 2021, when the stock was near an all-time high, making it one of the most successful investments in the history of this strategy. We invested the proceeds from the sale of Meta into **Rivian Automotive, Inc.**, which went down 82%. In fact, half of the 20% of the Fund's underperformance due to stock picking is attributable to Rivian.

We made what looked like great sales in many different companies, such as **Opendoor Technologies, Inc.**, **SoFi Technologies, Inc.**, **RingCentral, Inc.**, and **Dynatrace Holdings LLC**. Even **Alphabet Inc.** (Google) and **Alibaba Group Holding Limited** were sold at much higher prices than where they ended the year. The problem is that we invested the proceeds in **Snowflake Inc.**, **NVIDIA Corporation**, and **Tesla, Inc.** which went down even more than the stocks that we sold. We zigged every time we should have zagged.

### *What would you have done differently?*

**Guy Tartakovsky:** We've looked at a few ways we could have done things differently in 2022. When we saw the market regime changing, one alternative was to put more money into proven mega-cap stocks like Alphabet, Meta, and **Amazon.com, Inc.** In 2022, they all came down between 40% and 64%, which would have hurt our performance in the end.

We looked at companies that are further along the unit economics maturity curve with significant free cash flow margins in the 20% to 40% range. These are companies like **CrowdStrike, Inc.**, a cloud cybersecurity leader, **Endava plc**, an enabler of digital transformation, and **Datadog, Inc.**, the cloud observability platform. These companies were down between 49% and 59%, so that wouldn't have helped either.

The last bucket we looked at was companies that were significantly cheaper yet slightly lower quality. These are companies that we view as less “Big Idea” but more “90% the quality for half the price.” This group was also a mixed bag. Companies such as **InPost S.A.** and **Afya Limited** were actually two of our top five contributors for the year, but we also had companies like **Taboola.com Ltd.**, which dropped from 12x EBITDA to 4x EBITDA in 2022.

In the end, we determined the only thing that would have helped is a much more aggressive thought process or change of style, which is a very different discussion that has a lot of risks and downside associated with it.

### *Would you consider Baron Global Advantage Fund a buying opportunity?*

**Alex Umansky:** For the long-term investor, absolutely. When you think probabilistically, as we try to do with all our investments, there is a range of outcomes. Most outcomes put us significantly higher five years from now than where we are today. From a historical perspective, every bear market, correction, and pullback of this magnitude has proven to be good entry points some years down the road. The question is, how long is it going to take? Buying something for half the price of what it was 12 months ago is a good proposition, assuming that you have the right time horizon.

### *Have you made any material changes in terms of portfolio positioning?*

**Alex Umansky:** We don't position our Funds for any particular market environment. We're not positioned for

a recession, a soft landing, or a V-shaped recovery. We're not betting on 5% interest rates or a 25 basis point hike or rate cuts in the second half of the year. That is just not what we do. We own Endava because we see digital transformation as a multi-decade shift, and this company is well positioned to benefit from that shift. We own NVIDIA because we think the future of AI is now and the company is at the epicenter of the AI revolution. We own CrowdStrike because we think cybersecurity will remain a top priority for every government and enterprise out there. We own **ASML Holding N.V.** because it has a monopoly in extreme ultraviolet photolithography, and you can't manufacture next-generation semiconductor chips without that. We're happy to own these businesses at much lower prices than they were at the beginning of 2022.

**Guy Tartakovsky:** We use times of stress to increase positions in which we have greater conviction. The number of names we own has come down, and the proportion of the Funds' top 10 and top 20 holdings has increased. These are industry leaders with low leverage. Since customers tend to consolidate spend with their best suppliers in times like this, we believe these businesses can gain market share.

We also do projections for five and even 10 years down the road. Will the opportunities, or the endgame, for these businesses materially change? For many of these businesses, we think the answer is no. It may take one or two more years to get there now, because no business is immune from an economic slowdown, but we are confident these companies will emerge stronger and with larger market share. They continue to innovate, grow their addressable markets, and benefit from power law distribution and competitive advantages. By owning what we consider some of the best businesses in the world in a more concentrated fashion, we think our portfolios are well positioned for the long term.

#### ***What is one "Big Idea" that currently inspires you?***

**Guy Tartakovsky:** A great example is AI.

In 1979, a paper called Neocognitron enabled the recognition of digits and other patterns and served as the inspiration for convolutional neural networks. AlexNet, which is basic image recognition, came out in 2012, or 32 years later. AlexNet is considered the "Big Bang" of AI. That same year, NVIDIA developed graphic processing units, which were initially only used in gaming. Last year, just a decade later, **OpenAI** released ChatGPT. It reached one million users in just five days.

ChatGPT is an AI large language model. It is extremely advanced. It can help a person write an essay or a programmer write complex programming languages. Its sophistication and rapid, broad adoption exemplify the exponential growth we are seeing in AI. The "Big Idea" is that AI will have an enormous impact across an array of industries and the global economy over the next decade.

In addition to NVIDIA, several names we own will benefit from these rapid advances in and adoption of AI. Tesla comes to mind with its autonomous driving software. We also invest in companies that benefit from and enable the growth in the use of big data, such as Snowflake, CrowdStrike, and **Cloudflare, Inc.**

#### ***Tesla, as you mentioned, had a tough quarter. Do you still maintain long-term conviction?***

**Alex Umansky:** Tesla is most certainly a "Big Idea" company. It has significant leadership in electric autonomous mobility -- a multi-trillion-dollar industry -- and its opportunity is larger than any other company that addresses that space. We think the entire transportation industry will shift to electric power, which we believe is the winning technology. We think it will also go autonomous. We believe Tesla's competitive advantage is unchallenged, and we remain invested.

#### ***Could you comment on what happened with Rivian? Do you maintain conviction?***

**Alex Umansky:** We've owned Rivian as a private stock, almost two years before the company went public. It went public at the absolute peak of the cycle.

In hindsight, I think I got a little too excited. I missed Tesla's big turnaround in 2020 and 2021, and I was eager to apply my pattern recognition to another company that was, in many ways, following Tesla's blueprint. After doing our due diligence and visiting the company, I was absolutely enamored with the CEO. I think I

became too emotional and wanted to get as much as I could of what I perceived to be a scarce commodity. Many other market participants did the same. The market became overheated. The IPO price was raised 25%, so the purchase price ended up being significantly higher than what we thought it was going to be.

Rivian is where Tesla was four or five years ago. It is at a much earlier stage of its lifecycle. During times of uncertainty and stress, companies in the early stages are often disproportionately affected. We still believe that it's the right company, the right product, the right management team, despite all kinds of mistakes. Yes, it is going to be burning cash for a while – it's building out plants and spending a lot on capital expenditures, but its product is unique. We have not lost conviction in Rivian.

***What are your thoughts about fast-growing companies like Snowflake, Datadog, CrowdStrike and others turning on the profitability engine?***

**Alex Umansky:** Each of those companies have demonstrated the ability to be profitable. We think this is similar to what we saw with Amazon 20 years ago. These companies are addressing very large, fast-growing markets. They aren't showing high profitability because management is reinvesting in the businesses at high, typically rising, rates of return. These companies do not need access to capital markets. They do not need to raise cash; they are not burning cash. It's a balancing act between growth and profitability.

Amazon announced in late 2022 that it was planning to lay off 10,000 people. On the day the announcement was made, the stock dropped 5%. The takeaway was that business was slowing, and Amazon's regime was ending. In January, just a few weeks later, it came out that 18,000 people were laid off rather than 10,000. Amazon's stock went up 4.5%. This time, the markets viewed the layoffs as a positive because it will help boost short-term profitability. Any long-term investor should take a step back and realize that Amazon has 1.55 million employees. I don't think Amazon intended to send a message. It's required to disclose a layoff of that size, and that's all that it was. But the market responded very differently to essentially the same news. The stock underperformed in December, now it's up in January. Nothing has changed.

***Can you speak on how you manage risk in the portfolios?***

**Alex Umansky:** We define risk as the possibility of a permanent loss of capital. We do not equate short-term volatility with risk. In fact, we don't believe anyone can manage for short-term volatility and add meaningful alpha to long-term returns. Being long-only, unlevered mutual funds, we don't have many tools in our bag. We're not allowed to short; it's not our skillset. We don't make market calls or sector rotations. We could try. But we think all these tactics are very difficult to do well on a consistent basis, because you have to get the timing right on both ends. The bottom line is that is not who we are.

We prefer to guard against over-diversification. We think maintaining high active share is the best way to avoid diluting returns and increase the opportunity to generate alpha over full market cycles.

Our process is time-tested and has generated significant alpha over full market cycles. It may be difficult to trust our process after a year like 2022, but these downturns do come around every now and then. We have stayed the course in the past, and it has always worked out. We concentrate our holdings in downturns because we want to give our highest-conviction ideas a lot of weight. When we're right, our investors get the full benefit of our research, our process, and our conviction.

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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](http://www.BaronFunds.com). Please read them carefully before investing.*

**Baron Durable Advantage Fund's** annualized returns for the Institutional Shares as of December 31, 2022: 1-year, -24.81%; 3-years, 6.14%; 5-years, 9.37%; Since Inception (12/29/2017), 9.37%. Annual expense ratio for the Institutional Shares as of September 30, 2022, was 1.10%, 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 December 31, 2022: 1-year, -18.11%; 3-years, 7.66%; 5-years, 9.42%; Since Fund Inception (12/29/2017), 9.42%.

**Baron Fifth Avenue Growth Fund's** annualized returns for the Institutional Shares as of December 31, 2022: 1-year, -50.49%; 5-years, 2.48%; 10-years, 9.39%; Since Inception (4/30/2004), 7.06%. Annual expense ratio for the Institutional Shares as of December 31, 2021, was 0.76%, 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 December 31, 2022: 1-year, -29.14%; 5-years, 10.96%; 10-years, 14.10%; Since Fund Inception (4/30/2004), 10.05%. The **S&P 500 Index's** annualized returns as of December 31, 2022: 1-year, -18.11%; 5-years, 9.42%; 10-year, 12.56%; Since Fund Inception (4/30/2004), 9.04%.

**Baron Global Advantage Fund's** annualized returns for the Institutional Shares as of December 31, 2022: 1-year, -51.57%; 5-years, 4.21%; 10-year, 9.43%; Since Inception (4/30/2012), 9.23%. Annual expense ratio for the Institutional Shares as of September 30, 2022, was 0.90%. **MSCI ACWI Index** annualized returns as of December 31, 2022: 1-year, -18.36%; 5-years, 5.23%; 10-year, 7.98%; Since Fund Inception (4/30/2012), 7.95%. **MSCI ACWI Growth Index** annualized returns as of December 31, 2022: 1-year, -28.61%; 5-years, 6.37%; 10-year, 9.20%; Since Fund Inception (4/30/2012), 8.95%.

*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 Fund expenses pursuant to a contract expiring on August 29, 2033, 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](http://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 Fifth Avenue Growth Fund's** 3-, 5- and 10-year and **Baron Global Advantage Fund's** 3-, 5- and 10-year historical performance were impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Funds' level of participation in IPOs will be the same in the future.

#### **Risks:**

**Baron Durable Advantage Fund** invests primarily in equity securities, which are subject to price fluctuations in the stock market. In addition, because the Fund invests primarily in large-cap company securities, it may underperform other funds during periods when the Fund's securities are out of favor.

**Baron Fifth Avenue Growth Fund** invests primarily in equity securities, which are subject to price fluctuations in the stock market. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

**Baron Global Advantage Fund** invests in growth stocks that 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 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 December 31, 2022 for securities mentioned are as follows:** **Meta Platforms, Inc.** – Baron Durable Advantage Fund 5.0%, Baron Fifth Avenue Growth Fund 2.5%; **Rivian Automotive, Inc.** – Baron Fifth Avenue Growth Fund 1.6%, Baron Global Advantage Fund 1.6%; **NVIDIA Corporation** – Baron Durable Advantage Fund 3.5%, Baron Fifth Avenue Growth Fund 5.5%, Baron Global Advantage Fund 2.8%; **Snowflake Inc.** – Baron Fifth Avenue Growth Fund 5.7%, Baron Global Advantage Fund 4.5%; **Alphabet Inc.** - Baron Durable Advantage Fund 3.4%; **Tesla Inc.** – Baron Fifth Avenue Growth Fund 3.0%, Baron Global Advantage Fund 1.9%; **Amazon.com Inc.** - Baron Durable Advantage Fund 4.8%, Baron Fifth Avenue Growth Fund 7.3%; **CrowdStrike Holdings, Inc.** – Baron Fifth Avenue Growth Fund 3.7%, Baron Global Advantage Fund 3.8%; **Datadog, Inc.** – Baron Fifth Avenue Growth Fund 4.2%, Baron Global Advantage Fund 3.4%; **InPost S.A.** – Baron Global Advantage Fund 1.9%; **Taboola.com Ltd.** – Baron Global Advantage Fund 1.1%; **ASML Holding N.V.** – Baron Fifth Avenue Growth Fund 3.7%, Baron Global Advantage Fund 2.7%; **Afya Ltd.** – Baron Global Advantage Fund 2.3%; **Cloudflare, Inc.** – Baron Fifth Avenue Growth Fund 2.2%, Baron Global Advantage Fund 2.2%.

None of the Funds owned securities in **Opendoor Technologies, Inc, SoFi Technologies, Inc., RingCentral, Inc., Dynatrac Holdings LLC, or Alibaba Group Holding Limited** as of December 31, 2022.

#### Baron Durable Advantage Fund Top 10 holdings as of December 31, 2022

Holding	% Assets
Microsoft Corporation	8.3
Meta Platforms, Inc.	5.0
Arch Capital Group, Ltd.	4.9
Visa, Inc.	4.9
UnitedHealth Group Incorporated	4.8
Amazon.com, Inc.	4.9
Accenture plc	4.7
Danaher Corporation	4.2
Mastercard Corporation	4.1
Intuit Inc	4.1
Total	49.9

#### Baron Fifth Avenue Growth Fund Top 10 holdings as of December 31, 2022

Holding	% Assets
Amazon, Inc.	7.3
Mastercard Incorporated	7.3
ServiceNow, Inc.	6.4
Intuitive Surgical, Inc.	5.9
Snowflake, Inc.	5.7
NVIDIA Corp.	5.5
argenx SE	4.4
Datadog, Inc.	4.2
Veeva Systems, Inc.	3.8
ASML Holding N.V.	3.7

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Total	54.3
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### Baron Global Advantage Fund Top 10 holdings as of December 31, 2022

Holding	% Assets
Endava plc	6.6
Think & Learn Private Limited	5.7
MercadoLibre, Inc.	5.6
Bajaj Financial Limited	4.9
argenx SE	4.6
Snowflake, Inc.	4.5
CrowdStrike Holdings, Inc.	3.8
Datadog, Inc.	3.4
Coupang, Inc.	3.4
Shopify, Inc.	3.3
Total	45.7

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

**Diversification** cannot guarantee a profit or protect against loss.

The **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth and the **S&P 500 Index** of 500 widely held large cap U.S. companies. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trade mark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. The **MSCI ACWI Index** is designed to measure the equity market performance of large and midcap securities across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The **MSCI ACWI Growth Index** is designed to measure the equity market performance of large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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