



## A Positive Outlook for the Health Care Sector

This is an edited version of a May 11, 2021 Q&A with Baron Health Care Fund Portfolio Manager Neal Kaufman and Assistant Portfolio Manager Josh Riegelhaupt. To access the full recording, please dial 800-633-8284, passcode #21993833.

### Key Discussion Points

#### Introduction

Fund performance

#### Q&A

- Factors playing into first quarter performance
- Implications of the pandemic-related acceleration of innovation within health care
- Baron Health Care Fund's distinctive approach to investing in health care
- Investment themes and commentary on specific stocks
- Sector outlook

### Introduction

Baron Health Care Fund is managed by Neal Kaufman, who joined Baron in 2005 and has 20 years of research experience. Assistant Portfolio Manager Josh Riegelhaupt, who has a Ph.D. in Genetics and Molecular Biology from Rockefeller University, joined Baron in 2014 and has 11 years of research experience. They are joined on this call by research analyst Caleb Huang, a member of Baron's five-person team covering the Health Care sector.

As of April 30, 2021, the Fund had a 5-star Overall Morningstar Rating™ and ranked in the top 3% for the 3-year period and the top 11% for the 1-year period. It has returned 27.53% annualized over the last three years, 57.26% over the last year, and 8.69% year-to-date, outperforming the Russell Health Care Index by 9.95% annualized over the last three years, 29.20% over the last year, and 2.31% year-to-date.

**Baron Health Care Fund Institutional Share Class is in the Morningstar Health Category. Morningstar calculates the Morningstar Health 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.**

**As of 4/30/2021, the Morningstar Ratings™ were based on the Morningstar Risk-Adjusted Return measures of 138 and 138 share classes for the 3-year and Overall periods, respectively. The Baron Health Care Fund received 5 and 5 stars, respectively. The Morningstar Ratings™ are for the Institutional Share Class only; other classes may have different performance characteristics.**

**As of 4/30/2021, the Morningstar Health Category consisted of 161 and 138 share classes for the 1- and 3-year/since inception periods.**

## **Q&A with Neal Kaufman, Josh Riegelhaupt, and Caleb Huang**

### ***What factors played into the performance of the Fund and the Health Care sector in the first quarter?***

**Neal Kaufman:** It's been a challenging start to the year for growth investors. The vaccine rollout and decline in COVID-19 cases has led to an expectation for a powerful economic recovery, fueling inflation concerns and the possibility of higher interest rates. This, in turn, led investors to rotate into cyclical stocks, in many cases low-quality stocks, and away from growth stocks, especially those with earnings and cash flows that are not expected to come until farther out in the future, such as biotechs. In this environment, we continued to focus on what we do best, conducting bottom-up analysis to invest in competitively advantaged businesses with large addressable markets driven by positive secular trends and great management teams.

We think the Health Care sector is in the early stages of a transformational period of innovation and are confident of the opportunities to generate good long-term returns. Many high-quality companies with strong fundamentals sold off during the recent rotation, providing investment opportunities.

### ***Josh, could you share your thoughts – from the perspective of a molecular biologist – on the innovation the last year has spurred within the health care industry?***

**Josh Riegelhaupt:** The pandemic has underscored the innovative capabilities of the biotech industry, something that I and the other members of the health care team have been aware of and monitoring over the past two decades. Last year, it was the remarkably quick development of effective vaccines against COVID-19 through the novel use of mRNA technology that generated headlines.

Looking ahead, medical experts think seasonal flu vaccination will migrate to mRNA-based formats. The current development process for the flu vaccine usually starts six to nine months before the flu season in one hemisphere, based on the most common variant found in the opposing hemisphere. Meanwhile the flu is still mutating. mRNA solves this issue by shortening the timeline to just two months. The goal is to shift effectiveness from 20% to 70% historically to 60% to 90%.

mRNA vaccines also offer the ability to quickly address variants of COVID-19 as well as something called multivalency, where a virus uses more than one protein. The mRNA format worked well against COVID-19, but that is just a single protein. Moderna is testing a six-protein vaccine against cytomegalovirus, which would protect against disabling birth defects. mRNA is also being explored with respect to HIV.

Elsewhere in biotech and health care, innovation, while not squarely in the limelight, is still breathtaking in scope. Third or fourth generation antibody technology; gene therapy, editing, and sequencing; protein sequencing; bacterial fermentation to make materials -- the list goes on.

### ***What sets Baron apart from other investors in the Health Care sector?***

**Neal Kaufman:** Like other Baron Funds, we invest in competitively advantaged growth companies for the long term with open-ended secular growth opportunities and strong management teams. We focus on businesses that solve problems in health care, whether by reducing costs, enhancing efficiency, or improving patient outcomes.

Baron's reputation as long-term, bottom-up investors is a plus with company management and grants us access. We also have access to IPOs and private companies close to going public, allowing us to monitor new trends. We hold fewer stocks – 50 to 60 – than average, with our top 10 holdings typically about 40% of assets, reflecting our high-conviction approach. The Fund has higher growth, smaller market cap companies than our benchmark.

To ensure diversification and manage potential risks, we loosely group the portfolio into three categories: earnings compounders, high growth companies, and biotechnology companies. Earnings compounders are companies we believe can compound earnings at double-digit rates over the long term. We think of high-growth companies as able to generate mid-teens or better revenue growth. While they may not be profitable today, we believe they can be highly profitable in the future. Our allocations among these three categories can change depending upon our view of the opportunity set and the market environment.

### *What are some themes you're invested in?*

**Neal Kaufman:** We are invested in a number of themes; I'll touch on two of them here.

**Genomics and Proteomics:** We have a long-standing investment in Illumina, Inc., the leader in DNA sequencing technology. Applications are rapidly expanding into cancer diagnosis and treatment, diagnosis of rare genetic diseases, non-invasive pre-natal testing, population genomics, and now COVID-19 surveillance. We also have investments in genomics applications companies such as Guardant Health, Inc., which offers blood tests for cancer therapy selection and cancer recurrence monitoring and is developing a test for early detection of colon cancer. Recently, we added two stocks in the emerging proteomics space: Seer, Inc. and Olink Holding AB., and we expect to increase our investments in the area.

**Technology-Enabled Drug Development:** We have investments in companies that use technology to help speed drug development and improve efficiencies, such as Schrodinger, Inc. which offers a physics-based computational platform for drug discovery, enabling scientists to discover high-quality, novel molecules more rapidly, at lower cost, and with a higher likelihood of success.

### *While some biotech names faced pressure in the first quarter, Beam Therapeutics Inc. stands out as one you're excited about. What makes this a special story?*

**Josh Riegelhaupt:** Beam does genome editing, which involves trying to alter specific DNA letters to correct mutations that lead to disease using an engineered enzyme called a deaminase, which is capable of changing a single letter in your genetic code, in contrast to the popular genome editing called CRISPR, which creates breaks in your DNA to make edits. The oversimplified analogy is a pencil eraser versus scissors. We find the former more elegant and likely more applicable to a wider range of genome editing projects. In the genome editing space, we are actually more focused on the risk of off target edits and delivery. Delivery will likely involve lipid nano particles, the same carrier system used for the mRNA vaccines for COVID-19.

### *You added to ICON Plc and Bio-Techne Corporation in the first quarter. What makes these companies appealing?*

**Neal Kaufman:** ICON is a leading contract research organization ("CRO"), providing outsourced drug and device development and commercialization services to bio-pharm, medical device, government, and public health organizations. During the quarter, ICON announced an agreement to acquire rival PRA Health Sciences, Inc. Shares fell on investor concerns around integration risks and potential customer losses as well as an increase in leverage on the balance sheet. We bought on the dip as we see significant upside in the stock price over a multi-year period.

Bio-Techne has a growing base business selling proteins and antibodies to academic and bio-pharm researchers. It has multiple additional growth drivers, including an automated protein analysis business, an exosome-based liquid biopsy diagnostics platform, and a portfolio of products used in cell and gene therapies. Revenue growth has accelerated, operating margins are in the mid-to-high 30% range with the potential to exceed 40%, and the business generates strong free cash flow that could be used for bolt-on acquisitions or share repurchases. We think Bio-Techne is just scratching the surface of its opportunity and see a long runway for profitable growth.

### **Olink Holding AB and CryoPort, Inc. were both strong performers earlier this year. What stands out about these two companies?**

**Neal Kaufman:** We often have a chance to meet with private companies exploring an IPO, which allows us to learn about new trends and conduct research before the IPO. I'll turn it over to Caleb to talk about Olink and CryoPort.

**Caleb Huang:** Olink offers a unique and differentiated platform in the emerging proteomics space. Its assays effectively bring highly multiplexed protein detection into the realm of genomics by utilizing dual antibodies that generate a DNA barcode to be read out on accessible genomics instruments. Our diligence convinced us that the platform has a best-in-class combination of sensitivity/specificity, dynamic range, multiplexing, and throughput. Beyond research use, we see potential for Olink to be a leading supplier of high-value proteomic information for next-generation clinical diagnostics.

CryoPort provides cryogenic shipping solutions, or transport at extremely low temperatures, to preserve high value biological samples like cell and gene therapies. The company is a good "picks and shovels" play for the cell and gene therapy space as a whole and offers exposure without the binary risk associated with any one particular drug succeeding or not. We see significant upside over a multi-year timeframe as the deep pipeline of clinical trials being supported is converted into high volume commercial shipments globally.

### **What is your outlook for the Health Care sector, both near- and long-term?**

**Neal Kaufman:** Despite ongoing uncertainties about the COVID-19 pandemic and potential changes in health care policy, trends are positive. Biotechnology funding and new drug approvals are both on a record pace so far this year. The Biden administration proposed a significant budget increase for the National Institutes of Health, which would be positive for life sciences research if enacted. We think medical device companies and health care services companies are starting to see a return to more normalized procedure volumes.

We remain optimistic about the long-term growth prospects for the Health Care sector and our holdings. We believe the companies in which the Fund invests are unique, competitively advantaged, well-managed growth companies, and we continue to work hard to identify new ideas that meet our investment criteria.

---

*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 Health Care Fund's** annualized returns for the Institutional Shares as of March 31, 2021: 1-year, 63.93%; Since Inception (4/30/2018), 25.06%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 1.45%, but the net annual expense ratio was 0.85% (net of the Adviser's fee waivers). The **Russell 3000 Health Care Index's** annualized returns as of March 31, 2021: 1-year, 39.92%; Since Fund Inception (4/30/2018), 16.49%.

*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](http://www.BaronFunds.com) or call 1-800-99BARON.*

**Risks:** In addition to general market conditions, the value of the Fund will be affected by investments in health care companies which are subject to a number of risks, including the adverse impact of legislative actions and

government regulations. The Fund is non-diversified, which means it may have a greater percentage of its assets in a single issuer than a diversified fund. The Fund invests in small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

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 March 31, 2021 for securities mentioned are as follows:**

**illumina, Inc. – 0.9%; Seer, Inc. – 0.2%; Olink Holding AB - 0.9%; Beam Therapeutics Inc. – 0.4%; ICON Plc – 4.2%; Bio-Techne Corporation – 3.8%; CryoPort, Inc. – 0.9%.**

**Top 10 holdings as of March 31, 2021**

Holding	% Assets
UnitedHealth Group Incorporated	6.5
ICON Plc	4.2
Thermo Fisher Scientific Inc.	4.0
Abbott Laboratories	3.9
Bio-Techne Corporation	3.8
Humana Inc.	3.5
BridgeBio Pharma, Inc.	3.2
Accelaron Pharma Inc.	3.2
argenx SE	3.0
Teleflex Incorporated	2.9
Total	38.2

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

The **Russell 3000® Health Care Index** is an unmanaged index representative of companies involved in medical services or health care in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies as determined by total market capitalization. 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 index and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The index performance is not Fund performance; one cannot invest directly into an index.

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

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).