

2023's Best-Performing U.S. Stock Funds

Fueled by the 'Magnificent Seven' stocks, growth funds take the lead.

Dec 21, 2023 | by Katherine Lynch

When it comes to the top-performing funds for 2023, investors can just about take the ranks of 2022's best and worst performers and flip the lists.

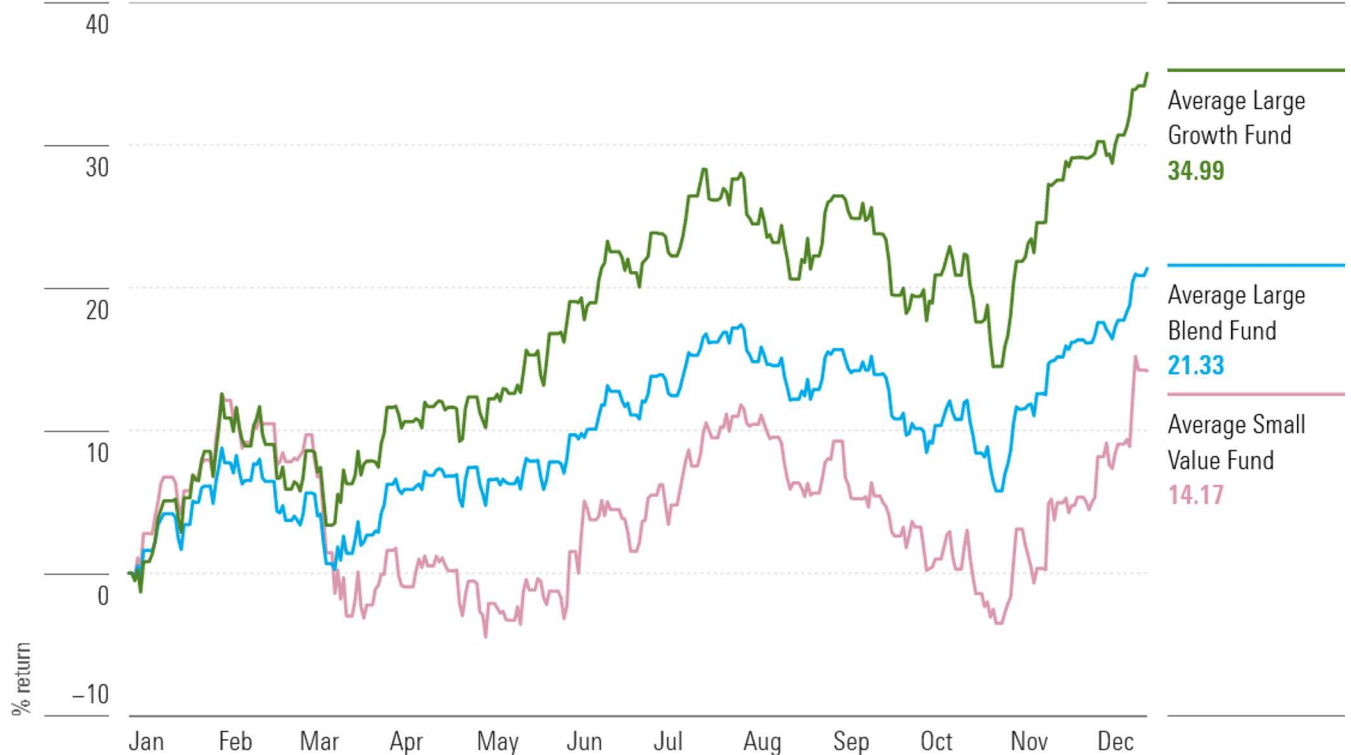
In 2023, growth-stock funds reclaimed their top-performing ways, having been bloodied during the 2022 bear market. Some of the best-performing growth stock funds are finishing 2023 with gains of more than 50% thanks in large part due to big holdings from among the "Magnificent Seven" names that posted huge gains earlier this year.

Among 2023's best-performing funds: Baron Fifth Avenue Growth BFTIX, up 57.9%, and Fidelity Blue Chip Growth ETF FBCG, up 57.2%. Gains in both funds were fueled by the massive rally in Nvidia NVDA, which surged 230% this year.

Meanwhile, value funds—especially small value—flipped to worst from best.

Over longer periods, the story is mixed. For the past three years, value funds led growth. Zooming out over five years, growth funds hold an advantage.

2023 Performance



Data as of Dec 18, 2023. Source: Morningstar Direct.

Tech-Stocks Fuel Growth Fund Rebound

Heading into 2023, the outlook for stocks was dim, with investors focused on the Federal Reserve’s ongoing interest-rate hikes, high inflation, and the possibility of recession. But as the year went on, investor sentiment turned increasingly positive as inflation came down, the economy remained healthy, and it appeared that the Fed could end its rate hikes. At the same time, tech-focused growth stocks were given a boost in the spring after Nvidia reported blowout earnings fueled by a growing boom in artificial intelligence.

This year, the average large-growth fund is up 35% through Dec. 18, while the average large-blend fund is up 21.3%.

2023’s Best-Performing Stock Funds

For this article, we screened for mutual funds and exchange-traded funds that carry Morningstar Medalist Ratings of Bronze, Silver, or Gold. We ranked performance using the lowest-cost share class of each fund.

While growth funds overall thrived in 2023, Baron Fifth Avenue Growth is closing out the year well ahead of the pack. It’s beaten the average large-growth fund’s 35% gain by almost 23 percentage points, with a 58% gain through Dec. 18.

More than half of the portfolio is dedicated to technology stocks, which, on average, are up 68% this year. Specifically, the fund’s large concentration in Nvidia, which composes 9% of the fund, and Amazon.com AMZN, an 8% weight, have powered the fund. Amazon is up 83.4% through Dec. 18.

The \$984.6 million Fidelity Blue Chip Growth ETF has also seen its gain powered by Nvidia and Amazon, according to Morningstar Direct. Morningstar strategist Robby Greengold describes the fund as a “relatively volatile, aggressive-growth portfolio that thrives when growth stocks outperform but lags when value stocks are in favor.” He says, “A key driver of the strategy’s stellar results in 2023 was its hefty stake in semiconductors. It recently exceeded 15% of assets—a stake that exceeded all other large-growth open-end mutual funds and ETFs.”

2023 Best-Performing Stock Funds

Name	Ticker	Morningstar Category	Morningstar Medalist Rating	YTD Return %	YTD % Rank in Category
Baron Fifth Avenue Growth	BFTIX	Large Growth	Bronze	57.94	2
Fidelity Blue Chip Growth ETF	FBCG	Large Growth	Silver	57.23	2
Value Line Larger Companies Focused	VLLIX	Large Growth	Silver	57.13	2
Wisdomtree U.S. Quality Growth	QGRW	Large Growth	Silver	55.31	3
Invesco NASDAQ 100 ETF	QQQM	Large Growth	Bronze	54.00	4

Source: Morningstar Direct. Data as of Dec. 18, 2023.

Three-Year Best-Performing Stock Funds

Value funds' relatively strong performance during 2022's bear market has helped them maintain an advantage over growth funds over the past three years. For example, the \$3.5 billion Invesco Small Cap Value SMVSX was one of the few U.S. equity funds to squeak out a positive return last year. The fund's strong performance has carried into 2023. Invesco Small Cap Value is up 20.8% on an annualized basis over the past three years, the most among U.S. equity funds.

"Almost everything has gone right for this strategy, especially during the last three years," says Morningstar analyst Andrew Redden. Lead manager "Jonathan Edwards is willing to pile into and out of sectors based on macroeconomic trends—which have largely worked in his favor." These calls include an overweighting to energy in 2020 and underweightings in healthcare and regional banks, according to Redden."

Hotchkis & Wiley Small Cap Value HWSZX, with \$785.8 million under management, also ends up on the best-performers list over the past three years and was one 2022's top performers. It's up an average of 18.3% over the past three years.

Three-Year Best-Performing Stock Funds

Name	Ticker	Morningstar Category	Morningstar Medalist Rating	3-Year Return %	3-Year % Rank in Category
Invesco Small Cap Value	SMVSX	Small Value	Bronze	20.78	1
Bridgeway Small Cap Value	BRSVX	Small Value	Bronze	20.26	2
Hotchkis & Wiley Mid-Cap Value	HWMZX	Mid-Cap Value	Bronze	20.16	1
Aegis Value	AVALX	Small Value	Silver	18.99	3
Hotchkis & Wiley Small Cap Value	HWSZX	Small Value	Bronze	18.30	3

Source: Morningstar Direct. Data as of Dec. 18, 2023.

Five-Year Best-Performing Stock Funds

Despite the beating that growth funds took in 2022, their strong performance this year and in 2021 help many of their names lead the pack over the last five years.

At the top of the list is the \$1.2 billion Baron Focused Growth BFGUX. Baron Focused Growth holds a large allocation to Tesla TSLA—currently north of 13%—that has propelled the fund to a 25.3% on an annualized gain over the past years. Meanwhile, the average mid-cap growth fund is up 12.5% per year in the same period.

The \$51 billion Fidelity Growth Company FGCKX also makes the list of top performers. The fund is 22.2% per year, while the average large-growth fund is up 15.9% per year. “The strategy has become increasingly defined by its top holding, Nvidia,” writes strategist Robby Greengold.

Five-Year Best-Performing Stock Funds

Name	Ticker	Morningstar Category	Morningstar Medalist Rating	5-Year Return %	5-Year % Rank in Category
Baron Focused Growth	BFGUX	Mid-Cap Value	Gold	25.29	1
Needham Aggressive Growth	NEAIX	Small Value	Gold	24.54	1
Fidelity Growth Company	FGCKX	Large Growth	Gold	22.15	1
Victory Nasdaq 100 Index	URNQX	Large Growth	Bronze	21.53	2
Fidelity Blue Chip Growth K6	FBCGX	Large Growth	Bronze	21.25	3

Source: Morningstar Direct. Data as of Dec. 18, 2023.

This reprint has been provided to you by Baron Capital. Although the information has been obtained from sources believed to be reliable, Baron Capital does not guarantee its accuracy, completeness or fairness. Opinions and estimates are subject to change without notice. The information contained in this document is distributed for informational purposes only and should not be considered investment advice or recommendations of any security or Fund.

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 1-800-99-BARON or visiting baronfunds.com. Please read them carefully before investing.

Baron Fifth Avenue Growth Fund's annualized returns for the Institutional Shares as of December 31, 2023: 1-year, 57.58%; 5-year, 11.93%; 10-year, 11.04%. The gross annual expense ratio for the Institutional Shares as of September 30, 2023 was 0.78%, but the net expense ratio was 0.76% (net of reimbursements from the adviser).

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 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 or may reimburse certain Funds expenses pursuant to a contract expiring on August 29, 2034, unless renewed for another 11-year term and the Funds' 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.

The **Baron Fifth Avenue Growth Fund's** 3- and 5-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

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 **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. The Baron Focused Growth 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. As of the most recent quarter-end, about 11% of the Fund's net assets are invested in Tesla stock. Therefore, the Fund is exposed to the risk that were Tesla stock to lose significant value, which could happen rapidly, the Fund's performance would be adversely affected. 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.

For information pertaining to competitor funds, please refer to that firm's website.

Baron Fifth Avenue Growth Fund

Top 10 Holdings as of December 31, 2023

Holding Name	% of Net Assets
NVIDIA Corporation	10.1
Amazon.com, Inc.	8.1
ServiceNow, Inc.	7.1
Meta Platforms, Inc.	6.0
Shopify Inc.	5.9
Snowflake Inc.	5.0
Intuitive Surgical, Inc.	4.7
Tesla, Inc.	4.3
CrowdStrike Holdings, Inc.	4.2
MercadoLibre, Inc.	4.0
Total	59.4

Baron Focused Growth Fund

Top 10 Holdings as of December 31, 2023

Holding Name	% of Net Assets
Tesla, Inc.	11.4
Space Exploration Technologies Corp.	9.4
Arch Capital Group Ltd.	5.0
Hyatt Hotels Corporation	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

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

The **Morningstar Medalist Rating™** is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Investment products are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for Morningstar's conviction in those products' investment merits and determines the Medalist Rating they're assigned. Pillar ratings take the form of Low, Below Average, Average, Above Average, and High. Pillars may be evaluated via an analyst's qualitative assessment (either directly to a vehicle the analyst covers or indirectly when the pillar ratings of a covered vehicle are mapped to a related uncovered vehicle) or using algorithmic techniques. Vehicles are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a vehicle, they assign the three pillar ratings based on their qualitative assessment, subject to the oversight of the Analyst Rating Committee, and monitor and reevaluate them at least every 14 months. When the vehicles are covered either indirectly by analysts or by algorithm, the ratings are assigned monthly. For more detailed information about these ratings, including their methodology, please go to global.morningstar.com/managerdisclosures/.

The Morningstar Medalist Ratings are not statements of fact, nor are they credit or risk ratings. The Morningstar Medalist Rating (i) should not be used as the sole basis in evaluating an investment product, (ii) involves unknown risks and uncertainties which may cause expectations not to occur or to differ significantly from what was expected, (iii) are not guaranteed to be based on complete or accurate assumptions or models when determined algorithmically, (iv) involve the risk that the return target will not be met due to such things as unforeseen changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rates, exchange rate changes, and/or changes in political and social conditions, and (v) should not be considered an offer or solicitation to buy or sell the investment product. A change in the fundamental factors underlying the Morningstar Medalist Rating can mean that the rating is subsequently no longer accurate.

© 2024 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its affiliates or content providers; (2) may not be copied, adapted or distributed; (3) is not warranted to be accurate, complete or timely; and (4) does not constitute advice of any kind, whether investment, tax, legal or otherwise. User is solely responsible for ensuring that any use of this information complies with all laws, regulations and restrictions applicable to it. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

MORNINGSTAR IS NOT RESPONSIBLE FOR ANY DELETION, DAMAGE, LOSS OR FAILURE TO STORE ANY PRODUCT OUTPUT, COMPANY CONTENT OR OTHER CONTENT.

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