



Trojan Horse

Qihoo 360 Technology Co., Ltd., based in China, is the developer and marketer of a free suite of security software designed to protect both desktop and mobile users from an array of online threats. Among the vulnerabilities that it defends against is a Trojan horse, an insidious program that can steal information from a computer. That is a delightful irony, given that Qihoo's strategy is best described as a Trojan horse.

In a country where online users are particularly concerned with protecting themselves from hackers and unwanted visitors, Qihoo's security suite, including a secure web browser, has been extremely well received. The home page of its secure browser is configured to direct users to search,

video and social networking companies that have paid Qihoo for product placement. As the company's user base grows – it now numbers more than 300 million – Qihoo stands to grow its revenue from advertising and value-added services.

Qihoo went public in March, and we have since established positions in both Baron Emerging Markets Fund (2.0% of the portfolio as of 9/30/2011) and Baron International Growth Fund (1.2% as of 9/30/2011).

Unlike in the U.S., where online search, couponing, video and social networking are dominated by a small number of companies, China has a large number of companies competing in a fragmented market. Rather than try to engage in these markets directly, Qihoo wants to establish itself as the gatekeeper. A \$2 billion company today, assuming reasonable success in monetizing its subscriber base we think Qihoo can grow to \$5 billion in five years.

(Baron International Growth and Emerging Markets Funds invest primarily in non-U.S. growth companies. In this column, Portfolio Manager Michael Kass examines the companies, industries and events that he believes will influence the Funds in the months to come.) Current and future portfolio holdings are subject to risk. 🏠