



Alex Umansky and Guy Tartakovsky: Seizing global and large-cap growth opportunities

This is an edited version of an April 26, 2023, update with Alex Umansky, Portfolio Manager of Baron Global Advantage Fund, Baron Fifth Avenue Growth Fund, and Baron Durable Advantage Fund; and Guy Tartakovsky, Assistant Portfolio Manager of Baron Global Advantage Fund. To access the recording, please visit [our website](#).

Executive Summary

- Approximately 84% of the market's first quarter gains came from just seven mega-cap stocks. All three of our Funds own at least some of those stocks. This helped each Fund outperform its benchmark in the quarter.
- Artificial intelligence has become pervasive and, we believe, has potentially profound implications for business and the global economy. In our view, legacy businesses that are either unable or unwilling to invest meaningful amounts of money into their digital transformation will be left behind. A majority of our companies are migrating to the cloud, changing interfaces, and investing in business intelligence as a high priority.
- While we can argue that we're closer to the end of the Fed's tightening cycle, inflation is still running high, and the Fed is still tightening. We are being patient, careful in making any significant changes to the portfolio. We have high conviction in the names we own.
- We see opportunity for businesses in our Funds to use this downturn to their advantage. It is not only the strongest or the smartest that survive; it is those that are most adaptable to change. We think many of our companies exhibit these characteristics.

Introduction

Alex Umansky joined Baron in 2011 as a portfolio manager. He has 30 years of research experience. Guy Tartakovsky joined Baron as a research analyst in 2015 and was named assistant portfolio manager of Baron Global Advantage Fund in 2023.

Q&A with Alex Umansky and Guy Tartakovsky

Can you explain the differences among the three Funds?

Alex Umansky: Baron Global Advantage Fund is a global fund. It has the broadest mandate and the largest investible universe. We think of it as unconstrained equity, designed to represent our best ideas anywhere in the world. Baron Fifth Avenue Growth Fund is a subsection of that. U.S. large-cap stocks typically account for about 80% of the portfolio, with the other 20% invested in large-cap names outside

of the U.S. All are high-growth, high-optionality platform type businesses with network effects and large end games.

Baron Durable Advantage Fund invests in post high-growth businesses, with high free cash flow generation and a return of accessible capital to shareholders as either dividends or share buybacks. This Fund is exclusively large cap and meant to have lower volatility. It is benchmarked against the S&P 500 Index, a core benchmark, while the other two funds are benchmarked against growth indexes.

Explain the wide range of outcomes among the three Funds during the first quarter.

Alex Umansky: To quickly recap quarterly performance, Baron Durable Advantage Fund returned 16.04%, outperforming its benchmark by 854 basis points; Baron Fifth Avenue Fund gained 19.67%, beating its benchmark by 530 basis points; and Baron Global Advantage Fund advanced 9.41%, outperforming its benchmark by 210 basis points.

The difference, in our view, was related to market capitalization. Approximately 84% of the market's first quarter gains came from just seven U.S. mega-cap stocks: **Microsoft Corporation, Amazon.com, Inc., Apple, Inc., Alphabet Inc.** (Google), **Meta Platforms, Inc.** (Facebook), **NVIDIA Corporation**, and **Tesla, Inc.** All three Funds own at least some of those stocks, although not all (or enough) of them.

Baron Global Advantage Fund has a definite small-/mid-cap orientation. It has never owned Microsoft. We sold the Fund's stake in Apple several years ago and sold its stake in Meta at the end of 2021, just before it collapsed and lost over 60% of its value. We sold Alphabet at the end of last year. NVIDIA and Tesla are the only two mega-caps remaining in the portfolio. Almost half of the portfolio is invested outside the U.S., where markets did not do nearly as well.

Baron Fifth Avenue Growth Fund has owned Amazon, which is its second largest holding, since 2014. NVIDIA is the largest holding, Meta is around 5% of the portfolio, and Tesla is in the top 10. That explains much of the Fund's gain for the period.

Baron Durable Advantage Fund owned five of the seven top-performing mega-caps. Microsoft, Meta, and Amazon were the three top holdings; NVIDIA and Alphabet were not far behind.

What makes Baron Durable Advantage Fund unique?

Alex Umansky: This Fund is focused on more mature businesses. In an environment like we saw last year, when high-growth stocks are severely out of favor, one would expect this Fund to hold up better. It is definitely a growth fund, investing in well-managed businesses with distinct competitive advantages and current free cash flow yields.

I think Baron Durable Advantage Fund is entering the virtuous part of its life cycle. Last year, as it was going down less than many of its peers, it started to attract new capital. We used the inflows to purchase Meta, Microsoft, and NVIDIA at the end of 2022. In the first quarter of this year, Meta went up 76%, NVIDIA was up over 90%, and the Fund appeared in *The Wall Street Journal's* "Category Kings" as the third-best large-cap growth fund over the 12 months ended March 31, 2023.

Baron Fifth Avenue Growth Fund and Baron Global Advantage Fund invest in disruptive change. What is the biggest disruption you see today?

Guy Tartakovsky: Artificial intelligence (AI) has become pervasive and, we believe, has potentially profound implications for business and the global economy. It has been around for some time, most notably in the form of recommendation engines that suggest products on Amazon and content on Netflix or TikTok. It also drives image recognition and enables autonomous driving. More recently, we have seen a significant acceleration in the development of large language models (LLMs). These models enable an AI engine to understand language in context. It has a longer-term memory and can keep context in mind, allowing for follow-up questions and even discussion. Last fall, an LLM called ChatGPT

reached one million users in five days, and a hundred million users in two months. In comparison, it took TikTok nine months to reach a hundred million people, and two and a half years for Instagram. The pace of AI innovation has accelerated significantly over the last two years with performance, especially among LLMs, achieving an estimated 275 times improvement.

What are the implications for investors?

Guy Tartakovsky: Here are several broad points.

- **Productivity boost.** AI will have a significant role in helping developers move from code to content creation and helping marketing teams come up with personalized content. We think this is likely to be broad-based and is in its early days.
- **Increased importance of digitization.** Companies that are not digital or unable to take advantage of their data (the key ingredient for AI because models are trained with data) will be left behind. Companies will have to consider and prioritize digital transformation. We invest in businesses like **Endava plc**, **EPAM Systems, Inc.**, and **Accenture plc** that help companies do that.
- **The value of proprietary data.** Companies that generate unique data will be able to train models with unique perspective and insights. Those with proprietary data or a business model that helps generate proprietary data will be able to jumpstart what we call a virtuous AI cycle. If a company can generate and use data to train AI models that improve its product quality, the improved product will attract more customers, and the additional customers will contribute more data. Then the cycle repeats: more customers, more data, better model, better product.
- **The value of platform businesses.** In our view the opportunity for platform businesses to gain market share over the long term will increase because they will be able to get more customers, get more data, and offer better solutions. One example is a cybersecurity platform called **CrowdStrike Holdings, Inc.** The more data it acquires, the better its ability to catch hackers. The better it becomes at catching hackers, the more customers it should attract.

We have several investments connected to AI. NVIDIA is the largest. It builds the GPUs used to run AI models. **Snowflake Inc.** is a data platform used by companies to break down data silos and create data repositories for training AI. There are also “digital enablers” like Endava, EPAM, and Accenture.

How do you seek to avoid companies likely to be left behind?

Alex Umansky: In our view, legacy businesses either unable or unwilling to invest meaningful amounts of money into their digital transformation will be left behind. A majority of our companies tell us that migrating to the cloud, changing interfaces, and investing in business intelligence is a high priority. If or when we conclude a business is either unwilling or unable to do these things, we try to stay away.

How do you manage the current market volatility?

Alex Umansky: This investing environment is tricky. There's been no change in the status of COVID, the war in Ukraine, or tensions with China since the end of 2022. We can argue we're closer to the end of the Fed's tightening cycle, but inflation is still running high, and the Fed is still tightening. It's difficult to understand what is priced in, or what investor expectations are. The predictions were doom and gloom going into the first quarter. Every investor we spoke to -- buy side, sell side, financial advisors -- were telling us that they're nervous, they're not allocating money to equities, and certainly not to growth equities. Yet we saw a bounce back in the first quarter.

My view is that we have to be careful in making any significant changes and we have to be patient. We have to have a lot of conviction in the names that we own.

Walk us through your outlook for Endava and Tesla.

Alex Umansky: Within a couple of days of the regional banking crisis, Endava was down 20% because financial services is the largest vertical for the company's business. But banking and financial services are not the same thing. Approximately half of Endava's revenues come from financial services; banks account for 10%, and regional banks only about 2% of its business. Is it inconceivable the JP Morgans or even the fintech companies of the world will postpone their projects? Perhaps. The question becomes, "What do we do?" The Financials sector is a large part of the economy. If that sector is under pressure, companies may temporarily reprioritize their spending. Is it a thesis changer for us? Is it enough for us to lose confidence in this long-term digital transformation trend or the AI paradigm machine? No, it isn't. We don't think it changes anything, and we are highly confident this short-term change in its share price will not result in a permanent loss of capital. The intrinsic value of Endava hasn't changed even though its stock price went down. It is probably going to languish until the company reports and either resets expectations or confirms that it is not seeing any significant impact.

As for Tesla, there has been no change. Tesla has taken a different approach to the high inflationary environment. CEO Elon Musk has correctly pointed out that every interest rate hike is equivalent to a price hike on its cars. An overwhelming majority of car buyers finance their purchases. When rates go from 4% to 5%, monthly payments go from \$800 to \$1,000 a month. Tesla is the most profitable company in the industry. It makes the most money per car and has the lowest cost structure. Elon decided this is the right time to go for market share. He determined it makes sense to earn less money per car today and see what the competitors do. Since they can't compete on price, they will have to lose either revenue or market share. His decision resulted in multiple downgrades, and the stock sold off, but we believe Tesla's ability to eventually sell auxiliary services into its installed base will enhance margins and improve monetization when it becomes clear electric autonomous mobility is its place.

How do you maintain confidence when a company's performance languishes for a year?

Alex Umansky: In our view, the stock price over a short period of time (and we view 12 months as a short period of time) doesn't always reflect the full intrinsic value of the business. However, it's important to understand the sources of mispricing. We address this in our [1Q 2023 Baron Global Advantage Fund letter](#) in terms of saying that "buy and hold" doesn't work anymore; it's really "buy, hold, and verify."

We are increasing our efforts in seeking disconfirming evidence. When a stock languishes, and our thesis seems to be in question, we redouble our effort in talking, not to our companies' customers, but to their competitors' customers. I spend more time trying to find short reports than reading the reports of strong buy initiations. When someone downgrades a stock, we need to get that information quickly and try to understand the thesis and what we are missing. We normally do not buy weakness or sell strength. If a stock is languishing, it will naturally become a smaller weight in the portfolio. Unless we understand exactly what's going on, and we have confidence the market has it wrong, we're not going to increase our weight in that investment.

Given the difference in the U.S. and global markets, what is your outlook for Baron Global Advantage Fund?

Alex Umansky: There is a virtuous part of the cycle and there is a vicious part of the cycle. Baron Global Advantage Fund has gone through the vicious part of its cycle. The virtuous part was probably in 2018 and 2019. The Fund took a lot of money in 2020. It reaped accolades. Unfortunately, many of those investors did not reap the benefits of the strong performance in 2018 and 2019. They came in either at the top or close to the top. Then 2021 was disappointing, and 2022 was a disaster. The majority of investors, the ones that remained, retained their conviction in the stocks, the process, and us as the

stewards of their capital. I have no idea when it will turn around, but we haven't lost any conviction in the names we own.

I have most of my money invested in Baron Global Advantage Fund. I have not sold a share; I haven't lost conviction. I believe when we look back two, three, or five years from now, this will prove to have been a buying opportunity. My confidence comes from two things. First, we know every company, we understand the quality, we understand the opportunity, and we think these are big ideas. It's a matter of time. Second, there is no historical precedent of a massive bear market and a massive correction not proving to be a buying opportunity over time.

Guy Tartakovsky: In 2022, Baron Global Advantage Fund saw multiples contract by 57%. We expect the fundamentals of the companies we hold — earnings per share, free cash flow per share, EBITDA, or sales, depending on the company and how mature it is in its unit economics cycle — to grow by 20% or more over the next five years. If multiples remain stable from where they are today, this is our expectation for the portfolio as a whole. Some multiples could go down as a company's growth decelerates or it becomes more mature. For others, if multiples correct, they can go up.

We are focused on what drives the company's intrinsic value. Only a few factors do that. First, how big is the opportunity? How innovative is the company? Can it solve more problems for customers to take advantage of the opportunity? That implies how much market share it can capture over time. Second, how profitable will the company be over time? The last factor is the terminal growth rate.

In the near term, there will be pressure on businesses. Companies are delaying spend, and budgets are being cut. Historically, times of stress tend to be when platform businesses gain market share, because customers tend to consolidate spend on their most important vendors. When you marry that with the AI revolution, we think the current downturn can potentially be sowing the seeds for winner-take-most dynamics, enabling platforms to achieve higher market share to the benefit of their intrinsic values.

Having been through downturns before, what makes this time different?

Alex Umansky: All downturns have differences and similarities. They all have different causes. For the Great Financial Crisis, the issue was leverage and the free availability of credit allowing people to borrow with abandon. When the global pandemic hit in 2020, we thought we had learned from the dot-com bubble and the Great Financial Crisis, and we could protect investor capital better. In hindsight, I think one of the similarities we see is that all companies go into a crisis one way, but they come out of it different. The economy is different when it comes out of a big downturn.

We see an opportunity for a lot of our businesses to use this downturn to their advantage. It is not only the strongest or the smartest that survive; it is those that are most adaptable to change. We think many of our companies exhibit these characteristics.

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 Durable Advantage Fund's annualized returns for the Institutional Shares as of March 31, 2023: 1-year, (2.70)%; 3-year, 18.19%; 5-year, 12.38%; Since Inception (12/29/2017), 12.03%. 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 March 31, 2023: 1-year, (7.73)%; 3-year, 18.60%; 5-year, 11.19%; Since Fund Inception (12/29/2017), 10.47%.

Baron Fifth Avenue Growth Fund's annualized returns for the Institutional Shares as of March 31, 2023: 1-year, (24.99)%; 3-year, 3.16%; 5-year, 4.72%; 10-year, 10.85%; Since Inception (4/20/2004), 7.99%. Annual expense ratio for the Institutional Shares as of September 30, 2022, 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 March 31, 2023: 1-year, (10.90)%; 3-years, 18.58%; 5-years, 13.66%; 10-year, 14.59%; Since Fund Inception (4/20/2004), 10.69%.

The **S&P 500 Index's** annualized returns as of March 31, 2023: 1-year, (7.73)%; 3-year, 18.60%; 5-year, 11.19%; 10-year, 12.24%; Since Fund Inception (4/20/2004), 9.34%.

Baron Global Advantage Fund's annualized returns for the Institutional Shares as of March 31, 2023: 1-year, (31.39)%; 3-year, 1.27%; 5-year, 4.70%; 10-year, 10.19%; Since Inception (4/30/2012), 9.92%. Annual expense ratio for the Institutional Shares as of December 31, 2022, was 0.94%, but the net annual expense ratio was 0.91% (net of the Adviser's fee waivers).

The **MSCI ACWI Index's** annualized returns as of March 31, 2023: 1-year, (7.44)%; 3-year, 15.36%; 5-year, 6.93%; 10-year, 8.06%; Since Fund Inception (4/30/2012), 8.46%.

The **MSCI ACWI Growth Index's** annualized returns as of March 31, 2023: 1-year, (10.02)%; 3-year, 14.67%; 5-year, 9.01%; 10-year, 9.92%; Since Fund Inception (4/30/2012), 10.03%.

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 may reimburse certain Baron 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 or call 1-800-99BARON.

Risks:

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 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 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 March 31, 2023 for securities mentioned are as follows: Alphabet Inc. - Baron Durable Advantage Fund - 3.3%; **Tesla Inc.** – Baron Global Advantage Fund - 3.1%; **Endava plc** – Baron Fifth Avenue Growth Fund - 2.3%; **EPAM Systems Inc.** – Baron Fifth Avenue Growth Fund - 2.6%; Baron Global Advantage Fund - 1.9%.

None of the Funds held **Apple, Inc.** as of March 31, 2023.

Baron Durable Advantage Fund Top 10 holdings as of March 31, 2023

Holding	% Assets
Microsoft Corporation	9.1
Meta Platforms, Inc.	7.8
Amazon.com, Inc.	5.3
Visa, Inc.	4.5
Arch Capital Group, Ltd.	4.5
UnitedHealth Group Incorporated	4.4
Accenture plc	4.3
NVIDIA Corporation	3.9
Intuit Inc.	3.9
Monolith Power Systems, Inc.	3.8
Total	51.4

Baron Fifth Avenue Growth Fund Top 10 holdings as of March 31, 2023

Holding	% Assets
NVIDIA Corporation	7.7
Amazon.com, Inc.	7.4
ServiceNow, Inc.	6.3
Mastercard Incorporated	5.4
Snowflake, Inc.	5.0
Tesla, Inc.	4.9
Meta Platforms, Inc.	4.9
Intuitive Surgical, Inc.	4.7
Shopify Inc.	4.2
CrowdStrike Holdings, Inc.	3.9
Total	54.2

Baron Global Advantage Fund Top 10 holdings as of March 31, 2023

Holding	% Assets
MercadoLibre, Inc.	8.0
Endava plc	5.5
Think & Learn Private Limited	5.3
NVIDIA Corporation	5.1
CrowdStrike Holdings, Inc.	4.7
Snowflake, Inc.	4.6
Shopify, Inc.	4.3
Bajaj Financial Limited	3.6

Coupang, Inc.	3.5
Datadog, Inc.	3.2
Total	47.9

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 **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The **MSCI ACWI Growth Index** and the **MSCI ACWI Index** are unmanaged, free float-adjusted market capitalization weighted indexes. The **MSCI ACWI Growth Index** measures the performance of large, mid and small cap growth securities across developed and emerging markets, including the United States. The **MSCI ACWI Index** measures the equity market performance of large and midcap securities across developed and emerging markets, including the United States. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. MSCI is a trademark of Russell Investment Group. The **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. All rights in the FTSE Russell Index (the “Index”) vest in the relevant LSE Group company which owns the Index. Russell is a trademark 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 indexes and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. The index performance is not fund performance; one cannot invest directly into an index.

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