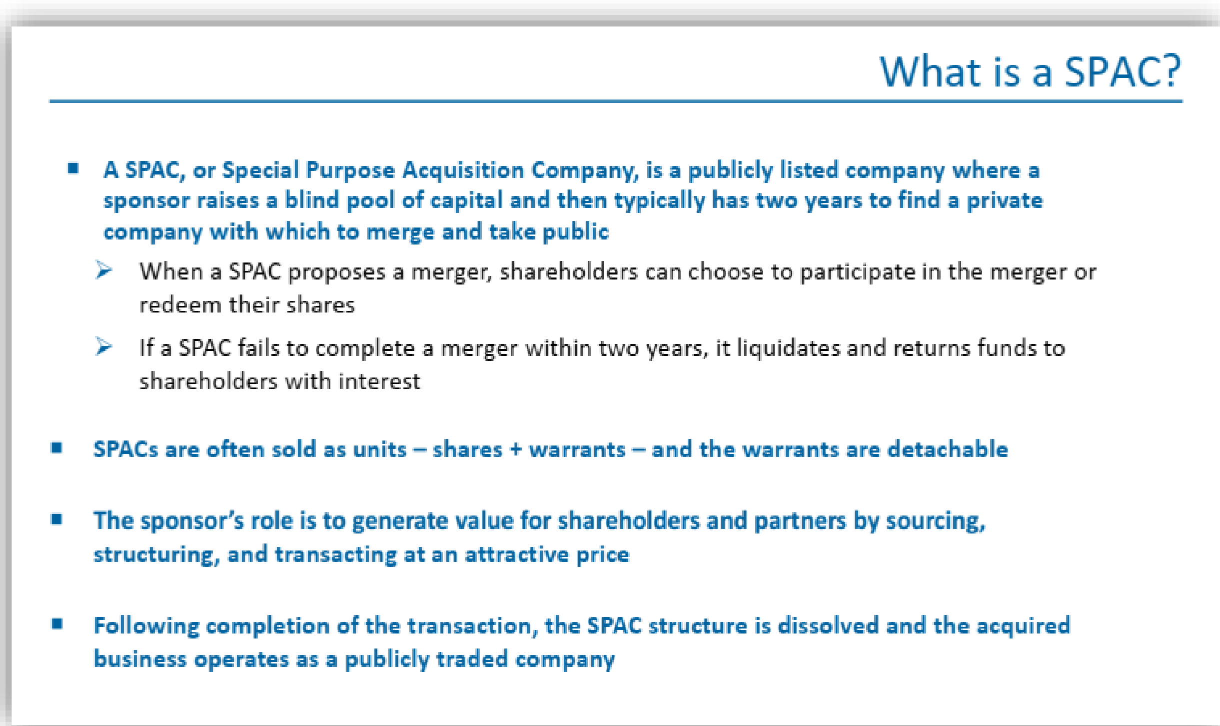
A Primer on SPACs

This is an edited version of a January 12, 2021 presentation by Cliff Greenberg and David Goldsmith, portfolio manager and assistant portfolio manager of Baron Small Cap Fund, on trends, risks, and benefits of this newly popular alternative to the traditional IPO. You can access the full recording, including the Q&A section addressing questions from listeners, here.

The presentation included a slide deck. Each slide is reproduced above the comments addressing that slide.



David Goldsmith: As noted in the slide, a SPAC is a publicly listed company where a sponsor raises a blind pool of capital and then usually has two years to find a private company with which to merge and take public.

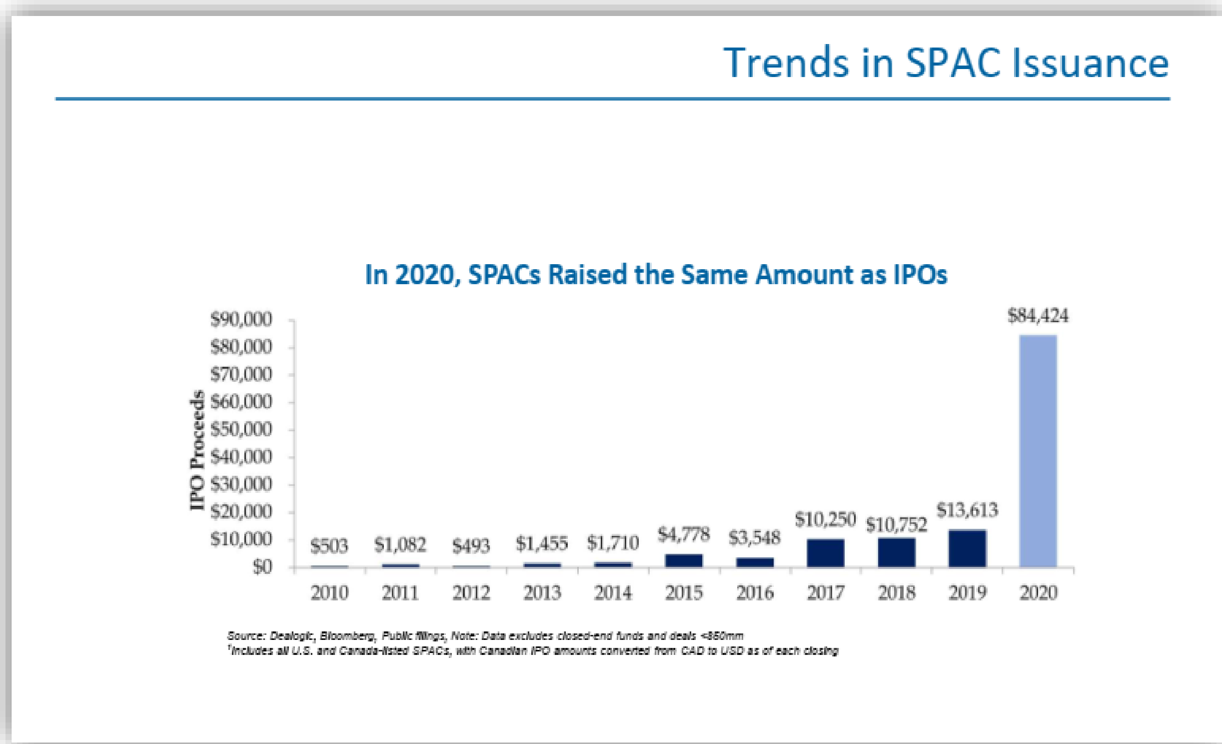
When a SPAC proposes the merger, shareholders can choose to participate in the merger or redeem their shares.

If a SPAC fails to complete a merger within two years, it liquidates and returns funds to shareholders with interest. It's rare that a SPAC liquidates – this has happened about nine times since 2015.[1]

For SPACs issuing warrants, a key feature is that the shares and warrants are detachable, meaning they can trade freely in the public markets. The shares are usually priced at $10, and the warrants typically strike at $11.50.

The sponsor's role is to generate value for shareholders and partners by sourcing, structuring, and acquiring an attractive business at a good price that the market believes is a good deal.

Following completion of the transaction, the SPAC structure dissolves and the acquired business operates the publicly traded company just like any other IPO or publicly listed company.



David Goldsmith: As this chart shows, 2020 was a banner year for SPAC issuance, surpassing the total capital raised by SPACs over the prior nine years.

[1] Source: BTIG

SPACs in 2020

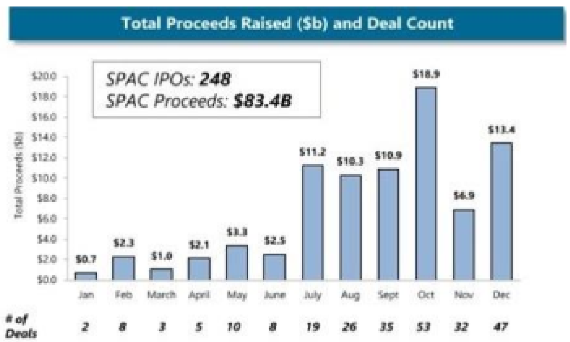
- **SPACs surged in 2020**
  - 248 SPACs raised a total of $83 billion
  - 184 SPACs actively searched for targets
  - 64 SPACs closed their combination

Traditional IPO Issuance		
# Deals	186	43%
$ Proceeds ($B)	$83	50%

SPAC IPO Issuance		
# Deals	248	57%
$ Proceeds ($B)	$83	50%

Source: Dealogic

The Pace of SPAC Deals Accelerated During the Year



Source: Public filings, BTIG

David Goldsmith: In 2020, roughly $83 billion was raised in 248 SPACs offerings. As seen in the right-hand chart, this amount equaled half the total raised in all initial public offerings, up from only 10% a number of years ago. As the left-hand chart shows, SPAC issuance increased significantly in the back half of the year.

The enterprise value of a lot of these SPACS ended up around $1.5 billion, which is right in Baron Small Cap Fund's sweet spot for investing. SPACs have also increased in size. In the past, there were very small issuances -- $10 million to $20 million. In 2000, the average issuance was $250 million.

As these numbers suggest, SPACs have gained acceptance as a way to take companies public. This is happening for a few reasons:

- First, well-known sponsors, investment banks, and institutional investors are participating.
- Second, public valuations are high, and the market is doing well and is receptive to new offerings.
- Third, a SPAC is a quicker and sometimes easier way to go public versus an IPO.
- Fourth, SPAC investors on the front end have done well with limited downside, and there is a deep pool of capital looking to invest in SPAC IPOs.
- Fifth, SPAC structures have improved and there's less of a stigma attached to them, as had been the case in the past.

Cliff Greenberg: Of the 248 SPACs that did IPOs in 2020, just 64 found targets and closed those deals last year, which means there are another 184 SPACs actively searching for targets. We expect the number of

SPAC closings in 2021 to accelerate dramatically. In addition, in the fourth quarter of 2020, 132 SPAC IPOs took place and $40 billion was raised, or nearly half of the total for the full year. So far in 2021, this trend is continuing, as there have been a flood of additional SPACs that have done IPOs.[2]

Cliff Greenberg: All the major investment banks are now involved in helping find acquisition candidates and close deals, including Goldman Sachs and Morgan Stanley as well as specialty banks such as Cantor Fitzgerald and BTIG.

SPACs sponsors include a wide range of successful CEOs, business owners, and private equity fund managers. Many of these entities have done multiple SPACs; some as many as five or SPACs.

Many sophisticated long-only investors like Baron, as well as family offices, are now investing in the space.

[2] Source: *The Wall Street Journal,* "When SPACs Attack. A New Force is Invading Wall Street," January 23, 2021.

Phases

- **SPAC IPO**
  - ➢SPAC raises capital in IPO and starts publicly trading
  - ➢Typically, it takes two years to identify a target
- **Target LOI / Pipe Financing**
  - ➢Once SPAC identifies acquisition target, letter of intent is signed
  - ➢Investment banks contact key investors to introduce a target and invite them to consider funding a pipe in conjunction with an acquisition
  - ➢Deal is consummated and publicly announced
- **Merger/De-SPAC**
  - ➢Post-announcement it generally takes 3-6 months for a shareholder vote. A majority of existing shareholders must approve the transaction for it to close
  - ➢Shareholders have the option to redeem and get their initial investment back yet keep their warrants
  - ➢Upon closing, the SPAC structure disappears, and the acquired business continues as a publicly traded company under the name of the acquired business

Cliff Greenberg: The SPAC process typically includes three main phases. First, the SPAC will raise money in an IPO. While the average raise has been about $250 million, we're now seeing much bigger transactions. The SPAC will start trading, usually around the issuance price. The SPAC then usually has two years to find a target or otherwise liquidate. Most often, a SPACs can find the target within a year. One SPAC we know of just found a target within three months.

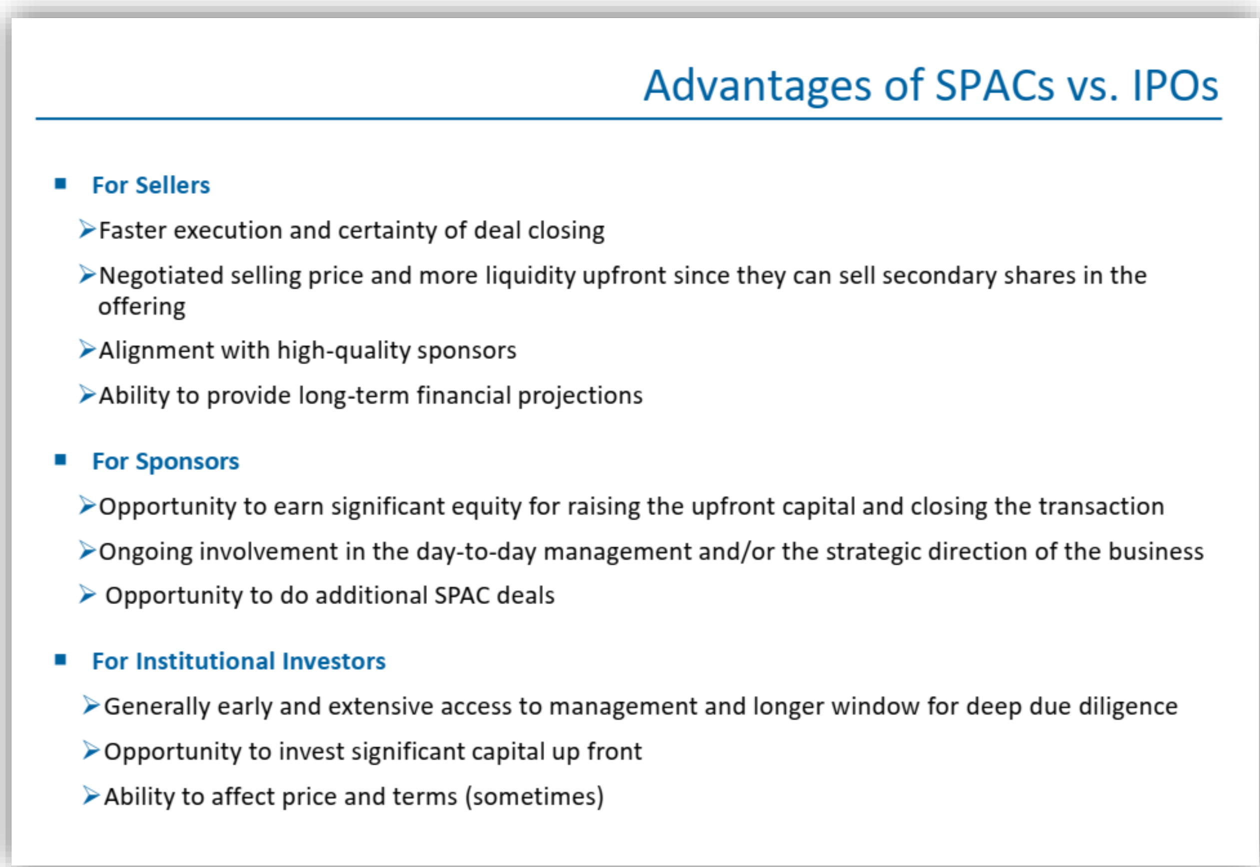
Second, after a SPAC finds a target, it usually has an investment bank contact key investors (such as Baron), which will introduce the target and invite it to consider funding a PIPE (private investment in public equity) alongside the initial SPAC to help close the acquisition. A PIPE is done about three-quarters of the time because the deal requires more money than was raised in the upfront IPO and/or the sponsor seeks the investment of well-known institutional investors to add credibility to the transaction.

After the PIPE is funded, the deal is publicly announced. At this time, you will often see the stock start bouncing around, especially if the target is in a hot sector. PIPEs are usually funded at $10 a share, but sometimes the stock will trade higher after the deal is announced.

The third phase is the de-SPAC, which happens three to six months after the deal is reached between the SPAC and the target. There is a shareholder vote to approve the transaction. These votes almost always pass. Shareholders can redeem or keep their shares. Often, the investors in the IPO are interested in selling their shares into the open market while keeping their warrants.

Once the deal is approved, the SPAC converts into and trades under the symbol of the acquired business just like any other IPO.

For Baron Small Cap Fund, we primarily participate in Phase 2. In other words, we don't invest money before the SPAC sponsor has identified the target. We prefer to invest money after we are introduced to the target and can conduct due diligence and do deep research on the company to be acquired. If we find the company to be of interest, we'll either participate in a PIPE or buy shares of the SPAC in the open market.



Cliff Greenberg: Let's turn to the advantages of a SPAC versus an IPO for the different constituencies.

Sellers: The private businesses or private equity firms that own these businesses like the SPAC route because it is fast and easy. The bulk of the money is already raised so they don't have to go on the road to raise it.

There is also a certainty of closing, because in essence they have a deal in hand and most of the money is already lined up. The sellers also like SPACs because they can negotiate the selling price. In a traditional IPO, you're selling a very small piece of a company and then you have to see where the company trades thereafter to understand its value in the public markets. In contrast, with a SPAC, a bigger portion of the company trades up front, which means the seller has more control on how its company is valued.

Good sellers also like the idea of aligning with high-quality sponsors who can help their business going forward. It also gives sellers the opportunity to provide long-term financial projections. In a traditional

IPO, an analyst can publish short-term financial projections. With a SPAC transaction, the company itself can lay out its plan for the next five years or so, which is an advantage especially in complicated transactions.

Sponsors: A SPAC is a great deal for the sponsor as it puts up a modest amount of capital to pay the expenses for the underwriting to raise money for the SPAC. If the sponsor successfully raises the funds and finds a target that the market likes, it can earn a significant amount of equity in the resulting public company. Many of the better sponsors will play a significant role in the company going forward, assuming board positions or the executive chairmanship, or in a few instances actually taking over management of the company. Additionally, if the sponsor has a successful deal, it usually has the opportunity to do additional transactions.

Institutional Investors: For institutional investors like us, we get to spend two or three months on due diligence to understand the business, which is a much longer window than with an IPO.

We can also invest significant amount of money in the PIPE or by buying shares in the open market. We typically invest anywhere between $25 million and $50 million in these transactions, all at the initial going in price. In contrast, in a hot IPO, we may get an allotment of $5 million or $10 million and then be forced to chase shares in the after-market at a much higher valuation.

Sometimes we can play an active role in structuring the deal terms. For example, we recently invested in a SPAC called Juniper, which is buying a company called Janus International. We told the sellers and the SPAC sponsor that we would be interested in making a significant investment but only under certain conditions, which they agreed to. We wanted a lower price, less money in the PIPE, and a guarantee that the money went to repay the debt of the company first so the balance sheet of the surviving entity was sound. As a result, we were able to invest in what we think is an exciting business at a very favorable price.

Strong 2020 Performance for SPACs

As of December 31, 2020

- **SPACs did well**
  - Median price of shares that have closed acquisitions was $13.75

SPAC M&A Activity	2018	2019	2020
Current Post-Combination Share Price (Avg.)[1]	$10.90	$12.63	$16.25
Current Post-Combination Share Price (Median)[1]	$7.52	$8.33	$13.75

- **Many SPACs were up over 50% in 2020**
  - 26 of 64 deals closed in 2020 were up over 50%

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- **Hot Sectors**
  - Successful sectors of SPAC deals included: Electric vehicles, online gaming, LIDAR (autonomous driving), alternative energy, and space exploration

Virgin Galactic danimer scientific LORDSTOWN Velodyne skillz

David Goldsmith: 2020 has been a strong year for the performance of SPAC shares. In 2018 and 2019, the median post-combination share price of SPACs that closed acquisitions were DOWN 24% and 17% respectively. In 2020, the median price of SPACs that closed deals were UP 37%, and the shares of 40% of the SPAC deals that closed in 2020 were up over 50%.[3]

Hot sectors today include electric vehicles (EV), where we have looked at 10 or so SPACs in the last year or so. Online gaming is hot, drafting off the success of DraftKings, which went public in April. LiDAR, which is autonomous driving, is playing off EV. Alternative energy and space exploration have also been among the SPAC headliners.

[3] Source: BTIG

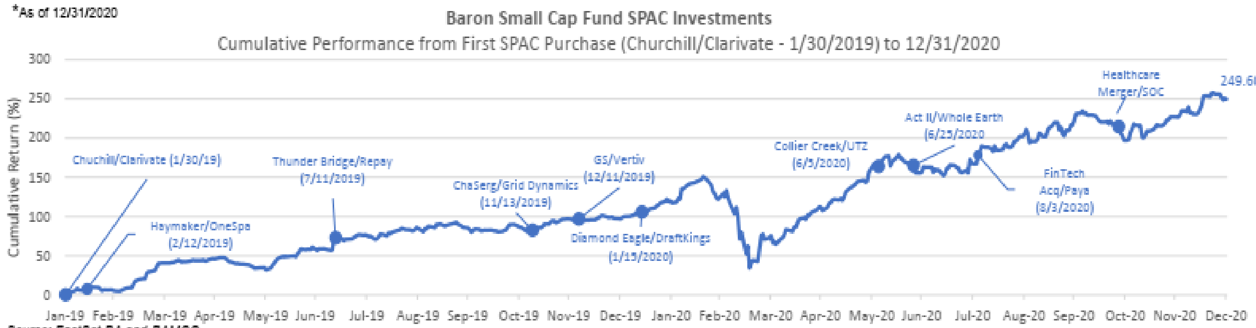
Baron Small Cap Fund's SPAC Investments

As of December 31, 2020

- **Baron Small Cap Fund has invested $317 million in 10 SPACs worth $612 million***

#	SPAC/Acquisition Target	Initial Purchase Date	Initial Investment ($)	Market Value ($)	Weight (%)	Cumulative Total Return for Period Held (%)	Annualized Total Return for Period Held (%)
1	Churchill Capital Corp./Clarivate Plc	1/30/2019	44,078,833	118,840,000	2.3	184.7	72.3
2	Haymaker Acquisition Corp./OneSpa World Holdings Limited	2/12/2019	23,970,442	24,239,241	0.5	17.5	8.9
3	Thunder Bridge Acquisition Ltd./Repay Holdings Corporation	7/11/2019	23,357,118	95,375,000	1.9	210.2	114.9
4	ChaSerg Technology Acquisition Corp./Grid Dynamics International, Inc.	11/13/2019	24,881,764	31,500,000	0.6	22.1	19.2
5	GS Acquisition Holdings Corp./Vertiv Holdings, LLC	12/11/2019	69,841,612	130,690,000	2.6	111.9	103.1
6	Diamond Eagle Acquisition Corp./DraftKings, Inc.	1/15/2020	9,218,227	46,560,000	0.9	256.7	256.7
7	Collier Creek Holdings/UTZ Brands, Inc.	6/5/2020	51,358,520	90,446,000	1.8	80.9	80.9
8	Act II Global Acquisition Corp./Whole Earth Brands, Inc.	6/25/2020	3,242,109	1,936,968	0.0	44.0	44.0
9	FinTech Acquisition Corp. III/Paya, Inc.	8/3/2020	36,561,336	47,530,000	0.9	28.5	28.5
10	Healthcare Merger Corp/SOC Telemed	10/27/2020	30,755,144	25,480,000	0.5	-27.6	-27.6
	Total		**317,265,103**	**612,597,209**	**12.1**	**249.6**	**91.7**

*As of 12/31/2020



Source: FactSet PA and BAMCO

- Baron Small Cap Fund only invests after the target has been identified and it has conducted extensive research, although other Baron funds may invest earlier
- Baron Small Cap Fund has additionally committed to two pipe transactions (E2open and Janus International)
- Other Baron Funds have invested $181 million in a dozen additional SPACs worth $288 million

BARON CAPITAL

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David Goldsmith: So far, we have been quite successful investing in SPACs. Baron Small Cap Fund has invested $317 million in 10 stocks over the last two years, which was worth $612 million as of 12/31/20, translating to an accumulative return of 250% or an annualized return of 91%.

We invest in only a handful of the SPACs that we look at. Our investment approach aligns with what we look for in any company -- great assets, led by strong leaders, which can accrete over time. We consider ourselves to be long-term owners of the business, not renters of the stock.

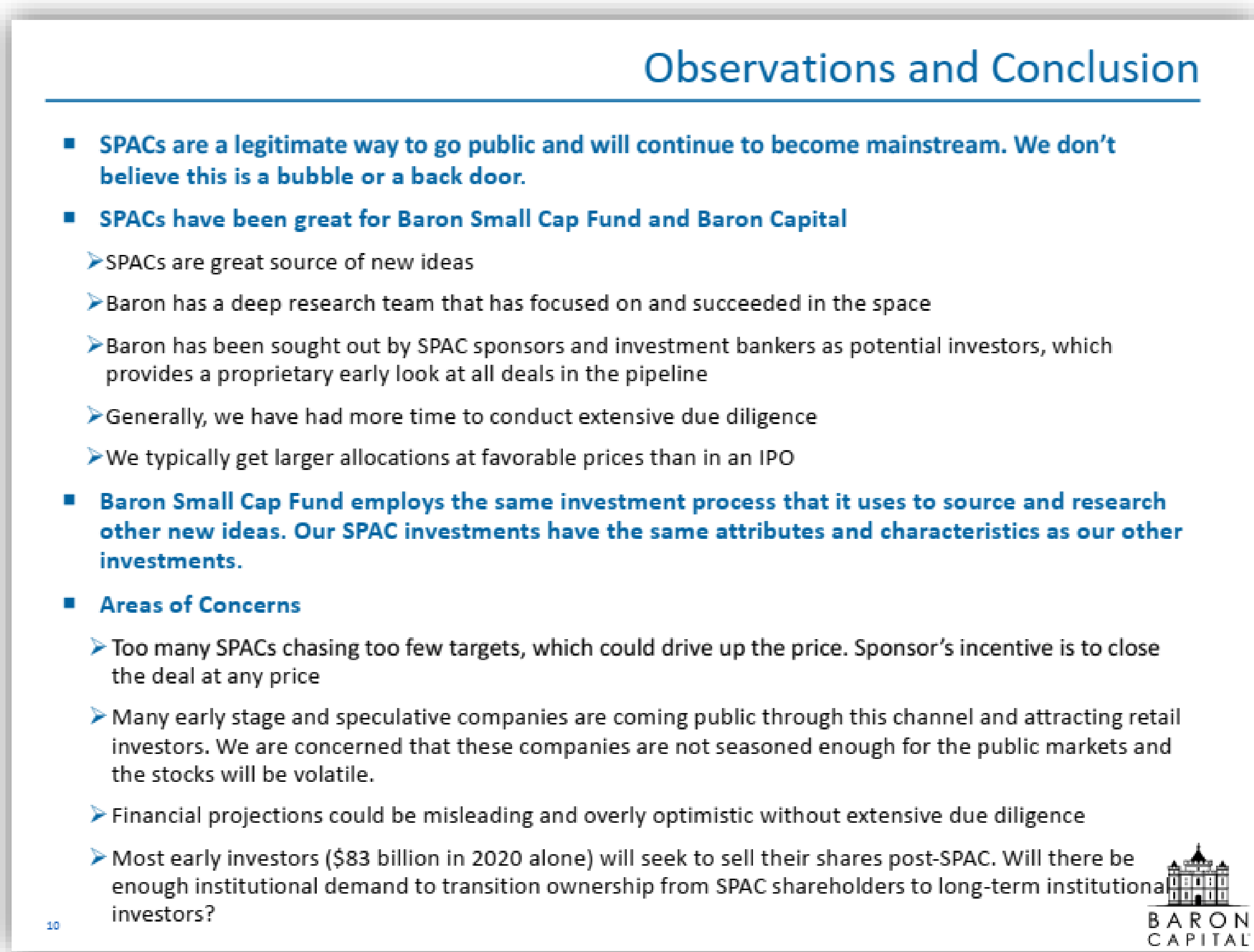
For example, Clarivate is a data asset and analytics tool company serving academia, the government, and law firms with a strong recurring revenue model. Clarivate was formerly a subsidiary of Thomson Reuters, which obscured the underlying value of the company's assets. Jerre Steed, the former CEO of IHS Markit, was the chairman of the SPAC, and post-acquisition, he took on the role of CEO of the public company.

The deal was struck at 12 times EBITDA when we bought into it. This morning, it was trading at close to 30, because Jerre has been able to increase organic growth, make M&A acquisitions, and improve margins.

Another investment, UTZ, is up 81% since our investment in June. UTZ checked boxes similar to those of Clarivate's. The chairman of the SPAC, Roger Deromedi, ran a successful public food business, Pinnacle Foods, and he is bringing the same playbook to UTZ. The company is a 100-year-old snack brand with solid growth that we think was undermanaged. With Roger at the helm, assisted by the team from Blackstone, we think UTZ can grow sales, improve margins from the low- to the mid-teens, and do accretive M&A.

Cliff Greenberg: In addition to the 10 transactions in the slide, we have committed to a couple of PIPE transactions that will be closing some time in the first quarter, including the aforementioned Janus International deal and a global supply software company called E2open.

Other Baron Funds have also enjoyed great success in this channel, investing about $180 million in a dozen SPACs in addition to the ones we've invested in. Those holdings are now worth $290 million or so. Some of the other Baron Funds invest at different phases than we do for Baron Small Cap Fund. Each PM has his own approach based on what he thinks is best for his Fund and what he's most comfortable with. But the success is across the board.



Cliff Greenberg: The first point we would like to make is that SPACs are not just a legitimate way to go public, but we believe they will become more and more mainstream. This is not a bubble. This is not some backdoor way to go public like it used to be. SPACs are here to stay and they are going to be an important mechanism for businesses to get public, in our view.

SPACs are also great for the Baron Small Cap Fund and Baron Capital. First, SPACs are a great source of new ideas. The 10 investments in SPACs that David and I have made over the past couple of years comprise about half of our new investments during that time.

Baron is set up well to execute in this area, as we have a deep research bench of about 40 people who all understand this channel and are focused on chasing down ideas that fit our criteria. Given the logistics and pace that is needed to properly research these companies, I consider Baron to be a pretty well-oiled machine, which gives us a competitive advantage to stay on top of all the different transactions that are coming through the pipe.

Of the 65 or so deals that closed last year, we looked at most or all of them. We think three times that amount will close in 2021. I believe we have the capacity to do a good job in looking at most, if not all, of them.

Both sellers and SPAC sponsors like to advertise that we are an investor in their transaction, and we are sought out for our potential involvement. This means we often get an early look at the targeted business.

We also get months to do due diligence and conduct multiple calls with companies, competitors, and industry experts, as opposed to an IPO transaction where we have a day to decide to put an order in.

Finally, we can make meaningful investments. The 10 SPACs we own make up roughly 12% of our portfolio now. Over time I think this channel will make up a bigger portion of our Fund.

Let's move to areas of concern for any potential investor in SPACs, including us. First, we think too many SPACs are chasing too few targets, which means these targets can play one SPAC against the next and extract a high purchase price. We are seeing auctions in which five SPACs compete for a business and the highest bidder wins. That is not in our best interest as a shareholder, as we want to invest at what we think are reasonable prices. We also like to invest with a sponsor that will stick around and help the company go forward.

Second, we think too many early-stage and speculative companies are coming public through this channel. We are not sure these companies should be public at this stage in their life and are seasoned enough to withstand the public scrutiny. It feels like venture capital in the public markets. I expect the share prices of these companies will be super volatile and the shareholder base will be less institutional and more retail.

Over the last few years, there have been complaints that small companies stay private too long and the benefits are going to private equity firms as opposed to public equity investors like ourselves. SPACs may be the counterbalance to this idea.

Third, we think the financial projection of many of these companies can be misleading and overly optimistic. We think if a company is going to come public, it should take a conservative approach to forecasting its future and try to meet or exceed expectations.

David Goldsmith: Every SPAC presentation will have a capital structure page. Sometimes, buried in the footnotes, you find assumptions that don't ring true. For example, you will see an assumption that 100%

of the SPAC owners will roll over their equity when in reality a lot of SPAC owners just want the warrant. If 50% of SPAC owners redeem, half the cash raised in the SPAC is not going into the new pro forma business. This impacts the balance sheet, the leverage ratios, and ultimately the multiple you're paying going in.

That's just one example. We see assumptions regarding warrants, earn outs, and fees, among others, that can impact the dilution of and risks to a company. It takes a real knowledge and understanding of what's not necessarily obvious to know what you are getting yourself into.

Cliff Greenberg: As David alluded to, many SPAC investors are in the business of putting up money with the intention or the actual mandate to sell their shares once the deal is consummated with the hope of making money on the warrants if the company succeeds. What that means is after a deal is done, a lot of the capital structure is up for sale to institutional investors like us. With so many more deals expected to close in 2021, we think this can create selling pressure on deals if there aren't enough new buyers.

If we like a company a lot but suspect there will be significant stock for sale post-closing, we will save some firepower to participate at that point in time. In the past, we have gotten some great bargains this way and were able to buy a big portion of our position. While this could be a plus if played right, I am a little unnerved as to where all the money is going to come from to take out those initial IPO investors in 2021.

For the Q&A portion of the presentation, please reference the full recording here.

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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. Please read them carefully before investing.

Baron Small Cap Fund's annualized returns for the Institutional Shares as of December 31, 2020: 1-year 40.68%, 5-year 19.88%, 10-year 14.47%. Annual expense ratio for the Institutional Shares as of September 30, 2020 was 1.05%.

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 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.

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: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. 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.

Top 10 holdings as of December 31, 2020

Holding	% Assets
Installed Building Products, Inc.	3.4

Gartner, Inc.	**3.2**
SiteOne Landscape Supply, Inc.	**3.1**
Guidewire Software, Inc.	**3.1**
The Trade Desk	**2.8**
Floor & Decor Holdings, Inc.	**2.7**
ASGN Incorporated	**2.6**
Vertiv Holdings, LLC	**2.6**
Clarivate Plc	**2.3**
ICON Plc	**2.3**
Total	**28.1**

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

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