



Andrew Peck: Staying the course in a volatile market

This is an edited version of an October 13, 2020 Q&A with Andrew Peck, co-Chief Investment Officer and Portfolio Manager of Baron Asset Fund, Baron Mid Cap Growth Strategy, and Baron All Cap Growth Strategy. To access the full recording, please dial 800-633-8284, passcode #21969443.

Key Discussion Points

Baron Asset Fund

Fund performance, management of the Fund, breakdown of performance by sector, purchases and sales

Market Outlook

upcoming election, pandemic, acceleration of secular trends

Baron Asset Fund

How did the Fund perform this quarter?

Baron Asset Fund ended the third quarter a little bit less than 200 basis points ahead of the Russell Mid-Cap Growth Index. I'm glad to say that the Fund remained ahead of that index on a 1-, 3-, 5-, 10-, and 15-year basis as well since its inception approximately 32 years ago. The Fund remains rated five stars overall by **Morningstar**. And it also has a silver rating from **Morningstar**. So we are pleased by all of that.

For the period ended 9/30/2020, the Baron Asset Fund received a 5-Star Overall Morningstar Rating™, 4-Star 3-Year Rating, 4-Star 5-Year Rating, and 5-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 557, 557, 500, and 380 funds in the category, respectively. This Morningstar Rating is for the Institutional share class only; other classes may have different performance characteristics.

Morningstar calculates the Morningstar Fund Mid-Cap Growth Category Average 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.

How have you managed the Fund during the pandemic? Are you doing anything different?

The key message that I hope to get across today is that despite the unusual economics, political and public health conditions that the market and broader society are dealing with at the moment, the Fund's investment strategy and its investment process, which has served it well for 30-plus years, have remained consistent throughout the past nine months. We would expect it to remain consistent going forward as well.

Baron Asset Fund is an in-the-box, mid-cap growth fund. Its weighted average market cap at the end of the quarter was approximately \$25 billion, while that of the most relevant index was approximately \$21 billion.

Annual turnover has remained in the low teens range over the past nine months as it has for many years previously.

The Fund also remains reasonably concentrated as it traditionally has, with approximately 37% of its assets represented by its 10 largest positions, and 61% of its assets in its 20 largest positions. The Fund continues to have approximately 60 stocks in total.

Can you go into more detail on the drivers of performance in the last nine months?

Stock selection has been the biggest driver of outperformance, remaining positive throughout those nine months.

Industry weightings have been a modest headwind to performance. Notably, the Fund has been overweight Real Estate and Financials, which have underperformed relative to the broader mid-cap index. The Fund has been underweight Consumer Discretionary and Information Technology, which has also provided a headwind given the strong performance of those two sectors year-to-date.

The Fund also faced headwinds from a couple of style factors as defined by the Barra model. The Fund was underexposed to high momentum stocks and higher volatility stocks, both of which performed better year-to-date.

Lastly, the Fund was overexposed to stocks with lower liquidity. That was also a headwind as more liquid and more frequently traded stocks did better within the index.

From a sector perspective, what has done well and what hasn't year-to-date?

Industrials The strongest performer on a relative basis was the Industrials sector. The Fund is relatively overweight this sector, with 18% of its assets within Industrials versus 15% for the index. Within Industrials, our focus is on data and analytics companies like **Clarivate Plc (CCC)** and **CoStar Group, Inc. (CSGP)**, which have performed well year-to-date. While these types of businesses might not appear to be obvious industrial companies, they are classified within the sector.

Health Care Health Care was another strong performing sector for the Fund. The sector has been the best performer in the index year-to-date. And we were both overweight, at approximately 24% of assets versus 18% for the index, and meaningfully outperformed through stock selection.

Standout names included veterinary diagnostics company **IDEXX Laboratories, Inc. (IDXX)**; **West Pharmaceuticals, Inc. (WST)**, which makes packaging solutions for the pharmaceutical industry; **Veeva Systems, Inc. (VEEV)**, a software company focused on the health care industry; and **Dexcom, Inc. (DXCM)**, a medical technology company focused on diabetes.

The drag on performance within health care came from DNA sequencing company **Illumina, Inc. (ILMN)** and **Teleflex Incorporated (TFX)**, which provides disposable surgical instruments to hospitals.

Communication Services Within Communication Services, while we are roughly at equal weight with the index, our investments did meaningfully better, notably **Zillow Group, Inc. (Z)**, the online real estate listings and **ZoomInfo Technologies Inc. (ZI)**, a recent IPO that was added this year.

Real Estate We are overweight Real Estate at 7% versus 2% for the index, which weighed on performance. However, our stocks did meaningfully better than the index, led primarily by data center operator **Equinix, Inc. (EQIX)** and cellular tower company **SBA Communications Corp. (SBAC)**.

Financials Our overweight in Financials, at 12% weighting versus 4% for the index, also hurt the Fund's performance in the last nine months. Our stocks did a bit better than those in the index, led by **MarketAxess Holdings Inc. (MKTX)**, an electronic trading platform for bonds, and **Fact Research Systems, Inc. (FDS)**, a data analytics company focused on financial information. However, we also had a couple of stocks within the sector that performed quite poorly on a relative basis, including brokerage firm **The Charles Schwab Corp. (SCHW)** and property and casualty insurance firm **Arch Capital Group Ltd. (ARCH)**.

Consumer Discretionary We are meaningfully underweight in this sector, at roughly 6% of assets versus 13% for the index. We did not have many standout performers, as most of our investments are in companies with exposure to global travel trends, which continued to suffer as a result of the pandemic. These companies include global ski resort owner **Vail Resorts, Inc. (MTN)**, hoteliers **Hyatt Hotels Corp. (H)** and **Choice Hotels International, Inc. (CHH)**, and online travel agency **Booking Holdings, Inc. (BKNG)**.

Information Technology The Information Technology (IT) sector was a drag on relative performance. At roughly 29% of assets versus 36% for the index, we are meaningful underweight. In addition, our stocks in the aggregate underperformed those in the index during the quarter. We had a few standout performers, including DIY website platform **Wix.com Ltd. (WIX)**, application software company **ANSYS, Inc. (ANSS)**, Chinese data center company **GDS Holdings Limited (GDS)**, and unified communication-as-a-service company **RingCentral, Inc. (RNG)**.

Laggards within IT included IT research company **Gartner, Inc. (IT)**, payments company **FleetCor Technologies, Inc. (FLT)**, and insurance software provider **Guidewire Software, Inc. (GWRE)**.

We did not own many of the IT names that grew the fastest during the period, like Twilio and Zoom. So that created a headwind.

We did add several new names in the IT sector during the past nine months and we continue to look for opportunities within the sector. But it is, frankly, a challenge since many of the best performing IT stocks, particularly in the SaaS space, are trading at all-time high valuations as measured by common metrics like enterprise value to sales or enterprise value to free cash flow.

The Fund had no exposure to the Consumer Staples, Energy, Materials or Utility sectors during the quarter, which has long been the case.

What new stocks have you added to the portfolio?

During the first quarter, the three largest purchases were RingCentral, GDS, and **Fair Isaac Corporation (FICO)**, the leading provider of credit scores in the U.S. RingCentral is a leader in helping to migrate existing landline business phone customers into the cloud. With 400 million landline phones used by businesses globally and only 1% penetrated into the cloud, of which RingCentral has approximately 50% share, we think there's a very large runway ahead of it. GDS has a lot of similarities to Equinix, a very successful long-term investment for us.

During the second quarter, we participated in the IPO of Zoom Information, a cloud platform that provides actionable intelligence to sales and marketing teams. In many ways, the company is analogous to other data and analytics businesses that we have successfully invested in in the past.

In the Health Care space, we invested in **Guardant Health, Inc. (GH)**, which provides liquid biopsy tests for advanced stage cancers. It flows to some extent from our long-term involvement in Illumina, which is a leading tools company that allows firms like Gordon to sequence DNA to develop potentially revolutionary tests for disease treatment.

We also invested in recent IPO **GoodRx Holdings, Inc. (GDRX)**, a company focused on helping consumers save money on drug purchases. We think it has potential to become a much broader platform for consumers looking for health care information.

We invested in corporate childcare company **Bright Horizons Family Solutions, Inc. (BFAM)**, which we hold in several other Baron Funds. The stock suffered meaningfully mid-year as a result of the shutdown of most of its facilities due to the pandemic. We believe we came in at a very attractive price given the market's short-term myopia, and the investment has done well since then.

We also invested in **Pinterest, Inc. (PINS)**, a well-known photo sharing app.

Which positions did you exit or reduce?

We sold out of **Tiffany & Co. (TIF)**, the well-known jeweler, which had a deal to be acquired by LVMH, the luxury French conglomerate. That deal fell apart and is in litigation. Fortunately, we sold the stock before that happened and did quite well. We also sold our stake in **Alexander's, Inc. (ALX)**, a REIT focused on the New York City real estate market, due to concerns about that market in the face of COVID-19. I think that proved to be a good sale as well. We sold **IAC/InterActiveCorp (IAC)**, a holding company whose primary asset is match.com, over competitive and growth-related concerns.

We reduced our stake in some of our larger long-time holdings in order to manage our position sizes and to generate capital to invest in new ideas.

Would you like to share any thoughts on where the markets might be headed at this juncture?

When I did the last update call back the beginning of June, the market has just made a huge recovery from the depths it reached in mid-March. I remember that at that time, despite the big jump in the market, there was still tremendous pessimism among virtually all professional investors and market pundits that the recovery in the market could hold. And here we are, four or five months later, and not only has the market held, it has moved meaningfully higher from there. So that just continues to bolster my belief that it's nearly impossible

to predict short term moves in the equity markets. So, we don't try to do it. It's also rarely a good idea to run high cash balances or to make large sector bets in an attempt to time the market.

So we've remained essentially fully invested throughout the last nine months. I think that has served us and our clients well. Broadly speaking, the best performing equities during the past nine months have been growth businesses with highly visible, rapidly growing long-term cash flow streams. Those are the same types of stocks that have really outperformed throughout the course of my 20-plus year career.

Frankly, I would expect them to continue to outperform go forward. These types of stocks will be powered by both the low interest rate policies that appear to be in place for the foreseeable future and the impact that those policies have on the value of long-dated cash flow streams.

In addition, the accelerated pace of business disruptions caused by the unrelenting pace of technological change, much of which has been turbocharged by the pandemic and the impact that it has had on consumer and business behavior, will be a positive for the types of stocks that we have historically invested in and will continue to invest in.

In terms of the upcoming election, my somewhat simple conclusion is that the market views both candidates as good for future moves in the stock market, and I wouldn't expect a major reaction to the election results. I guess anything could still happen, but I wouldn't expect it to.

As it relates to COVID-19, I wouldn't normally have anything worth sharing on a topic like that. But one thing did catch my eye earlier today. Don McNeil, who is a highly respected science reporter for *The New York Times* and has been covering infectious disease outbreaks for the better part of several decades, said this to say in the paper today: "Events have moved faster than I thought possible, I have become cautiously optimistic. Experts are saying, with genuine confidence, that the pandemic in the U.S. will be over far sooner than they expected, possibly by the middle of next year."

And so, being an optimist, I'm going to agree with Don. I think that is clearly good news for the stock market, if it proves to be correct. And I do think that stocks will continue to discount that kind of favorable sentiment about the ultimate outcome of the pandemic.

I'm hopeful that our travel-related stocks, which are the stocks that have weighed most on performance, will begin performing better if and when this sentiment proves correct and the pandemic seems to be under control.

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 Asset Fund's annualized returns for the Institutional Shares as of September 30, 2020: 1-year, 23.53%; 5-years, 17.66%; 10-years, 15.50%; Since Inception (6/12/1987), 12.09%. Annual expense ratio for the Institutional Shares as of September 30, 2019 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: Securities issued by medium sized companies may be thinly traded and may be 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.

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 September 30, 2020 for securities mentioned are as follows: **IDEXX Laboratories, Inc.** (6.7%); **illumina, Inc.** (1.8%); **West Pharmaceutical Services, Inc.** (3.2%); **Veeva, Systems Inc.** (2.5%); **DexCom, Inc.** (1.4%); **Clarivate Analytics Plc** (1.3%); **CoStar Group, Inc.** (3.5%); **Teleflex Incorporated** (1.3%); **Zillow Group, Inc.** (2.5%); **ZoomInfo Technologies Inc.** (1.5%); **SBA Communications Corp.** (2.8%); **Equinix, Inc.** (1.9%); **MarketAxess Holdings Inc.** (2.4%); **FactSet Research Systems, Inc.** (2.4%); **The Charles Schwab Corp.** (1.3%); **Arch Capital Group Ltd.** (1.2%); **Vail Resorts, Inc.** (2.5%); **Hyatt Hotels Corp.** (0.6%); **Choice Hotels International, Inc.** (0.9%); **Booking Holdings, Inc.** (0.7%); **Wix.com Ltd.** (2.5%); **ANSYS, Inc.** (3.7%); **RingCentral, Inc.** (1.2%); **Gartner, Inc.** (3.8%); **FleetCor Technologies, Inc.** (1.0%); **Guidewire Software, Inc.** (2.9%); **GDS Holdings Limited** (1.1%); **Fair Isaac Corporation** (0.7%); **Guardant Health, Inc.** (0.7%); **GoodRx Holdings, Inc.** (0.5%); **Bright Horizons Family Solutions, Inc.** (0.6%); **Pinterest, Inc.** (0.4%).

Top 10 holdings as of September 30, 2020

Holding	% Assets
IDEXX Laboratories, Inc.	6.7
Verisk Analytics, Inc.	4.1
Gartner, Inc.	3.8
Mettler-Toledo International, Inc.	3.8
ANSYS, Inc.	3.7
CoStar Group, Inc.	3.5
West Pharmaceutical Services, Inc.	3.2
Guidewire Software, Inc.	2.9
SBA Communications Corp.	2.8
Ceridian HCM Holding Inc.	2.6
Total	37.1

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

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The **Morningstar Analyst Rating** is not a credit or risk rating, but a subjective evaluation performed by the analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars (process, performance, people, parent and price). Morningstar's analysts use this valuation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors and the weightings of each pillar may vary. The Analyst Rating reflects overall assessment and is overseen by Morningstar's Analyst Rating Committee. The analyst rating scale is five-tiered, with three positive ratings (Gold, Silver, Bronze), a Neutral rating and a Negative rating, with Gold being the highest rating and Negative being the lowest rating. The Morningstar Analyst Ratings should not be used as the sole basis in evaluating a mutual fund and are based on Morningstar's current expectations about future events. Morningstar does not represent ratings as a guarantee. Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly. The Analyst

Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a “Gold” rating distinguishes itself across the five pillars and has garnered the analysts’ highest level of conviction. A fund with a ‘Silver’ rating has notable advantages across several, but perhaps not all, of the five pillars that give the analysts a high level of conviction. A “Bronze”-rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a ‘Neutral’ rating isn’t seriously flawed across the five pillars, nor does it distinguish itself very positively. A “Negative” rated fund is flawed in at least one if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated at least every 14 months.

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