

FUNDS & PERSONAL FINANCE

MUTUAL FUND PROFILE

Big Ideas Spark Outperformance By Baron Fifth Avenue Growth

An IBD Best Mutual Fund

Fund excels by seeking companies that thrive on disruptive industry change

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

Alex Umansky has made the \$290 million Baron Fifth Avenue Growth Fund^{BFTHX} one of the best mutual funds by focusing on companies whose big ideas make them market leaders.

"That's our focus: companies with big ideas," he said, referring to companies that are turning their industry upside down with a revolutionary approach.

"We're looking for companies that benefit from disruptive change, that have an opportunity to be the dominant player in that market," Umansky said.

Companies with big ideas in the portfolio include several that are already dominant players in their fields, like Amazon.com^{AMZN}, Mastercard^{MA} and Alibaba^{BABA}.

VeevaSystems^{VEEV} is poised to become another uniquely dominant player in its field, Umansky says.

Durability of growth is a key factor. "Wall Street focuses on how much a company can grow," Umansky said. "We focus more on duration of growth. We want to know whether a company can sustain its growth. That's more important to us as long-term investors. That's been a key part of our secret sauce."

That helps explain the fund's outperformance. The fund recently was named one of the IBD Best Mutual Funds 2019.

To cop that Best Mutual Funds award, Baron Fifth Avenue had to top the S&P 500 in 2018 as well as over the three, five and 10 years ended Dec. 31, on an average annual return basis.

The fund is continuing to outperform. Through Tuesday's close, the fund's 22.45% year-to-date gain beat 82% of its large-cap growth fund rivals tracked by Morningstar Inc. as well as the S&P 500's 17.75% advance.

Amazon.com has been the fund's largest single position since the end of 2014, Umansky says. It is the only business he can think of that is what he calls the flagpole leader in not one but two multitrillion-dollar industries: e-commerce and cloud computing.

And both of those industries continue to grow. E-commerce accounts for 13% of all U.S. retail sales, up from 3% 10 years ago. It is growing four to five times faster than GDP. It will continue to grow until it accounts for 25% to 30% of U.S. retail sales, Umansky says. "And Amazon should remain the clear leader," Umansky added.

It's a similar story in cloud computing, whose share of computer workloads continues to grow at the expense of on-premises mainframes and servers, a trend he sees continuing for at least 10 years.

E-Commerce Pure Play

Mastercard and Visa^V benefit from the shift to electronic payments from cash and paper. "They're a pure play on the growth of e-commerce," Umansky said. "Just as e-commerce continues to penetrate retail sales, the majority of

Baron Fifth Avenue Growth (Retail)

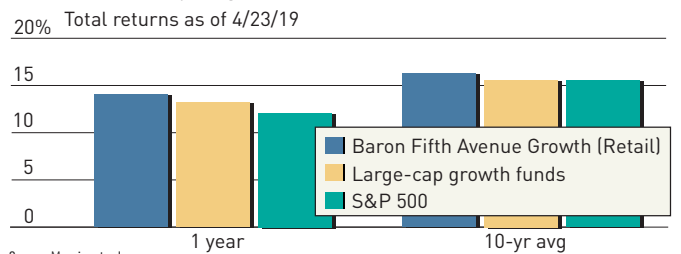


Alex Umansky

■ Load: None
■ Expenses: 1.00%
■ Symbol: BFTHX

Total returns as of 4/23/19
2018: 1.10% 3-yr. avg.: 21.31%
YTD: 22.45% 5-yr. avg.: 14.75%
10-yr. avg.: 16.26%

| Sector weightings as of 3/31/19 | | |
|---------------------------------|-------------------|--------------|
| | % of stock assets | % of S&P 500 |
| Cyclical | 47.54% | |
| Basic materials | 0.00 | 2.46% |
| Consumer cyclical | 24.94 | 11.90 |
| Financial services | 19.38 | 15.40 |
| Real estate | 3.22 | 2.50 |
| Economically sensitive | 38.36 | |
| Communication services | 0.11 | 3.56 |
| Energy | 0.00 | 5.43 |
| Industrials | 3.96 | 10.23 |
| Technology | 34.29 | 22.94 |
| Defensive | 14.11 | |
| Consumer defensive | 0.00 | 7.77 |
| Health care | 14.11 | 14.49 |
| Utilities | 0.00 | 3.33 |



Source: Morningstar Inc.

electronic transactions go over Mastercard or Visa rails. They have over 90% market share of all debit and credit transactions in the U.S. As e-commerce grows, they benefit more.

Not having a lot of significant competitors, they don't have to spend as much as they might otherwise have to on marketing and building business. Umansky said, "While their top lines still grow pretty fast, in the low double digits, their bottom lines actually grow even faster (20%-plus) because of continued margin expansion."

Veeva offers cloud-based programs that mainly help drug companies manage sales, control operations and comply with regulations. The company's Vault platform

can manage content and data, reducing the need for customers to use two separate applications.

And Veeva is expanding into industries outside of life sciences.

"The time it took for medical knowledge to double was 50 years in 1950," Umansky said. "Now it is doubling every year. So everything is accelerating, and Veeva is building the architecture for this space."

He added, "Veeva could become the Amazon Web Services component of Amazon for life sciences. Veeva has the opportunity to become just as important in a very large and growing life sciences market as AWS is in cloud computing."

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Baron Fifth Avenue Growth Fund's annualized returns for the Retail Shares as of March 31, 2019: 1-year, 11.74%; 3-Year, 20.25; 5-year, 13.63%; Since Inception (04/30/2004), 9.19%. Annual expense ratio for the Retail Shares as of September 30, 2018 was 1.09%, but the net annual expense ratio was 1.00% (net of the Adviser's fee waivers, restated to reflect current fee waivers).

Annualized returns for S&P 500 Index as of March 31, 2019: 1-year, 9.50%; 3-Year, 13.51; 5-year, 10.91%; Since Inception (04/30/2004), 8.73%.

Average annualized returns for Morningstar Large Growth Category as of March 31, 2019: 1-year, 10.71%; 3-Year, 15.35%; 5-year, 11.26%.

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 certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, 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.

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.

The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

RISKS: The 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 Fifth Avenue Growth Fund holdings as a percentage of net assets as of March 31, 2019 for securities mentioned are as follows: **Amazon.com, Inc.** – 13.2%; **Mastercard Incorporated** – 5.4%; **Alibaba Group Holding Limited** – 5.8%; **Veeva Systems Inc.** – 4.4%; **Visa, Inc.** – 4.6%.

Baron Fifth Avenue Growth Fund Top 10 Holdings as of 03/31/2019

| Holding | % Holding |
|-------------------------------|-----------|
| Amazon.com, Inc. | 13.2 |
| Alibaba Group Holding Limited | 5.8 |
| Mastercard Incorporated | 5.4 |
| Alphabet Inc. | 5 |
| Visa, Inc. | 4.6 |
| Veeva Systems Inc. | 4.4 |
| Intuitive Surgical, Inc. | 4.3 |
| Illumina, Inc. | 4.2 |
| Worldpay, Inc. | 3.8 |
| Facebook, Inc. | 3.5 |

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

S&P 500 Index measures the performance of 500 widely held large-cap U.S. companies. The index performance is not fund performance; one cannot invest directly into an index. Morningstar calculates the **Morningstar US Fund Large Growth Category Average** using its Fractional Weighting methodology. The Fund’s Institutional Shares have been included in the category since May 29, 2009 and the Fund’s Retail Shares since inception. (c) Morningstar 2019. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

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