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BUSINESS INSIDER

Meet the unconventional portfolio manager who crushed Wall Street last year while barely watching the market

By Joe Ciolli

- **Alex Umansky, who manages three mutual-fund portfolios for Baron Funds, saw his $199 million Fifth Avenue Growth Fund smash benchmarks in 2017 with a 40.97% return.**
- **The outperformance was largely due to the fund's heavy exposure to Amazon, Alibaba, Facebook, and Alphabet, which make up more than one-third of the portfolio.**
- **The selection of those stocks, and their outsize contribution to the fund, speak to Umansky's long-term investment strategy, which seeks so-called platform businesses.**
- **Because of his long-term focus, Umansky spends his time researching companies and taking meetings, rather than intently watching markets or the newswire.**
- **Umansky says he's not necessarily scared of a stock market correction, because he has such high conviction in his holdings and invests based on an indefinite time horizon.**

Alex Umansky may be one of the hottest portfolio managers on Wall Street right now, but you won't catch him scanning news headlines or closely monitoring the market.

He's probably deep in the weeds, researching new ideas and combing through financial statements, annual reports, and corporate presentations. Or maybe he's traveling to meet with companies, seeking fresh ideas for the portfolios he oversees.

It's not that the daily minutiae don't interest Umansky, who manages three stock portfolios for Baron Funds. It simply isn't relevant to his investment technique, which is heavily predicated on finding what he calls "platform businesses" — companies that have built successful brands and developed ecosystems around the products and services they provide.

This approach, by its nature, deals with vastly longer time horizons than those of your average stock picker. In the end, Umansky is trying to select stocks he can hold indefinitely and with extreme confidence, a practice that doesn't normally involve watching developments in real time.

The strategy certainly worked in 2017, which saw Umansky's $199 million Fifth Avenue Growth Fund return a whopping 40.97%, smashing even the red-hot Russell 1000 Growth index and ranking it in the top five of all large-cap mutual funds tracked by Kiplinger.

But that short-term success isn't what truly matters to Umansky. He wants to win the marathon, not just the sprint. And he's so convinced that his portfolio is a long-term winner that he doesn't care whether he takes a temporary beating.

Our time horizon is really forever.

"Our time horizon is really forever," he told Business Insider in a recent interview. "As long as fundamentals remain intact, and we believe the company still has the opportunity to reinvest excess capital at higher rates of return, we'll stay the course and continue to invest. Do they get ahead of themselves sometimes? Sure. But it's not something we normally worry about."

A top-heavy portfolio

Don't let Umansky's willingness to absorb rough patches fool you. While he has certainly endured difficult periods since joining Baron, he has still handily beaten benchmarks. The Fifth Avenue Growth Fund is up 163% since Umansky joined in 2011, compared with 156% for the Russell 1000 Growth index and 141% for the S&P 500.

A big part of that outperformance can be attributed to four well-known stocks, which he has owned since he first started at Baron: Amazon, Alibaba, Facebook, and Alphabet.

But simply holding these stocks isn't particularly novel — it's Umansky's heavy concentration in them that makes it unique. As of December 31, those four companies made up more than one-third of the Fifth Avenue Growth Fund.

It's an all-in approach of sorts, and one that shows the degree to which Umansky flouts traditional notions of diversification. In his mind, his portfolio can contain a smaller-than-average number of stocks and still represent an adequately wide collection of investment ideas.

Diversification is one of the archenemies of active management.

"Diversification is one of the archenemies of active management," he said. "It's been massively value-dilutive over the last decade or so. Company-specific risk is really managed by understanding fundamentals, the business model, and valuation. We believe that our ability to collect unique businesses that sell into different geographies and industries is really what gives us the necessary diversification."

Digitization as a driving force

When speaking with Umansky about his investment approach, one word continually pops up: digitization.

It's what he uses to rationalize his heavy weighting toward the four mega-cap juggernauts mentioned above, while also informing his forays into all sorts of industries. To that end, the Fifth Avenue Growth Fund also counts Mastercard, Visa, Illumina, and Intuitive Surgical among its biggest holdings.

The digital footprint of everything is increasing very rapidly.

"We realized probably 10 years ago that the world is transforming itself," Umansky said. "We see it everywhere. It was very obvious with e-commerce, and you can easily see it in advertising. We also see the digitization of banking and finance, and it's happening in healthcare. The digital footprint of everything is increasing very rapidly."

Umansky specifically mentions Google/Alphabet and Facebook as the biggest beneficiaries of the shift toward digital advertising. He also likes the massive network of third-party suppliers that Amazon has assembled, which perfectly meets his criteria of buying stock in companies that operate as the focal point of a broader ecosystem.

"These are all platform businesses," he said. "And look at Visa and Mastercard — they're de facto digital railroads."

When asked whether the rise of digitization was the core tenet of his investment strategy, Umansky went silent for several moments, as if deep in thought.

"I certainly can't say no," he finally replied. "Our process is looking for big ideas, many of which are plays on that."

Dealing with downturns

With Umansky's strategy laid out, one question remains: How does he keep his investor clients happy during times of turbulence?

After all, while he has trained himself to stay the course and remove emotion from the equation, his clients might not be similarly disciplined. Absorbing short-term losses can be a tough pill to swallow for many.

Umansky acknowledges that while 2017 was a blockbuster year, it hasn't always been smooth sailing on the client front. He mentions 2014, when Amazon became the largest position in the fund, only to lose 22% for the year as the S&P 500 climbed 14%. It was then, Umansky says, that client questions started pouring in.

We would actually like to see a correction somewhere.

A quick glance at Amazon's price chart since then should be evidence enough that everything turned out

OK. But for a time, Umansky was feeling the heat. What's perhaps most telling, ultimately, is that he says he would make that Amazon investment again in a heartbeat.

"Since then, the stock is up roughly 276%, so we're certainly not anticipating a return anywhere near that for the next three years," Umansky said. "But our conviction is significantly higher today than it was at significantly lower prices."

Umansky is so sure of his methods that he's not even afraid of a stock market correction — or any sort of rotation that may cause his top holdings to take a temporary hit. In fact, he says he'd welcome such a market event, because it would give him the opportunity to buy more exposure at discounted prices.

"We would actually like to see a correction somewhere, to see how we hold up and how we can take advantage," Umansky said. "Our process works, and we think it's much more consistent than trying to predict what interest rates are going to do, or whether the US dollar is going to be weak or strong. It's a far more difficult task to get right."

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All data as of December 31, 2017

Baron Fifth Avenue Growth Fund's annualized returns for the Retail Shares as of December 31, 2017: 1-year, 40.64%; 5-year, 16.48%; 10-year, 8.38%; Since Inception (4/30/2004), 8.62%. Annual expense ratio for the Retail Shares as of September 30, 2016 was 1.14%, but the net annual expense ratio was 1.10% (restated to reflect current fee waivers).

Baron Fifth Avenue Growth Fund's annualized returns for the Institutional Shares as of December 31, 2017: 1-year, 40.97%; 5-year, 16.77%; 10-year, 8.61%; Since Inception (4/30/2004), 8.79%. Annual expense ratio for the Institutional Shares as of September 30, 2016 was 0.85%, but the net annual expense ratio was 0.75% (restated to reflect current fee waivers).

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The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market.

The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The top 10 holdings for the Baron Fifth Avenue Growth Fund as of December 31, 2017 are as follows:

Holding	% Holding
Amazon.com, Inc.	15.1
Alibaba Group Holding Limited	8.0
Alphabet Inc.	6.3
Facebook, Inc.	5.7
Mastercard Incorporated	4.9
Visa, Inc.	4.8
Equinix, Inc.	4.4
Naspers Limited	4.4
The Priceline Group, Inc.	3.8
Illumina, Inc.	3.3

Russell 1000® Growth Index measures the performance of large-sized U.S. companies that are classified as growth.

S&P 500 Index measures the performance of 500 widely held large-cap U.S. companies.

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