

## Baron Capital ESG Policy

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We are committed to fully integrating environmental, social and governance ESG factors into our research process at the company level and monitoring how these risks and opportunities impact our portfolios. In 2019, we appointed a Director of ESG research to coordinate and collaborate our efforts across the firm to spearhead this effort. (See our “Environmental, Social and Governance (ESG) Statement of Principles” ([link here](#)). Following the creation of this new role, the firm became a signatory to the United Nations’ “Principles of Responsible Investment.”

We believe that it is important for companies to “do well by doing good” and that our investors and shareholders can benefit when companies in which we invest develop unique, differentiated strategies to create sustainable businesses that ultimately have a beneficial impact on all of its stakeholders. We believe that proper consideration of ESG factors can help to improve risk-adjusted returns, be a force for positive change, and lead to solutions for many of society’s problems.

### Integrating ESG

Our Director of ESG research works closely with our investment analysts and portfolio managers, along with our portfolio and risk analytics team, to analyze relevant ESG data and focus on the ESG-related subjects that our industry specialists deem to be most financially material to each individual company within their respective coverage universes.

We utilize third-party research and ratings from companies such as MSCI, Bloomberg, and others to gain a deeper understanding of the risks and opportunities faced by each of our companies regarding these material ESG factors and to further our due diligence of current and future investments.

We have established an internal ESG Question Bank<sup>1</sup>, the content of which is based on the materiality principles created by the Sustainable Accounting Standards Board, to help our analysts and managers in their qualitative and quantitative evaluations of the key issues that individual companies may face. This resource will be used to enhance our already robust in-depth research, and our engagements with the companies in which we invest.

Our goal is to evaluate ESG factors in the context of our analysis of a company’s long-term growth strategy, competitive positioning, and financial attributes. This should enable us to gain a better and more holistic view of each company’s potential to generate superior risk-adjusted returns for our shareholders. We believe that material ESG risks are critical business risks that have the potential to lead to permanent loss of capital, which is something we always seek to avoid. However, in addition to risk mitigation, ESG analysis can also help to frame or illuminate potential opportunities for revenue enhancement, cost reduction, margin improvement, and improved returns on capital.

ESG considerations are an important part of our investment analysis and factoring in the impact of these risks and opportunities into our valuation analysis could sway our investment decisions, but, on a standalone basis, they would not necessarily override our core investment criteria.

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<sup>1</sup> Sourced from “Engagement Guide For Asset Owners & Asset Managers”, Sustainability Accounting Standards Board, 2019, The SASB Foundation.



We look closely at each company's management and governance structures to assess how well they align with the interests of minority shareholders. We prefer independent directors, reasonable compensation practices, and transparent management teams that think and act like owners. Ultimately, we look for demonstrable alignment among the interests of shareholders, management, and the owners/founders.

### **Exclusion Policy**

We have written policies in place that prohibit Baron portfolios from owning securities of businesses engaged in the manufacturing and distribution of firearms, manufacturing of tobacco-related products, and businesses associated with adult entertainment (*link here*).

### **Proxy voting**

Voting proxies in the best interest of our clients is of paramount importance. Our Proxy Voting Policy is designed to support good governance policies, and it has a separate section providing guidance on ESG and disclosure proposals. We analyze each shareholder proposal related to these topics on a case-by-case basis.

Proxy Policy:

<https://www.baronfunds.com/sites/default/files/Proxy%20Policies%20and%20Procedures.pdf>

Proxy Voting Record:

<https://www.baronfunds.com/sites/default/files/2018%20BIFT%20N-PX.pdf>

### **Baron ESG Committee**

In 2018, we formed the ESG Committee to focus on ESG matters. The mandate of the Committee is to assist in the formulation and implementation of formal ESG policies. The Committee monitors trends in ESG research and investing and assists with client requests and reporting related to ESG topics. Members of the Committee include investment, portfolio risk, product, legal, and compliance professionals.