Dear Baron Fifth Avenue Growth Fund Shareholder:

Performance

Baron Fifth Avenue Growth Fund (the "Fund") gained 7.5% (Institutional Shares) in the fourth quarter and 34.3% over the calendar year 2019. This compares to gains of 10.6% and 36.4%, respectively, for the Russell 1000 Growth Index (the "Index") and 9.1% and 31.5%, respectively, for the S&P 500 Index, the Fund's benchmarks.

We were reasonably happy with the Fund's returns. Ordinarily, an annual gain of 34% would be celebrated as exceptional, and we would be highlighting all the things that went right that enabled us to accomplish this result. But 2019 was no ordinary year. It was a year of rising tides lifting all boats. Every sector in the economy recorded gains. For the Russell 1000 Growth Index, Financials and Communication Services sectors recorded gains of 35% each, while Information Technology, by far the largest sector of the Index at over 35%, posted a staggering return of 52%. Even Real Estate and Materials were up 34% each. This benchmark was tough to beat in 2019.

ALEX UMANSKY

PORTFOLIO MANAGER

Retail Shares: BFTHX
Institutional Shares: BFTIX
R6 Shares: BFTUX

Table I.
Performance
Annualized for periods ended December 31, 2019

	Baron Fifth Avenue Growth Fund Retail Shares[1,2]	Baron Fifth Avenue Growth Fund Institutional Shares[1,2,3]	Russell 1000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	7.47%	7.52%	10.62%	9.07%
One Year	33.97%	34.25%	36.39%	31.49%
Three Years	23.96%	24.26%	20.49%	15.27%
Five Years	14.68%	14.98%	14.63%	11.70%
Ten Years	14.22%	14.50%	15.22%	13.56%
Fifteen Years	9.35%	9.54%	10.50%	9.00%
Since Inception (April 30, 2004)	9.58%	9.77%	10.49%	9.31%

Many things went right for the Fund, and we had many sizable winners in 2019. **Amazon**, **Mastercard**, **Alibaba**, **Veeva**, **Worldpay**, and **ASML Holding** each contributed over 200 basis points ("bps") to the Fund's total return. **EPAM**, **Visa**, **Facebook**, **Equinix**, **Alphabet**, **PagSeguro Digital**, **S&P Global**, **RingCentral**, and **Intuitive Surgical** contributed over 100bps each to the Fund's total return. Fourteen of our investments were up over 50% on the year and seven of those were up over 74%. That was enough to outperform the S&P 500 Index. However, we failed to keep up with the Russell 1000 Growth Index. Performance attribution suggests that it was due to sector allocation effect, which detracted 310bps, while stock selection actually contributed 86bps. While the numbers are what the numbers are, we think it came down to three stocks: we eliminated Apple in January and hence did not own it for almost the entire year; we did not own Microsoft at all; and we owned too much Amazon.

Amazon is easy. After appreciating 384% from 2015 through 2018, the stock was up "only" 23% this year. We have been trimming it since the fourth quarter of 2016 and suspected the stock was due for a breather. Nonetheless, it remains our highest conviction long-term investment idea.

Apple and Microsoft were the two largest contributors to the Index and at a 7% weighting each, were up 89% and 58%, respectively. Not owning Apple for most of the year cost the Fund 270bps of relative performance and not owning Microsoft detracted another 107bps for a total of 377bps

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail and Institutional Shares as of September 30, 2019 was 1.06% and 0.80%, but the net annual expense ratio was 1.00% and 0.75% (net of the Adviser's fee waivers, restated to reflect current fee waivers). 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.

1 The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. The Russell 1000® Growth Index measures the performance of large-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Performance for the Institutional Shares prior to May 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 May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

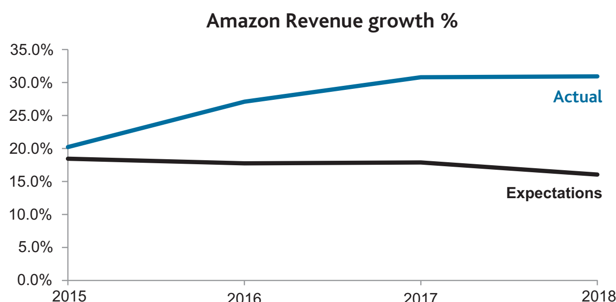
5 According to analysis using MSCI Barra's USE3-L factor model.

Baron Fifth Avenue Growth Fund

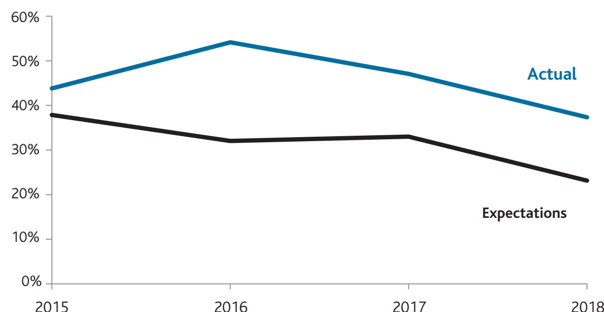
(we underperformed by a total of 224bps). While we believe both are high-quality businesses and we own both companies in size in Baron Durable Advantage Fund, we did not think either company qualified as a "big idea" anymore. Apple, in particular, has been growing revenues at about 3.5% since 2015, while EPS has compounded at about 8%, largely due to massive share buybacks.

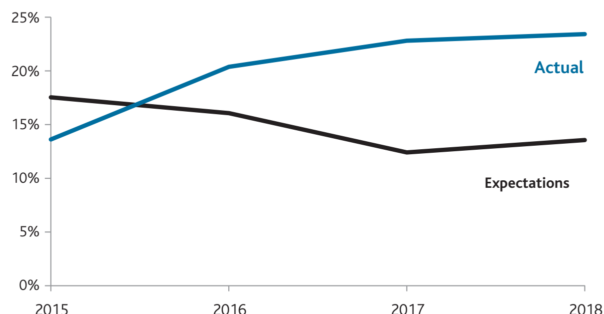
According to Morningstar, for the period ended December 31, 2019, the Fund ranked in the top 4% for its 3-year return, top 12% for its 5-year return, and top 10% since the Fund's restructuring at the end of 2011.* Since then, it has returned 258.1% cumulatively, outperforming the Russell 1000 Growth Index by 13.9%, the S&P 500 Index by 54.6%, and the Morningstar Large Growth Category Average by 59.1%. Good results in our view.**

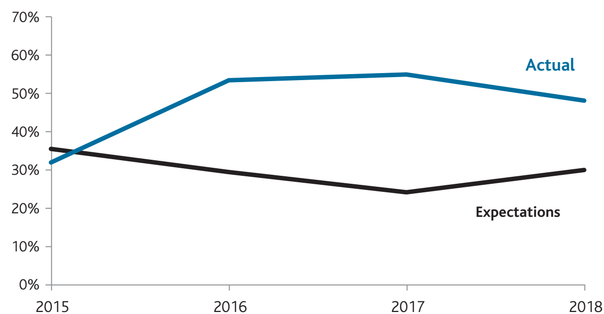
As we pointed out earlier, 2019 was not an ordinary year. The intrinsic values of our portfolio holdings did not rise by 34%, nor did the intrinsic value of our benchmark holdings rise by similar amounts. But to give it some context, the Fund was up just over 1% in 2018, and the indexes were down 1.5% to 4.4%, whereas the intrinsic values of both surely did better than that. In the short term, markets and stock prices react to all kinds of stimuli, but in the long run stock prices typically reflect the businesses' underlying intrinsic values. In this Fund, we focus on investing in "big ideas" that we believe have an opportunity to grow and compound their intrinsic values for extended periods of time, typically faster and longer than what we believe is being priced in by the market. Amazon was a good example of this at the end of 2014, when the consensus amongst the Street's analysts was that the company's growth rate would moderate and decline. This is how it played out[1]:



Not surprisingly, the stock was up nearly 12x as much as the S&P 500 Index over that time and proved to be a really big idea. We thought Facebook, Google, and Alibaba were being similarly misjudged and that their growth would prove to be both more resilient and more durable. We got those right as well:







Over that time, Facebook outperformed the S&P 500 Index by 36%, Google (now Alphabet) outperformed by 65%, and Alibaba performed in line with the S&P 500 Index (tensions with China and trade wars affecting this one more than the others). Despite the outperformance, during that time frame, each one of these stocks had periods of significant underperformance, with prices down anywhere between 20% and 40%. Intrinsic values were obviously not as volatile, and over the longer periods of time, stock prices followed the growth in intrinsic values.

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* Morningstar calculates the **Morningstar US Fund Large Growth Category** average using the Morningstar 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. As of 12/31/2019, the Category consisted of 1,360, 1,218, 1,086, and 811 share classes for the year-to-date, 1-, 3-, 5-, and 10-year periods. Morningstar ranked **Baron Fifth Avenue Growth Fund** Institutional Share Class in the 32nd, 4th, 12th, and 26th percentiles, respectively.

** Mr. Umansky became the portfolio manager of the Fund on November 1, 2011. Since that date, the Fund has returned 247.23% cumulatively, which compares to 243.06% for the Russell 1000 Growth Index and 205.98% for the S&P 500 Index, outperforming the Morningstar US Fund Large Growth Category average by 54.84% over the 8+ year period. As of 12/31/2019, the annualized returns of the Morningstar US Fund Large Growth Category average were 31.90%, 18.09%, 12.10%, and 13.40% for the 1-, 3-, 5, and 10-year periods, respectively.

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[1] Expectations based on FactSet consensus as of December 31, 2014.

Table II.
Top contributors to performance for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Percent Impact
Alibaba Group Holding Limited	$569.0	1.36%
Amazon.com, Inc.	916.2	0.71
Splunk, Inc.	23.4	0.67
Vertex Pharmaceuticals Incorporated	56.3	0.64
ASML Holding N.V.	126.0	0.63

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Financial, which operates Alipay, the largest digital payment provider in China with over 1 billion active users. Shares of Alibaba were up 27% in the quarter and recorded a 55% gain in 2019, contributing 280bps to our annual performance. The strong quarterly performance was driven by continued revenue and earnings growth (revenues and adjusted EBITDA were up 40% and 39% year-over-year, respectively) which was helped by traction in less developed regions, continued cost discipline, and an aggressive reinvestment strategy, with tailwinds from strong mobile and advertising revenue growth. We believe that Alibaba has the most comprehensive ecosystem of commerce platforms, logistics, and payments infrastructures that support the digital transformation of the retail sector. Alibaba's long-term opportunity remains open-ended, as the company continues to benefit from rising e-commerce penetration (about 35% of total retail sales now) while widening the moat around its platform (785 million monthly active users), increasing the value proposition to its customers and growing its addressable market.

Amazon.com, Inc. is the world's largest e-commerce and cloud services provider. Shares rose 6% during the quarter on accelerated paid unit growth and greater clarity around one-day shipping investments. After torrid gains in the prior four years, Amazon's stock underperformed in 2019, rising "just" 23%, while still contributing 367bps to the Fund's overall returns. Amazon Web Services ("AWS") had another strong quarter, growing revenues 35% year-over-year, passing a run rate of $35 billion for the first time and we view it as a key driver for the shares going forward (even though, as we mentioned above, Amazon remains early in disrupting several markets including e-commerce with around 15% penetration, advertising at 1% to 2%, logistics, health care, and more). We think AWS still has a long runway for growth with cloud penetration rising to about 6% in 2019 (vs. 5% in 2018) out of the $3.7 trillion global spend on Information Technology (according to Gartner).

Splunk, Inc. is a data analytics company that sells software solutions that help enterprises run their IT organizations, including security, internet-of-things, application and business analytics, and infrastructure. Splunk enables customers to collect, index, store, and analyze data, generating insights through a flexible and efficient platform architecture. Splunk shares were up 27% during the quarter and 44% over the last 12 months, contributing 88bps to the Fund's annual returns. Earlier in the year, Splunk shares were pressured due to the transition to ratable revenue recognition and the adoption of accounting standard ASC 606, which have masked the company's true growth profile and have pressured its profitability. The stock outperformed during the quarter after management shared new metrics that gave visibility to the underlying business growth and post-transition cash generation; both were above expectations. We believe that Splunk is strategically leveraged to several important secular trends: the proliferation of structured and unstructured data, and the growing demand to analyze that data, as companies across industries undergo digital transformations. We believe that Splunk's market position provides it with a unique opportunity to become the leading platform for big data analytics.

Vertex Pharmaceuticals Incorporated is the leader in development of drugs for cystic fibrosis. The fourth quarter was an inflection point for the company as the FDA granted an early approval for their "triple medication" in cystic fibrosis. Vertex also made significant progress in tough European commercial markets that have been battlegrounds relating to drug reimbursement. The shares rose 29% during the quarter and contributed 81bps to our annual returns. Our expectations for revenue and earnings growth, as well as the duration of growth, are significantly ahead of consensus and so we continue to hold on to this investment.

ASML Holding N.V. designs and manufactures semiconductor production equipment. It specializes in photolithography equipment, where light sources are used to photo-reactively create patterns on wafers which ultimately become printed integrated circuits. Shares of ASML appreciated 20% in the fourth quarter and 93% during the year making it one of our biggest winners, contributing 204bps to our 12-month returns. Market participants appeared to have regained confidence that the semiconductor cycle is bottoming out and the next-generation EUV lithography order book remained strong. We maintain conviction in ASML as it is the de-facto standard in the next generation lithography (EUV), which is a required step for semiconductor chip production at five nanometers and below.

Table III.
Top detractors from performance for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Percent Impact
Sage Therapeutics, Inc.	$ 3.7	–0.99%
PagSeguro Digital Ltd.	11.2	–0.81
Veeva Systems Inc.	20.9	–0.38
Twilio Inc.	13.5	–0.19
CME Group, Inc.	71.9	–0.14

Sage Therapeutics, Inc. is a biopharmaceutical company focused on developing novel drugs for central nervous system disorders. Recently, Sage's lead asset, SAGE-217 had a failed Phase 3 trial in major depressive disorder, calling into question the size of the drug's potential market and leading to a 49% decline in the stock. Concomitantly, a competitor, Axsome released more compelling data in the same indication. We remain invested in Sage given the large unmet need in depression and the sizable addressable opportunity but have this investment under review pending updates from the FDA regarding the next steps.

PagSeguro Digital Ltd. is a Brazilian payment processor, focused on facilitating small and micro-merchants in Brazil to accept different forms of credit, debit, and digital currency transactions. For most of its merchant customers, PagSeguro's simple product offering, an internet enabled payment device along with a mobile wallet, allows the merchant to instantly accept credit transactions without the need for a bank account. Shares of PagSeguro declined 26% during the quarter largely due to a secondary offering of shares by its controlling shareholder, UOL, to sell 5% of its 50% stake in the company. With the 26% decline, the stock still appreciated 85% in 2019 and was the Fund's 12th largest winner, contributing 125bps to our annual results. We believe PagSeguro has the potential to grow rapidly for many years due to its focus on the underserved

micro-merchant segment, serving 1.5 million consumers out of a population of 70 million unbanked people in Brazil. We further believe that PagSeguro's platform, increasingly recognized brand, and rapidly improving penetration, have the potential to dramatically lower transaction costs for these micro-merchants. Over time, we expect PagSeguro to gain significant market share from the bank-controlled incumbent payment processors, who continue to overcharge and underserve this growing merchant community.

Veeva Systems Inc. offers customer relationship management, content, collaboration, and data management solutions tailored mostly to the life sciences industry. After holding a well-attended, upbeat analyst day in early October, the stock came under pressure, declining 8% during the fourth quarter, due to long-term guidance that was cautious on margins and growth outside of life sciences, despite guiding above expectations on overall revenue growth and TAM opportunities. In addition, a competitor reported some early success with a competing product, creating some debate whether Veeva still has the market essentially all to itself. Despite these developments, Veeva was the Fund's 4th largest contributor in 2019, with the shares appreciating 57% and contributing 240bps to our overall returns. Our conviction in this investment is rooted in the ongoing evolution of the Veeva platform, the growth of its Vault solution, and the ability to deliver significant value to customers over long periods of time, resulting in an impressive growth and margin profile. We believe the company's long-term opportunity set remains compelling.

Twilio Inc., the leading Communications-Platform-as-a-Service ("CPaaS") provider, offers a set of application programming interfaces that help developers embed communications into their software through its cloud platform. Shares declined 11% during the quarter as the company admitted to accidentally (and modestly) overbilling some of its customers and had to issue refunds or credits that impacted its near-term growth projections by a few percentage points. We wrote extensively about our thesis on Twilio in a prior letter and our entry point has proven to be poorly timed. However, we retain conviction in the company's merits as Twilio continues to benefit from digital transformation trends that are leading enterprises to increasingly embed communications into their software, creating a potential multi-billion dollar market for the company.

CME Group, Inc. is the world's largest and most diversified derivatives marketplace. Its exchanges support trading of futures and options across a variety of asset classes, including interest rates, equity indexes, energy, agricultural commodities, currencies, and metals. Placid market conditions and tough year-over-year comparisons caused a 19% decline in average daily trading volume, a sharp turnaround from the 32% volume growth in the prior quarter. This, combined with the mixed volume outlook given the Federal Reserve's expected pause on interest rate changes, led to a 3% decline in CME's shares during the fourth quarter. We continue to believe that CME operates a strong business with a wide structural moat driven by the network effects between buyers and sellers on its marketplaces (the value of a marketplace is a function of its liquidity, which rises with the number of participants), its capital-light requirements, and its experienced management team that allocates capital well. We continue to own the stock as we believe CME would benefit from higher volatility and an increasing adoption of exchange-traded futures.

Portfolio Structure

The Fund's portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level (rather than benchmark weights) determining the size of each individual investment. Sector weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view." The top 10 positions represented 52.8% of the Fund, the top 20 were 80.1%, and we exited the quarter with 34 investments.

Information Technology, Consumer Discretionary, Health Care, Communication Services, and Financials made up 94.0% of the portfolio. The remaining 6.0% was made up of Equinix, Inc., which is a REIT classified under Real Estate, as well as cash.

The Fund's turnover was 25% in 2019, compared to 10% in 2018 and 12% in 2017 and 15% average turnover over the last five years.

Table IV.
Top 10 holdings as of December 31, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$916.2	$32.7	9.9%
Mastercard Incorporated	301.2	20.0	6.0
Alibaba Group Holding Limited	569.0	19.7	6.0
Alphabet Inc.	922.9	16.4	5.0
Visa, Inc.	369.9	16.1	4.9
Illumina, Inc.	48.8	14.9	4.5
Intuitive Surgical, Inc.	68.3	14.4	4.4
Veeva Systems Inc.	20.9	14.1	4.3
Facebook, Inc.	585.3	13.3	4.0
Fidelity National Information Services, Inc.	85.5	12.4	3.8

Recent Activity

We initiated three new investments including **ServiceNow** and **Slack Technologies** and added to seven existing holdings including **CrowdStrike**, **Twilio**, and **MercadoLibre**. We eliminated the Fund's multi-year investments in **Charles Schwab**, **Naspers**, and **Trip.com Group** (formally known as **Ctrip**) and exited the quarter with 34 holdings.

Table V.
Top net purchases for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Amount Purchased (millions)
ServiceNow, Inc.	$53.2	$4.7
Slack Technologies Inc.	12.4	3.3
CrowdStrike, Inc.	10.3	2.6
Twilio Inc.	13.5	2.3
MercadoLibre, Inc.	28.4	1.6

During the quarter, we initiated a position in **ServiceNow, Inc.**, a provider of cloud-based solutions for workflow management. ServiceNow's core products support IT Service Management, ("ITSM" or help desk) and IT Operations Management ("ITOM") as well as business management, performance analytics, customer service management, and security. The company's product portfolio enables customers to electronically create, assign, follow, and analyze various service automations. As enterprises digitally transform, we believe that ServiceNow is winning market share thanks to its easy to use, quick to implement, and ever-expanding offering. Its TAM is already large and is growing rapidly, as multi-product deals grow (during the last quarter, 18 of the top 20 deals were for at least three

products). The company has a strong moat based on its leading disruptive product set and the comprehensive platform it has built over the years with over 800 customers spending more than a million dollars annually with ServiceNow. During the quarter, the company announced that its CEO, John Donahoe, will depart to become the CEO of Nike, and he will be replaced by Bill McDermitt, the CEO of SAP. We happen to have a lot of history with Bill and are big fans of his. Here is how he summed up his reasons for joining ServiceNow during the company's latest earnings call:

*"I believe ServiceNow is in the privileged position of being **the platform of the platforms**. Because when you look at the business process and the workflow that goes on in enterprises today, everybody has this deep need to get the data aggregated in a workflow that creates simplicity for the users. And the more we can reinvent business processes in the image of the actual users themselves, the more we can become the defining platform of the platforms for the modern enterprise. So, I think the organic growth story here is just amazing, and it's only just begun."*

This notion of ServiceNow being the platform of platforms is very powerful in our view. As enterprises transition from the legacy linear world to avoid getting disrupted (See our last letter for more on this), they need technologies to support their new agile workflows–from ITSM, through ITOM, and to performance analytics and security. ServiceNow's common data model across its platform powers an ever-expanding data asset, which can be analyzed via AI, resulting in better outcomes for customers. This explains why churn is so low and why existing customers expand so rapidly. This is exciting.

Another new investment during the fourth quarter was **Slack Technologies Inc.** Slack is a cloud-based collaboration platform, enabling customers to communicate, share information, and collaborate on projects. Slack is used by 12 million users daily, it has over 100,000 paid customers, and it is growing rapidly. The company guided for fiscal year 2020 growth of 55% to 56% as new customers adopt it and as existing customers grow usage. Since the early days of the internet, e-mail has been the main way people communicated in their personal lives and at work. Slack seeks to disrupt that. This is how the company explains its mission:

"Our mission is to make people's working lives simpler, more pleasant and more productive."

And this is how they intend to disrupt email:

"The most helpful explanation of Slack is often that it replaces the use of email inside the organization. Like email (or the Internet or electricity), Slack has very general and broad applicability. It is not aimed at any one specific purpose, but nearly anything that people do together at work.

*"Unlike email, however, most of this **activity happens in team-based channels, rather than in individual inboxes**. Channels offer a persistent record of the conversations, data, documents, and application workflows relevant to a project or a topic. Membership of a channel can change over time as people join or leave a project or organization, and users benefit from the accumulated historical information in a way an employee never could when starting with an empty email inbox. Depending on the size of the organization, this might provide tens, hundreds or even thousands of times more access to information than is available to individuals working in environments where email is the primary means of communication."*[2]

As organizations digitally transform and become more agile, the technologies they use and their organizational structures must adapt as well. These technologies need to mirror the collaborative, customer-centric workflows rather than act as a constraint on them (See our last letter on why linear organizations that do not adapt face the risk of getting disrupted). Slack's platform was purpose-built for that world, while e-mail is more relevant for the siloed linear organizations of the past, in our view.

Slack also benefits from strong competitive advantages including its integration with dozens of other enterprise tools such as Google Docs, Salesforce, and others, as well as the ever-growing data Slack customers generate and then tap into, which creates stickiness. Slack's shared channels also benefit from Metcalfe's Law (the value of a shared channel grows with the amount of collaboration) as well as from word-of-mouth adoption (the more users are in Slack, the more attractive the platform becomes for other users). This explains Slack's best-in-class net-dollar-retention rates of 130%. We believe Slack has a very large opportunity ahead to disrupt e-mail usage, with still hundreds of millions of information workers using e-mails daily as their main collaboration tool.

We also added to our **CrowdStrike, Inc.** position during the quarter after its share price corrected more than 50% from its high. CrowdStrike is a leading cybersecurity cloud service provider. Its offering is powered by a lightweight agent, which monitors endpoints and sends data back to a central repository in the cloud, and its Cloud Threat Graph, which monitors data from all CrowdStrike customers over time to identify threats and breaches. This enables CrowdStrike to provide a better solution. Its technology runs AI models on top of the large and ever-growing data set of threats, essentially a software code that writes itself as threats change. This technology is capable of identifying new threats as they arise in real time. This central data repository creates a wide moat around its business as the algorithms continue to improve over time as new data is added, attracting more customers, which in turn plug-in additional data into the platform. Rinse and repeat. These capabilities drive accolades from customers, who are voting with their wallets, driving greater than 100% growth rates for CrowdStrike at scale with a solid land & expand strategy as customers adopt additional modules across the platform. We believe CrowdStrike has just scratched the surface of what it could do with its rapidly growing platform and are excited about its future potential.

We also took advantage of **Twilio**'s and **MercadoLibre**'s stock price corrections during the quarter to add to our existing positions.

Table VI.
Top net sales for the quarter ended December 31, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
The Charles Schwab Corp.	$ 61.4	$8.0
Amazon.com, Inc.	916.2	5.7
Naspers Limited	65.4	3.6
Trip.com Group Limited	20.4	2.1
Booking Holdings, Inc.	86.0	0.3

We trimmed our investments in **Amazon** and **Booking**, and eliminated **Charles Schwab** to fund the purchases of ServiceNow, Slack, CrowdStrike, Twilio, and MercadoLibre during the quarter.

[2] Slack's S-1 registration filing with the SEC.

Baron Fifth Avenue Growth Fund

On **Naspers**, there were two primary tenets to our investment thesis:

1. The stock was trading at a dramatic 45% to 50% discount to its Net Asset Value ("NAV").
2. We had high conviction in Naspers' main assets, which were its 35% ownership stake in leading Chinese internet company Tencent, and its sizable stake in Indian e-commerce leader Flipkart.

Our analysis suggested that we were getting the remaining 140 or so additional internet assets as well as Naspers' local South African media and telecom assets for free. Shares of Tencent went up almost four-fold and Naspers has been able to monetize its investments successfully by selling its stake in Flipkart to Walmart and reducing its stake in Tencent through open market transactions. In February of this year, Naspers successfully spun out to shareholders its media and telecom assets, Multichoice Group Ltd., which we received and sold a short while later. The company also relisted its most valuable internet assets (including Tencent) in Amsterdam under the name Prosus in the third quarter of this year. These actions were taken all in an effort to reduce the discount to NAV. By the time the company was done with them, the discount to NAV had narrowed from over 50% (at peak) to just over 20%, which is an average discount for a conglomerate of Naspers' size. At that point, we concluded that our investment thesis had largely played out and chose to exit the stock.

We also sold our small **Trip.com** position as we became increasingly concerned regarding escalating competition from domestic players (such as Meituan) that may pressure margins going forward.

Outlook

U.S. equity investors, particularly growth investors, had a nice year. In fact, we've had a nice run over the last 3, 5, and 10 years. Baron Fifth Avenue Growth Fund has returned over 24% annualized over the last 3 years and close to 15% over the last 5 and 10 years (though the current investment team has only steered the Fund since November of 2011). Many of our clients and prospective investors want this section of the letter to be used to answer questions like, so what now? How much upside is left? Can growth continue to outperform? Can this be the right time to allocate fresh capital?

Entering 2019, we did not expect the market to do what it did, or for the Fund's annualized returns to exceed 24% over the last three years. These kinds of returns are plainly not sustainable for all the obvious reasons. But we did observe a favorable investing environment, despite the ever-present risks and challenges, where market participants seemed to be willing to focus more on the future than on the here and now. We pointed out that this is the environment in which we tend to do well.

As we enter 2020, we do not see anything materially different. Interest rates are low (or lower), and we expect the Fed Policy to remain accommodating. Low interest rates increase the present value of future cash flows, a strong tailwind for growth stocks. Many of the high-quality businesses in which we are invested penalize near-term profitability to invest and ensure their future growth, so the macro environment continues to be favorable to them. Valuations are higher across the board as 2019 was much more about multiple expansions than earnings growth, but they are not unreasonable and, in some cases, remain attractive. According to David Kostin, a global strategist at Goldman Sachs, the S&P 500 Index currently trades at 19x 2020 earnings (the majority of other markets in which we invest trade at lower multiples). This multiple compares to the S&P 500's 24x multiple in 1998 and its almost 30x multiple in March of 2000 when the internet bubble burst. More importantly, as we look at our portfolio companies today, our confidence in the durability of growth over the next three to five years remains just as high, and so, we believe they continue to represent compelling investment opportunities.

Every day we live and invest in a world full of uncertainty. Well-known conditions and widely anticipated events, such as Federal Reserve rate changes (up and down), ongoing trade disputes, a partial government shutdown, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day and seem to drive them up or down the next. We often find it difficult to know why the market participants do what they do over the short term. The constant challenges we face are real and serious, with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create. We are confident that our process is the right one, and we believe that it will enable us to make good investment decisions over time.

Our goal remains to maximize long-term returns without taking significant risks of a permanent loss of capital. We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities while remaining patient and investing only when we believe the target companies are trading significantly below their intrinsic values.

Sincerely,

Alex Umansky
Portfolio Manager

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Risks: 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. There is no guarantee that these objectives will be met.

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