

DEAR BARON FIFTH AVENUE GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron Fifth Avenue Growth Fund (the "Fund") gained 8.2% (Institutional Shares) compared to gains of 11.4% for the Russell 1000 Growth Index ("R1KG") and 12.2% for the S&P 500 Index ("SPX"), respectively. Despite giving back some of our excess return in this most recent quarter, the Fund had a good year with a gain of 50.8%, which was better than the R1KG's return of 38.5% and significantly better than the 18.4% gain for the SPX.

Table I.
Performance

Annualized for periods ended December 31, 2020

	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	8.09%	8.15%	11.39%	12.15%
One Year	50.42%	50.81%	38.49%	18.40%
Three Years	26.77%	27.09%	22.99%	14.18%
Five Years	22.92%	23.24%	21.00%	15.22%
Ten Years	17.79%	18.10%	17.21%	13.88%
Fifteen Years	11.76%	11.98%	12.54%	9.88%
Since Inception (April 30, 2004)	11.68%	11.88%	12.00%	9.84%

Amazingly, and despite everything that has happened this year, 2020 turned out to be another year in which it was hard to lose money, as long as... one had the courage to remain invested through the scary downturn. Most equity indexes were up double-digits, both domestically and globally. Emerging markets were up, and developed markets were up as well. Bonds were up, gold was up, and bitcoin was also up (a lot!). Growth companies continued to be in favor, driven by lower interest rates for longer, and in many cases by rapidly improving business fundamentals. COVID-19 proved to be a strong accelerant for every company that enables modernization and digital transformation, and as we have written over the years, the Fund had invested in many of them.

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, 2020 was 1.05% and 0.78%, 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, 2031, 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 **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. The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index.

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.



ALEX UMANSKY

PORTFOLIO MANAGER

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

The year 2020 will undoubtedly go down in history for many things. We think one of them will be for one of the most compressed and violent market cycles. Stocks and indexes continued the prior year's rally uninterrupted until the peak of February 19 (Stage 1), suffered an unprecedented decline (-31% for the R1KG and -34% for the SPX) over the next five weeks until the trough on March 23 (Stage 2), and then staged an equally unprecedented recovery (85% and 70%, respectively) over the next nine months, through the end of the year (Stage 3). Relative to the R1KG, the Fund had outperformed by 2.9% during Stage 1, 2.8% during Stage 2, and 3.8% during Stage 3. The outperformance over the SPX was far greater and equally consistent.



Baron Fifth Avenue Growth Fund

As is usually the case, excess returns were driven by stock selection, which accounted for over 100% of the Fund's outperformance. Stock selection was responsible for 13.3% of excess returns, while cash in an up market was a moderate headwind. Investments classified as Information Technology ("IT"), Health Care, and Consumer Discretionary, which represented over 76% of the Fund's average holdings were responsible for essentially all of the outperformance (positive 12.6%). Portfolio holdings in IT (41% of the Fund, on average) were up 76% in 2020, Consumer Discretionary (18%, on average) were up 67%, while investments in Health Care (17%, on average) appreciated 40%. Relative returns also benefited from not investing in any Industrials, Consumer Staples, Materials, and Energy companies, which were some of the worst performing sectors in 2020.

Once again, we had a large number of winners this year while our losers were few and had less than consequential size in the portfolio. Over the course of the year, 15 of our investments appreciated at least 75% each, 9 of which at least doubled, 1 more than tripled, and yet another 1 more than quadrupled. Looked at differently, 18 of our holdings contributed at least 100bps each to absolute returns. **Amazon, Twilio, Veeva, CrowdStrike, MercadoLibre, Datadog, RingCentral, Adyen, Wix, and ServiceNow** were the top 10 contributors generating more than 220bps each. Surprisingly, none of them were new additions to the Fund, meaning all were first purchased prior to 2020. More on that to follow.

* Mr. Umansky became the portfolio manager of the Fund on November 1, 2011. Since that date, the Fund has returned 423.65% cumulatively, which compares to 375.12% for the Russell 1000 Growth Index and 262.28% for the S&P 500 Index, outperforming the Morningstar US Fund Large Growth Category average by 129.32% over the 9 plus-year period. As of 12/31/2020, the annualized returns of the Morningstar Large Growth Category average were 35.86%, 20.50%, 18.30%, and 15.14% for the 1-, 3-, 5-, and 10-year periods, respectively.

Morningstar calculates the Morningstar Large Growth Category average performance and rankings using the Morningstar Fractional Weighting methodology. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

Morningstar rankings are based on total returns and do not include sales charges. As of 12/31/2020, the Category consisted of 1,289, 1,197, 1,070, and 789 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Fifth Avenue Growth Fund Institutional Share Class in the 11th, 10th, 8th, and 11th percentiles, respectively.

For the period ended 12/31/2020, Baron Fifth Avenue Growth Fund received a 5-Star Overall Morningstar Rating™, 5-Star 3-Year Rating, 5-Star 5-Year Rating, and 4-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 1,197, 1,197, 1,070, and 789 funds in the category, respectively. This Morningstar Rating is for the Institutional share class only; other classes may have different performance characteristics.

The **Morningstar Rating™** for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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According to Morningstar, for the period ended December 31, 2020, the Fund ranked in the top 11% for its 1-year return, top 10% for its 3-year return, top 8% for its 5-year return, and top 9% since the Fund's restructuring at the end of 2011.* Since that time, it has returned 440.1% cumulatively, outperforming the R1KG by 63.4%, the S&P 500 by 180.7%, and the Morningstar Large Growth Category Average by 137.0%. Baron Fifth Avenue Growth Fund received a 5-Star Overall Morningstar Rating™, 5-Star 3-Year Rating, 5-Star 5-Year Rating, and 4-Star 10-Year Rating.

Needless to say, 2020 was an incredibly difficult, challenging year. The pain, the suffering, the human tragedy... it was real, and it was personal. When looking at the Fund's investment returns, it is tempting to conclude that it was an excellent year. We are not certain that is the case. Though it is too early for a full post-mortem, it is clear that we struggled mightily with many decisions. Human beings often confuse good outcomes with good decisions (we wrote extensively about that in the last letter). We work hard not to. It is important to separate outcomes from decisions because good outcomes can come from good decisions as well as poor ones (and, of course, the opposite is true as well). An environment conducive to good decision-making requires balance and we could not find it in our economy, in our country, at home, or abroad. In 2020, balance was hard to find. We try to think probabilistically and allocate capital against a range of outcomes and this time the range was not only extremely wide, but some of the consequences were really dark. Since we could not find that balance, we tried to postpone as many decisions as we could because we thought they were equally or more likely to be bad than good, and postponing bad decisions was one of the more valuable lessons we learned from past mistakes. So, we focused on doing the little things right, and we focused on risk management.

Under normal circumstances, we are not risk-averse. Successful investing, as we see it, is all about risk assessment and willingness to take on investment risk. It is the only way to generate investment returns that are above risk-free rates. We seek asymmetric risk-reward opportunities where for every unit of risk taken, we believe we are receiving multiple units of return. It is an oversimplification, but the key assumption here is that we know how to price risk appropriately. There was no way to do that with any conviction in the midst of a global pandemic, and so we made a conscious decision to reduce the number of “risk units” that we would take on under normal circumstances.

So how do we reconcile taking on a reduced number of “risk units” with what was an objectively strong investment return? We attribute it primarily to three factors:

1. We were undoubtedly helped by good luck. Even during the depth of the crisis, the investment environment remained favorable to our style and to the kinds of businesses we favor. Of course, we could have gotten even luckier had we not sold *Tesla* and *Zoom Video* in the second half of 2019, but the point is that we are cognizant that the environment and our style will not always remain favorable to us.
2. We benefited disproportionately from the good investment decisions made in prior years. None of our top 12 contributors for the year came from investments initiated this year. In fact, only 2 of our top 20 were bought in the last 12 months. Intuitive Surgical and EPAM were bought in 2016, Veeva, Wix, and Vertex Pharmaceuticals in 2017, RingCentral in 2018, and Twilio, CrowdStrike, MercadoLibre, Datadog, Adyen, ServiceNow, and Slack were all added in 2019. It is unclear how promising the 2020 crop is, but time will tell.
3. The Baron investment process. The one thing we never lost conviction in, even during most challenging times, is that our process works! Invest in unique, competitively advantaged businesses, managed by exceptional people who focus on long-term value creation. Evaluate companies through the disruptive change lens, with emphasis on specific characteristics (platform businesses, eco-systems, network effects, etc.) that enable companies’ growth to be particularly durable. Valuations matter – margin of safety at purchase price is the most effective risk management tool available to us.

Bottom line – though our investment returns were strong, 2020 was one of the most challenging years for capital allocation decisions in our professional experience. In the midst of a global pandemic, an election year unlike any we have seen before, a market rally that left swaths of stocks (and pockets of our portfolio) with unpalatable valuations, and significant inflows of fresh capital, we often found ourselves in a tricky situation.

Uncertainty was high, on occasions extreme, generating an unusually wide range of possible outcomes, while at the same time, stocks were hitting new all-time highs. Ordinarily, we put fresh capital to work by buying the entire portfolio (in proportion to the size of each individual investment). However, this year we chose to be more tactical (or rigid if you will), and we did not add to positions whose valuations were unattractive to us. The decision allowed us to effectively reduce the size of these positions, somewhat meaningfully, without having to sell their shares (which would have created taxable gains for some of our shareholders). Ironically, these were the companies that continued to rally the hardest in a market driven by momentum, so it has not benefited the Fund so far.

Table II.

Top contributors to performance for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Percent Impact
Twilio Inc.	\$ 51.1	1.28%
MercadoLibre, Inc.	83.4	1.13
CrowdStrike, Inc.	46.9	1.01
RingCentral, Inc.	34.0	0.88
ASML Holding N.V.	204.6	0.76

Twilio Inc. is a leading Communications-Platform-as-a-Service (“CPaaS”) company offering a set of application programming interfaces that help developers embed communications into their software through its cloud platform. Shares were up 37% during the fourth quarter, ending the year up 245% as Twilio continued showing broad strength due to accelerated digitization trends, as a result of COVID-19, which drove 50% plus revenue growth. We believe the accelerating pace of digitization is driving businesses to increasingly embed communications into their software, creating a potential multi-billion dollar market opportunity for Twilio.

Shares of **MercadoLibre, Inc.**, the leading e-commerce and digital payments platform in Latin America, appreciated 55% during the quarter, closing 2020 up 193%. While MercadoLibre saw significant benefit from the accelerated e-commerce penetration due to COVID-19, the company showed accelerating gross merchandise value in its third quarter results despite the reopening of physical retail over the summer, indicating stickiness among recently acquired users and market share growth in some of its largest markets, particularly Brazil. We remain shareholders as we believe the company is a long-term winner in both e-commerce and payments across a region that remains in the early stage of digitization.

CrowdStrike, Inc. is a leading cybersecurity cloud service provider, offering next-generation endpoint detection and remediation solutions. Shares of CrowdStrike were up 54% in the fourth quarter, closing 2020 with a whopping 327% return, on another strong quarterly report that beat market expectations with revenue growth of 86% year-over-year, driven by taking market share away from legacy vendors, improving cross-selling of newer modules, and expanding internationally. News of a massive cyberattack on federal agencies and other targets also boosted shares as investors expect spending on cybersecurity to accelerate in the short/mid term. Longer term,

Baron Fifth Avenue Growth Fund

we believe CrowdStrike remains well positioned with its cloud-first, AI/ML product approach, growing customer base, and improving data insights. Moreover, we believe CrowdStrike has just scratched the surface of the ultimate opportunity with its rapidly growing platform, and we are excited about its future potential to gain wallet share in the cybersecurity space as customers consolidate spending on its platform.

RingCentral, Inc. provides global cloud communications and collaboration solutions across multiple channels (voice, video, and messaging). RingCentral's stock rose 38% during the quarter, closing 2020 up 125% as the company reported a continued acceleration in its business with revenues up 30% year-over-year, while also announcing another distribution deal (with Vodafone), bringing the total addressable seats via exclusive distribution deals to over \$200 million. With its distribution advantage and the COVID-19 pandemic crystalizing the need for a communications platform that is agile, scalable, and global, and with just 2.5 million current users, RingCentral remains early in the migration from premise-based communications solutions to the cloud, which should drive sustainable growth for years to come.

ASML Holding N.V. designs and manufactures semiconductor production equipment, specializing in photolithography, where light sources are used to photo-reactively create patterns on wafers that ultimately become printed integrated circuits. Shares of ASML appreciated 33% during the fourth quarter and 66% in 2020 on renewed market confidence that the semiconductor cycle has turned, driven by tighter supply and a robust demand environment. We maintain conviction in ASML as it is the de-facto standard in next generation lithography (EUV), which is a required step for semiconductor chip production.

Table III.
Top detractors from performance for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Percent Impact
Alibaba Group Holding Limited	\$629.7	-0.96%
Splunk, Inc.	27.5	-0.30
S&P Global Inc.	79.1	-0.24
Vertex Pharmaceuticals Incorporated	61.5	-0.21
Veeva Systems Inc.	41.2	-0.17

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates the shopping platforms Taobao and Tmall and owns 33% of Ant Group, which operates Alipay, China's largest third-party online payment provider. Shares were down 21% during the fourth quarter after a sequence of events that started with Chinese regulators stopping Ant Group's IPO (which should have been one of the largest in history) following Jack Ma's comments at a conference, criticizing Chinese regulators, just weeks prior, and continued with the regulators launching an investigation into Alibaba for suspected monopolistic behavior. This sequence of events put again, front and center, the risks of investing in emerging markets in general and China in particular. When considering Chinese investments, investors need to decide where to position themselves on the range of possible approaches, where on the one extreme, one might consider China un-investible and on the other extreme, one could look at Chinese companies via a similar lens as they do domestic ones. Our approach is somewhere in the middle. On the one hand, it is clear that regulatory risks are higher, and so we would demand higher hurdle rates (or

margin of safety), but on the other hand, not investing in China has significant opportunity costs – as it is the 2nd largest economy in the world today at 18% of world GDP (U.S. is #1 at 25%) and growing fast. We have therefore always been overweight China, which will likely continue in the future, even though we continue demanding significantly higher margins of safety for our investments, as well as managing risk on a company-specific level (which we define as the probability of a permanent loss of capital). Under this framework, Alibaba remains one of the most undervalued platform businesses in the world. Its core business remains one of the fastest growing, highly profitable, e-commerce businesses in the world, while true earnings are masked by a host of earlier stage (and rapidly growing) businesses such as Ali cloud (Alibaba's "AWS"), logistics, and New Retail. Despite that, as of the end of 2020, Alibaba was trading at less than 20 times earnings (which were negatively impacted by all those early-stage businesses). Note that despite the decline in share price during the fourth quarter, Alibaba ended 2020 up 9.8% (contributing 77bps to our performance) and it is up more than three times since we originally invested in the company six years ago. We believe the risk-reward remains favorable for long-term investors, such as ourselves.

Splunk, Inc. is a data analytics company that sells software solutions to 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. The stock declined 10% during the fourth quarter (though was still up 13% in 2020) after the company reported a deceleration in contract activity within its large customer segment due to longer budgetary approval processes, as a result of COVID-19. We maintain conviction as we expect Splunk's new cloud offering to drive material growth in annualized recurring revenues, even though it may take longer to achieve in the pandemic-impacted spending environment.

S&P Global Inc. provides credit ratings, indexes, data, and analytics to the financial and commodities markets. Shares of S&P Global declined 9% in the fourth quarter as some investors responded negatively to the announced merger with IHS Markit (as it dilutes its exposure to financial markets data) and as bond issuances slowed down in the fourth quarter after a strong first nine months of the year, with the stock ending 2020 up 22%. Near zero interest rates and stimulus measures from the Federal Reserve drove a strong corporate bond issuance market for most of 2020 while equity market appreciation also provided a boost to the Indexes segment. We continue to own the stock due to S&P Global's long runway for growth as it benefits from the secular trends of increasing bond issuance, growth in passive investing, and demand for data and analytics, while enjoying meaningful and durable competitive advantages that, in our view, are only strengthening following the merger with IHS Markit.

Vertex Pharmaceuticals Incorporated is a biotechnology company that has developed a paradigm-shifting treatment for cystic fibrosis, with the potential to change it from a life-threatening disease to one a patient can live with for his or her entire life. Share weakness in the quarter was due to the negative initial readout of a pipeline asset targeting Alpha-1 antitrypsin disease, an inherited disorder that increases the chance of lung and liver disease. Vertex is now in the middle to late innings of commercializing the global cystic fibrosis market while building its pipeline to treat a number of other diseases. Given Vertex's best-in-class growth profile and cash flow, and upcoming catalyst flow, we retain long-term conviction in the name.

Veeva Systems Inc. offers customer relationship management, content, collaboration, and data management solutions tailored mostly to the life sciences industry. Investors took some profits during the fourth quarter with shares declining 3%, though still finishing 2020 up 94%. Despite strong third quarter results with revenues increasing 34% year-over-year with operating margins reaching 41%, management described a more cautious 2021 view with a potential reduction in sales representatives, suggesting headwinds to its commercial business. A new administration is also increasing uncertainty around the regulatory environment for the industry. We retain conviction as we believe COVID-19 has proven to be less of a headwind on Veeva's life sciences customer base, leading to the resiliency we see in Veeva's numbers. The pandemic may also accelerate the industry's transition to new cloud and data solutions, areas in which Veeva is already considered a leader or positioned well for expansion. 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.

PORTFOLIO STRUCTURE

The Fund's portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level determining the size of each investment. Sector weights are an outcome of the stock selection process and are not meant to indicate a positive or a negative "view." As of December 31, 2020, the top 10 positions represented 43.0% of the Fund, the top 20 were 71.3%, and we exited 2020 with 37 investments.

IT, Health Care, Consumer Discretionary, Communication Services, and Financials made up 95.2% of the Fund. The remaining 4.8% was made up of Equinix, Inc., which is a REIT classified under Real Estate, as well as cash.

The Fund's turnover was 10.7% in 2020, compared to average turnover of 15.3% over the last three years, and 14.6% average turnover over the last five years.

Table IV.
Top 10 holdings as of December 31, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	\$1,634.2	\$60.8	8.5%
Alphabet Inc.	1,185.3	32.4	4.5
ServiceNow, Inc.	107.4	28.2	4.0
Mastercard Incorporated	355.8	27.8	3.9
Twilio Inc.	51.1	27.7	3.9
Veeva Systems Inc.	41.2	27.3	3.8
RingCentral, Inc.	34.0	26.9	3.8
Adobe Inc.	239.9	26.4	3.7
Facebook, Inc.	778.0	25.3	3.5
Alibaba Group Holding Limited	629.7	24.3	3.4

RECENT ACTIVITY

During the fourth quarter, we initiated seven new investments: **Adobe, GDS Holdings, Shopify, Dynatrace, argenx, DoorDash, and Airbnb.**

We also added to 24 existing positions as we continued to put the Fund's inflows to work. We liquidated 2 investments – **Fidelity National Information** and **CME Group**, exiting 2020 with 37 holdings. Those include 2 stub positions in **DoorDash** and **Airbnb**, in which we invested during their respective IPOs but were unable to acquire "real" positions before their stock prices ran away from us.

Table V.
Top net purchases for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Adobe Inc.	\$ 239.9	\$26.4
GDS Holdings Limited	17.5	12.1
Alphabet Inc.	1,185.3	10.9
PayPal Holdings, Inc.	274.4	9.8
ServiceNow, Inc.	107.4	9.3

Our largest investment in the fourth quarter was **Adobe Inc.** Adobe is a leading software company providing solutions for creative and marketing professionals, offering products that range from Photoshop to digital marketing and analytics, helping companies with digital transformations. Adobe's transition to the cloud has been one of the most successful in the history of the software industry, enabling the company to reaccelerate growth, increase customer retention, and strengthen its competitive moat. Adobe is the leader in creative and document clouds (approximately 70% of revenues), and its platform has become the industry standard. Its digital experience offering (around 25% of revenues) is also the most comprehensive platform, offering solutions from advertising to marketing and analytics, and it remains in the early rounds of creating the experience system of record as it integrates several recent acquisitions including Magento (commerce solution), Marketo (primarily a B2B solution) and Workfront (workflow management) together with its organic product innovation such as the Adobe Experience Platform. Adobe's robust opportunity is driven by some of the strongest technological shifts of our generation including digitization of content, the growing adoption of online advertising, the transition to mobile, and the widespread adoption of video. Adobe's access to data with trillions of data points in marketing and web analytics coming from millions of users and the artificial intelligence capabilities it adds on top (via "Sensei"), create a significant moat around its business, with a fly-wheel effect that continuously increases Adobe's gap from competitors. We believe that the opportunity ahead of Adobe is large and expanding with a total addressable market ("TAM") estimated at over \$100 billion. We believe Adobe remains the best positioned company to attack that TAM as it benefits from its leadership position in both the creative market as well as the experience market.

During the fourth quarter, we also bought shares in **GDS Holdings Limited**, the leading developer and operator of data centers in China. We have owned the stock for almost two years in our Baron Global Advantage Fund and believe it has matured enough to become attractive for this Fund as well. GDS is benefiting from some strong secular tailwinds including digitization and the adoption of cloud. The Chinese digital economy is in its early growth phase, with still relatively low internet user penetration (around two-thirds) and while global cloud penetration remains low (approximately 6% of global IT spending was on the cloud in 2019), China is even earlier on that penetration curve. GDS is benefiting from those trends as the leading

Baron Fifth Avenue Growth Fund

data center provider to the fastest growing companies in China including Alibaba, Tencent, and ByteDance (the owner of Douyin and TikTok). Additionally, the location of GDS' data centers are considered excellent. They are focused on Tier 1 cities including Beijing, Shanghai, Shenzhen, Guangzhou, and Chengdu, while more recently expanding to the outskirts of those cities as well as to lower tier cities (via JVs). Following several capital raises over the last two years, GDS also has a solid balance sheet, which the company can use to support both organic development and acquisitions. We therefore believe that GDS has the opportunity to be a *Big Idea* over the long term, and while we require a higher hurdle rate for a Chinese investment, especially for this Fund, we believe the risk/reward in this case is highly skewed in our favor.

During the quarter, we also initiated a starter position in **Shopify Inc.**, the leading cloud-based commerce software provider. This is again a company we have owned for some time in our Baron Global Advantage Fund, and which we should have added earlier to this Fund as well, but better late than never, as Shopify is truly a unique company. Shopify's value proposition is to provide a single, easy to use, operating system for merchants to manage every aspect of their business including: selling across multiple channels (direct to consumer as well as on third-party marketplaces like Amazon), managing product listings, inventory, orders, payments, shipments, marketing, and customer relationships. The company has over 1 million merchants, who have processed more than \$60 billion of sales during 2019 (and are expected to pass \$100 billion in 2020), making Shopify the 2nd largest "behind-the-scenes" e-commerce player in the U.S. behind only Amazon, and ahead of Apple, Walmart, and eBay!

Shopify has developed a scalable cloud platform that caters to merchants of all sizes, from a new entrepreneur just starting out to big brands like PepsiCo and Unilever. What we really like about Shopify is the ecosystem that the company built, creating network effects and a virtuous cycle that will be very hard for competitors to overcome. The more merchants join, adopt, and transact on Shopify's platform, the more partners are attracted to its ecosystem, adding more features and options to the platform (through Shopify's app store), increasing the company's moats and value to merchants. One example of how Shopify has become a platform is its recent introduction of Shopify Fulfillment Network ("SFN"). Shopify has built software that connects third-party logistics providers with its 1 million merchants, to solve one of the biggest pain points for small merchants – shipping. Before SFN, the typical route was – you buy something online and by the time you get to the checkout page, you find out that shipping will cost you \$20 and by the way, you will only get the product in 4 to 10 business days (unless of course you're willing to pay \$20 more for expedited shipping). For many buyers, the next step was to close the browser and go to Amazon. Through SFN, Shopify will take advantage of the vast data it has on SKU-level transactions to help merchants optimize their working capital (i.e., store SKUs closer to end customers), while lowering shipping costs and increasing delivery speeds at the same time. The company's goal is to deliver to 99% of the U.S. in two days or less. The bigger picture here is that Shopify is quietly building an Amazon competitor (which is still our largest holding, so we believe there is room for both). But unlike Amazon, which also competes with its merchants (through first-party sales), Shopify is in the background, quietly helping merchants of all sizes to sell more online, aggregating the scale of the many merchants it has, to enable the benefits that only the largest merchants could get in the past. The opportunity for Shopify is two-fold. First, it is still early in the adoption curve, with the amount of Gross Merchandise Value transacted on the platform expected to pass \$100 billion in 2020 out of \$20 trillion TAM (global commerce, ex-China) or 0.5% penetration. Second, as Shopify consistently continues to remove hurdles for merchants to sell online, the company can increase its

share of the economics (or take-rate) from about 2.5% currently (Amazon charges between 10% and 20% on its fulfillment services). Lastly and perhaps most importantly, Shopify has a great culture, and it is led by a visionary founder, Tobi Lutke. One example of the company's culture is a blog post from four years ago titled "Value Creation – Building for The Next 100 Years" (how many CEOs think, let alone talk about the next 100 years of their company?). The post starts with the following paragraph:

"At Shopify, value creation is measured not just by growth of dollars and cents, but also by the growth of small business, computing literacy and personal development. We are building for the long term." In his latest shareholder letter (from 2018), Lutke describes Shopify's mission as follows: "Much has changed since my letter three years ago, but I'm proud of what has stayed the same. We're still motivated by our mission to make commerce better for everyone, our ecosystem of third-party partners continues to thrive, and we still view revenue growth as a secondary, though encouraging, by-product of our work. Here's one more thing that hasn't changed: we're just getting started." And this is how he explains Shopify's success: "Like all entrepreneurs, we are risk-takers. Fear of failing does not stop us, because we understand failure for what it is: a successful discovery of something that didn't work. It means we learned something, and it's critical that we continue to learn by doing."

In our view, Shopify has all the ingredients necessary to become a core holding and we are excited about its long-term potential.

Our other large purchases in the quarter were to put our inflows to work, continuing to build our positions in **Alphabet Inc.**, **PayPal Holdings, Inc.** and **ServiceNow, Inc.**

Table VI.
Top net sales for the quarter ended December 31, 2020

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Fidelity National Information Services, Inc.	\$87.7	\$12.3
CME Group, Inc.	64.7	9.9
Datadog, Inc.	30.0	1.5

During the fourth quarter, we sold our **Fidelity National Information Services, Inc.** ("FIS") position, and while we continue believing FIS is a solid business that should compound intrinsic value over a long time, its growth profile is not enough to warrant us holding it in this *Big Ideas* Fund. We continue to hold it in our Baron Durable Advantage Fund, to which its profile is a better fit. For similar reasons, we sold our **CME Group, Inc.** position.

We also reduced the size of our **Datadog, Inc.** investment, after the stock's 161% rise during the year.

OUTLOOK

The year 2020 was unlike any other. If one had to guess where the market would trade during a global pandemic with millions of jobs lost globally, entire cities and countries shut down for extended periods of time, a highly polarized election culminating with a shocking riot on Capitol Hill, few would guess record highs. And yet, despite the extreme uncertainty and a significantly wider range of possible outcomes throughout the year, markets kept rallying.

This was especially true for the style and the way in which we invest as growth stocks continued to outperform during the year. High-growth companies enjoy especially high multiples during periods of monetary stimulus and with interest rates near zero the discounted value of their future cash flows is higher. In addition, our companies benefited from accelerating disruptive change, which drove significant increases in growth rates and profitability. Many of our holdings demonstrated impressive resilience (not too surprising for capital light, high recurring revenues, low churn businesses), and superior competitive positioning. These dynamics drove a significant increase in the intrinsic values of our investments. And while intrinsic values grew, prices of some stocks went up even more, and so, and we ended the year up over 50%.

Suffice it to say, this is not what we would expect going forward. These returns are plainly, not sustainable. But then again... we said exactly the same thing at the end of last year after a 34% gain. And that brings us to "outlooks." We don't think there is much of a point in having one let alone offering one.

It is our belief that investing in unique, competitively advantaged businesses at attractive valuations will enable us to earn excess risk-adjusted returns for our shareholders over the long term.

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve interest rate changes, ongoing trade disputes, government shutdowns, 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.

Sincerely,



Alex Umansky
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

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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