

FUNDS & PERSONAL FINANCE

MUTUAL FUND PROFILE

Baron Opportunity Fund Wins By Investing In Innovators, Big And Small

Fund Has Flexible Mandate

Liberal leeway lets fund buy stocks of any size, including up-and-comers

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

Michael Lippert, manager of \$1.6 billion Baron Opportunity Fund (BIOPX), knows what he wants. That's stock in companies that are innovators. And a sharp eye for precisely such stocks has enabled him to turn his portfolio into one of the best mutual funds.

"We're looking for great innovators," Lippert said. "Innovation has gotten the human race where we are today, starting from caves. We'll never reach the end of innovation."

In practical terms, Lippert seeks innovators with competitive moats, which protect the innovator while it captures ever larger opportunities.

The bulk of his holdings are big, leading stocks. But he is free to hold stocks of any size. About 10% of his portfolio was small-cap stocks as of June 30, according to Morningstar Inc. Another 27% was in midcaps.

"We look to make a double in investments in four to five years," Lippert said. "That's a 15% to 20% CAGR (compound annual growth rate)."

That approach has led to a portfolio that held large caps leaders like chipmaker Nvidia (NVDA) and social media platform Snap (SNAP). Both are

dominant and growing in their respective fields.

In contrast, Lippert also owns small-cap ShockWave Medical (SWAV). The medical device maker, which was founded in 2009, has yet to post an annual profit.

Nvidia's advanced technology is a driver for Opportunity Fund's goal of remaining among the best mutual funds.

The company makes fast-calculating computer chips. They've proven themselves to be vital for applications from video graphics to gaming, autonomous driving, machine learning and artificial intelligence (AI).

Earnings per share by Nvidia — which happens to be an IBD Leaderboard stock — grew 76%, 63%, 64% and 103% the past four quarters.

Leaderboard is IBD's curated list of leading stocks that stand out for their technical and fundamental prospects.

Seeking innovators is a key ingredient in Opportunity's recipe for remaining one of the best funds. What makes Nvidia chips more innovative than its rivals?

Nvidia chips perform several calculations simultaneously. "They figured out how to break a problem into components, solve each part, then put them back together. That's typically faster than performing serial calculations, one after another," Lippert said.

That speed also expands the complexity of problems that the chips can analyze, Lippert says.

"Nvidia has multiple TAMs,"

Baron Opportunity Retail



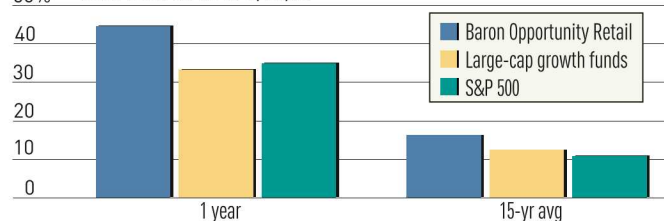
Michael Lippert

■ Load: None
■ Expenses: 1.34%
■ Symbol: BIOPX

Total returns as of 7/20/21

2020: 88.75% 3-yr. avg.: 35.04%
YTD: 8.29% 5-yr. avg.: 33.01%
10-yr. avg.: 18.73%

50% Total returns as of 7/20/21



Source: Morningstar Direct

Sector weightings

Fund as of 6/30/21, S&P 500 as of 6/30/21

	% of stock assets	% of S&P 500
Cyclical	29.49%	
Basic materials	0.52	2.27%
Consumer cyclical	16.85	12.00
Financial services	8.46	14.22
Real estate	3.66	2.58
Economically sensitive	55.07	
Communication services	15.95	11.14
Energy	0.00	2.85
Industrials	1.18	8.86
Technology	37.94	24.22
Defensive	15.44	
Consumer defensive	0.00	6.32
Health care	15.44	13.09
Utilities	0.00	2.45

Lippert said, referring to total addressable markets. "The two biggest are graphics and data centers."

Gamers — consumers who play video games and want crisp graphics — keep upgrading their hardware, too. "So the video game market is massive and still growing," Lippert said.

Similarly, the data center market keeps growing. Rivals like Alphabet's Google (GOOGL) and Amazon (AMZN) make their own fast chips, "but it's hard for them to compete with Nvidia's broad ecosystem of users and developers," Lippert said.

He added, "So Nvidia has very solid gross margins, generates enormous profits and free cash flow. In five years, it could double into a \$1 trillion company" in market capitalization, he says.

Snap Stock

What's Snap's role in making Opportunity one of the best mutual funds? Its platform hosts short videos that disappear after being viewed. Snap servers also delete unopened snaps after brief periods.

Snapchat is a smartphone app that lets you send videos, called "snaps," to people. The platform

offers a chat function too. Chats also disappear quickly.

The bulk of Snap's revenue comes from advertising.

And the bulk of Snap's users are people age 13 up to their 30s. Most people use the platform to exchange personal images and commentary. But during the lockdown phase of the coronavirus pandemic, Snap got a boost from users checking out products, Lippert says.

"The benefit of serving a younger audience is that Snap will hold many of them as they age up," Lippert said. In other words, Snap expects to continue building its advertising audience.

Lippert added, "They don't face the same regulatory and political risk that Facebook (FB) does because they don't play the same role in politics."

Given ShockWave Medical's lack of profitability, why is Lippert interested? What makes him think this stock can help his portfolio remain among the best mutual funds?

The company makes devices that break down calcified plaque that clog a person's arteries. The devices use sonic waves to crack plaque. That process is preferable to invasive procedures. Balloon angioplasty can damage artery walls. Angioplasty can also

release broken-down plaque deposits into your blood stream. That can cause a stroke.

"It's a \$6 billion company now," Lippert said. "My average cost is 50, and it's trading at (nearly 170). So we've made more than a triple."

The stock has enjoyed eight quarters in a row of increased ownership by mutual funds, according to IBD Stock Checkup. Lippert, along with Wall Street analysts, expects 2022 to be ShockWave's first year of profitability.

Baron Opportunity became an IBD Best Mutual Funds Awards winner by topping the S&P 500

in 2020 and in the three, five and 10 years ended Dec. 31.

This year going into Wednesday, the fund lagged the S&P 500, 8.29% vs. 16.01%, and 13.00% for its large-cap growth rivals tracked by Morningstar Direct.

Lippert says the fund will not outperform every quarter or year. But its focus on secular growth trends and high quality businesses leads it to stocks "that can grow faster for longer" and "result in the fund outperforming more often than not and over longer periods," he said.

Reflecting that, the fund is outperforming 97% of its peers over the past five years.

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

Baron Opportunity Fund's annualized returns for the Institutional Shares as of June 30, 2021: 1-year, 61.18%; 5-year, 35.19%; 10-year, 19.39%. Annual expense ratio for the Institutional Shares as of September 30, 2020 was 1.08%.

The **S&P 500 Index's** annualized returns as of June 30, 2021: 1-year, 40.79%; 5-year, 17.65%; 10-year, 14.84%.

The **Morningstar Large Growth Category Average's** annualized returns as of June 30, 2021: 1-year, 41.70%; 5-year, 21.98%; 10-year, 15.99%.

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.

Performance for the Institutional Shares prior to 5/29/2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to 5/29/2009 did not reflect this fee, the returns would be higher.

The Fund's 3-, 5- and 10-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

Risks: Securities issued by small and medium sized companies may be thinly traded and may be more difficult to sell during market downturns. Companies propelled by innovation, including technology advances and new business models, may present the risk of rapid change and product obsolescence, and their success may be difficult to predict for the long term. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

Portfolio holdings as a percentage of total investments as of June 30, 2021 for securities mentioned are as follows: NVIDIA Corporation: 2.5%, Snap Inc.: 1.8%, ShockWave Medical, Inc.: 1.6%, Alphabet Inc.: 6.1%, Amazon.com, Inc: 5.1%. As of June 30, 2021, the Fund did not hold shares of Facebook, Inc.

Top 10 Holdings

Baron Opportunity Fund

6/30/2021

Holding	% Holding
Microsoft Corporation	8.2
Alphabet Inc.	6.1
Amazon.com, Inc.	5.1
Tesla, Inc.	2.8
RingCentral, Inc.	2.6
NVIDIA Corporation	2.5
ZoomInfo Technologies Inc.	2.5
Arrowhead Pharmaceuticals, Inc.	2.5
Tripadvisor, Inc.	2.4
Visa, Inc.	2.1
Total	36.8

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

There is no guarantee that the objectives discussed will be met.

Morningstar calculates the Morningstar Large Growth Category average performance and rankings using its Fractional Weighting methodology. The Category is not weighted and represents the straight average of annualized returns of each of the funds in the Large Growth Category. 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.

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Investor's Business Daily's 2021 Best Mutual Funds Award winners have beaten their respective benchmark index in the past one, three, five and 10 year time periods as-of December 31, 2020.

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The index and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The index is unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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