

# Forbes

## MARKETS

### This Billionaire Investor Thinks Elon Musk Will Be A 'Trillion Dollar Man'

BY SERGEI KLEBNIKOV  
FORBES STAFF

Sometimes it feels like it's just millennials and Robinhood traders who are making money off investing in electric carmaker Tesla. Think again. Meet billionaire money manager Ron Baron and his many retiree investors. Folks who maybe aren't quite sure what TikTok is and struggle with Zoom meetings have made an average annual return of 38% over the past five years because they own Tesla full tilt through one of Baron's mutual funds.

Even after trimming some Tesla holdings, Baron has a staggering 41% of one of his largest funds invested in the carmaker's stock—which makes him just about the biggest Tesla bull on the planet. That massive bet also helped to nearly double Baron's net worth since March 2020.

Among Baron's 17 funds, two in particular are heavily weighted in Tesla. The \$7.3 billion (assets) Baron Partners fund, which Ron Baron runs with his son Michael, returned nearly 150% last year. At the end of 2020, 47% of its assets were in Tesla. After scaling back its holdings in the carmaker, at the end of March the stock still accounted for a very significant 41% of assets. The Baron Focused Growth fund, which Baron manages with his son David, has \$671 million in assets and returned 122% last year; it's gone from having 39% of assets in Tesla at the end of 2020 to 32% as of March 31.

"Tesla has been the most impactful investment I've ever made," Baron says.



BARON CAPITAL

Veteran investor Ron Baron has made it big betting on Tesla. Now he's turning his attention to SpaceX.

**Money manager Ron Baron has been delivering stellar returns thanks to one of the biggest holdings in Tesla. Here's why he thinks Musk's SpaceX will be even bigger.**

At the end of 2020, Baron Funds was the 12th largest shareholder in Tesla, according to filings. Among the carmaker's top 50 largest institutional shareholders, Baron Funds also had the highest percentage of its overall portfolio allocated to Tesla, with 12%. Other notable investors include Edinburgh, Scotland-based firm Baillie Gifford, with 11% of its portfolio

in Tesla, and Cathie Wood's ARK Invest, which has 8.3% of its portfolio in the electric car maker.

Baron says he started building his firm's position in Tesla in 2014, four years after the company went public, and increased it by 2016, investing a total of \$387 million at an average (split-adjusted) cost of just over \$43 per share. He hasn't



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Ron Baron with his two sons, David Baron (left) and Michael Baron (right).

added to the position since. His firm's investment has generated billions of dollars in gains for clients as the stock has skyrocketed over recent years, to nearly \$750 per share as of April 16.

Baron's fortune has surged in tandem with his funds' successful bet on Tesla. His net worth has grown to \$4.5 billion, *Forbes* estimates, up from \$2.3 billion in mid-March 2020, due largely to Tesla's explosive 728% rise during the previous 12 months.

So far, 2021 has been less lucrative. While the market is off to a solid start—with stock indices hitting record levels amid optimism about reopening the economy—many investors remain wary due to ongoing concerns about the pandemic and rising fears of inflation. After rising more than sevenfold last year, Tesla shares have struggled in 2021, falling 8.5% in the first quarter ending March 31. During that same period, the Baron Partners and Baron Focused Growth funds returned -0.44% and 0.02%, respectively, well below the S&P 500's gain of around 8%.

As usual, 78-year-old Baron remains his upbeat self, positive about the market's prospects going forward. "My confidence is in the long term," he tells *Forbes*, Zooming from his East Hampton estate last month. "I'm an optimistic person."

A respected buy-and-hold investor,

Baron founded his asset management firm, Baron Capital, in 1982, with just \$10 million under management. He oversaw decades of strong performance, building a reputation for successfully betting on small growth companies in the 1990s and 2000s. Today, his Baron Funds group manages some \$52 billion in assets. His

funds are pricey: the annual expense ratio for Baron Partners is 2.22%, and 1.35% for Baron Focused Growth. So Ron Baron gets paid well for his stock picks.

While many investors try to predict what will happen with the economy, the president or interest rates, Baron doesn't fret about such matters, sticking to his tried and true method. His firm focuses on high-growth companies with a competitive advantage over the long-term. "When we make an investment we aim to double our money every five years," Baron explains.

None of Baron's investments have fit the mold more than electric vehicle maker Tesla, run by billionaire CEO Elon Musk, whose net worth is nearly \$180 billion, according to *Forbes*. "He's perhaps the best engineer on the planet," Baron says of Musk. "I expect he'll be the world's first trillionaire."

Pre-pandemic, Baron hosted an annual gathering for investors and members of the media in Manhattan with a surprise musical performance—Faith Hill and Tim McGraw one year, Jon Bon Jovi another. Like many of Baron's clients, the attendees were mostly retirees who'd been investors since the 1990s—folks you would not expect to be so bullish on an upstart

### Tesla Institutional Shareholders as of December 31, 2020

Company Name	Shares Held	% of Portfolio	% Stake of Tesla
Vanguard Group	57,814,310	1.2%	6.0%
BlackRock	50,080,395	1.1%	5.2%
Capital World Investors	46,249,648	6.2%	4.8%
State Street	29,550,379	1.3%	3.1%
Baillie Gifford	27,304,170	11.2%	2.8%
Fidelity Investments	15,311,711	1.0%	1.6%
Jennison Associates	12,121,582	6.2%	1.3%
Geode Capital Management	11,567,235	1.3%	1.2%
JPMorgan Chase	8,468,716	1.0%	0.9%
Northern Trust	8,094,441	1.1%	0.8%
Norges Bank	7,790,070	1.3%	0.8%
Baron Funds	6,733,066	12.1%	0.7%

Source: EDGAR Online



## MARKETS

electric carmaker with an outspoken, unpredictable CEO.

In early March, Baron announced that his firm had sold 1.9 million shares of Tesla over the six months ending in February 2021 at an average cost of \$629.40 per share. He cited “risk mitigation” for clients, as the stock had become too large a percentage of some portfolios. Another reason for selling shares, Baron explains, was to reduce debt and pay off credit in the leveraged Baron Partners fund.

But Baron maintains his long-time bullish price target for Tesla, predicting shares will reach \$2,000 apiece within ten years, more than double its recent price of \$740 per share.

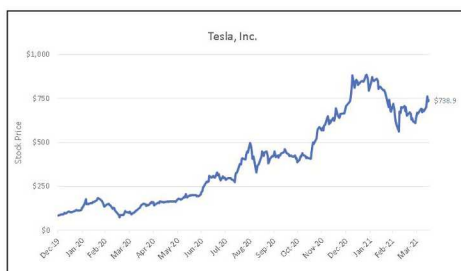
While Baron says that everyone still refers to him as the “Tesla man,” Musk’s privately-owned rocket company, SpaceX, is his next big obsession. “It could potentially become as large as Tesla,” Baron says, adding that he predicts a 30x to 50x return on investment in the next ten years. So far, Baron Funds has invested several hundred million dollars “and counting” into Musk’s rocket producer, which completed its latest round of funding in February at a reported \$74 billion valuation. Baron is particularly excited about the company’s upcoming satellite broadband service, Starlink, which he thinks could bring in hundreds of billions of dollars in the future.

“I want to be known as the SpaceX guy in a few years,” he says.

Here are Baron’s top five stock picks that he thinks are primed for high growth in the next few years.

### Ron Baron’s Investment Recommendation

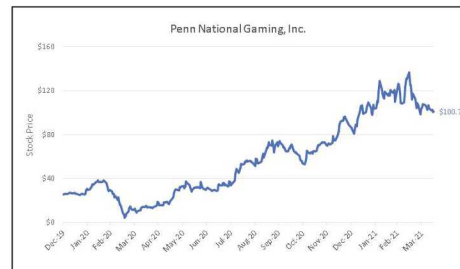
#### Tesla



Despite scaling back some of his funds’ holdings in Tesla, Baron is adamant that he remains bullish on the electric vehicle

maker’s long-term prospects. Baron says he thinks Tesla stock is fairly priced at around \$700 to \$800 per share, but sees more upside ahead in 2022. “If autonomous driving is as successful as I believe it will be, and Tesla continues to open new plants and grow its sales, which I think it will, by the end of the year the stock should be doing better again,” he predicts.

#### Penn National Gaming



A longtime holding of Baron Funds, Penn shares returned 230% in 2020 and are up nearly 30% so far in 2021. Baron believes the casino company is well positioned for growth: With some 20 states having now legalized sports gambling, Penn has benefitted from a widespread uptick in demand. What’s more, states will need more revenue coming out of the pandemic, he says, and a potential source could come from taxes on legal online gambling. Another “key advantage” that Penn is able to leverage is Barstool, the sports media company Penn bought a 36% stake in last year for \$163 million. Barstool boasts roughly 100 million unique visitors each year and high retention rates, Michael and David Baron point out. “Plus,” they say, “people love Dave Portnoy”—Barstool’s founder who achieved celebrity-like status among investors when he turned to day-trading amid the pandemic.

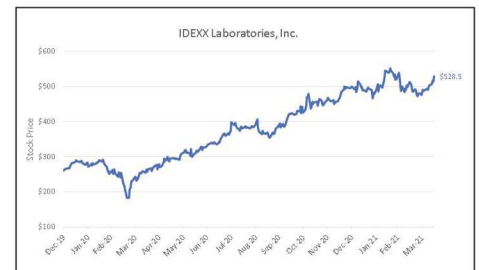
#### Vail Resorts



Currently one of Baron’s largest holdings, he bought a major position in the ski resort company back in 2006. Its stock rose by

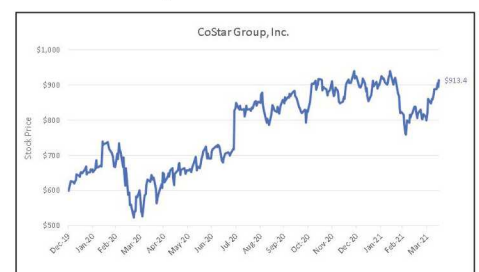
nearly 15% last year and is up another 13% so far in 2021. Baron and his sons are big fans of current CEO, Rob Katz, who has served in that role for around 15 years. They credit Katz with not only using excess cash flow to make key acquisitions of smaller resorts, but also reinvesting it into the town itself to attract more visitors. Baron especially likes the fact that Vail sells most of its ski passes ahead of time, meaning a big chunk of revenue gets locked in before the season even starts. While some investors may think Vail is a mature business, the company saw demand for ski passes grow 20% last year amid the pandemic, Baron’s sons point out.

#### IDEXX Laboratories



Another of Baron’s largest holdings today is animal medicine company IDEXX Laboratories, shares of which jumped by almost 90% in 2020. The veteran investor loves IDEXX’s “huge margins,” arguing that the company’s economies of scale help it gobble up market share. (Idexx has a market capitalization of \$45 billion, compared to rivals like VCA Antech, which has a market cap of just \$5 billion). The company is able to leverage its national lab network into higher margins than small-scale labs can offer, Baron points out. Given that IDEXX is growing at a high single-digit rate and maintains a strong balance sheet, Baron forecasts that he will double his investment over the next five years.

#### CoStar Group



MARKETS

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Baron also likes commercial real estate data provider CoStar, which he started buying during the early 2000s for around \$20 to \$30 per share. Today, the stock trades at over \$900 per share, having jumped nearly 50% last year despite the pandemic wreaking havoc on many commercial properties. Baron calls CoStar, which is growing its

business at around 20% annually, the “Bloomberg of real estate” and sees further upside ahead. “We want companies in big, adjustable markets that can take large shares,” says his son, David. “CoStar is the perfect example of that.” The company has also been reinvesting its capital to make its business harder to replicate—CoStar

has invested over \$1 billion towards building its proprietary database over the years. Baron points out that this should only add to its competitive advantage. “Any potential competitor would have to spend years and potentially billions of dollars to replicate CoStar’s data offering,” writes Morningstar analyst Kevin Brown. **F**

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**Baron Partners Fund's** annualized returns for the Institutional Shares as of June 30, 2021: 1-year, 119.55%; 5-years, 38.45%; 10-years, 23.88%; Since Inception (1/31/1992), 16.39%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 1.30% (comprised of operating expenses of 1.05% and interest expense of 0.25%). The **S&P 500 Index's** annualized returns as of June 30, 2021: 1-year, 40.79%; 5-years, 17.65%; 10-years, 14.84%; Since Fund Inception (1/31/1992), 10.53%.

**Baron Focused Growth Fund's** annualized returns for the Institutional Shares as of June 30, 2021: 1-year, 95.00%; 5-years, 31.55%; 10-years, 18.44%; Since Inception (5/31/1996), 14.48%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 1.07%. The **S&P 500 Index's** annualized returns as of June 30, 2021: 1-year, 40.79%; 5-years, 17.65%; 10-years, 14.84%; Since Fund Inception (5/31/1996), 9.74%.

*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](http://www.BaronFunds.com) or call 1-800-99BARON.*

Performance for **Baron Partners Fund** reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 20% performance fee after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees the returns would be higher. The Fund's shareholders will not be charged a performance fee. The predecessor partnership's performance is only for periods before the Fund's registration statement was effective, which was April 30, 2003. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

Performance for **Baron Focused Growth Fund** reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees for the years the predecessor partnership charged a performance fee, the returns would be higher. The Fund's shareholders will not be charged a performance fee. The performance is only for the periods before the Fund's registration statement was effective, which was June 30, 2008. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

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.

**Risks:** The Funds are non-diversified which means, in addition to increased volatility of the Funds' returns, they will likely have a greater percentage of its assets in a single issuer or a small number of issuers, including in a particular industry than a diversified fund. Single issuer risk is the possibility that factors specific to an issuer to which the Funds are exposed will affect the market prices of the issuer's securities and therefore the net asset value of the Funds. As of the date of the latest prospectus supplement, about 40% of each the Funds' assets are invested in Tesla stock. Therefore, the Funds are exposed to the risk that were Tesla stock to lose significant value, which could happen rapidly, the Funds' performance would be adversely affected. Specific risks associated with investing in small and medium-sized companies include that the securities may be thinly traded and more difficult to sell during market downturns. Specific risks associated with leverage include increased volatility of the Fund's returns and exposure of the Fund to greater risk of loss in any given period.

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

Portfolio holdings as a percentage of net assets as of June 30, 2021 for securities mentioned are as follows: – **Tesla, Inc.** –Baron Opportunity Fund (2.8%), Baron Partners Fund (38.1%\*), Baron Focused Growth Fund (31.6%); **Penn National Gaming, Inc.** – Baron Growth Fund (5.0%), Baron Small Cap Fund (1.4%), Baron Focused Growth Fund (6.3%), Baron Real Estate Fund (1.7%), Baron Discovery Fund (0.6%), Baron Real Estate Income Fund (1.6%); **Vail Resorts, Inc.** – Baron Asset Fund (3.1%), Baron Growth Fund (7.0%), Baron Partners Fund (4.2%\*), Baron Focused Growth Fund (6.2%); **IDEXX Laboratories, Inc.** – Baron Asset Fund (7.2%), Baron Growth Fund (5.2%), Baron Small Cap Fund (1.2%), Baron Partners Fund (6.8%\*), Baron Health Care Fund (1.4%); **CoStar Group, Inc.** – Baron Asset Fund (3.1%), Baron Growth Fund (5.0%), Baron Opportunity Fund (1.6%), Baron Partners Fund (8.2%\*), Baron Focused Growth Fund (7.4%), Baron Real Estate Fund (2.2%), Baron FinTech Fund (1.9%).

\* % of Long Positions.



Top 10 holdings as of June 30, 2021

Baron Partners Fund	
Holding	% Holding
Tesla, Inc.	38.1
CoStar Group, Inc.	8.2
IDEXX Laboratories, Inc.	6.8
Zillow Group, Inc.	4.5
Space Exploration Technologies Corp.	4.3
Vail Resorts, Inc.	4.2
The Charles Schwab Corp.	3.8
Arch Capital Group Ltd.	3.4
FactSet Research Systems, Inc.	3.2
Hyatt Hotels Corp.	3.0
Total	79.5
Long Equity Exposure	108.1
Cash & Equivalents	-8.1

Top 10 holdings as of June 30, 2021

Baron Focused Growth Fund	
Holding	% Holding
Tesla, Inc.	31.6
CoStar Group, Inc.	7.4
Penn National Gaming, Inc.	6.3
Vail Resorts, Inc.	6.2
Hyatt Hotels Corp.	3.8
Space Exploration Technologies Corp.	3.7
FactSet Research Systems, Inc.	3.6
BioNTech SE	3.6
Spotify Technology S.A.	3.4
Arch Capital Group Ltd.	3.4
Total	73.0

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

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The index and the Funds 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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