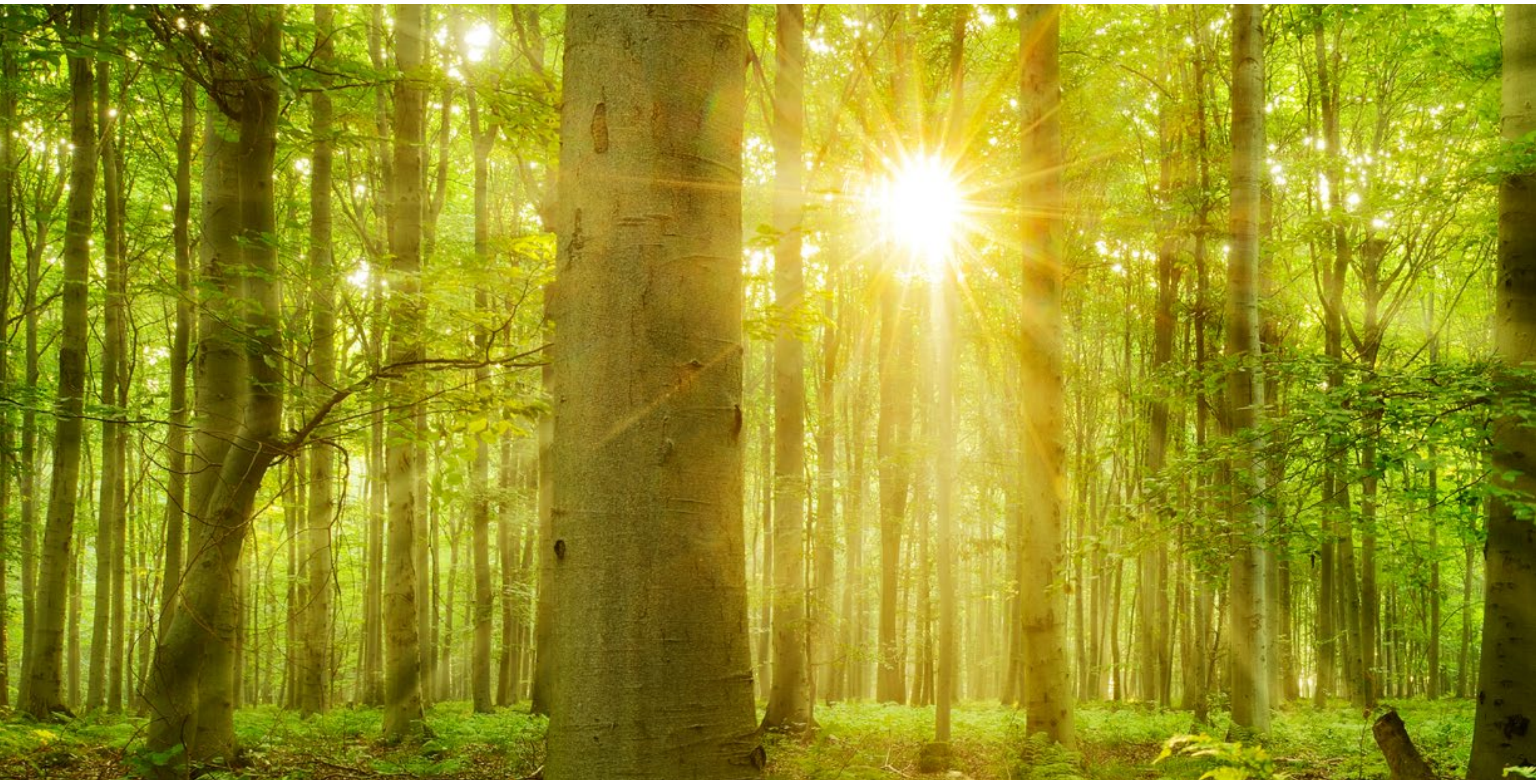
Environmental, Social, and Governance (ESG)

Statement of Principles

BARON CAPITAL



Who We Are

Baron Capital ("Baron" or the "Firm") is an asset management firm focused on delivering growth equity investment solutions. Founded in 1982, we are known for our long-term, fundamental, active approach to growth investing. We were founded as an equity research firm, and research has remained at the core of our business.

For more than 35 years, we have built our business on the quality of our research and long-term track record.

- Long-term perspective allows us to think differently
- Independent and exhaustive research is essential to understanding a business
- People are the key drivers of a successful business
- Successful growth businesses have open-ended opportunities and competitive advantages
- Purchase price matters
- Research and risk management are continuous processes

> "We focus on management "values" and corporate culture…not just financial analysis. We believe this enables us to better judge whether a company can realize its long-term growth opportunity…or whether its management is likely to take short cuts that could put the entire enterprise at risk…"
>
> Ron Baron - Founder & CEO

What We Believe

We insist on honesty, integrity and fair dealing. We maintain high ethical standards, whether dealing with Baron Funds' shareholders, our asset management clients, the companies in which we invest, our communities, our regulators, our competitors, and our co-workers.

Baron has always incorporated deep fundamental research in our investment process, and we have a demonstrated track record of investing in companies for the long term. A combination of our diligence and our focus on finding great growth companies and owning them for the long term has resulted in strong investment returns for our clients.

We have always sought to invest in companies with characteristics that would meet the dictionary definition of sustainable – 'able to be maintained at a certain rate or level,' 'able to be upheld or defended' – as we believe that these characteristics can lead to sustainable competitive advantages. It is our view that businesses with sustainable competitive advantages or moats have a higher probability of generating higher long-term growth, higher profitability, and higher returns on capital than those that do not.

We strongly believe that well managed companies are run by great people who seek to minimize external and internal risks and maximize their ability to capitalize on growth opportunities, while being good stewards of capital, good corporate citizens, and benefiting all stakeholders over the long term. Many of the factors that are critical elements of the ESG integration process, and many of the subjects that form the basis for ESG analysis have been incorporated into our research and investment analysis even though we did not previously have a formal policy of ESG integration. This approach was perfectly summarized in our Founder and CEO Ron Baron's "Growth + Values" speech at the 2018 Baron Investment Conference when he said: "We focus on management "values" and corporate culture…not just financial analysis. We believe this enables us to better judge whether a company can realize its long-term growth opportunity…or whether its management is likely to take short cuts that could put the entire enterprise at risk…"

What is ESG?

Environmental, social, and governance (ESG) analysis represents a series of criteria that can be used by investors to incorporate non-financial factors, indicators, and data points into a more complete and holistic analysis of the long-term sustainability and prosperity of a company's business. ESG analysis can be used to both identify opportunities for growth and analyze and mitigate risk. Consideration of ESG factors can also enable investors to use the power of finance and investing to achieve improved societal benefits around issues such as climate change, resource optimization, waste management, income inequality, sustainable development, diversity, and many others.

As such, investors have embraced three principal strategies for incorporating ESG into their portfolios:

1. ESG integration,
2. Impact (socially responsible) investing, and
3. Exclusions.

Our Approach

While we have had, and continue to have, an Exclusion Policy related to certain industry segments that we deem to be socially irresponsible areas for us to invest our client's capital (Tobacco, Firearms, and Adult Entertainment), we have begun the process of establishing a more comprehensive set of policies and practices around ESG that are based on ESG Integration. At this time, we have no plans to create investment products that would classify as Impact Funds that seek to accomplish a particular social or environmental goal or goals, or target one or more of the UN's 17 Sustainable Development Goals (SDGs). However, as noted, sustainable businesses and sustainable business practices have been at the core of our investment process for many years, and it is clear that in looking for these types of businesses a prudent investor needs to be mindful of the expanding set of risks and opportunities that are embedded in environmental, social, and governance factors.

The United Nations Principles of Responsible Investment (UNPRI), of which we recently became a signatory, defines sustainable investing and ESG integration as: "the explicit and systematic inclusion of environmental, social and governance issues in investment analysis and investment decisions. Put another way, ESG integration is the analysis of all material factors in investment analysis and investment decisions, including environmental, social, and governance factors."[1]

Sustainable businesses and smart investors have always focused on managing risks and weighing risk against reward, and the current investment environment is no different in principle. However, it has become increasingly clear in recent years that investors are paying more attention to a wider spectrum of risks that have significant environmental or societal impacts. We refer to these as "21st century risks," and they include issues such as climate change, data security/privacy, diversity and inclusion, product design and lifecycle management, and business ethics, among others.

We believe that we have a fiduciary duty to maximize risk-adjusted returns on investment for our clients and shareholders while also acknowledging that it is possible to "do good and be good" at the same time. On the one hand, good companies tend to treat the environment with care, efficiently utilize resources, protect their employees, and treat their employees and customers with care. Good companies also tend to have strong governance policies that properly incentivize managers and employees and treat minority shareholders with the same respect as the majority. On the other hand, poor management of resources, human capital, product liability, shareholder rights, etc. can expose shareholders to significant and potentially catastrophic risks. This has been demonstrated repeatedly in the market, and there has also been extensive academic and investment research suggesting that ESG factors are correlated with corporate financial performance[2] and that ESG integration is at a minimum neutral to investment performance and can, with a focus on more company or industry specific material factors, have a positive impact on alpha[*] generation potential.[3] Recent research has also shown that ESG awareness is rising and leading to the adoption of more common practices that will have the effect of narrowing or arbitraging away some of the benefits garnered by the early adopters of these practices, it is possible for companies to create superior performance by developing "less common sustainability practices that will be associated with strategic differentiation."[4] We think this is an important point and one that we plan to explore as we begin taking a more rigorous approach to ESG analysis and integration.

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* Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk.

1 https://www.unpri.org/listed-equity/a-practical-guide-to-esg-integration-for-equity-investing/10.article

2 Busch, T., Friede G., Lewis, M. and Bassen, A., 2018. Digging Deeper Into The ESG-Corporate Financial-Performance-Relationship. DWS Global Research Institute.

3 Khan, M., Serafeim, G., Yoon, A., 2016. Corporate Sustainability: First Evidence of Materiality. The accounting review, 91(6), pp. 1697-1724.

4 Ioannou, I., Serafeim, G., 2019. Corporate Sustainability: A Strategy? Harvard Business School, Working Paper 19-065.

Our Process

At this point in time, our efforts to integrate ESG into our investment process are focused on making sure we are mindful of the wider range of risks and opportunities that are influenced by ESG factors than about investing to achieve certain environmental or societal outcomes. This does not imply that we do not believe that focusing on ESG factors can play a significant role in helping to solve many of the critical issues that society currently faces, and we have many investments where the definition of success will include solving some of these problems. However, our current implementation of ESG is more focused on integration than on impact.

Our ESG integration efforts are being coordinated and led by our Director of ESG Research who has the responsibility for setting our ESG strategy and working across the Firm to increase the understanding and implementation of our strategy. The Director of ESG Research is responsible for conducting research into ESG specific topics and building subject matter expertise that can be shared with the rest of our investment team.

The Director is also responsible for facilitating the education and training of our investment teams regarding the integration of ESG factors and issues into their analysis of individual companies, including how these issues may impact key financial considerations such as long-term revenue growth, cost management, profit margins, returns on invested capital, and the cost of capital.

We believe it is important that our ESG research efforts are fully integrated with our industry/company research and we believe that ESG is rapidly becoming a standard feature of all investment research, analysis, and portfolio construction, along with more traditional financial considerations. However, accountability still lies with our portfolio managers and analysts for the ultimate judgments on these impacts and the merits of individual investments.

In the implementation of our ESG integration process, we are seeking to accomplish three main goals:

1 Identify and Focus

Identifying and focusing on the factors that are likely to be the most financially material to a company given the nature of its business/businesses and potentially the regions in which it operates.

2 Analyze

Analyzing how these factors can potentially impact that company's business model, its employees, communities, and shareholders.

3 Quantify

Quantifying, where possible, the impact that these factors may have on our long-term view of the company and the stock by incorporating these material factors into our financial and valuation models.

Our approach to ESG integration is heavily influenced by the work of the Sustainable Accounting Standards Board (SASB) and academic researchers that have made it clear to us that not all ESG factors are relevant to all companies and that "materiality matters." For example, we may not closely scrutinize a financial services company's carbon emissions, but we are likely to be very concerned about its human capital development or data privacy protection. Therefore, in our analysis, we seek to focus on a limited number of key factors for any given company in trying to analyze the risks and opportunities that ESG factors may present for that company. We also utilize ratings, reports, and data from third-party sources such as MSCI, Sustainalytics, Bloomberg, ISS, Carbon Disclosure Project, specialist broker research, Corporate Social Responsibility (CSR) reports, and others to assist in our analysis.

We do not think it is prudent to be overly focused on or bound by third-party ratings or the judgment of others in reaching our conclusions about the suitability of an investment or the sustainability of a company. Firstly, we must acknowledge the fact that there is still limited coverage and limited disclosure of a wide range of ESG data. This is especially true in certain geographies and among small-cap and mid-cap companies, as well as new issuers. Secondly, while data disclosure is improving and should improve further, as a result of investor demand and regulatory policy, there is still enough missing data and ambiguity to require our analysts and portfolio managers to supplement quantitative analysis with qualitative judgments.

However, we do think that these third-party ratings and sources can be a great stimulus and source for additional research and inquiry by our analysts. Material risks or opportunities that we identify and analyze through our process can be and should be "priced" into our long-term models via adjustments to the key drivers as noted above. As active managers with a long-term time horizon, our portfolio managers are highly focused on investing in great growth companies. Analyzing long-term risk and reward is central to our process. Therefore, it is entirely possible and quite likely, that we will own companies that may have elevated ESG risks in some areas of their business, if the expected reward outweighs our evaluation of those risks by a sufficient margin so as to meet our return thresholds for making or holding an investment. We have implicitly incorporated ESG analysis into our portfolios and funds for many years, as we naturally gravitate toward companies with sustainable competitive advantages and business models, and our more formal adoption of an ESG integration policy is a natural evolution for our business. This will take time to fully implement, but it is our intention to get to that point as quickly and judiciously as possible.

Our investment process has also always been heavily reliant on "engaging" with companies through meetings with senior management, operating management, and boards of directors. We have a well-earned reputation of asking these executives questions about the long-term sustainability of their businesses, including approaches to solving strategic and operating challenges and governance. Our implementation of a more formal ESG integration policy will result in an expansion of the range of topics that we routinely discuss with companies. As part of this process, we have created an internal question bank[5] that our analysts and portfolio managers can use to source specific questions that are oriented towards companies in specific sub-industries regarding the ESG-related topics that we deem to be most material to those businesses. This enhanced engagement will be an important part of our qualitative analysis of material ESG issues and will enable us to widen the aperture on our investment lens, yet, at the same time, remain highly focused on the issues that should be most important to judging the sustainability of a business and the potential of an investment.

While we are in the beginning stages of our formal adoption of ESG principles into our research and investment process, many of the key topics and risks that are assessed as part of this process are not new to us. We have long sought to find growth companies with sustainable competitive advantages, and we recognize the importance of enhancing our analysis of the material ESG factors and risks which will play an increasingly significant role in defining and sustaining the long-term success that we seek.

5 Partially sourced from "Engagement Guide For Asset Owners & Asset Managers", Sustainability Accounting Standards Board, 2019, The SASB Foundation.

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