



Michael Lippert manages the Baron Opportunity fund. PHOTO: BARON CAPITAL

## Mutual Funds

**Talking With Mike Lippert**  
Manager, Baron Opportunity Fund

### Guidewire, Tesla Pay Off for a Fund That Bets on Change

By Sarah Max

Three summers ago, Mike Lippert was cycling with his wife near Lake Tahoe when, inexplicably, he crashed and suffered a spinal-cord injury. He spent a week in a medically induced coma and several weeks in the hospital before being transported home to New York for rehabilitation.

When Lippert, 51, walked onto the stage at Lincoln Center that November for

the annual Baron Investment Conference, he was overwhelmed with emotion. “There are so many lessons you learn when you go through a thing like this,” says the manager of the \$430 million Baron Opportunity fund (ticker: BIOPX).

Among other things, it drove home the importance of staying focused on what he can control, and not getting frustrated with what he can’t—a critical skill for any investor. The experience also affirmed just how much Lippert loves his work: “I’m intellectually challenged every day, and I get to meet people who are doing unbelievably cool things,” he says.

First launched in 2000, the Opportunity fund invests in innovation through companies instigating change or benefiting from it. Lippert, who has managed the fund since early 2006, has posted an 12.1% average annual return over the past decade, better than 87% of all mid-cap growth funds.

Like most managers at Baron Capital, Lippert aims to find growth companies with sustainable competitive advantages,

and the potential to double in value over a four- or five-year period. Yet, he focuses exclusively on companies influenced by what he calls sustainable secular trends, or major changes in the way people work and live.

A history major turned corporate attorney, Lipper worked in intellectual-property litigation for about a decade, eventually making partner at a law firm. Then he decided it was time for a career change. Following a brief stint at a hedge fund, he landed an analyst position at Baron Capital in 2001.

His investing style, it turns out, isn’t entirely different from the work he did as a litigator. “One of the partners at my law firm used to say, ‘No wishes, hopes, and dreams...go find the evidence and prove it,’” recalls Lippert, who supplements his own research with that of Baron’s more than two dozen analysts. They typically validate information from company management with additional research involving customers, suppliers, competitors, and industry experts.

Lippert tracks and compares holding details in a spreadsheet he created to help him pinpoint ideal position sizes, and spot unforeseen risks.

The fund, which can invest in companies of any size, owns its share of megacaps, including top holdings Amazon.com (AMZN), Microsoft (MSFT), and Alphabet (GOOGL). But lesser-known companies also drive overall returns.

Top-five holding Guidewire Software (GWRE), which has a tiny weighting in Baron Opportunity’s Russell 3000 Growth benchmark, is a significant contributor to fund performance. Lippert, who is a fan of Software-as-a-Service business models—they enjoy steadily recurring revenue and sticky customer relationships—calls Guidewire a “poster child for the kind of companies we’re looking for.”

The fund bought Guidewire shortly after its 2012 initial public offering. The company has the dominant market share

*(over please)*

## Baron Opportunity

	Total Return*		
	1-Yr	5-Yr	10-Yr
<b>BIOPX</b>	41.4%	14.5%	12.1%
Russell 3000 Growth	28.9	17.0	12.5

TOP 10 HOLDINGS Company / Ticker	% of Portfolio
<b>Amazon.com</b> / AMZN	6.2%
<b>Microsoft</b> / MSFT	5.1%
<b>Alphabet</b> / GOOG	5.1%
<b>Guidewire Software</b> / GWRE	4.6%
<b>Gartner</b> / IT	3.7%
<b>Apple</b> / AAPL	3.6%
<b>CoStar Group</b> / CSGP	3.0%
<b>Tesla</b> / TSLA	2.8%
<b>Axiom</b> / ACXM	2.5%
<b>Electronic Arts</b> / EA	2.5%

**TOTAL** **39.1%**

\*Returns through 8/28; five- and 10-year returns are annualized.  
Holdings as of 7/31 Sources: Morningstar; Baron Capital

in software used by property and casualty companies to run their core businesses and manage customer relationships. Guidewire has lost only one customer in its history, he says, “and they came back.”

Lippert has come back, too, buying more Guidewire stock since the IPO. “We believe this is going to be a 20% grower for a very long time,” he says.

Gartner (IT), a technology research and consulting firm, is another top holding in the fund, with an outsize weighting relative to the benchmark. While Gartner is best known for its information-technology research, the company has also acquired expertise in major business functions, from customer service to supply-chain management. Its subscription model translates into a “high-margin, cash-flow-generative business that is benefiting from all the changes going on in technology,” says Lippert, who first bought the stock in 2007.

The manager scooped up shares of Tesla (TSLA) six years ago, at about \$30 apiece. He later sold at about \$100, but soon regretted the decision and got back in around \$200, and is holding on. The electric-car maker’s stock was trading around \$315 last week. Regardless of whether Tesla stays public or goes private, it is reaching an inflection point in terms of vehicle sales and gross profit margins, Lippert says. “Tesla will start to generate a small amount of cash flow later next year,” he adds, noting

that the company is on track to generate 10% operating margins by 2022.

Lippert isn’t the only Baron Capital manager who believes in Tesla’s long-term prospects. Funds the firm manages have significant ownership of the stock, according to Morningstar.

Most investors associate health-care innovation with drug discovery, but robotics and advanced optical systems are transforming the operating room. With that secular shift in mind, Lippert added Intuitive Surgical (ISRG) to the fund in 2016, when the maker of the da Vinci Surgical System traded at a little over \$200 a share. The stock fetched about \$540 last week.

Hospitals and surgery centers pay about \$2 million for the system, which uses robotic arms to assist surgeons in less-invasive procedures. “It’s a great razor and razor-blade business,” says Lippert, noting that more than 70% of revenue is recurring, largely from replacement of disposable instruments used for each patient. The company is steadily adding to the list of procedures that can be performed with the robot, and expanding its geographic reach. As the number of surgeries grows—it’s up 18% this year—so does revenue.

*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](http://www.BaronFunds.com). Please read them carefully before investing.*

*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 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.*

Assets Under Management as of August 31, 2018: \$470,878,209

Baron Opportunity Fund's annualized returns for the Retail Shares as of June 30, 2018: 1-year, 31.69%; 5-year, 14.13%; 10-year, 11.47%; Since Inception (02/29/2000), 6.9%. Annual expense ratio for the Retail Shares as of September 30, 2017 was 1.41%.

Portfolio holdings as a percentage of net assets as of August 31, 2018 for securities mentioned are as follows: Amazon.com, Inc. – 6.4%; Microsoft Corporation – 5.0%; Guidewire Software, Inc. – 4.9%; Alphabet Inc. – 4.7%; Gartner, Inc. – 4.2%; Tesla, Inc. – 2.6%; Intuitive Surgical, Inc. – 1.2%

The discussion of market trends and companies are not intended as advice to any person regarding the advisability of investing in any particular security. Some of our comments are based on current management expectations and are considered “forward-looking statements.” Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change any time based on market and other conditions, and we have no obligation to update them.

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

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