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RON BARON

The veteran growth managers talks Tesla, Vail... and Asbury Park

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Ron Baron enjoyed a stellar 2020. His flagship Baron Partners fund was one of 18 equity funds and ETFs to post triple-digit returns, notching a gaudy 148.5%.

The Russell 1000 Growth index posted 38.5%, while the S&P 500 did 18.4%.

Much of the $6.9bn fund's performance was driven by a stock with which Baron is beginning to become synonymous: Tesla.

Shares in the electric carmaker surged 740% in 2020. They have continued that rally in 2021, rising another 25% through January 26.

From a return perspective, this is, obviously, great news for Baron, who first bought into Tesla in 2014, allocating 5% of the fund's assets to the company.

Tesla's market cap increased by more than $500bn in 2020 and surpassed $800bn this January. And despite its meteoric rise, Baron believes it could go further and be a $2tn company.

'If we get lucky, it could be $3tn,' he says. And he plans to be along for the ride. 'We have the staying power, others don't.'

Baron's willingness to stay with Tesla has certainly reaped rewards, but it also brings risk, particularly as the stock's incredible growth means it now accounts for 47% of the Baron Partners fund. This was too big a position for Morningstar, which recently downgraded the fund due to the size of the stake, and the 'lax risk controls' it exemplified.

'At such a level, the stock effectively controls the fund's fate,' Morningstar analyst Adam Sabban wrote in a note at the end of January.

Citywire spoke to Baron before the downgrade – about which the firm had no comment – but at the time of our conversation, his optimism about Tesla remained undimmed. Despite increased competition from traditional automakers that are getting into the electric vehicle

BUYING A CAR WITH AN INTERNAL COMBUSTION ENGINE NOW IS LIKE BUYING A HORSE-DRAWN CARRIAGE market, Baron believes Tesla's battery technology is so superior it makes other car firms look like 'buggy whip makers' destined for obsolescence or at least inferior status.

'The other automakers haven't invested much in making batteries,' he says.

He is unworried too about governments trying to support local manufacturers' efforts to play catchup and dismisses concerns – such as those raised in January by Research Affiliates chair Rob Arnott – that Tesla's valuation now exceeds that of the next nine automakers combined.

'In 1908-1909, [New York's] Fifth Avenue went from horses and carriages to cars,' he says. '[And] buying a car with an internal combustion engine now is like buying a horse-drawn carriage.'

'We try to find businesses that are changing the world and changing the way we live.'

SKI LIFT

Tesla fits his theses for the fund in other ways too.

Baron Partners operated initially in a hedge fund format, and it has always sought to balance the weightings of steadier businesses and more aggressive ones, in four categories: growth, financials, real estate, and disruptive growth.

But regardless of the category, Baron says he looks for 'businesses that can grow a lot, [but also] have competitive advantages and visionary CEOs.'

WE TRY TO FIND BUSINESSES THAT ARE CHANGING THE WORLD AND CHANGING THE WAY WE LIVE

Another pick that exemplifies this approach, he says, is upscale ski resort giant Vail Resorts.

Vail owns premier mountain properties in Australia and North America, including in Lake Tahoe, Utah, and Colorado.

To Baron's earlier point about having 'staying power,' except for a five-year period, the fund has been invested in Vail since 1997.

'In 1997, we bought at a good price,' he says. 'The opportunity was that there hadn't been anything built in Vail since 1970. The cost to ski was $45 per day, and it was the best mountain in the US.

'We needed to gentrify this town – build and sell. If you build something nice, someone else will have to build something nice. Even though Vermont and California seemed more attractive, we needed to take cashflow here and build up the town. Now it's $200 a day to ski on the mountain.'

Outgoing Apollo Global Management CEO Leon Black, who is a friend of Baron's, helped take the company public in 2014, and since then, acquisitions of properties in Lake Tahoe and other locations have burnished Vail Resorts' portfolio.

From 2000 to the end of 2020, Vail Resorts has returned 15.02% on an annualized basis, more than twice the 6.61% return of the S&P 500, and well ahead of Microsoft's 8.88% or Berkshire Hathaway's 9.08%.

At the end of 2020, Vail Resorts was a 3.6% position in the Partners fund, which Baron co-manages with his son Michael.

Collectively, Baron's funds own 11% of Vail Resorts, and the firm has no plans to cash out any time soon.

'We bought at $30, and it's now at $280 or something, and I think it will double again,' he says.

HOUSE WINS

Real estate may seem at odds with some of the buzzier tech names that Baron holds in the fund, but he argues that it is an underrated growth asset.

While clearly not a fund holding, he cites his childhood home in Asbury Park, New Jersey, as an example.

He revisited his hometown – where he once waited tables and sold ice cream – a decade ago and stopped by the house.

'It was worth around $10,000 in 1955 and around $300,000 a decade ago,' he says.

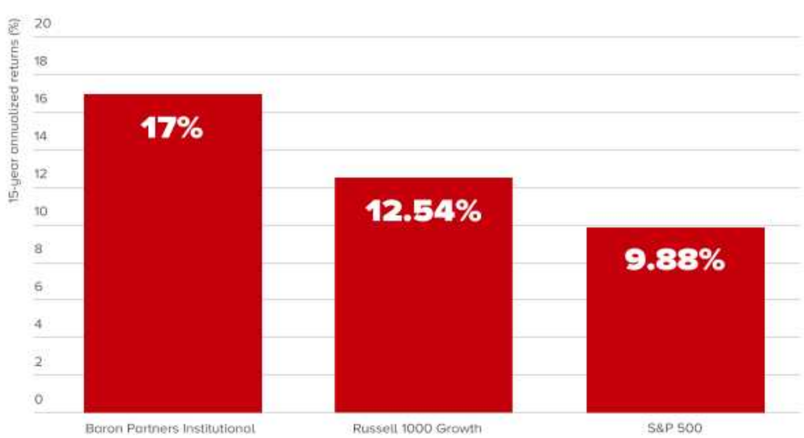
That's about a 6.4% nominal annualized return over the 55-year period by Citywire's calculation, not including what an owner might have rented it for. This explains why a growth investor like Baron can still find a place in his portfolio for real estate.

'[With] real estate overall, [the] value of your money appreciates 3% or 4% per year,' he says. 'Democracies for thousands of years have depreciated currencies, so real estate is a growth business.

'And if you happen to have real estate on the ocean, in mountains, or in central business districts, then those will grow at 7% per year, and with dividends at 7% to 9% per year. So, it's a store of value.'

BARON PARTNERS FUND 15-YEAR ANNUALIZED RETURN (%)

SOURCE: MORNINGSTAR DIRECT / DATA TO DECEMBER 31, 2020



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Baron Partners Fund's annualized returns for the Institutional Shares as of December 31, 2020: 1-year, 149.18%; 5-years, 37.40%; 10-years, 24.04%; Since Inception (1/31/1992), 16.52%. Annual expense ratio for the Institutional Shares as of December 31, 2019 was 1.96% (comprised of operating expenses of 1.06% and interest expense of 0.90%).

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 **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 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.

Top 10 Holding

Baron Partners Fund **12/31/2020**

GICS Sector	Holding	% Holding
Consumer Discretionary	Tesla, Inc.	44.6
Industrials	CoStar Group, Inc.	9.4
Health Care	IDEXX Laboratories, Inc.	5.5
Communication Services	Zillow Group, Inc.	5.2
Consumer Discretionary	Vail Resorts, Inc.	3.6
Financials	Arch Capital Group Ltd.	3.3
Financials	FactSet Research Systems, Inc.	3.2
Industrials	Space Exploration Technologies Corp.	3.0
Consumer Discretionary	Hyatt Hotels Corp.	3.0
Financials	The Charles Schwab Corp.	2.9
	Total	83.7
	Long Equity Exposure	105.3
	Cash & Equivalents	(5.3)

Baron Partners Fund bought Vail in 1997, but started selling in 1998 and had completely sold out by 2003. The Fund then re-acquired shares in 2008.

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

The **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The indexes are unmanaged. The index performance is not fund performance; one cannot invest directly into an index.

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