
Alex Umansky

Baron Fifth Avenue Growth

TICKER	BFTIX
ASSETS	$227 million

PERFORMANCE

YTD	1 yr.	3 yr.	5 yr.	10 yr.
13.82%	**28.89%**	**15.60%**	**17.87%**	**10.67%**

As of 5/31/2018. Three, five, and 10-year figures annualized. Source: Baron Capital

TOP FIVE HOLDINGS Amazon, Alibaba Group, Alphabet, Mastercard, Visa

As of 3/31/2018.

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PORTFOLIO CHARACTERISTICS

Number Of Equity Securities	**33**
Turnover (3-Year Average)	**14.10**
Active Share	**77.3%**
Median Market Cap	**46.68 B**
Weight Average Market Cap	**282.21 B**
EPS Growth (3-5 Year Forecast)	**22.6%**
Trailing 12-Month P/E	**36.6**

As of 3/31/2018. Source: Baron Capital

The Art Of High Conviction Investing

This manager has carefully chosen 40 stocks that he thinks have ample room to run.

By Marla Brill

FOR OVER SEVEN YEARS, THE BARON FIFTH AVENUE Growth fund was a fairly typical large-company growth vehicle with a diversified portfolio of over 100 stocks, lots of benchmark index companies, and so-so performance.

That changed pretty quickly when Alex Umansky, who had been a large-cap growth manager at Morgan Stanley for many years, assumed control in November 2011. Within a relatively short time he had whittled the fund down to fewer than 40 carefully chosen stocks and gave the best ideas ample room to run.

One such stock was Amazon, which accounted for less than 2.3% of portfolio assets when he took over. Now that number is up to 16.2%. And that bias toward concentrated holdings is evident throughout the portfolio. At the end of the second quarter, the fund's top three holdings, Amazon, Alibaba and Alphabet, accounted for 27.9% of net assets, and the top 10 names represented nearly 55.9% of the fund. The portfolio owns 32 stocks, while the typical large-cap growth fund owns 125.

"The fund's old portfolio was structured to guard against volatility," says the 46-year-old Umansky. "I guard against over-diversification. If you have a portfolio of 100 names, you're really just providing exposure to an asset class. We're in the business of finding mispriced securities and adding alpha."

In a world where active management is constantly measured against index performance, the stance is a bold one, and so far it has paid off. Since Umansky took over and restructured the fund

PHOTOGRAPHY BY BILL BERNSTEIN

on December 31, 2011, the fund has returned 202.9% cumulatively while the Russell 1000 Growth index returned 174.8%. The annualized return for the fund was 18.6% while it was 16.8% for the index. Last year, the fund's 40.97% return trounced the index's 30.21%.

Umansky acknowledges that part of the fund's success since last year comes from a bounce-back following a disappointing 2016, when newly elected President Donald Trump had promised to boost more value-oriented infrastructure plays and energy and growth stocks as a result fell out of favor. When investors realized that corporate tax cuts and profit repatriation would benefit a broader swath of companies, beaten down growth stocks came roaring back the following year and have continued to reach higher ground this year.

Stock picking has also contributed to strong performance. Besides Amazon, the fund has a hefty stake in other names that have done well such as Alibaba, China's largest e-commerce company; Intuitive Surgical, a medical device manufacturer; and genetic sequencing company Illumina.

The fund's turnover rate is 14%, significantly lower than the 58% average in Morningstar's large-growth category, and that points to management's willingness to hang in with a company name for the long term—as long as the original investing thesis for it remains sound and its valuation doesn't get too steep. Unlike many managers, Umansky usually doesn't "trade around" existing positions by constantly buying more shares when prices are down and selling when they're higher.

At times he may raise cash from the sale of an existing position and use it to buy something more interesting, which happened more than usual in the first quarter of 2018. Although the fund usually buys only a few stocks each year, the market volatility during that period gave Umansky the opportunity to establish several new positions at favorable prices.

"The market in 2017 went more or less in an upward direction with little volatility, so everything went up," he says. "This year we've seen volatility more in line with historical averages. That's good news for us because it gives us a chance to replace good ideas with better ones."

He and the fund show off their strong independent streak in other ways as well. The fund's 6.08% tracking error against the Russell 1000 Growth over the last five years is more than three times higher than that of its peers. By some measures, the approach has also raised the fund's risk profile. Morningstar pegs its standard deviation over the last three years at 14.98, compared with 11.26 for its large-cap growth category peers and 10.16 for the S&P 500. Over the same period the Baron Fifth fund's beta against the index was 1.25, while peer beta was 1.00.

Umansky believes that traditional measures of risk, such as standard deviation or beta, don't tell the whole story. And he points out higher volatility, both on the upside and downside, is a natural outgrowth of a more concentrated portfolio where each stock carries more weight.

"We rail against risk-adjusted returns, and I don't believe volatility is the best gauge of risk for a large-cap growth fund," he says. "We will be volatile from time to time. But if our thesis is right, our investors should recoup short-term drawdowns and come out ahead."

He says the fund's goal is to maximize long-term returns without taking significant risks that there will be a permanent loss of capital, and he employs a number of risk control measures to do that. These include buying stocks that sell at least 20% below the firm's estimates of intrinsic value and selling them when their price moves up to over 20% above intrinsic value estimates. Portfolio companies must also have high returns on invested capital, a sustainable competitive advantage, dependable recurring revenues, a diverse customer base and ample free cash flow yield.

Umansky prefers scalable "platform" businesses that don't require huge capital outlays to grow. For example, Apple and Amazon make money from third-party sellers who pay a significant cut of their sales in order to appear on iTunes and Amazon.com. Yet it costs virtually nothing to add new sellers to these platforms. Mastercard, another fund holding, is able to add new global customers quickly and efficiently at

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Sector Weightings
(% of stock portfolio)

Consumer Discretionary	28.7
Financials	8.7
Health Care	11.0
Information Technology	44.1
Real Estate	3.5
Materials	0.4
Cash & Cash Equivalents	3.6

As of 4/30/2018. Source: Baron Capital

Performance Characteristics
(3-Year)

Standard Deviation	14.91%
Sharpe Ratio	0.96
Alpha	-0.72%
Beta	1.24
R-Squared	85.89%
Tracking Error	6.53%

As of 4/30/2018. Source: Baron Capital

Fund Facts

Inception Date	4/30/04
Net Expense Ratio	0.75%
Assets	226.55 M

As of 3/31/2018. Source: Baron Capital

minimal cost with its huge "digital railroad."

But Umansky isn't fond of banks because he thinks their balance sheets are too difficult to understand. And energy companies don't make the cut because they are too difficult to value.

The "New Oil"

A number of the portfolio's most prominent stocks have come under fire recently for different reasons. Mark Zuckerberg's apologetic testimony before Congress earlier this year over privacy shook Facebook stock, if not the legions of ardent users. President Trump has meanwhile publicly trashed Amazon for draining U.S. Postal Service resources. And some worry that the threat of a trade war with China could weigh on the stock of Alibaba.

Umansky admits he has no particular insight on whether the negative publicity surrounding Facebook will raise costs for those companies or affect ad revenues over the short or long term, what the fallout might be for Alibaba if more protectionist trade policies come into play, or whether Amazon's growth trajectory will succumb to political pressure. "However, I do believe the substance of the current debate is largely missing the forest for the trees," he says.

In the case of Facebook and Alphabet, the forest is data collection, which Umansky calls "the new oil." Even with all the noise about privacy issues, he believes that these companies will continue to be able to leverage their extensive user databases and maintain their dominant footholds. As for Amazon, the stock's meteoric 32% increase in the first four months of the year speaks to the company's staying power "even in the face of the relentless assault from our commander in chief, which would be comical if it wasn't so sad." He adds that the continued growth of digital ad spending, cloud computing and e-commerce should benefit these and other tech holdings in the portfolio.

His newer positions include Activision Blizzard, a leading video game publisher whose key game franchises include Call of Duty, World of Warcraft and Candy Crush. He believes the company has an excellent management team and stands to be a major beneficiary from tailwinds such as the shift to higher-margin digital revenue, mobile gaming and international expansion.

S&P Global, another position initiated in the first quarter, is a diversified provider of financial and business information. About half the company's revenue comes from its credit rating agency business, and a quarter of revenue comes from maintaining benchmark prices for commodities and the S&P and Dow Jones indexes. The indexing side of the business should continue to benefit from the shift to passive investing, while the credit rating business is a well-recognized brand name with few competitors that should continue to grow with the debt markets. Sage Therapeutics, a new biotech holding, is developing unique drugs for central nervous system disorders. The company has also seen positive results in clinical trials for drugs used to treat postpartum depression and major depressive disorders, and its maturing pipeline bodes well for future prospects. FA

Manager
Alex Umansky

Age
46

Education
Bachelor's degree, New York University

Professional Background
Various positions with Morgan Stanley for 18 years, including co-manager or lead manager for several of its mutual funds; joined Baron Funds in 2011 and currently manages three of its mutual funds, including Baron Fifth Avenue Growth.

Outside Interests
Reading, golf, playing poker.

Baron Fifth Avenue Growth Fund's annualized returns for the Institutional Shares as of June 30, 2018: 1-year, 29.81%; 5-year, 18.47%; 10-year, 11.89%; Since Inception (4/30/2004), 9.55%. Annual expense ratio for the Institutional Shares as of September 30, 2017 was 0.84%, but the net annual expense ratio was 0.75% (restated to reflect current expense waivers).

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 has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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 calll-800-99BARON.

RISKS: The Fund invests primarily in equity securities, which are subject to price fluctuations in the stock market. 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.

The discussion of market trends and companies throughout this report 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 of the publication of this report and are subject to change any time based on market and other conditions, and we have no obligation to update them.

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

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. Beta measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. Standard Deviation (Std. Dev) measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk). Tracking Error measures how closely a fund's return follows the benchmark index returns. It is calculated as the annualized standard deviation of the difference between the fund and the index returns. R-Squared measures how closely a fund's performance correlates to the performance of the benchmark index, and thus is a measurement of what portion of its performance can be explained by the performance of the index. Values for R-Squared range from 0 to 100, where 0 indicates no correlation and 100 indicates perfect correlation. Sharpe Ratio is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance.

There is no guarantee that the fund's objectives will be met.

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Portfolio holdings as a percentage of net assets as of June 30, 2018 for securities mentioned are as follows: **Amazon, Inc.** – 16.2%; **Alibaba Group Holding Limited** – 6.6%; **Alphabet Inc.** – 5.1%; **Intuitive Surgical, Inc.** – 2.7%; **Tllumina, Inc.** – 3.9%); **Apple, Inc.** – 2.6%; **Mastercard Incorporated** – 4.9%; **Facebook, Inc.** – 4.8%; **Activision Blizzard, Inc.** – 3.3%; **S&P Global Inc.** – 1.6%; Sage **Therapeutics, Inc.** – 1.5%.

Portfolio holdings may change over time.

BARON CAPITAL