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MUTUAL FUND & ETF STRATEGIES

Baron Fund Focuses On Analyzing Disruptive Innovations

Top manager's team looks for firms that can keep competitive edge for years

FUND PROFILE

BY ADAM SHELL
FOR INVESTOR'S BUSINESS DAILY

Four words sum up top mutual fund Baron Fifth Avenue Growth Fund's[BFTHX] winning formula: Invest in big ideas.

All the stocks in the $427 million top-performing fund that Alex Umansky manages are disruptors. They upend industries and transform businesses. The portfolio manager only invests in trailblazers with competitive advantages. Most important, all holdings possess the potential to grow into much bigger businesses.

Umansky's strategy isn't about owning a little bit of a lot of stocks. It's all about conviction. He builds sizable positions in a shortlist of growth stocks.

His goal: Identify disruptive companies early in their life cycles and watch them grow into megacaps. Disruptive companies bring new and superior ways of doing things to an industry, such that they steal market share from established rivals. Think Amazon in the retail space.

Baron Fifth Avenue Growth Fund owns names like **Twilio**[TWLO], **Veeva Systems**[VEEV], **EPAM Systems**[EPAM], **Mercado Libre**[MELI], and **CrowdStrike**[CRWD]. Top holdings also include powerful disruptors like **Amazon**[AMZN], **Facebook**[FB], **Alphabet**[GOOGL] and **Alibaba**[BABA].

Umansky runs a concentrated portfolio of about 30 stocks in his top-performing fund. He's not into "overdiversification," as it hurts long-term performance, he says. Because of that the fund recently has shied away from most utilities, lodging stocks, energy names or real estate investments.

Umansky only focuses on game-changers. He's looking for the next Amazon. He wants stocks that have a good shot at becoming the next big Wall Street winner.

"We focus on disruptive change and we invest in big ideas," Umansky said. "What we are interested in is companies that can be materially larger than they are today. Finding companies like Amazon at a $50 billion or $300 billion market cap and then holding on to it until it becomes a multitrillion-dollar business. That is where we earn excess returns for our shareholders."

The fund's consistent outperformance is proof Umansky's investment strategy works. Baron Fifth Avenue Growth Fund is up 38% so far in 2020, outpacing the S&P 500's 3.7% gain. It has also topped the market benchmark in the one-, three-, five- and 10-year periods ended Dec. 31. That market-beating consistency is why the fund is an IBD 2020 Mutual Funds Award winner.

Today's economy is driven by information and data. It's about digitization. "The companies that are able to transform their own business or enable other companies to go through this transformation are the ones that are the winners," Umansky said.

Umansky ignores events like interest rates changes, political elections or GDP growth. Instead he focuses on analyzing what trends will transform business in the future.

"The market is obsessed with the latest data point or the latest breaking news," Umansky explained. "We believe it is more important to be right on what the next five or 10 years will look like rather than predicting the next six to 12 months. Everything we do is rooted in our long-term ownership mindset. We spend our time trying to develop unique insights and perspective. And it really starts with understanding whether disruptive change is real, material and sustainable."

Umansky looks for stocks with technologies that "can — and do — upend entire industries." Examples include artificial intelligence, e-commerce, the migration of computer workloads to the cloud, autonomous transportation, digitization, and blockchain and CRISPR technology.

Here are some current holdings of the top-performing fund that he believes have a shot at growing into massive companies.

Baron Fifth Avenue Growth Retail

Alex Umansky

Load:	None
Expenses:	1.00%
Symbol:	BFTHX

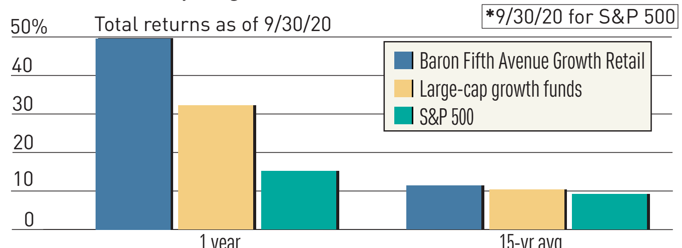
Total returns as of 9/30/20

2019: 33.97%	3-yr. avg.:	25.93%
YTD: 39.16%	5-yr. avg.:	23.21%
	10-yr. avg.:	17.95%

Sector weightings as of 6/30/20*

	% of stock assets	% of S&P 500
Cyclical	**36.61%**	
Basic materials	0.00	2.27%
Consumer cyclical	19.34	11.31
Financial services	13.91	12.81
Real estate	3.36	2.64
Economically sensitive	**44.96**	
Communication services	11.79	10.80
Energy	0.00	2.06
Industrials	0.00	8.62
Technology	33.17	24.69
Defensive	**0.00**	
Consumer defensive	0.00	7.50
Health care	18.43	14.32
Utilities	0.00	2.97

*9/30/20 for S&P 500



Source: Morningstar Direct

Mercado Libre is "the Amazon of Latin America." This holding is a result of "pattern recognition," Umansky said. It's a play on the multidecade disruption and growth opportunity related to online shopping. In the U.S., just 15% of retail sales are virtual, with 85% of transactions still coming from brick-and-mortar stores, he said. The ongoing shift to e-commerce is in different stages of maturity around the globe.

"If you understood that Amazon is digitizing retail in the U.S.," Umansky said, "you could have easily picked up Alibaba that's doing the same thing in China, and using pattern recognition you would go to Mercado Libre. They are doing exactly the same thing in Latin America."

The difference? Mercado Libre's market cap is around $50 billion, tiny compared with Amazon's $1.55 trillion market value and Alibaba's $720 billion. "Mercado Libre is significantly earlier in their penetration," Umansky said. "We have lot of conviction that we know how this movie is going to play out. We've seen this movie before."

The portfolio manager of the top-performing fund is also a big fan of EPAM. The reason? The company's software and consulting services led by data scientists and computer science Ph.D.s help customers digitally transform their businesses. He bought EPAM stock, which has helped big European banks better communicate with digitally fluent millennial customers, about eight years ago. In that time EPAM's market cap has swelled from $5.5 billion to $18 billion.

Data-driven companies that are benefiting from what Umansky dubs "network economics" also populate the fund. Brands with "platform businesses" that can build an ecosystem around their products, such as Apple and Amazon, can become enormously profitable, he says. More than half of Amazon's sales, he notes, come from third-party sellers, who give the online retail giant a cut of their sales. "These retailers forgo the opportunity to have their own stores and instead hang a digital shingle or storefront on Amazon," Umansky said.

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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. Please read them carefully before investing.

Baron Fifth Avenue Growth Fund's annualized returns for the Institutional Shares as of September 30, 2020: 1-year, 49.93%; 5-years, 23.52%; 10-years, 18.25%. The annual expense ratio for the Institutional Shares as of September 30, 2019 was 0.80%, but the net annual expense ratio was 0.75% (net of Adviser's fee 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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, 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 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.

The Fund's 3 month historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

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.

Portfolio holdings as a percentage of net assets as of September 30, 2020 for securities mentioned are as follows: **EPAM Systems, Inc.** –3.0%; **MercadoLibre, Inc**. – 2.2%; **CrowdStrike, Inc**. **-** 2.1%.

Top 10 Holdings as of 9/30/2020

Holding	% Holding
Amazon.com, Inc.	10.0
Veeva Systems Inc.	5.0
Alibaba Group Holding Limited	4.9
Mastercard Incorporated	4.1
Intuitive Surgical, Inc.	3.6
Facebook, Inc.	3.4
Twilio Inc.	3.4
Alphabet Inc.	3.2
Visa, Inc.	3.0
ServiceNow, Inc.	3.0
Total	43.6

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

S&P 500 Index measures the performance of 500 widely held large-cap U.S. companies. The index is unmanaged. The index performance is not fund performance; one cannot invest directly into an index.

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