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PREMIUM - MARKETS

Alex Umansky thrived as one of Wall Street's best stock pickers — then came the tech rout. He told us the changes he's making to emerge with a stronger portfolio, and explained why value stocks are like 'a melting ice cube.'

Marley Jay

- **Alex Umansky's growth stock fund was one of the best on the market in recent years.**
- **Things have changed dramatically as investors rushed into value stocks over the last few months.**
- **Umansky told Insider why he's still betting on growth, and what he's doing differently now.**

BARON FUNDS

Alex Umansky of Baron Funds.

Growth stock investors could do little wrong in recent years, and Alex Umansky got more investments right than most of them.

Umansky has had a very strong run at Baron Capital's Global Advantage Fund, especially in the second half of the 2010s. His returns consistently beat about 99% of other large-cap stock funds, according to Morningstar data. But that was then, and this is now.

While his long-term returns are still impressive – since inception the fund has outperformed the market, with a return of 317.6% in just under a decade compared to the 298.5% total return for S&P 500 – the last few months have been rough. Losses in the final months of 2021 wiped out almost all of its early-year profits, and the fund has lost money in early 2022.

The turn to value stocks that some investors have long predicted seems to finally be taking place. Banks and energy companies are in, and growth tech is out. But Umansky isn't abandoning Shopify or Snowflake or CrowdStrike to buy Exxon and JPMorgan Chase.

"The businesses that we like, the low capital intensity companies whose competitive advantages are durable, companies that are unique, that are benefiting from disruptive change, that are creating real economic value, they're still found in the same areas of the economy as they were before," he said.

Umansky explains that he wants to invest in companies whose intrinsic value is going to increase for years to come. A company that does that is eventually going to see its stock price rise, and will trade at higher multiples to its earnings or revenue based on its performance.

"In the long run stock prices always, always will re-

flect the business' intrinsic value," he said. "Growth companies increase their intrinsic values over time. The reason why they're trading at higher multiples is because they're getting bigger."

That's their real advantage over value, he argues. A value investor might buy a stock in the belief that its value is temporarily depressed, but Umansky says they're betting against time by buying something that isn't getting any more valuable and is probably losing strength.

"It's a melting ice cube," he said. "You have to get the timing right, and until they turn around, their intrinsic value is declining, and it's being eaten away by inflation and it's being eaten away by all these other things."

While he's sticking to his overall approach, Umansky says he's made some changes as the market has changed course. He says he'd been concerned over the last two years that some of his stocks were trading at levels that were "way ahead of their opportunity."

He stopped investing in those companies, and diversified pretty substantially. Whereas in the past he'd kept 40 to 50 stocks in the fund, more recently he peaked at 67.

"We had to go wider and broader," he said. He also used Alphabet, his largest position, as a source of funds to make some of those investments.

Now that growth stock prices have dropped to more appealing levels, he's starting to winnow the portfolio down again. At the end of 2021 he was back to 56 stocks, with recent additions including Sea Ltd., SoFi, and Rivian, the latter of which he added at the end of the year and is now his third-largest position.

"We are very bullish on electric autonomous mobility. We believe that Rivian will be one of the big winners in the space," he said.

With the tech stock rout continuing, Umansky says he expects higher-than-average turnover in his fund this year. In a typical year, according to Morningstar, 9% of his portfolio is replaced. But it's becoming clear that this isn't going to be just any year for tech and for growth, so he'll keep busy looking for bargains.

"I would much rather allocate capital at these prices than at the prices of three months ago," he said. "High quality businesses are rarely on sale."

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 Global Advantage Fund's annualized returns for the Institutional Shares as of December 31, 2021: 1-year, 0.90%; 3-years, 38.10%; 5-years, 30.62%; Since Inception (4/30/2012), 18.82%. Annual expense ratio for the Institutional Shares as of December 31, 2020 was 0.92%, but the net annual expense ratio was 0.90% (net of the Adviser's fee waivers). The **S&P 500 Index**'s annualized returns as of December 31, 2021: 1-year, 28.71%; 3-years, 26.07%; 5-years, 18.47%; Since Fund Inception (4/30/2012), 15.82%.

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, 2032, 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.

Risks: Growth stocks can react differently to issuer, political, market and economic developments than the market as a whole. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell.

Portfolio holdings as a percentage of net assets as of December 31, 2021 for securities mentioned are as follows: **Shopify Inc.** - 4.0%; **Snowflake Inc.** – 2.3%; **CrowdStrike, Inc.** – 2.2%; **Sea Limited** - 1.6%; **SoFi Technologies, Inc.** – 1.6%; **Rivian Automotive, Inc.** - 7.3%.

Top 10 Holdings
Baron Global Advantage Fund 12/31/2021

Holding	% Assets
Rivian Automotive, Inc.	7.3
Alphabet Inc.	6.5
Amazon.com, Inc.	4.9
Endava plc	4.7
EPAM Systems, Inc.	4.3
Shopify Inc.	4.0
argenx SE	3.2
MercadoLibre, Inc.	2.8
ZoomInfo Technologies Inc.	2.5
Twilio Inc.	2.3
Total	42.5

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

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The index and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The index is unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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