



March 15, 2023

Our view on the recent selloff in shares of The Charles Schwab Corp. in the wake of SVB's collapse

The share price of The Charles Schwab Corp. fell 31.8% from March 8 through March 13, 2023. This was amid a broad selloff of banking stocks following the collapse of SVB Financial Group. While better known for its brokerage and investment services, Schwab also provides its customers with banking and lending services.

We view this selloff as a reaction to events we believe will have little to no impact on Schwab's longer-term prospects. We increased our investment in Schwab this week. Schwab CEO Walt Bettinger also purchased shares during this selloff, demonstrating his confidence in Schwab's fundamental soundness.

Liquidity

We have no concerns regarding Schwab's liquidity either in the short term or the long term. Having spoken with the company's CFO on March 13 and reviewed its regulatory filings and statement accompanying its February Monthly Metrics release on March 13, we are confident Schwab has far more than adequate liquidity to meet deposit outflows.

In the [March 13 statement](#), Schwab underscored the following:

- *Schwab has a broad base of high-quality customers across multiple lines of business, capital well in excess of regulatory requirements, a high-quality and relatively small loan book, and a conservative investment portfolio that is 80% comprised of securities backed by the U.S. Treasury and various government agencies.*
- *We believe one of the best indicators of the strength and stability of the firm is our client activity. Our February results show that clients entrusted Schwab with more than \$41.7 billion in net new assets – our second-strongest February ever following our strongest January ever. Our growth and momentum have continued in March, with daily net new assets of over \$2 billion per trading day month-to-date, including Thursday and Friday of last week.*
- *Following the recent events in the banking industry, we are pleased to see the U.S. Treasury Department, Federal Reserve, and FDIC step in with decisive action to support depositors during this critical time. We think the steps announced today provide an additional layer of protection for individuals and will help boost confidence in the American banking system.*
- *Collectively, more than 80% of client cash held at Schwab Bank is insured dollar-for-dollar by the FDIC. According to S&P Global Market Intelligence, that percentage is among the highest of the top 100 U.S. banks. As a comparison, the banks in the news the last few days have between 2% and 20% of their deposits insured.*
- *As a further safeguard, Schwab has access to over \$80 billion in borrowing capacity with the Federal Home Loan Bank (FHLB), which is an amount greater than all our uninsured deposits. That helps provide the firm significant access to liquidity, so money is there when clients need it.*
- *Investments at Schwab are held in investors' names at the Broker Dealer. Those are separate and not comingled with assets at Schwab's Bank.*
- *Schwab does not have any direct business relationship with Silicon Valley Bank or Signature Bank, so we do not have exposure to any direct credit risk from either.*

Unrealized losses

Investors have also expressed concern about Schwab's net unrealized losses of \$26 billion as reported on its 12/31/2022 balance sheet. These losses were applied against \$277 billion in U.S. Treasuries or Agency mortgage-backed securities. The losses will remain unrealized if Schwab does not sell any securities, which we believe will be the case. Schwab has assured its shareholders that it has access to sufficient liquidity to meet any deposit outflows without resorting to forced sales of securities to raise cash. If the bonds are held until maturity, over time the unrealized losses will go to zero, as the bonds mature at par.

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.

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on 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 at any time based on market and other conditions and Baron has no obligation to update them.

Portfolio holdings as a percentage of net assets as of March 14, 2023 for The Charles Schwab Corp. are as follows: Baron Asset Fund (2.3%); Baron Partners Fund (3.7%*); Baron FinTech Fund (2.0%).

***% of Long Positions**

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

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