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JOURNAL REPORTS: FUNDS/ETFS

## The Best Stock-Fund Managers of 2019

Needham Small Cap Growth, Baron Partners and Meridian Enhanced Equity Legacy were the top-performing actively managed U.S. stock funds in the latest Winners' Circle rankings

(The following has been excerpted.)

#### By Suzanne McGee

Many stock-fund managers are looking like stars based on last year's strong market. But there are new faces on the winners' podium.

The stock market's recovery from the lows recorded in late 2018, together with volatility during 2019, resulted in a shake-up in The Wall Street Journal's list of the best-performing actively managed U.S.-stock mutual funds for the trailing 12 months.

Some managers who have dominated our Winners' Circle rankings in recent quarters have vanished from the list of the dozen or so top performers, while others have yielded pride of place to a new crop of outperformers. Of the top 10 actively managed U.S. equity funds (as measured by those that have a record of at least three years, assets of at least \$50 million, and that don't employ leverage or rely on quantitative screens), only one was featured previously in this quarterly column during 2019.

In a year in which the S&P 500 index generated a return of 31.5%, including dividend income, the fourth-quarter winners managed to do even better, thanks in part to a period that kicked off with a recovery from a market slump in the fourth quarter of 2018. Outperformers benefited from the volatility that underlaid last year's



Up 44.99%: Baron Partners Fund's Ron Baron PHOTO: BARON FUNDS

blockbuster index returns, as well as the fact that many of them allocated a significant chunk of their assets to a handful of individual stocks

Right up until the last days of the vear, the outcome was in doubt. and it turned out to be how holdings performed in December that made a difference. Baron Partners Fund (BPTIX), which posted a 5.4% gain in the final four weeks of the year, ended the year with a 44.99% gain, beating third-ranked Meridian Enhanced Equity Legacy Fund (MEIFX) by a whisker. The Meridian fund, managed by Denver-based Arrowmark Partners, had a December advance of nearly 1.7%, finishing the year up 44.97%. Meanwhile, an anemic December advance of 0.6% put Tocqueville Opportunity Fund (TOPPX) at a disadvantage, and caused it to come in fourth in our ranking, with a gain of 44.8%.

This pattern is a reminder that The Wall Street Journal's list of outperforming funds is only a snapshot of what fared well during a certain 12-month period rather than a "recommended" list of funds likely to outperform over longer time frames. Often, managers are reaping the fruits of investments made several years ago, and have endured periods of underperformance en route to their moment in the spotlight.

"We focus on companies that we think will grow a lot over the long term, and as a result have turnover of less than 10% a year," says Ron Baron, founder of New Yorkbased Baron Capital and manager of Baron Partners Fund.

Mr. Baron, who began his investing career in 1969, first invested in Vail Resorts Inc., a property management and development company with ski resorts in three countries, in 1997. It gained nearly 15% during 2019, and 172% over the past five years. Mr. Baron figures that's simply the start of even greater returns, and classifies the company as a stable grower that he expects to double in price over the next five to 10 years.

The Baron Partners fund also has big positions in more companies

(over please)

### Score at the Quarter

U.S.-stock funds were up average 8.3% for the fourth quarter, completing a 28% full-year gain. Average total return, U.S. diversified funds.



with more volatile returns that Mr. Baron describes as "disruptive."

"They are changing the entire paradigm" in their industries, he says, citing electric-car maker Tesla Inc. as a case in point. An investor since 2014, Mr. Baron says revenues have soared eightfold during that period, and he believes the company is on track to ultimately deliver \$1 trillion (yes, trillion) in sales. "It's very volatile," he acknowledges, but points out that Tesla's stock soared 132% from its lows in early June 2019, and that shares wrapped up the calendar year with a gain of about 35%.

"We view the stock price as irrelevant as long as a company is progressing in the way we hope and expect it will," Mr. Baron adds. "We want to invest in companies at the time they are investing in themselves" and notes he doesn't mind waiting years for investments in "disruptive" companies like Tesla or real-estate venture Zillow Group to pay off.

While Mr. Baron—like most of our other outperforming mutual-fund managers in the recent past—concentrates his fund's assets in

a relatively small number of holdings, he tries to offset riskier and more volatile holdings by putting money into more-established companies, like Hyatt Hotels or Charles Schwab. He has watched the latter's share price soar and then retreat since the financial firm announced a \$26 billion deal to acquire former rival TD Ameritrade in late November, but he isn't worried.

"It's all about the aggregation of assets," he says, adding that he expects Schwab will emerge as the asset-management industry's dominant player. Moreover, he argues, his long-term strategy means that more of his fund's holdings beat the market over the longer haul, making its higher fees (an expense ratio of 2.03%) acceptable to his investor base.

Ms. McGee is a writer in New England.

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Baron Partners Fund's annualized returns for the Institutional Shares as of December 31, 2019: 1-year, 45.38%; 3-years, 23.51%; 5-years, 13.90%; 10-years, 16.40%; Since Inception (1/31/1992), 13.39%. Annual expense ratio for the Institutional Shares as of December 31, 2018 was 1.77% (comprised of operating expenses of 1.06% and interest expense of 0.71%).

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 <a href="https://www.BaronFunds.com">www.BaronFunds.com</a> 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.

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#### Baron Partners Fund Top 10 Holdings as of December 31, 2019

Holding	% Holding
CoStar Group, Inc.	14.5
Tesla, Inc.	13.3
Arch Capital Group Ltd.	8.5
IDEXX Laboratories, Inc.	6.8
Hyatt Hotels Corp.	6.7
Vail Resorts, Inc.	6.4
FactSet Research Systems, Inc.	6.0
Space Exploration Technologies Corp.	4.1
The Charles Schwab Corp.	4.0
Guidewire Software, Inc.	3.8

Baron Partners Fund holdings as a percentage of long positions as of December 31, 2019 for securities mentioned are as follows: Tesla, Inc. -13.3%; Hyatt Hotels Corp. -6.7%; The Charles Schwab Corp. -4.0%.

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

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