Welling on Wall St.

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VOLUME 11
ISSUE 4
MARCH 12, 2021

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listeningin

Preternatural Patience

Along With A Gimlet Eye For Driven Founders & Growth Paths

Ron Baron

Forgive me if I wax nostalgic for a moment. The subject of this issue's interview is the one and only Ron Baron, the Manhattan, East Hampton and Palm Beach-based founder of Baron Capital. And it, of course, is the $50 billion AUM institutional money manager and mutual fund powerhouse that traces its roots back to the first fund Ron started, back in 1987 — on the proverbial shoestring — Baron Asset Fund.

I can't even tell you how I met Ron. We go back that far. It had to be at or through ***Barron's****, me as a young reporter interviewing Ron and writing stories, first, about any number of the fast-growing small caps he specialized in finding. And soon enough, writing up interviews with Ron, on his portfolio prowess. Then my boss and mentor, Alan Abelson, asked Ron to join our annual Roundtable, and there followed yearly immersions in the attributes Ron saw in the likes of Vail Resorts, ManorCare, casinos and more. Positions he stuck with for years. In some cases, still holds.*

It got a bit monotonous, frankly, in the Roundtable format, which I was editing. But Ron's clients only found reason to multiply as their investments virtually invariably compounded through markets both bull and bear. To the point that Ron can — and does — point with pride to the $48 billion in capital gains his organization has created for clients, so far. Profits generated by finding young companies with bright prospects and driven entrepreneurs and sticking with them — through thick and thin.

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Published exclusively for professional and/or avid investors who are paid-up subscribers by **Welling on Wall St. LLC**
ISSN 2332-161X

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Which makes it a tad ironic that the most recent headlines you'll find about Ron, should you need to Google him, are all aflutter that he sold some shares in last year's second half. In Tesla. The very electric car-making sensation whose rocketing shares drove the performance of a couple of Ron's mutual funds into the stratosphere during the Covid-warped year.

So fear not, Tesla was topic No. 1, when I got Ron to sit still (sort of) for an interview early this week. It was actually the first formal one-on-one session we've recorded in nearly 30 years, as Ron typically has preferred to bring colleagues into the spotlight. But it was just as I remember such encounters in the old days. Ron's encyclopedic knowledge and eye for telling details are undimmed by time. His conviction in his investing process, fortified by massive success. His connections are now formidable and his sense of humor, intact.

Oh, yes, as is his belief in Elon Musk — Listen in.
— KMW

Welcome, Ron. It's always very nice to catch up with old friends. But before we start reminiscing, perhaps it's best to get the elephant in room out of the way. You made headlines revealing some exceedingly timely sales of Tesla [TSLA] shares over the last six months – but still own a ton of them.

Ron: Isn't that amazing? That I make headlines for *selling* something? Jeez.

Well, a big part of your schtick is buying and holding *lots* longer than most investors, you have to admit.

Ron: That's very true. We've been an investor in that stock since 2014, and I had started looking at Tesla as a possible position way back in 2012.

What ever made you pull the trigger on buying Tesla at that juncture? If I recall, the Model S was introduced in 2012, but there were plenty of bumps in the company's progress – and young Elon Musk's big promises looked pretty wild-eyed.

Ron: Well, he *was* young, to me.

And to me.

Ron: Let me give you two seconds of perspective before we get into that. Baron Capital now has AUM of $50 billion. Our business has grown from $100 million in 1992 and $10 million in 1982. And we have made our clients $48 billion in profits in the process. My family and I are now the largest investors in our funds; we have about 5% of the assets, so $2.5 billion out of that $50 billion is ours.

> **"Baron Capital now has AUM of $50 billion. Our business has grown from $100 million in 1992 and $10 million in 1982. And we have made our clients $48 billion in profits in the process."**

Considering that I was $15,000 in debt when I got my first job on Wall Street in 1970 — and I was just breaking even when Alan Abelson met me in 1971 and gave me a recommendation that got me my second job — What a country!

I have to ask. I was still in college then. How did you cross paths with Alan? He was instrumental in so many careers, including mine.

Ron: Well, Alan and *Barron's* really got me off the ground. In 1969, when I left Washington to try to get a job as a securities analyst in New York — I'd been working as a patent examiner and going to law school at night to avoid the draft — I was in debt, and it was really hard to get hired. I had no experience and half of the analysts in the Street were unemployed. I lived rent-free and food-insecure in a friend's basement in Maplewood, NJ, and it was three months before I could talk my way into a job with Janney Montgomery Scott — as the sole fundamental analyst for the firm's 250 brokers in five or six offices.

I worked out of Princeton, under the direction of [renowned technical analyst] Tony Tabell. He would pick stocks for me to research and I'd go to visit those companies. Then I'd go back to the office, tell the brokers about those companies and give them write ups about the stocks every week that they could send to their clients. Happily for me, those letters were also published in *The Wall Street Tran-*

script.

I'd been doing that for about a year when, on my own, late in '70 or at the beginning of '71, I came across a company called General Development Corp. I decided to visit it by myself — instead of on the basis of Tony's recommendation. What I found was that General Development had sold some land on which they were obligated to perform improvements, but I didn't think they'd provided enough reserves to accomplish that, because of inflation. It was a popular stock at that point, trading at $32 or $33 a share, but my bearish conclusion was that it was going to run into trouble.

Stimulus Package by Bill Day, Florida Politics.com

Well, I wrote up it up and sent it out to Janney Montgomery's clients and to *the Transcript*.

Oops.
Ron: Exactly. The Monday morning it was published, all of a sudden, the stock fell 1 or 2 points and the chairman of General Development called me up, yelling at me, screaming, "What are you doing?"

Welcome to the short side.
Ron: Very quickly, Janney Montgomery Scott was forced to withdraw from a planned offering — and I got fired that afternoon.

That's when I called Alan Abelson — who I'd been reading religiously, like everyone in the business — and he asked me to come in and talk. He said, "I've been reading your pieces in the *Transcript*, and I really like how you do your work."

I said, "Of course, I don't have anything else to do." And when I went to visit him, he offered me a job as a reporter for *Barron's*.

That's so Alan.
Ron: But I said, "That's really nice of you, thank you very much, but I've always wanted to be an analyst — although my parents think it was a terrible idea to be a stockbroker." So Alan said, "Then I'd like to recommend you. Please put my name on your resume and let people call me."

I did, and Alan helped me get my next job, at Shields & Co. as an analyst. Before too long, he had you doing articles on my research and then interviewing me in *Barron's*, and that really put me on the map. That was how I got started. Alan was a really nice man, albeit very acerbic.

[Laughter] **That's spot on. Very nice, but too acerbic to like hearing you say it.**
Ron: He certainly was to me, though he ultimately fired me from *Barron's Roundtable* after I was on it for seven or eight years. That was fun — back when Peter Lynch and Mario Gabelli and Paul Tudor Jones, and that guy from Philadelphia —

John Neff, the genius portfolio guru of Vanguard's Windsor Fund.
Ron: Right, John Neff — were on the panel. But Alan fired me from the *Roundtable*, he told me, because I was boring. "All you talk about every year is ManorCare and Golden Nugget. I'm tired of hearing about them."

Fresh good ideas *were* the coin of the realm with Alan, there's no doubt. So Tesla?
Ron: Okay, Tesla. One of my best friends from law school, Vic Morgenstern, ended up being a founder of Harris Associates and its Oakmark Funds in Chicago. One day he called me up and asked for a favor. "I'm wondering if you could invest in a young man's private equity fund. His name is Antonio

Gracias. I'm mentoring him, and he's a brilliant guy." I said, "Vic, I don't invest in anyone else's funds — just my own — but I owe you a favor. Whatever you want me to do, I'll do."

So I invested a few million dollars in his fund, and then Antonio becomes the Lead Director of Tesla. The first distribution I get from Antonio's fund comes as shares in Tesla. This was at a valuation of $2 a share.

That's way too easy.

Ron: But it was before the IPO. They were planning to go public at $20 or so. I said, "I like the idea of electric cars, but I don't know." So Antonio said, "I'll send Elon to visit you." Elon shows up wearing clogs, funny pants, a plaid jacket and a plaid shirt —

Very Wall Street.

Ron: Right. We talked for a couple hours, but I said, "Man, I don't understand how this is ever going to work." So they sent a car to our home in East Hampton for me to try. It was a prototype, and the first thing I discovered was that it was very hard to get into. Then, when I got in — it goes zoooom, very fast. And when I took it on the highway, I thought, "My God, this is like driving a soapbox derby car when I was a kid. Some 18-wheeler is going to run me over! This is really dangerous."

Yikes!

Ron: So, I go back home and I'm not really interested. Then I go back to New York and this $2 stock comes public at $17 in June, 2010, and I sell my shares. That was *before* the five-for-one split. Which means that my basis, on those $2 shares, today would have been equivalent to 40 cents.

Oh well, you *are* human.

Ron: [Laughter] Nonetheless, I continued to follow Tesla's progress from a distance. Then, in 2012, I went out to California to visit it with Mike Lippert [Baron's head of technology research and PM of its Opportunity Fund and High Growth Strategy]. I had noticed that Mike had bought the stock around $25 or $30 — about when I had sold it — and by then, it was trading at $80. Tesla was just introducing their new Model S. So Mike and I meet for two or three hours with Elon, sitting in a corner of his factory. Mike pretty much watched the whole conversation. Then he says, "I've got to go catch a plane. I can't believe I have to leave this meeting. I can't believe I have to go."

Later that evening, when I talked to him, I said, "At least you were smart enough to invest in Tesla, Mike. I can't believe I got out." But he says, "Ron, I sold the stock." I said, "Are you kidding me?" It's so clear what's going to happen with this stock. I *have* to own this."

Still, the stock doubled again to 160 before I could buy a single share, in 2014. Between then and 2016, we invested $387 million in Tesla, at an average, roughly, of $200 a share, which is the equivalent of $40 a share now, because of last year's five-for-one split. So the million or 1.5 million shares we bought turned into a stake of 8 million shares, or something like that.

But the stock didn't immediately reward you by heading for the moon —

Ron: No, after we bought the stock, it just fluctuated up and down for four or five years, as the business grew from $2.8 billion to $30 billion in revenues. The business grew by a factor of 10 times, and the stock didn't increase at all. So of course people asked, "Why don't you just buy it at $200 and sell at $300?" It had completed that cycle four times. But I said, "Well, if I try that, I'll never get the cycle right — I'll sell sooner or later and miss what's ultimately going to happen. And I'll have to pay taxes on all those short-term gains. I'm not interested in short-term gains."

That's why we hang on. Plus, I'm enamored with what Elon is doing. I think that electric cars are the answer — also, sort of a holding idea until he gets us to another planet before a meteor or an asteroid hits the Earth and wipes us out like the dinosaurs.

Seriously?

Ron: If anyone can do it, he can. I'm fascinated with this guy. Elon is really smart, just unbelievably hard-working and brilliant. I realize the competitive advantages he's creating.

When Tesla started working with electric cars, the batteries cost $100,000 each. And back in the early 1900s, Henry Ford's wife's favorite car was a battery operated model. And, back in 1903, the Wright Brothers made the world's first successful controlled power flight over a beach near Kitty Hawk, North Carolina. Then, in 1969, we landed on the moon. So we went from Kitty Hawk to the moon in just about 65 years. But in the last 100 years, the auto industry hadn't been able to produce batteries that would drive cars more than 100 miles — or drive their cost below $100,000 a battery. How was that possible? I thought there just had to be big changes that were possible.

And there were. By the time I started investing, really investing, in Tesla, they had the battery cost down to $30,000. Now, it's less than $10,000, on its way to $5,000. An internal combustion engine costs $5,000 or $6,000 to build, and keeps getting more and more expensive. I decided, "There's no way this is going to continue. This has to change. But the major car manufacturers can't possibly do it. They have hundreds of billions invested in plants making engines. Just look at their names — The Ford *Motor* Co., General *Motors*, Bavarian *Motor Works*. Every one is a *motor* company.

Yes, but they're all converting to electric—
Ron: Only very slowly. Their expertise is making ICEs. They're not going to their boards, saying, "Let's forget about all that money we have invested in engine plants, let's just invest in making battery-driven cars." No one is going to do that, if they don't have to. So even if they believe electric cars are the future, I think they're going very slowly to avoid having to write off their investments in existing facilities. I could see that our guy Elon has a big advantage on that score, if he can stay alive.

So how much did you have a couple of Baron funds wager on Tesla, in terms of your assets under management?
Ron: We made a small investment, equal to 1.6% of our assets under management — and that $387 million worth of shares became worth $5.5 billion at the stock's recent peak. But the valuation didn't change much for four or five years. It's only been in years six and seven, now, that the company's shares have been starting to reflect its value.

Another big competitive advantage Tesla has is that all of the other guys also have big investments in their dealerships — under perpetual arrangements — that give the dealers exclusive distribution and maintenance rights.

Tesla can cut out the middle men?
Ron: They have their own distribution, direct to consumers. Even more importantly, on their electric vehicles, with so many fewer moving parts, Tesla can handle most maintenance by making software updates via direct connections to the cars through the cloud; there are no dealers required for Tesla to communicate back and forth with their cars' control systems, as needed.

That could be a bit spooky if you're driving —
Ron: No, when you own a Tesla, every week or two when you start your car, you'll find a message about a new software update. Like you do on your Apple computer.

Still, sounds inconvenient, at the least.
Ron: Not really. Like yesterday morning, when I went down to my Tesla here in Florida, a note appeared on the screen, "Do you want your car to upgrade its software now, or do you want it to do it at 1:00 in the morning?" I clicked now, because I wasn't going to drive it for an hour. And when I go down today, the car will be different than it was yesterday.

You have a lot more faith in seamless software upgrades than I do.
Ron: With Tesla, anyway. It can do that because they don't have to go through dealers, like the legacy automakers have to do.

Another advantage Tesla has is that its battery technology is better than anyone else's. Right now, while the cost of the batteries Tesla buys has come down, there's a shortage of batteries. So our guy has decided, "If the battery is threatening to become the gating factor behind me not selling a lot of cars, I have to make my own batteries." He's still going to use all of everyone else's batteries that they'll supply to him, but he's decided that the cost of those batteries isn't low enough, they aren't powerful enough, and aren't being made fast enough.

That can't make his suppliers very happy —
Ron: When you think about it, you can understand why Tesla's battery suppliers aren't up in arms. If you're a battery maker — Panasonic or CATL or LG Chem or Samsung — and Elon comes to you and says, "I know I'm only selling 2,000 cars a year now, but I'm going to sell 20 million cars a year — and all the other automakers are going to be selling battery-driven cars, too. So I need you to invest billions of dollars in factories to make batteries." How credible would that be?

Sure, kid.
Ron: Especially when he walks into the board room in plaid shirts and plaid jackets, wearing funny pants and clogs. But Elon already has announced that he is going to have a battery that is half the cost of existing auto batteries by the end of this year — and 50% more powerful. What's more, that he's going to be able to build them using just 10% of the factory space that Tesla already has.

The reality is that Elon has invested heavily in research and development and new production capacity, while other companies haven't. And now, Tesla is about to offer its full autonomous driving system, which is going to be unbelievable, as a subscription service. I'm convinced that's going to be worth the whole price of the stock.

I hate to be a Debbie Downer, but Elon has quite a record of over-promising and under-delivering on new cars and new features.
Ron: Well, over-promising only about the short-term. About how quickly he can get it done. He is a speed demon. But he gets the very best engineers — and challenges them. Go to any of the engineering colleges, and you'll find that the top two choices for future employers — of every single person graduating — is either SpaceX or Tesla. They attract the best engineers.

Also, Bill Gates says that people overestimate what they can accomplish in the short-term and underestimate what they can accomplish in the long-term. It's hard to guess that. Gwynne Shotwell, who is the President and COO of SpaceX, says, "What happens is that Elon will come in and he'll have this presence. He's brilliant, he knows the thing, and he knows what stuff costs. There are people who say he's perhaps the best engineer on the planet. If someone says, 'This chip is going to cost this much money and it's going to take this long to make,' he lilely says, 'It's just sand. How could it possibly cost that much?'"

Sounds *great* to work with.
Ron: Gwynne says, "Elon comes in, and he'll say, 'This is what we have to do, and this is how fast we have to do it.' Shocked, people will look at each other and say, 'We can't do that.' Not to him, anymore, publicly, but they'll say it to each other." Then, ultimately, when Elon leaves, Gwynne tells them, she says, "If Elon says we should be able to do it, we should be able to do it." And what do you know, they're able to do it.

So, Elon pushes people to the limit and people follow him and want to work with him, it's so interesting. They accomplish what no one else can accomplish. Ultimately, he pushes so hard because he is in a hurry. He has no patience with someone saying we can't do this for five or 10 years. Contrast that with General Motors, where [CEO] Mary Barra has just pledged that all their cars will be electric by 2035. If someone told Elon they'd do something in 15 years, he'd say, "2035? I'm 48. I can't wait 15 years. We've got to do it next year, in two years — we've got to go to Mars in three years!" Everything is done as fast as it can possibly be.

Granted, Ron, you've always had an eye for smallish companies with long growth runways, but listening to you, you're clearly agog over anything Elon. I can't quite get over the dichotomy between that and the painstakingly precise fundamental analyst I used to know. When you started working on Tesla, there was almost nothing fundamental to analyze — just an entrepreneur with audacious plans.
Ron: Well, let me point you to something to read. It's the presentation that Elon made at Battery Day, explaining to analysts what he's going to do with batteries. It's 62 pages. He gave it in September in California at Tesla's annual meeting at a drive-in movie theater. I didn't go out, because of Covid-19. The video is on YouTube, so you can see everyone yelling and screaming and honking their horns when he takes the stage. But I prefer to read the presentation, which includes the slides. When you read it, you'll say, "Oh, I see how he's doing it" or, "I see what he's doing."

What I find is that the more you talk with a company, with the executives, the scientists, the engineers — the better. And we visit companies regularly. Asking questions, watching, observing. It adds up to multifaceted perspectives on our companies, which are very useful. I remember talking with one of the top executives at Tesla, who explained, "Look, Elon is into complexity. Everything's complicated. Like when he was trying to convert the production line into all robots. But they found there are some things it's still better to do with humans. So he flipped everything around."

He explained that whole misadventure to us. This was really a funny guy. Told us about growing up in a French farmhouse. The first question I asked him was, "How do you hire engineers? How do you know the persons you want?" He said, "Well, the first question I ask is, 'Have you blown up your house?'"

What does that mean?"
Ron: Just what I asked. He explained, "I want them to have blown up their own houses before I give them a chance to blow up mine." He wants to make sure they're willing to experiment. So I asked, "Did you blow up *your* house?" He said, "Yes, my brother and I blew up our farmhouse, and he lost a leg in the explosion."

Gosh, my engineer husband only set fire to his dad's new car with a magnifying glass.
Ron: The key is, you've got to meet the people; you have to understand what they want to accomplish — and if it is credible. So yes, initially, Tesla was missing deadlines. I believe, as Bill Gates does, that

people overestimate how quickly they can do things. But most people aren't like Elon — working 20 hours a day and sleeping on the factory floor every night.

There was a lot of turnover at Tesla when we were investing initally, because people burned out. And it was fragile financially. But again, we risked only 1.6% of our assets.

Only put it in a couple of funds, right?
Ron: We did it principally in two funds, in Baron Partners Fund and also in Baron Focused Growth Fund. Baron Partners Fund, by the way, started as a hedge fund partnership in 1992. I have to brag a little bit. Up until 2003, we charged 20% of profits and the clients made 16.5% average annual returns, net of our fee, while the market was up 10% - 12%. We reorganized it as a mutual fund in 2003, with just a 1% fee. Since then, through the end of 2019, so over those 17 years, Baron Partners' performance ranked it No. 4 out of 2,256 mutual funds.* But *including last year*, when our Partners Fund was up 149%, driven by the surge in Tesla shares (which drove TSLA's portfolio weighting in it to 44.6%), it moved up to No. 2 in the rankings.* I can't even tell you who No. 1 is. I haven't even asked.

The returns have been fantastic, and we — meaning my privately owned management company, Baron Capital — are the biggest investor in our mutual funds. When our funds were buying the stock from 2014 to 2016, I didn't personally buy any stock, and I tried to persuade other portfolio managers at Baron Capital to buy the stock — where it was appropriate. When I wasn't all that successful convincing them, and they didn't want to buy any more, then I bought as much as I could buy for accounts I manage.

After that, I decided to invest $50 million for me, for Baron Capital, in Tesla. I could afford to lose the $50 million, though it would not be *pleasant*. But I decided, "I can't afford *not* to make a billion dollars." While I normally invest only through our mutual funds, I knew that if I could make that billion in Baron Capital, then the shareholders in Baron Mutual Funds would also benefit.

How?
Ron: Because I'm not taking that money out of Baron Capital and buying another plane or car or something, I'm leaving it in Baron Capital. That will make it financially stronger, give me more money to retain great people. It will make my dream of creating a business that is going to last for generations a reality. So, I did it. I invested in 1.1 million shares of Tesla for Baron Capital — 1.125 million, actually. But I haven't bought a single share since 2016.

Yet it's your Tesla sales that are in the headlines, as we said at the outset —
Ron: Yes, I've sold 1.8 million shares for clients over the past six months — at an average price of $450 - $850 a share. Simply because, in some accounts — including in Baron Partners and Baron Focused Growth — the run-up in Tesla stock had taken its weighting to about 50% of assets. I thought I would get criticized for being irresponsible — and ultimately, I was right — I'm getting criticized. But the criticism didn't start until a few months *after* I started selling.

I sold half a million shares at $450, half a million shares at $650, and a half a million shares at $850 — and a little bit more, at more than $850. The total, as I said, was 1.8 million shares sold. But I did not sell a single share personally — meaning, for Baron Capital. Including shares we hold for clients, we still hold around 6 million Tesla shares — because I think those shares will be worth $2,000 each in 10 years.

That's another big advantage we have at Baron Capital. Nobody else invests for 10 or 15 years in this business any more.

That's an exaggeration — but not a big one.
Ron: Baron Growth Fund has annual turnover of 3% or 4% or 5% — and it's ranked No. 11 out of 580 mutual funds since 1994.** Nobody else in that cohort has such low turnover; many turn over their portfolios every year.

When I think about the investing mistakes I made, when I was talking to you in the 1970s or 1980s, they mostly involved too much turnover. I was recommending Disney when they were building the Orlando park and McDonald's because they owned all the real estate and were growing franchises. Also, stocks like Nike and Federal Express. But I was working on commissions, brokerage commissions.

So I was also recommending — "Okay, buy Mattel and sell Disney. Buy Federal Express and sell McDonald's." The reason, you know, was that if I got someone to invest $800,000, I made an $8,000 commission. Then, if I got someone to sell $800,000 in stock, I got another $8,000 commission. The more they traded, the more I made.

But after a while, when I went back and looked at the stocks I'd recommended selling, I said, "Oh, my." I'd usually sold way too soon. One sale in particular rankles to this day.

Which was that?
Ron: A troubled department store company, called Daylin, that Sandy Sigoloff was reorganizing in the late 1970s. I was buying the stock at $1.50 or $2 a share, because it had a subsidiary in California, called Handy Dan, that had caught my eye. One day, Ken Langone called me up. He says, "I'm Ken Langone." I said, "I know who you are!" So he says, "Well, Ron, I went to Bucknell just like you did. Guys like us, we've got to stick together." Guys like us! Then he invited me to lunch at the Waldorf Astoria.

An offer you couldn't refuse —
Ron: We meet there and he says, "You and I are buying this stock, Daylin — for the same reason. We both like the people who run Handy Dan. But we're beating each other's brains out, competing for every share." He is buying the stock for himself; I'm buying it for my clients. So he suggests, "Why don't we just split all the stock we buy 50/50? Anything you see, show me. Anything I see, I'll show you." I said, "Fine." So we did.

The stock I had bought at $1.50 or $2 climbs to $4, $5, $6. I sell it. Langone keeps his. Not long after that, Sigoloff fires the guys who ran Handy Dan, Bernie Marcus and Arthur Blank.

Who turned around and started Home Depot, with financing arranged by Ken Langone.
Ron: Exactly. If I hadn't prematurely sold out of Daylin, I most likely would have been an early investor in Home Depot. My conclusion, when I looked back at all the companies I had sold early in my career was, "Gee, I'm pretty good at figuring out what are good businesses, but I'm pretty bad at holding them. If I had only held them, I could have been rich."

So it dawned on me, "Wow, *that's* how you get really successful. You don't get successful buying and selling. You get successful by buying great businesses and hanging on." That's what I learned.

I suppose it's a "quality problem" but by doing that you can run into issues as an investment manager when successful holdings grow into portfolio-dominating positions. Or become "big caps" in mandates meant to focus on small fry.
Ron: Sure, issues like that crop up. But we can do things like start another small cap fund. So now we have a total of three small cap funds. The newest, Baron Discovery Fund, is run by two managers, Randy Gwirtzman and Laird Bieger, who had worked, for 15 years, under Cliff Greenberg, the long-time manager of the Baron Small Cap Fund, and our co-CIO, along with Andrew Peck. We actually have forced a discipline on the new fund so that they'll stay within the market cap range for small cap funds. Cliff not only trained Randy and Laird, he actually taught them at Columbia Business School. So, they learned from Cliff — and last year, their small cap performance was better than either Cliff's or mine.

Darn "kids"!
Ron: I'm excited by how well they are doing. Last I looked, I think their fund's AUM was up to $1.8 billion [from $1.3 billion at yearend]. I'm excited about all of our funds.

There *are* quite a few, and all were pretty good last year.
Ron: Pretty good? Outstanding! Have you looked at our report?

Of course. I'm letting *you* use the superlatives here —
Ron: It's actually fun for me to write our quarterly letters. They give me a chance to talk with the individuals I work with and people at the companies we invest in. I just got a letter this morning from Alejandro Weinstein, a terrific entrepreneur. His family survived the Holocaust; moved to Chile. He started CFR Pharmaceuticals in South America. Goldman Sachs took it public, and we invested in the IPO. They were developing their own generic drugs to sell through their own drugstores.

I was fascinated with the guy, fascinated with his family story. We doubled our money before he sold his business to Abbott Labs for $2.9 billion, in 2014. I was really upset by that, because I loved investing with this guy. But in his letter this morning, he said he has just moved to London and started another medical company that he thinks I might find interesting.

So I called him and said, "Invest with you? Of course, I have an interest in anything you do." And he said how much he enjoyed having me as an investor. Then he said something that I hear from a lot of people — how much he learned from me. Which invariably prompts a double-take from me: "How much you learned *from me*? What are you talking about?"

For instance, Jay Flatley, one of the founders of Illumina (ILMN), which we invested in, told me the same thing. He is not there any more, but he called me a year or two ago and said, "You should look at Zymergen. I'm on the board and we're doing really interesting things." So, we studied it and put an early-stage investment in it. What I'm saying is that executives of companies in which we've invested actually come to us with recommendations of other companies to look at.

They like long-term investors —

Ron: But I think the question many successful business creators have is *what was it*, about all the companies we've held for the long haul at Baron Capital, that kept us invested in them through the market's ups and downs — and the inevitable vagaries in their company's fortunes as they invest for their futures — when most other investors were buying and selling the same assets in pursuit of short-term goals?

And your answer — besides patience and a preternatural tolerance of pain — is?

Ron: I'm investing in people. *My whole thing has been investing in [the right] people*. Then the next question is, "How do you do that? How do you find a Charles Schwab?" Do you know what my cost is in Charles Schwab stock?

Pennies, I'd imagine.

Ron: It's 68 cents a share, and the stock is $60. When I was in law school at night in Washington, in 1969, I wanted to invest in a hot IPO. ManorCare was going public at $18 a share, with a book value of $12 million.

But to even open a brokerage account, you needed to deposit $2,000. I didn't have that kind of money. So I borrowed $1,000 from the patent office credit union, $300 from Beneficial Finance and $300 from Household Finance, and somehow, I scraped together the other $400, to open an account at Reynolds & Co., and invested in ManorCare.

By the way, that was when I discovered that Beneficial Finance and Household Finance were worse than the mob.

They do charge a lot of vigorish.

Ron: And if you miss a payment one month, they collected your whole payment the next month as interest. I paid $20 - $30 a month for a whole year and in December I owed almost as much as I'd borrowed. It was the craziest thing I ever saw.

Then you know how the other half lives —

Ron: I don't understand how they got away with usury. Anyway, in the 1970s, I recommended ManorCare over and over in *Barron's*.

Endlessly, it seemed.

Ron: Well, after we started managing money in the 1980s, we became the largest independent investor in ManorCare. Ultimately, it got sold to Carlyle Group in 2007 for $4.5 billion. [The private equity group a few years later sold off ManorCare's real estate operations for more than $6 billion, but it didn't fare as well with the nursing home operation, which filed for bankruptcy protection in 2018.]

Anyway, ManorCare was a company that grew from $12 million to $4.5 billion. Largely through the efforts of Stewart Bainum —a father and son who shared the same name. I'm friendly with the son. But I didn't know either, in 1969. I just read about Bainum, Sr. in *The Washington Post*. He was a developer who had started building high-end nursing homes. After Medicare was passed in 1965, I thought they were going to benefit. It also so happened that the Bainums were involved in starting Choice Hotels. ManorCare spun out Choice Hotels (CHH) before it was acquired by Carlyle, and so we've got a basis there of $2 or $3 a share, and that stock is $100.

You do specialize in finding folks with a Midas touch —

Ron: We try. It's about finding people like Stewart Bainum, like Charles Schwab, like Phil Berman, who built Hess's into a retail ing chain. Just one after another. I've already mentioned Elon Musk and Gwynne Shotwell. Peter Carlino, I've been investing with him since the 1970s in Penn Gaming (PENN). He took a business of his father's — that was bankrupt — and brought it public as a racetrack at a $25 million valuation. He ultimately made a deal to sell the business to Fortress for about $7 billion, but the deal fell apart in the financial crisis of 2008 - 2009, and the stock fell in half. So we bought more stock. We actually also bought more stock at the beginning of 2020, when its price plunged from $25 - $30 a share to $5, just like that, amid the pandemic panic.

I assume it has bounced since.

Ron: Sure, it rallied back up pretty quickly, because they have some promising prospects. When they wanted to do a stock offering at $18 a share to fortify their balance sheet, we were one of the largest, maybe *the largest,* institutional investor in the deal — other than Peter. So, we subscribed, buying several million more shares at $18. The stock is now trading up around $120 a share.

What's so special about this gaming biz? It lacks the glitz of Macau or Vegas —

Ron: What they have that is unique are licenses. Very hard-to-get licenses. What convinced us that they were going to survive was that they *pay billions of dollars a year in taxes* to the states where they operate — and they *employ 20,000* people. Penn Gaming generates around $5 billion in revenue for the states where it operates. How could those states *not* allow them to survive? I figured they couldn't. So we added to our investment there, and the stock has done well.

Other companies with great leaders where we've done very well over the years include Hyatt Hotels (H) under the Pritzkers, first Jay and now Tom. And CoStar Group (CSGP), with Andy Florance. I've been an investor in CoStar since 2002 or 2003, and made over 20 times. There also is Rob Katz, the chairman and CEO of Vail Resorts (MTN). And Pat Pacious at Choice Hotels, who was hired by Stewart Bainum — who says Pat might be the best manager he's ever worked with.

"What we do is all about finding great, talented and inspired entrepreneurs, and great and hungry executives. And giving them time to work their wonders."

Pat is a fantastic guy with just a great story. He went to Duke University on a scholarship. He was one of 10 or 12 children in a Catholic family. To get through school, he worked nights in a parking lot. Went into the Navy right out of college and very quickly he gets put in charge of a ship. I mean, he's just an unbelievable man. Then he got an MBA from Northwestern's Kellogg School. All these people who fascinate me have incredible stories.

Which you make it your business to learn.

Ron: We invest in those individuals — *because* we get to know them. We trust them, we like them, we think they're smart, hard-working, inspirational, good leaders — and we've been right. Jay Pritzker told me once, "Look, Ron, you know more about Hyatt than I know about Hyatt." We had invested in Hyatt in the 1970s. He then took it private at a $250 million in market cap. But it's now public again, and its market cap is $7 billion. And we're the largest institutional shareholder in Hyatt.

Jay had told me that in the 1970s, when I objected to the $250 million valuation of his going-private transaction. I didn't think it was a good deal for public shareholders, at $11 or $12 a share, whatever it was. He replied, "If you can figure out some way — that is *not* going to cost me money — that your shareholders can benefit, then I'll see if I can do it. Otherwise, I've got 51% of the company, and I'm going private."

What did you come up with?

Ron: Well, you might remember that Atlantic City casinos were the hottest thing going in the stock market in the late 1970s.

I'll say.

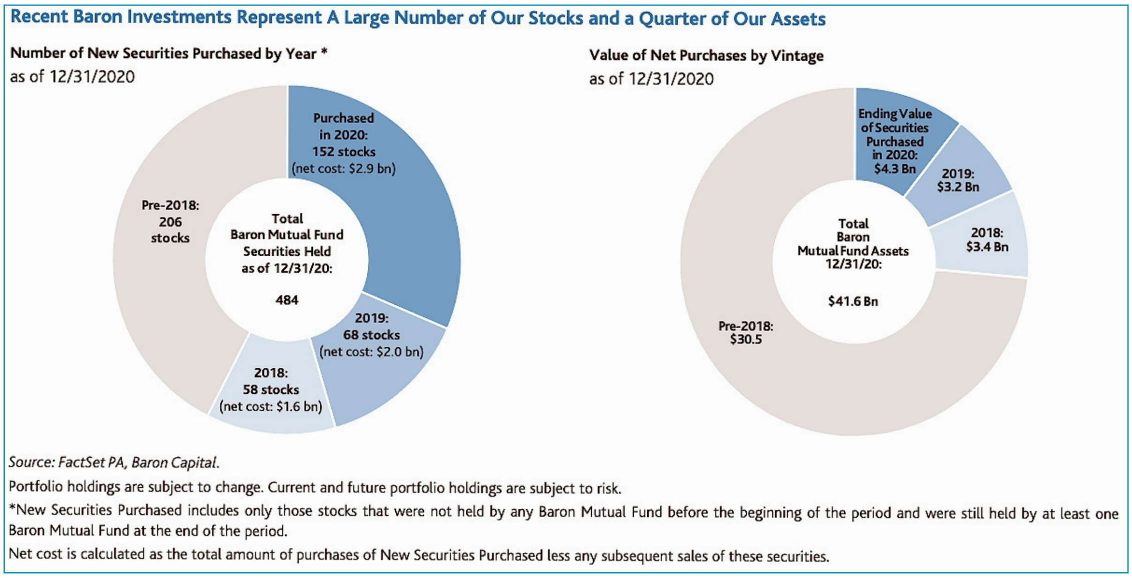
Ron: So my suggestion was that he build a Hyatt hotel in Atlantic City. But he said, "I hate gaming." Then he added, "If you're interested in gaming, you need to meet Steve Wynn. He is the best gaming person. But as far as me helping you by doing something in Atlantic City, let me think about it."

In the end, Jay Pritzker did some funding of a venture between Playboy and Elsimore and they built a casino in Atlantic City — it was all a result of my idea — but it was a junky casino and was never successful. Still, Jay bumped up the price of Hyatt's going private deal by maybe a dollar a share, and he gave us warrants to buy Elsimore, which were like getting electric car warrants now. We got them at 25 cents apiece, where they were issued, and ultimately those warrants became worth $10 a share.

So, Jay Pritzker was one of the first people — the first person, really — in the business establishment to help me in my business. And I've been friendly with his son, Tom, ever since he got involved in the business. It's funny how things work. I have a friend, Rick Reiss, who used to work in the hedge fund partnership called Cumberland Associates, which was founded by Walter Mintz and Don Cecil.

Remember them well. You and Walter crossed paths on the Roundtable, I'm sure.

Ron: Well, as Rick remembers it, he was first introduced to me by an individual who said, "You've got to meet this fellow, Ron Baron. He will tell you about Elsimore — and Hyatt." Then, according to Rick, I proceeded to tell him he *had* to buy these warrants. "They are only 25 or 30 cents a share — but are going to $10."



Source: www.BaronFunds.com

You evidently made an impression —

Ron: Well, Cumberland bought some of those warrants, because that was a way to participate in Hyatt getting into Atlantic City. Anyway, it's now 10 - 11 years since Hyatt came public *again* in an underwriting led by Goldman Sachs. We were the largest buyer in that offering and we've been Hyatt's largest public shareholder since then, I think. Our cost basis on our Hyatt holdings is probably $30 or $35 a share, and now the stock is about $90. What's more, after that underwriting, it had some 175 million shares outstanding. Hyatt has since bought back more than 70 million of those shares. Now, there are 102 million to 103 million shares out. But Hyatt is going through some tough times, right now in their hospitality business —

Brought to us all by the pandemic.

Ron: Right. And, unlike many hotel groups that do a lot of tourist business, Hyatt's model is much more focused on business travel and business meetings. So what are they going to do? How are they going to build back their business? At least they are franchisors, so the business model is capital-light. Still, what's their post-pandemic business model going to be? How does Hyatt build back again? Fortunately for me, Tom Pritzker hired a wonderful executive, who has been running Hyatt Hotels for years, Mark Hoplamazian — another guy I'm enamored with.

Like I said, what we do is all about finding great, talented and inspired entrepreneurs, and great and hungry executives. And giving them time to work their wonders.

I get that you're relentlessly long-term, Ron. But you and I have seen *a lot* of market cycles. You've invested through them. What do you make of where we are, here and now? Are you tweaking portfolios?

Ron: We don't change very much. My feeling is that there are a lot of treacherous things going on, which makes me nervous about the stock market. Still, I don't do very much about it. But when I see speculative fervor like this — behavior that's reminiscent of other times when things didn't do so well —

You're feeling those vibes, too?

Ron: I don't know how you could miss them. But the time from the peak of the internet bubble in 2000 to December 2008 — those nine years — were probably the worst period we've ever had in United States markets. The market was down, I think, 3% or 4% a year, 30% or 40% in total — and yet we were *up* 2.5% a year. So, if you had invested $100 with us at the internet peak in 2000, you would have ended up with $125 at the end of those nine years. But if you had invested that same $100 in an index fund, you would have been left with only $60 — less than half as much.

So it's actually in bad times for the market that we have really distinguished ourselves. Even when times were really bad, we still invested in these great companies. They survived and flourished, and ultimately, stock prices reflected what those businesses had become. My feeling is that when you try to react to current news, current environments, pandemics, political situations, wars — anything political — you don't know anything more than anyone else. You're the same as everyone else.

Oh, the horror!

Ron: Well, instead, we distinguish ourselves by trying to find businesses that we think are really attractive *long-term*. Then we try to take advantage of market volatility to acquire their shares at advantageous prices. The way we invest in our great companies is by waiting for something to happen in the stock market that hurts their valuations. Then, we invest more. Or, when the businesses in which we've invested start investing *in themselves*, penalizing their current profitability to become bigger in the future than they are at present — that often gives us a chance to buy. Any time that companies make announcements like, "We are going to grow and become much larger than we are today," what does that mean? It means that they're going to be investing in their businesses — penalizing current profitability. They won't make estimates in the next few quarters — and their stock prices will be weak. That gives us a chance to buy. That's what we look for.

I remember when I was on *Barron's Roundtable*, Peter Lynch — he had the most amazing memory I've ever seen in my life.

Utterly unreal. Better than photographic.
Ron: Encyclopedic! Peter could tell you the batting average of the second baseman of the Boston Red Sox in 1912. He knew everything. He had 1,000

No argument.
Ron: But Peter would also say that every time he thought about the economy or the stock market for five minutes, "That was a wasted five minutes." At first, I wondered, "What is he talking about?" But Peter kept saying it and when I thought about it, I decided that he is right. No one can predict the short term. So we just persist in looking for great companies that we can invest in *for years*, regardless of the environment. After all, Buffett always talks about how the best holding period is forever.

Yet you keep searching for new companies —
Ron: I've always tried to find new ideas for our portfolios. We now are invested in roughly 500 different companies in our firm. Our top 10 investments represent 27.9% of our assets; the top 20 are 38%; the top 30 are 45%; and the top 40 are 50%. But we have nearly 500 holdings in all — a bit more than half of which have been purchased in the last three years — and they now constitute around a quarter of our assets.

Just to give you a feel of how the valuations of our largest holdings have grown — in Tesla, our unit cost is $42.74 and the latest price I have here was $718. In IDEXX Laboratories (IDXX), our cost is $28 and the price is $538. In CoStar, our cost is $100, it's now $815. In Penn Gaming, our cost is $15, it's at $126. Vail Resorts, $31.89, trading at $314. Gartner Group (IT), our cost is $30.48, the stock is around $184. In MSCI (MSCI), our cost is $41 — I love MSCI — it's trading at $420.

What's not to love about a 10-bagger, as Peter Lynch often told the Roundtable?
Ron: Very true. But what I loved first about MSCI is it's founder, Henry Fernandez — he's got a great story, too. Here's this guy, he's an immigrant, from Nicaragua. His dad was a general; there was a coup, they had to run, and they came to the U.S. penniless. He ended up working at Morgan Stanley and came up with this international markets index idea. They build it up and Henry convinced them to let him take it public. But that was in 2008 and the market was awful. The deal came at $18 a share and we were the biggest investor. Henry says the only reason he was able to go public is because of us. The stock got as high as $30 before there was a misstep with an acquisition that they had made to build the business — and the stock fell back to $18. We bought more, and now it's $420.

Henry later said to me, "I tried to figure out how come — when even other portfolio managers at Baron Capital sold — you didn't. There were people

The Baron Funds' Elephants

Baron Partners Fund's Top 10 Holdings as of 12/31/2020 were as follows:

GICS Sector	Holding	% of Total Investments
Consumer Discretionary	Tesla, Inc.	44.6
Industrials	CoStar Group, Inc.	9.4
Health Care	IDEXX Laboratories, Inc.	5.5
Communication Services	Zillow Group, Inc.	5.2
Consumer Discretionary	Vail Resorts, Inc.	3.6
Financials	Arch Capital Group Ltd.	3.3
Financials	FactSet Research Systems, Inc.	3.2
Industrials	Space Exploration Technologies Corp.	3.0
Consumer Discretionary	Hyatt Hotels Corp.	3.0
Financials	The Charles Schwab Corp.	2.9
	Total	83.7
	Long Equity Exposure	105.3
	Cash & Equivalents	(5.3)

Baron Focused Growth Fund's Top 10 Holdings as of 12/31/2020 were as follows:

GICS Sector	Holding	% of Net Assets
Consumer Discretionary	Tesla, Inc.	38.4
Industrials	CoStar Group, Inc.	8.6
Consumer Discretionary	Penn National Gaming, Inc.	7.8
Consumer Discretionary	Vail Resorts, Inc.	5.6
Consumer Discretionary	Hyatt Hotels Corp.	3.8
Financials	FactSet Research Systems, Inc.	3.8
Industrials	Space Exploration Technologies Corp.	2.6
Consumer Discretionary	Choice Hotels International, Inc.	2.5
Communication Services	Iridium Communications Inc.	2.4
Communication Services	Spotify Technology S.A.	2.4
	Total	77.9

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

Source: www.BaronFunds.com

everywhere selling my stock when that acquisition didn't work out as we expected. *Why not you?* I came to the conclusion that you were betting on me. You liked the business, thought there is something unique here and that there'd be a very high cost to switching in and out. You're like me — and that's what you do."

He hit the nail on the head, you're saying?
Ron: Yes, it's about really getting to know and trust extraordinary people. Dinos Iordanou, the retired chairman of Arch Capital Group (ACGL) is another — I wrote about Dino in our December quarterly letter. How we met him and the questions that I asked to try to understand him, because we were betting on him.

Buffett got it right. If you're relying on someone else, you have to be able to like them, trust them, have confidence that they're going to be good investors, they're not going to cheat you. He's also right about the best holding period being forever. Every time you sell something, it's really hard. If you sell Tesla, for example, around $700 and your cost is $40, that means you're not really getting $700 for it. Net of your taxes, you're maybe getting $500. And then you have to take that $500 and find something better to do with it.

At this point, since you've spent 10 years studying this one company, you should be more knowledgeable about its business than almost anyone else. So if you think it can no longer grow faster than the stock market, which is going to double, oh, every 10 or 12 years, then it's not interesting any more. We normally try to buy businesses that can double in four or five years after we make an investment. So now maybe it will take this company five or six or seven years to double. But isn't that still a better idea? Especially because it's a less-risky investment — precisely because you know it so well.

At these valuations? Less risky?
Ron: Yes. When we invested in Tesla initially, it was one heck of a risky investment. It had to raise billions of dollars, lose tons of money. Elon was fighting unions, fighting the car dealers — who make all their money on repairing cars, not on selling them. Fighting the OEMs, who are rich and powerful. Fighting the oil companies — 25% of their profits come from selling oil for transportation. Car dealers, by the way, are one of the most powerful lobbies in the country. And he was fighting short sellers. Everyone was saying he'd never make it and that Tesla was a short.

Except you and some others.
Ron: Well, when the challenge was to go from zero to 500,000 cars a year, it did seem impossible, inconceivable. I understand why people would sell it short. But once you're at 500,000 cars, getting to 20 million — that's a no-brainer. When they started building factories, their capital cost was $17,000 *per car* and they didn't know how to make them very well. Now they have a factory in China where their capital cost is $4,000 per car. The factory there cost $1 billion and can churn out 250,000 cars a year — on which Tesla is making $10,000 a car, or $2.5 billion a year. So, initially, the challenge was to build a factory to build enough cars that you could sell to cover your expenses and survive. But once you know how to do that and can build enough factories — and your cars get better and better — you're changing things.

You make it sound easy.
Ron: It's not. Most executives, if they've invested $100 million, have to see a return on that investment before they throw it away to do something better. With Elon, if he just invested $100 million in stamping machines — if someone tells him he can use 3-D printing to make a better product, at half the cost — he'll say, "Prove it to me." If you do, he throws away the old stuff and buys the new.

He does the same with Tesla's products. The new Model Y, their compact SUV, will be an entirely different car at the end of its first year of production than it was at the start. Elon just keeps refining it. So yes, Tesla's profit margin on the car is depressed while that is going on. Maybe it's only 18% or 20% for a while, but ultimately, its margin on it will be 30%. It is going to be a very profitable business. And Elon thinks his battery business will be as big as his car business. He's studying, all the time, how he can improve the fundamentals of the business. You know, other car makers spend $2,000 - $3,000 a car on promotion, but Elon doesn't have to spend a penny on it. Everybody knows Tesla and Elon.

He is his own promotion department. But let's talk about your own business. Baron funds are the antithesis of the index ETFs that are all the rage —
Ron: Yes. I've never wanted to be average. If we can find businesses and buy them when other people think they're unattractive, or when they're investing in themselves, that gives us an advantage. In a businesses like mine, you've got to get the scale, you've got to get known. So, when you're a little guy, you have to make some noise. I got noise by being in *Barron's*. I got noise by being on CNBC. It used to be that newspapers would list all the funds

and their performance. Now, they don't, so that kind of attention is hard to get.

But you know I run annual conferences — when a pandemic doesn't interfere — for Baron Funds' investors. I hire someone like Paul McCartney, Elton John or Billy Joel to entertain. But the real value is that I bring in top company executives to explain their businesses to my shareholders. Where else can someone with $25,000 invested get to listen to the likes of Elon Musk, Gwynne Shotwell, Stewart Bainum, or Patrice Louvet, who runs Ralph Lauren Corp., describe their businesses?

They're always quite the event.
Ron: And, at the past three or four, I've given away Tesla cars. If Oprah does it, why can't I? But I actually started the raffles as a way to keep people in their seats during the Q&As with our VIP speakers — instead of rudely running off to lunch. You have to be in your seat in order to qualify for the door prize. If you're not in your seat, you're not getting a Tesla. If you are, you've got a 1-in-4,000 chance of winning a Tesla.

That makes it worth waiting another half hour to get to your shrimp mountain.
Ron: There's no getting around it, ours is a high-fixed-cost business — rent and advertising and marketing and legal and accounting and compliance and analysts. My real expenses are people.

Most of the other businesses in the mutual fund industry, make profit margins of around 40%, and they pay employees 30% to 35% of revenues. What I do instead, to try to get the best people, is pay 50% or even 55% of revenues. So, instead of making a profit margin of 40%, ours is more like 15% or 20%. Sometimes, I even make a profit margin in the single digits. I don't want to be unprofitable — but I don't need to make as fat a margin because I'm trying to build a privately owned business that's going to last 100-plus years — for generations — and we've already made it 40.

I'm perfectly willing to invest in people. I want them saying, "Man, it is great to work here." I want other people to say, "Boy, I want to work with them. I want to work with Cliff Greenberg. I want to work with Andrew Peck." [Baron co-CIO Cliff manages the Baron Small Cap Fund and Baron Opportunistic Small Cap Growth Strategy, and co-CIO Andrew does the Baron Asset Fund, Baron Mid Cap Growth Strategy, and Baron All Cap Growth Strategy.] That's how you get great people in your business.

Let me ask. Is this market rotation away from the pandemic favorites and things like Tesla keeping you awake at all?
Ron: No. What's so obvious is that all the stocks that had done so well for the past year or so — all of the companies that were investing in digitizing — the "digital transformation" — and whose shares ran up to very high prices relative to current earnings, are correcting. So the companies we own like Stitch Fix (SFIX) or Zillow (ZG) or Spotify (SPOT) and TSLA — those companies that had been leading the stock market — are doing poorly this year.

On the other hand, companies that are consumer-related, that have travel and leisure elements to them, are doing better — like Penn National Gaming, Vail Resorts, Choice Hotels, Hyatt Corporation, Marriott (MAR) and let's see, some of the financial companies, like FactSet (FDS), some of the real estate-related companies that were selling at prices that were just crazy relative to their assets, are also doing better. BrightView (BV), for instance, which takes care of landscaping on commercial properties, shovels snow. And I can't forget Arch Capital, which I love.

So you said, but I neglected to ask why, besides its founder —
Ron: Right. Dinos Iordanu. Arch Capital is a property and casualty insurer we've been investing in since 2001. The stock is on our balance sheet at $4 a share and it's now selling at $37. I got interested in investing in the P&C space initially because the business is cyclical. Back then, the industry's reserves had fallen dramatically due to unusually large catastrophic losses — but insurance rates hadn't gone up yet. At the same time, large insured losses on malfeasance and misfeasance awards were dramatically pressuring reserves even more at some companies. So I went looking a well-managed insurer that didn't have to raise prices to pay for misfeasance, malfeasance, not to mention the hurricanes, fires, and storms that had already taken place. My thinking was, one more disaster and P&C rates will go up — a lot.

So when an investment banker fortuitously cold called, offering to set up a meeting with Dinos, we quickly accepted. I remembered Buffett mentioning Dinos as a great underwriter. So we met Dinos and soon became one of Arch's largest shareholders, with a 10% stake. Then 9/11 came along and P&C rates soared. We eventually made 10 times our money.

But for roughly the past 15 years, our returns on Arch have been relatively modest — even though Bill Gates' investment company and Artisan Partners have both added stakes in Arch similar to ours. The reason is that the industry was so profitable and raised so much capital after 9/11 that some companies began doing foolish underwriting and setting rates too low.

Happens every cycle.

Ron: Exactly. The best companies, like Arch and Berkshire, chose not to participate in that race to the bottom, and shrank their books when that was taking place. Now, the insurers that were underwriting at unsustainable rates are facing losses and, one by one, either raising rates or dropping out of the P&C business entirely. Meanwhile, guys like Arch and Berkshire are in great shape, financially. They've stayed in the P&C business, as careful underwriters, this whole time, and though their books of business are smaller than they might otherwise have been, they get paid for underwriting profitably — not for running the biggest books. And all of a sudden — as you probably know from paying your own insurance bills — P&C rates are going up 20% - 30% again.

Those weren't fun bills to open.

Ron: Mine, either. But it's good for my investment in Arch. Wouldn't you know it, Arch is getting ready to buy back stock — and so is Berkshire Hathaway. If you think about how come Warren Buffett is buying back stock in Berkshire Hathaway, it's because the property and casualty cycle finally has turned. Investing takes a long time.

And that was an especially long P&C cycle.

Ron: Yes, but real investing requires patience. Judy and I are buying some art, and one of the dealers who helps us told me quite a while ago that if you want to buy and sell art for short-term profits, you should forget about it.

There's way too much friction, to put it politely, in that market —

Ron: Well, first, because you should only buy the very best art that you can afford. And, to do that, you're going to have to pay someone to find that art for you. And the commission he or she is going to earn on the transaction will immediately mean that any piece of art you buy is going to be worth less than what you paid for it. That was the lesson.

But it's the same thing with real estate. If you want to buy great real estate at any point, you're going to pay more for it than you can sell it for tomorrow. That makes those assets *investments* and the way we look at businesses is the same. We're trying to invest in businesses that might be somewhat overpriced in the short term, but are way underpriced — relative to what they're going to be worth in the future.

We have a lot of stocks in our portfolios like that, most of the time. It happens that the parts of the portfolios that are doing the best right now, like I said, are these travel and leisure, real estate, consumer services, insurance and financial companies. The half of the portfolio that didn't do so well last year. But that's the way it works.

The market has declared the pandemic is over — just like the Texas governor.

Ron: Well, it was the former Texas governor — and Trump's first Energy Secretary — Rick Perry, who came out with the most unbelievable quote recently, "Texans would be without electricity for longer than three days to keep the federal government out of their business." That was his quote, according to the *Houston Chronicle*.

While Texans literally were freezing, pipes were bursting, and the current governor was tilting at windmills.

Ron: The reality is, the companies in Texas's totally unregulated energy market *chose not to invest* in weatherizing their systems because it would cost money and they weren't sure they were going to get a return on that investment. By contrast, we invest in companies that *are investing all the time* in their businesses to provide great services that people want to pay for. The companies we invest in aren't cutting costs in the short term to make quick profits. They're trying to build businesses to last a long time — like Chuck Schwab did at (SCHW) Charles Schwab, starting more than 50 years ago now.

Another great entrepreneurial example.

Ron: When Chuck had just a few million dollars in the kitty, he took that whole thing and invested it on technology to run the business. Now, when he opens the door every day, the company's overhead is only roughly 15 basis points of revenue. Compare that to the large wirehouses whose cost of business is 50 or 60 basis points, every day. Our guy can way underprice them. As a result, Schwab gets more assets and more revenues coming in. Ultimately, they can offer more services at the same price — or the existing services at lower prices —because their cost of operations are so low. They boast tremendous competitive advantages. Now, with $6 trillion of customer assets at Schwab, they're getting hundreds of billions a month in business flows, ultimately producing more revenues for every dollar of assets.

A long time ago, when I came up to see you in the General Motors building, you were delightedly looking through computer

printouts thicker than the Manhattan phone book. You explained that they were tallies of investments pouring into your mutual funds through Schwab. Basically, said you couldn't believe how Schwab was transforming your business.
Ron: That must have been sometime in 1992. At the beginning of that year, we had $50 million in mutual funds and $50 million in separate accounts, or $100 million under management — but we could not make the business grow like we wanted because the investment process was very cumbersome.

Remind me —
Ron: If you wanted to invest in a fund, you'd have to send a check made out to us to a bank in North Carolina, and you couldn't actually invest in our funds until they cashed your check and we opened an account for you. Then, you couldn't get your money back until you sent us a signature guarantee. Only then could we return your money to you. It was very cumbersome.

And Schwab offered a solution?
Ron: Precisely. We found that Schwab was offering what they call their Mutual Fund One Source© platform. We pay Schwab to get on the platform — and that enables their clients to buy our no-load, no transaction fee funds on Schwab's website. And their investment advisors can buy our funds without paying commissions on their platform. So all of a sudden, when we got on the Schwab platform, we started getting fund flows of $10,000 a day, $50,000 a day, $100,000 a day, a million a day, and more.

We now manage $5 - $6 billion that has come through Charles Schwab and $6 or $7 billion that has come through Fidelity. Those are our two biggest "clients," so to speak. But there's no doubt that without Charles Schwab, we wouldn't have a business. They revolutionized the way mutual funds are distributed.

So naturally, you bought Schwab stock?
Ron: Well, it wasn't a big leap of faith when we saw that happening to say, "Man, we better go to work researching Charles Schwab." It didn't take us long to see what they were doing, so we quickly became investors. Our cost basis in Schwab is less than $1 a share — 50 cents or 60 cents, as I recall. And it's now selling around $65. We're thinking it'll crack $100 in four or five years. Chuck Schwab is another really great guy.

And, full disclosure, a long-time top executive at Schwab, Chris Dodds — he was CFO and, effectively, their COO for a time — served as a director of Baron Capital for several years after retiring from Schwab in 2007; he served at the same time as a senior advisor to Carlyle Group. But when Chuck asked him to join the Schwab board in 2014, Chris quit our board to do so. However he remains a special advisor to my sons and got special permission from Chuck to continue attending our board meetings as a non-voting advisor.

Hmm. Does that imply you're thinking about succession?
Ron: Well, one of the things I often say about Baron Funds is that we're interested in investing in entrepreneurial people who have a chance to make their businesses much larger than they are presently — and who also plan for that future, including succession. So I have to think about succession, too. In every meeting. How would you feel if — in every meeting you went to, or in every client visit with you — for 30 or 40 years, you were asked, "So what's going to happen when you die?"

[Laughs] **And they're not probing your theological views. It must drive you nuts!**
Ron: Yes, but what am I going to do? They used to ask, "What's going to happen if you get hit by a bus?" So I'd say, "I don't use public transportation." That didn't work very well. So I tried, "It's more likely I'll get hit by a meteor than hit by a bus." But as soon as I started saying that, there was this meteor shower in Russia that wiped out a lot of people.

You could try, "I can't take it with me" and just leave it at that —
Ron: That wouldn't exactly be practicing what I preach — managing for the very long-term. Have I mentioned that our idea at Baron Funds is all about finding great entrepreneurs and managers and investing with them for the long term — in sustainable companies with substantial growth prospects because of competitive advantages? The catch is, that requires real long-term thinking, and very, very few investors have that luxury. They have to perform every year, every quarter, every day. You simply can't call yourself a long-term investor if you turn over your portfolio constantly.

Wall Street culture has become more and more relentlessly short-term over the course of your career and mine. A Berkshire or a Baron Capital is a real outlier. Long-term investors are an endangered species. In part, it's simply very hard to do, even in organizations led by the likes of a Buffett or a Baron. You've said you're trying to build a multi-generational empire. What trick do you have up your sleeve to

keep Baron from devolving into just an average financial bureaucracy — like so many before it?

Ron: The idea is to remain thin at the top. Also to inculcate this process into all of the individuals working in our business, by demonstrating how it translates into very rewarding low-turnover investments in companies with strong management teams that we like and trust — ones that have great growth prospects and competitive advantages — positions that we can stay in for years and years.

Our investment horizon, at Baron, is 10 years. Not many people in the business have the luxury of that perspective. They can't take that long of a view because they don't want to lose their jobs — which are generally great-paying jobs. They say, "I can't make an investment where I'm not going to make money in it for three to five years — even if there's a prospect that I might make 10 times that money in 10 years. I'll get fired if the stock goes down because of just a bad quarter."

But we can do that at Baron. Because I started the company and the only one who can fire me is me — or our clients, of course. So we choose to invest long term. I saw — from the mistakes I made as a young analyst — that the best way to invest is by having this long-term perspective. Now, whether we invest in real estate, in emerging markets, whether we do it globally, or in small caps, large caps, mid-caps, technology, healthcare, financial technology — in every single fund, we apply the same process.

I told you earlier about Alejandro Weinstein writing to tell me, "I learned so much from you, when you were investing in my company." If a great entrepreneur like Alejandro can learn a lot because I've invested along side him, so can the men and women who work with me every single day. *This* is how I want them to invest. *This* is the best way to make the most money for our clients — and build a business for ourselves, long-term.

Do you have any special ways of getting your analysts to be as long-term focused as your PMs?

Ron: The analysts' job is to bring in companies that fit the parameters that we're looking for, that ultimately can become very profitable, become much bigger businesses sustainably. They do the research, bring the managements in and pitch the investments to our portfolio teams. We have all these different funds — but they all use essentially the same long-term investment process — they're all run by really talented, nice, hard-working people — and all the portfolio managers operate similarly. We all work together.

That makes it a mite hard to differentiate —

Ron: People are always asking me, "You have 17 funds, which should I invest in?" That's why we started a new fund, called Baron WealthBuilder.

Aren't they all supposed to do that?

Ron: Absolutely. Our performance table says they have done that. Actually, what I tell people bewildered about investment choices is, "What you should be thinking about — if you can't figure out how you can do *better than the stock market* — is how you can invest *in* the stock market.

You suggest your competition, index funds?

Ron: Lots of evidence says if you can't beat the market, you should invest *in* the stock market — and you can do that at low cost by buying an index fund. So that's what many people should do, because very few can beat the market.

Research shows that if you would have been invested in the stock market, *in an index fund*, over the last 30 years, you would have historically gotten a 7% or an 8% compound annual return. That means that, if you had invested $5,000, every year, after 10 years, your investment would have been worth almost $100,000; in 20 years, almost $300,000; in 30 years, nearly $800,000. So basically, i*f the market performs in line with historical experience,* you could almost get to be a millionaire simply by investing $5,000 *a year* in an index fund —and sitting in it for 30 years — *without ever getting afraid enough to make a withdrawal*. And that's what I advise.

Taking advantage of the miracle of compounding isn't easy, but it's easier than beating the stock market —

Ron: Except that, at Baron Capital, we happen to be among the very few who consistently *do beat the market.* And if you can find someone like us who does better than the market, the returns can be exponentially different. For example, in Baron Partners Fund, if you just look at the table (next page) in our quarterly report from December, you can see what would have happened if you invested $2,000 in 1992 — half in Baron Partners Fund and half in the index against which it competes.

The $1,000 in the index would now be worth $20,000 — a big return. But the $1,000 put in our mutual fund back then would now be worth $80,000. So, $1,000 to $80,000 with us; $1,000 to $20,000 in the stock market. That's the performance that makes Barons Partners No. 2 out of 2,256 funds over that span.*

Plus, across the board, our funds have outperformed. I think 16 out of the 17 have outperformed their benchmarks since inception. And the one that lags does so by just a hair.

But we started this new fund at the end of 2017, called Barton WealthBuilder Fund, that is my *favorite*; I think it's going to be our largest fund, ultimately.

Really? Why?

Ron: The idea is that by allocating investments among various Baron Funds, we can provide the benefits of diversification without sacrificing returns. WealthBuilder invests in any of our other mutual funds that have been outperforming, creating a single fund with underlying investments of varying market caps, geographies, sectors and growth rates. And we rebalance the allocations in a tax-efficient manner. And the underlying funds, of course, implement the consistent Baron Capital investment process and philosophy. I co-manage WealthBuilder with my son, Michael.

And the allocation mix changes, I assume?

Ron: Yes. There are 10 metrics that we consider to determine how much of WealthBuilder's assets are allocated in each of our outperforming funds. The decisions are made depending on the volatility of the funds' investments, the volatility of earnings, their standard deviations, how much the earnings change, the underlying growth of the businesses they are invested in, the market caps of the com-

Baron Funds (Institutional Shares) and Benchmark Performance 12/31/2020

Fund	Primary Benchmark	Annualized Return Since Fund Inception	Annualized Benchmark Return Since Fund Inception	Inception Date	Average Annualized Returns 1-Year	3-Year	5-Year	10-Year	Annual Expense Ratio	Net Assets
SMALL CAP										
Baron Growth Fund	Russell 2000 Growth Index	14.16%	9.04%	12/31/1994	33.06%	22.08%	19.76%	15.06%	1.04%(3)	$8.66 billion
Baron Small Cap Fund	Russell 2000 Growth Index	11.49%	7.43%	9/30/1997	40.68%	20.78%	19.88%	14.47%	1.05%(3)	$5.08 billion
Baron Discovery Fund†	Russell 2000 Growth Index	20.99%	12.86%	9/30/2013	66.13%	28.48%	28.52%	N/A	1.08%(3)	$1.32 billion
SMALL/MID CAP										
Baron Focused Growth Fund(1)	Russell 2500 Growth Index	14.68%	9.42%	5/31/1996	122.75%	44.56%	31.03%	18.83%	1.11%/1.10%(4)	$662.73 million
MID CAP										
Baron Asset Fund	Russell Midcap Growth Index	12.47%	11.03%(2)	6/12/1987	33.33%	22.58%	19.93%	15.64%	1.05%(3)	$5.91 billion
LARGE CAP										
Baron Fifth Avenue Growth Fund	Russell 1000 Growth Index	11.88%	12.00%	4/30/2004	50.81%	27.09%	23.24%	18.10%	0.78%/0.75%(3)(6)	$712.95 million
Baron Durable Advantage Fund	S&P 500 Index	16.34%	14.18%	12/29/2017	20.32%	16.34%	N/A	N/A	2.40%/0.70%(3)(7)	$17.18 million
ALL CAP										
Baron Partners Fund(1)	Russell Midcap Growth Index	16.52%	10.85%	1/31/1992	149.18%	52.68%	37.40%	24.04%	1.96%(4)(5)	$6.88 billion
Baron Opportunity Fund†	Russell 3000 Growth Index	10.73%	6.57%	2/29/2000	89.28%	42.34%	31.13%	19.09%	1.08%(3)	$1.41 billion
INTERNATIONAL										
Baron Emerging Markets Fund	MSCI EM Index	7.13%	3.63%	12/31/2010	29.22%	7.78%	12.88%	7.13%	1.09%(4)	$6.75 billion
Baron Global Advantage Fund†	MSCI ACWI Index	21.09%	10.29%	4/30/2012	79.46%	35.99%	30.14%	N/A	1.00%/0.90%(4)(8)	$2.41 billion
Baron International Growth Fund	MSCI ACWI ex USA Index	12.71%	8.08%	12/31/2008	30.83%	11.70%	14.17%	8.82%	1.04%/0.95%(4)(9)	$611.90 million
SECTOR										
Baron Real Estate Fund	MSCI USA IMI Extended Real Estate Index	16.70%	11.76%	12/31/2009	44.28%	17.56%	15.97%	15.72%	1.08%(4)	$1.05 billion
Baron Real Estate Income Fund	MSCI US REIT Index	14.11%	2.25%	12/29/2017	22.30%	14.11%	N/A	N/A	5.63%/0.80%(4)(10)	$47.07 million
Baron Health Care Fund	Russell 3000 Health Care Index	27.43%	17.23%	4/30/2018	47.72%	N/A	N/A	N/A	2.39%/0.85%(4)(11)	$70.34 million
Baron FinTech Fund	S&P 500 Index	47.20%	18.40%	12/31/2019	47.20%	N/A	N/A	N/A	1.62%/0.95%(12)	$34.09 million
FUND OF FUNDS										
Baron WealthBuilder Fund	S&P 500 Index	27.67%	14.18%	12/29/2017	62.85%	27.67%	N/A	N/A	1.33%/1.23%(4)(13)	$272.62 million

(1) Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee.
(2) For the period June 30, 1987 to December 31, 2020.
(3) As of 9/30/2020.
(4) As of 12/31/2019.
(5) Comprised of operating expenses of 1.06% and interest expenses of 0.90%.
(6) Annual expense ratio was 0.78%, but the net annual expense ratio was 0.75% (net of Adviser's fee waivers).
(7) Annual expense ratio was 2.40%, but the net annual expense ratio was 0.70% (net of Adviser's fee waivers).
(8) Annual expense ratio was 1.00%, but the net annual expense ratio was 0.90% (net of Adviser's fee waivers).
(9) Annual expense ratio was 1.04%, but the net annual expense ratio was 0.95% (net of Adviser's fee waivers).
(10) Annual expense ratio was 5.63%, but the net annual expense ratio was 0.80% (net of Adviser's fee waivers).
(11) Annual expense ratio was 2.39%, but the net annual expense ratio was 0.85% (net of Adviser's fee waivers).
(12) Expense ratios are estimated for the current fiscal year.
(13) Annual expense ratio was 1.31%, but the net annual expense ratio was 1.21% (includes acquired fund fees and expenses, net of the Adviser's fee waivers).
* Not annualized.
† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings. 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.

Source: www.BaronFunds.com

panies, and the tenures of the portfolio managers.

The makeup of the underlying investments looks very different than the indexes, and therefore, the Fund has a high Active Share when measured against its benchmarks. We feel its diversity in regions and sectors should dampen risk while still providing strong absolute returns. While WealthBuilder nearly matches the number of holdings in its benchmark (the S&P 500 Index), the similarities end there. The holdings in our Fund tend to have a lower dividend yield because Baron portfolio companies usually elect to reinvest earnings back in their businesses for growth. At the same time, the companies in the funds that WealthBuilder invests in tend to have higher expected future earnings growth than the S&P — without being terribly expensive, on our metrics. The companies' significantly higher growth rates, acquired for modest premiums in price should, we believe, reward long-term investors.

It's done well, over its brief life, I take it?

Ron: WealthBuilder, last year, was up over 62%, and the passive S&P 500 was up 18.4%. Since it started three years ago, the fund has posted an annualized average return of 27.67%. This compares to an annualized return of 14.18% for the S&P 500 Index and 10.06% for the MSCI ACWI Index.

So WealthBuilder is your answer to the cult of passive index investing?

Ron: Yes. As I said, investing in a passive index fund is a great idea, for many people. But if you invest with us, we hope to do better than the index—otherwise, we would just invest everything we had in an index.

You've got funds that are now approaching $10 billion in assets. Is there a limit? Have you ever closed a fund to new investors?

Ron: We did close funds in 2003 - 2004, when money came in too rapidly for us to invest it. But we haven't had to do that since. And when we stopped, lots of people complained. Then, after a year and a half, when we reopened those funds because we thought there were opportunities — money only trickled in. I said, "I'll never do *that* again."

Typical.

Ron: Yes. But for good reason. The financial advisers who invest in our funds rely on us to be able to invest their clients' money. So it makes sense for us — when people want to give us money to manage, and we want to manage it for them — to accept it. Then, when we find great investments, we put it to work. And, if there aren't any great investments at that moment, we just let it build up.

It's no secret formula, and reminds me of a story [Carlyle Group co-founder] David Rubenstein once told me. There was a school of fish, he said, And the lead fish turned around and asked the other fish, "Hey, boys, what do you think of the water?" Well, the fish behind him said, "What water?"

In other words, when you're right in the middle of it, you don't know; can't see everything. So we at Baron just try to keep it very simple: *We know the value of our money is going down. We know businesses are growing. In the future, they will be worth more than they are today. So over the long term we want to be able to do better than the market by 300 - 500 basis points a year, on average. And we've been able to do it.*

The broad market's rich valuation and the rotation we're seeing aren't giving you qualms that Mr. Market might be bent on causing some trouble?

Ron: Not a clue. If I knew those things, I'd be really successful, but I don't. And even if you had perfect foresight and tried to buy and sell — it's not so easy. Liquidity is not as available as people might believe. It's just hard to buy, it's hard to sell. It's hard to figure out what to buy, it's hard to figure out what to sell. It's hard to have the courage to remain an investor in a business whose stock price is falling.

Tell me about it.

Ron: It's also hard to remain an investor in a business whose stock price has increased a lot and you're still holding it. People are always afraid that the stock price will retreat, or that they've been wrong in their investment. How do you know whether you're right or wrong? That does *not* depend on the stock price. That's not what makes you right or wrong about an investment.

What does?

Ron: What makes you right or wrong in an investment is the underlying business. You have to have confidence in the hard work, the research, you've done into the business, to be able to distinguish yourself from other investors.

Thanks, Ron, for sharing your wisdom and insights. Don't be a stranger.

Welling on Wall St. interviewee disclosure. Ron Baron founded Baron Capital in 1982 as a research service and serves as the Manhattan-based fund management company's Chairman, CEO and Portfolio Manager. Ron now has 51 years of professional stock research experience — and counting. From 1970 to 1982, Ron worked for several brokerage firms as an institutional securities analyst, quickly coming to the attention of Barron's Alan Ableson, among others. Ron began managing client assets in 1975 and started his first mutual fund, the Baron Small Cap Growth Strategy in January, 1983. Alan soon had me interviewing Ron and then asked Ron to participate in Barron's Roundtable for a number of years. By 1987, Ron had established BAMCo, Inc. to focus exclusively on mutual fund investing and management. Barron currently offers 17 different mutal funds and related institutional investment strategies. Its AUM tops $50 billion, Ron and his family are the largest investors in the Baron Funds (where all portfolio managers invest significant personal capital in the funds they run) and Baron Capital is still owned by the Baron family. He's 40 years in, Ron says, getting close to his goal of creating a private company for multiple generations to come.

Baron Capital's focus is on delivering growth equity investment solutions. It is known for its relentless research and long-term, fundamental, active approach to growth investing. Indeed, equity research has remained at the core of its business. Baron Capital holds firmly to some key articles of faith: A long-term perspective allows them to think differently; Independent and exhaustive research is essential to understanding a business; People are the key drivers of a successful business; Successful growth businesses have open-ended opportunities and competitive advantages; Purchase price matters, a lot; Research and risk management are continuous processes.

From 1966 to 1969, before coming to Wall Street, Ron worked at the U.S. Patent Office as a patent examiner, while attending George Washington University Law School. From 1965 to 1966, Ron worked at Georgetown University as a teaching fellow in biochemistry. Ron graduated from Bucknell University with a B.A. in Chemistry in 1965. For more detailed information regarding particular investment strategies and important disclosures, please visit the company's website, www.BaronFunds.com..

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*** This is a hypothetical ranking created by Baron Capital using Morningstar data and is as of 12/31/2020**. There are **2,256** share classes in these nine Morningstar Categories for the period from 4/30/2003 to 12/31/2020.
**** This is a hypothetical ranking created by Baron Capital using Morningstar data and is as of 12/31/2020.** There are **580** share classes in these nine Morningstar Categories for the period from 12/31/1994 to 12/31/2020.

Note, the peer groups used for these analyses include all U.S. equity share classes in Morningstar Direct domiciled in the U.S., including obsolete funds, index funds, and ETFs. The individual Morningstar Categories used for these analyses are the Morningstar Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Small Blend, Small Growth, and Small Value Categories.

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, 2031, 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.

Performance for **Baron Partners Fund** reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 20% performance fee after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees the returns would be higher. The Fund's shareholders will not be charged a performance fee. The predecessor partnership's performance is only for periods before the Fund's registration statement was effective, which was April 30, 2003. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

Performance for **Baron Focused Growth Fund** reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees for the years the predecessor partnership charged a performance fee, the returns would be higher. The Fund's shareholders will not be charged a performance fee. The performance is only for the periods before the Fund's registration statement was effective, which was June 30, 2008. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

Risks: The **Baron Focused Growth** and **Baron Partners Funds** are non-diversified which means, in addition to increased volatility of the Funds' returns, they will likely have a greater percentage of its assets in a single issuer or a small number of issuers, including in a particular industry than a diversified fund. Single issuer risk is the possibility that factors specific to an issuer to which the Funds are exposed will affect the market prices of the issuer's securities and therefore the net asset value of the Funds. As of the date of the latest prospectus supplement, about 40% of the Funds'' assets are invested in Tesla stock. Therefore, the Funds are exposed to the risk that were Tesla stock to lose significant value, which could happen rapidly, the Funds' performance would be adversely affected. Specific risks associated with investing in small and medium-sized companies include that the securities may be thinly traded and more difficult to sell during market downturns. Specific risks associated with leverage include increased volatility of the Fund's returns and exposure of the Fund to greater risk of loss in any given period. The **Baron WealthBuilder Fund** invests in other Baron Funds and the selection of the underlying funds and the allocation of the Fund's assets among the various market sectors could cause the Fund to underperform in comparison to other funds with a similar investment objective.

Diversification cannot guarantee a profit or protect against loss.

Portfolio holdings as a percentage of Total Investments as of December 31, 2020 for securities mentioned are as follows:

Arch Capital Group Ltd. – Baron Partners Fund (3.3%), Baron Growth Fund (3.8%); **BrightView Holdings, Inc.** –Baron Growth Fund (0.2%); **Choice Hotels International, Inc.** – Baron Growth Fund (3.7%); **CoStar Group, Inc.** – Baron Partners Fund (9.4%), Baron Growth Fund (6.6%); **FactSet Research Systems, Inc.** – Baron Partners Fund (3.2%), Baron Growth Fund (4.6%); **Gaming and Leisure Properties, Inc.** – Baron Partners Fund (1.1%), Baron Growth Fund (2.7%); **Hyatt Hotels Corp.** – Baron Partners Fund (3.0%); **IDEXX Laboratories, Inc.** – Baron Partners Fund (5.5%), Baron Growth Fund (4.9%); **Gartner, Inc.** – Baron Partners Fund (1.5%), Baron Growth Fund (3.0%); **MSCI, Inc.** – Baron Partners Fund (0.8%), Baron Growth Fund (8.9%); **Vail Resorts, Inc.** – Baron Partners Fund (3.6%), Baron Growth Fund (6.4%); **Penn National Gaming, Inc.** – Baron Partners Fund (2.9%), Baron Growth Fund (6.2%);**The Charles Schwab Corp**. – Baron Partners Fund (2.9%); **Spotify Technology S.A.** – Baron Partners Fund (0.9%); **Marriott Vacations Worldwide Corp.** – Baron Partners Fund (1.3%), Baron Growth Fund (2.0%); **Zillow Group, Inc.** – Baron Partners Fund (5.2%); **Zymergen Inc. – Series D** – Baron Growth Fund (0.1%)

Portfolio holdings as a percentage of Net Assets as of December 31, 2020 for securities mentioned are as follows:

Abbot Laboratories – Baron Health Care Fund (3.5%); **Arch Capital Group Ltd.** – Baron Asset Fund (1.3%), Baron International Growth Fund (1.3%), Baron Focused Growth Fund (1.6%); **Choice Hotels International, Inc.** – Baron Asset Fund (1.0%); Baron Focused Growth Fund(2.5%); **CoStar Group, Inc.** –Baron Asset Fund (3.4%), Baron FinTech Fund (2.0%), Baron Opportunity Fund (1.3%), Baron Real Estate Fund (1.8%), Baron Focused Growth Fund (8.6%); **FactSet Research Systems, Inc.** – Baron Asset Fund (2.1%), Baron Focused Growth Fund (3.8%); **Gaming and Leisure Properties, Inc.** – Baron Real Estate Fund (1.3%), Baron Real Estate Income Fund (2.3%), Baron Small Cap Fund (0.0%); **Hyatt Hotels Corp.** – Baron Asset Fund (0.7%), Baron Real Estate Fund (0.9%), Baron Focused Growth Fund (3.8%); **IDEXX Laboratories, Inc.** – Baron Asset Fund (7.2%), Baron Health Care Fund (0.8%), Baron Small Cap Fund (2.0%); **Illumina, Inc.** – Baron Asset Fund (1.9%), Baron Opportunity Fund (0.6%), Baron Fifth Avenue Growth Fund (2.8%), Baron Global Advantage Fund (2.3%), Baron Health Care Fund (1.5%); **Gartner, Inc**. – Baron Asset Fund (4.3%), Baron Opportunity Fund (1.5%), Baron Small Cap Fund (3.2%); **MSCI, Inc.** – Baron Asset Fund (0.2%), Baron Durable Advantage Fund (3.2%), Baron FinTech Fund (3.4%), **Vail Resorts, Inc.** – Baron Asset Fund (2.9%), Baron Focused Growth Fund (5.6%); **Penn National Gaming, Inc.** – Baron Real Estate Fund (3.9%), Baron Real Estate Income Fund (1.4%), Baron Small Cap Fund (2.0%), Baron Discovery Fund (1.5%), Baron Focused Growth Fund (7.8%); **The Charles Schwab Corp.** – Baron Asset Fund (1.6%), Stich Fix, Inc. – Baron Asset Fund (0.6%), Baron Opportunity Fund (0.8%); **Spotify Technology S.A.** – Baron International Growth Fund (1.0%), Baron Focused Growth Fund (2.4%), **Marriott Vacations Worldwide Corp.** – Baron Real Estate Fund (1.8%); **Zillow Group, Inc.** – Baron Asset Fund (2.8%), Baron FinTech Fund (1.8%), Baron Opportunity Fund (1.9%), Baron Real Estate Fund (2.0%); **Zymergen Inc. – Series D** – Baron Global Advantage Fund (0.1%);

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

Ranking information provided is calculated for the Retail Share Class and is as of 12/31/2020. The number of share classes in each category may vary depending on the date that Baron downloaded information from Morningstar Direct. **Morningstar calculates its category average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges.** Total returns account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. The **Morningstar Mid-Cap Growth Category** consisted of 604, 504, and 383 share classes for the 1-, 5-, and 10-year periods. Morningstar ranked *Baron Partners Fund* in the 1st, 1st, 1st, and 1st percentiles for the 1-, 5-, 10-year, and since conversion periods, respectively. The Fund converted into a mutual Fund 4/30/2003, and the category consisted of 227 share classes. Morningstar ranked *Baron Focused Growth Fund* in the 3rd, 2nd, 5th, and 5th percentiles for the 1-, 5-, 10-year, and since conversion periods, respectively. The Fund converted into a mutual Fund 6/30/2008, and the category consisted of 326 share classes.

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. The Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth. The **Russell 2500® Growth Index** measures the performance of small to medium-sized U.S. companies that are classified as growth. The **Russell Midcap® Growth Index** measures the performance of medium-sized U.S. companies that are classified as growth. The **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The **Russell 3000® Health Care Index** is an unmanaged index representative of companies involved in medical services or health care in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies as determined by total market capitalization. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group. The **MSCI USA IMI Extended Real Estate Index** is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This email is not approved, reviewed or produced by MSCI. The **MSCI US REIT Index** is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. is an unmanaged float-adjusted market capitalization index designed to measure equity market performance of large cap and mid cap securities in the emerging markets. The **MSCI ACWI Index** measures the equity market performance of large and midcap securities across developed and emerging markets, including the United States. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. MSCI is a trademark of Russell Investment Group. The indexes and the Funds include reinvestment of interest, capital gains and dividends, which positively impact the performance results. The indexes are unmanaged. The index performance is not fund performance; one cannot invest directly into an index.

Active Share a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a limited purpose broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).