BARRON'S
JULY 30, 2020

MUTUAL FUND PROFILE

This $1.2 Billion Stock Fund Is Up More Than 40% in 2020. Here's How.

By Sarah Max

Alex Umansky manages the $1.2 billion Baron Global Advantage fund.
Photograph by Tonje Thilesen

Alex Umansky moved from the former Soviet Union to New York in 1987, two months before Black Monday wiped out 22% of stock market value in a single day. The event left a lasting impression on the 17-year-old, though he scarcely knew what the stock market was at that time. "I really wanted to be a lawyer, but I didn't speak any English," says Umansky, who left the former Soviet Union as a Jewish refugee and had one year to learn English in the U.S. before going to college. "My family told me that I should either be a computer programmer or a finance guy."

He did both, getting his bachelors in finance, information systems, and mathematics on a scholarship from New York University. In his junior year, Morgan Stanley recruited him to be an analyst, and by the time the next big market crash happened—the dot-come debacle—he was managing a technology-focused fund. "I learned the lesson that I never want to be pigeonholed into a single sector," he says. "There's just nowhere to hide."

Roughly three decades later, Umansky's English is excellent—as is his record as manager of the $1.2 billion Baron Global Advantage fund (ticker: BGAFX), which has returned an average of about 22% a year over the past five years, better than 99% of its world large stock peers.

The fund is up 41% so far in 2020 through Tuesday, but Umansky cautions that market volatility won't be over until the Covid-19 crisis ends. That said, the fund's showing this year isn't because of any single stock. Rather, the kinds of companies he favors—unique businesses with sustainable competitive advantages and very large addressable markets—are well positioned for the realities of a Covid-19 world. "The pandemic has accelerated adoption of the kinds of technology and services that are disrupting their industries," he says. "The reason we've done well is that we identified this disruption early."

Umansky, now 49, had no plans to leave Morgan Stanley, where he was happily managing several prominent diversified growth funds. "What happened? Ron Baron happened," he says, referring to the legendary investor and charismatic founder of New York–based Baron Capital. "He is one of the nicest guys you'll ever meet, and he doesn't take no for an answer." In 2011, Umansky capitulated to Baron's persistence and in 2012 launched the Baron Global Advantage fund, which can invest in any size company, anywhere in the world. "We designed this fund to focus on big ideas," says Umansky.

A classic example of a big-idea company is Amazon.com (AMZN), which the fund has owned since its 2012 inception. While the e-commerce goliath is hardly a surprise in the category of disruption, the

(over please)

Baron Global Advantage

	Total Return		
	1-Yr	3-Yr	5-Yr
BGAFX	45.8%	30.1%	22.2%
MSCI ACWI	5.7	7.0	7.6

Top 10 Holdings Company / Ticker	% of Assets
Alibaba Group Holding / BABA	6.3%
Amazon.com / AMZN	6.0
Facebook / FB	4.0
Wix.com / WIX	3.2
MercadoLibre / MELI	3.0
TAL Education Group / TAL	2.9
GDS Holdings / GDS	2.8
Splunk / SPLK	2.7
Twilio / TWLO	2.6
Veeva Systems / VEEV	2.6
Total	**36.1%**

Note: Holdings as of June 30. Returns through July 28; three- and five-year returns are annualized.

Sources: Morningstar; Baron Funds

company continues to impress Umansky with its ability to turn seemingly far-fetched ideas into new channels for growth. "When Amazon first opened its platform to third-party sellers, everyone thought it was crazy, because it was essentially opening doors for its competition," he says. Today, third-party sellers are more than half of Amazon's e-commerce business and have made the platform even more ubiquitous. Meanwhile, Amazon Web Services is the undisputed leader in cloud computing, and even hosts one of its competitors, Netflix (NFLX).

When it comes to disrupting advertising, Alphabet (GOOGL) and Facebook (FB) are big ideas, he says of two long-term holdings. "Twenty-five years ago, all advertising was analog, and now 50% of total advertising budgets in the world are [for the] digital form," he says.

This theme of digital disruption is common across industries, including health care, banking, agriculture, and transportation. "The Industrial Revolution was about economies of scale, and the digital revolution is about economies of networks," he says. "Big ideas are often platform businesses that can build ecosystems that incentivize or force competition and other businesses to plug in and co-create value."

That explains cloud computing's strong presence in the portfolio. In 2019, only 5% of global computing happened in the cloud, Umansky says, but share is growing exponentially, particularly in light of Covid-19 and the surge in remote workers. "We're very early in the penetration curve, but we think the final number is going to be over 90% of workloads."

One way to ride the growth of cloud computing is via high-performance data centers. GDS Holdings (GDS) is the largest in China, with such clients as Alibaba Group Holding (BABA), Tencent Holdings (TCEHY), and Baidu (BIDU). "This is a pure play off the growth of cloud computing, only without having to predict the winner," says Umansky of the stock, which the fund has held since early 2019.

The same can be said of Illumina (ILMN), which is the leading developer of tools used to sequence genomes. The fund invested in the company in 2012, when it had a market capitalization of $3 billion and sequencing a single human genome took weeks and cost hundreds of thousands of dollars. "Today, it costs less than $1,000 and takes less than 24 hours," says Umansky. Illumina now has a market value of $58 billion, but he says there's plenty of runway for growth, as less than a tenth of a percent of humans have been sequenced. "When the cost is low enough, every single newborn baby will get its genome sequenced," he says.

It isn't enough for companies to epitomize a big idea. They must also pass scrutiny on quality factors, including the strength of their balance sheets and management. For those reasons, one notable big idea—Tesla (TSLA)—is absent from this concentrated fund. In a departure from other managers at Baron Funds, which is a top 10 shareholder of Tesla, Umansky sold the stock late last year. It has tripled in value so far in 2020, bewildering much of Wall Street.

"I have no doubt that they have the winning technology, but I was uneasy with the balance sheet" and CEO Elon Musk's behavior, says Umansky. When he decided to sell, Baron said he was making the biggest mistake of his career. "That appears to be the case," Umansky says, adding that Tesla is a much stronger company today than it was a year ago. "But this is a high-conviction fund, and as the fiduciary, I need to have high conviction about every single holding."

Disclosures:

This reprint has been provided to you by Baron Capital, although the information has been obtained from sources believed to be reliable, Baron Capital does not guarantee its accuracy, completeness or fairness. Opinions and estimates are subject to change without notice. The information contained in this document is distributed for informational purposes only and should not be considered investment advice or recommendations of any security or Fund.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Baron Global Advantage Fund's annualized returns for the Institutional Shares as of June 30, 2020: 1-year, 45.91%; 3-years, 31.02%; 5-years, 21.21%; Since inception (4/30/2012), 18.34%. The annual expense ratio for the Institutional Shares as of December 31, 2019 was 1.00%, but the net annual expense ratio was 0.90% (net of the Adviser's fee waivers).

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

The Fund's 3 and 5-year historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

Portfolio holdings as a percentage of net assets as of June 30, 2020 for securities mentioned are as follows: **Amazon.com, Inc.** – 6.0%, **Alphabet Inc.** – 2.1%, **Facebook, Inc.** – 4.0%, **GDS Holdings Limited** – 2.8%, **Alibaba Group Holding Limited** – 6.3%, **Illumina, Inc.** – 2.4%.

As of June 30, 2020, Baron Global Advantage Fund did not hold shares of Netflix, Inc., Tencent Holdings Limited, Baidu, Inc., or Tesla, Inc.

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

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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).

Contact Us:

If you have any questions or would like to learn more about Baron Capital, please feel free to email us at info@baronfunds.com or call us at 1 (800) 99-BARON.

Visit our website at www.baronfunds.com