

## MARKETS

### Alex Umansky is obliterating the S&P 500 over the last 5 years. His 8 high-quality stock picks for strong returns.

William Edwards

- **Baron Durable Advantage Fund, managed by Alex Umansky, is up 136% in five years.**
- **The fund focuses on high-quality companies with competitive advantages and reasonable valuations.**
- **Key holdings include Broadcom, Taiwan Semiconductor, Meta, Microsoft, Amazon, and more.**

**B**aron Capital is synonymous with growth investing. Its founder, Ron Baron, is well-known for successfully betting on high-flying stocks like Tesla and Spotify. As of 2023, the firm has had 31 stocks return at least 1,000% throughout its four-decade history.

But believe it or not, amid its myriad of high-growth strategies, the blue-chip investment management firm has a more cautious product. It's the Baron Durable Advantage Fund (BDAIX), overseen by one of the firm's star managers, Alex Umansky. The strategy is focused less on stocks with huge upside and more on safer, mature companies. It's "the closest thing we have to an all-weather fund," Umansky told Business Insider.

"Baron Capital is a growth shop," he continued. "This is probably one of the lowest-growth strategies we have."

Don't let that description fool you, however. Despite its more careful, lower-volatility approach, the Durable Advantage Fund is up 136% in the last half-decade, dwarfing the S&P 500's 93% gain over that time. Year-to-date, the fund is also beating the S&P 500, returning 24.7%.

Umansky has a couple of parameters for which stocks get included in the fund. First, they have to be high-quality.



COURTESY OF BARON FUNDS

Alex Umansky

For Umansky, that means the firms regularly generate returns on the capital they invest, their management teams are proven, they are industry leaders, and — as the name of the fund implies — they are well-positioned for the future thanks to their competitive advantages.

The second main component is valuation. Valuations need to be reasonable enough to expect solid returns going forward. Many of the stocks in the fund, like Nvidia, for example, weren't added until they had pullbacks large enough to make them compelling, Umansky said.

When putting a stock in the fund, Umansky said he has so much confidence in the quality and advantages of the business that he intends to hold it forever.

Business Insider asked Umansky about some of the holdings he's particularly excited about — including some recent additions, and some that have resided in the fund for a few years now.

## 8 stocks Umansky is betting on

Umansky, who also manages the Baron Fifth Avenue Growth Fund (BFTHX), which is up 47% over the last 12 months, said that artificial intelligence is a pervading theme in many of his picks these days.

“Our research suggests that this is going to dramatically change the way people do business,” he said.

While Umansky said it’s too early to pick some of the winners in areas like software and services, there are clear winners emerging in hardware.

**Broadcom** (AVGO) and **Taiwan Semiconductor** (TSMC) are two examples, Umansky said. The semiconductor producers make up 4.1% and 4.3%, respectively, of the Baron Durable Advantage Fund.

“They do the plumbing, basically,” he said. “They sell the ammunition.”

Both of the firms have very strong balance sheets with free cash flow yields above 5%. Umansky said the two stocks were recent additions to the portfolio.

But there are some software-oriented firms whose revenues are already seeing a boost from AI, Umansky said.

**Meta** (META), **Microsoft** (MSFT), and **Amazon** (AMZN) are three included in his fund.

“Meta is already generating billions of dollars from artificial intelligence by being able to target better, by improving engagement, and by getting better click-through rates,” Umansky said.

“Amazon is one of the leaders in AI, and this will accelerate growth for their cloud computing,” he continued. “Mic-

rosoft has a partnership with OpenAI, and so they already have billions of dollars coming in from their copilot.”

The firms also have relatively low valuations, Umansky said. Meta’s 12-month forward price-to-earnings ratio is 23.5, while Microsoft’s is 32.6 and Amazon’s is 32.5. The three stocks are the largest holdings in the portfolio, with Microsoft taking the top billing at an 8.6% weighting.

Microsoft has long been a constituent of the fund, while Meta and Amazon were added during the bear-market pullback of 2022.

But the fund isn’t only AI-adjacent stocks. Umansky highlighted three financial services companies he likes, one being insurance firm **Arch Capital** (ACGL).

“Best-in-class management team, the best execution that we have seen in that space for probably 10 years,” he said. “That’s been a home run for us.”

The two others are **Blackstone** (BX) and **Apollo Global Management** (APO), both investment management companies.

Lower interest rates should benefit Blackstone because of its real-estate investments, Umansky said, and the bearish sentiment around the commercial real-estate space has the stock trading at an attractive valuation.

Growing interest in alternative investments like real-estate and private equity should boost Apollo, meanwhile. And Umansky is bullish on its leadership team.

“We think it’s an exceptionally well-managed business,” he said.

Apollo was recently added to the fund, while Blackstone and Arch have been in the fund for at least a couple of years.



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**Baron Durable Advantage Fund's** annualized returns for the Institutional Shares as of September 30, 2024: 1-year, 40.46%; 5-year, 18.8%; Since Inception (12/29/2017), 16.52%. The gross annual expense ratio for the Institutional Shares as of September 30, 2023 was 1.00%, but the net expense ratio was 0.70% (net of reimbursements from the adviser).

**Baron Fifth Avenue Growth Fund's** annualized returns for the Institutional Shares as of September 30, 2024: 1-year, 45.01%; 5-year, 11.65%; 10-year, 12.86%. The gross annual expense ratio for the Institutional Shares as of September 30, 2023 was 0.78%, but the net expense ratio was 0.76% (net of reimbursements from the adviser).

**S&P 500 Index's** annualized returns as of September 30, 2024: 1-year, 36.35%; 5-year, 15.98%; Since Fund Inception (12/29/2017), 13.98%.

*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 waives and/or reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2035, 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 [BaronCapitalGroup.com](http://BaronCapitalGroup.com) or call 1-800-99-BARON.*

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

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.

**Risks:** The Fund invests primarily in equity securities, which are subject to price fluctuations in the stock market. In addition, because the Fund invests primarily in large-cap company securities, it may underperform other funds during periods when the Fund's securities are out of favor.

Portfolio holdings as a percentage of net assets as of September 30, 2024 for securities mentioned are as follows: **Tesla, Inc.** - Baron Fifth Avenue Growth Fund (3.3%), Baron Focused Growth Fund (9.8%), Baron Global Advantage Fund (1.0%), Baron Opportunity Fund (4.5%), Baron Partners Fund (33.4%\*), Baron Technology Fund (3.3%); **Spotify Technology S.A.** - Baron Asset Fund (0.8%), Baron Focused Growth Fund (5.9%), Baron Opportunity Fund (2.6%), Baron Partners Fund (1.1%\*), Baron Technology Fund (4.9%); **Arch Capital Group Ltd.** - Baron Asset Fund (5.1%), Baron Durable Advantage Fund (2.1%), Baron FinTech Fund (3.1%), Baron Focused Growth Fund (6.1%), Baron Growth Fund (13.2%), Baron International Growth Fund (2.7%), Baron Partners Fund (9.6%\*); **Blackstone Inc.** - Baron Durable Advantage Fund (3.2%), Baron Real Estate Fund (4.4%), Baron Real Estate Income Fund (2.5%); **Apollo Global Management, Inc.** - Baron Durable Advantage Fund (3.1%), Baron FinTech Fund (3.8%).

\*% of Long Positions.

**Baron Fifth Avenue Growth Fund**

*Top 10 Holdings as of September 30, 2024*

Holding Name	% of Net Assets
NVIDIA Corporation	10.7
Amazon.com, Inc.	8.4
Meta Platforms, Inc.	8.2
Shopify Inc.	5.9
Intuitive Surgical, Inc.	5.8
ServiceNow, Inc.	5.1
Microsoft Corporation	4.6
The Trade Desk	4.5
MercadoLibre, Inc.	4.5
Tesla, Inc.	3.3
<b>Total</b>	<b>61.1</b>

**Baron Durable Advantage Fund**

*Top 10 Holdings as of September 30, 2024*

Holding Name	% of Net Assets
Microsoft Corporation	8.0
Meta Platforms, Inc.	6.9
Amazon.com, Inc.	6.4
NVIDIA Corporation	4.6
S&P Global Inc.	4.2
Taiwan Semiconductor Manufacturing Company Limited	4.1
Broadcom Inc.	3.9
Alphabet Inc.	3.9
Moody's Corporation	3.4
Visa Inc.	3.3
<b>Total</b>	<b>48.8</b>

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

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The Fund includes reinvestment of dividends, net of withholding taxes, while the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The index is unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

**Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets. **Price/Earnings Ratio or P/E (next 12-months)**: is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months.

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