

BARON FUNDS

RON BARON PORTFOLIO



Portfolio Date: 2019-02-13

Updated on 2019-02-13

Portfolio Overview

Portfolio:	Baron Funds
Fund Type:	Mutual Fund Company
Portfolio Date:	2018-09-30
13D/13G Date:	2019-02-13
Number of Stocks:	371
Equity Value:	\$24.14 Billion
Number of New Buys:	32
Q/Q Turnover:	9%

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I. Portfolio Overview, Profile

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Profile

Ron Baron is the founder of Baron Capital Management. He is Co-Portfolio Manager of Baron Asset Fund and remains Portfolio Manager of the Growth and Partners Funds. Baron graduated from Bucknell University with a B.A. in Chemistry, and later attended George Washington University Law School in the evenings.

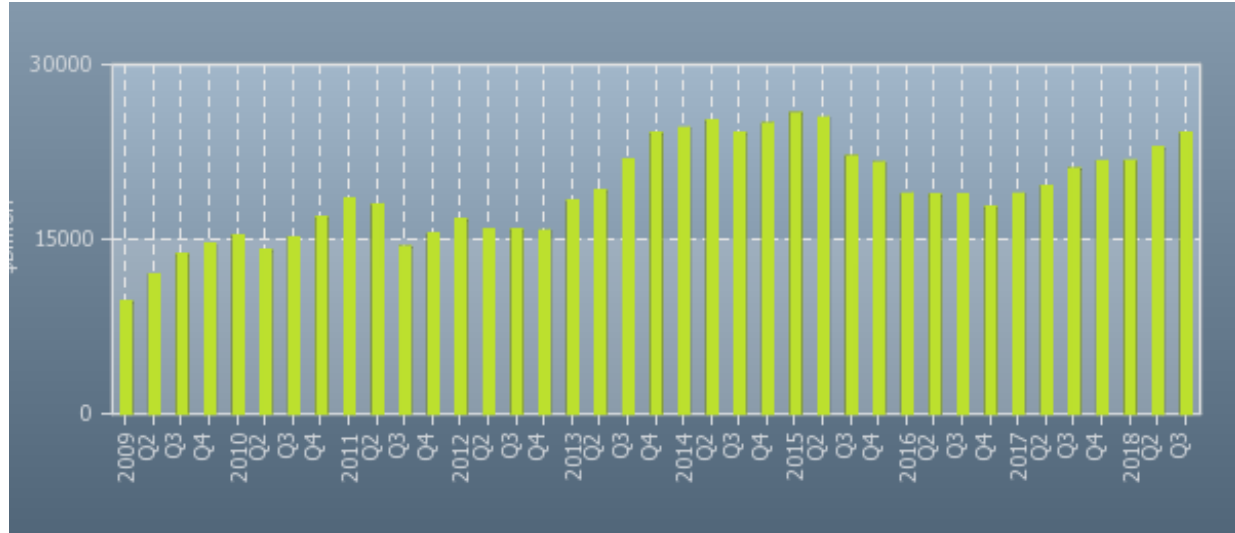
Investing Philosophy

Ron Baron invests primarily in small and mid-size growth companies. He likes companies with open-ended growth opportunities and defensible niches. He applies a bottom-up company research, invests for the long-term, and tries to purchase companies at what he believes are attractive prices. He invests in growth companies using a value-oriented purchase discipline. Baron ignores short-term market fluctuations when he believes the fundamental reasons for purchasing a company have not changed. He holds investments for longer than five years on average.

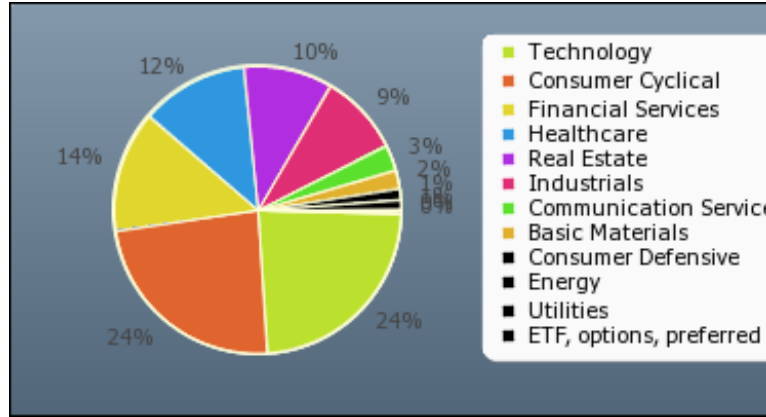
II. Performance of Baron Partners Fund

Year	Return (%)	S&P 500 (%)	Excess Gain (%)
2017	31.54	21.71	9.8
2016	4.04	11.99	-7.9
2015	-2.71	1.24	-4.0
2014	10.26	13.47	-3.2
2013	47.63	32.3	15.3
5-Year Cumulative (Average)	116.7 (16.7%/year)	107.2 (15.7%/year)	9.5 (1%/year)
2012	16.4	15.99	0.4
2011	-5.74	1.9	-7.6
2010	31.52	15.05	16.5
2009	28.2	26.35	1.9
2008	-46.67	-36.79	-9.9
10-Year Cumulative (Average)	113.8 (7.9%/year)	125 (8.4%/year)	-11.2 (-0.5%/year)
2007	11.34	5.14	6.2
2006	21.55	15.85	5.7
2005	14.37	4.83	9.5
2004	42.35	10.7	31.6
2003	34.95	28.19	6.8
15-Year Cumulative (Average)	535.8 (13.1%/year)	307.7 (9.8%/year)	228.1 (3.3%/year)
2002	-18.07	-21.58	3.5
2001	-15.71	-11.76	-3.9
2000	4.82	-9.75	14.6
1999	18.42	20.4	-2.0
1998	11.68	28.7	-17.0
20-Year Cumulative (Average)	508.6 (9.5%/year)	294.5 (7.1%/year)	214.1 (2.4%/year)
1997	49.88	33.47	16.4
1996	16.13	22.49	-6.4
1995	36.94	38.04	-1.1
1994	4.76	0.4	4.4
1993	28.78	10.08	18.7
25-Year Cumulative (Average)	1857.2 (12.6%/year)	883.9 (9.6%/year)	973.3 (3%/year)
1992	16.83	7.62	9.2

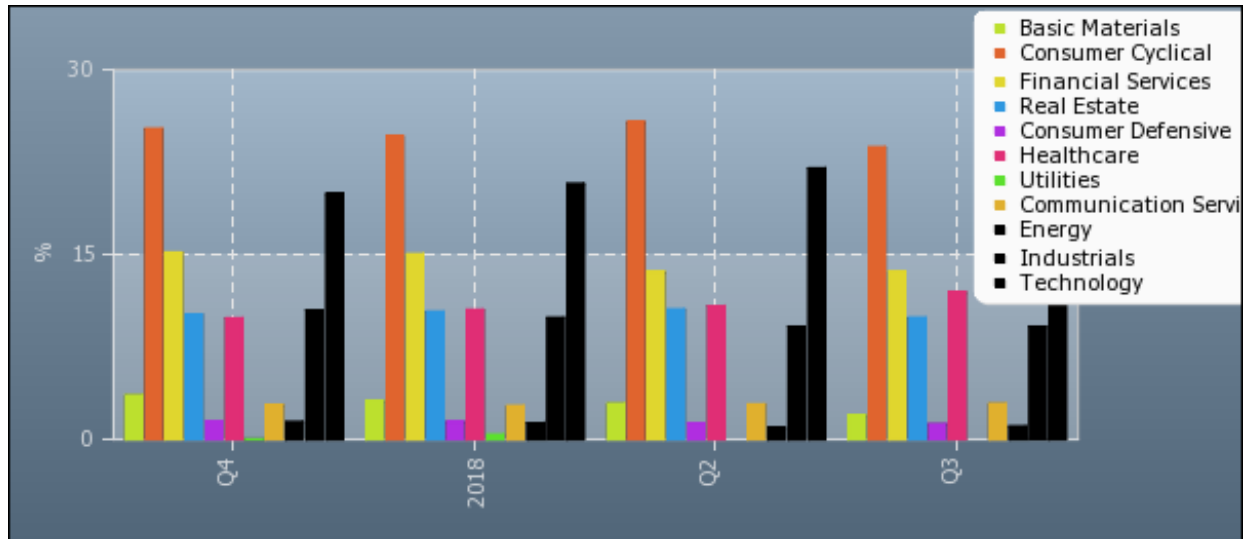
III. Historical Total Value (\$Billion) of Filings



IV. Industry/Sector Overview



V. Industry/Sector Shift in Past 12 Months



VI. Top Holdings (Up to 25)

These are the top holdings of Ron Baron as of 2018-09-30 in the order of significance.

Ticker	Company	Shares (1000)	Value (\$Mil)	Weighting (%) ↓	Share # Change from Last Period	Current Price (\$)	Price Change Since Quarter End (%)
MTN	Vail Resorts Inc	4,852	1,332	5.52%	-0.25%	207.32	-24.5%
IT	Gartner Inc	6,941	1,100	4.56%	-0.11%	141.49	-10.7%
CSGP	CoStar Group Inc	2,470	1,039	4.31%	-0.52%	406.95	-3.3%
IDXX	IDEXX Laboratories Inc	4,161	1,039	4.3%	-4.69%	210.39	-15.7%
ACGL	Arch Capital Group Ltd	23,361	696	2.88%	-0.40%	31.96	7.2%
GWRE	Guidewire Software Inc	6,529	659	2.73%	+0.63%	92.63	-8.3%
FDS	FactSet Research Systems Inc	2,864	641	2.65%	-0.17%	221.85	-0.8%
ANSS	Ansys Inc	2,487	464	1.92%	-0.15%	173.11	-7.3%
TSLA	Tesla Inc	1,662	440	1.82%	-0.02%	308.17	16.4%
CHH	Choice Hotels International Inc	4,815	401	1.66%	-0.25%	81.60	-2.0%
MSCI	MSCI Inc	2,193	389	1.61%	-0.46%	174.87	-1.4%
BFAM	Bright Horizons Family Solutions Inc	3,241	382	1.58%	-0.01%	120.98	2.7%
H	Hyatt Hotels Corp	4,663	371	1.54%	-1.80%	73.43	-7.7%
GLPI	Gaming and Leisure Properties Inc	10,430	368	1.52%	+0.30%	37.60	6.7%
SSNC	SS&C Technologies Holdings Inc	6,241	355	1.47%	-1.77%	55.44	-2.4%
VAC	Marriott Vacations Worldwide Corp	3,092	345	1.43%	+14.52%	93.66	-16.2%
MTD	Mettler-Toledo International Inc	561	342	1.42%	-0.18%	668.61	9.8%
SCHW	Charles Schwab Corp	6,448	317	1.31%	-0.05%	45.98	-6.4%
MANU	Manchester United PLC	13,994	315	1.3%	-0.26%	19.88	-11.6%
TECH	Bio-Techne Corp	1,509	308	1.28%	-0.08%	189.05	-7.4%
PRI	Primerica Inc	2,513	303	1.25%	-0.23%	117.92	-2.2%
WIX	Wix.com Ltd	2,041	244	1.01%	-4.59%	119.41	-0.2%
DEI	Douglas Emmett Inc	6,071	229	0.95%	-0.22%	38.34	1.6%
RRR	Red Rock Resorts Inc	8,261	220	0.91%	+1.90%	27.35	2.6%
PENN	Penn National Gaming Inc	6,451	212	0.88%	+0.14%	24.55	-25.4%

VII. Top Purchases of Ron Baron

These are the top purchases of Ron Baron as of 2018-09-30 in the order of significance.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%) ↓	Share # Change from Last Period	Average Cost	Current Price (\$)	Price Change(%)
BE	Bloom Energy Corp	2,625	29	0.37%	New holding	\$28	\$11.00	-60.7%
ITUB	Itau Unibanco Holding SA	5,111	50	0.23%	New holding	\$7.37	\$9.83	33.4%
LSXMK	Liberty SiriusXM Group	1,100	44	0.2%	New holding	\$46.6	\$40.06	-14.0%
VAC	Marriott Vacations Worldwide Corp	3,092	290	0.18%	Add 14.52%	\$118.2	\$93.66	-20.8%
ZLAB	Zai Lab Ltd	1,900	52	0.14%	Add 1955.83%	\$21.73	\$27.40	26.1%
COLD	Americold Realty Trust	3,093	89	0.13%	Add 66.75%	\$23.21	\$28.63	23.4%
IAC	IAC/InterActiveCorp	99	22	0.09%	Add 24049.51%	\$181.4	\$221.46	22.1%
CDAY	Ceridian HCM Holding Inc	1,946	88	0.07%	Add 27.80%	\$36.6	\$45.36	23.9%
CONE	CyrusOne Inc	272	15	0.07%	New holding	\$64.71	\$54.95	-15.1%
FND	Floor & Decor Holdings Inc	1,921	67	0.07%	Add 40.12%	\$40.79	\$34.91	-14.4%

VIII. Top Sales of Ron Baron

These are the top sales of Ron Baron as of 2018-09-30 in the order of significance.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%) ↓	Share # Change from Last Period	Average Cost	Current Price (\$)	Price Change(%)
FNGN	Financial Engines Inc	0	0	-0.37%	Sold Out	\$44.96	\$44.95	0.0%
AMZN	Amazon.com Inc	48	78	-0.23%	Reduce -39.70%	\$1879.85	\$1640.00	-12.8%
BABA	Alibaba Group Holding Ltd	1,185	201	-0.21%	Reduce -17.94%	\$176.96	\$169.40	-4.3%
IDXX	IDEXX Laboratories Inc	4,161	875	-0.19%	Reduce -4.69%	\$242.74	\$210.39	-13.3%
GCP	GCP Applied Technologies Inc	0	0	-0.16%	Sold Out	\$27.03	\$25.45	-5.8%
VMC	Vulcan Materials Co	211	22	-0.14%	Reduce -54.30%	\$115.97	\$105.89	-8.7%
BIDU	Baidu Inc	361	63	-0.12%	Reduce -24.42%	\$235.02	\$173.82	-26.0%
TAL	TAL Education Group	374	12	-0.11%	Reduce -65.10%	\$32.31	\$33.29	3.0%
DOOR	Masonite International Corp	0	0	-0.1%	Sold Out	\$68.25	\$56.76	-16.8%
MHK	Mohawk Industries Inc	0	0	-0.1%	Sold Out	\$196.12	\$139.41	-28.9%

IX. Top Bargain Candidates of Ron Baron

Ron Baron bought these stocks in the quarter ended on 2018-09-30. You can buy these stocks at lower prices.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%)	Share # Change from Last Period	Average Cost	Current Price (\$)	Price Change(%) ↓
Z	Zillow Group Inc	618	22	0%	Add 0.05%	\$52.22	\$35.79	-31.5%
PENN	Penn National Gaming Inc	6,451	158	0%	Add 0.14%	\$33.3	\$24.55	-26.3%
CMD	Cantel Medical Corp	516	43	0%	Add 0.20%	\$95.3	\$82.75	-13.2%
SITE	SiteOne Landscape Supply Inc	1,465	80	0%	Add 0.24%	\$87.74	\$54.84	-37.5%
ALGN	Align Technology Inc	162	41	0%	Add 0.25%	\$368.75	\$251.85	-31.7%
TIF	Tiffany & Co	268	24	0%	Add 0.44%	\$130.72	\$90.93	-30.4%
GLNG	Golar LNG Ltd	240	5	0%	Add 1.05%	\$26.49	\$22.77	-14.0%
HUD	Hudson Ltd	3,000	42	0%	Add 1.35%	\$19.38	\$13.88	-28.4%
AAPL	Apple Inc	135	23	0%	Add 1.67%	\$208.3	\$170.18	-18.3%
RRR	Red Rock Resorts Inc	8,261	226	0.02%	Add 1.90%	\$32.26	\$27.35	-15.2%
BB	BlackBerry Ltd	137	1	0%	Add 3.06%	\$10.22	\$8.49	-16.9%
STMP	Stamps.com Inc	17	3	0%	Add 3.17%	\$250.23	\$197.48	-21.1%
XLRN	Acceleron Pharma Inc	69	3	0%	Add 3.63%	\$49.18	\$42.39	-13.8%
NBIX	Neurocrine Biosciences Inc	31	3	0%	Add 4.49%	\$113.38	\$83.95	-26.0%
PRTY	Party City Holdco Inc	3,600	40	0.01%	Add 4.65%	\$15.32	\$11.00	-28.2%
SNE	Sony Corp	56	3	0%	Add 4.65%	\$55.01	\$45.06	-18.1%
BYD	Boyd Gaming Corp	1,470	41	0.01%	Add 4.83%	\$35.73	\$27.56	-22.9%
AMX	America Movil SAB de CV	4,357	64	0.01%	Add 5.27%	\$16.87	\$14.62	-13.3%
SPOT	Spotify Technology SA	19	3	0%	Add 5.49%	\$183.42	\$143.54	-21.7%
TWOU	2U Inc	2,664	176	0.04%	Add 5.71%	\$82.57	\$65.88	-20.2%

X. Consensus Picks of Ron Baron and Other Gurus

These are the stocks that Ron Baron bought. They are also bought by other Gurus tracked by GuruFocus.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%) ↓	Share # Change from Last Period
AERI	Aerie Pharmaceuticals Inc	43	2,663	1%	72.58
ANAB	AnaptysBio Inc	7	718	0%	385.03
AQ	Aquantia Corp	397	5,076	2%	92.74
ARCE	Arco Platform Ltd	368	8,388	3%	10000.00
BE	Bloom Energy Corp	2,625	89,467	37%	10000.00
CORI	Corium International Inc	291	2,772	1%	137.99
CYH	Community Health Systems Inc	0	0	0%	0.00
DNLI	Denali Therapeutics Inc	955	20,770	9%	1.05
EB	Eventbrite Inc	150	5,695	2%	10000.00
ELAN	Elanco Animal Health Inc	10	349	0%	10000.00
ELLI	Ellie Mae Inc	38	3,643	2%	0.00
ESPR	Esperion Therapeutics Inc	100	4,437	2%	528.93
FND	Floor & Decor Holdings Inc	1,921	57,954	24%	40.12
HEIA	Heico Corp	193	14,576	6%	83.90
LMNR	Limoneira Co	215	5,614	2%	72.00
LXFR	Luxfer Holdings PLC	127	2,952	1%	10000.00
MTSI	MACOM Technology Solutions Holdings Inc	137	2,822	1%	163.46
OPRA	Opera Ltd	185	1,661	1%	10000.00
PDD	Pinduoduo Inc	448	11,768	5%	10000.00
RMED	Ra Medical Systems Inc	311	5,658	2%	10000.00
SFIX	Stitch Fix Inc	1	37	0%	10000.00
SUI	Sun Communities Inc	0	50	0%	10000.00
TENB	Tenable Holdings Inc	120	4,666	2%	10000.00
TXMD	TherapeuticsMD Inc	1,349	8,851	4%	22.74
UNVR	Univar Inc	2,750	84,315	35%	0.00
XLRN	Acceleron Pharma Inc	69	3,966	2%	3.63
ZLAB	Zai Lab Ltd	1,900	37,020	15%	1955.83

XI. International Stocks

These are the international stocks in the portfolio of Ron Baron.

Ticker	Company	Country/Region	Shares (1000)	Value (\$Mil)	Weighting as of 2018-09-30 (%)	Share # Change from Last Period
YPF	YPF SA	Argentina	0.0	74,001.6	0.3%	+3.58%
BMA	Banco Macro SA	Argentina	0.0	24,314.8	0.08%	-18.10%
MELI	MercadoLibre Inc	Argentina	0.0	1,053.8	0%	New Buy
ACGL	Arch Capital Group Ltd	Bermuda	0.0	694,754.1	2.88%	-0.40%
GLNG	Golar LNG Ltd	Bermuda	0.0	6,363.8	0.03%	+1.05%
CMPR	Cimpress NV	Bermuda	0.0	1,978.7	0.01%	-22.59%
BAM	Brookfield Asset Management Inc	Canada	0.0	26,304.1	0.11%	+3.07%
ECA	Encana Corp	Canada	0.0	7,004.3	0.03%	-0.09%
BB	BlackBerry Ltd	Canada	0.0	1,397.2	0.01%	+3.06%
SU	Suncor Energy Inc	Canada	0.0	1,469.6	0.01%	+12.38%

XII. ETF Holdings

These are the ETF stocks in the portfolio of Ron Baron.

Ticker	ETF	Shares (1000)	Value (\$Mil) ↓	Weighting as of 2018-09-30 (%)	Share # Change from Last Period
IWP	iShares Russell Midcap Growth	3.3	0.3	0%	New Buy

XIII. Comments by Ron Baron on Stocks in the Portfolio

Ron Baron Comments on Dechra Pharmaceuticals PLC

This quarter the Fund initiated a position in **Dechra Pharmaceuticals PLC** ([LSE:DPH](#)). Dechra is a U.K.-based company that develops, manufactures, and sells specialty veterinary pharmaceuticals. We are enamored with the global animal health market, and have successfully invested in the space for over a decade. We estimate that the global market for animal health pharmaceuticals is approximately \$32 billion. We expect the market to grow at a 5% to 6% annual CAGR, driven by powerful secular trends, including the humanization of pets and persistent increases in demand for animal protein and other animal by-products. We believe that increases in global veterinary R&D, and derivative benefits from human pharmaceutical R&D will also drive market expansion.

The veterinary health care market is structurally superior to the human health care market. Unlike human health care, there are no government payors and few third-party commercial insurers. Pet owners pay for products and services using cash rather than insurance, which helps eliminate reimbursement risk, and enables the industry to pass through modest annual price increases. Additionally, industry regulations tend to be promulgated by the USDA rather than the FDA, and are far less stringent than in the human space.

Dechra is the 10th largest animal pharmaceutical company in the world, but has just 2% global market share. The company targets sectors that are underserved by larger pharmaceutical competitors, and is often the dominant provider in its individual therapeutic niches. Today, the company's primary areas of focus are endocrinology, dermatology, ophthalmology, analgesics, and equine. Over time, we expect the company to broaden its portfolio, particularly into the food animal market. We estimate that Dechra's current pipeline of new products includes more than 75 that could add almost 40% to the business on a risk-adjusted basis.

We also expect growth to benefit from geographic expansion. Dechra's roots are in the U.K., and the company also has a strong and growing presence in the EU. Dechra first entered the U.S. market in 2016, and is growing in that geography in excess of 20% annually. Over time, we expect the company to enter or enhance scale in other emerging markets, particularly those with large production animal populations like Brazil, Argentina, and Australia.

We expect the combination of end-market growth, share gains, R&D, and geographic expansion to generate organic revenue growth around 10% annually. We expect Dechra to supplement this organic growth with acquisitions. The company has successfully completed 13 acquisitions since 2010, which help expand its product set and geographic coverage. Most recently, Dechra acquired AST/LeVet, which strengthened the company's European product portfolio and should generate significant sales synergies.

Of late, large human health care companies have been spinning off their animal health businesses, creating large pure play entities such as Zoetis and Elanco. We believe that these large, independent players will be better able to deploy capital in pursuit of growth, and will cause the animal health pharmaceutical industry to consolidate. We view Dechra as an attractive target for many of these vendors given its unique portfolio of niche products and minimal overlap with these competitors.

From [Ron Baron \(Trades, Portfolio\)](#)'s fourth-quarter 2018 Baron Growth Fund [shareholder letter](#).

Ron Baron Comments on IDEXX Laboratories

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** ([NASDAQ:IDXX](#)) detracted from performance. While financial results were strong, unfavorable weather in Europe and depressed global milk prices temporarily reduced reported growth. We estimate that just 1% to 2% of IDEXX's profit is exposed to milk prices, and we believe that weather trends in Europe have normalized. We believe that competitive trends are outstanding in IDEXX's core companion animal business, highlighted by instrument installed base growth of 20%, domestic lab growth more than twice that of its main competitor, and improving sales productivity. We expect new proprietary innovations and ongoing sales force expansion to contribute to growth over time.

From [Ron Baron \(Trades, Portfolio\)](#)'s fourth-quarter 2018 Baron Growth Fund [shareholder letter](#).

Ron Baron Comments on Gartner

Shares of **Gartner, Inc. (NYSE:IT)**, a provider of syndicated research, detracted from performance as technology stocks broadly sold off. The integration of CEB is proceeding well, and the company increased its investment to pursue this large opportunity. We expect this acquisition to drive faster revenue growth over the medium term. We also believe that key forward-looking metrics in Gartner's traditional IT research business are solid. We observe signs of traction in the acquired CEB business with good uptake of seat-based model sales, particularly to new customers.

From [Ron Baron \(Trades, Portfolio\)](#)'s fourth-quarter 2018 Baron Growth Fund [shareholder letter](#).

Ron Baron Comments on Vail Resorts

Shares of **Vail Resorts, Inc. (NYSE:MTN)**, the world's largest operator of ski resorts, decreased in the quarter as growth in season pass sales decelerated, and underlying price increases were modestly below expectations. We expect lower-than-expected season pass sales, coupled with unexpectedly slow pre-holiday results, to modestly reduce EBITDA this year. While disappointing, we believe the company is still able to grow earnings at a double-digit rate over the long term. Cash flow generation is strong, which the company will use for dividend increases and accretive acquisitions.

From [Ron Baron \(Trades, Portfolio\)](#)'s fourth-quarter 2018 Baron Growth Fund [shareholder letter](#).

Ron Baron Comments on American Assets Trust

American Assets Trust, Inc. (NYSE:AAT) is a diversified REIT with a high-quality portfolio in high barrier-to-entry markets in the western U.S. Shares contributed to performance during the fourth quarter, driven by a "risk off" stock market environment that caused high-quality and more defensive REITs such as American Assets Trust to perform well.

From [Ron Baron \(Trades, Portfolio\)](#)'s fourth-quarter 2018 Baron Growth Fund [shareholder letter](#).

Ron Baron Comments on Church & Dwight Co

The stock of consumer products company **Church & Dwight Co., Inc. (NYSE:CHD)** performed well in the quarter. The company showed strong organic growth in both its domestic and international consumer lines. A tough environment with higher commodity and transportation costs reduced gross margins, but the company

announced price increases on approximately a third of its products, which should help relieve cost pressures next year. Additionally, investors have favored the reliability of Church & Dwight's sales and earnings given the current volatility in the broader market.

From [Ron Baron \(Trades, Portfolio\)](#)'s fourth-quarter 2018 Baron Growth Fund [shareholder letter](#).

Ron Baron Comments on Benefitfocus

Shares of benefits software vendor **Benefitfocus, Inc.** ([NASDAQ:BNFT](#)) contributed to performance. The stock's performance was driven by accelerating revenue growth and expanding margins and free cash flow. Benefitfocus has delivered consistent improvement in bookings, margins, and cash flow in recent quarters. We believe the recent outreach to brokers and carriers is a positive development. We expect the company's BenefitsPlace offering to contribute meaningfully to results in 2019, and accelerate thereafter. The company's ecosystem is expanding, highlighted by an improving partnership with SAP.

From [Ron Baron \(Trades, Portfolio\)](#)'s fourth-quarter 2018 Baron Growth Fund [shareholder letter](#).

Ron Baron Comments on Douglas Emmett

Douglas Emmett, Inc. ([NYSE:DEI](#)) is a REIT that owns a portfolio of high-quality office and multi-family assets in Western Los Angeles and Honolulu. A rise in the 10-year interest rate, which made Douglas Emmett's dividend yield look relatively less attractive, drove weak performance in the quarter. We retain conviction because Douglas Emmett owns a portfolio of high-quality assets we believe are underappreciated at the current stock price.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Red Rock Resorts

Shares of **Red Rock Resorts, Inc.** ([NASDAQ:RRR](#)), a casino operator focused on the Las Vegas locals market, decreased as many Las Vegas residents left on vacation given the strong economy and a heat wave that affected the area. We consider the drop in visitation to be temporary, and do not foresee a long-term slowdown in the locals market. Las Vegas' population continues to grow, wages continue to rise 2% to 3% per year, and housing prices are at record highs. We view such data optimistically, and we see the stock's current valuation as attractive.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on The Charles Schwab Corp

Shares of brokerage company **The Charles Schwab Corp.** ([NYSE:SCHW](#)) declined slightly in the quarter. Competitors have repeatedly cut fees on trading and money management business. Schwab has historically followed suit, and we anticipate this to be the case again. Investors are also concerned that rising rates will not improve net interest margin to levels achieved in the past as additional revenue will be shared with clients to sustain market share. We believe Schwab will continue to gain assets, provide additional valuable services, and grow its earnings despite these current headwinds.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Zillow Group

Zillow Group, Inc. ([NASDAQ:ZG](#)) operates the leading online real estate sites in the U.S. Shares detracted based on a lower revenue and profitability outlook. Revenue guidance was negatively impacted by reduced rental revenue and a slight delay in the roll-out of Zillow Instant Offers, the company's new home buying initiative. We retain conviction, as we believe Zillow will continue to grow its share of the \$8 billion real estate advertising market.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Tesla

Tesla, Inc. ([NASDAQ:TSLA](#)) designs, manufactures, and sells fully electric vehicles, solar products, and energy storage solutions. Shares declined on investor concerns around CEO Elon Musk's announcement of potential privatization, which led to lawsuits and investigations. Departures of a few executives and Street expectations for lower third quarter production and deliveries also pressured the stock. We retain conviction. We believe Tesla solved fundamental production issues, and expect it to optimize its production line to meet its margins and profitability targets over time.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on FactSet Research Systems

Shares of **FactSet Research Systems, Inc.** ([NYSE:FDS](#)), a leading provider of investment management tools, contributed to performance. The company announced a large 15,000 seat deal win with Merrill Lynch Wealth Management, which we believe should be meaningful from both a financial and a reputational perspective and should serve as a great reference point for FactSet as the company attempts to win more Wealth Management

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Gartner Inc.

Shares of **Gartner, Inc. (NYSE:IT)**, a provider of syndicated research, contributed to performance. We believe forward-looking metrics in Gartner's traditional IT research business are strong, with contract value growing at a mid-teens rate. Gartner recently introduced a seat-based product to heritage CEB clients, and is generating traction in closing new customers with this improved product. The company meaningfully expanded its sales force to pursue this large incremental opportunity, and we expect to see heritage CEB growth accelerate from 2% into the mid-to-high teens over time.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Arch Capital Group

Arch Capital Group Ltd. (NASDAQ:ACGL) is a specialty insurance company based in Bermuda. Shares appreciated after the company reported solid quarterly results that exceeded Street expectations. The stock also benefited from improving sentiment for mortgage insurers as investors became more confident that industry returns would remain attractive despite a recent price cut. We continue to own the stock due to Arch's strong management team and underwriting discipline.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on IDEXX Laboratories

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc. (NASDAQ:IDXX)** contributed to performance, buoyed by continued strong competitive trends, highlighted by instrument installed base growth of 20%, domestic lab growth more than twice that of competitor VCA, and improving sales productivity. We think new proprietary innovations and field sales force expansion should be meaningful contributors to growth. Margins are moving significantly higher, and we believe they can approach 30% over the next several years.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Hyatt Hotels Corp

The Fund's investments in real estate and resort businesses, growing enterprises that also represent a long-term hedge against inflation, achieved modest returns in the period. We attribute this principally to recent increases in interest rates, which we think will not have a material impact on their long-term prospects. **Hyatt Hotels Corp.** ([NYSE:H](#)) has continued to achieve favorable and above industry average revenue per available room gains. This is in part due to its reliance upon business meetings, not transient guests.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Zillow

We attribute Zillow ([NASDAQ:ZG](#))'s recent share price decline to two factors—rising interest rates and shifting business model. Zillow is a leading service provider for real estate brokers. Although rising interest rates have caused both new and existing home sales to decline, we estimate Zillow's lead generation revenues continue to increase significantly from prior year levels. This is because it has been able to increase prices and gain share of broker advertising which is several times as large as Zillow. Zillow user growth slowed modestly in the quarter and the company increased marketing spend. We believe Zillow's data and algorithms are better than other providers and a lot more effective than print media. We think at least a portion of the decline in Zillow's share price is due to its efforts to partially transition its business model to buying and selling some homes

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

Ron Baron Comments on Tesla

Tesla ([NASDAQ:TSLA](#)), the leading manufacturer and distributor of luxury electric automobiles and lithium batteries, has been subject to intense analytic and media scrutiny. This is due to its rapid, and, so far, profitless growth. Also drawing attention to Tesla are its efforts to disrupt the powerful and entrenched automobile, energy, and utility industries. Elon Musk, Tesla's controversial and undeniably brilliant CEO and chief engineer, is obviously responsible for a large part of this attention. Tesla's business has grown its revenues from \$3.7 billion in 2014, when we began to purchase Tesla stock, to an estimated \$20 billion in 2018. If Tesla reaches \$30 billion revenues in 2019, we expect the company to achieve substantial positive cash flow before reinvesting it to finance its continued rapid growth.

Tesla's share price volatility increased significantly during the quarter. This was after Musk announced on a social media platform that he was considering forming a group to purchase Tesla in a "going private" transaction. After an investigation, the SEC announced on September 27 that the company had not acted properly in making that statement. Tesla's share price fell sharply on the final day of the quarter. We believed that the SEC was determined to protect investors, not damage this company's prospects, and would likely take actions to improve Tesla's governance. We also believed that settlement would be well received by investors. The Fund did not purchase or sell Tesla stock during this controversy. The following weekend, a settlement between Tesla and the SEC was announced that we believe should not impair Tesla's ability to

produce high-quality vehicles at scale. Tesla's CEO and Chairman positions will be separated; communications with investors will be carefully controlled; and, reasonable monetary fines relative to the size of this business would be paid by both the company and Musk.

We believe Tesla's share price will ultimately depend upon how many electric cars and batteries the company sells; how much profit they make per unit; and how fast they grow. We remain optimistic about Tesla's prospects.

From [Ron Baron \(Trades, Portfolio\)](#)'s third-quarter Baron Partners Fund [shareholder letter](#).

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