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We spoke with Wall Street's 9 best-performing fund managers of 2020 to learn how they crushed the chaotic market — and compile the biggest bets they're making for 2021

BUSINESS INSIDER

The top fund managers of 2020 triumped with well-timed pandemic bets – and a few surprising stock market winners.

By Marley Jay, Christopher Competiello, Vicky Ge Huang, and William Edwards

- **Business Insider spoke to the nine top-performing US mutual fund managers of the year, based on their performance through November 6.**

- **They shared insight into investing strategies and stock picks that prevailed through the crisis, and shared their top trade ideas for 2021.**

2020 will be remembered as the year of extremes.

As the COVID-19 pandemic unfolded, investors endured the highest highs and the lowest lows: the fastest decline into a bear market in history, followed by the swiftest recovery – all within six months.

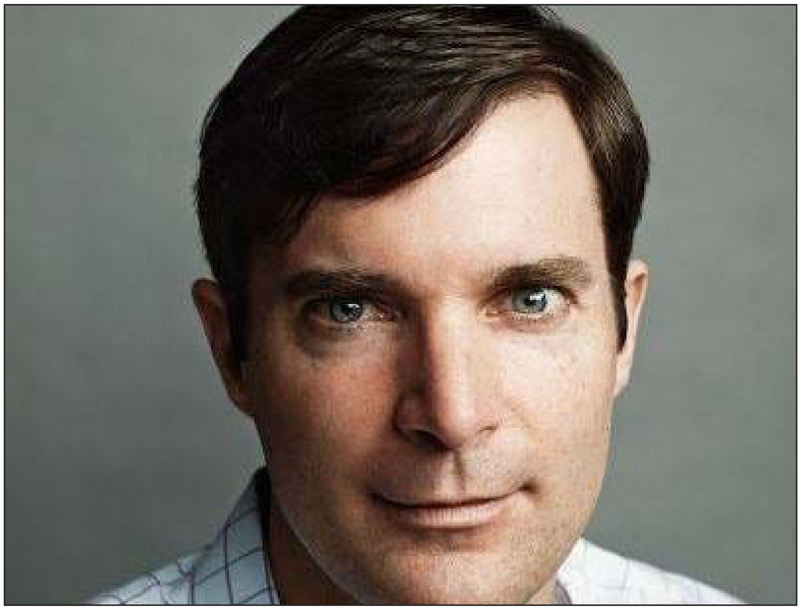
Amid all its misery, the year produced outstanding gains for an elite group of fund managers, thanks to well-placed bets that outstripped the broader market and competitors. Business Insider interviewed eight of the top-performing US equity fund managers as assessed by Morningstar to understand how they successfully navigated the year, and to learn of their biggest bets for 2021.

Several challenges could have kept them off the list. US equity funds suffered seven straight months of outflows through October – including a record $52 billion exodus in August – as more investors flocked to cheaper exchange-traded funds, Morningstar data shows. And fee wars among online brokers, combined with unprecedented volatility, spurred an army of DIY traders that even outperformed the pros at one point.

Still, these investors demonstrated that old-fashioned, bottom-up stock picking can yield outstanding returns. Just ask Morgan Stanley's Dennis Lynch, a recurring top performer, whose top holding of little-known 10X Genomics more than doubled this year. Or ask Cathie Wood, a breakout star manager, whose holdings of Tesla, Square, and Roku now seem like obvious winners in hindsight.

The full list of managers is ranked below in decreasing order of their year-to-date returns through November 6.

1. Dennis Lynch, lead portfolio manager, Morgan Stanley Discovery Portfolio



MORGAN STANLEY

Dennis Lynch managed a slew of the highest-returning mutual funds of 2020, and also runs Morgan Stanley's Counterpoint Global business.

Many traders and fund managers swooped into action when markets started crashing early this year. Dennis Lynch mostly let his previous investments go to work and watch them outperform what others were buying. He was rewarded with bigger returns than almost everyone who took a more frantic approach.

Lynch has been one of the world's top stock pickers for years, and when others were remaking their portfolios so they could profit from the ways the pandemic remade business and technology, Lynch had already done it as a result of his approach.

Lynch, who also runs the Counterpoint Global stock-picking business at Morgan Stanley Investment Management, says he makes a point of not over-relying on profitability and metrics.

"Companies that aren't as short-term profitable, people get concerned because they can't use conventional metrics in the short term to value them," he said in June. "People are much more focused on free cash flow and return on invested capital as metrics for analysis (than in the past)."

The result is that he doesn't mind investing in an unprofitable tech company if it's building something that has great potential. And while having cash on hand is important, what really matters is that a company has enough money to achieve its goals.

"They have scale advantages that they're developing because they're leaders in their categories," he said, citing Carvana and Wayfair as promising investments. "There tends to be a bias against companies earlier in their life cycle that are intelligently going through that process of investment today."

He also wants to see companies with strong equity ownership incentives and a positive culture.

"It's not easily measurable, but the culture of a company is also crucial because it can help companies seize their moments, build goodwill, and instill values that will help them in the future," he said.

Year-to-date return: 149.79%

Biggest holdings (as of Sept 30): 10x Genomics (5.3%), Fastly (4.9%), Twilio (4.9%), Veeva Systems (4.8%), MongoDB (4.7%)

What worked in 2020: While his ahead-of-the-curve investments in areas like technology, payments, e-commerce might look like an ideal post-pandemic portfolio, Lynch essentially created one in 2018 and 2019.

Zoom Video? Lynch added to several of his portfolios in 2019, and watched it skyrocket almost 500% in the last 12 months.

Other investments that have returned more than 200% for the Discovery portfolio include The Trade Desk, Square, Wayfair, Peloton, and Pinterest, and he's received a return of 100% or better from stocks including Carvana, Coupa Software, and Snap.

As a result, the Discovery fund returned roughly four times as much as its benchmark or the typical fund in its category this year. Other funds he co-manages were right on its heels.

What's ahead in 2021: Lynch spoke to Business Insider in June and said Coupa Software, Uber, and Shopify were some of his favorites. He said they have more potential than Big Tech at this stage.

"It's likely that their upside potential is somewhat capped in relation to some of the other ideas that are now larger positions in the portfolio," he said of large-cap tech stocks.

2. Brooke de Boutray, co-portfolio manager of the Zevenbergen Genea Fund

ZEVENBERGEN CAPITAL INVESTMENTS

The modus operandi at Zevenbergen Capital Investments is that they're forward-thinking.

They were founded on that very principle in 1987, after Nancy Zevenbergen decided her colleagues in banking weren›t willing to look to the future like she was, costing them investment opportunities.

Naturally, then, ZCI's funds are filled with technology firms providing products and services for tomorrow's world.

In other words, 2020 couldn't have been better for their holdings.

Their Zevenbergen Genea Fund – managed by **Brooke de Boutray**, Joseph Dennison, and Leslie Tubbs – reaped the benefits of the stay-at-home environment with holdings like Zoom Video Communications, Amazon, and Zillow.

Year-to-date return: 114%

Biggest Holdings (as of 9/30): Tesla (8.3%); Zoom Video Communications (6.2%); Amazon (6.1%).

What worked in 2020: "It's really a continuation of the themes we've invested in for over a decade. So we're very much interested in companies that are tech-enabled, and many of the trends that we were excited about, and continue to be, have to do with the digital transformation.

"And it's very common now because the outperformers tend to be those that had positions in those trends – ecommerce, and the digitization of payments, and medicine. And COVID really just accelerated all those trends and really changed the way we live and forced companies to digitize.

What's ahead in 2021: "We're very much a bottom-up research company, so we take a really long-term approach, and we look for companies that are disruptive, that have significant growth, and are operating in very large total adjustable markets. So we still have strong convictions, and the names that will make up our top holdings will be the names that made up our top holdings in 2020.

"For instance, I think that Tesla will continue to be a significant holding for us in 2021, and I say that because it meets all that criteria. It has multiple areas of growth, very large total addressable markets – transportation, energy, insurance – and it's profitable and growing very rapidly. And it's got an amazing entrepreneur at the helm: Elon Musk."

3. Cathie Wood, portfolio manager of the American Beacon ARK Transformationl Innovation Fund

ARK Invest

Cathie Wood is the CEO and chief investment officer of ARK Invest.

In a tumultuous coronavirus-ravaged year, Cathie Wood, CEO and founder of ARK Invest, was firing on all cylinders.

"I've never worked harder but I've never enjoyed it more," Wood said. "The days go so fast. My time is videos and calls, half an hour at a time."

"It used to be an hour at a time and it used to involve travel, so my productivity has probably gone up three- to four-fold," she added.

Wood's efforts have paid off. Not only is she managing five outperforming active ETFs, she is also at the helm of the $821.8 million American Beacon ARK Transformational Innovation fund, which had returned a whopping 113% this year as of November 25.

Wood seeks to discover and invest in disruptive companies engaged in five innovation platforms: DNA sequencing, robotics, energy storage, artificial intelligence, and blockchain technology, which have all "hit escape velocity" coming out of the COVID-19 crisis.

"There's no turning back," she said. "Innovation is all about making activities cheaper, faster, better, and more creative. Once the momentum starts, it's hard to stop."

Year-to-date return: 103.3%

Biggest holdings (as of 9/30): Tesla (11.07%), Square (6.72%), Invitae (6.34%), Roku (5.12%), Zillow (4.18%)

What worked in 2020: "The COVID crisis highlighted how important innovation is to solving the world's problems, and the world had a lot of problems before COVID and we still do. So many trends that were well in place before the COVID crisis have gained so much more traction. Because of that, our companies have outperformed significantly.

"What I love about our portfolios is that while Tesla has been a very nice contributor this year, we have had Square, Roku, and Invitae. Those are very different kinds of stocks: Square is a digital wallet, Roku is really the streaming TV operating system, and Invitae is a molecular diagnostic testing company.

What's ahead in 2021: "I am stunned at how big gaming as entertainment is becoming and how social networks are starting to form around gaming. I have a feeling that the gaming world is going to provide a lot of upside surprises.

"I think Republicans will win the Senate runoff in Georgia and I think that's what the markets still say. If it turns out that that assumption is wrong, then I do believe we would probably be facing capital-gains tax increases, which would be negative for the market and negative for innovation.

"I'm not worried about the short term even if there were a capital-gains tax hike, because I think corporations would have to move even faster towards innovation because they'll be trying to offset the tax increases with cost cuts elsewhere. But I would be fearful that innovation would start to leave our shores in the United States and migrate elsewhere in terms of launching pads."

4. Gary Robinson, portfolio manager of the Baillie Gifford US Equity Growth Fund

BAILLIE GIFFORD

Gary Robinson, with co-managers Tom Slater, Kirsty Gibson, and Dave Bujnowski, is looking for stocks that will become the outliers.

"What we're looking to identify are, let's say a small number of exceptional growth companies in America," he said. "And then, when we find these companies, we want to hold onto them for long periods of time to capture the upside that's inherent in their business models."

Robinson credits the fund's success to a staunch adherence to a few key principles:

1. A long-term time horizon

When Robinson is sizing up a potential purchase, he and his fellow managers try to envision what the next 5-10 years look like. The focus on the long-term translates into low portfolio turnover. Since the fund launched in August of 1997, Robinson says that turnover has averaged "into teens."

2. Active management

"If you want to beat the index, you have to be willing to be different from it," he said.

3. Growth is at forefront

Robinson and co. are trying to identify what they call "exceptional growth companies." He notes that throughout history, only a small number of companies have contributed the lion's share of stock market returns.

The notion of an "exceptional growth" company rings through every facet of Robinson's analysis. If he and his fellow managers don't think they can make 2.5 times their initial investment within 5 years time, it's likely they'll look elsewhere.

But what makes a company exceptional?

Interestingly enough, Robinson says they all share common characteristics. Although each company clearly has its idiosyncrasies, Robinson's identified three characteristics that seem to be common threads: large market opportunities, the potential to maintain competitive advantages, and bold, founder-CEO-led cultures.

Year-to-date return: 94.52%

Biggest Holdings (as of 9/30): Tesla (10.63%), Amazon (9.49%), Shopify (8.64%), Wayfair (6.37%), The Trade Desk (4.23%)

What worked in 2020: "What we've seen in 2020 is, in some ways, it's a continuation of your structural trends that have been playing out for years. So, we had the shift from offline to online shopping, the shift to more remote work, the shift from people seeing the doctor in person to telemedicine. So these were trends that were already underway. But they accelerated them on the back of the pandemic."

What's ahead in 2021: "Even in the more mature sectors, over the last decade, you've had huge disruption and sectors of the economy like retail and advertising, where you had the emergence of these mega platforms. And you've seen the value creation opportunities for companies on the right side of that change. And you've seen the dislocation for companies that have been on the wrong side of that change.

"I think what's interesting is that even in those more mature sectors, it's still relatively early and still a lot of growth to go for."

5. Ron Baron, portfolio manager, Baron Partners Fund

BARON FUNDS

Billionaire investor **Ron Baron** was one of the most successful fund managers of 2020, thanks in part to another huge return on his Tesla investment. Baron Funds

Ron Baron and the fund managers at his firm are known for a detailed and high-conviction process. The Partners Fund, for example, held only 29 companies at the end of the third quarter of 2020 and had just 8% annual turnover.

Baron and his firm's managers make a point of getting to know businesses extremely well before investing. The hardest part of that, he said in an email, is "obtaining conviction in a businesses' prospects based upon meeting with and speaking regularly with executives of businesses in which we have investments."

That got harder in 2020 as Baron and his managers had to interview new executives through Zoom calls. But this year it doesn't seem to have affected their results because almost all of those recent and long-time investments worked.

Baron says he's always trying to invest in change and disruptive businesses, and the "best opportunities are available during turbulent times."

Year-to-date return: 84.88%

Biggest holdings (as of Sept 30): Tesla (45.2%), CoStar Group (13.3%), Idexx Laboratories (6.6%), Zillow Group (5.83%), FactSet Research (4.89%)

What worked in 2020: In a word, Tesla, which occupies a dominant position in the fund at 45% thanks to a combination of Baron's belief in the company and its explosive gain over the last year.

The automaker might be the ultimate momentum stock for better and worse, but in 2019 and 2020, investors have gained a new measure of confidence in its future sales and profitability. That's brought big rewards for Baron, who has been investing in the company since 2014.

The fund also logged strong returns from a handful of post-pandemic investments including Dutch payments company Adyen and e-commerce platform company Shopify, while a 2014 investment in online real estate listing company Zillow more than doubled in value over the last year.

What's ahead in 2021: The Partners Fund and other Baron funds maintained their investments in economically sensitive companies like ski resort operator Vail and the Marriott and Hyatt during the downturn on the expectation that things will turn around for them.

Baron has championed Tesla for years and says people are seeing him as "the Tesla guy" because of his advocacy for the company. He has no problem with it.

"My goal next ten years is for people to also call me the 'SpaceX guy' when they see me," he said. "Expect to make more than 30x our investment in that business over next ten years in that privately owned Elon Musk company."

6. Garvin Jabusch and Jeremy Deems, co-managers of the Shelton Green Alpha Fund

SHELTON GREEN ALPHA FUNDS

Speak with Colorado-based **Garvin Jabusch** and **Jeremy Deems**, and you'll realize they're not your standard fund managers.

You might discover, for example, that they're big fans of Taylor Swift. Or that, according to Deems, Jabusch used to bench press several reps of 405lbs during what Jabusch describes as his "meathead" phase.

Good friends working together now since 2001, they're a compatible pair.

And this year has been proven to be eminently compatible with the holdings of their Shelton Green Alpha Fund.

Their investing philosophy is framed around buying into companies working to come up with innovative solutions to society's biggest problems, such as climate change.

But their exposure to these types of firms ranges across a variety of market sectors – including the biopharmaceutical industry.

That paid off big for them in 2020 – with Moderna as one of their biggest holdings – as the COVID-19 outbreak wreaked havoc on the world and companies and governments raced to find a vaccine.

Year-to-date return: 74.66%

Biggest Holdings (as of 9/30): Vestas (7.14%), Tesla (6.83%), Brookfield (5.75%), Moderna (5.41%)

What worked in 2020

Jabusch:

"What are the big system-level that we're looking to solve with our companies. Well, of course the climate crisis is the granddaddy of them, but there's also resource degradation, there's worsening inequality, and there is of course the terrible human disease burden. And I don't just mean pandemics, although that clearly is a thing.

"And so the things that are addressing those risks that have been the most innovative have been our best contributors this year. So if you look at year-to-date, you can see that our second-highest contributing holding, not even our second-highest weight, has been Moderna."

What's ahead in 2021

Deems:

"So honestly the only thing that's going to change is we might find something that's disrupting an innovation that we already hold today, and we may change our mind on what we think is going to be the winner in that particular area. That's really what the point of our research is, to do two things: to find companies we haven't looked at yet, in spaces that we already expect important disruption; and then two, we want to make sure the holdings we do have are still the leaders."

Jabusch:

"You're going to continue to see the solutions to problems just gobbling up market share from the causes of the problems. Wind is just going to keep stealing away the market share from coal, and that's not only because it's economically superior in terms of being cheaper to make electricity, but also because it's helping to mitigate the climate crisis."

7. Alex Ely, portfolio manager of the Delaware Small Cap Growth Fund


DELAWARE FUNDS

Ely got into the mutual fund business right out of college and joined Macquarie Investment Management in February 2016 as part of the firm's acquisition of Bennett Lawrence Management.

"They brought us over due to the performance of our Small Cap Growth Fund; that fund has beaten the index by over 200% over the last 10 years," Ely recalled. "So while we've added value this year, we've been doing it for years and years."

While experience counts when it comes to finding and investing in disruptive companies ahead of the competition, Ely reveals that being a parent who's open to listening to his kids has paid off even more.

"I have kids that range from teenagers to low 20s and it's been a fantastic experience learning from them," he said. "Whether it's the way they bank or the way they meet people, or the way they communicate, or the products that they like, we've had lots of ideas that have been sourced over time from what our kids have done."

One example is Boston Beer (SAM), whose popularity of Truly Hard Seltzer among young people was noticed by Ely while on a parent's weekend at his son's college.

"He was saying that more and more people were drinking it because they liked the taste better than beer," he said. "So that was one of the reasons that we started looking more and more at Boston Beer, and it's been a terrific holding for the team."

With $114.3 million in assets, the small fund has notched big gains by investing in companies whose sustainable growth translates into better fundamentals and stronger earnings, Ely said.

Year-to-date return: 70.72%

Biggest holdings (as of 9/30): iRhythm Technologies (4.24%), TopBuild (4.21%), Invitae (4.10%), Pacira BioSciences (4.03%), Bill.com (3.96%)

What worked in 2020: "An easy way to summate it is that what we've been experiencing for years is the digitalization of almost all consumer and business activities. We've been invested in these areas for a long period of time, but many of these disruptions had been brought forward by the pandemic.

What's ahead in 2021: "We've expected value to outperform with the announcement of a vaccine. Many of those businesses are involved with crowds like cruise lines, airlines, theme parks, of course, that relates to the energy market, basic industry, and the financial world. So seeing those things bounce hasn't been a surprise.

"But longer term, we think growth is the best place to be. What we're seeing here is an acceleration of technological adoption rates throughout our economy and this digitalization of business and consumer activity has just begun, it just started in earnest within the US."

8. Gerald Sparrow, lead manager of the Sparrow Growth fund

SPARROW CAPITAL MANAGEMENT

Gerald Sparrow is no stranger to the list of top-performing fund managers, as his eponymous growth fund outperformed its way into the ranks in 2018.

The fund manager attributes his success to a disciplined approach that focuses on proven financial models for stock selection while ignoring the market's daily noise. For example, he does not buy or sell stocks in between quarterly earnings announcements, no matter the volatility in price.

If there ever was a noisy year for the stock market, it was 2020. But Sparrow successfully navigated the year by focusing, in part, on the accelerated migration from brick-and-mortar-only businesses to e-commerce.

That explains why the biggest holding in his fund is Shopify, which rocketed 177% this year through Dec. 8.

When hunting for such ideas, Sparrow susses out stocks with positive earnings and revenue growth, improving fundamentals, strong balance sheets, and management teams that are shareholder-friendly.

Year-to-date return: 43%

Biggest holdings (as of 9/30): Shopify (3.36%), Carvana (3.22%), eXp World Holdings (2.76%), Coupa Software (2.48%), Netflix (2.39%)

What worked in 2020: "The exciting explanation is that we're picking growth stocks that are doing well and are stealing market share from the competitors. For example, if you look at a company like Square, ... the US economy is growing at 3% and Square's growth rate is 40%. So it's more than 10 times the average growth rate.

What's ahead in 2021: "I can tell you that based on what we're seeing and what's coming into our model ... gaming companies, betting companies, gambling companies, that space. Also solar and electronic vehicle technology, those types of companies, and natural gas companies."

For more information on Delaware Small Cap Growth Fund, including standard performance, top 10 holdings information, and how to obtain a prospectus, click here. For a complete list of the Fund's holdings, click here.

Past performance does not guarantee future results.