DEAR BARON FIFTH AVENUE GROWTH FUND SHAREHOLDER:

PERFORMANCE

We had a strong quarter to finish up a great year.

Baron Fifth Avenue Growth Fund® (the Fund) was up 17.6% (Institutional Shares) in the fourth quarter, which compared favorably to the 14.2% gain for the Russell 1000 Growth Index (the R1KG) and the 11.7% gain for the S&P 500 Index, the Fund's benchmarks.

For the year, the Fund finished up 57.6% compared to gains of 42.7% and 26.3% for the benchmarks, respectively.

Table I.
Performance†
Annualized for periods ended December 31, 2023

	Baron Fifth Avenue Growth Fund Retail Shares[1,2]	Baron Fifth Avenue Growth Fund Institutional Shares[1,2,3]	Russell 1000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	17.54%	17.61%	14.16%	11.69%
One Year	57.20%	57.58%	42.68%	26.29%
Three Years	(4.87)%	(4.62)%	8.86%	10.00%
Five Years	11.65%	11.93%	19.50%	15.69%
Ten Years	10.75%	11.04%	14.86%	12.03%
Fifteen Years	13.20%	13.48%	16.68%	13.97%
Since Inception (April 30, 2004)	8.99%	9.19%	11.51%	9.86%

ALEX UMANSKY
PORTFOLIO MANAGER

Retail Shares: BFTHX
Institutional Shares: BFTIX
R6 Shares: BFTUX

U.S. large-cap growth equities had a strong bounce-back year in 2023. The Russell 1000 Growth Index had its *strongest performance in its history with a 42.7% return*. The year began with continued doom and gloom amid the unrelenting Fed continuing its historical tightening cycle, the ongoing recession debate, the geopolitical uncertainties, and the poor investor psychology following a 29.1% drawdown the year before, the worst decline experienced since the Great Financial Crisis of 2008. But for some reason stocks stopped going down. Restructuring announcements and mild guide downs were cheered by analysts and investors alike and the Index ended the first quarter with a 14.4% gain. It was more of the same in the spring and early summer as the Fed signaled that its interest rate hikes were likely coming to an end and the Index rose an additional 12.8%. The fall brought a realization that a stronger economy with a lower probability of recession meant interest rates were going to stay *higher for longer*, and the Index

Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail and Institutional Shares as of September 30, 2023 was 1.06% and 0.78%, respectively, but the net annual expense ratio was 1.01% and 0.76% (net of the Adviser's fee waivers, comprised of operating expenses of 1.00% and 0.75%, respectively, and interest expense of 0.01% and 0.01%, respectively). 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 Fund expenses pursuant to a contract expiring on August 29, 2034, 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 baronfunds.com or call 1-800-99-BARON.

† The Fund's 3- and 5-year 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.

1 The **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. The Fund includes reinvestment of dividends, net of withholding taxes, while the Russell 1000® Growth Index and S&P 500 Index include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Performance for the Institutional Shares prior to May 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 May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

BARON FUNDS 1987

pulled back 3.1% in the third quarter. But then, lower inflation data and investor focus shifting to rate cuts caused the Index to finish with a bang and a 14.2% quarterly gain to end the year.

The Fund performed better on the way up with quarterly gains of 19.7%, 16.0%, and 17.6% and basically held its own in the one down quarter with a 3.5% decline, for a total return of 57.6% on the year. While we are happy with this result and the significant outperformance versus our benchmarks, it came on the heels of a terrible 2022. When we combine the results of the two years, the Fund is still down almost 22% on a cumulative basis, while the R1KG has recovered all of its losses and is up 1.1%. So, we recognize that this is a good start, but we have much more work ahead of us.

From a quarterly performance attribution perspective, results were driven entirely by stock selection, which drove 349bps of the 345bps outperformance. Selection effect was strongest in Information Technology (IT) where everyone of our investments was up double digits, with 7 of the 13 holdings gaining at least 30% each, and in Financials, where **Block** and **Adyen** gained over 70% each, recovering from large declines earlier in the year. This positive performance was partially offset by poor relative performance in Health Care, Consumer Discretionary, Communication Services, and Industrials. We did not have many significant quarterly detractors. Leading immunology company **argenx** failed a clinical trial and saw its stock pull back by 22.6%, while shares of the autonomous driving company **GM Cruise** were revalued significantly lower following the well-publicized debacle in San Francisco costing the Fund 71bps and 52bps, respectively.

For the full year, the Fund's 1,490bps of outperformance was driven mostly by stock selection, which was responsible for 1,039bps of outperformance, while sector allocation effect contributed 447bps. Once again, IT was our most productive sector, driving 904bps of outperformance, followed by Consumer Discretionary, which drove another 406bps. Stock selection across our top three sectors was responsible for most of the relative gains, with returns of 82.7% in IT, 74.6% in Consumer Discretionary, and 68.2% in Communication Services. These returns significantly outpaced the 64.9%, 52.7%, and 64.7% returns for these sectors, respectively in the R1KG. We also benefited from not having investments in Consumer Staples, Energy, Real Estate, and Utilities, which were the worst four sectors in the Benchmark in 2023. Our strong performance was partially offset by poor stock selection as well as our overweight to Financials and Health Care, which cost us 249bps in relative returns.

From a stock-specific perspective, we benefited from both a high batting average and an excellent slugging percentage. The Fund had 24 contributors against only 7 detractors. More importantly, a staggering 16 out of the 24 contributed over 100bps each, while 10 of those contributed over 200bps each. **NVIDIA**, **Amazon**, **Meta**, **Shopify**, and **ServiceNow** were all up over 80% and added over *500bps* each to absolute gains. **MercadoLibre**, **Cloudflare**, and **Atlassian** were our other 80% – plus gainers, while Meta, **CrowdStrike**, Shopify, and **Tesla** were all up over 100%, with **NVIDIA** up a cool 239%. Among the 7 losers, only **ZoomInfo** cost us over 100bps, while **EPAM**, **Illumina**, and GM Cruise cost between 50bps and 100bps each.

The last two years proved to be extremely volatile for equity investors. We have long argued that while stock prices can experience violent moves up and down, the change in business fundamentals tends to be much more gradual. Clearly, over the last two years our businesses did not lose 50% of their *intrinsic values* in 2022, nor did they increase by 58% in 2023, even though that is what their stock prices did. Competitive advantages rarely if ever expand and erode suddenly, but rather evolve slowly over time. Brand name, company culture, and an ability to innovate and iterate are built and developed over many years. As growth continues and compounds over time, the economic value of solving more problems for customers becomes more apparent and visible. As long-term investors we continue to monitor and evaluate our companies' fundamentals – both quantitative and qualitative. We have a lot of conviction that over time, stock prices will reflect these realities.

We think it is important to differentiate between stock market volatility and the risk of a permanent loss of capital. While most investors define risk as volatility, we are not convinced that trying to manage or even mitigate the effects of market volatility is a worthwhile exercise. We believe that long-term investors should be optimizing for highest capital appreciation over time, while minimizing probability of permanent losses of capital, very much akin to the way we expect our management teams to allocate capital in the businesses that they manage. We believe it is impossible to accurately predict the direction of the market with any consistency and, therefore, we are not willing to forgo the potential long-term upside in the values of our businesses for a chance to mitigate temporary losses during corrections or bear markets. We are however, not shy about taking advantage of the opportunity that these market corrections present as we did in 2022.

So how would we assess the performance of our businesses in 2023?

Towards the latter part of 2022, it had become apparent that the broader economic uncertainty was impacting business fundamentals even in the most resilient companies. As customer focus shifted to cost cutting, sales cycles lengthened, and deal closure rates declined significantly. Digital transformation companies like **EPAM** and **Endava** experienced it earlier as projects got delayed and pushed out. We may have overestimated how high these projects were on their customers' priority lists – at least during the times of severe budget constraints and economic downturns. Similarly, companies with consumption-based business models, like **Snowflake**, **Datadog**, and even **Amazon**'s Web Services (AWS) saw the impact of lower usage by their customers translate immediately into lower revenue growth. Even though this trend clearly continued into early 2023, stock prices stopped going down and, in many cases, started moving up as the sentiment changed that this is likely as bad as it is going to get. Towards the middle of the year, many of our companies started reporting stabilization and some have seen improvement in short-term business fundamentals. As the year progressed, it became clear that many of those customers were moving towards the final stages of their optimization processes. And then at some point in the second half investors woke up to the inflection of generative artificial intelligence (GenAI), which created a new and possibly robust demand driver for digitization and the adoption of the cloud.

The following table summarizes the change in consensus expectations for 2024 revenues, operating income, and operating margins for the portfolio throughout the year,[1] which shows this broad stabilization trend (especially later in the year):

Change in expectations at the Portfolio level

	1st Half of 2023	1st Half of 2023 excluding NVIDIA	2nd Half of 2023	2nd Half of 2023 excluding NVIDIA	4Q23	4Q23 excluding NVIDIA	2023	2023 excluding NVIDIA
Revenues	1.3%	(4.5%)	6.7%	(0.3%)	0.9%	(0.7%)	11.8%	(4.5%)
Operating Income	7.5%	(2.2%)	22.8%	12.5%	18.9%	18.4%	39.8%	10.0%
Operating Margins	+113bps	+19bps	+294bps	+92bps	+80bps	+40bps	+294bps	+92bps

We believe it is worthwhile to look at the weighted average multiple of the portfolio to assess the extent to which stock prices have moved due to the changes in fundamentals as compared to exogenous factors, such as interest rates and investor psychology. After the weighted average multiple of the Fund declined a breath-taking 53% in 2022, it has only recovered by 24% in 2023,[2] which gives some reason for optimism, going forward.

Table II.
Top contributors to performance for the quarter ended December 31, 2023

	Quarter End Market Cap (billions)	Percent Impact
Shopify Inc.	$ 100.2	2.27%
ServiceNow, Inc.	144.8	2.03
Amazon.com, Inc.	1,570.2	1.85
CrowdStrike Holdings, Inc.	61.3	1.79
NVIDIA Corporation	1,223.2	1.67

Shopify Inc. is a cloud-based software provider for multi-channel commerce. Shares rose 42.8% in the fourth quarter (and finished the year up 124.7%) on strong financial results with growth in gross merchandise value of 22% year-over-year, revenue growth of 25%, and non-GAAP operating margins surpassing 15% (up 1,900 bps year-over-year). The company also hosted a well-attended Investor Day in which it shared a variety of data points showcasing growing success in new segments in which it historically has been less well known, such as enterprise, B2B, and offline commerce. The company's continuously improving product, revamped go-to-market strategy, and the lapping of the large COVID cohorts also helped the company add more merchants to its the platform in the last year than in the prior two. Existing Shopify merchants also continue to outperform the market, which supports continuous market share gains. Lastly, the company provided data on the rapid adoption of new offerings, with its emerging products category growing at a 71% CAGR since 2019. We remain shareholders due to Shopify's strong competitive positioning, innovative culture, and long runway for growth, as it still holds less than a 2% share of the global commerce market.

ServiceNow, Inc. offers cloud-based solutions that improve workflow efficiency through automation and digitalization. The stock rose 26.4% in the fourth quarter, finishing the year up 82.0%. Stock appreciation was supported by strong quarterly results above expectations with 24.5% year-over-year subscription revenue growth in constant currency and 30% non-GAAP operating margins despite ongoing macro complexities. In addition, the stock benefited from growing investor expectations that the company would benefit from the integration of GenAI technology into its products, and a rise in software stocks more broadly. Management noted that key business drivers included strong traction with government customers, improving momentum with new customers, and budget consolidation into platforms like ServiceNow. In addition, the company launched its GenAI-supported product line, sold under a new higher-priced Pro Plus sku, at the end of the quarter and has already signed on multiple customers with hundreds more in the pipeline. The new product line should generate material efficiencies for customers as it improves their ability to automate and digitize, and hence we expect broader adoption of the Pro Plus sku, creating an additional growth engine for ServiceNow, supporting the company's long duration of growth.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were up 19.5% in the quarter and finished the year up 80.9%. Reported quarterly results were better than consensus estimates with 11% year-over-year revenue growth in constant currency, a significant beat in North American operating profit as operating margins reached 4.9% and a recovery in the cloud division, AWS, which grew 12% year-over-year and management reported that the impact of customer optimizations was attenuating. We believe that AWS has many years of growth ahead as IT budgets continue switching from on premise to the cloud and as Amazon remains the clear leader in the market, with large incremental opportunities in application software, including enabling GenAI workloads. We also believe Amazon is well positioned in the short-to-medium term to further improve core North American retail profitability to above pre-pandemic levels, benefiting from its new regionalized fulfillment network and its growing margin-accretive advertising business. Longer term, Amazon has substantially more room to grow in e-commerce, where it has less than 15% penetration of the total addressable market.

1 Note that NVIDIA has seen a very significant positive inflection in its business and hence it's also worth looking at the portfolio's short-term result excluding the company. Similarly, Shopify was excluded from the change in operating income due to its overwhelming impact on the Fund's overall weighted average since its operating income expectations for 2024 have increased by over 7 times between year-end 2022 and year-end 2023.

2 We use P/E multiples for all stocks that had P/E ratios below 100 times (and positive) to start the year and EV/Revenues for all others. Note that using a P/E multiple for Shopify, which saw a dramatic inflection in profitability this year, would have reduced the total P/E expansion for the Fund to only 13%. We also calculate the weighted average based on the holding weights as of 12/31/2023.

Table III.
Top detractors from performance for the quarter ended December 31, 2023

	Quarter End Market Cap (billions)	Percent Impact
argenx SE	$22.5	–0.71%
GM Cruise Holdings LLC	–	–0.52
The Trade Desk	35.3	–0.41
Rivian Automotive, Inc.	22.5	–0.33
Veeva Systems Inc.	33.8	–0.21

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares fell 22.6% in the quarter, though they still closed the year up 0.8%, on the back of failed clinical trials in immune thrombocytopenic purpura and pemphigus vulgaris that called into question the breadth of FcRn treatment applicability. While the exact nature of these data sets is nuanced and not thesis-breaking, in our view, there are now real questions for the FcRn space that have not existed in the narrative for years. On the positive side, the strong launch of Vyvgart, with early sales tripling consensus expectations and global approvals coming earlier than guided, should continue to drive revenue growth and justifies a defensible valuation based on cash flow analysis. We expect 2024 to be another year of solid performance, with many catalysts including readouts in myositis, Sjogren's syndrome, multifocal motor neuropathy, and argenx's subcutaneous formulation launch. We believe that positive readouts within those trials and others would expand argenx's opportunity set and therefore remain shareholders.

GM Cruise Holdings LLC offers autonomous driving software and a fleet of vehicles aimed at reducing costs and improving the safety of transporting people and goods. We marked down the stock after the company lost its autonomous operating license in California. Despite achieving significant milestones over the past year, including completing millions of fully autonomous miles with passengers in various states and cities, an October incident involving a pedestrian in San Francisco prompted the California DMV to rescind the company's license. The regulator cited concerns about incomplete incident information disclosure. Consequently, this triggered a near-complete cessation of operations and key management changes at Cruise, as General Motors, the majority shareholder, charts a new course for the organization and its capital needs. While we strongly believe the life-saving technology achieved through the autonomous revolution holds immense value for both investors and society at large, the path to recovery for Cruise remains uncertain at this juncture, which is reflected in our valuation framework.

The Trade Desk is the leading internet advertising demand-side platform, enabling agencies and companies to efficiently buy and track digital advertising across desktop, mobile, online video, and connected TV (CTV) channels. Shares were down 8.0% in the fourth quarter, though they still finished the year up 59.1%, after the company guided fourth quarter revenue growth of 18% year-over-year. This was as a result of heightened macro uncertainty impacting advertising budgets early in the fourth quarter particularly in the auto, consumer electronics, and media and entertainment industries, and despite the company noting an improvement in November. While guidance significantly outpaces competitors, suggesting that the Trade Desk is gaining market share, it was below consensus expectations and drove the share price action. We do not view this slowdown as structural and believe the company remains well positioned for 2024 and beyond, with strong tailwinds in CTV as more households continue to cut the cord and as more streaming services adopt and grow their CTV advertising businesses, while a growing proportion of advertisers adopt programmatic advertising. In addition, we believe that the company would benefit from growth in retail media, which enables connecting offline retail sales data with online digital advertising data, the adoption of the company's new platform, growth in audio, and more. Longer term, we remain positive on the company given its technology, scale, and estimated 10% share in the $100 billion programmatic advertising market, a small and growing subset of the $700 billion global advertising market.

Portfolio Structure

The Fund is constructed on a bottom-up basis with the quality of ideas and conviction level determining the size of each investment. Sector weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view."

As of December 31, 2023, our top 10 holdings represented 59.4% of net assets, and our top 20 represented 86.9%. This compares to weightings of 54.5% and 86.2%, respectively, at the end of 2022. We finished the year with 30 individual investments. IT, Consumer Discretionary, Health Care, Communication Services, and Financials made up 97.3% of net assets. The remaining 2.7% was made up of **GM Cruise** and **SpaceX**, our two private investments classified as Industrials, and cash.

The Fund's turnover was 11.6% in 2023, compared to an average turnover of 21.6% over the last three years, and an average turnover of 20.1% over the last five years.

Table IV.
Top 10 holdings as of December 31, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
NVIDIA Corporation	$1,223.2	$54.3	10.1%
Amazon.com, Inc.	1,570.2	43.7	8.1
ServiceNow, Inc.	144.8	38.5	7.1
Meta Platforms, Inc.	909.6	32.2	6.0
Shopify Inc.	100.2	32.0	5.9
Snowflake Inc.	65.5	26.8	5.0
Intuitive Surgical, Inc.	118.8	25.2	4.7
Tesla, Inc.	789.9	23.3	4.3
CrowdStrike Holdings, Inc.	61.3	22.5	4.2
MercadoLibre, Inc.	79.5	21.7	4.0

Recent Activity

During the fourth quarter, we bought one new investment – the leading software provider, **Microsoft**, which we believe has a high likelihood of becoming a key beneficiary of GenAI. We also added to five existing positions including continuing to build our newer position in the leading e-commerce platform in Korea, **Coupang**, while also adding to the financial services and point-of-sale software and payments provider, **Block**, the leading demand side advertising platform, **Trade Desk**, the cloud-based commerce platform, **Shopify**, and the leading Latin American e-commerce platform, **MercadoLibre**. Lastly, we reduced 12 existing positions and sold 1 – the B2B sales and data provider, **ZoomInfo** – reallocating to names in which we saw a more positively skewed long-term risk-reward equation.

Table V.
Top net purchases for the quarter ended December 31, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Microsoft Corporation	$2,794.8	$11.9
Block, Inc.	47.5	1.4
Coupang, Inc.	28.9	1.3
The Trade Desk	35.3	0.6
Shopify Inc.	100.2	0.4

Our biggest purchase in the fourth quarter was a new position we initiated in the software platform **Microsoft Corporation**. While we have owned shares of Microsoft in the large-cap core growth Baron Durable Advantage Fund, we have been reluctant to add Microsoft to this Fund for many years namely since we viewed it as a better fit for a post high-growth strategy. However, Microsoft's transformation under the helm of Satya Nadella has changed the company's trajectory as it went from a windows-centric, on – premises technology provider to one of the top two global cloud providers. Cloud now represents over 55% of total revenues and has been growing rapidly. Over time, Microsoft was able to build a $125 billion run-rate cloud business that is still growing at a rapid pace and continues to take market share, while becoming a more important driver for the company. For example, in the last quarterly earnings release, Microsoft Cloud grew 23% year-over-year in constant currency, significantly outpacing the company's 12% overall constant currency growth as well as the growth of its main competitors. A 23% growth rate at this scale essentially implies that Microsoft added a run rate of around $24 billion of cloud revenues year-over-year. Just to put this in perspective, $24 billion is nearly the size of **Mastercard**'s business, it is over 8 times **Snowflake**'s total revenue and is nearly 3 times **ServiceNow**'s total revenue. We continue to view cloud as early in its penetration opportunity – according to latest estimates from Gartner, global cloud spend is expected to be $564 billion[3] which still represents only 12% of the total $4.7 trillion worldwide IT spending.[4]

We also believe that Microsoft is one of the best competitively positioned large-cap companies with its vertically integrated software stack (infrastructure + applications), while the inflection in the adoption of artificial intelligence (AI) and GenAI represents potentially the biggest addressable market expansion for the company in recent history. We also view Microsoft's competitive positioning in AI as advantaged thanks to both the fact that it does not face an innovators dilemma in its core business (as compared with Alphabet's core search business, which could potentially be at risk due to GenAI). Microsoft also has a tight partnership with OpenAI, has a large proprietary data asset built over time, and has a go-to-market advantage through a vast and robust partner ecosystem and its significant installed base and product bundling opportunities. These should enable it to cross-sell its existing user base as AI becomes embedded into current and new products.

While businesses are early in their adoption of GenAI, Microsoft has shared various data points last quarter that point to broad interest by organizations in GenAI:

- 18,000 companies used Azure OpenAI in the September quarter, up from 11,000 in the prior quarter.
- M365 Copilot, Microsoft's productivity assistant that only went live on November 1, 2023, was used by 40% of Fortune 100 companies in early access (prior to going live).
- GitHub Copilot, an AI-based coding assistant, has passed the 1 million paid users milestone, with number of customers up 40% quarter-over-quarter.

M365 Copilot could become the next major franchise for the Office customer base of around 400 million business seats and 70 million consumer seats, which we expect to help power results for years to come. When Office 365 was released, it took approximately two years to reach 20% of the Office Commercial base, which we believe is a useful construct to think about the potential ramp for M365 Copilot. Ultimately, we believe every Office user will be a candidate to upgrade to Copilot over time as more enhancements are made to the platform and Microsoft employs its bundling strategies.

We continue to believe this will enable the company to continue taking share across its business and specifically in cloud and AI, driving a durable long-term double-digit growth profile for the business and best-in-class profitability. Lastly, we believe shares are reasonably priced for this high-quality franchise and what should be a year of accelerating revenue growth in fiscal 2024. The company can lap the easy comps from the cyclical consumer business, F/X headwinds are abating, and Azure continues to post upside to the conservative guidance and likely reaccelerates later this year as customer optimizations attenuate. We also expect Microsoft to invest prudently in the business, prioritizing rapidly growing segments, which should support continuous healthy double-digit EPS growth for years to come.

During the quarter, we also added to our existing investment in **Block, Inc.** The company provides a point-of-sale technology to small businesses and operates the Cash App ecosystem of financial services for individuals. After the company reported solid quarterly result, it has also guided to reach a rule of 40 on GAAP profitability for fiscal year 2026 (implying that the combination of gross profit growth and GAAP operating margins would be at least 40%). We believe Block's businesses are resilient, and greater management focus on cost discipline should drive further margin expansion over the long term. We also believe that Block has a long runway for growth, durable competitive advantages, and a robust track record of innovation.

We also took advantage of stock price volatility and slightly added to several existing positions:

- The Korean e-commerce platform, **Coupang, Inc.**, whose stock corrected during the quarter following a miss on EBITDA margins, which we don't view as structural. The company continues to gain market share while holding significant competitive advantages thanks to its robust delivery network.
- The demand side advertising platform, **The Trade Desk**, which also saw stock price volatility as a result of near-term slowdown in advertising spend by customers in several industries (see above), which we also don't view as structural.

Lastly, we modestly increased the size of our investment in the e-commerce platform, **Shopify Inc.**, which shared robust progress in expanding its platform both horizontally (to the enterprise segment, the B2B segment, and

[3] https://www.gartner.com/en/newsroom/press-releases/11-13-2023-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-679-billion-in-20240#:~:text=Worldwide%20end%2Duser%20spending%20on,Vice%20President%20Analyst%20at%20Gartner.

[4] https://www.gartner.com/en/newsroom/press-releases/2023-10-18-gartner-forecasts-worldwide-it-spending-to-grow-8-percent-in-2024

to international and cross-border markets) as well as vertically with incremental offerings (both internal and external through its robust ecosystem) while also rapidly expanding profit margins, increasing our conviction in the name.

Table VI.
Top net sales for the quarter ended December 31, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Mastercard Incorporated	$ 400.0	$8.5
ZoomInfo Technologies Inc.	6.0	5.4
EPAM Systems, Inc.	17.2	2.9
Datadog, Inc.	39.9	2.0
NVIDIA Corporation	1,223.2	1.3

Outlook

We continue to operate in an environment where an overwhelming majority of investors are hyper focused on the minute-by-minute news cycle. What is the incremental change? The reality is that this incremental change is very rarely of any consequence or materiality, yet many investors react to the change and stock prices move and pick up momentum in both directions. We work hard on trying to cut through the noise and focus on seeing the forest for the trees.

Seth Klarman, the famed value investor and CEO of the Baupost Group, once said that "Macro is like sports-talk radio. Anybody can do it." Debating whether the economy will grow 1% or 2% (or not at all), whether interest rates will stay at 5 ½% or go to 4 ½%, three rate cuts or six – is fun for equity investors. We do it for sport. But it is also so much more difficult than finding a company that is misunderstood and whose stock is mispriced where you can be wrong about a lot of things and still make an attractive return over the long term!

One of the biggest surprises of 2023 was the highly anticipated recession in the U.S. that has not materialized. While some were in the camp of hard landing and others were in the camp of soft landing, not many were in the camp of no landing… could that remain the case in 2024? When will the Fed start cutting rates? How aggressive will it be? What are the implications of the upcoming elections (*the S&P 500 has only declined twice in an election year since 1940*)?

Though we have a view on many of these questions, we do not have the answers. The range of outcomes continues to be extremely wide, creating a challenging environment for investors. But since we are not macro investors (or sports-talk radio hosts), we stick to focusing on well-managed, high-quality businesses with sustainable competitive advantages for the long term. We continue to speak with company management teams as often as we can, test our investment theses, look for disconfirming evidence, and measure how well our businesses are performing *fundamentally*.

Most of our portfolio companies have seen stabilization and modest improvements in short-term business fundamentals as the year progressed. More importantly in our view, many have been able to drive significant improvement in long-term Key Performance Indicators (KPIs) such as share gains, meaningful expansion of their total addressable market, and improvement in unit economics. These KPIs are significantly more important in driving the intrinsic values of our businesses, which we believe have increased noticeably during 2023. In the meantime, disruptive changes that we expect will benefit many of our businesses have also continued to pick up steam. Some examples include:

- The inflection in GenAI: While a company like **NVIDIA** is a clear beneficiary of GenAI, as its hardware and software solutions are used to train and run GenAI models, we believe that GenAI has the potential to benefit many of our other businesses as well. According to Accenture, a leading global IT service provider, enterprises are accelerating digitization trends in order to benefit from GenAI[5] and it remains early in that trend:

  "We estimate that less than 10% of companies have mature data and AI capabilities. This is a critical part of building the digital core, and we see this embedded in our larger transformations in work focused on data and AI modernization and in the opportunities of Generative AI."

  This trend should be a tailwind for many of our businesses that enable or benefit from digitization such as the cybersecurity platform, **CrowdStrike**, the infrastructure and application monitoring platform, **Datadog**, the data platform, **Snowflake**, or the digital IT service provider **Endava**. We also believe that GenAI offers an opportunity for leading platforms such as **ServiceNow** to effectively increase the monetization of their software platforms by embedding AI solutions into their existing products, which could significantly increase the value of their solutions for customers and hence enable incremental monetization for the platform. ServiceNow for example, which officially introduced its GenAI offering 1 day prior to the close of its third quarter, commented during its latest earnings conference call that *"AI is injecting new fuel into our already high-performing growth engine"* and that *"Gen AI products drove the largest net new ACV (Annual Contract Value) contribution in the first full quarter of any of our new product family releases ever"*. Its GenAI offering is sold through its Pro Plus sku, which has a list price that is 60% higher than the Pro sku, which itself is price 25% above the regular sku.

- Market share gains: Many of our companies have been reporting on customer consolidation trends and rising win rates against competitors. In its their most recent quarterly conference call, Datadog described a customer who replaced seven different tool providers with the Datadog platform and another one who replaced a dozen different tools and moved to Datadog. Another example is the leading cloud networking and cybersecurity solution provider, **Cloudflare**, who described market share gains and customers consolidating from multiple point solutions to Cloudflare's platform:

  "And so we're the one vendor that is able to give people that vendor consolidation, that single pane of glass… that comes through in a lot of customer examples.… people want to buy the entire Cloudflare platform. They want to protect their entire business with that, and that's driving more interest in both our network security, as well as our Zero Trust products."

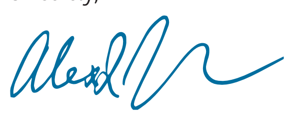
[5] Accenture's fiscal first quarter 2024 earnings conference call.

- Rapid innovation velocity: Innovators set themselves apart from competitors, while lengthening revenue growth runway. The leading commerce platform, **Shopify**, is a great example. Over the last year, despite announcing a 23% reduction in its workforce, the company was able to accelerate innovation as it improved its offering for large enterprise merchants (driving a 38-to-1 win-loss ratio for enterprise merchants), B2B merchants, and merchants with brick-and-mortar stores. In addition, the company deepened and improved a variety of merchant solutions while also enhancing third-party development capabilities through solutions such as Shopify Functions, which enable customization of Shopify's software.
- Improving unit economics: Many of our companies were able to significantly expand margins during 2023 even though revenue growth decelerated for some of them, showcasing the power of their capital-light, recurring revenue business models, and their increased focus on efficiency. One public example that was at least partially responsible for driving other companies (especially in IT) to become more efficient is X (formerly Twitter), which reduced headcount by a whopping 80% after Elon Musk's acquisition, despite growing user engagement. Another well-known example is **Meta**, for which cost controls and margin expansion this year have been a key reason behind the stock's outperformance (Mark Zuckerberg called 2023 the year of efficiency). Other less well-known examples include the commerce platform, Shopify, which is expected to expand its operating margins from breakeven to 10.9% in 2023 thanks to the sale of its money-losing logistics business, and a 23% reduction in its workforce. What is even more impressive is that the company was able to accelerate innovation velocity (with a lower headcount) as well as improve sales and marketing productivity. Another example is the cybersecurity platform, CrowdStrike, which is expected to increase its operating margins from 15.9% in 2022 to 20.8% in 2023 as a result of growing efficiencies, while the company's platform offering is resonating with an increasing number of customers (for example, deals with eight or more modules grew 78% year-over-year in the last quarter), which is a tailwind to sales productivity.

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve rate changes, ongoing trade disputes, government shutdowns, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day and seem to drive them up or down the next. We often find it difficult to know why market participants do what they do over the short term. The constant challenges we face are real and serious, with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create.

We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities while remaining patient and investing only when we believe target companies are trading at attractive prices relative to their intrinsic values.

Sincerely,



Alex Umansky
Portfolio Manager

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Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk. There is no guarantee that these objectives will be met.

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Price/Earnings Ratio (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. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.

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