Dear Baron Fifth Avenue Growth Fund Shareholder:

Performance

We had a good start to the year.

Baron Fifth Avenue Growth Fund® (the Fund) gained 12.6% (Institutional Shares) during the first quarter, which compares favorably to gains of 11.4% for the Russell 1000 Growth Index (R1KG) and 10.6% for the S&P 500 Index, the Fund's benchmarks.

Table I.
Performance†
Annualized for periods ended March 31, 2024

	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]	12.54%	12.62%	11.41%	10.56%
One Year	47.92%	48.30%	39.00%	29.88%
Three Years	(0.50)%	(0.24)%	12.50%	11.49%
Five Years	10.48%	10.76%	18.52%	15.05%
Ten Years	12.04%	12.32%	15.98%	12.96%
Fifteen Years	14.81%	15.10%	17.85%	15.63%
Since Inception (April 30, 2004)	9.52%	9.72%	11.97%	10.29%

ALEX UMANSKY

PORTFOLIO MANAGER

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

U.S. large-cap equities was the place to be in early 2024. Picking up right where we left off last year, the Fund gained 3.0% in January and was up 11.3% by the end of February, and 12.6% at the end of March. The gains were largely driven by a robust U.S. economy, which continues to outperform expectations despite the higher interest rate environment. Real GDP grew 3.4% in the fourth quarter while the unemployment rate remained stable at 3.8%. The outperformance of large caps was driven by the *Magnificent Seven* – **Alphabet**, **Amazon**, **Apple**, **Meta**, **Microsoft**, **Tesla**, and **NVIDIA** – which continue to be the biggest drivers of the R1KG's results. These seven companies now account for 48.1% of the R1KG and were up 13.2% during the quarter, driving 54.9% of the R1KG's overall return. Their performance, however, was far from uniform, with Apple and Tesla down double digits, while NVIDIA (up 82%), and Meta (up 37%) drove 85% of the overall return for the group.

From a performance attribution perspective, the Fund's 121bps of outperformance versus the R1KG was driven entirely by stock selection, which was responsible for 154bps of outperformance, while sector allocation detracted 34bps from relative returns. The strongest performing sectors were Information Technology (IT), Communication Services, and Financials, which contributed 401bps combined to our relative results. This was partially offset by our holdings in Consumer Discretionary, which cost

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), 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 waives and/or 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

us 272bps. Other than Utilities, which was the best sector in the R1KG, up 24.1%, Communication Services was the next best sector, up 17.3%. The Fund's holdings in Communication Services outperformed and were up 33.8%, driven by a combination of improving fundamentals and to a lesser degree multiple expansion, up 13.3% during the quarter.[1] Revenue expectations of our holdings within the sector were up 3.6% during the quarter, with operating income expectations up 10.6%.[2]

Our second best sector during the quarter was IT, which was up 17.0%, outperforming the 12.7% rise of IT stocks in the R1KG. Outperformance was driven by a combination of multiple expansion, which contributed 12.3%, as well as improving fundamentals. Under the hood, the strong results were driven mostly by our semiconductors and semiconductor materials & equipment sub-industries, which rose 82.6% and 28.4%, respectively and contributed 367bps to our relative returns. Not holding Apple and other poor performing technology hardware storage & peripherals names (down 10.6% as a group) also helped.

From a company-specific perspective, while we had 19 contributors against 10 detractors, the contributors represented over 80% of the Fund's net assets, enhancing a good batting average with an excellent slugging percentage. Shares of NVIDIA, Meta, **Adyen**, **ASML**, **CrowdStrike**, **Trade Desk**, and **Veeva Systems** all posted gains in excess of 20% during the quarter, while NVIDIA, Meta Platforms, **Amazon**, CrowdStrike, **Intuitive Surgical**, ASML, **ServiceNow**, Trade Desk, and **Cloudflare** contributed over 50bps each to the absolute returns.

Despite the complex macro environment, many of our companies have continued to report improving business trends during their recent quarterly earnings calls, leading to upward revisions to estimates over the last three months. In addition to NVIDIA's unprecedented growth, Amazon's 2024 EPS consensus expectations increased 14.3% during the first quarter and were up 65.1% from the same period last year.[3] Similarly, 2024 EPS Street expectations for Meta were up 13.5% and 62.7%, respectively. Both companies also saw an increase in revenue expectations of 0.8% for Amazon and 4.6% for Meta over these three months, while operating margin expectations have increased by 119bps, and 239bps, respectively. Amazon is benefiting from the early stages of a recovery in its cloud business (AWS), while also seeing significant improvement in profitability for its e-commerce business. Meta is benefiting from a recovery in ad spending, partially due to AI-driven improvements in algorithms that drove better user engagement, better ad targeting, and improved overall spending efficiency, which in turn is improving operating leverage.

We continue to believe that we have put together the right collection of competitively advantaged companies with durable growth characteristics and great management teams. We have a lot of confidence in our process. If we continue to execute well, we should be able to outperform the R1KG over the long term while minimizing the risk of permanent loss of capital.

NVIDIA, AI, disruptive change, and Big Ideas

Even after taking some profits in the first quarter, NVIDIA remains the Fund's largest position. We believe NVIDIA continues to be at the epicenter of one of the biggest technological paradigm shifts of the last 50 years as computing is shifting from *sequential* to *accelerated* and as we begin to see the early stages of the use cases of generative AI (GenAI) enter the mainstream. Is GenAI real? Is it going to be material, sustainable, and disruptive? Will NVIDIA (and other GenAI leaders and disruptors) likely benefit from this disruptive change? Our research suggests that the answer to all of these questions is an unequivocal – yes.

Is there hype around GenAI? Sure. There is always a hype cycle around major new technologies. Is GenAI a bubble similar to what we saw during the internet bubble of late 1990s/early 2000s? We don't think so. First of all, it is important to recognize that while there were many stocks trading at silly valuations on newly invented metrics (peak multiples on peak eyeballs), the internet itself proved to be a paradigm changing disruption, giving birth to a plethora of Big Ideas. But even more importantly, while the rise in NVIDIA's stock price has been nothing short of unprecedented for a company of its size, it was fueled almost entirely by rapid growth in revenues, earnings, and cash flows – not multiples. NVIDIA's stock price exited 2023 with a P/E ratio of 24.7 and ended the first quarter with a P/E ratio of 35[4]. We can debate whether it is cheap or expensive, but it cannot be compared to the triple-digit multiples that were assigned to the perceived market leaders of the early internet era who were clearly not in as strong of a competitive position then, as NVIDIA is today.

It is not lost on us that semiconductors is a notoriously cyclical industry. Historically, the hyperscalers (AWS, Azure, GCP, etc.), who are among NVIDIA's largest customers, have not invested/spent/consumed CapEx in a straight line. It will be more than a mild surprise then if there was no pullback in demand leading to a significant growth deceleration and a potentially meaningful correction in the price of the stock, sometime in the near future. So, it is incumbent upon us to manage the size of this investment appropriately, while continuing to imagine what the future will likely look like without losing sight of what reality on the ground is today.

Then again…NVIDIA is not just a semiconductor company. Many investors have missed the boat thinking that Apple is just a smartphone company, Amazon is just a retailer, and Tesla is just a car company. We have long argued that just like the other three, *NVIDIA is a platform*. We are more certain of this now than ever before.

In March, we spent the better part of a week in San José, attending NVIDIA's annual developer conference *GTC 2024* and got to experience firsthand what *Forbes* magazine called the *Nerd Woodstock*.[5] After several years of being held online due to COVID-19, over 17,000 nerds (us included) attended the four-day event in person. With over 900 featured sessions, 1,700 presenters, over 300 exhibits, and more than 20 technical workshops, all centered around AI, there was a lot to choose from. From our perspective, there was nothing better than watching start-up founders debate the merits of Large

1 We calculated the change in next 12 months PE multiple based on FactSet consensus expectations for our holdings between 12/31/2023 and 3/31/2024 and used the 3/31/2024 weights in the sector to calculate a weighted average change in multiple for the sector.
2 We calculated the change in FactSet consensus expectations for our holdings' revenues and operating income for 2024, between 12/31/2023 and 3/31/2024. We then calculated the weighted average of the changes based on the quarter end weights of holdings within the sector.
3 We calculated the change in 2024 EPS expectations (as collected by FactSet) for Amazon during Q1 (i.e., change in expectations from 12/31/2023 to 3/31/2024) and from Q1 2023 to Q1 2024.
4 P/E multiple calculated on consensus estimates (as collected by FactSet) for the next 12 months.
5 https://www.forbes.com/sites/charliefink/2024/03/21/saudis-to-bet-forty-billion-on-ai-nvidias-nerd-woodstock-state-of-unreal/

Language Models (LLMs) compared to domain-specific Small Language Models, and how to get LLMs to have long-term memory, or what are the key challenges that need to be solved to enable reasoning, planning, and multi-agent LLMs (AI models that rely on and work together with other models). When it was all said and done, we came away with several observations:

- **AI is developing rapidly across industries** – near term, there is a lot of excitement around AI for areas such as consumer chatbots, AI-based customer service, AI-based assistants for a variety of business tasks such as coding, marketing, back office, and more. Longer-term avenues of development are broad and include drug discovery, in which the opportunity for AI is significant due to the long timelines for drugs to reach approval and the high probability of failure (90% of drugs fail); planning and running factories and supply chains using digital twins (with help from NVIDIA Omniverse – NVIDIA's real-time collaborative simulation); and using AI to build robots across a variety of use cases (from autonomous machines to humanoids). Multi-domain, multi-industry disruption.
- **We are early on the adoption S-curve** – most companies are still in the proof of concept stage while very few are ready for production today. Hurdles in implementing AI include data prep, model adaptation and fine-tuning, and embedding of AI into existing workflows. There is a lot of innovation taking place to reducing these hurdles – from tools and infrastructure that help companies build and run AI models more easily, to third-party AI models exposed via Application Programming Interfaces (APIs) that enable companies to use them without building their own models from scratch. NVIDIA's ecosystem across developers, system integrators, cloud providers and independent software vendors, and internal software innovation are lowering these hurdles as well. For example, one of the most interesting announcements at the GTC conference were NVIDIA Inference Microservices – or NIMs, which are APIs to easily access open-source models (NVIDIA already has dozens of models available) without the need to worry about model optimizations, security, patching, or sending data to third parties. NIMs could ease AI adoption for enterprises while also driving incremental monetization for NVIDIA, priced at $4,500/GPU or at $1/GPU hour if used on the cloud, and increase the stickiness of NVIDIA's platform.
- **We are rapidly coming down the demand elasticity curve** – while in the Moore's Law era, performance per dollar improvements were driven by cramming more transistors into a piece of silicon, AI is a *data center scale problem* with *performance per dollar improvements driven by every layer in the stack* with NVIDIA innovating across the entire system – from the accelerator (the GPU) to the CPU (Grace), to server design and networking to the software (NVIDIA's TensorRT LLM enables a 2.9 times improvement in performance),[6] and to algorithms. For example, NVIDIA announced the latest fifth generation NVLink, a networking solution that connects multiple GPUs together, enabling an order of magnitude higher memory bandwidth (1.8TB/sec) as compared to the standard PCIe (NVLink has 14 times more bandwidth than the fifth generation PCIe), which alleviates a significant bottleneck for many AI models. The latest fifth generation NVSwitch also enables connecting up to 576 GPUs together[7], which creates a significantly higher overall bandwidth for a much larger unit of compute, which is especially important for very large LLMs (previously only 8 GPUs were connected with NVLink, while connecting a higher number, required using the slower bandwidth, PCIe). Overall, the *Blackwell* GPU can see **performance improvements of up to 30 times** for inferencing compared to the prior *Hopper* generation.[8] AI algorithms themselves are rapidly improving as well. For example, the price of OpenAI's GPT-3 (which cost $20 per 1 million tokens in early 2023) declined 95% with the introduction of the more capable GPT-3.5 Turbo, which costs 95% less at $1 per 1 million tokens, despite being a better model.

Less than 18 months after the ChatGPT moment (November 2022), GenAI is already showing rapid real world adoption with revenues from GenAI companies exceeding $3 billion, excluding the revenues that the large cloud and internet players such as Meta, Amazon, or Alphabet generate due to better engagement and targeting. To put this in perspective, it took the cloud Software-as-a-Service (SaaS) companies 10 years to reach $3 billion in revenue.[9]

We believe we are in the early stages of a multi-decade disruption. Jensen Huang, NVIDIA's co-founder, president, and CEO suggested at the conference that similar to how in the industrial revolution, raw materials came into the plant and final products came out, in the GenAI era, companies would become AI factories with data as a raw material and tokens as the output. Tokens can represent words, images, videos, or controls of a robot. Over time, as models continue to improve, and the cost of running them declines, an increasing number of human tasks could be augmented or replaced entirely by AI. We expect decision making to become much more data-driven, enabled by AI, as consumers, corporations, and governments alike, take advantage of the vast amounts of unstructured data we generate, which is estimated to represent 90% of all data generated.[10]

With increasingly challenging demographics across many economies (especially in developed markets), a greater proportion of global growth must come from productivity enhancements. AI, in our view, is likely to be a key driver behind these productivity gains, and potentially, the basis for technological breakthroughs that help humanity solve a host of the most difficult challenges from climate change to finding cures for diseases that have remained unsolved. We believe this disruptive change will be truly profound.

Table II.
Top contributors to performance for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Percent Impact
NVIDIA Corporation	$2,258.9	8.15%
Meta Platforms, Inc.	1,237.9	2.29
Amazon.com, Inc.	1,873.7	1.48
CrowdStrike Holdings, Inc.	77.5	1.14
Intuitive Surgical, Inc.	141.5	0.91

6 https://blogs.nvidia.com/blog/tensorrt-llm-inference-mlperf/
7 https://www.nvidia.com/en-us/datacenter/nvlink/#:~:text=The%20NVLink%20Switch%20is%20the,all%2Dto%2Dall%20communication
8 https://nvidianews.nvidia.com/news/nvidia-blackwell-platform-arrives-to-power-a-new-era-of-computing
9 https://www.youtube.com/watch?v=TDPqt7ONUCY&ab_channel=SequoiaCapital
10 https://blog.box.com/90-your-data-unstructured-and-its-full-untapped-value

NVIDIA Corporation sells semiconductors, systems, and software for accelerated computing, gaming, and GenAI. NVIDIA's stock rose 82.6% in the first quarter, driven by continued strong demand in its data center segment (driven by accelerated computing and GenAI). NVIDIA closed 2023 with unprecedented revenue growth at massive scale, with a fourth quarter revenue run-rate just shy of $90 billion, growing over 3.5 times year-over-year with operating margins of 67%. NVIDIA's fourth quarter was even more impressive than numbers suggest considering both the fact that sales to China declined significantly due to U.S. regulations, and as NVIDIA is amid a product cycle with the much improved, next generation architecture, *Blackwell* coming out in the third quarter of 2024. NVIDIA is also taking a page from Apple's vertical integration book, which adds to its competitive advantage. For example, the recently introduced GB200 NVL72, a liquid-cooled rack with 72 GPUs and 36 Arm-based CPUs, are interconnected with the latest generation NVLink technology, offering a significant boost to performance with one-fourth the GPUs required to train a 1.8 trillion parameter model, using one-fourth the power. Jensen Huang, NVIDIA's CEO spoke about NVIDIA's full stack innovation in the company's last Investor Day:

"Blackwell is both a chip at the heart of the system but it's really a platform. It's basically a computer system. What NVIDIA does for a living is not build the chip, we build an entire supercomputer, from the chip to the system to the interconnects, the NVLinks, the networking, but very importantly, the software. Could you imagine the mountain of electronics that are brought into your house, how are you going to program it? Without all of the libraries that we've created over the years in order to make it effective, you've got a couple of billion dollars worth of assets you just brought into your company. And any time it's not utilized, it's costing you money…

"And so our ability to help companies, not just buy the chips, but to bring up the systems and put it to use and then working with them all the time to make it – put it to better and better and better use, that is really important, okay? That's what NVIDIA does for a living. The platform we call Blackwell has all of these components associated with that. This is the part that's incredibly hard about what we do."

Despite the stock's continued outperformance, valuation remains reasonable, with the company trading below 30 times P/E[11] as most of the stock's performance was driven by growth in earnings rather than multiple expansion. We remain shareholders and believe that the upside for long-term investors remains significant.

Shares of **Meta Platforms, Inc.,** the world's largest social network, rose 37.3% in the quarter due to robust fourth quarter top-line growth of 25% year-over-year with operating margins more than doubling year-over-year to 41%, benefiting from the *year of efficiency*[12] as Meta's headcount was down 22% year-over-year (note that the profitability of the core business is even stronger as Reality Labs' losses of over $4.5 billion in the quarter are included in the overall operating income metric). Meta also guided for first-quarter revenue growth of approximately 29% year-over-year, which was better than expected. Advertiser satisfaction and adoption of Meta remains strong, core app engagement is healthy with video daily watch time up 25% year-over-year and the total number of monthly active users up 6% year-on-year to 3.98 billion in the fourth quarter, and Instagram Reels and click-to-message ads monetization continues to improve. Meta also continues to rapidly innovate in GenAI, with its leading research lab releasing widely adopted open-source models (e.g., Llama 2), and internal algorithms and core apps becoming augmented with AI (e.g., Meta's recommendation engine). We remain shareholders and believe Meta can sustain its leading market share in digital advertising thanks to strong network effects enabled by its massive user and advertiser base. Additionally, we believe the company's innovative culture, large installed base, and leading GenAI research should enable it to embed AI and GenAI into its offerings with further monetization opportunities ahead. For example, AI agents could help scale business messaging, handling a large volume of customer requests on behalf of business customers, making business messaging at scale more viable.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares increased 18.7% on quarterly results that exceeded consensus expectations, with revenue growth of 13% year-over-year and operating margins of 7.8% (up from 1.8% a year ago). We believe that Amazon is well positioned in the short to medium term to continue improving its core North American margins, which have reached 6.1% in the fourth quarter, the seventh straight quarter of margin improvement and an overall improvement of 800bps. Amazon has been rearchitecting its fulfillment network, improving efficiency, reducing cost-to-serve and accelerating delivery speeds thanks to initiatives such as regionalization, with the number of items delivered during the same day or overnight increasing by nearly 70% year-over-year. Reducing the cost to serve also enables Amazon to sell lower priced items and expand its addressable market to everyday purchases. Additionally, Amazon continues to benefit from its fast-growing, margin-accretive advertising business winning market share in digital advertising thanks to its structural advantages of a closed loop system, which enables a deterministic calculation of Return on Ad Spending. We also believe that e-commerce still has long duration growth ahead as it still accounts for less than 15% of retail. Similarly, Amazon's cloud service, AWS, remains relatively early in its S-curve with cloud representing around 13% of worldwide IT spending[13] incremental tailwinds across the three layers of the GenAI stack – infrastructure with NVIDIA's own AI chips (Trainium and Inferentia) as well as with its offering of NVIDIA chips, platform (*Bedrock*), and applications (first and third party).

Table III.
Top detractors from performance for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Percent Impact
Endava plc	$ 2.2	–1.37%
Tesla, Inc.	559.9	–1.35
Rivian Automotive, Inc.	10.7	–1.17
Snowflake Inc.	54.0	–0.79
Mobileye Global Inc.	25.9	–0.47

Shares of IT services provider, **Endava plc**, fell 51.1% after management cut guidance for the fiscal year ending June 30, 2024, by 7% to 8%. Growth has slowed over the last year as business customers pulled back on discretionary IT spending due to macroeconomic uncertainty. Last fall, management was

[11] On FactSet consensus estimates for calendar year 2025.
[12] Mark Zukerberg described his management theme for 2023 as "the year of efficiency," Q4 2022 earnings call.
[13] Calculated from Gartner's estimates for 2023 cloud spend and global IT spend.

seeing early signs of a recovery, but new projects have been taking longer to materialize as customers delayed spending decisions. Higher expenses due to increased staffing to meet anticipated demand weighed on margins as well. Management acknowledged that it misread the market and is taking steps to right-size the cost structure to improve margins. We remain invested because we expect these near-term headwinds to abate over time, leading to better growth as the demand for digitization remains strong, with AI likely to serve as a tailwind to digitization over the long term.

Tesla, Inc. designs, manufactures, and sells electric vehicles (EVs), related software and components, and solar and energy storage products. Shares fell 29.3% in the first quarter as the core automotive segment is facing headwinds due to a complex macroeconomic environment, factory shutdowns, growing competitive risks in China, and vehicle price reductions which are pressuring gross margins. During the first quarter of 2024, production was also negatively impacted by the Red Sea maritime supply-chain interferences, sabotage in a Tesla factory's power supply in Berlin, and a factory closure for the launch of the refreshed Model 3. We remain shareholders. Tesla commenced delivery of its highly anticipated Cybertruck pickup, which features new technologies within the car and its manufacturing lines. Tesla also launched version 12 of its Full Self Driving product, which shows significant progress from prior versions and increases the probability that Tesla's data collection at scale, and verticalized software and hardware approach will position Tesla as a leader in the future for autonomous driving and shared mobility. We also expect energy storage sales to continue to grow over the coming years as the adoption of renewable energy continues. Lastly, we believe Tesla's core automotive segment will recover with the company remaining a leader in the EV market, which continues to expand with EVs still accounting for only around 10% of vehicle sales globally.

Shares of **Rivian Automotive, Inc.**, a U.S.-based EV manufacturer, declined 53.3% in the first quarter. Despite substantial improvements in production and delivery volumes in 2023, as well as an improvement in unit economics, Rivian's business remains constrained by its limited scale, which creates pressure on gross margins, and contributes to the company's elevated cash burn. Additionally, Rivian expects to temporarily shut down its production facilities for upgrades, impeding anticipated production growth in 2024. Compounding these challenges is the potential for demand headwinds due to the continued complex macro environment, and the relatively small automotive segments that Rivian's initial products target. Nevertheless, the recent unveiling of Rivian's mass-market products, the R2 and R3, garnered enthusiastic responses, evidenced by over 68,000 pre-orders within the first 20 hours post-launch. In a strategic move, management opted to produce the R2 in Rivian's existing facility, deferring the construction of a new factory. This decision should help reduce mid-term capital expenditure obligations while ensuring higher utilization of current facilities as the R2 ramps production in 2025. We remain shareholders.

Portfolio Structure

The Fund is constructed on a bottom-up basis with the quality of ideas and level of conviction playing the most significant role in 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 March 31, 2024, the top 10 holdings represented 62.6% of the Fund's net assets, and the top 20 represented 89.2%. The total number of investments in the portfolio was 30 at the end of the first quarter, unchanged from the end of 2023. IT, Consumer Discretionary, Communication Services, Health Care, and Financials made up 98.7% of net assets. The remaining 1.3% was made up of **SpaceX** and **GM Cruise**, our two private investments classified as Industrials, and cash.

Table IV.
Top 10 holdings as of March 31, 2024

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
NVIDIA Corporation	$2,258.9	$90.2	14.7%
Amazon.com, Inc.	1,873.7	51.9	8.5
Meta Platforms, Inc.	1,237.9	44.1	7.2
ServiceNow, Inc.	156.3	41.5	6.8
Shopify Inc.	99.9	31.7	5.2
Intuitive Surgical, Inc.	141.5	29.8	4.9
CrowdStrike Holdings, Inc.	77.5	28.2	4.6
The Trade Desk	42.7	22.1	3.6
Cloudflare, Inc.	32.7	22.1	3.6
Snowflake Inc.	54.0	21.8	3.6

Recent Activity

During the first quarter, we initiated a new position in **Alphabet** (the parent company of Google) as we believe the risk-reward equation has become increasingly attractive for long-term investors with the stock put, unfairly in our view, in the GenAI loser bucket. We also added to four existing positions: **Microsoft**, which is well positioned to benefit from GenAI; the e-commerce leader in Korea, **Coupang**; the connected TV-focused advertising platform, **Trade Desk**; and the assisted and autonomous driving solution provider, **Mobileye**. We financed those purchases with inflows along with some profit taking in NVIDIA, although it remains our highest conviction idea and the largest position in the Fund, as well as the exit from EPAM Systems, as we saw better risk/reward profiles elsewhere.

Table V.
Top net purchases for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Alphabet Inc.	$1,884.6	$8.4
Microsoft Corporation	3,126.1	7.8
Coupang, Inc.	31.9	5.6
The Trade Desk	42.7	1.4
Mobileye Global Inc.	25.9	1.3

During the quarter, we initiated a position in **Alphabet Inc.**, the parent company of Google, the world's largest search and online advertising company. Alphabet has over 90% market share in its core Google search business, it owns the world's leading video platform, YouTube (which has over 2 billion users), a competitive cloud service provider, Google Cloud, a leading ad network, and optionality in a number of smaller subsidiaries like the autonomous vehicle company, Waymo.

Google's core search business continues to grow at a solid clip, and we believe it could structurally earn much higher margins than it does today as the company increases operating efficiency. Google Cloud should also continue growing in the healthy double digits for years to come given the relatively early stage of cloud adoption with $597 billion total cloud spending[14] in 2023 out of worldwide IT spending of $4.7 trillion[15], or around 13%. Additionally, YouTube has a long runway for growth, driven by the growing adoption of connected TV and the shift of advertising dollars from linear TV.

When ChatGPT originally came out in November 2022, it appeared that Google was caught a bit unprepared for a potential change in the way people search. While the advancements of GenAI represent a risk to Google, we believe investors underappreciate the company's positioning in AI and have assigned too high of a probability that the risk materializes. Alphabet owns the largest consumer training datasets (particularly across Search and YouTube), which in our view are important ingredients for competitive advantages in AI, it has massive user distribution (nine products with over 1 billion users each), long-standing AI research labs (DeepMind and Google Brain), top AI/ML engineering talent (Google invented the transformer AI architecture[16], which is the basis for the modern LLMs including Chat GPT), a solid cloud computing division in Google Cloud, and deep pockets for investing in AI. In the past 18 months since ChatGPT was introduced, Google has substantially ramped up the speed of its AI product release, including the public previews of Search Generative Experience (GenAI-enhanced Google search) and its Gemini large language models. Importantly, over this time period, Google has maintained its roughly 90% share in search (Bing and startups have not taken meaningful share to date). Google also shared at a recent conference[17] that despite the growth of ChatGPT, it has seen *"positive search query growth in all of our major markets, and this has been consistent over the last 12 months."*

Google has also taken advantage of its distribution to unlock various benefits of GenAI, such as helping advertisers generate creative content in different formats or helping them optimize their budgets across Google's various platforms. Additional opportunities that GenAI creates for Google include improving its existing offerings (e.g., GenAI offerings for YouTube creators) and helping drive demand for Google Cloud, which now offers a managed AI service called Vertex AI. We continue to monitor the risk from GenAI disrupting search, particularly given Google's large market share today but believe the valuation is attractive and reflects too high of a probability for a bad outcome.

Alphabet also has real value in assets such as Waymo, which are not factored into valuation today (and are potentially included at a negative valuation as they currently generate losses, hurting EPS). We also believe Alphabet has further room to improve its cost discipline, given its high margin core Search business and similar efficiency measures taken at other large technology companies. All together, we believe Alphabet has a reasonable path to growing EPS at a mid-teens rate for years to come. On the back of Alphabet's strong fundamentals and a reasonable valuation (approximately 20 times P/E[18] for a business of this dominance and quality), we decided to add Alphabet to the portfolio.

Our second largest purchase during the quarter was the software platform, **Microsoft Corporation**, which we continued to add to, after initiating a position in the fourth quarter of 2023. Microsoft continues to report strong quarterly results, with revenue growth of 16% year-over-year in constant currency thanks to better-than-expected demand in its intelligent cloud segment, which saw revenue growth of 19% year-over-year, driven by Azure growth of 28% with AI contributing 6pts to growth compared with 3pts in the prior quarter. While the adoption of GenAI remains in its early stages, Microsoft has disclosed positive initial data points with 53,000 Azure AI customers as of its December quarter up from 18,000 in the prior quarter, 1.3 million paid GitHub Copilot subscribers (up 30% sequentially) and more than 230,000 organizations who have used AI capabilities in the power platform (up 80% sequentially). Management also noted that large cloud optimizations that started a year or so ago have largely finished. Profitability also continues to be strong with 44% non-GAAP operating margins, which was 120bps better than expected.

We also added to our position in the Korean e-commerce platform, **Coupang, Inc.**, as the company continues to execute at a high level, reporting strong financial results, with accelerating revenue growth – revenues were up 20% year-over-year in constant currency in the fourth quarter, 29% excluding the impact from Coupang's Fulfillment and Logistics accounting change, driven by growth in its number of customers count (up 16% year-over-year), growth of its loyalty *Wow* members (up 27% year-over-year) and growth in spending by existing cohorts (with every cohort, including those who have used the platform for a long time, growing at least 15% year-over-year), which suggests continued wallet share gains for the company. While Coupang continues to gain market share, its attractive unit economics are beginning to appear in results, with adjusted EBITDA margins of its commerce segment reaching 7.1% in the fourth quarter (up 190bps year-over-year). Coupang is utilizing the growing profits from commerce to invest in emerging offerings such as Fulfillment and Logistics by Coupang (FLC), expansion into Taiwan (with revenues up 2 times in the last six months) and Coupang Eats, its food delivery network, which saw order volume increase by 2 times as well in the last nine months. In the last week or so, Coupang also announced a material 58% Wow membership price hike, which should flow through nicely to the bottom line, sending the stock higher by close to 20%.

We also modestly increased our positions in **The Trade Desk** and **Mobileye Global Inc.**

The demand-side advertising platform, The Trade Desk, reported strong quarterly results with 23% year-over-year revenue growth and 47% adjusted EBITDA margins as the company continued to benefit from the growth in CTV and the shift of advertising dollars from linear TV.

The assisted and autonomous driving solution provider, Mobileye, experienced significant stock price volatility as a result of reporting weak quarterly results on the back of an inventory build-up, which led the company to reduce near-term shipments materially, resetting expectations for 2024. Despite the near-term cyclical correction, we don't believe the issues are structural, and we are more focused on the continued adoption of Mobileye's advanced programs such as Supervision, which would increasingly become the key growth driver for the business.

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14 https://www.gartner.com/en/newsroom/press-releases/2023-04-19-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-600-billion-in-2023#:~:text=Gartner%20Forecasts%20Worldwide%20Public%20Cloud,Nearly%20%24600%20Billion%20in%202023
15 https://www.gartner.com/en/newsroom/press-releases/01-17-2024-gartner-forecasts-worldwide-it-spending-to-grow-six-point-eight-percent-in-2024
16 https://arxiv.org/abs/1706.03762
17 Alphabet's presentation at the Morgan Stanley TMT conference, March 2024.
18 On 2025 expected EPS consensus as collected by FactSet.

Table VI.
Top net sales for the quarter ended March 31, 2024

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
NVIDIA Corporation	$2,258.9	$8.5
EPAM Systems, Inc.	15.5	5.5

As mentioned above, we sold **EPAM Systems, Inc.** and reduced our position in **NVIDIA Corporation** to manage its position size. It remains our highest conviction idea and the largest investment in the Fund.

Outlook

After a challenging 2022, the Fund gained 77.5% over the last 15 months, on a cumulative basis. Even so, it is still 12.2% below where it was at the beginning of 2022.

As we do every quarter, we analyzed the change in the weighted average multiple of the Fund, which increased by 8.4% during the first quarter (but up only 2.6% excluding NVIDIA)[19]. After a 53% decline in the weighted average multiple in 2022, it has recovered by 34% since then. Most of the Fund's recovery during the last 15 months has been driven by improving fundamentals as opposed to a recovery in multiples, as the weighted average multiple is still 37% lower than it was at the start of 2022. The fundamentals of our companies continue to be robust, with stabilization in trends despite the complex macro environment. During the first quarter, the weighted average revenue expectations for 2024 increased by 2.8% while expectations for operating income rose by 4.2%.

The market is starting to come to grips with *higher for longer*. One cut? Two cuts? No cuts this year? We have no idea. The 10-Year U.S. Treasury is now back to yielding 4.5% after declining to 3.8% towards the end of last year. We continue to believe that the Fed's tightening cycle is over, and that the next move in interest rates is going to start an easing cycle, whenever that will be.

We believe that the disruptive change ushered in by the commercialization and use of AI is real, material, and that it will very likely have a long-term deflationary effect (despite the high cost of GPUs). Major technological innovations have generally been a deflationary force – from hardware to software, to the internet. Moore's Law for example, demonstrated that we get a doubling of performance for the same cost every two years or so, for decades. AI chips have been improving at a rate of 1,000 times every eight years, or a double every nine to ten months[20]. Software enabled a significant productivity boost for information workers as the amount of manual work was substantially reduced and the quality of work improved. The internet proved to be a massive deflationary force as it reduced distribution costs effectively to 0 and gave us cloud computing, which reduced the cost of software materially, while significantly reducing the cost and the risk for startups that no longer had to buy hardware for millions of dollars enabling entrepreneurs to align costs with their progress. AI, in our view, will further accelerate these deflationary forces. If we are right about that then longer-term interest rates are heading lower and then it won't matter whether the Fed cuts in July or September, or once or thrice, although it is unlikely to matter even if we are wrong…

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Fed 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

[19] We calculated the change in the multiple of each holding (either a P/E multiple or an EV/revenues multiple depending on whether the company has material near-term profitability – we used EV/revenues multiple for companies that had P/E ratios above 100 times) between 12/31/2023 and 3/31/2024. We then calculated the weighted average change based on the weights in the portfolio as of the end of the quarter.

[20] https://s201.q4cdn.com/141608511/files/doc_events/2024/Mar/18/NVIDIA_GTC2024-Keynote.pdf; slide 16

Baron Fifth Avenue Growth Fund

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

Risks: The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. The Fund may not achieve its objectives.

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.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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Price/Earnings Ratio or P/E (next 12-months): is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.