DEAR BARON GLOBAL ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

Finally… a good quarter.

Baron Global Advantage Fund® (the Fund) was up 14.8% (Institutional Shares) during the fourth quarter, compared to the 11.0% gain for the MSCI ACWI Index (the Index) and the 12.7% gain for the MSCI ACWI Growth Index, the Fund's benchmarks. For the year, the Fund finished up 25.6% compared to gains of 22.2% and 33.2% for the benchmarks, respectively.

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

	Baron Global Advantage Fund Retail Shares[1,2]	Baron Global Advantage Fund Institutional Shares[1,2]	MSCI ACWI Index[1]	MSCI ACWI Growth Index[1]
Three Months[3]	14.72%	14.80%	11.03%	12.74%
One Year	25.26%	25.56%	22.20%	33.22%
Three Years	(15.23)%	(15.03)%	5.75%	3.66%
Five Years	9.60%	9.88%	11.72%	14.58%
Ten Years	8.79%	9.04%	7.93%	10.06%
Since Inception (April 30, 2012)	10.30%	10.55%	9.11%	10.85%

We cannot recall another year when a gain of over 25% felt like such a struggle.

Equity markets started with a strong January and a solid first quarter, amid generally gloomy predictions and an unrelenting Fed continuing its tightening cycle. It got modestly better in the spring and early summer as the Fed signaled that a 25bps hike on July 26 was likely its last. We sold off in the fall as investors realized that a stronger economy likely meant interest rates were going to stay *higher for longer*, and finished the year with a bang as the soft landing appears to be the current mainstream view. The MSCI ACWI Index gained 22.2%, its best showing since 2019 and third best in the last decade, but it wasn't all *easy pickins*. Within the Index, China was down 11.2% for the year, while Hong Kong was down 14.8%. Giant-cap stocks rose 28.9%, while mid-caps only gained 15.0%, and small-cap stocks were up just 7.3%. The U.S. ended the year at 62.5% of the Index, versus the Fund at 46.1%, and outperformed. While we are entirely bottom-up stock pickers, this was not a favorable backdrop and so it felt like we were chasing early and often and were generally struggling to keep up.

ALEX UMANSKY

PORTFOLIO MANAGER

Retail Shares: BGAFX
Institutional Shares: BGAIX
R6 Shares: BGLUX

From a quarterly performance attribution perspective, stock selection in Information Technology (IT) stood out, contributing 511bps to relative returns as 10 out of our 13 IT investments gained at least 20% each. We also benefited from positive stock selection in Financials, with shares of **Block** and **Adyen** up over 70% each. This was partially offset by poor stock selection in Consumer Discretionary, Health Care, and Industrials, which detracted 411bps. Sector allocation effect contributed 231bps driven primarily by an overweight to IT and lack of exposure to Energy and Consumer Staples.

Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2022 was 1.20% and 0.94%, respectively, but the net annual expense ratio was 1.16% and 0.91% (net of the Adviser's fee waivers, comprised of operating expenses of 1.15% and 0.90%, 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 5- and 10-year historical performance was impacted by gains from IPOs. 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 **MSCI ACWI Index Net (USD)** is designed to measure the equity market performance of large and midcap securities across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The **MSCI ACWI Growth Index Net (USD)** is designed to measure the equity market performance of large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into 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 Not annualized.

BARON FUNDS® 1987

Baron Global Advantage Fund

For 2023, performance attribution was unlike anything we have seen before. All of the Fund's outperformance came from sector allocation, which contributed 1,094bps to relative returns and was offset by stock selection, which detracted 762bps. This was heavily skewed by the multiple write-downs of our three private investments – **Think & Learn**, **Farmers Business Network**, and **GM Cruise**, which combined accounted for over 100% of the negative stock selection. India-based Think & Learn was also the reason why we underperformed in emerging markets, which was offset by outperformance in developed markets, as well as other investments (Argentina). After significantly reducing our exposure to China over the last few years we are no longer invested in China at all. This is also a first since the inception of the Fund. Ironically, this is the closest to consensus that we perceive our views on China to be. We have written about the *China conundrum* since the government crackdown on Alibaba and its cancellation of the Ant Financial IPO in November of 2020. It got progressively worse with the regulators attacking the technology and education industries and obliterating the after-school tutoring companies. Moreover, the growing geopolitical tensions with the U.S. and the looming fight over Taiwan's future, make the probability of permanent losses of capital increasingly more likely in our view. We are not particularly comfortable with the consensus view but need good reasons to be contrarian and in this case, at this time, we just can't find any. This is not to say that we will not invest in China in the future should the environment improve, and we find the right opportunities.

We had many big winners in 2023. From a company-specific perspective, we had 25 gainers against 16 detractors. Six of our investments more than doubled in price, while seven more were up between 50% and 100%. **NVIDIA**, **MercadoLibre**, **Shopify**, **CrowdStrike**, **Cloudflare**, and **Tesla** contributed over 200bps each to absolute returns, while **Snowflake**, **Datadog**, **Zscaler**, **ASML**, **InPost**, and **SpaceX**, added between 100bps and 200bps each. This strong performance was partially offset by five large detractors, which detracted at least 100bps each, three of which were private investments mentioned earlier that were revalued lower.

Decision making and learning from mistakes

We have written a lot in the past about the importance of making good decisions and exercising good investment judgment. When we broke it down, it came to creating conditions that are necessary to enable good investment judgment. In one word – it was BALANCE. Balance between having the courage of conviction to see an investment through versus the flexibility to acknowledge a mistake. Balance arrogance to believe in our divergent view with humility to understand that our perspective could be wrong. Ability to imagine an incredibly exciting future for our portfolio businesses (and the world) versus being grounded in the reality of the world as it is. Since the beginning of the COVID-19 disruption creating and maintaining balance has been more challenging. While mistakes are definitionally unavoidable, we work hard on minimizing the frequency and the impact of mistakes. We try to err on the side of humility and flexibility while continually seeking disconfirming evidence. We guard against our biases and tinker and adjust as we learn and evolve in struggling to improve and become just a little bit wiser every day.

We operate in an environment of incomplete information and high uncertainty with a wide range of investment outcomes. It is not obvious that all bad outcomes are necessarily a result of poor decision making. In this way investing is akin to poker. Poker is entirely about stack management – (i.e., capital allocation). We're oversimplifying a bit, but the objective of the game is to get most of your money in the middle when the odds are most in your favor. Skillful poker players can calculate the probability of making a winning hand with a reasonably high degree of certainty after estimating the likely strength of the opposing field. They can then ascertain whether the price they are getting (or giving) to continue with the hand is attractive enough to allocate more capital to. If we have a 33.3% (or 1 out of 3) chance of making the winning hand, we will need to win at least $2 for every $1 we are putting in, in order for it to be a break-even proposition. So, in this situation putting more money in every time the pot odds are greater than 2:1 will prove to be a money-making move over the long run, while we would need to fold or lose money over the long run if the pot odds are lower (we are ignoring the implied odds here for simplicity's sake). In this example, if offered 20 to 1, or 10 to 1, even the most novice of players would likely make the correct decision to put their money in. Of course, at the conclusion of the hand, they would lose 66.7% of the time (or 2 out of 3) despite making the correct decision. Knowing and understanding that and learning how to manage risk (Kelly ratio) is essential to developing poker skills.

Investing is more complicated in that poker probabilities can be checked and verified conclusively after the fact whereas our assessment of probabilities is often difficult to judge. For example, we may estimate that a biotechnology company has an 80% probability of success in an upcoming trial that we believe will increase the value of the company by 50%. Should the trial fail (20% probability) we believe it may lose 50% of its value. Mathematically speaking, this is an attractive setup to allocate some capital to as it is easy to understand, and it has a highly positive expected value (0.8x50% + 0.2x(-50%) = 30%). However, whichever scenario materializes, it will be challenging for us to know whether our probabilities were right. And that's in a binary outcome example. Unlike poker, in investing, probabilities are inherently subjective and basically unverifiable even after the fact. Learning from decisions with probabilistic outcomes adds an extra layer of complexity since it is difficult to determine whether a bad outcome was due to a poor decision or because a bad outcome materialized even though the decision itself was the right one. Because we always live through only a single scenario for each decision (the one that materialized), it makes it difficult to judge whether we were right about our estimated probabilities. *Only through observing the results of many decisions with similar circumstances would it be possible to start drawing conclusions about how accurate those probabilities were*. Andy Jassy famously said, "There is no compression algorithm for experience." Seth Klarman said it even better, – "Real life investment experience matters and cannot be faked or purchased." Michael J. Mauboussin has written great articles and books on the topic of decision making and speaks about the importance of creating a process that helps investors make better decisions. "Focus on the process versus the outcome; constantly search for favorable odds; and understand the role of time and sample size."[1]

The way in which an investor defines risk is another factor that, on the one hand, helps long-term investors make better risk-adjusted decisions, but, on the other hand, makes it more challenging to identify mistakes. While most market participants define and measure risk as volatility of stock prices, long-term investors could take advantage of volatility by thinking about risk differently. We define risk as the probability of a permanent loss of capital. The market certainly knows how to price volatility, but not necessarily a

[1] https://twitter.com/mjmauboussin/status/1532347034740699137?lang=en

permanent loss of capital. In allocating capital, we attempt to ensure we get an appropriate reward for every unit of *that* risk. Because our calculus is different, it results in greater volatility on average for the stocks we tend to invest in.

This can be seen through the Fund's higher beta since its inception, as well as high idiosyncratic volatility. Greater volatility makes it even more challenging to identify mistakes.

With this preamble, some of our bad outcomes can be attributed to poor decision making with a higher degree of confidence than the others. Here is a list of some of these mistakes and lessons learned in order of conviction:

- While mutual funds are permitted to invest up to 15% of their assets in illiquid securities, the mismatch in duration between a mutual fund's daily liquidity and the illiquid nature of private companies adversely impacted the Fund's performance in a way that has caused us to rethink investing in private companies. We continue to see a lot of value in meeting with, learning about, and analyzing private companies to better understand competitive advantages and the disruptive change dynamics, but we believe that the misalignment between the structure of a mutual fund which is traded daily, and the private investments, which are illiquid, makes the risk of private investments greater than what we had underwritten. We had thought that capping any individual private investment at 1% at cost, and at 5% of assets under management cumulatively (at cost), would offer reasonable protection against redemptions and market drawdowns. We were proven to be woefully wrong, as the significant write downs in the values of three of our private investments proved to be the difference between a good year and what could have been an excellent one.
- Notably increasing the number of investments in late 2020 and through 2021 in response to unpalatable valuations in large pockets of the Fund was a mistake. It was a tough set up and allocating significant inflows to 90% of quality for 50% of the price was not unreasonable per se, but it required a change in the process and quite possibly a different skillset. Most of these investments ended up performing worse than higher quality businesses since then, even though the higher quality companies were more expensive. What's worse, the resultant dilution in the sizes of positions in these higher quality investments cost us when they started recovering this year. Great investors do not hit more singles or doubles than ordinary investors do. They hit more grand slams. We have become more vigilant in guarding against overdiversification.
- We were too slow to sell when the probability of a likely thesis change dictated action over inaction. Each investment is like a puzzle. Different pieces are missing in different puzzles. Our process is deliberately slow and is built on collecting and analyzing as much information as possible and building conviction over time. In a highly stressful environment with a wide range of outcomes, a recognized lack of balance with emotions running high, postponing "bad decisions" is often the correct course of action except, when there is evidence of a potential or likely thesis change on the negative side in a bear market. We were often too slow and too timid in running for the exit. For example, when a company's revenues prove to be less sticky during times of stress despite high average retention rates. **ZoomInfo**, the business-to-business (B2B) sales data and software provider readily comes to mind, where we made a mistake selling the stock too slowly, as we did not fully appreciate the extent to which the company oversold unused licenses to its customers, which exacerbated the slowing demand environment, creating a whiplash effect as the license inventory was used up later on, causing revenue growth to decelerate materially.
- Few things felt better than selling Meta (formally known as Facebook) in late 2021, just before it missed third quarter expectations and guided down. The blow up was massive and the price of the stock declined from $350s into the $80s over the next 12 months. Despite recognizing the value of platform businesses with large ecosystems and powerful network affects not only did we fail to buy Meta back, but we compounded that mistake by selling Alphabet and Amazon in 2022. We justified those decisions by arguing that these companies were progressing naturally from Big Ideas to holders of value as their core businesses (digital advertising and e-commerce) were becoming more mature and highly penetrated. We also thought that the other investments we held would benefit even more from similar tailwinds as their runway for growth was longer. We surely underappreciated the magnitude with which customers and investors alike gravitate to the best, most stable platforms during times of heightened uncertainty. Not owning any Amazon, Meta, Alphabet, Microsoft, or Apple certainly did not help our returns in 2023.

While all of these mistakes have led to recent bad outcomes, we recognize that many of them could have resulted in good outcomes under different circumstances or if/when evaluated at a different point in time. Still, we believe these are good lessons to be learned and internalized that will lead to better investment decision making in years to come.

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

	Quarter End Market Cap (billions)	Percent Impact
Shopify Inc.	$ 100.2	2.79%
MercadoLibre, Inc.	79.5	2.56
Endava plc	4.5	1.95
NVIDIA Corporation	1,223.2	1.55
Snowflake Inc.	65.5	1.47

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 124.5% on strong financial results with growth in gross merchandise value (GMV) of 22% year-over-year, revenue growth of 25%, and non-GAAP operating margins surpassing 15% (up 1,900bps 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 platform in the last year than in the prior two. Existing Shopify merchants also continue to outperform the overall market. Lastly, the company provided data on the rapid adoption of new offerings, with its emerging products category growing at a 71% CAGR from 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.

MercadoLibre, Inc., Latin America's leading e-commerce company, contributed to performance in the fourth quarter with shares rising 23.9% and closing the year up 85.7% after reporting third quarter earnings that beat Street expectations across the board. It had 59% constant-currency year-over-year growth in GMV, 69% growth in commerce revenues, 121% growth in total payments volume, and a 720bps increase in operating margins year-over-year. The company is generating above-market GMV growth across its major Latin American markets and is increasingly outperforming its peers in e-commerce, particularly in Brazil thanks to its broad selection and differentiated logistics capabilities, which enable the company to deliver items faster than its competitors. Over the last several quarters, MercadoLibre has also benefited from product innovation in fintech and solid underwriting in the growing credit business, which we believe will drive continued margin expansion and earnings growth as e-commerce in the region continues maturing over the next decade.

Endava plc provides outsourced software development for business customers. Shares followed through on last quarter's positive momentum after lagging for most of 2022 and the first half of 2023, rising 35.8% in the fourth quarter and finishing the year in positive territory, up 1.8%. Macroeconomic uncertainty has weighed on client demand and revenue growth, but management expects a meaningful rebound early in 2024 supported by a growing pipeline of large projects from newer clients. Margins should expand alongside faster revenue growth as the company leverages upfront costs to build capacity in anticipation of an expected recovery. The company has been acquisitive and is benefiting from vendor consolidation. We remain investors because we believe Endava will continue gaining share in a large global market for IT services.

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

	Quarter End Market Cap (billions)	Percent Impact
Think & Learn Private Limited	$ –	-1.76%
GM Cruise Holdings LLC	–	-1.29
argenx SE	22.5	-1.01
BILL Holdings, Inc.	8.7	-0.82
Bajaj Finance Limited	54.4	-0.41

Think & Learn Private Limited, the parent entity of Byju's – the Learning App, detracted during the quarter. Weak performance was driven by a marked slowdown in business momentum as COVID-related tailwinds that benefited online/digital education have begun to dissipate. The Fund made an investment in Think & Learn in early 2021 as part of a private round of financing. As India's largest edtech player, the company has a significant opportunity to benefit from structural growth in online education services in the country.

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. Our position was revalued lower 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.

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares fell 22.6% in the quarter, though they still closed the year up 0.7%, on the back of failed clinical trials in immune thrombocytopenic purpura and pemphigus vulgaris that called into question the breadth of FcRn's 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.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level having the most significant roles in determining the size of each individual investment. Sector and country weights are an outcome of the stock selection process and are not meant to indicate a positive or a negative "view."

As of December 31, 2023, the top 10 positions represented 60.2% of the Fund, and the top 20 represented 87.7% (this compares to 45.9% and 73.0% at the end of 2022, respectively). We ended 2023 with 34 investments compared to 41 at the end of 2022, and 57 at the end of 2021.

Our investments in the IT, Consumer Discretionary, Industrials, Financials, and Health Care sectors, as classified by GICS, represented 100.0% of the Fund's net assets. Our investments in non-U.S. companies represented 54.1% of net assets, and our investments in emerging markets and other non-developed countries (Argentina) totaled 26.8%.

The Fund's active share was 96.2% compared to 94.2% on average over the last three years, and its 3-year average turnover was 12.4% compared to its 13.1% average 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
MercadoLibre, Inc.	$ 79.5	$63.3	9.2%
NVIDIA Corporation	1,223.2	62.9	9.2
Shopify Inc.	100.2	53.4	7.8
Endava plc	4.5	46.1	6.7
Snowflake Inc.	65.5	36.4	5.3
Cloudflare, Inc.	28.0	32.4	4.7
Space Exploration Technologies Corp.	–	31.8	4.6
Tesla, Inc.	789.9	30.1	4.4
Coupang, Inc.	28.9	29.3	4.3
Bajaj Finance Limited	54.4	27.5	4.0

Table V.
Percentage of securities by country as of December 31, 2023

	Percent of Net Assets
United States	46.1%
Argentina	11.5
Netherlands	8.0
Canada	7.8
United Kingdom	6.7
India	6.4
Korea	4.3
Israel	4.1
Poland	2.4
Brazil	2.2
Spain	0.7

Recent Activity

During the fourth quarter, we added to one investment – the leading freelancing platform **Fiverr** as we took advantage of continued weakness in its share price to increase our position. We also reduced 22 positions and sold 2 investments, digital services provider **EPAM** and Chinese local services provider **Meituan**, in order to meet investor redemptions.

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

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Fiverr International Ltd.	$1.0	$0.8

Fiverr International Ltd. is the leading two-sided online freelance marketplace, offering a platform that connects businesses with freelancers across a variety of functions, from web design to digital marketing, computer programming, and inventory management. The stock has been weak due to a complex macro environment driving small businesses, who represent the majority of Fiverr's buyers, to cut down on freelancing spending. This recent trend was exacerbated by investor fears that Generative AI (GenAI) would disrupt various freelancing jobs. While we agree that some freelancing functions are more exposed to artificial intelligence (AI) disruption than others (logo design for example), we believe Fiverr's diverse platform as well as new incremental demand from AI-related work, would minimize the potential negative impact from GenAI. In our view, macro conditions are behind the recent deceleration in the company's revenue growth. However, the fact that growth decelerated at the same time as GenAI adoption began gaining steam, created a bearish narrative for the stock. In our view, Fiverr's current stock price overly discounts that risk and offers an extremely attractive risk-reward equation for long-term investors. Over 20% of the company's market cap is in net cash, the stock is trading at approximately an 8% free-cash-flow yield, and management continues to make rapid progress on margin expansion; EBITDA margins are expanding from 7.2% in 2022 to 16.3% in 2023 based on the company's mid-point guidance.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
MercadoLibre, Inc.	$ 79.5	$11.2
Snowflake Inc.	65.5	9.6
EPAM Systems, Inc.	17.3	9.5
NVIDIA Corporation	1,223.2	9.4
Meituan Inc.	529.5	7.6

As mentioned above, we exited investments in **EPAM Systems, Inc.** and **Meituan Inc.** during the quarter in order to meet investor redemptions and reallocate into ideas in which we see a more positively skewed risk/reward profile for the long term.

Outlook

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!

When will the Fed start cutting rates? How aggressive will it be in 2024? Will the economy have a soft landing or a hard one? What are the implications of the upcoming elections (*the S&P 500 has only declined twice in an election year since 1940*)? How about the ongoing wars in Europe and the Middle East or the evolving geopolitical conflict with China? How big could GenAI be? What are the implications of GenAI on digitization, cloud adoption, IT spending, and broader economies? What are the implications for employment? Which industries are at an increased risk of disruption?

Though we have a view on many of these important topics, we do not have the answers. The range of outcomes continues to be extremely wide, creating a challenging environment for investors. Since we are not macro investors or sports-talk radio hosts, we stick to focusing on high-quality businesses with sustainable competitive advantages and large and growing addressable markets that create innovative solutions for their customers and that are managed by exceptional people.

From the 30,000-foot view, our companies have reported improving business trends as 2023 progressed. The table below summarizes the change in consensus expectations for 2024 revenues, operating income, and operating margins at the portfolio level throughout the year[2]:

Change in expectations at the Portfolio level

	1st Half of 2023	2nd Half of 2023	Fourth Quarter of 2023	Fourth Quarter of 2023 excluding NVIDIA	2023	2023 excluding NVIDIA
Revenues	0.8%	7.4%	1.9%	0.5%	11.8%	(3.6%)
Operating Income	12.8%	26.9%	21.7%	21.6%	49.2%	21.2%
Operating Margins	+78bps	+271bps	+103bps	+69bps	+271bps	+80bps

Most of our portfolio companies have seen stabilization and modest improvement 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, expansion of total addressable market, and improvement in unit economics. These KPIs are significantly more meaningful 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[3] 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 providers **Endava** and **Globant**.

- Market share gains: Many of our portfolio companies have been reporting on customer consolidation trends and rising win rates against competitors. In their most recent quarterly conference call, **Datadog** described a customer who consolidated seven different tool providers onto the Datadog platform and another one that consolidated 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 onto 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."

- Rapid innovation: The velocity of innovation separates our portfolio companies from competitors, while lengthening their revenue growth runway. The leading commerce platform, **Shopify**, is a great example. Over the last year, despite announcing a 23% reduction in workforce, the company was able to accelerate innovation as they 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 that 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 leverage of their capital-light and recurring revenue business models and their increased focus on efficiency. We described several examples above such as **MercadoLibre** and **Fiverr**. We expect Shopify to expand its operating margins from breakeven to 11% thanks to the sale of the money losing logistics business, the 23% reduction in workforce, and the improving productivity of its sales and marketing efforts. Other notable examples include CrowdStrike, which is expected to increase its operating margins from 15.9% in 2022 to 20.8% in 2023, and **Wix.com**, which is expected to see its operating margins rise from -2.6% in 2022 to 14.5% in 2023 due to the increasing maturation of its new offering for web designers and agencies as well as the significant improvement in marketing efficiency.

We believe we have collected a portfolio of great businesses that are seeing positive long-term trends. After the weighted average multiple of the Fund[4] declined 57% in 2022, it recovered just 16% in 2023, while business fundamentals and KPIs improved significantly. This combination creates an attractive risk/reward equation for long-term investors, in our view.

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

[2] 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. Codere was excluded due to missing consensus expectations and Schrodinger was excluded due to abnormal impact as a result of large percentage changes off a small dollar base.

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

[4] Calculated based on year end weights and using either an EV/Revenue multiple or a P/E multiple based on FactSet consensus estimates for the next 12 months.

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 prospective investments are trading at attractive prices relative to their intrinsic values.

Sincerely,

Alex Umansky
Portfolio Manager

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: Growth stocks can react differently to issuer, political, market and economic developments than the market as a whole. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell. The Fund may not achieve its objectives.

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

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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Active Share a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. **Free cash flow yield** is a financial solvency ratio that compares the free cash flow per share a company is expected to earn against its market value per share.

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