Baron Global Advantage Strategy

BARON CAPITAL

September 30, 2019

Dear Investor:

Performance

Baron Global Advantage Strategy declined 3.9% (net of fees) during the third quarter, compared to a flat result for the MSCI ACWI Index and a gain of 0.3% for the MSCI ACWI Growth Index. Year-to-date, the Strategy has appreciated 29.7%, which compares favorably to returns of 16.2% and 20.4%, respectively, for the Strategy's benchmarks.

Table I.
Performance†
Annualized for periods ended September 30, 2019

	Baron Global Advantage Strategy (net)[1]	Baron Global Advantage Strategy (gross)[1]	MSCI ACWI Index[1]	MSCI ACWI Growth Index[1]
Three Months[2]	(3.87)%	(3.67)%	(0.03)%	0.27%
Nine Months[2]	29.76%	30.45%	16.20%	20.41%
One Year	11.20%	11.95%	1.38%	2.76%
Three Years	20.88%	21.45%	9.71%	11.99%
Five Years	14.00%	14.33%	6.65%	8.94%
Since Inception[3] (May 31, 2012)	16.45%	16.68%	10.12%	11.53%

From our perspective, the third quarter was more of the same, although when all was said and done, we did not fare as well as we did earlier in the year. One day we had a trade deal with China. The next day we didn't. One day, a negotiated Brexit solution was in hand. The next day it wasn't. One day the Turkish invasion of Syria was halted and the demonstrations in Hong Kong subsided. The next day both resumed with renewed vigor. The Strategy performed well through July and August on a relative basis, posting essentially flat results while the MSCI ACWI Index declined 2.1%. But then in September, it all went the other way. It started with an idea that perhaps we should no longer allow Chinese companies to list in the U.S., and while we're at it, change the rules and prohibit index companies from including Chinese businesses altogether. While it remains unclear whether our government has the power to prevent a private corporation from including certain companies in some market tracking indexes, there can be no doubt that a certain executive's tweets have the power to move the markets (Alibaba, our second largest holding, closed down 5.2% that day). What followed could be characterized as a "risk-off" environment which saw a powerful rotation away from higher-growth, high-multiple stocks, which we tend to favor in this portfolio. By the time the quarter ended, we were 389 basis points ("bps") in the hole.

Performance attribution can lead you astray if you let it. On the one hand, 197 bps of the underperformance was due to the Strategy's exposure to the wrong geographies, as Argentina cost us 106 bps (due to unfavorable election results, and even though our two Argentinian holdings, MercadoLibre and Globant, have limited local exposure, the market took them down with the rest), China cost us 34 bps (after being up in the first two months of the quarter), and Brazil and India cost us over 20 bps each. On the other hand, and more to the point in our view, well over 100% of underperformance was due to poor stock selection.

Not having any investments in the Energy and Materials sectors contributed 51 bps and our overweight position in Information Technology generated another 53 bps, underlining that our particular stocks were strongly out of favor during the quarter, especially in the month of September. All together, we had a full array of detractors with 10 stocks–**Illumina**, **Amazon**, **argenx**, **Aerie Pharmaceuticals**, **Twilio**, **Fiverr**, **Wix**, **Sage Therapeutics**, **Zscaler**, and **Facebook**–costing the Strategy over 30 bps each, with an additional 12 investments detracting over 15 bps each. We did not have enough winners to offset all that, as 12 of our holdings contributed over 15 bps, but only four of those, **Afya Limited**, **Alphabet**, **Pinduoduo**, and **PagSeguro** contributed over 30 bps each. Because our investment process is not predicated on choosing favorable geographies or sectors of the economy that happen to be in vogue, our results are almost always explained by either good or poor stock selection, and in this quarter, it was the latter. In fairness, it was largely that same collection of investments (and obviously the same process) that generated 1,765 bps of relative outperformance in the prior six months.

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of September 30, 2019, total Firm assets under management are approximately $29.6 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO. The Strategy invests mainly in growth companies of all sizes located throughout the world. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's Strategies or a GIPS-compliant presentation please contact us at 1-800-99BARON.

† The Strategy's historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs and secondary offerings will be the same in the future.

[1] The MSCI ACWI indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes reflected in US dollars. The MSCI ACWI Growth Index Net USD measures the equity market performance of large and mid cap growth securities across developed and emerging markets. The MSCI ACWI Index Net USD measures the equity market performance of large and mid cap securities across developed and emerging markets. The indexes and Baron Global Advantage Strategy include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

[2] Not annualized.

[3] The Strategy has a different inception date than its underlying portfolio, which is April 30, 2012.

September was not the first month or the first time in this 10-year bull market that growth stocks went out of favor. We often get asked how we respond to the volatility associated with these market moves and what we think about "value" stocks coming back in investors' favor at the expense of growth companies. The simple answer is we don't, but we think these questions are framed poorly.

All sensible investing is value-based investing. Benjamin Graham famously said that investing means buying companies or assets below their intrinsic values, and that everything else was just speculation. We apply the key principles of classic value investing to the high-quality businesses that we believe are in the early stages of the growth part of their lifecycles. We also spend a considerable amount of time analyzing disruptive change to understand where it will support and sustain companies' competitive advantages and where it will likely cause them to be left behind. But leaving that aside for a moment, a distinction needs to be drawn between investing in a *high-quality business* trading at a discount to its intrinsic value and investing in an *any-quality business*, trading for less than it is worth. It is critical for long-term investors to invest only in high-quality companies. High-quality businesses compound in value over time, while mediocre businesses do not and so must be bought below their intrinsic value and churned quickly as their stock prices approach their fair value (which does not grow over time). High-quality businesses have competitive advantages, and if they are sustainable, the company will likely grow faster and for longer periods of time. When the opportunity is particularly large and the company is innovative and benefits from disruptive change, it will frequently forego short-term profits for the benefit of larger market share and future financial rewards. As a result, many of these companies are harder to analyze and a lot of the work must go into understanding their strategies, the sustainability of their competitive advantages, and the duration of their growth. Getting to know the management teams, learning the culture that they instill, the importance that THEY place on quality – quality of their products, quality of their people, quality of their decision making – is part of our "secret sauce" that we think may not be easy to duplicate. The good news is that the majority of investors are too preoccupied with whether the Fed will cut 50 basis points or 25, whether XYZ Corp. will grow earnings 20% or 18% next quarter, and whether value will finally come back and start outperforming growth. And that's just fine by us.

Table II.
Top contributors to performance for the quarter ended September 30, 2019

	Quarter End Market Cap (billions)	Percent Impact
Afya Limited	$ 2.3	0.62%
Alphabet Inc.	845.9	0.43
Pinduoduo Inc.	37.5	0.34
PagSeguro Digital Ltd.	15.2	0.30
Datadog, Inc.	10.0	0.29

Afya Limited is the leading medical education group in Brazil, with 16 undergraduate and graduate campuses across 12 Brazilian states. Afya offers undergraduate and graduate courses as well as residency preparatory and specialization programs. Afya's stock price appreciated 35% during the quarter. We believe the fundamentals of the medical education sector in Brazil are attractive due to limited supply of available seats (a regulatory pause on new school approvals until 2023), while demand is significant and growing. Brazil is understaffed with respect to its doctors with only 2.1 physicians/1,000 people vs. 3.4 for the 36 countries in the Organization for Economic Cooperation and Development. Exacerbating this issue is the fact that Brazil has an aging population. This dynamic leads to near 100% occupancy ratios and creates long-term visibility for growth in Afya's existing base of medical schools. It enables Afya to attract students at low cost (as they mostly come to Afya organically). There is also an opportunity for Afya to benefit from cross-selling residency, preparatory, and graduate programs, as well as pursue accretive acquisitions to widen its competitive moat and growth durability. With our documented affinity for platform businesses, we thought CEO Virgilio Gibbon's vision of positioning Afya as the "*…digital medical platform… that drives strong word-of-mouth adoption and creates value for medical students throughout their careers"* particularly noteworthy. We also like Afya's asset-light business model, recurring revenue stream with high incremental margins, and strong cash flow conversion rates.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet increased 13% in the quarter on robust revenue growth driven by strength in mobile search and YouTube. We retain high conviction in Alphabet's opportunity as it continues to benefit from growth in mobile and online video advertising, benefiting its core assets of search, YouTube, and the Google ad network. We are further encouraged by Alphabet's increased investments in its Google Compute Platform, which is its cloud business; its focus on enterprise go-to-market strategies; and the significant optionality embedded in its Artificial Intelligence, autonomous driving (Waymo), and life science (Verily, Calico) investments.

Pinduoduo Inc. is one of the largest and fastest growing e-commerce platforms in China. Through its partnership with Tencent, which owns 17% of Pinduoduo, the company offers a social buying experience where product discovery and purchases are instantly shared via WeChat or QQ such that the purchase price of a product declines as the volume of purchases increase, which leads to viral discovery and distribution dynamics. Gross merchandise value on the platform has exceeded $100 billion over the last 12 months and the number of active buyers reached 483 million, only four years after the company's founding. Pinduoduo outperformed during the quarter with the stock price rising 56% due to robust growth (revenues rose 169% year-over-year), declining operating leverage (81% of revenues compared to 103% in the prior quarter) because of its investment in sales and marketing, and results that beat market expectations. We think the company continues to be well positioned to capture growth in lower-tier cities where e-commerce penetration remains lower but is growing faster. We believe the company is in the early stages of its growth cycle with a lot of room for improvement in its low take rates and advertising cost-per-clicks. Our research suggests that Pinduoduo has a reasonable opportunity to build a successful, sticky, and profitable platform over time.

PagSeguro Digital Ltd. is a Brazilian payment processor, focused on facilitating the ability of small and micro–merchants in Brazil to accept different forms of credit, debit, and digital currency transactions. For most of its merchant customers, PagSeguro's simple product offering – an internet-enabled payment device along with a mobile wallet – allows the merchant to instantly accept credit transactions without the need for a bank account. Shares of PagSeguro, which have increased over 150% year-to-date, continued their strong performance, appreciating 19% during the quarter after reporting accelerating revenue growth, which rose 43%

year-over-year, and the rapid adoption of PagBank with the company reaching 1.4 million consumers in the context of approximately 70 million unbanked people in Brazil. We believe that PagSeguro's digital payments platform, increasingly recognized brand, and rapidly improving penetration have the potential to dramatically lower transaction costs for these micro-merchants. It is fair to point out that while the price of the stock has risen considerably over the last nine months, we have used the inflows into the Strategy to dilute the size of this investment. We expect the stock to remain volatile and are managing our position sizing accordingly. Over time, we believe PagSeguro can gain significant market share from the bank-controlled incumbent payment processors who continue to underserve this growing merchant community.

Datadog, Inc. provides monitoring of cloud-scale applications through a software-as-a-service ("SaaS")-based big data analytics platform. After meeting with representatives from the company numerous times and getting to know it well while it was still private, we participated in its IPO. Since we purchased the stock, shares had gained 26% by the end of the quarter. The company uses infrastructure monitoring, application performance monitoring, and log management to provide close-to-real-time visibility of customers' IT environments. This service helps companies reduce the probability of downtime, increase app performance, and solve problems faster and more dynamically. As companies digitally transform, become more agile, and break down silos, we believe that they would need a solution like Datadog to make sure their IT keeps pace. Datadog has built a strong brand with a viral bottom-up go-to-market philosophy, and a growing product line enabling it to generate hyper-growth through its "land and expand" strategy (over 80% growth with over 140% net-dollar-expansion rates). As more companies transition to the cloud and the complexity of their infrastructure grows due to increasing technological diversity, scale, and agility, the value of Datadog's real-time monitoring platform increases. According to Datadog's CEO Olivier Pomel, the company is often ***the "first call" after customers adopt a cloud solution and "a critical part of their cloud journey."*** This should drive Datadog's growth for years, as we are still early in the cloud penetration s-curve. According to Gartner, public cloud represented about 5% of total IT spending in 2018. Datadog's platform opportunity is potentially very large, as it is deployed across infrastructure, is used by everyone in an IT organization (Development, Operations, and Business teams), and integrates data from a multitude of sources, broadening the problem set it can handle.

Table III.
Top detractors from performance for the quarter ended September 30, 2019

	Quarter End Market Cap (billions)	Percent Impact
Illumina, Inc.	$ 44.7	–0.68%
Amazon.com, Inc.	858.7	–0.47
argenx SE	4.3	–0.47
Aerie Pharmaceuticals, Inc.	0.9	–0.43
Twilio Inc.	14.9	–0.41

Illumina, Inc. is the market-leading provider of next generation DNA sequencing systems and consumables. Illumina gave back almost all of its gains from the prior quarter after reporting a revenue miss and lowering revenue guidance for the year to 6% growth from its prior guidance of 13% to 14%. The shortfall was due to delays in population genomics programs, slower growth in the consumer genomics market, and a slowdown in sales of certain low throughput instruments. We continue to believe Illumina has a long runway for growth driven by expanding applications that utilize DNA sequencing, as less than 0.1% of the world's population had been sequenced thus far.

Amazon.com, Inc. is the world's largest e-commerce and cloud service provider. Shares of Amazon declined 8% during the quarter driven by the rotation out of quality and growth coupled with mixed quarterly results that saw revenue and unit growth accelerate while profits decelerated due to increased investments in one-day shipping, video, and AWS headcount. While Street investors are focused on the near-term hit to margins, we believe that Amazon's intrinsic value continues to rise with the one-day shipping availability, driving an acceleration of growth. Pattern recognition suggests that Amazon will be able to drive increased profitability at a later stage, as it has with its earlier products.

argenx SE is a clinical-stage biotechnology company focused on research and development of human monoclonal antibodies for the treatment of oncological, autoimmune, and inflammatory diseases. Shares of argenx declined 19% in the third quarter due to a lack of catalysts and the rotation out of momentum, growth, and quality (argenx is still up 19% year-to-date). We believe that argenx's antibody FcRn platform is one of the most valuable assets in the biotechnology development space, offering significant long-term potential as the company proves its products' effectiveness in multiple autoantibody disorders.

Aerie Pharmaceuticals, Inc. is a clinical stage pharmaceutical company focused on discovery, development, and commercialization of therapies, such as its Rhopressa and Roclatan eye drops, for the treatment of glaucoma and other diseases of the eye. Due to the difficulties of gaining insurance reimbursement, initial launch ramp has been slower than the company anticipated and Aerie had to reduce guidance during its second quarter earnings call, driving shares down 35%. With the current high unmet need, a growing aging population, and a novel mechanism of action with proven efficacy, we expect Aerie to drive meaningful sales over the upcoming years. We retain a relatively small position in the stock.

Twilio Inc. is a leading communications platform-as-a-service company offering a set of application programming interfaces that help developers embed communications into their software through its cloud platform. Shares declined 19% during the quarter in conjunction with the market correction in high-growth, high-multiple stocks. We retain conviction as Twilio benefits from digital transformation trends that are leading enterprises to increasingly embed communications into their software, creating a multi-billion-dollar opportunity for the company.

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 or country weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view."

The top 10 positions represented 40.0% of the Strategy, and the top 20 represented 62.2%. Our investments in the Information Technology, Consumer Discretionary, Health Care, Communication Services, and Financials sectors, as classified by GICS, represented 94.2% of the Strategy's net assets. Our investments in companies domiciled outside the U.S. represented 45.8% of net assets.

Table IV.
Top 10 holdings as of September 30, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$858.7	$20.7	6.4%
Alibaba Group Holding Limited	435.4	18.8	5.8
Alphabet Inc.	845.9	15.2	4.7
Facebook, Inc.	508.1	12.6	3.9
Mellanox Technologies Ltd.	6.0	12.0	3.7
Illumina, Inc.	44.7	11.1	3.4
Splunk, Inc.	17.8	10.1	3.1
Veeva Systems Inc.	22.6	9.8	3.0
MercadoLibre, Inc.	27.4	9.7	3.0
EPAM Systems, Inc.	10.0	9.7	3.0

Exposure By Country

Table V.
Percentage of securities by country as of September 30, 2019

	Percent of Net Assets
United States	49.4%
China	11.4
Israel	6.5
Netherlands	5.6
Brazil	5.4
India	5.0
Argentina	4.6
United Kingdom	3.4
Canada	2.6
United Arab Emirates	1.3

Recent Activity

During the third quarter, we initiated six new investments and added to 37 existing positions as we continued to put the Strategy's inflows to work. We also sold out of five investments that were either not able to graduate into "core" holdings or whose stock prices got over-extended significantly above our estimates of their intrinsic values. The above does not include the closing of the Worldpay acquisition by Fidelity National Information Services (FIS), where we chose to retain the shares of FIS. We ended the quarter with 52 investments, which include shares of Mellanox Technologies Ltd., whose (all cash) acquisition is expected to close by the end of the year, as well as several "in transit" stub holdings that we were in the process of either building a position in or selling out of the Strategy.

Table VI.
Top net purchases for the quarter ended September 30, 2019

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Amazon.com, Inc.	$858.7	$10.0
Alibaba Group Holding Limited	435.4	9.4
Mellanox Technologies Ltd.	6.0	5.7
MercadoLibre, Inc.	27.4	5.5
Alphabet Inc.	845.9	5.5

Purchases of shares of **Amazon.com, Alibaba Group, Mellanox, MercadoLibre,** and **Alphabet** along with the 32 other existing investments were part of the "Buy" programs that were implemented throughout the quarter as we put new Strategy inflows to work.

We initiated a small position in **Medallia Inc.** Medallia provides a SaaS solution for customer experience management. Its products include B2C Customer, B2B Customer, Employee, and Product Experiences solutions. It provides a single integrated platform that collects customer and employee feedback data, in real time, from a multitude of channels including survey, social media, and review websites, and then helps the customers act on that data. This solution enables customers to improve their own customer experiences, driving greater satisfaction, reducing churn, and increasing the agility of the enterprise. We are not surprised that the Medallia platform has become a mission-critical, widely used tool for its customers with more than 50% using it daily. Medallia has over 600 customers, including some of the leading banks and media and hospitality companies. We believe that Medallia will benefit from the secular trends of digital transformation and the increasing focus on customer experiences as it becomes a major determining factor for business outcomes. According to PwC LLP, 73% of customers value customer experience as an important factor in purchase decisions, but only 20% of companies deliver good customer experiences.[†] We believe Medallia is a prime beneficiary of disruptive change, which checks an important box in our investment philosophy. Agility and responsiveness to customer needs have become a must for organizations who are facing disruption from smaller, nimbler start-ups. This is why the phrase "digital transformation" has become the most frequently mentioned theme on so many of earnings calls that we listen to. Those organizations that remain siloed, with waterfall decision-making processes, are being left behind as their customers move to those vendors that enable digitization and can deliver quickly. The Medallia platform, in our view, will allow organizations to become more agile, responsive, and data driven. CEO Leslie Stretch summarizes this in his shareholder letter (emphasis ours):

*"Our technology enables organizations to **move at the speed of their many constituents**. Companies that use Medallia engage their customers and employees in the relentless improvement of experience. They **listen carefully** to these key players and **act quickly** on what they learn, helping to increase customer retention and loyalty, improve operational efficiency, reduce employee attrition, build products that people love and expand cross-sell and up-sell opportunities."*

Medallia's recurring revenue, asset-light business model, "land and expand" sales model, and favorable unit economics (high customer lifetime value and low churn) all fit into creating the kind of a company that we like to invest in.

† *Source: PwC Future of Customer Experience Survey 2017/18.*

We also initiated a small position in **10X Genomics, Inc.** after participating in the company's IPO. 10X is a tools provider focused on a new innovative technology for **single cell biology**. Essentially all biological research over the past centuries has been done via analyzing averages. Take a biopsy or scrape cells off a lab dish and then run your experiments using thousands to millions of cells at once. While this has clearly been important for scientific progress, it leaves behind critical information that only single cell technology can answer:

- What are the characteristics of the single cell that started the tumor, and can we screen for it?
- How many total cell types are in the body (an answer biologists still don't know)?
  - For example, only recently did biologists find the cell type responsible for cystic fibrosis using 10X technology.
- How do cell populations behave before and after stresses like exercise or delivery of a therapeutic?

The list goes on and on.

The basis of the 10X technology is a gel/oil droplet that can capture individual cells in its Chromium instrument, with additional linkers and barcodes that are compatible with next generation sequencing machines such as Illumina's platforms. While some of this has been done before, 10X has improved the technology and microfluidics, leading to a 10 times improvement in throughput (80,000 cells at maximum). 10X has essentially become the de facto standard and is growing the field rapidly (revenue more than doubled in 2018). We believe this is a transformative technology and the next step for biological research after the advance of sequencing over the last decade.

Table VII.
Top net sales for the quarter ended September 30, 2019

	Market Cap When Sold (billions)	Amount Sold (millions)
Naspers Limited	$69.5	$3.4
Tesla, Inc.	41.0	0.8
Zoom Video Communications, Inc.	26.5	0.6
CrowdStrike, Inc.	18.9	0.5
InflaRx N.V.	0.1	0.1

There were two primary tenets to our investment thesis on **Naspers Limited**:

1. The stock was trading at a dramatic 45% to 50% discount to its Net Asset Value ("NAV").
2. We had high conviction in Naspers' main assets, which were its 35% ownership stake in leading Chinese internet company Tencent and a sizable stake in Indian e-commerce leader Flipkart. Our analysis suggested that we were getting the remaining 140 or so additional internet assets as well as Naspers' local South African media and telecom assets for free.

Shares of Tencent went up almost four-fold and Naspers has been able to monetize its investments successfully by selling its stake in Flipkart to Walmart and reducing its stake in Tencent through open market transactions. In February of this year, Naspers successfully spun out to shareholders its media and telecom assets, Multichoice Group Ltd., which we received and sold a short while later. The company also relisted its most valuable internet assets (including Tencent) in Amsterdam under the name Prosus earlier this quarter all in an effort to reduce the discount to NAV. By the time the company was done with all the transactions, the discount to NAV had narrowed from over 50% (at peak) to just over 20%, which is an average discount for a conglomerate of Naspers' size. We have been reducing the size of Naspers' position throughout 2019 (from close to 5% to 1.6%) by allowing it to get diluted and not allocating any of the significant flows that were coming into the Strategy. Finally, we concluded that our investment thesis had largely played out and we chose to exit the stock.

We exited our small investment in **Tesla, Inc.** as the never-ending exodus of executive talent weighed on our conviction and prevented us from establishing a position of any meaningful size.

We also sold out of our small stakes in **Zoom Video Communications, Inc.** and **CrowdStrike, Inc.** as their stock prices shot up dramatically, rising above our estimates of their intrinsic values. Finally, we sold a stub position in **InflaRx N.V.** after the company failed a phase 2 trial.

Outlook

The month of September marked a sharp turn in the investing environment with our style and our stocks going out of favor. Interestingly, we have not been able to pinpoint much that was new. Trade tensions with China, political unrest in Washington, Brexit, manufacturing slowdown, potential global economic slowdown, etc., were all issues investors were worried about since the beginning of the year. Nonetheless, the market's response was different. This reminded us of an amusing cartoon that Howard Marks recently quoted in a memo:

"On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to reimposition of higher interest rates."

We don't believe it is possible to forecast how these events will unfold, much less how the market would respond to them. To us, they appear to be manageable macro risks that will likely get resolved and pass. We continue to do what we do, which is to focus on fundamental, company-specific research and analysis. We also try to use the periods of time when our style and stocks are out of favor to replace good ideas with better ones and generally upgrade the quality of the portfolio.

We think valuations for global equities remain undemanding, especially when compared to other asset classes, alternative investments, and certain sectors, such as Health Care and parts of Information Technology, that have become downright attractive again after correcting 20% to 30%.

Our goal remains to maximize long-term returns without taking significant risks of a permanent loss of capital. We focus on identifying and investing in what we believe are unique companies with sustainable competitive advantages that have the ability to reinvest capital at high rates of return for extended periods of time. 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.

Sincerely,

Alex Umansky
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

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. This may result in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell. The Strategy may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.