Baron High Growth Strategy

June 30, 2023

Dear Investor:

Performance

During the second quarter, Baron High Growth Strategy climbed 16.37%, outperforming the broader market, including the Russell 3000 Growth Index, which rose 12.47%, and the S&P 500 Index, which gained 8.74%. For the year-to-date and trailing 12-month periods, the Strategy is up 37.31% and 37.97% respectively, ahead of both indexes.

Table I.
Performance for annualized periods ended June 30, 2023 (Figures in USD)†[1]

	Baron High Growth Strategy (net)[2]	Baron High Growth Strategy (gross)[2]	Russell 3000 Growth Index[2]	S&P 500 Index[2]
Three Months[3]	16.37%	16.66%	12.47%	8.74%
Six Months[3]	37.31%	37.97%	28.05%	16.89%
One Year	28.13%	29.39%	26.60%	19.59%
Three Years	8.51%	9.58%	13.24%	14.60%
Five Years	16.09%	17.23%	14.39%	12.31%
Ten Years	15.31%	16.44%	15.26%	12.86%
Fifteen Years	13.27%	14.40%	12.64%	10.88%
Since Inception (June 30, 2000)[4]	9.67%	10.95%	6.44%	7.01%

Table II.
Calendar Year Performance 2018-2022 (Figures in USD)

	Baron High Growth Strategy (net)[2]	Baron High Growth Strategy (gross)[2]	Russell 3000 Growth Index[2]	S&P 500 Index[2]
2018	8.57%	9.62%	(2.12)%	(4.38)%
2019	40.13%	41.50%	35.85%	31.49%
2020	88.86%	90.74%	38.26%	18.40%
2021	12.20%	13.30%	25.85%	28.71%
2022	(42.68)%	(42.12)%	(28.97)%	(18.11)%

Review & Outlook

U.S. equities rallied for a second consecutive quarter, supported by easing inflation, a first-time pause in the Federal Reserve's prolonged interest rate hike campaign, Congress' successful avoidance of the debt ceiling cliff, earnings optimism, and economic releases bolstering the *soft landing* narrative. One notable aspect of the ongoing recovery has been narrow market leadership. Several large technology companies have accounted for most of the recent gains in the major market indexes, driven by excitement surrounding their potential ability to gain from the widespread adoption of artificial intelligence (AI). The Strategy remains exposed to AI and other industry trends driving the performance of these technology leaders. We have significant investments in individual companies such as **Microsoft Corporation**, **NVIDIA Corporation**, **Amazon.com, Inc.**, and **Tesla, Inc.**, and we are overweight across the software, cloud computing, semiconductor, and electric vehicle (EV) industry verticals.

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 June 30, 2023, total Firm assets under management are approximately $41.8 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; and separately managed accounts and one wrap account program managed by BCM. 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 Report please contact us at 1-800-99BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

† The Strategy's 3-, 5-, and 10-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs will be the same in the future.

1 With the exception of performance data, most of the data is based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

2 The **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market and 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 indexes and the Strategy include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Strategy performance. Investors cannot invest directly in an index.

3 Not annualized.

4 The Strategy has a different inception date than its representative account, which is 2/29/2000.

As discussed in recent quarterly letters, we have remained focused on our long-term investment mandate (my *tagline: faster for longer*); our in-house research differentiation; secular growth trends disrupting industries and driving long-term growth; and exceptional businesses with durable competitive advantages, cash-generative business models, and double-digit multi-year projected annual returns. I did emphasize late last year that, based on our research and analysis, we believed the environment was favorable for our Strategy and secular growth stocks. While I could not and did not attempt to predict the precise timing, reflecting on the first half of the year, I believe both the setting at the start of the year and our investments pinpointing the right trends played a major role in our outperformance. The Strategy's exposure to the secular trends of AI, semiconductors, software, cloud computing, EVs, and digital media generated the lion's share of our outperformance. Leading the way this quarter (in contribution order) were individual investments in **NVDIA Corporation** (up 52%), **Microsoft Corporation** (up 18%), **Amazon.com, Inc.** (up 26%), **Tesla, Inc.** (up 26%), **CoStar Group, Inc.** (up 29%), **Meta Platforms, Inc.** (up 35%), **ServiceNow, Inc.** (up 21%), **Intuitive Surgical, Inc.** (up 34%), **Alphabet Inc.** (up 16%), **Shopify Inc.** (up 35%), **Advanced Micro Devices, Inc.** (up 16%), **GitLab Inc.** (up 49%), **The Trade Desk** (up 27%), **Datadog, Inc.** (up 35%), **Marvell Technology, Inc.** (up 38%), **ShockWave Medical, Inc.** (up 31%), and **HubSpot, Inc.** (up 24%).

We have written many times that we believe durable growth – of revenue, earnings, and cash flow – is the critical foundation of successful growth investing. We have shown the best investments of the last half century are those companies that expanded *faster for longer* than consensus initially predicted. We have demonstrated how the market repeatedly underestimated growth for top companies in new and innovative verticals. The market misjudged the long-term growth that would be achieved by such disruptive and revolutionary developments as Microsoft's Windows operating system, Google's internet search engine, Amazon's e-commerce platform, Apple's iPhone, and Tesla's EVs. These companies always looked expensive when valued based on then-current Street estimates, but they weren't. They yielded great returns not because they were awarded premium multiples but because they crushed expectations, delivering loftier revenues, earnings, and cash flow than most investors thought they would. We believe the same thing will drive returns for the innovators across many layers of the AI stack, from semiconductors to applications. To be sure, barely six months after the launch of ChatGPT made *generative AI* a household term, NVIDIA stunned the market by projecting next quarter sales more than 50% higher than Street expectations (see discussion below). Please visit our Firm's website to watch our Baron Thought Leadership Forum video presentation on AI (and other topics) and/or read our Baron Insight: Investing in AI.

Table III.
Top contributors to performance for the quarter ended June 30, 2023

	Percent Impact
NVIDIA Corporation	3.37%
Microsoft Corporation	2.91
Amazon.com, Inc.	1.58
Tesla, Inc.	1.24
CoStar Group, Inc.	0.83

In the wake of our and the broader technology market's rebound over the first half of the year, I am repeatedly asked by investors, "Have I/we missed it?" I've now been doing this long enough that I recall being asked this question many times throughout my career, particularly in the second half of 2009, during what we now know was only the first phase of the market's recovery from the Great Financial Crisis and the start of a multi-year bull market. I have articulated consistently that we are not market timers. So, if this question is with a three-month, six-month, or even a one-year time frame, I candidly have no idea. But if it is with a four-to-five year, or even longer, perspective, my answer is no. Think about the *faster for longer* maxim discussed earlier in this letter and in our letters over the years. Think about where the world is going, not where it's been. Think about how early we are in the generational, tectonic, revolutionary shifts underlying the themes – like AI, EVs, cloud computing, genetics, etc. – that we emphasize in our portfolio. We are confident that these trends and the leading companies driving them forward will gain a lot of weight and be worth a lot more in the future than they are today.

We continue to manage a high conviction portfolio with an emphasis on the secular trends cited above. Among others, during the second quarter, we initiated or added to the following positions:

Entertainment: **World Wrestling Entertainment, Inc.**

Software: **ZoomInfo Technologies Inc.** and **Cloudflare, Inc.**

Semiconductors: **indie Semiconductor, Inc.**, **Advanced Micro Devices, Inc.**, and **Marvell Technology, Inc.**

Digital Media: **Meta Platforms, Inc.**

EVs/Autonomous Driving: **Mobileye Global Inc.** and **Rivian Automotive, Inc.**

Health Care Equipment: **DexCom, Inc.**

Biotechnology/Pharmaceuticals: **Arrowhead Pharmaceuticals, Inc.** and **Rocket Pharmaceuticals, Inc.**

Below is a partial list of the secular megatrends we focus on:

- Cloud computing
- Software-as-a-service (SaaS)
- AI
- Mobile
- Semiconductors
- Digital media/entertainment
- Targeted digital advertising

- E-commerce
- Genomics
- Genetic medicine
- Minimally invasive surgical procedures
- Cybersecurity
- EVs/autonomous driving
- Electronic payments

NVIDIA Corporation is a leading semiconductor company that sells chips and software for accelerated computing and gaming. Shares continued their strong trajectory during the quarter, nearly tripling year to date, after NVIDIA reported a meaningful acceleration in demand for its data center chips, which drove a material beat in forward quarterly guidance, with revenues expected to increase from $7.2 billion to approximately $11 billion sequentially. My colleagues and I, as well as our buy-side peers, have never witnessed a beat of this magnitude. This unprecedented acceleration is driven by growing demand for accelerated computing chips fueled by the rise in generative AI. According to NVIDIA CEO Jensen Huang (during the company's May 5 earnings call):

> [W]e're seeing incredible orders to retool the world's data centers….[Y]ou're seeing the beginning of call it a 10-year transition to basically recycle or reclaim the world's data centers and build [them] out as accelerated computing….[T]he world has a $1 trillion of data center installed…[but] you can't reasonably scale out data centers with general-purpose computing….[A]ccelerated computing is the path forward and now it's got a killer app and it's got generative AI….[O]ver the next four or five, 10 years, most of that $1 trillion…will be largely generative AI….Over the next decade, most of the world's data centers will be accelerated.

We agree the world now finds itself at the tipping point of a new computing era with NVIDIA at its epicenter. AI enables human-computer interaction through natural language, with a key benefit being better utilization of data for decision-making. We remain invested as we believe NVIDIA's end-to-end AI platform, and the ecosystem it has cultivated over the last 15 years, will benefit the company for years to come.

Microsoft Corporation is a software company traditionally known for its Windows and Office products. Over the last five years, it has built a $60-plus billion cloud business, including its infrastructure-as-a-service Azure business, Office 365, and Dynamics 365 (Microsoft's customer relationship management offering). Shares increased on financial results that exceeded consensus with Azure beating guidance for the second time in four quarters, coming in one point ahead of forecasts at 31% constant-currency growth. Forward quarterly guidance for Azure landed a full two points ahead of expectations (26% to 27% constant-currency growth), with the company highlighting "stable trends" from January persisting through April. In the Q&A section of the call, the CEO noted that the company was seeing a good balance of new workloads and ongoing optimizations, with the CFO following up that "at some point, workloads just can't be optimized much further, and when you start to anniversary that, you do see that it gets a little bit easier in terms of comps year-over-year. And so, you even see that a little bit in our guidance, some of that impact." Microsoft is executing at a high level, navigating a challenging macro backdrop while aggressively investing in long-term growth. The company's proven ability to innovate is only getting stronger with continued enhancements across the portfolio including business analytics, cybersecurity, and, more recently, AI, with the launch of Azure OpenAI services and Copilots across its application portfolio.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were up in the quarter due to improving macroeconomic fundamentals. In particular, the company expects growth in its cloud business, Amazon Web Services, its biggest growth driver, to re-accelerate later in 2023. We also believe Amazon is well positioned in the short-to-medium term to meaningfully improve core North American retail profitability to pre-pandemic levels, as it leverages its new regionalized fulfillment network and its fast-growing, margin-accretive advertising business. Longer term, Amazon has substantially more room to grow in e-commerce, where it has less than 15% penetration in its total addressable market. Amazon remains a clear leader in the vast and growing cloud infrastructure market, with large opportunities in application software, including enabling generative AI workloads.

Table IV.
Top detractors from performance for the quarter ended June 30, 2023

	Percent Impact
Endava plc	–0.47%
Illumina, Inc.	–0.41
indie Semiconductor, Inc.	–0.29
Ceridian HCM Holding Inc.	–0.23
GM Cruise Holdings LLC	–0.16

Endava plc provides outsourced software development for business customers. Shares fell due to a pullback in customer demand in March following multiple bank failures. Management reduced financial guidance for the June quarter to reflect greater macroeconomic uncertainty and lower revenues from private equity-backed companies, which represent about 20% of its business. Sales activity has since rebounded, which supports management's view that the slowdown would be temporary and demand for digital transformation should persist. Management also believes generative AI will be a tailwind for the business. We remain investors because we believe Endava will continue gaining share in a large global market for IT services.

Illumina, Inc. is the market leader in DNA sequencing technologies. Shares detracted from performance due to a proxy battle led by activist investor Carl Icahn, who criticized the Board's decision to approve the Grail acquisition without regulatory approval. Icahn nominated three new Board members. After a shareholder vote, one of Icahn's nominees was elected to the Board to replace the Chair. Shortly after the vote, Francis deSouza announced his resignation as CEO, and Illumina started a search for a permanent CEO. We have been long-term Illumina shareholders and we continue to believe the company will grow its DNA sequencing business for many years to come, but we are looking forward to additional clarity around new management and the company's strategic direction, particularly relating to Grail.

Indie Semiconductor, Inc. is a fabless designer, developer, and provider of automotive semiconductors for advanced driver assistance systems and *connected car* user experience and electrification applications. Shares gave back some of their first quarter gains despite reporting strong financial results and guidance. While there was no company-specific fundamental news to warrant a decline in the stock, there is a short-term fear among semiconductor industry investors that demand will wane because of excess inventory in the automotive semiconductor supply chain. As indie continues to rapidly ramp new products and design wins into production, we do not believe it would be meaningfully impacted by an inventory correction, should one occur. Over the long term, the automotive semiconductor vertical remains attractive, and we believe indie will continue to deliver on its targeted model of profitability in the second half of 2023 and 60% gross and 30% operating margins by 2025, while continuing to grow revenues rapidly as it delivers on its over $4 billion and growing strategic backlog.

Portfolio Structure

We invest in secular growth and innovative businesses across all market capitalizations, with the bulk of the portfolio landing in the large-cap zone. As of the end of the second quarter, the largest market-cap holding in the Strategy was $2.5 trillion and the smallest was $1.5 billion. The median market cap of the Strategy was $33.2 billion and the weighted average market cap was $703.9 billion.

To end the quarter, the Strategy had $1.0 billion of assets under management. We had investments in 46 unique companies. The Strategy's top 10 positions accounted for 51.6% of net assets.

Table V.
Top 10 holdings as of June 30, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$2,532.1	$145.9	14.1%
NVIDIA Corporation	1,044.9	83.1	8.0
Tesla, Inc.	829.7	68.2	6.6
Amazon.com, Inc.	1,337.5	63.3	6.1
CoStar Group, Inc.	36.4	31.1	3.0
Visa Inc.	498.8	30.2	2.9
Meta Platforms, Inc.	735.5	29.6	2.9
ServiceNow, Inc.	114.5	29.2	2.8
Gartner, Inc.	27.7	28.4	2.7
Mastercard Incorporated	372.7	26.4	2.5

Recent Activity

Table VI.
Top net purchases for the quarter ended June 30, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
World Wrestling Entertainment, Inc.	8.1	$12.5
ZoomInfo Technologies Inc.	10.2	6.7
Meta Platforms, Inc.	735.5	5.3
Mobileye Global Inc.	31.1	4.1
Rivian Automotive, Inc.	15.6	2.2

During the quarter, our largest purchase was **World Wrestling Entertainment, Inc.** (WWE), and our largest sale was **Endeavor Group Holdings, Inc.** We swapped one for the other upon the two companies' announcements that they plan to merge Endeavor's Ultimate Fighting Championship (UFC) asset with the WWE in a new publicly traded vehicle, with Endeavor maintaining majority control of the combined business. We've been shareholders in Endeavor since its IPO in April 2021 and have been studying the business since 2019. We think the company has an interesting collection of premium, hard-to-value assets, but the principal driver of our interest was its ownership of the UFC, the largest and most prestigious promoter of global combat sports. Our swap from one stock to the other was essentially a decision on the preferred vehicle to continue our ownership in the UFC. We chose WWE (whose shares will convert into shares of TKO Group Holdings (TKO) when the transaction is completed later this year) for the following reasons:

(1) TKO will be a pureplay on premium sports media rights (WWE + UFC) that we expect to continue increasing in value, with significant broadcast rights expirations coming in 2024 to 2026;

(2) We believe WWE investors expected a complete sale of the company rather than a stock-for-stock merger and some technical pressure and confusion about the ultimate economic value of the equity they were receiving caused the WWE vehicle to trade at a discount immediately following the transaction, of which we were able to take advantage;

(3) On our calculations of intrinsic value and long-term growth potential, WWE shareholders are getting more ownership in the combined company than the amount of value WWE is contributing to the deal, which was not reflected in the early days following the announcement (and still isn't in our view);

(4) There should be significant cost synergies to the deal, given that both companies are primarily in the business of holding and promoting arena-based sporting events, producing and selling media content, and negotiating sponsorship agreements; and

(5) We believe Endeavor's management team can add significant value to the WWE business and will drive an acceleration in revenue from media rights, sponsorships, and better yield management at live events.

ZoomInfo Technologies Inc. provides go-to-market business intelligence software. We took advantage of continued weakness in ZoomInfo shares to rebuild our position at attractive prices following tax-loss sales earlier in the year. ZoomInfo is a highly profitable and cash-generative business with the most comprehensive platform of software and data to improve the go-to-market efforts of its customers, not to mention new products in the marketing and talent-acquisition verticals. When the macro headwinds abate, we believe ZoomInfo will accelerate growth as it continues to penetrate its $70 billion-plus total addressable market.

We wrote up **Meta Platforms, Inc.** as a top net purchase last quarter. We continued building our position during the second quarter.

During the quarter we added to our position in **Mobileye Global Inc.**, a leading provider of advanced driver-assistance systems (ADAS) and autonomous driving technologies. The company partners with a wide range of automotive manufacturers worldwide. As of April 2023, their solutions have been installed in about 800 vehicle models and deployed on over 140 million vehicles globally. Furthermore, Mobileye has maintained a dominant share position in the global ADAS market for years. The company was founded in 1999, effectively pioneered the ADAS market, and introduced its first EyeQ system-on-chip in 2007 – enabling vehicles to efficiently gain ADAS capabilities such as real-time detection of vehicles, pedestrians, and lane markings. Until recently the company's growth was mostly driven by capturing additional market share, but we believe in the future Mobileye will benefit from automakers' expanding adoption of its more advanced programs. These programs, such as SuperVision and Chauffeur, leverage Mobileye's extensive data assets, technology, and strategic relationships with customers to deploy systems with sophisticated capabilities. The advanced programs are expected to generate thousands of dollars in revenue to Mobileye per installed vehicle, well above current levels of approximately $50. Mobileye has secured several contracts for its SuperVision solution, including Chinese brands such as Geely's Zeekr and Western brands such as Porsche. We have closely followed the company and its technology innovations and interacted with Mobileye's management team for many years now, having been shareholders of Mobileye prior to its acquisition by Intel in 2017. We remain optimistic about the transformative potential of the autonomous revolution. Leveraging years of investment, a diverse customer base, expertise, and robust cash generation, we believe Mobileye is well positioned to create value for both shareholders and customers during this transformation.

Rivian Automotive, Inc. is a U.S.-based EV manufacturer. As investors know, we do deep, tireless, and steady research across the EV space. Based on our work, we concluded that Rivian was hitting a turning point in its execution, particularly ramping vehicle production, rolling out engineering innovations (such as the Enduro motor and lithium-iron-phosphate battery pack), and lowering costs-of-goods-sold per vehicle; and it was trading at a valuation that offered attractive long-term returns. Rivian recently reported second quarter production and delivery figures that beat Street expectations and confirmed that it remained on track to hit its 50,000 annual production target.

Table VII.
Top net sales for the quarter ended June 30, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Endeavor Group Holdings, Inc.	$ 10.9	$11.8
Alphabet Inc.	1,527.9	5.1
NVIDIA Corporation	1,044.9	2.6
Snowflake Inc.	57.4	2.4
Electronic Arts Inc.	35.3	2.1

We further trimmed **Alphabet Inc.** along the lines of what we communicated last quarter–that ChatGPT and/or similar AI-based services present a hard-to-measure risk to Google's virtual search monopoly.

We slightly trimmed our position in **NVIDIA Corporation** in response to a large outflow earlier in the quarter. We sold approximately the same amount as the outflow, which resulted in an increase in the position size. Our aim was to maintain our NVIDIA portfolio weight at a constant level. In 20/20 hindsight, with solid inflows later in the quarter and NVIDIA's stock gains, this was a regrettable decision. Fortunately, the sale was a small trim. At the end of the second quarter, NVIDIA was the Strategy's second largest position and the portfolio's largest overweight relative to our primary index.

Our sale of **Snowflake Inc.**, a leading data management software vender, was a position-size trim, and we used the proceeds to strategy purchases of other software names like ZoomInfo and Cloudflare. We remain confident in Snowflake's management team, technology, and long-term growth opportunity.

We reduced our position in **Electronic Arts Inc.** to fund purchases of other names in which we have more conviction.

I remain confident in and committed to the Strategy: durable growth based on long-term, innovation-driven secular growth trends. We continue to believe that non-cyclical, durable, and resilient growth should be part of investors' portfolios and that our strategy will deliver solid long-term returns for our investors.

Sincerely,

Michael A. Lippert
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.

Risks: Past performance is not a guide to future performance. The value of investments and income from them may go down as well as up. Your capital is at risk. Securities issued by small and medium sized companies may be thinly traded and may be more difficult to sell during market downturns. Companies propelled by innovation, including technology advances and new business models, may present the risk of rapid change and product obsolescence, and their success may be difficult to predict for the long term. Even though the Strategy is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Strategy's returns.

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 manager 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.