Dear Baron Fifth Avenue Growth Fund Shareholder:

Performance

Baron Fifth Avenue Growth Fund (the "Fund") declined 21.0% (Institutional Shares) during the first quarter, which compared to declines of 9.0% for the Russell 1000 Growth Index ("R1KG") and 4.6% for the S&P 500 Index ("SPX"), the Fund's benchmarks.

Table I.
Performance
Annualized for periods ended March 31, 2022

	Baron Fifth Avenue Growth Fund Retail Shares[1,2]	Baron Fifth Avenue Growth Fund Institutional Shares[1,2,3]	Russell 1000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	(21.06)%	(21.02)%	(9.04)%	(4.60)%
One Year	(10.99)%	(10.75)%	14.98%	15.65%
Three Years	14.15%	14.43%	23.60%	18.92%
Five Years	16.86%	17.15%	20.88%	15.99%
Ten Years	14.18%	14.48%	17.04%	14.64%
Fifteen Years	9.99%	10.23%	12.92%	10.26%
Since Inception (April 30, 2004)	10.01%	10.21%	12.04%	10.38%

"Ouch. It's been a brutal year for many in the capital markets and certainly for Amazon.com shareholders. As of this writing, our shares are down more than 80% from when I wrote you last year. Nevertheless, by almost any measure, Amazon.com the company is in a stronger position now than at any time in its past."

This is how Jeff Bezos started his letter to shareholders after Amazon.com finished year 2000, its fourth, as a public company. We've often borrowed from Jeff's writings in the past and find this introduction oddly resonates with our own perception of the situation we find ourselves in. Of course, starting with the "Ouch!"

ALEX UMANSKY
PORTFOLIO MANAGER

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

Growth stocks have been in favor for over a decade and the most common question we faced was when will this end and in what environment will you underperform. Well… we are here. The tailwinds turned into headwinds just about a year ago with value stocks' pronounced outperformance across most market cap segments beginning in early 2021. We held up exceedingly well in the early stages of this rotation, generating strong absolute and relative returns through November 16, 2021 (when the Fund was up 27.9% compared to the 27.7% and 26.7% gains for the R1KG and the SPX, respectively), and then we didn't. A commodity cycle driven by rapidly rising inflation, the regulatory crackdown in China, and the geopolitical crisis culminating with Russia's invasion of Ukraine led to a dramatic shift in investors' risk tolerance and time horizons. As a strategy focused on Big Ideas, we tend to do well when investors are confident in the present and optimistic about the future. By definition, companies we invest in for this

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail and Institutional Shares as of September 30, 2021 was 1.02% and 0.75%, but the net annual expense ratio was 1.00% and 0.75% (net of the Adviser's fee waiver). 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 Baron Fund expenses pursuant to a contract expiring on August 29, 2032, 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 www.BaronFunds.com or call 1-800-99BARON.

The Fund's 1- and 3-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

1 The **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth and the **S&P 500 Index** of 500 widely held large cap U.S. companies. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group. The indexes and the Fund include reinvestment of dividends, net of 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 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

BARON FUNDS 1987

Fund, believe they are creating or addressing huge markets in a unique, innovative, often disruptive way with a very long runway for growth. Because they believe their growth to be especially durable, they *overinvest* and *underearn today* forcing investors to value them on cash flows that will be generated in the future. When investors lose confidence in the present, the future suddenly becomes more uncertain and less relevant, and current free cash flow yield turns into the dominant valuation metric of choice. As Jeff Bezos and his shareholders found out in 2000, that is a tough environment to be overinvesting and underearning in. But stock prices aside (just for a moment), the fundamentals of many of our businesses resemble and "sound" just like Amazon did over 20 years ago.

Adyen grew revenues 46% last year with a… 63% profit margin. That's 109% on the Rule of 40. The stock was down 25% in the first quarter. **Adobe** grew revenues 23% with a 43% profit margin. The stock was down 20% in the first quarter. **Snowflake** grew revenues… 106% (to $1.2 billion – while new bookings in the fourth quarter alone were $1.2 billion in contract value) with 12% margins. The stock was down 32% in the first quarter. We believe that these companies, along with many others that we own, are the long-term beneficiaries of digital transformation, a multi-decade paradigm shift sweeping global economies today. Frank Slootman, Snowflake's CEO, explained it this way in his most recent earnings call with investors:

"Snowflake's growth is driven by digital transformation and long-term secular trends in data science and analytics, enabled by cloud-scale computing and Snowflake's cloud-native architecture. Snowflake is a single data operations platform that addresses a broad spectrum of workload types and incredible performance economy and governance. As a platform, Snowflake enables the data cloud, a world without silos and the promise of unfettered data science." In plain English it means that we want to make better decisions and we have all this data available to us. Snowflake will enable businesses to *utilize all* their data to improve their decision making.

Another example is **Datadog**, the leading infrastructure monitoring, application performance monitoring and log management software platform. Datadog's stock declined 15% during the quarter, despite reporting sparkling operational results, with revenues accelerating to a growth rate of 84% year-over-year with 33% free cash flow margins, while guiding for 2022 significantly above expectations. Datadog added 4,600 new customers *in the quarter* while existing customers continued to increase their spending on Datadog products at a rapid pace with the number of customers using four or more products increasing to 33% from 22% last year. While Datadog's stock was down, its intrinsic value has undoubtedly increased. This is enabled by rapid innovation (Datadog released 13 new products in 2021) into a market that is benefiting from the secular growth in cloud, digital transformation, and the explosion in complexity as the number of vendors, diversity of technologies and related infrastructure continued to expand.

Benjamin Graham famously said that *"in the short run, the market is a voting machine but in the long run, it is a weighing machine."* In his 2000 letter to shareholders Jeff Bezos wrote that Amazon is a *"company that wants to be weighed, and over time we will be – over the long term, all companies are. In the meantime, we have our heads down working to build a heavier and heavier company."* That too, resonates with us. Cycles will come and go. The booms, and the inevitable busts. At some point the focus will shift from the "here and now" to what will this look like when the dust settles, and the clouds dissipate? We have never been concerned with the market's voting and have tried to caution our investors against giving too much weight to our short-term returns, *especially* when they were impressive. Instead, we focus on optimizing for the long-term cumulative weight of our businesses. Investing in unique, competitively advantaged businesses with long-duration of growth and strong unit economics that enable rising returns on invested capital is the most proven way we know of getting it done.

Back to the "Ouch!" quarter. Despite the brutal headline numbers, we believe we have actually done a much better job from the capital preservation perspective than those numbers suggest. While 34 out of our 39 holdings saw their stock prices decline during the quarter, we have a high degree of confidence that the overwhelming majority of these businesses did NOT suffer permanent impairments and that the intrinsic values of many of them are actually higher today than they were at the end of last year. The stock prices were down largely due to multiple contractions as the negative macro environment shortened investors' time horizon causing long-duration assets (i.e., Big Ideas) to get hit the hardest. We have no idea how long the current "voting" environment will remain or when the proverbial bottom will be hit, but we have a lot of conviction that over the next decade, companies across industries will continue shifting workloads to the cloud, adopt zero-trust cybersecurity architectures, and continue to digitally transform. Penetration of e-commerce will continue to rise, and DNA sequencing and the use of genomics and proteomics will become pervasive in personalized medicine. Electric vehicles, autonomous driving, and shared mobility will disrupt transportation. Better decision making across every sector of the economy will be driven by the analysis and usage of actual, real-time data. These dynamics will enable the companies driving these trends to compound their intrinsic values and to accumulate weight, which over time will be reflected in their stock prices.

From a performance attribution standpoint, most of the Fund's underperformance was driven by stock selection, which was responsible for 93% of the underperformance relative to the R1KG. Information Technology (IT), Consumer Discretionary, and Health Care, which accounted for nearly 83% of the Fund's average assets were responsible for 91% of the shortfall. The rest came from our lower exposure to some of the better performing sectors during the quarter such as Energy (up 37.3%), Consumer Staples (down 2.5%), and Industrials (down 3.3%). Looking under the hood within IT, we were impacted by being overweight to IT consulting & other services, which was down 57.2% driven by the 55% decline in shares of **EPAM**, a long-term holding of the Fund. Results were also hurt by an overweight to internet services & infrastructure, which was down 48.6%, driven by the decline in shares of e-commerce companies such as **Shopify** whose stock declined 51%.

At the company-specific level, we had 32 detractors against 7 contributors, which was bad enough, but it was the 7 large detractors (**Rivian**, **EPAM**, **Shopify**, **PayPal**, **Meta Platforms**, **Snowflake**, and **Twilio**) costing over 100bps each in absolute losses that inflicted most of the pain. We did not have even a single 100bps contributor to offset this pain. We believe most of these stock declines are unlikely to result in permanent losses of capital and discuss specific reasons why we believe some of these stocks traded down later in the letter.

Table II.
Top contributors to performance for the quarter ended March 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
Tesla, Inc.	$1,113.7	0.86%
CrowdStrike, Inc.	52.4	0.79
Endava plc	7.4	0.25
ZoomInfo Technologies Inc.	24.1	0.13
Cloudflare, Inc.	38.9	0.12

During the first quarter, we bought back shares in **Tesla, Inc.**, which designs, manufactures, and sells electric vehicles, solar products, energy storage solutions, and batteries. We believe that despite the run in the stock over the last few years, Tesla presents a favorable risk/reward profile and remains a Big Idea with only about 1% market share of the automotive market. Since we bought the stock during the first quarter, shares increased 27.1%, despite a complex supply-chain environment, on continued revenue growth and record profitability. Robust demand and operational optimization allow the company to offset inflationary pressures while vertical integration provides flexibility around supply bottlenecks. Moreover, we expect new localized manufacturing capacity to drive additional efficiencies while software initiatives, including the autonomous driving program, are accelerating, offering valuable optionality to the stock.

CrowdStrike, Inc. provides cloud-delivered, next generation security solutions via its Falcon platform consisting of end-point protection, advanced persistent threat, security information, event management, and cloud workload protection. Shares rose 10.7% in the first quarter, on the back of impressive quarterly results with net new annual recurring revenue (ARR) accelerating for the second straight quarter to 52% year-over-year and the company's favorable unit economics driving 30% free cash flow margins. Moreover, key new disclosures highlight how non-end-point products are seeing momentum with cloud product-generated ARR surpassing $100 million, representing 8% of net new ARR in the quarter. With more workloads migrating to or starting in the cloud, we believe CrowdStrike is well positioned to compound at high growth rates for years given its unique product platform and attractive go-to-market business model.

During the quarter we bought shares of **Endava plc**, a provider of consulting and outsourced software development for business customers. The company operates at the forefront of the digital revolution by helping clients find new ways to interact with their customers, enabling them to become more engaging, responsive, and efficient. Endava contributed 25bps to our quarterly results thanks to the timing of our purchases despite the decline in the share price over the whole quarter as it gave back some of the big gains from last year due to increased investor caution regarding Endava's work force in Central and Eastern Europe (even though it has no presence in Ukraine, Russia, or Belarus). Endava continues seeing strong business momentum with 50% revenue growth and 59% EPS growth in the recent quarter, and we believe it will continue gaining share in the large global market for IT services for years to come.

ZoomInfo Technologies Inc. operates a cloud based B2B platform that provides sales, marketing, and HR teams with comprehensive business intelligence, enabling shorter sales cycles and higher win rates. We added to our position as the stock corrected during the quarter, driving 13bps of contribution to our performance. The relative outperformance was driven by positive earnings results and strong forward bookings commentary, with 2021 revenues up 57% year-over-year and 46% free cash flow margins. New products are starting to build momentum, and we believe ZoomInfo can become a much larger company over time as it grows into its $70 billion total addressable market.

Cloudflare, Inc., another new purchase during the quarter, is a web infrastructure and website security provider. Cloudflare disrupts legacy networking vendors by enabling customers to rent their network solutions in the cloud (and pay for usage) instead of buying firewalls, load balancers and secure web gateway devices. Using a global network in over 100 countries, Cloudflare delivers content and security within 50 milliseconds of 95% of the internet-connected population in the world. Shares contributed 12bps to results on impressive fourth quarter earnings as it continues to successfully layer high-value services such as zero trust, network services, and edge programmability on top of its modern global network. The company is attracting a broader set of investors as Cloudflare now matches durable 50%-plus top-line growth (this was the fifth straight quarter of 50%-plus revenue growth, and 56% current bookings growth suggests strong durability into 2022) with positive operating margins and break-even free cash flow. We believe that Cloudflare will benefit from long-duration of growth disrupting a $100 billion addressable market across application services, network services, and zero-trust services.

Table III.
Top detractors from performance for the quarter ended March 31, 2022

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Rivian Automotive, Inc.	$ 45.2	–4.41%
EPAM Systems, Inc.	16.9	–2.85
Shopify Inc.	85.2	–2.52
PayPal Holdings, Inc.	117.3	–1.44
Meta Platforms, Inc.	605.3	–1.33

Rivian Automotive, Inc. designs, manufactures, and sells consumer and commercial electric vehicles. Shares of Rivian continued its volatile trading following the stock's IPO in late 2021, declining 51.7% in the first quarter as investors rotated out of fast-growing long-duration stocks and as industry-wide supply-chain issues delayed Rivian's production ramp. In addition, even while other automotive companies raised prices due to inflationary pressures, Rivian launched a price increase campaign that was not well communicated and, as a result, was met with dissatisfaction by existing reservation holders. While this was an unforced error, the company quickly corrected course, reversing its decision to raise prices for existing reservations, while maintaining the increase on new buyers (which has not caused a material impact to demand). We retain conviction in the shares given management's vision, Rivian's product positioning, the company's relationship with Amazon.com, and the company's strong balance sheet, which will help it overcome the current challenges while taking advantage of the long-term opportunity as the market transitions to electric vehicles.

EPAM Systems, Inc. is a leader in software-based digital platform transformation and engineering services to business customers. The stock fell 55.5% during the quarter as a result of a potential business disruption from Russia's military invasion of Ukraine, where many of EPAM's employees are based. EPAM is a U.S.-based company headquartered in Newtown, Pennsylvania with 53,000 employees, 24% of whom are based in Ukraine, 17% are based in Russia, and 18% are based in Belarus. On February 17, 2022, the company reported very strong financial results for calendar year 2021, releasing financial guidance for calendar year 2022 above expectations. On February 28, 2022, the company withdrew its guidance due to Russia's invasion of Ukraine. The magnitude and duration of the business disruption is unknown at this time. We believe EPAM is a highly resilient organization that can adapt to operational challenges by moving people and workflows to different regions – the company has further updated via an 8-K filing on April 7 that it has begun the process of exiting its operations in Russia with already a "significant number of employees

have been relocated," while the company is also accelerating hiring in other regions. Early research from Gartner suggests that after years of delivering high-quality products, EPAM has built solid, trustful relationships with its clients, who are responding with high level of support for the company. EPAM has demonstrated strong execution and the ability to successfully manage through prior crises. Still, the range of outcomes is extremely wide, and we have reduced our position as a result. We continue to monitor the situation closely and reassess as facts emerge.

Shopify Inc. is a cloud-based software provider offering an operating system for multi-channel commerce. Shopify has been adopted by over 2 million merchants who processed $175 billion of gross merchandise volume in 2021, making it the second largest e-commerce player in the U.S. The stock corrected sharply in the first quarter, declining 51.1%, as a result of investor rotation out of fast-growing, long-duration stocks and after the company released quarterly results, expecting a normalization in the rapid growth it has experienced during the early stages of the pandemic. We remain shareholders as we believe Shopify has a long runway for growth addressing less than 1% of global commerce spending with a unique and competitively advantaged platform.

PayPal Holdings, Inc. is a digital payments provider for consumers and merchants worldwide. Shares declined 45.1% for the period held on financial results that missed Street forecasts on payments volume, new user additions, and EPS while also guiding below expectations and removing its medium-term targets. With the change in the company's strategy as a result of the deceleration in new user adoption, we decided to sell our shares and reallocate to higher conviction ideas.

Shares of **Meta Platforms, Inc.**, the owner of Facebook, the world's largest social network, fell 33.8% on the negative impact of Apple's new privacy changes in iOS mobile devices that make it more difficult for Facebook to measure the effectiveness of its advertising across its mobile apps, as well as on stronger competition from TikTok, which has been gaining significant traction with users over the last few years. Management estimated a $10 billion revenue impact for the year from Apple's changes and has repeatedly called out fierce competition from TikTok. We have been reducing our position in Meta Platforms over the last 6 months and are continuing to closely evaluate it as facts emerge.

Portfolio Structure

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

During times of volatility, while other market participants try to manage volatility by diversifying, we tend to concentrate the portfolio on our higher conviction ideas – this enables us to strengthen the risk/reward profile of the portfolio. We do not equate volatility to risk and hence do not try to manage it. Accordingly, the weight of our top 10 and top 20 positions continues to rise, representing 55.0% and 84.8% of the Fund, respectively, as of March 31, 2022. This compares to weightings of 51.6% and 78.0%, respectively, as of December 31, 2021, and 45.8% and 73.1%, respectively, as of September 30, 2021. At the same time, the total number of names in the portfolio is also declining, ending the quarter with 30 names, which compares to 36 names as of the end of December 2021 and 39 names as of the end of September 2021.

Information Technology, Consumer Discretionary, Communication Services, and Health Care made up 98.8% of net assets. The remaining 1.2% was made up of GM Cruise and SpaceX, our two private investments classified as Industrials, and cash.

Table IV.
Top 10 holdings as of March 31, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$1,658.8	$52.8	9.2%
Alphabet Inc.	1,842.3	45.9	8.0
NVIDIA Corporation	684.9	34.1	5.9
ServiceNow, Inc.	111.4	31.9	5.5
Mastercard Incorporated	349.3	30.2	5.3
CrowdStrike, Inc.	52.4	26.0	4.5
Rivian Automotive, Inc.	45.2	25.9	4.5
Snowflake Inc.	72.1	23.3	4.1
Shopify Inc.	85.2	23.2	4.0
Tesla, Inc.	1,113.7	22.9	4.0

Recent Activity

During the first quarter, we initiated three new investments: the leading electric vehicle manufacturer, **Tesla**, one of the leading digital transformation companies, **Endava**, and the leading cloud-based cybersecurity and content delivery platform, **Cloudflare**. We also took advantage of the market sell-off to add to 7 existing holdings in which our conviction level has increased. Lastly, we reduced 15 positions and liquidated 9 others as we continued consolidating the portfolio to our highest conviction big ideas.

Table V.
Top net purchases for the quarter ended March 31, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Tesla, Inc.	$1,113.7	$18.1
Endava plc	7.4	10.5
Snowflake Inc.	72.1	9.9
Cloudflare, Inc.	38.9	9.2
Shopify Inc.	85.2	8.0

We re-initiated a medium-sized position in **Tesla, Inc.** Longer-tenured investors in the Fund may remember that we owned shares of Tesla from 2017 to 2019 and made an ill-fated decision to exit the stock primarily due to the company's mounting losses and management's reluctance to strengthen its balance sheet. While it was a costly mistake, one of the lessons we learned over time is that "I missed it" is one of the most common ways to compound a prior mistake (think of not buying Amazon in, say 2011 after the stock was up more than 20 times over the prior decade,

[1] https://www.iea.org/commentaries/electric-cars-fend-off-supply-challenges-to-more-than-double-global-sales?utm_content=bufferd90dd&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer

only to miss the next 15 times). We believe that Tesla with a $1.1 trillion market cap is still a Big Idea, with the opportunity to be materially larger in the future. With electric vehicle penetration of only 8.6%[1] and Tesla's sales of 930,000 vehicles in 2021, representing just 1% market share of the global 80 million automobiles sold, we have a long way to go as the global public and private transportation fleet electrifies. Management targets another 20 times growth from here, reaching annual sales of 20 million vehicles by 2030.

While Tesla's leadership in Electric Vehicles (EVs) is well known, its mission is much broader: "Tesla's mission is to accelerate the world's transition to sustainable energy."[2] As an EV battery leader, the company already developed expertise that should help it penetrate the rapidly growing energy storage market including cells, packs, inverters, and energy management software solutions, opening significant new addressable markets over the next few decades, and helping the world transition to net-zero emissions. The company set a goal to sell 1.5 trillion Watt-hours (wh) of batteries through its energy storage division by 2030, up 375 times from the approximately 4Gwh of energy storage capacity sold in 2021.

In addition to Tesla's long duration of growth, it has also shown significant improvements in its unit economics over the last few years, with automotive gross margins, excluding credits, of 29.2% and EBIT margins of 14.6% in the fourth quarter of 2021, nearly double the industry average, and we believe many times higher than other EV programs, despite significant supply-chain headwinds.

In addition, with software as one of its core pillars, Tesla has a big opportunity in autonomous driving, from selling its Full Self Driving (FSD) offering to consumers for a one-time $12,000 fee or a subscription of $200/month. In the future, if Tesla is able to solve autonomous driving and build a shared mobility network, it could significantly increase the per-vehicle utilization rate (as cars are currently idle for most of the day), creating significant additional social and shareholder value. Moreover, Tesla's data advantage enables it to offer a potentially superior insurance product as it could better price risk to match with driving behavior. There is also a tangible benefit from the lower number of collisions per mile from the ongoing improvements in FSD and the positive self-reinforcing mechanism of fewer accidents when drivers are provided feedback and incentives for safer driving via lower premiums. Longer term, we believe Tesla has significant additional positive optionality as it could leverage its core competencies in software, artificial intelligence, batteries, and manufacturing to expand into new markets over time.

We also bought shares in **Endava plc** during the quarter. Endava provides outsourced software development to business customers. The company operates at the forefront of the digital revolution by helping clients find new ways to interact with their customers and enabling them to become more engaging, responsive, and efficient. Endava employs over 10,000 highly skilled, low-cost software engineers mostly in central Europe and Latin America who support clients from ideation to production. Endava works on a variety of projects, including helping a large electric utility to implement a new smart grid, building a new operating platform for a payment processing company, designing a personalized in-store shopping experience for a fashion retailer, and enabling a shipping company to remotely adjust the settings on shipping containers to speed up or slow down the ripening of fruit.

Over the last five years, Endava grew revenues by nearly 4 times and free cash flow by nearly 10 times and we believe its duration of growth remains long as the demand for digitization is becoming pervasive across industries, while the supply of highly skilled talent remains limited (a shortage that is exacerbated in industries outside of technology). We also believe that Endava's strong technical capabilities and differentiated labor pool enable the company to work on higher-value client projects with better pricing power than peers. We believe Endava will continue gaining share in a large, growing market by adding new clients and increasing wallet share with existing clients for years to come.

Our third new purchase in the quarter was **Cloudflare, Inc.** a SaaS provider for web, cybersecurity, and content delivery. Cloudflare disrupts legacy networking vendors by enabling customers to rent their network solutions in the cloud (and pay for usage) instead of buying firewalls, load balancers, and secure web gateway devices. Using a global network in over 100 countries, Cloudflare delivers content and security within 50 milliseconds of 95% of the internet-connected population in the world. This is important because users are not willing to wait for their websites to load (according to Akamai, a 100-millisecond delay in load time reduces conversion rates by 7%).

As companies transition to the cloud, Cloudflare's solutions enable them to save up to 50% in costs relative to legacy vendors without sacrificing performance and while enjoying the benefits of the cloud – faster innovation cycles, agility, and predictability in payments (opex vs. capex).

Cloudflare also employs a self-serve go-to-market strategy with a freemium model enabling it to achieve broad penetration into the long tail of customers with over 140,000 paying customers and millions of free users, powering Cloudflare's efficient go-to-market, product innovation and competitive advantages. This flywheel effect is depicted in Cloudflare's prospectus:

*"Free customers are an important part of our business. These customers sign up for our service through our self-serve portal and are typically individual developers, early stage startups, hobbyists, and other users. Our free customers **create scale, serve as efficient brand marketing**, and help us attract developers, customers, and potential employees. These free customers **expose us to diverse traffic, threats, and problems, often allowing us to see potential security, performance, and reliability issues at the earliest stage**. This knowledge allows us to **improve our products** and deliver more effective solutions to our paid customers. In addition, the added **scale and diversity of this traffic makes us valuable to a diverse set of global ISPs, improving the breadth and economic terms of our interconnections, bandwidth costs, and co-location expenses.** Finally, the enthusiastic engagement of our free customer base represents a "virtual quality assurance" function that allows us to maintain a high rate of product innovation, while ensuring products are extensively tested in real world environments before they are deployed to enterprise customers."*

With Cloudflare still less than 1% penetrated into its $100 billion opportunity, we believe the company has long-duration of growth ahead of it.

2 https://www.tesla.com/about Baron Capital Inc. bears no responsibility for the external website provided and makes no warranties, either express or implied, concerning the content of such site or any information, products or services linked to the website.

We also took advantage of price dislocations to add to several existing ideas including the leading cloud data platform, **Snowflake Inc.**, and the leading commerce platform, **Shopify Inc.**

Table VI.
Top net sales for the quarter ended March 31, 2022

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
S&P Global Inc.	$ 135.6	$17.9
PayPal Holdings, Inc.	117.3	15.0
Alphabet Inc.	1,842.3	14.0
RingCentral, Inc.	14.9	13.4
Dynatrace Holdings LLC	12.7	11.7

We have sold 9 names in the quarter: **S&P Global Inc.**, **PayPal Holdings, Inc.**, **RingCentral, Inc.**, **Dynatrace Holdings LLC**, **Wix.com Ltd.**, **Splunk, Inc.**, **Sea Limited**, **Toast, Inc.**, and **UiPath, Inc.**; and reduced 15 existing positions in order to meet investor redemptions as well as reallocate capital to our higher conviction ideas. As discussed above, we sold our PayPal shares due to a thesis change after the company removed its guidance and shifted its strategy.

OUTLOOK

In the aforementioned, year 2000 letter, Jeff Bezos was wise not to tell his shareholders that the 80% decline in their stock was "overdone" or was near a bottom. In fact, he offered no prediction or outlook at all. History would show that the economy entered a recession in March of 2001 and that six months later America would be attacked leading to wars in Iraq and Afghanistan. It did in fact get worse before it got better.

Everywhere we turn, we hear people explain to us how the world has changed. "Today" is apparently very different from the way the world was "yesterday." Inflation is running dangerously high, the Fed is hopelessly behind, COVID-19 is still here, and there is a possibility that World War III has already begun. There are arguments being made that "tomorrow" will likely be more challenging than "today." We are neither deaf nor blind to these arguments. We readily acknowledge that the range of outcomes has widened considerably and that the tail risks in particular have increased, which is one of the reasons why this significant multiple contraction has occurred. But at the risk of overusing our Bezo'isms (and being accused of sticking our head into the proverbial sand), we will quote Jeff once again in trying to explain how we are approaching the current crisis.

"I very frequently get the question: 'What's going to change in the next 10 years?' And that is a very interesting question; it's a very common one. I almost never get the question: ***'What's not going to change in the next 10 years?'*** *And I submit to you that that second question is actually the more important of the two – because you can build a business strategy around the things that are stable in time. … [I]n our retail business, we know that customers want low prices, and I know that's going to be true 10 years from now. They want fast delivery; they want vast selection. It's impossible to imagine a future 10 years from now where a customer comes up and says, 'Jeff I love Amazon; I just wish the prices were a little higher,' [or] 'I love Amazon; I just wish you'd deliver a little more slowly.' Impossible. And so the effort we put into those things, spinning those things up, we know the energy we put into it today will still be paying off dividends for our customers 10 years from now.* ***When you have something that you know is true, even over the long term, you can afford to put a lot of energy into it.****"*

We are fundamental, bottom-up investors with a long-term ownership mindset that is core to our philosophy. Identifying, researching, and investing in unique, competitively advantaged businesses, that enable or benefit from disruptive change, have solid business models with attractive unit economics, and are managed by talented entrepreneurs with proven track records of capital allocation and executional/operational excellence – is what will drive our long-term results. We believe that our ability to assess these factors and make good investment decisions is what accounted for our success over the last 10 and 20 years and for the success of Baron Capital Group overall over the last 40 years. Because we know this to be true, this is what we will continue to pour all our energy into.

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

We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities while remaining patient and investing only when we believe the target companies 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 its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk. There is no guarantee that these objectives will be met.

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