DEAR BARON GLOBAL ADVANTAGE FUND SHAREHOLDER:

PERFORMANCES

Baron Global Advantage Fund (the "Fund") declined 4.9% (Institutional Shares) during the third quarter as compared to the declines of 1.1% and 0.7% for the MSCI ACWI Index and the MSCI ACWI Growth Index, respectively, the Fund's benchmarks, essentially giving up last quarter's outperformance. Year-to-date, the Fund is up 4.5%, trailing the benchmark returns of 11.1% and 9.5%, respectively.

Table I.
Performance†
Annualized for periods ended September 30, 2021

	Baron Global Advantage Fund Retail Shares[1,2]	Baron Global Advantage Fund Institutional Shares[1,2]	MSCI ACWI Index[1]	MSCI ACWI Growth Index[1]
Three Months[3]	(4.95)%	(4.91)%	(1.05)%	(0.72)%
Nine Months[3]	4.29%	4.46%	11.12%	9.49%
One Year	22.27%	22.56%	27.44%	23.83%
Three Years	32.34%	32.66%	12.58%	18.33%
Five Years	29.29%	29.58%	13.20%	17.76%
Since Inception (April 30, 2012)	19.55%	19.81%	10.67%	13.40%

This was a challenging quarter for us. The investing environment shifted back to a headwind again, relative to the kinds of companies that we tend to favor, and we had an unusually high number of blowups.

After nearly a year and a half of rising stock prices as markets rebounded from the depths of the pandemic on March 23, 2020, there was a correction during the month of September with the MSCI ACWI Index declining 4.1% (the Fund was down 6.0% during the month). This was partially driven by a reversal in interest rates, with 10-year U.S. Treasury yields hitting a low of 1.2% in July, then started climbing back up, and are now hovering around 1.6%. We think corrections are both inevitable and healthy and are par for the course. To put it in perspective, the MSCI ACWI Index is still up a hefty 89.5% on a cumulative basis since March 23, 2020. The Fund is up 123.3% over the same period of time.

ALEX UMANSKY
PORTFOLIO MANAGER

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

From an attribution perspective, most of the Fund's underperformance was due to stock selection, which was responsible for 3.3% of our 3.9% shortfall relative to the MSCI ACWI Index. Continuing the negative trend from the second quarter, Consumer Discretionary and Health Care were once again two of our weakest sectors, detracting 4.2% combined, from relative returns. On the other hand, strong stock selection in Information Technology ("IT"), Communication Services, and Real Estate, as well as an overweight in IT helped mitigate the overall results.

When analyzed through the sub-industry lens, our allocation effect was responsible for 4.4% of underperformance, while stock selection actually contributed 0.9% (most of that thanks to our education services names that were down *less* than the benchmark at 20.9% despite the remarkable blowup of **TAL Education**).

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2020 was 1.17% and 0.92%, respectively, but the net annual expense ratio is 1.15% and 0.90% (net of the Adviser's fee waivers), respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser 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 YTD, 3-, and 5-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same.

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. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Baron Global Advantage Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Not annualized.

From a geographical perspective, most of our shortfall in the third quarter was due to our investments in emerging markets, which were responsible for 2.7% of the shortfall. Within emerging markets, China continues to be our worst performing country. In the third quarter, it was responsible for 2.5% of our underperformance (and for 5.0%, year-to-date). We have significantly reduced the position sizes of our Chinese investments as a result of the widening range of outcomes under the current regulatory regime in the country. Our holdings in Brazil also detracted from our relative results with Brazilian stocks declining 20.2% in the third quarter (the worst performing country in the MSCI ACWI Index) driven by growing inflation concerns and rising interest rates, which increased from 2.75% to 6.25% over the last six months.

At the company-specific level, we had an unusually wide dispersion of returns in the quarter with 21 double-digit gainers, against 24 double-digit decliners. We have suffered permanent losses of capital in TAL Education and **Zymergen**, thankfully, two of our smaller-sized investments, and what we hope were temporary setbacks with half a dozen other holdings. Shares of TAL Education declined over 80% for the period held, after the Chinese government published its updated policy (“Double Reduction”) and decreed that the entire after-school tutoring industry had to convert to non-profit status. Though the regulatory decree was rumored to be in the works, we failed to assign a material enough probability to this worst possible outcome. Managing the position size down over the last year helped mitigate some of the damage. Zymergen, a synthetic biology company that uses bacteria to manufacture materials, announced a significant delay in its product commercialization efforts and saw its shares drop 68%. More on both disappointments later in the letter.

According to Morningstar, as of September 30, 2021, Baron Global Advantage Fund ranked in the top 73% for its 1-year return, the top 3% for its 3-year return, and the top 1% for its 5-year return. The Fund is also ranked in the top 1% since its inception on 4/30/2012. The Fund has received a 5-star Morningstar Rating™ for its 3-year, 5-year, and Overall risk-adjusted performance. Since its inception, Baron Global Advantage Fund has returned 448.5% (Institutional Shares), cumulatively, compared to 159.8% for the MSCI ACWI Index, and 226.9% for the MSCI ACWI Growth Index. Over that same period of time, the Fund has outperformed the Morningstar World Large-Stock Growth Category average, by 233.2%, cumulatively. On an annualized since inception basis, the Fund generated excess returns of 9.1% and 6.4% over its benchmarks, the MSCI ACWI Index and the MSCI ACWI Growth Index, respectively. On an annualized since inception basis, the Fund generated excess returns of 6.8% over its peer group average.*

Two of the most important questions we must answer prior to making an investment are “What is the source of the company’s competitive advantage?” followed by “Why is it sustainable?” Similarly, more and more often we find our investors posing the same two questions to us. The importance of having an edge in our business is fairly obvious. If we expect to generate excess risk-adjusted returns over a benchmark and do it over the long term, there must be something unique and differentiated and *repeatable* about the way we do it. There must be some sort of an *edge*, otherwise, the expectation for excess returns would be entirely irrational.

We can think of five sources of competitive advantage in the business of investing: informational, analytical, behavioral, time arbitrage, and structural. An informational edge is typically referred to or interpreted as having access to information that other market participants do not have. An analytical edge is the ability to analyze the same information everyone has, only in a differentiated way – build better models, conduct better due diligence, and perform more rigorous valuation work. A behavioral edge is harder to explain, and even harder to execute, but to us, it means creating an environment most conducive to better decision-making, while overcoming behavioral biases. A time arbitrage edge refers to a long-term ownership mindset and longer-term thinking, while a structural edge can be seen in the strength of the manager’s platform, as well as the mandate’s flexibility and the size of the opportunity set.

As of 9/30/2021, the Morningstar Ratings™ were based on 298, 254, and 298 share classes for the 3-year, 5-year and Overall periods, respectively. The Morningstar Ratings™ are for the Institutional share class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

As of 9/30/2021, the Morningstar World Large-Stock Growth Category consisted of 342, 298, 254, and 167 share classes for the 1-, 3-, 5-year and since inception (4/30/2012) periods. Morningstar ranked Baron Global Advantage Fund in the 73rd, 3rd, 1st, and 1st percentiles, respectively.

* **As of 9/30/2021, the annualized returns of the Morningstar World Large Stock Category average were 24.85%, 17.56%, 17.05%, and 12.97% for the 1-, 3-, 5-year, and since inception (4/30/2012) periods, respectively.**

Morningstar calculates the Morningstar World Large-Stock Growth Category average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

The **Morningstar Rating™** for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/ 40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10- year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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The informational edge has largely been arbitraged away over time. Since the introduction of fair disclosure regulations and the widespread adoption of mobile internet, all interested parties can access all legally available information at the same time. Still, there is an advantage in knowing what questions to ask, what information to consider and to ignore, and how to properly weigh it. We think we may have a slight edge in that. Similarly, the analytical edge is becoming increasingly more difficult to harvest. While we hire the very best people we can, so does the competition. This is the most competitive arena in the world! The stock market is a complex adaptive system that is constantly learning and becoming smarter from the collective inputs. If we have an analytical edge, it is once again likely to be slight. Time arbitrage, behavioral, and structural are where we believe we really set ourselves apart.

"Buy, sell, repeat! No room for 'hold' in whipsawing markets"[1] urged the headline of a 2020 Reuters article. In years past, information was delayed, and trading was costly. Investors would typically call their investment advisor if they were concerned about the market and wanted to sell a stock, and the advisor would at least get an opportunity to explain what is going on, and a shot at advocating patience. Now trading is free (not only commission-wise but bid-ask spread-wise as well) and Schwab's robo-adviser is not going to "talk" anyone out of taking action. At the same time, you have high-frequency and algorithmic trading vacuuming up every ounce of inefficiency that is being created by Robinhood's daily "warriors." Even before ML and AI, computers and algorithms could recognize patterns much faster than human beings. In the short term, human logic and intuition can't possibly compete with the speed or size of capital being deployed by the algos. But computers do not know how to assess a business' uniqueness and competitive advantage. They do not know how to value culture or price ingenuity. We do. These factors may not impact the day-to-day price of a stock, but they will determine whether a company will likely be a successful investment. While most market participants are focused on trying to figure out whether consensus expectations are too high or too low for the next quarter or two, we are focused on answering entirely different questions – How big can the business be at maturity? How sustainable are its competitive advantages? How critical are the problems they solve for customers, and could they solve more problems over time? How much value does every dollar that is reinvested back into the business generate? Is management building the right culture? The average holding period for a U.S. stock in 2020 was 5.5 months. The Fund's turnover in 2020 was 8.8%, which translates to a holding period of 11.4 years! Our long-term ownership mindset and longer-term thinking is a significant edge in our view.

Over many years, we have developed an investment process focused on minimizing behavioral biases. Confirmation bias is when investors start with a view and then go look for data that fits and confirms that view rather than vice-versa. Recency bias is assigning more weight in decision making to the most recent news and events. Groupthink is often a dangerous pitfall when there is a breakdown in diversity. We work to minimize those biases by practicing probabilistic thinking – making investment decisions against a range of possible outcomes and their respective probabilities and consequences. Seeking disconfirming evidence and differing points of view are *core* to our research approach and due diligence process. For instance, in addition to interviewing partners and customers of our companies, we focus much of our due diligence on the partners and customers of their *competitors*. Requiring conviction in the *duration of growth* enables us to assign a more appropriate weight to recent developments and assess them against our long-term thesis. It also helps us to be patient if the stock price goes against us. Most of these investment blind spots, once identified and internalized, are no longer blind spots. But we take it a step further. We deliberately focus on creating an environment that is most conducive to good, balanced decision making with an emphasis on separating our emotions from facts to enable objective investment decision making. We buy only when we gain conviction in the duration of growth, with a presence of a margin of safety relative to our estimate of intrinsic value. We sell when our original thesis is no longer valid, when we judge the shares to be meaningfully overvalued, or if we believe we have made a mistake. This all seems simple enough, but it takes years of practice and is by no means easy. Knowledge alone is not enough. It takes time and perseverance to learn how to translate knowledge into behavior. We believe our behavioral edge is quite meaningful.

Finally, Baron Capital's platform as well as the Fund's ability to invest in the best ideas anywhere in the world give us a meaningful structural advantage. The Fund's mandate was designed to provide maximum flexibility and to create the broadest opportunity set for growth equity investing. Over its nearly 40-year history, the Firm has built a culture, an organizational structure, and a reputation as a *high-quality, long-term investor*. We are solely focused on investing in unique, competitively advantaged, growing businesses for the long term. The incentives for *ALL* of our investment professionals are driven by success in long-term investment outcomes. The vertical structure of our research team enables us to accumulate deep industry expertise, better identify disruptive change dynamics, and build pattern recognition over time. Our collaborative culture promotes diversity of opinions and enables us to make better decisions, while continuously learning from one another.

When we add it all up, we think there is reason to continue to be optimistic about what lies ahead.

Table II.
Top contributors to performance for the quarter ended September 30, 2021

	Quarter End Market Cap (billions)	Percent Impact
Acceleron Pharma Inc.	$10.5	0.98%
Nuvei Technologies Corp.	17.8	0.67
Endava plc	7.6	0.60
Bajaj Finance Limited	62.4	0.40
Bill.com Holdings, Inc.	26.6	0.39

Acceleron Pharma Inc. is a biotechnology company with the rare profile of having two blockbuster assets in the pipeline: cardiovascular drug sotatercept and anemia drug luspatercept. Sotatercept helps cure pulmonary arterial hypertension ("PAH"). PAH is caused by the progressive structural remodeling of the pulmonary arteries, which eventually results in heart failure and death. Acceleron's drug sotatercept acts by rebalancing signaling, thereby reversing the vascular remodeling seen in PAH. This would be the first PAH drug with the potential to reverse the disease. Shares increased 37.1% during the quarter on news that Acceleron was the target of a potential acquisition by Merck, which was announced in late September.

[1] https://www.reuters.com/article/us-health-coronavirus-short-termism-anal/buy-sell-repeat-no-room-for-hold-in-whipsawing-markets-idUSKBN24Z0XZ

Nuvei Technologies Corp. is a Canadian-based payment processor that serves online merchants around the world. The stock increased 40.0% in the third quarter after the company reported strong results with 68% pro forma revenue growth, a continued acceleration from prior trends. Management also raised its medium-term growth outlook, which now calls for over 30% annual growth in payment volumes and revenues with expanding margins. We continue to own the stock due to Nuvei's numerous growth opportunities and strong execution.

Endava plc provides outsourced software development services to 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's stock was up 19.8% during the third quarter after reporting strong results with accelerating revenue growth to over 48% year-on-year, while guiding for continued strong growth into the next fiscal year. As companies continue to digitally transform to avoid being disrupted (especially in a post-COVID world), they turn to companies like Endava for help. We believe that this dynamic will be a tailwind to Endava's market share in the large global IT services market for years to come.

Bajaj Finance Limited is a leading, data-driven, non-bank financial company in India. Shares of Bajaj were up 27.0% during the quarter driven by improving earnings visibility and growth prospects as we believe the worst of COVID in India is likely behind us. Over the long term, we believe that Bajaj is well positioned to benefit from the growing demand for consumer financial services such as mortgages, personal and credit card loans, vehicle financing, and other related financial products. At the same time, Bajaj is rapidly transforming into one of India's largest fintech players by leveraging its proprietary technology platform to create a "supermarket of financial products," opening an opportunity for it to become a true financial platform.

Bill.com Holdings, Inc., a leading provider of cloud-based software that simplifies, digitizes, and automates complex back office financial operations, contributed to performance with shares up 45.7%. The company reported strong earnings results with revenues up 86% year-over-year (and 61% organically), closed its acquisition of Divvy, and provided fiscal year 2022 guidance well above investor expectations. We retain conviction as we believe the digitization of B2B payments is a powerful secular trend with a long runway for continued growth and Bill.com is well positioned to be a winner in the small- to medium-sized business market.

Table III.
Top detractors from performance for the quarter ended September 30, 2021

	Quarter End Market Cap (billions)	Percent Impact
Alibaba Group Holding Limited	$402.4	–0.94%
Wix.com Ltd.	11.1	–0.84
Zymergen Inc.	1.3	–0.83
Zai Lab Limited	10.1	–0.82
Fiverr International Ltd.	6.7	–0.67

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Group, which operates Alipay, China's largest third-party online payment provider. Shares of Alibaba were down 35.4% during the third quarter, driven by the continued crackdown of Chinese regulators on large technology platforms. We believe that true earnings are masked by a host of earlier stage (and rapidly growing) businesses such as Ali cloud (Alibaba's "AWS"), logistics, and New Retail. While the stock is also inexpensive, we decided to trim our position due to a widening range of possible outcomes on the regulatory front.

Wix.com Ltd. is the leading provider of software that helps micro-businesses build and maintain their websites as well as operate their businesses. Shares of Wix declined 32.4% during the third quarter due to a slowdown in new customer additions as a result of abating positive COVID trends, which drove a pull-forward in demand and a material rerating of the stock during the early stages of the pandemic. We remain believers in Wix's long-term opportunity as it helps small businesses digitize, which has become crucial, especially in a post-COVID world. Over time, Wix is also deepening its platform, expanding the set of solutions it offers to help business owners run their businesses better.

Zymergen Inc. is a company dedicated to biofacturing, or harnessing bacteria to manufacture materials. Zymergen was a detractor, with its stock declining 67.6% during the quarter, following an unexpected update announcing both a major delay in the launch of its lead product, Hyaline, and the removal of CEO, Josh Hoffman, who was replaced by company chairman and former Illumina CEO Jay Flatley. We significantly reduced our position given the material impact these events may have on the business.

Zai Lab Limited is a leading biotechnology company helping to modernize the Chinese health care industry. Zai Lab's initial focus centered around in-licensing western medicines for commercialization in China, which they have expanded over time into internal pipeline efforts. Shares fell 40.9% alongside the broader Chinese equity markets given concerns around regulations the government has enacted in education, technology, and real estate. While we continue watching these developments closely and have reduced our position to account for the wider range of possible outcomes, we think that it is unlikely that health care will face draconian rulings since Zai Lab provides access to medications that would not otherwise be available in China.

Shares of **Fiverr International Ltd.**, a two-sided online marketplace for freelance services, detracted from performance after declining 24.7% during the third quarter. The company reported earnings that missed analyst forecasts and reduced guidance after experiencing hyper-seasonality as many parts of the world lifted COVID-19 restrictions, driving a normalization from the accelerated COVID trends. We believe underlying business fundamentals remain strong (revenues were up 60% year-over-year and guidance calls for around 50% growth for the full calendar year). We retain conviction since Fiverr remains early in its growth curve with freelance work being a secularly growing part of the global economy (with a multi-billion dollar total addressable market) as Millennials and Gen-Zers become a larger part of the working population and as organizations realize they can benefit from reducing inefficiencies associated with searching for, contracting, and collaborating with freelance employees. Finally, we believe that the company's early-mover and scale advantages and well-known brand lead to a virtuous cycle that reinforces its competitive moat.

Portfolio Structure

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

As of September 30, 2021, the top 10 positions represented 36.4% of the Fund, and the top 20 represented 58.2%. Our investments in the IT, Health Care, Consumer Discretionary, Communication Services, and Financials sectors, as classified by GICS, represented 94.0% of the Fund's net assets. Our investments in non-U.S. companies represented 38.4% of net assets and our investments in emerging markets and unclassified countries totaled 19.2%.

As explained in the prior letter, we are in the process of reducing the number of holdings in the Fund towards our preferred range of 40 to 50. We ended this quarter with 63 investments, though the top 50 holdings accounted for just over 94% of net assets.

Table IV.
Top 10 holdings as of September 30, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Alphabet Inc.	$1,779.8	$167.8	6.1%
Amazon.com, Inc.	1,663.7	126.2	4.6
Acceleron Pharma Inc.	10.5	110.1	4.0
Facebook, Inc.	956.9	109.1	3.9
Endava plc	7.6	98.7	3.6
EPAM Systems, Inc.	32.3	97.8	3.5
Shopify Inc.	169.2	78.6	2.8
MercadoLibre, Inc.	83.5	77.3	2.8
argenx SE	15.5	72.1	2.6
Twilio Inc.	56.5	68.0	2.5

Exposure By Country

Table V.
Percentage of securities by country as of September 30, 2021

	Percent of Net Assets
United States	60.4%
China	5.7
Canada	5.3
Netherlands	5.3
Israel	5.0
Argentina	3.6
United Kingdom	3.6
India	3.3
Brazil	1.7
Uruguay	1.6
Indonesia	1.5
Poland	0.7
Korea	0.7
Mexico	0.4

Recent Activity

During the third quarter, we initiated three new investments: a leading diagnostics company, **Natera**, the leading gaming and artificial intelligence company, **NVIDIA**, and the leading Indian online food delivery company, **Zomato**. We also added to 11 existing holdings, continuing to scale up our investments in the leading Southeast Asian gaming and e-commerce company, **Sea**, as well as in the leading Canadian e-commerce platform, **Shopify**. We exited five positions and trimmed four of our holdings, including the Chinese names – **TAL Education**, **Alibaba**, **GDS**, and **Zai Lab** due to a widening range of outcomes on the regulatory front, which prompted an increase in our required margin of safety. On the private side, we continue to hold six private investments that together represent 3.6% of the Fund's net assets: **Farmers Business Network**, **Rivian**, **Resident Home**, **SpaceX**, **GM Cruise**, and **Think & Learn**. Note that as we are writing this letter, Rivian is in the process of going public and we expect it to be removed from this list in the next reporting period.

Table VI.
Top net purchases for the quarter ended September 30, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Natera, Inc.	$ 10.5	$40.5
Sea Limited	176.0	31.4
Shopify Inc.	169.2	20.4
NVIDIA Corporation	517.9	19.9
MaxCyte, Inc.	1.2	12.8

During the third quarter, we initiated a position in **Natera, Inc.**, a diagnostics company with a cell-free DNA platform that enables it to detect tiny amounts of DNA in a blood sample. Natera first applied its technology platform to women's health, where the company markets a blood test that can detect fetal DNA in the blood of pregnant women, enabling early detection of chromosomal abnormalities with a non-invasive test. Through the strength of its technology platform, clinical data, and customer service, Natera has established a market leadership position in non-invasive prenatal testing. Natera is seeing tailwinds in its women's health business from recently expanded insurance coverage for average risk pregnancies. Natera is now applying its technology platform to other markets, including the oncology market and the organ transplant market. In the oncology market, Natera offers a personalized blood-based DNA test called Signatera, which detects and quantifies how much residual cancer DNA remains in the body after surgery. Signatera helps physicians determine whether chemotherapy is necessary after surgery and monitor for cancer recurrence before the cancer is detectable with standard imaging. We think Signatera will change the standard of cancer care and is in the early innings of adoption in a market we estimate at over $15 billion. We think Natera has a long runway for growth with expanding margins and profitability.

We also initiated a new position in **NVIDIA Corporation**, a leading fabless semiconductor company. Jensen Huang founded the company in 1993 to focus on computer graphics. Over the years, NVIDIA has become the leader in gaming cards for PCs, and over the last decade it has become one of the key enablers of AI. NVIDIA's cards are at the heart of several large secular trends, including AI, autonomous driving, gaming, and robotics. The main innovation responsible for NVIDIA's success was the realization that its graphic cards' parallel processing capabilities (which is core to gaming computations – parallel rendering), is also the main computation required for AI workloads (matrix multiplication), while the existing CPU architecture is at its core a sequential calculation machine. With that realization, NVIDIA

has invested in an integrated hardware and software stack to make its gaming architecture relevant for these new use cases. Today, it is powering most of AI training and inference across hyperscalers and enterprises. It has over 75% gaming market share (desktops and notebooks), it is one of a few key players in the autonomous driving space, and it is expanding into robotics, AI at the edge, health care industrial AI, and more. With demand for computing power doubling every one to two years, and Moore's Law slowing down, there is more need for computing power than ever. At the same time, the "near free" supply growth that was possible thanks to Moore's Law has slowed dramatically. NVIDIA's accelerated architecture, with parallel computing at scale, meets that need and creates a long runway for NVIDIA to disrupt computing.

We also continued scaling up our positions in the two e-commerce leaders – **Shopify Inc.** and **Sea Limited**. Sea is a Singapore-based, pan-Southeast Asian technology conglomerate with a #1 regional position in e-commerce (under the Shopee brand), a highly profitable global digital gaming business (led by the hit game *Free Fire*), and a nascent, fast-growing regional digital financial services business. Sea started a decade ago as a regional distributor of digital mobile games, found immense success with its proprietary *Free Fire* game, which has become one of the largest mobile gaming properties in the world in recent years, and has since been investing the cash generated from that segment into its fintech and e-commerce segments, the latter of which became the largest platform in Southeast Asia in 2020 and expanded into Latin America last year. We view e-commerce and digital financial services as particularly large opportunities across Southeast Asia, owing to the region's low e-commerce penetration (less than 10% region-wide, less than 5% in some countries like Vietnam and the Philippines) and large un/under-banked populations. We are impressed by Sea's execution, particularly its ability to hyper-localize its offering for seven ASEAN countries in both e-commerce and gaming and its ability to leverage technology to overcome barriers to historical e-commerce adoption, particularly logistics. These have powered its emergence as the largest e-commerce platform across the region despite having started much later than its incumbent competitors. We expect that lead to continue growing. Although global digital gaming has historically been a cyclical, hit-driven business, we like that Sea is aggressively reinvesting its gaming cash flows into these larger, longer duration opportunities, and expect the gaming segment to become an ever-decreasing fraction of total value over the next half decade while e-commerce and fintech become multiple times larger.

We also added to our small position in **MaxCyte, Inc.**, which is a life sciences tools company that recently completed an IPO on the NASDAQ. MaxCyte offers an electroporation platform for transfecting cells, which is the process of adding DNA or RNA into cells and is used in cell and gene therapy. The technology utilizes an electrical pulse to create a temporary pore in the cell membrane through which DNA can then enter the cell to introduce a novel function. MaxCyte's platform enables a high-throughput transfection process with premium transfection efficiencies and cell viability, and it is used across both research and clinical settings. We are particularly interested in the clinical side, where MaxCyte has built up a pipeline of 75 programs in which its platform is used for cell therapy manufacturing. With its current program pipeline, MaxCyte already has over $950 million in potential milestones, as well as potential downstream sales-based payments if any of these programs are successfully commercialized. Longer term, we view MaxCyte as a compelling picks and shovels platform that would benefit from the long duration of growth in cell and gene therapy.

Table VII.
Top net sales for the quarter ended September 30, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Alibaba Group Holding Limited	$402.4	$46.3
Arco Platform Limited	1.2	16.4
Monday.com Ltd.	17.2	13.1
GDS Holdings Limited	10.6	11.2
Zai Lab Limited	10.1	6.8

During the quarter, we significantly reduced the size of our investments in Chinese companies – selling out of one of our most successful long-term holdings, TAL Education, as well as reducing our positions in **Alibaba Group Holding Limited**, **GDS Holdings Limited**, and **Zai Lab Limited**. As a result, we ended the quarter with our lowest exposure to China and Hong Kong in the history of the Fund at 5.7%. Note that while we do not make portfolio construction decisions top-down, the continued regulatory clampdown in China significantly increased the risk (which we define as the probability of permanent loss of capital), requiring us to demand a higher margin of safety for all investments domiciled there. We continue to monitor the situation in China closely and expect to take further action once we gain more clarity.

We have also sold our positions in **Arco Platform Limited**, a Brazilian K-12 edtech platform, and **Monday.com Ltd.**, the Israeli work management software business, reallocating to higher conviction ideas.

Outlook

Well… a majority of the talking heads appear to continue to be preoccupied with inflation. The October release of the inflation numbers for September showed that CPI remained solidly above 5% (5.4% actually) and that the economy continues to improve with unemployment dipping below 5% again, raising/confirming expectations for the beginning of Fed tapering, and driving a reversal in the 10-year U.S. Treasury yield, which after hitting a low of 1.2% in July is now hovering around 1.6%. Higher interest rates ostensibly present a headwind to growth stocks for the reasons that we explained in prior letters. However, for now the market appears to be doing the opposite. Quarter-to-date through October 21, the MSCI ACWI Index is up 4.7%, and the Fund is up 7.9% (erasing all of the September shortfall). David Schneider, our Head Trader and inflation afficionado, explained it this way: "You don't get it. Tapering sooner and raising rates earlier and perhaps more aggressively means the Fed is more likely to get ahead of it and nip inflation in the bud, which will flatten the longer part of the yield curve, which is obviously bullish for high-growth stocks." So, wait… higher interest rates are good for growth equities? David is definitely right. I do not get it.

In any case, the market will do what it will do. We think rotations, pullbacks, and corrections are generally necessary and healthy, and they often create attractive opportunities for long-term investors like ourselves. With 10-year U.S. Treasury bonds yielding below 2% and inflation running around 5% (or higher), real interest rates continue to be *well below 0%*, which is a great backdrop for businesses that are able to reinvest excess cash flow at high rates of a return. In other words, the types of businesses that we tend to favor. We continue to focus on the quality of our decisions, and on taking what we believe are high percentage shots.

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve rate changes (up and down), 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 confident that our process is the right one, and we believe that it will enable us to make good investment decisions over time.

Sincerely,

Alex Umansky
Portfolio Manager

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