



Baron Global Advantage Strategy

December 31, 2022

DEAR INVESTOR:

PERFORMANCE

Baron Global Advantage Strategy was down 9.0% during the fourth quarter, compared to the 9.8% gain for the MSCI ACWI Index (the "Index"), and the 5.3% gain for the MSCI ACWI Growth Index, the Strategy's benchmarks. For the year, the Strategy was down 51.7% compared to losses of 18.4% and 28.6% for the benchmarks, respectively.

Table I.
Performance[†]

Annualized for periods ended December 31, 2022

	Baron Global Advantage Strategy (net) ¹	Baron Global Advantage Strategy (gross) ¹	MSCI ACWI Index ¹	MSCI ACWI Growth Index ¹
Three Months ²	(9.00)%	(8.82)%	9.76%	5.28%
One Year	(51.70)%	(51.32)%	(18.36)%	(28.61)%
Three Years	(4.34)%	(3.56)%	4.00%	3.75%
Five Years	4.28%	5.06%	5.23%	6.37%
Ten Years	10.12%	10.57%	7.98%	9.20%
Since Inception ³ (May 31, 2012)	10.95%	11.38%	8.98%	10.00%

Down 9% while your primary benchmark is up nearly 10% is hard to comprehend. It is harder to explain. Basically, we were in all the wrong places (software, electric vehicle (EV) manufacturers, Consumer Discretionary) without being in any of the right ones (Energy, Utilities, Consumer Staples, insurance), and nothing we did worked in 2022. We can debate whether **Rivian** went public at the right time, but there is no debate that we owned too much Rivian at the wrong time and for far too long.

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 December 31, 2022, total Firm assets under management are approximately \$35.4 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 a U.S. mutual fund, a SICAV fund, a Collective Investment Trust, and sub-advised accounts managed by BAMCO. The Strategy invests mainly in growth companies of all sizes located throughout the world. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's Strategies please contact us at 1-800-99BARON.

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 The **MSCI ACWI Index** measures the equity market performance of large and midcap securities across developed and emerging markets, including the United States. The **MSCI ACWI Growth Index** measures the performance of large, mid and small cap growth securities across developed and emerging markets, including the United States. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Strategy include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. The index performance is not Strategy performance; one cannot invest directly into an index.

² Not annualized.

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

Then we swapped it into **Tesla**, right before Elon decided to buy Twitter. We still have a lot of conviction in both companies (and bought some Rivian back when we thought the price became more attractive) though their shares declined 44% and 54%, respectively... in the fourth quarter alone! We own companies whose stock prices/valuations, business models, accounting practices, and management's integrity were publicly attacked by short sellers, sell-side analysts, technical analysts, and even market strategists who admittedly know little about company-specific fundamentals. This always happens during the vicious part of the cycle and the resultant decline in stock prices is often violent. We had lived through it, experienced it, and managed through it before. But it did not seem quite this bad, and it never felt... this personal!

There is a saying among investors that "markets take the stairs up and the elevator down." Well, we skipped a few steps on the way up in 2017 (up 51%), and in 2019 (up 46%), and a few more in 2020 (up 80%) and sure caught the express elevator down in 2022. From the relative return perspective, if the Strategy can outperform its primary benchmark (MSCI ACWI Index) by 27% as it did in 2017, or by 19% in 2019, or by 63% in 2020, conceptually, underperforming by 18% as it did in 2021 or even by a ghastly 33% as it did in 2022 is within the range of possible outcomes. From an absolute return perspective, losing half of the portfolio's value is new for this Strategy and is extremely painful, but as investors, we lived through a similar experience in both 2000-2002 and in 2008-2009 markets. With the benefit of hindsight, we will attempt to describe and explain what went wrong in the last 12 months.

Baron Global Advantage Strategy was designed to invest in Big Ideas. We think of them as competitively advantaged businesses that are either leading or benefiting from disruptive change that have an opportunity to become significantly larger in the future. That means that they are in the earlier stages of their growth lifecycles and are overinvesting and

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underearning in the present. These are *long-duration* investments. As a sidebar, all equities are long-duration assets. A company with a 10% current free-cash-flow yield (FCFY), assuming no growth, will earn its market cap in 10 years, but a company with a 2% FCFY... will take 50 years to earn its market cap. Long-duration assets are particularly sensitive to changes in interest rates. In response to the housing/financial crisis of 2008-2009 the Fed implemented an unprecedented quantitative easing program (QE). Zero Interest-Rate Policy, or ZIRP, was supposed to be a short-term remedy (while Europe, not to be outdone, implemented a negative interest-rate policy), but 10 years later... it was still with us and going strong. Well... a low interest-rate environment is conducive to underearning and overinvesting and is a strong tailwind to investing in Big Ideas. Then COVID-19 hit, and we were introduced to free money. Not just loan (and rent) forgiveness and extended unemployment benefits that often exceeded actual earnings, but actual free money directly deposited into consumers' checking accounts not once, not twice, but three times. "Have you been properly stimulated by your government today?" was the running joke among the college kids during their Zoom sessions. Well, when money is free and you're discounting future cash flows back at really low interest rates, Big Ideas look particularly attractive. We weren't terribly comfortable with what was going on and responded by not allocating fresh capital to about a third of our portfolio due to high valuations, increasing the number of holdings in the Strategy from the mid-40s to the high 60s.

As we were exiting 2021, the environment started to change. QE appeared to have finally run its course and the Fed was messaging about tapering and gradually starting to normalize interest rates back to their historical averages over the next few years. Then in February, a war broke out in Europe, geopolitical tensions, particularly between U.S. and China hit a new high, and a new surge of COVID-19 further disrupted the global supply chain, causing inflation in the U.S. (as measured by CPI) to hit 9.1% in July – the highest inflation rate in over 40 years. By then, QE had turned into a full QT (Quantitative Tightening). From June 16 through November 2, the Fed implemented an unprecedented four consecutive 75 basis points hikes. Those four hikes were bookended by additional 50 basis points hikes on both sides. *In less than nine months*, the interest rate as set by the Fed (the Fed Funds rate) went from 0.00% – 0.25% on March 16 to 4.25% – 4.50% on December 14. There was no way our companies were going to weather this kind of calamity.

From a 30,000 feet view, approximately 80% of our relative underperformance can be attributed to industry- and style-related factors (as measured by Barra), while the remaining 20% is explained by poor stock selection (half of which is due to the 82% decline in the shares of Rivian). This intuitively, feels right. In a good year, we would have hoped to add that much alpha and mitigate the impact of style-related factors, but in 2022, everything we did seemed to have compounded it instead. It's not that we did not make any good or well-reasoned decisions. After an almost 10-year holding period, we liquidated a successful investment in Meta Platforms, formerly Facebook, in late 2021, near the stock's all-time highs. Meta was down 64% in 2022. However, we invested a large chunk of the proceeds in... Rivian. We started the year with 11.4% of the Strategy's assets invested in **Alphabet** and **Amazon**, proven businesses with fortress balance sheets that were valued on *current* (as opposed to future) free cash flows. They were down 39% and 50%, respectively. We recognized that the regime change will penalize companies that are burning cash and have unproven business models, and that significant *current* free-cash-flow margins were required for investors to keep the faith. As a result, we added

to companies like **Datadog**, **CrowdStrike**, and **ZoomInfo** (businesses with 25% to 45% margins) on weakness, and watched them all go down in the 50% to 60% range. Finally, there is a curious case of **Endava**. We have known and liked the company since 2017 and have been shareholders since its IPO in 2018. As a public company Endava has never missed revenue or earnings expectations or guided them down. That held true in 2022. It was our second largest detractor (second only to Rivian) as the price of the shares fell 54%. Incidentally, Endava was featured in a recent issue of Barron's as a "good *value* for a business that is expected to keep growing even in a recession."

Many of our sales proved to be well timed. **Opendoor**, **SoFi**, **RingCentral**, and **Dynatrace**, even Alphabet and **Alibaba** ended the year significantly lower than where we had sold their shares. But it was nowhere near enough. Most investments that we continued to own were also down, and most were down a lot. When you underperform across all sectors, all geographies, and all market caps, nothing short of a well-timed style change could have materially altered the outcome, in our view. This is not to suggest avoiding several costly mistakes (i.e., sizing/timing of Rivian and holding on to a few other ideas for too long) would not have helped on the margin, but it would not have significantly altered the outcome of the year or the tone of this letter.

So, why not change your style once it becomes apparent that the regime change is underway? Why not look into Energy businesses or Utilities? Consumer Staples or legacy Financials? At a minimum, why not raise at least 30% cash when every sale is a good one, while every buy is destined to hurt?

These are all fair questions, especially in light of our recent results. The answer is that this is simply not who we are. At Baron Capital we do not attempt to predict inflation, interest rates, or the price of oil. We also have no edge in distinguishing high-quality conventional value investments from low-quality *melting ice cubes* that are value traps. We have a growth-oriented mindset, and this Strategy in particular is focused on finding and investing in Big Ideas. We have been trained in identifying disruptive change and in analyzing a business' competitive advantages. When we believe it to be especially durable and the business is run by talented entrepreneurs and good capital allocators, we invest for the long term and try to hold on over full-market cycles. This philosophy has proven to be alpha-accretive over multiple market cycles but sometimes woefully inadequate in protecting against market volatility. We are genuinely confident that the majority if not all of this year's almost 52% decline will not result in permanent losses of capital and will be reversed in time, but we must acknowledge that a drawdown of this magnitude is brutal, especially for those who are forced to sell, and psychologically damaging even to those who are able to stay the course.

We think it is important to understand the possible psychological impact of the last year on decision making. Loss aversion often leads investors to buy and sell at exactly the wrong times. The story usually goes something like this: an investor buys a stock expecting the price to go up. When it goes down instead, initially the investor would sweat it out and occasionally even double down (this buy-the-dip mentality works well during bull markets but obviously does not in bear markets). As losses grow, loss aversion kicks into high gear, making past gains seem like a distant memory. At some point the pain becomes too much to bear and the investor capitulates. This is also usually the sign of a bottom. Despite the fact that this is exactly the wrong time to sell, many investors do just that. This

psychological aversion to loss is one of the reasons why the average equity fund investor earns 350 basis points less than the market over long periods of time.⁴

Similarly, psychology dramatically alters an investor's time horizon and risk appetite. During bull markets it feels good to be invested. Every dip has proven to be a buying opportunity and the confidence in our decision making and in the future is sky high. We don't wait for the next pullback because we are in it for the long haul, and if prices go down, we will simply buy more. Stock market volatility is perceived as healthy, time horizons stretch, and no multiple is high enough when our time horizon is forever. On the other hand, in years like 2022 when the *elevator* is going down fast, investors sell every rally **and** every dip. The confidence in our ability and that of others shrinks. We see the future as inherently uncertain, loss aversion kicks in and our time horizons shrink to the point of here and now. In the here and now, no prospects are high enough and no multiple is low enough. That's a terrible environment for long-duration assets and this is the story of 2022 as we see it.

So, what now? Psychology aside, how have the companies' intrinsic values (IVs) changed and where are they relative to their stock prices?

At any point in time the price of a stock reflects a combination of the business' estimated IV and investor psychology. Analysts calculate IVs by underwriting company-specific assumptions such as growth rates, profitability/margins, cost of capital, and the ability to generate returns on invested capital, as well as macro factors such as interest rates and the growth of the economy. Well-managed companies with strong competitive advantages generally retain and often enhance their ability to grow profitably and to generate healthy returns on invested capital over full economic cycles. While few businesses are immune to recessions or significant economic slowdowns, their prospects often remain positive, and growth in earnings and cash flows is likely to be reinvigorated once the macro environment improves. The change in long-term interest rate assumptions (terminal interest rate) is certainly a headwind to companies' IVs but it is both far less dramatic than the change in short-term interest rates and is largely offset by the corresponding changes in the companies' terminal growth rates – inflation works both ways. Regardless, these assumptions are formulaic and are based on a range of outcomes and our assessment of their respective probabilities and consequences. The impact of psychology or the degree of optimism or pessimism with which investors sometimes perceive these assumptions and range of outcomes often has a disproportionate impact on stock prices. When investors are optimistic, they drive stock prices above IVs and when they are pessimistic, below. The decline in the stock prices of long-duration assets in 2022 was partially driven by objective factors such as the rise in interest rates, which reduced the present value of long-duration assets, but also by the rapid and dramatic shift in investor psychology.

Over the long run, stock prices will follow and approximate a business' IV. But at any given snapshot in time, they tend to swing around the IV trend line based on investor psychology and their time horizons. We have often pointed out that prospective returns are inversely correlated to current or recent results. The commercialization of the internet and the resultant bull market in the late 1990s led to a dot-com bubble, which ended abruptly in

March of 2000. From then until 2002 the MSCI ACWI Index lost 51%, while the tech-heavy NASDAQ Composite Index declined 78%. The MSCI ACWI was then up 62% in 2003-2005 and up 124% until its peak in October 2007, while the NASDAQ rose 65% and 114% over the same time frames, respectively. During the global financial crisis, which extended from late 2007 into early 2009, the MSCI ACWI declined 60% from peak to trough. It then recovered 91% in 2009/2010 and advanced an impressive 236% until COVID-19 hit in early 2020, at which point it proceeded to decline 34% over the following six weeks and then rally 97% until the end of 2021. Surely, the change in IVs of the underlying businesses was far more gradual with little resemblance to the wild ride of their stock prices.

It seems to us that investors do not feel great today. They are not focused on companies' long-term prospects or earnings power, especially with regards to long-duration assets, and so stock prices are likely to be significantly below businesses' IVs. Our bottom-up, company-specific models suggest that on average, the discount to IVs is the highest we have seen since the inception of the Strategy in 2012.

Even so, given the regime change and the new realities with increased uncertainties and wider ranges of outcomes, will companies' IVs continue to grow and compound the way they did in the past?

Over the long run, of course they will. While some of the recent tailwinds like ZIRP or even globalization may no longer be drivers of growth, innovation, progress, and disruptive change will continue to drive value creation. Understanding whether the disruption is real, material, and sustainable, and whether it will create and reinforce businesses' competitive advantages or cause them to be left behind will remain as important as ever. As a matter of fact, disruptive change and the rate of innovation have only been accelerating – it took 46 years for electricity to be adopted by 25% of the U.S. population, 35 for the telephone, 25 for television, 16 for PCs, seven for cell phones, and only five for the internet.⁵ It is easier to start a business in 2023 than ever before – an entrepreneur can easily rent computing power and storage from Amazon Web Services (AWS), Azure, or Google Cloud Platform instead of having to spend millions of dollars buying hardware before having the product-market fit. Application Programming Interfaces and open-source software can be used to efficiently release products faster, then use the internet to commercialize it effectively (distribution used to be a bottleneck since without scale it is hard to convince distributors to sell your product, cementing the competitive advantages of large incumbents). Market leaders can also iterate and innovate faster, working on different features in parallel and with dynamic, real-time customer feedback loops thanks to the visibility enabled by the cloud. Organizational and architectural structures such as micro-services and single-threaded teams enable continuous improvement with hundreds or thousands of software releases being the norm today compared to just a handful per year in the past. This enables the best companies of today to achieve profitability levels that were not possible in the past.

The advancements in the fields of Artificial Intelligence (AI) and Deep Learning are profound examples of the innovation era we live in today. It took 32 years from being able to recognize digits⁶ (Neocognitron, 1980) to being able to identify a cat from a dog (AlexNet, 2012) and only 10 years from AlexNet to ChatGPT, which is OpenAI's AI-powered chatbot capable

⁴ Dalbar QAIVB 2022 study – <https://michaelyanmoney.com/time-in-the-market-beats-timing-the-market-dalbar-study/>

⁵ <https://www.pewresearch.org/fact-tank/2014/03/14/chart-of-the-week-the-ever-accelerating-rate-of-technology-adoption/>

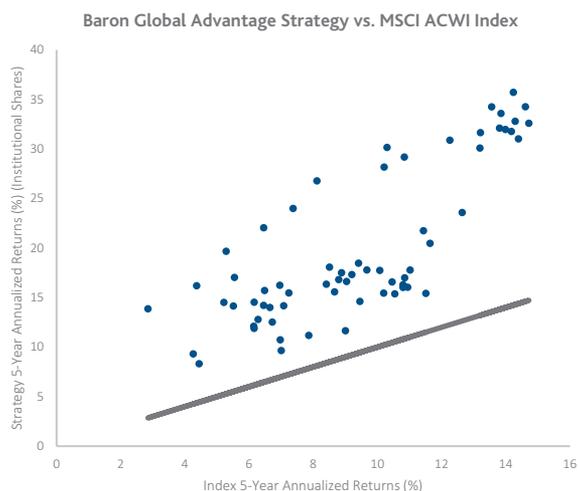
⁶ <https://www.rctn.org/bruno/public/papers/Fukushima1980.pdf>

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of answering complex questions, writing essays in a way that is often indistinguishable from humans (causing havoc in high schools and universities alike) and even generating sophisticated programming code. ChatGPT reached *one million users a mere five days after it was released* in December of 2022. It is based on OpenAI's GPT 3 algorithm that has 175 billion parameters. GPT 4.0, which we expect to be released this year, is rumored to be even more capable with over one trillion parameters. We believe AI will prove to be a real tailwind for many of our businesses in the years to come. From **NVIDIA**, a key enabler of AI with its GPUs and CUDA ecosystem, to **GM Cruise** and Tesla, the leading enablers of autonomous driving, and to **Snowflake**, CrowdStrike, and **Cloudflare**, companies that are solving big data problems in order to make their customers more productive, efficient, and secure.

Despite our brutal recent results, the conviction in our investment philosophy and process has not changed. We believe the companies in which we have invested are resilient and will come out of this economic slowdown stronger than they were before. We do not expect this pullback to result in a significant permanent loss of capital over the long term. We have always believed that the most appropriate way to measure investment performance is over long periods of time and ideally over full-market cycles. We look at the Strategy's 3-year and 5-year monthly rolling returns as one of the key indicators of whether our process is working. When looked at through that lens, for 3-year rolling monthly returns, the Strategy has outperformed MSCI ACWI Index and MSCI ACWI Growth Index, 89% and 86% of the time, respectively. When extended to 5-year rolling monthly returns, the Strategy has outperformed 99% and 97% of the time, respectively.

5-year rolling return scatterplot charts as of December 31, 2022



Sources: BAMCO and MSCI, Inc.

We have no insight into how long the current bear market will go on or what needs to happen in order for the investor psychology to change. However, we do have a view that this period of time will prove to be a good entry point for investors in the not-too-distant future.

Percentage of time Strategy outperformed over different time periods from inception through December 31, 2022⁴

Rolling Return Period	1 Month	3 Months	1 Year	3 Years	5 Years
Outperformance vs. MSCI ACWI Index	61%	65%	73%	89%	99%
Outperformance vs. MSCI ACWI Growth Index	57%	63%	71%	86%	97%
Outperformance vs. eA Global All Cap Growth Equity Universe Median	60%	64%	73%	88%	97%

Sources: BAMCO, MSCI, Inc., and eVestment.

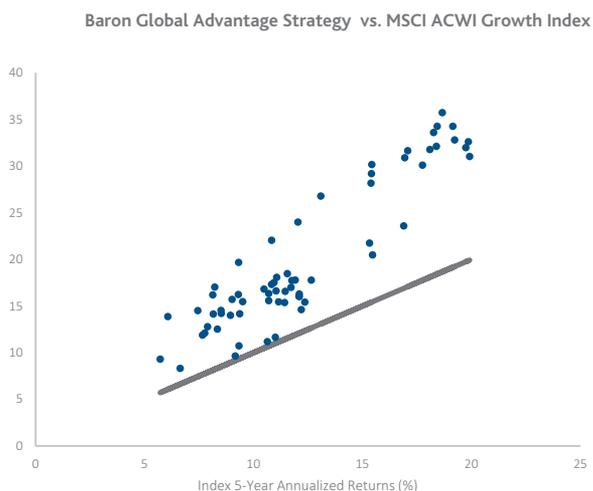


Table II.
Top contributors to performance for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
InPost S.A.	\$ 4.2	0.57%
Shopify Inc.	37.5	0.50
ASML Holding N.V.	217.4	0.49
Space Exploration Technologies Corp.	–	0.42
Taboola.com Ltd.	0.8	0.39

InPost S.A. is a Polish logistics company that operates automated parcel locker networks, enabling cost-efficient e-commerce package delivery across several European countries including Poland, France, and the U.K. Shares of InPost rose 45.4% during the fourth quarter after the company reported third quarter volumes, revenues, and EBITDA that exceeded Street expectations, growing 32%, 33%, and 12%, year-over-year, respectively. We remain excited about InPost's opportunity to benefit from e-commerce growth and margin expansion in its core Polish market, which is already seeing a positive impact from scale and network effects. Additionally, we believe that the recently acquired French business Mondial Relay opens a large new market for InPost, ripe for share gains, as the company introduces an improved customer value proposition with automated lockers, better customer convenience, faster delivery times, and a significant cost advantage over *to-door* alternatives.

Shopify Inc. is a cloud-based software provider for multi-channel commerce. Shares rose 28.8% in the fourth quarter, reversing some of the declines from earlier in the year, as preliminary holiday results suggested a rebound in e-commerce activity. The company also reported solid third quarter financial results showing an increase in take rates, which points to a deeper adoption of its platform by merchants. We remain shareholders due to Shopify's strong competitive positioning, innovative culture, and long runway for growth as it still holds less than 2% share of global commerce spending.

ASML Holding N.V. designs and manufactures semiconductor production equipment with a leading market share in photolithography. Shares rose 31.9% during the quarter after the company maintained its strong near-term outlook despite expected industry weakness and increased its longer-term outlook with sales expected to grow to €30 billion to €40 billion in 2025 and €44 billion to €60 billion by 2030 (from €18.6 billion in 2021). ASML has a monopoly in Extreme-Ultra-Violet equipment, which is a critical component of advanced semiconductor chip manufacturing and remains well positioned as its customers continue to build out capacity to support growing demand for leading edge semiconductors.

Space Exploration Technologies Corp. (SpaceX) is a high-profile private company founded by Elon Musk that designs, manufactures, and launches rockets, satellites, and spacecraft. Its long-term goal is to enable human beings to inhabit Mars. We believe SpaceX is creating substantial value through the expansion of its Starlink broadband service. It also reliably provides reusable launch capabilities, including crewed space flights, and is making progress on its largest rocket, Starship. We value SpaceX using prices of recent financing transactions and a proprietary valuation model.

Taboola.com Ltd. is a digital advertising company whose recommendation platform helps publishers and advertisers provide targeted organic editorial content and advertisements. Despite macro-driven weakness in advertising

budgets, which are impacting the company's near-term results, the stock rose 69.2% during the fourth quarter following the company's announcement of a strategic, 30-year agreement with Yahoo under which Taboola will exclusively power Yahoo's native advertising business across its digital properties, which attract 900 million monthly active users. Taboola expects that, over time, this agreement will drive a 75% increase in revenues and nearly double EBITDA. We believe that Taboola is now even better positioned to benefit from the growing need of publishers to generate more value from their digital assets, enabling the company to grow its wallet share with publishers through additional offerings including high impact ads, Taboola News, and Connexity.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
CrowdStrike Holdings, Inc.	\$ 24.9	-1.87%
Tesla, Inc.	389.0	-1.79
Amazon.com, Inc.	858.8	-1.21
Rivian Automotive, Inc.	17.0	-1.08
ZoomInfo Technologies Inc.	12.2	-1.04

CrowdStrike Holdings, 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 declined 36.2% during the quarter after the company reported net new Annual Recurring Revenues that missed Street expectations as a result of elongated sales cycles that impacted deals with small- and medium-sized businesses (SMBs) and phased subscription billing terms with customers opting for delayed start dates. While the macro slowdown is impacting near-term results, the business remains resilient, with gross retention rates at record levels, net retention rates at the highest level in seven quarters, and the company's competitive positioning improving with increasing win rates in SMB and consistent win rates in the enterprise segment. 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 business model.

Tesla, Inc. manufactures EVs, related software and components, and solar and energy storage products. Shares fell 53.6% during the quarter due to growing investor concerns regarding the impact of a potential economic slowdown on demand, volume, and pricing. CEO Elon Musk sold part of his Tesla stake to fund his Twitter acquisition and then dedicated a significant amount of his time to Twitter's business, causing investors to question his dedication to Tesla. We remain confident in Tesla's fundamentals and management team and believe that with still less than 2% market share, the company remains well positioned to enjoy a long runway of growth as the market shifts to EVs.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were down 26.0% in the quarter, as the company guided to relative weakness in margins and a slowdown in AWS as a result of the weakening economy. While we continue to believe that Amazon is well positioned in the long term to improve profitability and that it still has room to grow in e-commerce and Cloud, where it is the clear leader, we

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decided to sell our position to fund redemptions and reallocate to ideas in which we see a more favorable risk-reward equation.

Shares of **Rivian Automotive, Inc.**, a U.S.-based EV manufacturer, fell 44.0% during the fourth quarter as a result of growing investor concerns around the potential headwinds from a slowing economy as Rivian still is in the early stages of ramping production, which requires significant cash outflows. In addition, the uncertainty around unit economics and execution remains top-of-mind for investors especially in this environment. We retain conviction. Despite supply-chain complexities, Rivian's monthly production rate has grown seven-fold since late 2021. Positive product reviews, a vertically integrated technology approach, and unique partnerships are the key for an attractive long-term opportunity in our view, and hence we remain shareholders.

ZoomInfo Technologies Inc. operates a cloud-based business-to-business (B2B) platform that provides sales, marketing, and HR teams with comprehensive business intelligence, enabling shorter sales cycles and higher win rates. Shares of ZoomInfo declined 27.9% during the fourth quarter after the company shared a weaker top-line outlook for 2023. While ZoomInfo is seeing near-term headwinds due to increased deal scrutiny by customers and longer sales cycles as a result of the macro environment, we believe that its competitive positioning is as strong as it has ever been and that our long-term thesis remains intact. We remain shareholders and believe that ZoomInfo will benefit from a long duration of growth as it only has about 35,000 customers out of a 700,000 B2B opportunity. Additionally, new products continue building momentum, and we believe ZoomInfo can become a much larger company over time as it grows into its \$100 billion total addressable market.

PORTFOLIO STRUCTURE⁷

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

As of December 31, 2022, the top 10 positions represented 45.9% of the Strategy's net assets, and the top 20 represented 73.0% (this compares to 42.5% and 61.9% at the end of 2021, respectively). We ended 2022 with 41 investments compared to 57 at the end of 2021.

Our investments in the Information Technology, Consumer Discretionary, Health Care, Industrials, Financials, and Communication Services sectors, as classified by GICS, represented 98.6% of the Strategy's net assets. Our investments in non-U.S. companies represented 55.1% of net assets, with 30.5% of that being allocated to emerging markets and other non-developed countries (Argentina and Uruguay).

The Strategy's active share was 98.0% and its turnover was 11.5% in 2022, essentially in line with the Strategy's average turnover of 14.7% over the last three years, and 16.6% average over the last five years.

Table IV.

Top 10 holdings as of December 31, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Endava plc	\$ 4.4	\$51.4	6.7%
Think & Learn Private Limited	–	44.1	5.7
MercadoLibre, Inc.	42.6	43.3	5.6
Bajaj Finance Limited	48.1	37.6	4.9
argenx SE	21.0	35.4	4.6
Snowflake Inc.	46.2	34.6	4.5
CrowdStrike Holdings, Inc.	24.9	29.5	3.8
Datadog, Inc.	23.3	26.4	3.4
Coupage, Inc.	26.0	26.2	3.4
Shopify Inc.	37.5	25.2	3.3

EXPOSURE BY COUNTRY

Table V.

Percentage of securities by country as of December 31, 2022

	Percent of Net Assets
United States	45.3%
India	11.3
Netherlands	10.2
Argentina	7.2
United Kingdom	6.7
Israel	3.9
Korea	3.4
Canada	3.3
China	2.8
Brazil	2.3
Poland	2.0
Uruguay	1.5
Spain	0.6

RECENT ACTIVITY

During the fourth quarter, we reduced 19 positions and sold three investments. We exited **Amazon**, **Nuvei**, and **10X Genomics**. While there was no change in our perception of Amazon as a high-quality business, we decided to reallocate capital to positions in which we see a more positively skewed risk-reward equation. We also sold out of our smaller positions in Nuvei and 10X Genomics as part of our efforts to consolidate the portfolio on our highest conviction ideas.

⁷ With the exception of contributors and detractors, most of the ensuing data through the end of the letter 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 diversify 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.

Table VI.
Top net purchases for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
None		

We did not add new names or add to existing investments in the quarter.

Table VII.
Top net sales for the quarter ended December 31, 2022

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Amazon.com, Inc.	\$858.8	\$38.8
EPAM Systems, Inc.	18.8	12.6
argenx SE	21.0	11.7
Nuvei Corporation	4.2	10.9
10X Genomics, Inc.	2.9	6.3

As mentioned above, our largest sale in the quarter was **Amazon.com, Inc.** While the company continues holding a leading market position in several large industries including e-commerce, cloud computing, logistics, and advertising; and while its growth runway remains long, we decided to reallocate capital to ideas in which we saw an even more favorable risk-reward profile.

OUTLOOK

This is the time of the year when our inboxes get filled with emails from different strategists, analysts, and market experts regarding their outlooks for next year. The following is a random sampling of quotes from some of their predictions for 2023:

- *A Hard Landing Is Coming In Late 2023... And It's Not Priced In!*
- *Valuations to remain under pressure in 1H23 as fundamentals trough and consensus cut numbers further.*
- *Expect software to outperform in 2H23, driven by focus shifting to reacceleration at some point in '24 on easier comps and compressed multiples.*
- *We project a U.S. recession is likely to start around the beginning of 2023 and last through mid-year.*
- *We see a sustained deterioration in earnings, which is associated with the worst bear markets across history.*
- *Earnings revisions will push stocks lower in the first quarter, before seeing the S&P 500 Index rally back to current levels by year end.*

It would seem that the majority of "expert" forecasts range from pretty bad to really bad. Be that as it may, the quote that resonated the most with us is attributed to John Kenneth Galbraith:

"There are two kinds of forecasters: those who don't know, and those who don't know they don't know."

Unfortunately for us, the volume of requests for near-term predictions seems to be inversely correlated with our performance and so we've been getting a lot of these lately. The problem is that we have a lot more conviction in trying to predict the next five and 10 years (we are quite optimistic) than we do in trying to predict the next three to six months.

This has always been the case, and the current level of market uncertainty has little to do with that.

So instead of trying (and likely failing) to provide a useful outlook, we offer several observations instead for the reasons behind our long-term optimism:

- The businesses we own are resilient. While it is likely that most companies will be impacted by a slowing economy, our businesses have favorable characteristics that make them more resilient in a downturn – most have little or no leverage, are capital-light, have recurring revenues, and sell critical products or services to their customers, which makes them difficult to replace.
- Disruptive change and innovation have been accelerating. The enablers and beneficiaries of disruptive change sometimes turn into the Big Ideas of tomorrow. While out of favor today, many of these companies present truly compelling long-term opportunities at attractive valuations. They continue to innovate, introduce new offerings, enter new product categories and geographies, and increase their "end-games."
- Successful platform businesses under the Power Law distribution will continue to accrue the majority of the economic value (winner-take-most dynamic) – we believe we own a collection of these from **Veeva** to **Shopify** to **CrowdStrike**.
- Terminal growth rates are as important as discount rates in calculating IVs – were inflation to remain higher for longer, companies with pricing power will see an increase in their terminal growth rates. Many of our companies have a proven ability to pass on the cost of inflation being leaders in their industries and critical to their customers (**Adyen** is a great example, as its revenues are directly tied to the payments volume going through its platform, therefore inflationary pressures are directly passed on).
- We expect many of our companies to experience market share gains coming out of the slowdown – leading businesses with durable competitive advantages tend to expand their lead over competitors during times of stress as customers consolidate spending on their best, most important vendors. Examples of commentary from recent earnings calls:
 - Veeva: *"Times like these are long-term positives for high-quality and profitable companies like Veeva, as we continue to benefit from a flight to quality both competitively and in hiring. This is a great time for us to invest to address our large and growing market opportunity."*
 - CrowdStrike: *"We're seeing consistent win rates, they remain high and in fact, in the smaller customers, we've actually seen them significantly improve."*
 - Cloudflare: *"Organizations are looking for strategic partners who can help them consolidate their spend. They don't want 70, 80, 100 vendors setup. They were saying, hey, how do we reduce the number of vendors? How do we do more? How do we consolidate our costs? Absolutely, we hear that all the time ... we will increasingly take share... to become the network for our customers."*
- The margin of safety or the discount to our estimate of business' IVs has expanded significantly – the weighted average multiple of our portfolio is down 57% from last year and many more of our companies now have near-term free-cash-flow valuation support.

Baron Global Advantage Strategy

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 IVs.

Sincerely,



Alex Umansky
Portfolio Manager

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

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

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.