BARON CAPITAL

Baron Global Advantage Strategy

June 30, 2020

Dear Investor:

Performance

We had a good quarter.

Baron Global Advantage Strategy gained 46.5% (net of fees) during the second quarter, which compared favorably to the 19.2% and 25.1% returns for the MSCI ACWI and MSCI ACWI Growth Indexes, respectively, the Strategy's benchmarks.

Table I.
Performance†
Annualized for periods ended June 30, 2020

	Baron Global Advantage Strategy (net)[1]	Baron Global Advantage Strategy (gross)[1]	MSCI ACWI Index[1]	MSCI ACWI Growth Index[1]
Three Months[2]	46.48%	46.77%	19.22%	25.14%
Six Months[2]	35.36%	35.90%	(6.25)%	5.48%
One Year	46.12%	47.30%	2.11%	16.58%
Three Years	31.40%	32.25%	6.14%	13.18%
Five Years	22.04%	22.54%	6.46%	10.83%
Since Inception[3] (May 31, 2012)	20.92%	21.23%	9.42%	12.49%

After a quarter like this, we think it is particularly important to remind shareholders not to focus too much or draw far-reaching conclusions from short-term performance results. While undoubtedly pleasing to the eye, today it is unclear how much of this result was due to luck and circumstance (right time, right place) and how much was due to good decision making. Time will tell. More on that later in the letter.

As is typically the case, the outperformance in the quarter came mostly from stock selection, which contributed 22.3% out of our 27.2% excess return. The outperformance was broad across all the sectors in which we invested, and by wide margins ranging from 21.2% outperformance in Consumer Discretionary to 36.5% outperformance in Information Technology. This unusual level of outperformance was driven by accelerating disruptive change trends that benefited many of our investments. The Strategy's relative returns were also helped by not investing in Utilities, Consumer Staples, Real Estate and Financials, the worst performing sectors in our benchmarks during the quarter. We also showed well in both the developed and the emerging markets (outperforming by 39.3% and 27.3%, respectively) and in nearly all geographies with five countries (representing approximately two-thirds of average net assets) returning over 50% in the U.S., Canada, Israel, Argentina, and the Netherlands; with Israel and Argentina leading the way with returns of 133.8% and 94.7%, respectively. The Strategy's performance was also strong across all market caps, although our smaller- and medium-capitalized holdings performed best with returns of 67.3% and 61.2%, each outperforming the primary benchmark by over 35%. Our allocations to small and mid caps (about 37%) were much higher than the benchmark's (15%), and this also added value.

Looking under the hood, we had *25 investments* that were *up over 50%* during the quarter, 14 of which were up 80% or more, of which 10 at least doubled. As is typical for us, it was a mix of high-conviction, longer-term, better-known investments and lesser-known newcomers: **Wix**, **Twilio**, **MercadoLibre**, **Fiverr International**, **Shopify**, **Schrodinger**, **Datadog**, **Bill.com**, **Pinduoduo**, and **Agora**. While not doubling in price, **Amazon**, **argenx**, **Veeva Systems**, **CrowdStrike**, and **Facebook** were the other top 10 contributors to absolute returns. Only two of our holdings were up less than 10%, **Acceleron Pharma** (which was up 70% in the first quarter) and **Mellanox Technologies** (whose all-cash acquisition by NVIDIA closed during the quarter). The Strategy had but a single detractor, **Arco Platform**, a Brazilian education company, that cost us…a single basis point of performance.

I was very fortunate to have good mentors, especially early in my investing career. Many years ago, in my former shop, one of them suggested that participating in fantasy football could be a useful exercise. At the time, the

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of June 30, 2020, total Firm assets under management are approximately $32.5 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO. The Strategy invests mainly in growth companies of all sizes located throughout the world. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's Strategies or a GIPS-compliant presentation please contact us at 1-800-99BARON.

The performance data quoted represents past performance. Past performance is no guarantee of future results.

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

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

2 Not annualized.

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

idea of grown men spending a considerable amount of time "fantasizing" about owning and managing a football team, "drafting" and trading players, and betting money on how these particular players will perform in real life, seemed plainly bizarre. But my mentor quickly explained that players can be viewed like stocks and their average draft position ("ADP") was akin to a market price. Players with proven track records or blue-chip credentials who played in powerful offenses were expected to produce a lot of passing, rushing or receiving yards and score touchdowns were your "growth" stocks and were trading at very high ADPs. Aging players or players with mediocre track records could be acquired or "invested" in at much lower ADPs and were essentially your value stocks. And then, there were players coming off injuries, or moving teams or coaches, and finding themselves with larger or smaller opportunity sets. These were your turnaround situations. Just like with stocks, some players will significantly outperform their price/ADP and others will underperform. The trick was to construct a portfolio of these players whose combined production/results will outperform the portfolios constructed by the other team owners. It seemed gimmicky and I was skeptical. "How do you predict which one of them will get hurt? Which one will misbehave and get suspended or benched? Won't the weather affect the stats? *How do you get comfortable with all that uncertainty???*" My mentor smiled. "Well…do you know what the Fed is going to do? What about the price of oil? GDP growth? **Investing is all about getting comfortable with uncertainty**…"

Beginner's luck gifted me a 3rd drafting slot in my first fantasy football adventure, which is generally considered advantageous, because it meant that I would ostensibly have a chance to select the third most valuable player. I spent countless hours preparing and researching and even built algorithms designed to forecast players' future performance based on their historical production, adjusted for any changing circumstances, such as comp incentives, and yes, with an adjustable variable for the changing weather (the algorithm proved to be wildly inaccurate). I kept peppering my mentor with questions. Do I take Marshall Faulk or Kurt Warner with my first pick? It was fairly obvious that the quarterback ("QB") position was the most important one in real football, but the fantasy football owners seemed to value the running back ("RB") position more. I deduced that because running backs generally had much higher ADPs (i.e., market price) and all proven "starters" would typically be gone in the early rounds where as a starting QB could easily be had in the 6th through 10th round of the draft (once again, bearing no resemblance to real football drafts). Still, Kurt Warner had Torry Holt and Isaac Bruce, AND he also had Marshall Faulk (who as one of the best receiving RBs of his day would co-create value/points for his quarterback) and he had the genius Mike Martz who invented "The Greatest Show on Turf." My mentor told me not to worry about Marshall Faulk, who was certain to be taken before my turn and pointed out that Kurt Warner's ADP was in the middle of the 2nd round (meaning that there were over a dozen players that I could own with my 3rd overall pick that had a higher price–i.e., significantly higher expected value). The problem was that at Kurt's ADP he was unlikely to be there when my turn to pick came again and, in my view, the market's price for Kurt was way too low. "Please, help me reconcile this" I pleaded with my mentor. "The first-round pick is the biggest investment I'm going to make, and I understand the uncertainty about the outcome. I just want to do the 'right' thing, you know, *make the 'right' decision*." "Ha!"–he replied–"*How do we know what the right decision is*? That will not be revealed until after the season, and even then…how would we know whether we made a good decision or just got lucky? Investors learn to get comfortable with the uncertainty of outcomes because it is fairly intuitive. **How do we get comfortable with the uncertainty about the 'right' thing to do? How DO we make good decisions???**"

Long story short, he never gave me any answers, even for the simplest of queries. Every question resulted in more questions. I ended up taking Kurt Warner with the 3rd overall pick, and my fantasy team was one of the first ones to be eliminated from playoff contention, despite the fact that Kurt Warner won the Most Valuable Player award in the NFL that year. I had to learn the hard way why experienced fantasy players would never spend a first round pick in a standard scoring fantasy football league on a QB (it is because only the top 12 QBs get to "start" and accrue points for fantasy purposes, compared to 24 RBs, and 36 wide receivers ("WRs"). The difference between the best starting QB and the average QB (#6 or #7 overall) or the worst starting QB (#12 overall) tends to be significantly *smaller* than the difference between the #1 RB and the average starting RB (#12 or #13 RB) or the worst starting RB (#24), AND the same is true between the top, average, and worst WRs as well).

It was a pattern with this guy. He would never explain to me why he would purchase this stock instead of that one, promote this analyst but not the other, trust this management team, but not that one. I learned to live with that ambiguity, but I did not forgive him for not stopping me from taking Kurt Warner with the first pick. While there could be a lucky outcome, there was no way it would prove to be the "right" thing to do. There was no way it was going to be the right decision. It took me many years to realize that he wasn't giving me answers just to be mean, but because those answers would come at the expense of my developing ability to make good decisions. I had to learn to think through everything for myself, on my own. All he could do was give me the tools. Teach me to ask the right questions. I'm the one who had to find the way through. And then, perhaps, one day, I could get comfortable with uncertainty. Not only with the uncertainty of outcome but with the uncertainty of the decision making itself. We believe there is no finish line and that investment decisions can only be judged over really long periods of time. We also believe that making good investment decisions is a skill that can be learned and improved upon continuously over time. We think that's what it's all about.

Back to our second quarter. Despite the incredibly strong overall market recovery, the price moves were far from uniform. At the one extreme, areas that were hit the hardest by the COVID-19 shutdowns are still down big for the year. Hotels, resorts & cruise lines are down 50%, airlines are down 48%, Energy stocks are down 34%, and Financials are down 24%. At the other extreme, companies deemed to be clear beneficiaries from the work from home theme are up in the triple digits. For example, the now well-known video conferencing software provider, Zoom Video Communications, was up 273%. Everyone else is somewhere in between. Secular and structural changes are occurring in a compressed timeframe, which likely accelerates digital transformations that have dominated our portfolio over the last few years. Global economies are digitizing and transforming themselves!

When we look at our investments, many of our companies have been on the right side of this disruption, exhibiting real strength in their business fundamentals, and in many cases, significantly accelerated growth:

- **Wix** – April collections accelerated to a 76% growth with a 207% growth in new subscribers.

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- **Twilio** – Revenue growth accelerated to 56%. Jeff Lawson, Twilio's CEO, commented during the earning conference call: *"These (digital transformation) projects were slated for quarters or years…many of these got done in weeks. And so, this is going to be seen as* ***a great digital acceleration.****"*
- According to Adobe[1], e-commerce spending was up 78% year-over-year in May after being up 49% in April. This benefits our e-commerce-related businesses: Amazon, Shopify, Alibaba, MercadoLibre, Wix, and Fiverr.
- **Shopify** saw new store creation on their platform increase by 62% through April. Tobi Lutke, its CEO, commented during earnings that *"when it comes to the retail industry, we've just jumped a lot of years in the future."*
- **Fiverr** saw its business accelerate every week in April.

The commentary around the acceleration of digitization during earnings calls was remarkably similar in many of our businesses, irrespective of their geographical location, market cap, or GICS sector.

- **Alibaba:** *"The pandemic has fundamentally altered consumer behavior and enterprise operations, making digital adoption and transformation a necessity."*
- **Google:** *"Long-term acceleration of movement from businesses to digital services…These changes will be significant and lasting…cloud is an obvious area. If you have data centers, these are fixed costs…"*
- **Splunk:** *"One thing is clear to us: data matters more than ever in this digital world, and every organization is on a journey to bring data to everything."*
- **Schrodinger:** *"the crisis only makes clearer the need for efficiency and speed in drug and materials design and the benefits of our technology."*

While many of these disruptive forces have been going on for years, we think it is now clear that the Coronavirus pandemic has accelerated their pace:

- 7,000 – 8,000 retail doors closed annually pre-COVID-19 => CoreSite predicts 25,000 retail store closures in 2020.
- e-commerce penetration increasing by 70 bps to 80 bps a year and e-commerce growing 12% to 14% per year while e-commerce growth rates over the last three months have been in the 50% to 80% range.
- Computing workloads are migrating to the cloud faster.
- Companies are investing rapidly in digitization across their operations.

The acceleration in these tailwinds combined with the Fed's response to COVID-19, which has led to a reduction in long-term interest rates and equity risk premiums, has driven up the intrinsic value of the businesses we own (cash flows will grow faster for longer and are discounted to present values at lower discount rates). In a post-COVID-19 world, digitization has become crucial for survival. COVID-19 has proven that companies that are either digitally native or who have already digitally transformed will thrive, while the rest will be left behind. Though we are only just starting to understand the many implications of this pandemic, we think it is worth repeating what we wrote in the last quarterly letter:

The economy will NOT be the same as it was before the COVID-19 crisis.

We have a lot of experience analyzing disruptive change, and a process that helps us identify businesses that are well-positioned to benefit from it. We always think about the quality of the business and its competitive advantage first. Why that competitive advantage is durable, and how it will enable the business to compound its intrinsic value over long periods of time are the two most critical questions that we must answer prior to making any investment. Many of these companies are unique and emerge from downturns in a stronger competitive position than they were in when they went into it because they sell a critical product or service that is vital to their customers.

While the level of uncertainty remains extreme, we believe that the increased pace of disruptive change will benefit our businesses, expand and strengthen their competitive advantages, and accelerate the growth of their intrinsic values. Our experience in uncovering the special ones (or "big ideas") and our willingness to hold them for the long term should help us continue to generate excess returns over the long term.

Table II.

Top contributors to performance for the quarter ended June 30, 2020

	Quarter End Market Cap (billions)	Percent Impact
Wix.com Ltd.	$ 13.3	3.20%
Twilio Inc.	30.7	2.76
MercadoLibre, Inc.	49.0	2.72
Fiverr International Ltd.	2.5	2.63
Amazon.com, Inc.	1,376.0	2.54

Wix.com Ltd. provides software to help micro-businesses build and maintain websites and operate their businesses. Wix has over 170 million registered users and 4.5 million premium users. Shares were up 154% in the second quarter as Wix's business benefited from the accelerating pace of digitization due to COVID-19 driving 76% year-over-year growth in the April cohort collections, 63% growth in new user registrations and 580% growth in new Wix Stores subscriptions. We retain conviction as Wix deepens its offering while expanding its platform to target professional website builders and agencies in addition to its core do-it-yourself customers, increasing its total addressable market multi-fold while continuing to rapidly introduce new features and products.

Twilio Inc. is a leading Communications-Platform-as-a-Service (CPaaS) company offering a set of application programming interfaces that help developers embed communications into their software through its cloud platform. Shares appreciated 145% during the quarter as Twilio's business accelerated due to increasing digitization trends as a result of COVID-19, driving 57% revenue growth in the most recent quarter with strengthening trends into the next quarter. We believe the accelerating pace of digitization is driving businesses to increasingly embed communications into their software, creating a potential multi-billion dollar market opportunity for Twilio.

MercadoLibre, Inc., the leading e-commerce and digital payments platform in Latin America, contributed during the quarter as its stock was up 103%. The company reported earnings results and trading trends that exceeded

[1] https://www.adobe.com/content/dam/www/us/en/experience-cloud/digital-insights/pdfs/adobe_analytics-digital-economy-index-2020.pdf

investor forecasts as growth in gross merchandise value sharply accelerated in April driven by the shift of consumers to online shopping during the lockdowns while off-platform total payment volume growth also accelerated in April. We believe the opportunity ahead for MercadoLibre remains significant as it benefits from the rise in e-commerce penetration from a still modest 3% rate and the growth of digital payments since Latin America is still predominantly a cash-based economy.

Fiverr International Ltd. is a leading two-sided online marketplace for freelance services that helps connect businesses with freelancers. Fiverr's stock was up 193% during the second quarter after the company reported 44% revenue growth due to the increased pace of digitization as a result of COVID-19. We believe that Fiverr remains early in its growth curve since freelance work is a secularly growing part of the global economy (with a multi-billion dollar total addressable market) as millennials and gen-z-ers become a larger part of the 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.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares rose 41% during the quarter on strong first quarter results as Amazon benefited from its prior investments in logistics and distribution to meet the increased COVID-19-related demand. Additionally, stock performance was driven by investors' expectations that Amazon will benefit from the accelerating pace of digitization trends following COVID-19 such as e-commerce penetration and the migration of IT workloads to the cloud. Amazon remains early in disrupting multiple large markets including e-commerce with around 15% penetration, advertising at 1% to 2%, logistics, health care, and more. We also think AWS (Amazon Web Services) still has a long runway for growth with cloud penetration of around 6% in 2019 out of the $3.7 trillion global spending on information technology (according to Gartner).

Table III.
Top detractors from performance for the quarter ended June 30, 2020

	Quarter End Market Cap (billions)	Percent Impact
Arco Platform Limited	$2.6	–0.01%

Arco Platform Limited is a Brazilian education technology company providing educational content and software solutions to K-12 private schools. Its solution is a one-stop shop for schools replacing several publishing and system vendors. In an embarrassment to our timing decision shares of Arco detracted from performance *despite the stock being up 10%* during the quarter since we added to our position at higher prices during the quarter and the Brazilian Real depreciated following our purchase. We maintain conviction in Arco as it is in the early stages of disrupting a legacy industry with a modern learning platform, enabling better results for students and schools.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level having the most significant roles in determining the size of each individual investment. Sector or country weights are an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view." The top 10 positions represented 36.1% of the Strategy, and the top 20 represented 58.1%. Our investments in the Information Technology, Consumer Discretionary, Health Care, and Communication Services, as classified by GICS, represented 90.5% of the Strategy's net assets. Our investments in companies domiciled outside the U.S. represented 41.4% of net assets and our investments in emerging markets totaled 26.7% of net assets. During the second quarter, the Strategy crossed the $1 billion net assets milestone.

Table IV.
Top 10 holdings as of June 30, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Alibaba Group Holding Limited	$ 578.7	$77.3	6.3%
Amazon.com, Inc.	1,376.0	73.6	6.0
Facebook, Inc.	647.5	48.4	4.0
Wix.com Ltd.	13.3	39.1	3.2
MercadoLibre, Inc.	49.0	36.6	3.0
TAL Education Group	41.1	35.6	2.9
GDS Holdings Limited	12.1	34.2	2.8
Splunk, Inc.	31.6	33.5	2.7
Twilio Inc.	30.7	31.6	2.6
Veeva Systems Inc.	35.2	31.5	2.6

Exposure By Country

Table V.
Percentage of securities by country as of June 30, 2020

	Percent of Net Assets
United States	49.1%
China	16.6
Brazil	5.4
Israel	5.2
Netherlands	4.9
Argentina	3.9
Canada	2.6
United Kingdom	2.0
United Arab Emirates	0.8

Recent Activity

During the second quarter, we initiated three new investments and added to 38 existing positions as we continued to put the Strategy's inflows to work. For the first time since the Strategy's inception, we made no sales during the quarter. We exited the month of June with 47 investments.

Table VI.
Top net purchases for the quarter ended June 30, 2020

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Alibaba Group Holding Limited	$ 578.7	$43.6
Amazon.com, Inc.	1,376.0	28.5
Facebook, Inc.	647.5	28.3
GDS Holdings Limited	12.1	18.8
ZoomInfo Technologies Inc.	19.9	16.6

We initiated a small investment in **Slack Technologies Inc.** early in the second quarter. Slack is a cloud-based collaboration platform, enabling customers to communicate, share information, and collaborate on projects. Slack is used by over 12 million users daily, has over 110,000 customers, and it is growing rapidly (revenues grew 57% in fiscal year 2020 driven both by the addition of new customers and by the expansion of existing ones). Slack has seen a significant acceleration in its business due to COVID-19 adding 90,000 new customers in the first quarter, which is more than it added in all of 2019.

Since the early days of the internet, email has been the main way people communicated in their personal lives and at work. Slack seeks to disrupt that. This is how the company explains its mission: *"Our mission is to make people's working lives simpler, more pleasant and more productive."* And this is how they intend to disrupt email: *"The most helpful explanation of Slack is often that it replaces the use of email inside the organization. Like email (or the internet or electricity), Slack has very general and broad applicability. It is not aimed at any one specific purpose, but nearly anything that people do together at work. Unlike email, however, most of this activity happens in team-based channels, rather than in individual inboxes. Channels offer a persistent record of the conversations, data, documents, and application workflows relevant to a project or a topic. Membership of a channel can change over time as people join or leave a project or organization, and users benefit from the accumulated historical information in a way an employee never could when starting with an empty e-mail inbox. Depending on the size of the organization, this might provide tens, hundreds or even thousands of times more access to information than is available to individuals working in environments where email is the primary means of communication."*

As organizations digitally transform and become more agile, the technologies they use and their organizational structures must adapt as well. These technologies need to mirror the collaborative, customer-centric workflows rather than act as a constraint on them. Slack's platform was purpose-built for that world, while email is more relevant for the siloed linear organizations of the past, in our view. Slack also benefits from strong competitive advantages including its integration with dozens of other enterprise tools such as Google Docs, Salesforce, and others, as well as the ever-growing data Slack customers generate and then tap into, which creates stickiness. Slack's shared channels also benefit from Metcalfe's Law (the value of a shared channel grows with the amount of collaboration) as well as from word-of-mouth adoption (the more users are in Slack, the more attractive the platform becomes for other users within the organization). This explains Slack's best-in-class net-dollar-retention rates of 130%. We believe Slack has a large opportunity ahead to disrupt email usage, with hundreds of millions of information workers still using emails daily as their main collaboration tool.

During the quarter, we also bought **ZoomInfo Technologies Inc.** ZoomInfo operates a cloud-based business-to-business intelligence platform that provides sales & marketing teams with comprehensive data and analytics on 14 million companies and 120 million professionals, enabling sales professionals to identify and target prospects, shorten sales cycles, and increase win rates. The company currently has over 200,000 paying users across 15,000 customer companies, reflecting only about 2% penetration of a $24 billion global addressable market that benefits from secular trends favoring data-driven marketing. We believe ZoomInfo is well positioned to capitalize on the opportunity ahead given the company's unique contributory network for data collection and validation, patented data extraction technologies, and highly efficient go-to-market strategy that drives a best-in-class LTV / CAC ratio of over 10 times. ZoomInfo's moat is rooted not only in the quality and breadth of its product, but also in the platform and resultant network effect it has built over time through its "contributory network" (contacts from customers are continuously being updated into the network, benefiting ZoomInfo's other customers and increasing the quality and breadth of the data for the entire network). Moreover, we believe that Henry Schuck, ZoomInfo's Co-founder and CEO, has built a culture that will drive the company to become more successful over time. The following two paragraphs stood out to us when we read Henry's shareholder letter:

"I am humbled by the depth and breadth of our growing customer base. From our earliest customers–who, over a decade ago, recognized the value of our product and put their trust in a 23-year-old's idea–to our newest customers who continue to sophisticate their go-to-market motions with our platform.

"I am so proud to stand in front of this organization. I am proud of the culture we have built that constantly asks, 'How can I perform better? How can we make this better? How can we do more good?'"

As we mentioned in the fourth quarter 2019 letter, one of the keys to success is continuously learning and improving:

"The best investors we know do not measure success in percentage gains, or dollars and cents. Neither do the best CEOs. They measure success in lessons learned. Intellectual curiosity, willingness to fail, resiliency, and the insatiable appetite to learn and improve are what separates these people from the rest. A flexible mindset is required."

We believe that ZoomInfo's culture is aligned with that view.

Lastly, ZoomInfo provides a good example to a question we are often asked: Where do ideas come from and why is the process repeatable? We got to know ZoomInfo as a private company a while ago, and before it went public, management reached out to us and invited us to several meetings including a visit to their headquarters at which we met several layers of management including sales and R&D leaders, and we were able to learn the business at a much deeper level. Baron's 38-year reputation as long-term investors in high-quality businesses is what led them to invite us in, providing us with the opportunity to learn their business and make an informed investment decision.

We feel lucky to be in a position where great companies seek us out and believe this is one of our structural and sustainable competitive advantages.

Table VII.
Top net sales for the quarter ended June 30, 2020

	Market Cap When Sold (billions)	Amount Sold (millions)
Mellanox Technologies Ltd.	$7.0	$22.2

As mentioned earlier in the letter, the acquisition of **Mellanox Technologies Ltd.** by NVIDIA closed during the quarter, and we received cash in exchange for our shares.

Outlook

What a difference three months make…

If that looks familiar, it is because this is how we started this section of the letter last time. It almost feels like we've lived through a full market cycle in six months. From market participants' vast optimism in early January to extreme pessimism in March, when futures were limit down practically every morning, and back to one of the biggest rallies in history during the last three months. Ironically, we believe that through it all, *what we don't know > what we do know* remains to be true. We are still in the early stages of understanding the long-term implications of COVID-19.

"The World Just Doesn't End That Often" said Brian Rogers, the Chairman and Chief Investment Officer of T. Rowe Price during the Financial Crisis in 2008. We tend to agree. The market has clearly concluded that we will get through this, but we think it is also signaling that life and business may be very different.

Upon reflecting on the last six months, we made several observations:

- The heightened level of uncertainty will likely significantly increase the range of possible outcomes.
- Market participants appear to be even more short-term focused than usual.
- The performance of stocks has been largely bimodal. If the company is perceived as a beneficiary of COVID-19 or even just a clear survivor, its valuation seems to be less important.

The first two observations play into what we believe are our structural competitive advantages: our focus on long-term ownership and our investment process in which we think of everything probabilistically. We believe that understanding the range of outcomes and their respective probabilities AND consequences is more important than knowing the best possible outcome or the worst possible outcome or trying to predict the most likely outcome. (Thank you, Michael Mauboussin!) We can't always anticipate every possible outcome, but it is our job to be as prepared as possible. While most investors are focused on figuring out the exact growth rate over the next one to two quarters, we are instead busy estimating the approximate growth rate over the next decade. The third and last observation, however, raises the probability that there will be a period in which we will underperform. Sooner or later, there will be a vaccine and herd immunity, and people will start to travel again. There will be a period of time in which airlines, casinos, hotels, energy companies, and banks will rally hard. It is also likely that the valuation disparity between these businesses and the digital transformation companies prevalent in the Strategy will be large enough that the companies we own will be used as sources of funds. This exact scenario unfolded in the last quarter of 2016 after the unexpected outcome of the U.S. elections, closely followed by Brexit. The incoming Trump administration campaigned on the platform of trade tariffs and standing up to China, and tax reforms, and infrastructure spending. We have always been overweight emerging markets and China, in particular, and fast-growing companies tend to overinvest and underearn, which means they won't be benefiting from corporate tax cuts. So, our Chinese (and emerging markets) investments sold off hard as did our fast-growing digital transformation companies, while the Energy sector, banks, real-estate companies, and "old economy" businesses in general, rallied hard. The Strategy underperformed its benchmark by almost 900 basis points over 10 weeks. We think it is important for our shareholders to understand who we are and who we are not. We do not "rotate" sectors or eschew big ideas for the holders of value, and there will inevitably come a time when our investment style will be out of favor. We are ok with that. As it happened in 2016, the period of underperformance was brief. Though we made very few changes, the Strategy outperformed its benchmark by 1,054 basis points (net of fees) in the first quarter of 2017 and by 27.22% over that full year.

Every day we live and invest in a world full of uncertainty. 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 the 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.

Our goal remains to maximize long-term returns without taking significant risks of a permanent loss of capital. 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 significantly below their intrinsic values.

Sincerely,

Alex Umansky
Portfolio Manager

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

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

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.

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