BARON CAPITAL

Baron High Growth Strategy

September 30, 2022

DEAR INVESTOR:

PERFORMANCE

Baron High Growth Strategy fell slightly during the third quarter, holding up better than the broader market indexes. For the quarterly period, the Strategy dropped 2.36%, better than the Russell 3000 Growth Index, which fell 3.37%, and the S&P 500 Index, which declined 4.88%. For the year-to-date and trailing 12-month periods, the Strategy is down sharply, trailing both indexes. At Baron, long-term returns are what really matter, and our philosophy, approach, and processes are geared toward achieving strong long-term performance. As shown in the chart below, the Strategy continues to outperform its benchmarks across the three-year and longer annualized trailing periods.

Table I.
Performance†
Annualized for periods ended September 30, 2022

	Baron High Growth Strategy (net)[1]	Baron High Growth Strategy (gross)[1]	Russell 3000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	(2.36)%	(2.12)%	(3.37)%	(4.88)%
Nine Months[2]	(40.03)%	(39.58)%	(30.57)%	(23.87)%
One Year	(38.19)%	(37.58)%	(23.01)%	(15.47)%
Three Years	13.22%	14.34%	10.16%	8.16%
Five Years	15.44%	16.57%	11.57%	9.24%
Ten Years	13.55%	14.65%	13.36%	11.70%
Fifteen Years	10.29%	11.41%	9.87%	8.03%
Since Inception[3] (June 30, 2000)	8.68%	9.95%	5.38%	6.16%

REVIEW & OUTLOOK

When investors look at the Strategy's performance during the quarter and read the first line of the letter, where I say the Strategy "fell slightly," they might be tempted to conclude that the Strategy (and market) has stabilized. But it was a highly volatile quarter, quite the opposite of stable. Both the Strategy and U.S. equities remained buckled into a roller coaster ride, with the Russell 3000 Index rebounding more than 14% through mid-August before falling nearly 17% over the remainder of the quarter. Initial investor enthusiasm about "peak inflation" and a possible dovish pivot from the Federal Reserve was rapidly overwhelmed by a myriad of factors, including continued China pandemic lockdown/growth worries, concerns about negative earnings revisions, caution about the evolving energy crisis in Europe, geopolitical fears involving the war in Ukraine, and an escalating intellectual property trade war with China, not to mention the persistent and overarching macroeconomic issues of inflation and interest rates. Indeed, Fed Chairman Powell's short and to the point speech at the Jackson Hole Economic Symposium in late August squelched speculation about a potential pivot to a rate-cut cycle, as the Chairman and other central bankers emphasized the need to maintain the aggressive pace of tightening even in a slowing economic environment.

As stressed in our last few quarterly letters and described just above, third quarter equity performance continued to be dominated by macroeconomics and geopolitics, not business fundamentals or secular growth trends. The market gyrated as if it were incessantly debating whether inflation has peaked and how fast or slow might it decline; when will the Fed pause and/or pivot; the likelihood of a soft landing versus how long and deep a recession might be; and whether Street 2023 earnings estimates for the S&P 500 Index and individual companies are low enough yet. As Ron has articulated for 50 years, and as I have tried to explain in my

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 September 30, 2022, total Firm assets under management are approximately $36 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO; and separately managed accounts and one wrap account program managed by BCM. 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. For a GIPS-compliant report, Click here.

The 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. Returns could be reduced, or losses incurred, due to currency fluctuations.

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

1 The **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market and the **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trade mark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. The indexes and the Strategy include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Strategy performance. Investors cannot invest directly in an index.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is February 29, 2000

own quarterly letters, these questions prove answerable only with 20/20 hindsight and even trying to answer them is not what we do.

There is only one thing we know about bear markets: they end. With the lone exception of the current bear, the market has always recovered to new highs. In times like these, every investor wants to know when the market and/or particular sectors will bottom. We don't know and don't try to make the call. Ron has warned over the years about the perils of market timing, and I have quoted him many times, so I won't repeat it here. We are not trying to time the bottom for the market, the sectors we emphasize, or individual stocks.

So, what are we doing? Based on my own life experiences and challenges I've faced I adhere to a life mantra of "focus on what you can control." This discipline is ingrained in my investing approach and how I mentor and guide our research team.[1] We cannot control most, if not all, of the current factors and issues discussed above (inflation, interest rates, the Fed, market sentiment, geopolitics, etc.). But we do control our investment philosophy, processes, research, analysis, judgment, and portfolio management decisions. This is what we are focused on in today's environment.

We are adhering to our long-term philosophy and our well-established and iteratively honed research and portfolio management processes. We are focusing on the undeniable and powerful underlying secular growth trends disrupting industries and driving significant growth opportunities for our investments. We are drilling down on our industry and company research, having as many in-depth, fruitful interactions with management teams, customers, competitors, partners, and industry experts as we can. We are scrutinizing our qualitative research and analysis: significant growth opportunities or total addressable markets (TAM); low penetration of the TAMs and/or multiple TAMs (second or third acts); sustainable/durable competitive advantages; secular drivers versus cyclical risk; favorable competitive environments; product-market fit; go-to-market efficiency; long-term oriented management teams; solid and repeatable unit level economics; and substantial earnings and free cash flow generation at scale. We are carefully checking every aspect of our financial models and projections, including running downside scenarios. We are conservatively and prudently establishing price targets (now using multiples at the lower end of what we believe are appropriate ranges, rather than median/average multiples), calculating downside cases, and seeking stocks with compelling risk/reward balances. Based on these efforts, we believe our portfolio of secularly driven, rapidly growing, competitively advantaged, cash-flow generative businesses are attractively priced against their long-term opportunities. As I have explained about our price target work in these letters many times, I color code our price targets: blue for 15% to 20% internal rates of return and green for 20%-plus. Given the recent compression in valuations and decline in stock prices, our price target sheet is flashing blue and green. Even in our downside scenarios, we see many companies offering double-digit long-term annualized returns.

We have tactically responded to the sell-off by endeavoring to upgrade the quality of our portfolio carefully and pragmatically, based on our research and analysis, by buying or adding to businesses that possess the key criteria described above and in our recent letters. Since we are not trying to find bottoms, we are buying or adding when our target companies are in our "buy zones" based on the price target work just described – we start buying or adding at the top of our buy zone and buy/add more aggressively if our targets fall lower in the zone. In market and economic environments like these, we have observed, experienced, and learned that the strong get stronger, particularly for well-managed and well-capitalized companies that continue to invest in themselves. We have been "feeding the strongest members of our herd" and sometimes reluctantly trimming or selling the weaker members, as part of our upgrade effort. We have concentrated the portfolio significantly this year, and at the time of this writing own just over 40 unique company investments (down from 63 to start the year). Among others, during the third quarter we added to:

Software and Internet Services: **Shopify Inc.**, **Cloudflare, Inc.**, **Datadog, Inc.**, **Workday, Inc.**, **The Trade Desk**, and **ZoomInfo Technologies Inc.**

Semiconductors: **Monolithic Power Systems, Inc.**, **NVIDIA Corporation**, **indie Semiconductor, Inc.**, and **ASML Holding N.V**.

Technology Services: **Gartner, Inc.**

Health Care: **Intuitive Surgical, Inc.**

In addition, we have persisted in our efforts to exploit market weakness in a second way: engaging in prudent tax management. Through the end of the third quarter, we have locked in $140 million of net tax-loss carryforwards, which we will be able to use to shield taxable gains in more positive market environments.

Below is a partial list of the secular megatrends we focus on. These themes will be the key drivers of revenue, earnings, and cash flow growth – and stock performance – for the companies in which we are invested:

- Cloud computing
- Software-as-a-service (SaaS)
- Artificial Intelligence (AI) and big data
- Mobile
- Semiconductors
- Digital media/entertainment
- Targeted, people-based digital advertising
- E-commerce
- Genomics
- Genetic medicine
- Minimally invasive surgical procedures
- Cybersecurity
- Electric-drive vehicles/autonomous driving
- Electronic payments

Table II.
Top contributors to performance for the quarter ended September 30, 2022

	Percent Impact
ShockWave Medical, Inc.	0.68%
Tesla, Inc.	0.58
Rivian Automotive, Inc.	0.52
ZoomInfo Technologies Inc.	0.47
Gartner, Inc.	0.38

[1] I have served for several years as Baron's Head of Technology Research.

ShockWave Medical, Inc. provides intravascular lithotripsy for the minimally invasive treatment of arterial plaque. Shares outperformed for the quarter, as the company has successfully navigated macroeconomic issues, like hospital staffing shortages, and continues to see robust uptake of its coronary product. The product design is balloon-based, a design physicians are familiar with, and the sonic wave-based mechanism of action has a safe profile. We think ShockWave offers a differentiated technology serving a significant unmet need in arterial disease with potential to expand into treatment of heart valves. Management's latest guidance of $465 million to $475 million in 2022 revenues would represent growth of 96% to 100%, but this would still only imply 5% to 6% penetration of a $8.5 billion market opportunity, so we think there is plenty of runway for growth.

Tesla, Inc. makes fully electric vehicles (EVs), related software offerings, solar and energy storage products, and battery cells. After a tough second quarter that included a prolonged shutdown of one of Tesla's key manufacturing facilities in Shanghai, the company demonstrated a significant 40% sequential increase in production volumes, resulting in another quarterly record of production and deliveries. Despite the second quarter complexities, inflationary pressures, and production ramp-up of two new facilities (Berlin and Austin), the company exceeded Wall Street expectations in the second quarter. It maintained healthy 26% normalized gross margins, achieved industry-leading 18% adjusted operating income margins, and has generated over $14 billion of cash from operations over the past year. Moreover, due to Tesla's high level of vertical integration and U.S. manufacturing capacity, the company is expected to be one of the key beneficiaries of the Inflation Reduction Act, qualifying for significant manufacturing and consumer-related incentives. We believe these incentives can add up to tens of billions of dollars over the coming decade, while also enhancing Tesla's competitive advantage versus other automakers. The company also held its second artificial intelligence day, which presented continued advancements in its vehicle self-driving program and showcased its rapidly evolving humanoid robot developments (check out the Optimus videos on YouTube). We continue to believe Tesla is well positioned to benefit from complementary tectonic shifts in the automotive industry, including electrification, autonomous driving, and shared mobility. And, yes, Tesla is still effectively debt free, with over $18 billion of cash on its balance sheet, and investors are even speculating about a stock buyback, a far cry from worries of bankruptcy just a few years ago.

Rivian Automotive, Inc. designs, manufactures, and sells consumer and commercial EVs that share a similar underlying architecture, including differentiated software-enabled services. The stock outperformed despite the ongoing challenging supply-chain environment, as the company successfully demonstrated improved production rates. In the third quarter, the company produced over 7,300 vehicles – showing a 67% sequential increase in production and reaching a year-to-date total of over 14,000 – and thus increased investor confidence in its ability to meet its full-year goal of building over 25,000 vehicles. In addition, the company delivered a growing number of its SUVs, the R1S, which generated positive feedback from customers similar to feedback received about its truck. The company also announced a collaboration with Mercedes Benz, which should help the company expand its manufacturing footprint to Europe in a capital efficient manner, with high capital efficiency. Lastly, we expect the Inflation Reduction Act recently passed in the U.S., where essentially all of Rivian's sales are now taking place, to accelerate commercial customer demand for Rivian's delivery van and pickup truck models.

ZoomInfo Technologies Inc. provides go-to-market business intelligence software. Shares of ZoomInfo contributed to performance following solid quarterly results and strong forward revenue guidance for growth and operating profit. For the second quarter, ZoomInfo delivered 42% organic revenue growth (54%, including acquisitions) and 40% adjusted operating income (OI) margins. We believe that ZoomInfo possesses a substantial long-term growth opportunity as it further penetrates its ever-expanding $70 billion total addressable market. While not immune from macroeconomic headwinds, ZoomInfo remains relatively resilient and a mission-critical tool for its customers. We also believe ZoomInfo is well positioned to expand into adjacencies such as marketing and talent acquisition software, where there is significant greenfield opportunity in which to cross-sell. We believe that ZoomInfo will be able to continue growing its top-line at a rate above 30% while maintaining healthy adjusted OI margins above 40%, a rare growth/profitability paradigm.

Shares of **Gartner, Inc.**, the leading provider of syndicated research, contributed to performance for the quarter. Gartner's technology-focused research products, which are the foundation of the company, have continued to compound at double-digit rates. Growth is benefiting from sales to new customers, deeper penetration within existing customers, and consistent same-store price increases. Gartner's non-technology products, collectively known as Global Business Services (GBS), were acquired almost five years ago from competitor Corporate Executive Board. After a multi-year investment cycle to apply Gartner's best-in-class product design, sales processes, and customer service orientation, GBS is thriving, with growth presently exceeding 20%. Gartner management has also renewed its commitment to modest annual margin expansion, which we see as an incremental driver of long-term value creation. Finally, Gartner is extremely cash generative, with free cash flow expected to exceed net income by almost 35% this year. We expect management to be aggressive in repurchasing stock.

Table III.
Top detractors from performance for the quarter ended September 30, 2022

	Percent Impact
Microsoft Corporation	–1.10%
Alphabet Inc.	–0.89
NVIDIA Corporation	–0.53
ServiceNow, Inc.	–0.53
argenx SE	–0.28

Shares of **Microsoft Corporation** pulled back with the overall software industry on the back of macroeconomic issues, including inflation concerns and rising interest rates. The company reported another strong quarter, highlighted by total revenues growing 16% on a constant currency basis and Microsoft Cloud revenues, now 48% of total sales, growing 33%, with Azure (Microsoft's infrastructure cloud) growing 46%. These results were driven by strong demand for large commercial cloud contracts, as more businesses are standardizing on Microsoft's platform and the company is signing larger and longer deals. Initial fiscal year 2023 guidance calls for healthy double-digit revenue and operating income growth. Both foreign exchange and personal computer headwinds were contemplated in the guidance and have continued to worsen, but we have conviction in the company's strong competitive positioning, durable growth drivers, and margin expansion opportunity over the mid- to long term.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. After benefiting from the pandemic shift to e-commerce as well as data privacy changes negatively impacting major competitors, Google's core search and YouTube businesses are facing broad macroeconomic headwinds impacting digital advertising demand, as well as difficult comparisons against the reopening backdrop of last year. During the second quarter, Google reported 16% overall revenue growth, with search growing 15% and YouTube 10%. Despite the short-term headwinds, we remain investors as Alphabet is still the strongest player in its market and continues to benefit from long-term secular growth in mobile and online video advertising, accruing to its core assets of Search, YouTube, and the Google ad network. We are further encouraged by Alphabet's investments in cloud (which grew 40% last quarter), AI, and other initiatives, which can help the company capture share in large, growing markets and take advantage of Google's technical competencies.

NVIDIA Corporation is a fabless semiconductor company and a leader in gaming and accelerated computing. NVIDIA is powering the growth of AI from the data center to the edge. Shares detracted due to inventory right sizing in NVIDIA's gaming segment coupled with the broader market sell-off in growth stocks. Given NVIDIA's end-to-end AI platform and its leading market share in gaming, data centers, and autonomous machines, along with the size of these markets, we believe the company can sustain its growth trajectory. See further discussion of NVIDIA in the top net purchases section below.

ServiceNow, Inc. is an enterprise software leader offering cloud-based solutions that improve employee workflow efficiency through automation and digitization. The company's brand, extensive go-to-market reach, and product excellence allowed it to materially grow its business with the largest companies in the world, including 80% of the Fortune 500. As of its latest quarter, the company had over 1,400 customers spending close to $4 million per year on average, and recently announced a $250 million contract with a governmental entity. ServiceNow's industry-leading customer renewal rates of over 97% underscore the criticality of the company's solutions to its customers. The stock underperformed as quarterly bookings were negatively impacted by longer-than-expected sales cycles due to macroeconomic dynamics creating a more complex spending environment. In addition, with international revenues accounting for about one-third of the company's business, investors expect foreign currency and pricing dynamics to generate additional headwinds. We continue to believe in the company's long-term opportunities as it benefits from digitization initiatives, a unique and growing product line, and strong management team.

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares gave back some gains in the quarter following strong stock performance relative to the broad market and biotechnology indexes. Sales of newly launched drug Vyvgart have tripled consensus expectations, and global approvals are coming earlier than guided. With numerous anticipated catalysts in the months ahead, including readouts in chronic immune demylinating polyneuropathy and myositis and their subcutaneous formulation launch, we expected solid performance through the rest of 2022 and 2023.

Portfolio Structure[1]

The Strategy invests in secular growth and innovative businesses across all market capitalizations, with the bulk of the portfolio landing in the large-cap zone. As of the end of the third quarter, the largest market cap holding in the Strategy was $1.7 trillion and the smallest was $445 million. The median market cap of the Strategy was $30.0 billion.

The Strategy had $897 million of assets under management. The Strategy had investments in 45 unique companies. The Strategy's top 10 positions accounted for 53.7% of net assets.

Table IV.
Top 10 holdings as of September 30, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$1,736.9	$112.1	13.2%
Alphabet Inc.	1,251.0	67.2	7.9
Amazon.com, Inc.	1,151.2	54.9	6.5
Tesla, Inc.	831.2	43.2	5.1
Gartner, Inc.	21.9	38.9	4.6
argenx SE	19.4	34.7	4.1
ZoomInfo Technologies Inc.	16.8	27.0	3.2
NVIDIA Corporation	302.3	26.9	3.2
Visa, Inc.	379.5	25.6	3.0
CoStar Group, Inc.	28.3	24.6	2.9

Recent Activity

As discussed above, we engaged in tax-management transactions during the quarter. In order to lock in a tax loss, accounting rules require us to wait 30 days (called the wash sale period) before we can repurchase shares we sold or sell shares we previously purchased. Some of the transactions in these Recent Activity charts are related to our tax-management activity. While we will comment on stocks we have already repurchased after tax-loss harvesting, in order not to hint publicly at stocks we might shortly repurchase, we will not address any of our top net sales below.

Table V.
Top net purchases for the quarter ended September 30, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Monolithic Power Systems, Inc.	$ 17.0	$7.2
Shopify Inc.	29.1	5.0
NVIDIA Corporation	302.3	3.7
Cloudflare, Inc.	18.1	3.3
indie Semiconductor, Inc.	1.1	3.3

[1] Portfolio characteristics, top 10 holdings, top net purchases, and top net sales are based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

Monolithic Power Systems, Inc. (MPS) is a fabless high-performance analog and power semiconductor company serving diverse end markets across the semiconductor industry. We have been watching and targeting the company for a long time and have been building our position on the significant stock weakness driven by current macroeconomic concerns. MPS is still a relatively small player in the broader analog industry and leverages its deep system-level and applications knowledge, strong design experience, and innovative process technologies to provide highly integrated, energy-efficient, cost-effective, and easy-to-use monolithic products to its customers. The company continues to expand its addressable market and drive strong revenue growth by taking advantage of areas where competition fails to innovate. To paraphrase management, competitors' breadcrumbs are like wedding cakes to MPS. The company has several specific design wins that will drive strong revenue growth even during a cyclical downturn in the broader industry, including with Intel and Advanced Micro Devices next-generation servers, and they are also starting to sell more integrated, higher-priced module products as opposed to discrete products, driving additional above-market growth. Management consistently targets and achieves its growth goals, having quickly surpassed the prior $1 billion revenue target, now approaching a $2 billion run-rate, with their eyes on becoming a $4 billion business in the coming years and even larger beyond. As customers continue to turn to MPS for its culture of innovation, and product size and performance advantage relative to competitors, we believe the company will achieve its growth ambitions and become an increasingly important player in the power and analog semiconductor industry over time.

During the third quarter, we added to the leading commerce platform, **Shopify Inc.**, after selling its stock during the prior quarter in order to take advantage of tax-loss harvesting, and after its shares had declined to what we believed were compelling levels for long-term investors. The stock price decline has been driven by near-term uncertainty regarding e-commerce growth in a normalized, post-COVID world, as well as the increased investments in fulfillment (through Shopify Fulfillment Network or SFN) and Amazon's announcement of Buy with Prime, which enables third-party merchants to take advantage of Amazon's fulfillment services to offer their consumers, who are also Prime members, two-day shipping. While SFN increases Shopify's capital intensity, we believe that the company's hub-and-spoke model will enable it to remain measured in the level of required spending and treat it as positive optionality when valuing the shares. Additionally, while some merchants might be attracted to Buy with Prime, our due diligence suggests that many would prefer to use SFN and maintain full control over customer relationships and data. Amazon and Shopify are both customer-focused, however Amazon's customers are end consumers, while Shopify's customers are the merchants. Unlike Amazon, which also competes with its merchants (through first-party sales), Shopify never competes with its merchant customers. Its software and services sit in the background, quietly supporting and helping merchants of all sizes to sell more online (and increasingly offline), aggregating the scale of the many merchants it has (over 2 million) to enable the benefits that only the largest merchants could get in the past. Over time, as it expands its platform horizontally to larger merchants and business-to-business sellers, and vertically, by solving more problems for its merchants, we believe Shopify will be able to address a larger portion of the market, while also increasing retention rates and expanding opportunities for monetization. With still less than 1% of global commerce volume (excluding China) running through its platform, we believe that Shopify has a long runway of growth.

During the third quarter, we took advantage of its stock sell-off to add to **NVIDIA Corporation**, a fabless semiconductor mega cap that is a global leader in gaming cards and accelerated computing hardware and software. The sell-off was driven by a near-term inventory correction in gaming as a result of a COVID-related pull forward in demand as well as the shift in the Ethereum cryptocurrency from proof-of-work to proof-of-stake. Additionally, investors are concerned over the potential slowdown in data center revenues as a result of a weaker macroeconomic environment as well as the recently announced limitations on semiconductor shipments to China. Despite the near-term uncertainty, we believe that NVIDIA's end-to-end AI platform and its leading market share in gaming, data centers, and autonomous machines, along with the size of these markets, would enable the company to benefit from durable growth for years to come and therefore view the stock price where we added shares as a compelling value for long-term investors. With demand for computing power doubling every one to two years, and Moore's Law slowing down, there is more need for computing than ever. At the same time, "near free" supply growth (that was possible thanks to Moore's Law) has slowed dramatically. NVIDIA's accelerated architecture, with parallel computing at scale, answers that need.

We continued to build our position in **Cloudflare, Inc.** during the quarter as the shares declined with the overall software space and the long-term risk/reward balance became more compelling. The company reported a strong second quarter, with revenue growth accelerating to 54%, as well as better gross and operating margins. Third quarter guidance was also ahead of Wall Street expectations. Given Cloudflare's proprietary network and massive global scale, its software products have a disruptive price-performance advantage over competitors. As the company introduces new products as well as disruptive packaging/pricing, its unit level economics should continue to improve over time, with the company already well ahead of its long-term gross margin target of 74%, reporting 78.9% for the second quarter. This drives strong cross/upselling activity with customers, reflected in strong net-dollar expansion rates in excess of 125%. Indeed, in the most recent quarters, customers purchasing five or more products reached 81% of the base, six or more products reached 70% of the base, and seven or more products reached 58% of the base. Enterprise penetration continues to be a key long-term driver, with 1,749 customers now spending over $100,000 annually with the company, growing 61% and now accounting for over 60% of total revenue. With approximately 152,000 paying customers at the end of last quarter, large enterprise customers still represent just 1% of total paid customers and thus a material growth opportunity in the coming years. We continue to have high confidence in the company's ability to innovate at a rapid pace (announced 20 new products or enhancements in September alone), package and bundle with disruptive pricing, and take material share in its large and growing addressable markets.

Indie Semiconductor, Inc. is a fabless designer, developer, and marketer of automotive semiconductors for advanced driver assistance systems and connected car, user experience, and electrification applications. We elected to take a tax loss on our prior position and have been rebuilding on recent weakness. We believe that the automotive semiconductor vertical is attractive as silicon content in cars increases over time from improving safety features and autonomous driving, electrification, and premiumization of interior and exterior features. Indie is a small but rapidly growing player in the automotive semiconductor space and has a multi-billion dollar contracted backlog, providing strong visibility to its revenue ramp in the coming years. Since coming public, the company has beaten expectations

every quarter and is on track to turn profitable in 2023 and achieve targeted 60% gross and 30% operating margins by 2025. Indie's management team has previously built a semiconductor company from the ground up, achieving a successful exit, giving us high confidence in their ability to execute their strategic plan with indie as well.

Table VI.
Top net sales for the quarter ended September 30, 2022

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
ShockWave Medical, Inc.	$ 10.0	$10.6
MongoDB, Inc.	15.2	9.3
Adobe Inc.	179.5	7.1
HubSpot, Inc.	13.0	5.2
Snowflake Inc.	54.4	3.3

To conclude, despite the current uncertain macroeconomic environment, I remain confident in and committed to the Strategy durable growth based on powerful, long-term, innovation-driven secular growth trends. We continue to believe that non-cyclical, sustainable, and resilient growth should be part of investors' portfolios and that our strategy will deliver solid long-term returns.

Sincerely,

Michael A. Lippert
Portfolio Manager

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

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

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio 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.