Baron High Growth Strategy

BARON CAPITAL

March 31, 2020

Dear Investor:

Performance

In a turbulent and unprecedented first quarter marked by the spread of the Novel Coronavirus (COVID-19) and its devastating impact on the health of humanity, the global economy, and the markets, Baron High Growth Strategy proved relatively resilient, declining 6.65%, outperforming both the Russell 3000 Growth Index, which fell 14.85%, and the S&P 500 Index, which dropped 19.60%.

Table I.
Performance
Annualized for periods ended March 31, 2020

	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]	(6.65)%	(6.42)%	(14.85)%	(19.60)%
One Year	7.86%	8.92%	(0.44)%	(6.98)%
Three Years	20.20%	21.37%	10.54%	5.10%
Five Years	13.31%	14.40%	9.74%	6.73%
Ten Years	13.09%	14.20%	12.68%	10.53%
Fifteen Years	11.51%	12.73%	9.52%	7.58%
Since Inception[3] (June 30, 2000)	8.13%	9.42%	4.22%	4.99%

Review & Outlook

This quarter will be marked in history by the COVID-19 pandemic – and the havoc and destruction it has left in its wake of widespread fear, uncertainty, isolation, illness, and death for all of humanity; the abrupt disruption of the global economy; and the severe impact on financial markets here and abroad.

I want to start by thanking health care workers and first responders all over the world who are risking their lives for the rest of us. For any such people reading this letter, you have my and my family's genuine and heartfelt appreciation and admiration.

U.S. equity markets suffered their worst quarter since the 2008/2009 financial crisis, amid sometimes stunning volatility, bringing the longest bull market in our history to a sudden halt. Stocks reached all-time highs in February before falling sharply as the spread of COVID-19 left few countries unscathed, including our own, raising concerns about global health risks and bringing global economies to a stop. Despite the Federal Reserve's drastic actions and Washington's massive stimulus plan to counter the COVID-19-induced economic slowdown, which yielded a powerful rally off the bottom, stock prices ended the period down significantly.

The U.S. fiscal and monetary response to the impact of the crisis on the economic and financial markets has been aggressive and unprecedented. The $2 trillion Coronavirus emergency relief (or stimulus) bill, known as the CARES Act, passed in a rare bipartisan fashion by both houses of Congress, was far larger than anything done during the Great Recession. It is targeted at helping individuals, small businesses, big corporations, hospitals and public health practitioners, and state and local governments, involving, among other things, cash payments to individuals, extra unemployment benefits, student loan payment deferrals, emergency grants, and forgivable loans. Analysts have portrayed this plan as a bridge to supplement lost incomes for roughly the next four months. For its part, the Fed has "pulled out all the stops" with its unlimited money printing to bolster the supply of credit to huge swaths of the economy and reduce risks from credit-driven negative tail events. Several times already the Fed has announced a variety of expansions to its programs intended to more aggressively deliver money to those, it believes, who need it, including corporate borrowers (even dipping into high-yield bonds), small- and medium-sized businesses, and states and municipalities. While no amount of money printing can reverse the pandemic's shutdown of the economy, the Fed's bold actions should ensure the financial system is awash in

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 March 31, 2020, total Firm assets under management are approximately $24.2 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 Strategy's 1-, 3-, 5-, and 10-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 indexes are unmanaged. The index performance is not Strategy performance; one cannot invest directly into an index. The Russell 3000® Index measures the performance of the broad 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. The Russell 3000® Growth Index measures the performance of those companies classified as growth among the largest 3,000 U.S. companies and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

2 Not annualized.

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

liquidity and lend critical support to a recovery by preventing otherwise viable businesses from defaulting on credit and/or laying off workers.

The next thing to watch are the emerging plans to "reopen the economy." The key question is can we do this without causing a second wave of infections and/or overwhelming the health care system? Based on our research, as well as public reporting, the elements of a prudent plan should encompass a test, trace, track, quarantine, and treat strategy. Public health experts say that among the keys to returning to normalcy are nationwide virus testing (to determine who has the virus); serological/antibody testing (to allow those who have been exposed to the virus and developed immunity to return to work); and contact tracing (quickly tracking all the contacts of an infected person, to halt further spread). As of now, no formal plans have yet emerged from the two governor coalitions (Multi State Council in the Northeast and the West Coast Pact on the Pacific coast), nor from the Trump administration. Whatever plans emerge, we are likely to be in a world of intermittent social distancing – which has proven to lower virus infectivity – for some time. If done well, contact tracing and the intelligent use of data in real time will play a critical role in enabling government officials to make informed and intelligent decisions about public health, focusing restrictions more narrowly on the infected and their contacts, so the rest of society doesn't have to stay in permanent lockdown. Lastly, therapeutics and treatments could improve outcomes and lower the need for isolation by decreasing disease severity and reducing hospitalization, intensive care, and fatality rates. We know so many smart minds are hard at work identifying treatments and developing recovery plans and their vital components (for example, Google and Apple recently unveiled a joint effort on new tools that would use smartphones to aid in contact tracing). Like all of you, we are rooting for their success.

While deep-rooted across the arc of the human experience, particularly during a frightening and debilitating health care crisis, "rooting" is not a strategy for successful investing. Therefore, I want to be straight and candid with all of you about what we don't know – indeed, what we believe we cannot know – and how we are therefore investing on your behalf. First, what we don't know.

- **The COVID-19 pandemic:** No one knows how long the pandemic will last and whether we will have a second or third wave, like the 1918 Spanish Flu, particularly if our reopening plans are poorly designed or executed, and we don't intelligently and effectively use the knowledge and tools available to us to isolate people who are infected, likely to have been infected, and at high-risk of serious illness or death (people over 65 years old or with pre-existing medical conditions). Many medical experts have said normal life will not return until there is a vaccine, which most experts believe is at least a year away, or a highly effective treatment to lessen the severity and fatality rate of the disease for high-risk patients.
- **The economy:** Despite the unprecedented fiscal and monetary responses to the crisis, no one knows whether these actions will be enough because no one knows the length and toll of the epidemic nor the depth and duration of the recession. According to the International Monetary Fund, the global economy faces its worst downturn since the Great Depression.[5] The health of the economy – and the pace and shape of the recovery – will be dictated by the trajectory of the virus and our response to it. We are all constrained by the forces of human nature: consumers will only come back to the extent they feel safe, that is, they have confidence they will not get severely ill or die. If an effective treatment emerges or we successfully quarantine the infected, people will return to work and life, and we can embark on a rapid rebound (a V-shaped recovery). If we get hit by a second COVID-19 wave, we resume sheltering in place and the economy takes a second hit (a W-shaped recovery). If we cannot narrowly isolate the infected and their contacts, and if we do not develop a highly effective treatment, we have an extended lockdown until a vaccine is developed (a U- or even L-shaped recovery). And lastly, even when we do begin to recover, no one can accurately predict the long-term implications of the U.S. budget deficit or federal debt-to-GDP reaching historic proportions (predicted to approach or surpass World War II era highs), nor the repercussions of the Fed having the largest balance sheet or engaging in the most aggressive money printing in our nation's history.
- **The market:** A successful investor I follow on Twitter recently tweeted: "In 20 years of investing, I've never seen … such a wide range of outcomes with no real precedent to help guide thinking." As mentioned above, we recently experienced both a historically rapid bear market and relief rally. Because of the unknowns just described, the debates are now raging whether the bottom is truly in and we will break out further to the upside; whether we will re-test the recent lows, pass that test and progress higher from there; or whether we will fail the test and hit new lows. Many will predict, but nobody knows.

This is an unprecedented time – a time of extreme volatility – a time of significant unknowns. But I am an optimist, not a pessimist. I just want to give it to you straight. I believe it is critical for an investor to understand and separate what is known and knowable from what is unknown and unknowable. As I have written for years, we don't have to answer the unanswerable to deliver outstanding investment returns. As we have always done, we must focus our research, analysis, and investment decisions on what we can know and what matters. I am convinced, even now, that this remains identifying the powerful, durable secular growth trends that will drive economic growth going forward, regardless of short-term economic cycles or stock market gyrations, and the individual companies that are leading or riding those trends and possess sustainable competitive advantages, profitable business models, and long-term oriented managers. We then establish (and monitor) short- and long-term price targets for all of our holdings and target companies, utilizing our own internal projections of revenues, earnings and free cash flow, and what we believe are appropriate multiples (or tight range of multiples), and we buy or add to these companies at stock prices where we can deliver substantial returns (at least a double over a four- to five-year time horizon).

As we have done in past significant or sudden market downturns – the financial crisis of 2008-2009, the sharp Fed-driven pullback in December 2018 – we attempt to use such market weakness and volatility to enhance the quality of our portfolio by adding to certain existing holdings and initiating investments in others. As just described, we focus on businesses with strong secular growth opportunities, solid balance sheets and liquidity, and profitable and high-return business models, particularly those that will hold up well during this crisis and/or emerge stronger when it ends. We have examined all of our financial models and made conservative adjustments for the economic toll of the crisis and the unknown pace of the

[5] In its World Economic Outlook, the I.M.F. projected that global growth will contract by 3% in 2020, and that U.S. growth will fall by 5.9%, an extraordinary reversal from earlier this year when it forecast that the world economy would outpace 2019 and grow by 3.3%.

recovery, we have made prudent adjustments to our valuation criteria, and we have updated our price targets. During the quarter, we added to many of our existing holdings, including **Splunk, Inc.** (cloud computing and big data), **PayPal Holdings, Inc.** (electronic payments), **CrowdStrike, Inc.** (cloud computing and cybersecurity), **Microsoft Corporation** (cloud computing and Software-as-a-Service ["SaaS"]), **Mellanox Technologies Ltd.** (cloud computing and big data), **10X Genomics, Inc.** (genomics), **Alibaba Group Holding Limited** (e-commerce and cloud computing), **Alphabet Inc.** (digital media/advertising and cloud computing), **Veeva Systems Inc.** (SaaS), and **Amazon.com, Inc.** (e-commerce, cloud computing, and digital media/advertising). And we initiated positions in such names as **Facebook, Inc.** (digital media/advertising), **Brookfield Asset Management, Inc.** (alternative asset management), **Snap Inc.** (digital media/advertising), **Schrodinger, Inc.** (SaaS and drug development computer simulation), **Americold Realty Trust** (cold food storage), and **Adyen N.V.** (electronic payments).

The Strategy proved relatively resilient during the quarter, as highlighted above. This was not due to nimble active trading (as moves made during the quarter did not have a material impact on our performance), but rather the quality of the businesses in which we invest and the importance of the long-term secular themes we emphasize, the bedrocks of our long-term performance.[6] In our portfolio, we favor businesses with recurring revenues, high gross margins, solid balance sheets, meaningful liquidity, and capital-light, high-return business models. And most importantly, we focus our investments in secular growth themes that, in a normal world, drive or capture ongoing, undeniable shifts in industry dynamics and user adoption/behavior, but many of which proved absolutely critical to permit businesses and people to carry on with life and work during this crisis. These include: e-commerce, for the necessities of life delivered safely to your door (Amazon); digital communications, to enable remote work and school from home (**Zoom Video Communications, Inc.**, **RingCentral, Inc.**); cloud computing infrastructure and applications, to enable work and personal use cases from whatever device wherever your location (Amazon Web Services, Microsoft, **Equinix, Inc.**, **NVIDIA Corporation**, **GDS Holdings Limited**); and cybersecurity, to keep you safe and secure in this digital world (CrowdStrike).

We are convinced that our investments and themes, many of which thrived and proved vital during this period, will be stronger when the "new normal" world emerges. A major disruptive trend underlying many of our secular themes and investments is known by the phrase "digital transformation." Digital transformation can be described as the process of using digital technologies to create new or modify existing products and services to deliver better customer, user, and employee experiences to meet changing and evolving business and market requirements and needs. Digital transformation captures cloud computing (SaaS, infrastructure-as-a-service, platform-as-a-service), cybersecurity, big data and artificial intelligence, mobile, digital media and advertising, electronic payments, and other digital trends. In our view, responding to the crisis – such as the shift to remote work – has only accelerated these changes. This is what we heard in countless communications with our company management teams during the quarter. For example:

- Bret Taylor, Salesforce, COO: "The crisis is creating the imperative for businesses to invest in digital technologies and have a robust digital transformation strategy."
- Todd McKinnon, Okta, CEO and Co-Founder: This crisis will be "the nail in the coffin for legacy tech, systems and platforms."
- Craig Scroggie, NextDC, CEO: "Five years of digital transformation has been shortened down to weeks or months."
- Eric Yuan, Zoom Video, CEO and Founder: "People will never go back to the way we worked before."

As I touched on last quarter, even before the crisis, and in these letters over the years, I believe that long-term, sustainable growth will be "scarce" in the years to come – even more so because of the economic, monetary and secular changes brought on by this crisis. Two years ago I wrote: "there are fewer firms … growing double-digits and many barely growing at all … [t]here is a significant divide between the structural/secular winners and the legacy/cyclical also-rans." This has been confirmed by every market expert and commentator – i.e., how few companies led the record bull market that just ended. Last quarter I cited Henry Ellenbogen's Barron's roundtable comments regarding "[t]he narrowing of the market … driven by … secular changes." McKinsey Global Institute recently reported that between 2014 and 2015, the best-performing decile of firms seized roughly 80% of all economic profit globally. I believe we have demonstrated, with our consistent focus on secular innovation trends, that we can successfully identify and invest in this scarce secular growth.

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)
- "Big Data" and "Artificial Intelligence"
- Mobile
- Digital media
- Targeted, people-based digital advertising
- e-commerce
- Genetics
- Minimally invasive surgical procedures
- Cybersecurity
- Electric-drive vehicles/autonomous driving
- Electronic payments

By investing in businesses capitalizing on these potent trends, we have been able to build portfolios that have revenue growth rates that are multiples of

6 Secular refers to companies whose growth persists regardless of the economy and is less affected by short-term trends. It also relates to trends that are not cyclical or seasonal but sustain for a relatively long period.

the general economy, as reflected in broad market indexes. Below we compare the revenue growth rates of our portfolio and three indexes for the trailing four quarters for which we have reliable data:

Comparison of Revenue Growth (based on quarter-end holdings)

	Actual Q4 2019	Actual Q3 2019	Actual Q2 2019	Actual Q1 2019
Baron High Growth Strategy	19.4%	20.0%	20.8%	17.5%
S&P 500 Index	6.6%	4.6%	5.6%	6.8%
Russell 3000 Index	6.2%	4.8%	5.7%	6.8%
Russell 3000 Growth Index	8.6%	8.3%	8.7%	8.9%

Table II.
Top contributors to performance for the quarter ended March 31, 2020

	Percent Impact
Schrodinger, Inc.	0.81%
Acceleron Pharma Inc.	0.69
Tesla, Inc.	0.59
Amazon.com, Inc.	0.56
Zoom Video Communications, Inc.	0.46

Schrodinger, Inc. was a successful IPO in the quarter whose stock increased on investor interest in a differentiated and diversified way to invest in the biotechnology space. Schrodinger has a recurring-revenue software business married to its drug development efforts, both internally and with partners. Schrodinger is a pioneer bringing a next generation physics-based computational platform – involving the simulation and modeling of molecules at an atomic level of detail – into drug development. Typical drug discovery can take up to six years to identify a candidate molecule for a clinical trial; the Schrodinger platform can cut this in half.

Acceleron Pharma Inc. is a biopharmaceutical company developing a set of assets for hematological and respiratory diseases. Shares outperformed after the company announced clinical trial results that its drug Sotatercept was positive across all studied markers for pulmonary arterial hypertension. This represents Acceleron's second potential commercial drug and confirmed its positioning in respiratory as a new clinical vertical.

Tesla, Inc. designs, manufactures, and sells fully electric vehicles, solar products, and energy storage solutions. The company reported robust fourth quarter results due to strong short-term execution and improving long-term business model fundamentals. Tesla delivered over 112,000 total vehicles, including almost 93,000 Model 3s, and its unit level economics and profitability were better than expected, particularly GAAP automotive gross profit margins over 22% (for Model 3, this yields almost $11,000 of gross profit per vehicle) and almost $1 billion of operating free cash flow. Moreover, on the back of these earnings and a favorable pre-COVID-19 stock market backdrop, Tesla opportunistically raised over $2 billion dollars of capital in mid-February, further solidifying its balance sheet. Despite global COVID-19 disruptions, our long-term expectations remain high due to Tesla's differentiated products and healthy unit economics. We believe Tesla's China Gigafactory – which has reopened and is scaling up Model 3 production and deliveries – will provide an important growth driver in both the short and long term. Finally, Tesla's newly released Model Y is its best car ever – according to management and many reviewers – and we believe should support a fast recovery as the current crisis wanes.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares were up on strong fourth quarter revenue and profitability metrics, as well as resilience through the early stages of the COVID-19 crisis given its ability to deliver all the necessities of life safely to your doorstep, including groceries. While e-commerce penetration is rising rapidly and Amazon continues to grow its addressable market by entering new verticals, we continue to view Amazon Web Services as the more material driver of the company given its leadership in the vast and growing cloud infrastructure market and potential to compete in application software in the years to come.

Zoom Video Communications, Inc. is a cloud-based SaaS company providing a video-first platform for communication. It connects people through frictionless video, voice, chat, and content sharing, and enables video calls for thousands of people in a single meeting across disparate devices and locations. According to Founder and CEO Eric Yuan, "video is the new voice." Shares of Zoom were up solidly during the quarter, as the company's solutions have become widely adopted by countless enterprises and consumers in response to the COVID-19 pandemic. Indeed, Zoom's usage has grown from around 10 million participants pre-crisis to over 200 million, and Zoom has now entered our common lexicon as a verb: "I'll Zoom you." I don't know about your families, but during the crisis lockdown, my wife is taking Zoom yoga classes, my kids are doing school (Zoom has offered its service for free to over 90,000 K-12 schools) and even soccer practice on Zoom, and my colleagues and I are communicating with many companies on Zoom. On a recent videoconference with Zoom's CFO Kelly Steckelberg, she told us "we are trying to ensure people feel as connected as possible during this time." We believe that Zoom remains early in disrupting the $100 billion unified communications market.

Table III.
Top detractors from performance for the quarter ended March 31, 2020

	Percent Impact
Trainline Plc	–1.01%
Gartner, Inc.	–0.93
Guidewire Software, Inc.	–0.83
Alphabet Inc.	–0.55
Endava plc	–0.47

Trainline Plc provides digital tickets, journey planning, and booking solutions for rail and bus travel, primarily in the U.K. and expanding throughout Europe. Shares of Trainline fell sharply during the quarter as "shelter in place" responses to the pandemic drove significant declines in ticket volumes in March in both the U.K. and international businesses. That said, we believe Trainline has adequate liquidity to weather the virus impact, and we see no change in the substantial opportunity ahead for the company in a post-COVID-19 world, with rapid top-line and profit growth driven by international expansion, increased mix of e-ticketing, and take rate optimization.

Shares of **Gartner Inc.**, a provider of syndicated research, detracted from performance as markets declined significantly. Gartner's destination events business, which represents approximately 11% of revenue, may be disproportionately impacted by the ongoing social distancing response to the COVID-19 threat. We believe that this headwind is transitory, and that the company's core research business should remain resilient despite elevated uncertainty.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** detracted from performance as markets retreated during the period. Guidewire has broken out as the gold standard of core systems vendors. The company is early in its core system replacement cycle and has tripled its addressable market through new products and cloud delivery. Over time, we believe that Guidewire will be the most critical software vendor for the $2 trillion global P&C insurance industry, capturing 30% to 50% of its $15 billion to $30 billion total addressable market, and generating margins in excess of 40%.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet were down in the quarter given Google's exposure to small- and medium-sized businesses and travel-related advertisers amid the COVID-19 impact. That said, we remain highly convicted in Alphabet's merits as it continues to benefit from growth in mobile and online video advertising, which accrues to its core assets of search, YouTube, and the Google ad network. We are further encouraged by Alphabet's investments in cloud infrastructure, artificial intelligence, autonomous driving (Waymo), and life sciences (Verily, Calico).

Endava plc provides outsourced software development to business customers. The company reported great quarterly financial results with 23% organic currency-neutral revenue growth and 51% earnings growth. Client demand for Endava's digital transformation capabilities remained strong, leading to favorable pricing trends and margin expansion. However, the stock underperformed due to concerns about slowing economic growth and a weaker British pound. The COVID-19 crisis has not changed our view one bit that Endava will continue gaining share in a large global market for IT services, and that businesses of all types, particularly in banking and payments where Endava thrives, will prioritize digital transformation initiatives.

Portfolio Structure

The Strategy invests in secular growth and innovative businesses across all market capitalizations. As of the end of the first quarter, the largest market cap holding in the Strategy was $1.2 trillion and the smallest was $1.2 billion.

The median market cap of the Strategy was $19.2 billion.

The Strategy had investments in 60 securities. Its top 10 positions accounted for 37.4% of the total investments.

Table IV.
Top 10 holdings as of March 31, 2020

	Quarter End Market Cap (billions)	Percent of Total Investments
Microsoft Corporation	$1,199.5	7.6%
Amazon.com, Inc.	970.6	6.7
Tesla, Inc.	96.5	4.9
Alphabet Inc.	798.9	4.2
Guidewire Software, Inc.	6.6	2.7
Mellanox Technologies Ltd.	6.8	2.6
Alibaba Group Holding Limited	521.7	2.3
CoStar Group, Inc.	21.5	2.3
Adobe Inc.	153.3	2.1
Gartner, Inc.	8.9	2.0

Recent Activity

Table V.
Top net purchases for the quarter ended March 31, 2020

	Quarter End Market Cap (billions)
Facebook, Inc.	$475.5
Brookfield Asset Management, Inc.	46.4
Snap Inc.	16.9
Splunk, Inc.	20.0
PayPal Holdings, Inc.	112.3

Facebook, Inc. is the world's largest social networking company and operates Facebook, Instagram, Messenger, WhatsApp, and Oculus. We purchased what I'd call a starter position in Facebook after the company reported fourth quarter results, which showcased continued engagement growth and ad product innovation, moderating capex, and a $10 billion increase in its buyback authorization. In our view, Facebook remains one of two scaled global digital advertising mobile platforms (along with Google), providing both large and small advertisers with the tools and targeting to reach the right consumers with the right messages at the right time. Moreover, we believe Facebook has substantial monetization opportunities ahead across its various assets, particularly Messenger and WhatsApp.

Brookfield Asset Management, Inc. ("BAM") is one of the largest global alternative asset managers, primarily focused on infrastructure, real estate investments, renewable power, and credit, with over $540 billion in assets under management and $290 billion of fee-bearing capital. We believe BAM is well positioned both defensively (conservative financing and no near-term debt maturities) and offensively (a war chest of approximately $65 billion of liquidity) in the current environment. We initiated a position after BAM was sold indiscriminately amid the overall market sell-off and liquidity scare in the credit markets. BAM represents a compelling investment opportunity due to its superior investment track record, global operating platform, scale of assets under management (resulting in lower competition for deals of size), and diverse product offering, positioning it as a "go to" for almost any asset allocation need of an institutional investor. BAM has historically taken advantage of market dislocations, and we believe it, along with Oaktree Capital Group, LLC (BAM has 61% ownership in Oaktree), will survive and thrive after the dust settles given its ample liquidity, strong balance sheet, access to capital, and value investor contrarian mindset.

Snap Inc. operates the leading social network among teens and young adults in the U.S. We purchased shares of Snap, and continued building our position on weakness during the quarter, as the company continued to see strong user growth and ad revenue momentum on the back of user experience and content innovations, an improved advertising-technology stack, and greater adoption from advertisers due to demonstrable ROI (return on investment) on the platform. In our view, Snap's continued innovations across both user and advertiser experiences proves particularly impressive given competition from Instagram and newer entrant TikTok. We believe Snap remains in the early innings of its monetization and product development capabilities, and we have greater conviction in its potential to execute on these opportunities going forward given key leadership changes over the past year.

We added to our position in **Splunk, Inc.** on weakness during the quarter. Splunk is the leading data analytics platform that enables its customers to more efficiently and intelligently manage their operations across a broad array of use cases, particularly IT operations and cybersecurity. Splunk has become the default data platform for tens of thousands of customers across many industry verticals, empowering them with strong out-of-the-box functionality, premium applications, and a broad ecosystem and comprehensive integrations with other leading software solutions. As the company was originally founded in 2003, during a different technology era marked by on-premise use cases, over the past few years Splunk has been deliberately transitioning both its technology architecture and business model to better align it with current industry trends and sizable future opportunities. Namely, the company has transitioned its business model and go-to-market motion towards recurring revenue subscriptions and term licenses, and it has evolved its platform architecture to support cloud, on-premise and hybrid deployments. These forward-thinking changes have generated significant short-term pressure on reported metrics such as revenues and cash from operations. However, the company's new CFO, Jason Child, who we have known for many years from his prior positions, has materially improved investor transparency during these transitions with new metrics such as annual recurring revenue ("ARR"), and has provided investors with multi-year guidance for significant ARR and revenue growth and a path to material free cash flow generation. We believe Splunk is well positioned for long-term growth as a leading data analytics platform, capitalizing on the strong secular trends of digital transformation, cloud, and big data. We expect that, over time, this robust growth will translate to significant cash generation, suggesting meaningful value creation for shareholders in the coming years.

We added to our position in **PayPal Holdings, Inc.**, a leading enabler of digital payments, during the period. The company is a prime beneficiary of the secular growth of e-commerce due to the ease and security of the PayPal checkout button. By connecting 280 million consumers with 24 million merchants worldwide, PayPal enjoys a dominant competitive position with a two-sided network that is many times larger than any of its competitors. Moreover, PayPal is in the early stages of generating revenue from Venmo, its popular peer-to-peer money transfer service. While volume growth may be impacted by a slowdown in consumer spending, we believe PayPal should easily weather this storm and continue gaining share in a vast growing market.

Table VI.
Top net sales for the quarter ended March 31, 2020

	Market Cap When Sold (billions)
IAC/InterActiveCorp	$19.9
SS&C Technologies Holdings, Inc.	10.9
Medallia Inc.	2.4
LiveRamp Holdings, Inc.	1.8
Sage Therapeutics, Inc.	3.6

The above-listed sales were made to free up capital for the purchases listed and described above.

To conclude, I believe wholeheartedly in the Strategy: growth based on powerful, long-term, innovation-driven secular growth trends. In the highly uncertain world we live in – both during this crisis and in the "new normal" when it ends – we believe non-cyclical, sustainable, and resilient growth should be part of investors' portfolios.

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: 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.