



Baron Large Cap Growth Strategy

September 30, 2022

DEAR INVESTOR:

PERFORMANCE

Baron Large Cap Growth Strategy declined 2.9% during the third quarter, which compared to losses of 3.6% for the Russell 1000 Growth Index and 4.9% for the S&P 500 Index, the Strategy's benchmarks. Year-to-date, the Strategy has declined 46.7% compared to losses of 30.7% and 23.9% for the Strategy's benchmarks, respectively.

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

	Baron Large Cap Growth Strategy (net) ¹	Baron Large Cap Growth Strategy (gross) ¹	Russell 1000 Growth Index ¹	S&P 500 Index ¹
Three Months ⁴	(2.90)%	(2.73)%	(3.60)%	(4.88)%
Nine Months ⁴	(46.74)%	(46.47)%	(30.66)%	(23.87)%
One Year	(46.36)%	(45.99)%	(22.59)%	(15.47)%
Three Years	(1.26)%	(0.58)%	10.67%	8.16%
Five Years	5.27%	5.97%	12.17%	9.24%
Ten Years	10.49%	11.26%	13.70%	11.70%
Fifteen Years	7.31%	8.03%	10.10%	8.03%
Since Inception (September 30, 2004)	8.17%	9.03%	10.45%	8.87%

After the worst first half performance in over 50 years, the markets staged a rally in July, with the Russell 1000 Growth Index and S&P 500 Index benchmarks up 12% and 9%, respectively. The Strategy had a good start

to the quarter, rising 13% over the first month. However, it did not last long, with the benchmarks giving up all their gains and more in August and September and posting mid-single-digit losses for the quarter overall. The Strategy ended the quarter down just a little less than its benchmarks. We thought we may have, or could have turned the corner, but the historically aggressive pace of interest rate hikes amid global financial tightening, combined with continued adverse geopolitical events in Europe and U.S./China tensions were simply too much for the markets to overcome.

Stock selection was responsible for most of the Strategy's modest outperformance relative to the Russell 1000 Growth Index in the quarter (74 basis points versus a total of 70 basis points). This was driven by our investments in Consumer Discretionary and Communication Services, which contributed a combined 186 basis points to positive relative returns. We also benefited from our modest average cash exposure of 2.7% in difficult market conditions during the quarter, which added 64 basis points to performance. These gains were partially offset by negative returns in Health Care, Information Technology (IT), and Industrials, which cost us 171 basis points combined.

At the sub-industry level, stock selection was strongest in systems software, owing to sharp gains from **Snowflake** and **Cloudflare**; interactive media & services, led by the B2B sales optimization platform, **ZoomInfo**; and IT consulting & other services, where we benefited from the rebound in **EPAM**'s stock.

At the company-specific level, while we had nearly twice as many detractors as contributors (21 versus 11), we were concentrated in the right names, as our big winners outweighed our big losers, though the sheer number of losers resulted in the Strategy ending the quarter in slightly negative territory. We had eight stocks that were up double digits with six of them up at least 20% each. We also had eight stocks that contributed 30 basis points

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. The Strategy is a time-weighted, total return composite of all large-cap accounts greater than \$1 million using our standard investment process. Since 2010, accounts in the Strategy are market-value weighted and are included on the first day of the month following one full month under management. Prior to 2010, accounts were included on the first day of the quarter after one full quarter. Gross performance figures do not reflect the deduction of investment advisory fees. 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 managed by BCM. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies please contact us at 1-800-99BARON.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

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

¹ The **Russell 1000® Growth Index** is an unmanaged index that measures the performance of large-sized U.S. companies that are classified as growth 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 trademark 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 into an index.

² Not annualized.

³ The Strategy has a different inception date than its underlying portfolio, which is April 30, 2004.

⁴ Based on performance of the representative account, excluding fees.

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or more to our results each – **Rivian, Snowflake, Tesla, ZoomInfo, EPAM, Amazon, MercadoLibre, and Block**. These names were also larger than average, representing one-third of the Strategy. On the negative side, while we had 12 stocks that were down double digits in the quarter, only three were down 20% or more (**10X Genomics, Adobe, and ServiceNow**). Only ServiceNow ended up as a material headwind, costing us 120 basis points. We don't believe that ServiceNow's 21% decline in the quarter is a permanent loss of capital, as it has been driven, in our view, by growing concerns over the near-term impact of a macroeconomic slowdown while the company's long-term prospects remain as strong as they have been.

As in the prior two quarters, the action in stock prices continued to be dominated by macro rather than business fundamentals or company specific news flow. Over the last nine months, if I had a dollar for every time some "wise guy" on TV said, "**Do Not Fight The Fed!**" – we would have seriously mitigated some of the year-to-date losses. We don't want to fight the Fed, but what's a long-only growth investor to do?

In early summer, I caught the tail end of a presentation by a global economist at a sell-side conference. He was arguing that prior decades of low inflation and general financial prosperity were underpinned by globalization and the two geo-strategic, geo-economic blocks: "Chimerica" and "Eurussia" (terms supposedly coined by Niall Ferguson). The gist, as I understood it, was the U.S. outsourced its manufacturing to China and was happy to pay U.S. dollars for cheap Chinese imports, while cheap Russian natural gas was fueling German industry and Europe more broadly. In return, China and Russia recycled their earned U.S. dollars and euros back into the G7 claims, making everyone richer and more prosperous. But that dynamic was now over because globalization only works during peace time. Wars, hot and cold, tend to disrupt supply chains and are inflationary in nature (as are pandemics) and so, his argument was that inflation will prove to be sticky and far from transitory, forcing the Fed to raise interest rates faster, bigger, and for longer. He made a good argument, although I remember wondering how he knew how long the hot war in Europe or the cold war with China would last. At the end of his presentation, he recommended investors short growth stocks and go long Oil/Energy and Financials. Four months later, this economist certainly appears to have gotten the macro picture right, though his conclusion/recommendations would not have made investors money (WTI Crude Oil was around \$120/barrel at the time, and at the end of the third quarter it was below \$80/barrel. Since the beginning of summer, Energy and Financials are down as much as, if not more than, growth stocks). Of course, though we listen to and consider all opinions, macro considerations are not part of our investment process. This is a good segue into addressing investor questions that we are fielding most frequently today.

"What have you learned from the last 12-month calamity?"

"Have you changed your investment philosophy and process given that the world around has changed?"

"Have you repositioned the portfolio for a higher interest rate for longer, more recession-proof environment?"

"Have you adjusted your risk management techniques to better protect investor capital from the ongoing market volatility?"

These are difficult but fair questions to think about.

It may not be prudent to internalize lessons learned while in the middle of a storm. But if there is one thing that came into clear focus – it's the importance of **balance**. Capital-allocation decisions are made against a

range of outcomes, taking into account our subjective views of probabilities and their respective consequences. As the range of outcomes widens and our confidence in probabilities and consequences diminishes, it becomes increasingly difficult to maintain balance, which is critical to good decision-making. Balance between conviction and hubris, or arrogance. Patience vs. complacency or stubbornness. Discipline vs. dogmatism and inflexibility. Good decision-making requires as much of the first part of the scale as possible, without tipping over to the other side. It's been extremely challenging to maintain this balance over the last 12 months. We have found that investment mistakes were made because at times, we tipped to the other side. We are doing everything we can to foster an environment wherein we can stay balanced, which we believe will enable us to make better decisions overall. While this will likely seem counterintuitive, we think **balance** is the answer to the other questions as well.

Andy Jassy, Amazon's current CEO and founder of Amazon Web Services said, "*There is no compression algorithm for experience.*" We have been doing this for over 25 years. Baron's research and investment team has a combined total of over *600 years of research and investment experience*. We have lived and managed through many market cycles. Booms and busts. Rising interest rates and falling rates. Global recessions, hot and cold wars, and geopolitical tensions. While tinkering and making small improvements at the margins, we have remained steadfast in our investment approach, philosophy, and process. We seek to invest in unique, competitively advantaged, high-quality companies that benefit from disruptive change and exhibit characteristics of platform businesses (e.g., network effects, power law distribution, etc.). Management and entrepreneurial culture matter a great deal to us, and when enough boxes are checked off, we start evaluating whether a company could qualify as and become a *Big Idea*. A *long-term ownership mindset is fundamental* to our investment philosophy, and our research and due diligence are focused on developing conviction around the sustainability of competitive advantages and the duration of growth, and we allocate capital only when we can do so at attractive prices, with an appropriate margin of safety. This approach does not change with the weather (i.e., with different parts of market cycles).

From a portfolio construction perspective, we do not "position" the Strategy for different market regimes or environments since we have no ability to forecast them and a barbell approach, while it could reduce volatility (due to lower correlations), will be counterproductive towards our goal of maximizing long-term risk-adjusted capital appreciation. Our analysis suggests that the Strategy's underperformance over the last 12 months can be attributed largely to applying the same discipline, investment philosophy, and process that produced category-leading returns over the prior decade.

Consistent with the above, we do not move to cash, purchase convertible preferreds, or invest in commodities for the purpose of mitigating market volatility. In fact, as long-term investors we do not equate risk to market volatility; we think of it instead in terms of the probability of permanent loss of capital. This is not because we are ignorant to the potential harmful impact that extreme market volatility can have on investors, but because as long-only investors our toolbox is severely limited, and we do not believe mitigation techniques available to us at the margins can add any consistent or real value to long-term shareholder returns.

Having internalized and acknowledged our own struggles in maintaining balance and discipline during this period of extreme uncertainty and widened range of outcomes, we imagine it must be equally difficult for our

investors to keep the faith. We believe it is **most important to focus on your time horizon!** Human beings are emotional. When they feel good about themselves, the world around them, and their place in it, they tend to think longer term, recognize that high-quality businesses generally improve over time, and *exercise patience even when markets rise clearly faster than they should*. On the other hand, psychological pressures of declining stock prices and the resultant stress and insecurity causes them to *focus only on the here and now* – which of course, does not *feel* good at all. But we have all seen this before! It would pay to remember that our prospective or expected returns are always negatively correlated to the current and recent results.

We have always suggested that investment performance should be measured over longer periods of time and ideally, over full-market cycles. We have a lot of conviction in our process and while we do not know what will happen tomorrow, let alone a year from now, we do know that our portfolio offers a much better deal/investment opportunity now than it did at the end of 2021. New money invested today will have significantly better long-term returns than investments we made 12 months ago. That is as good a reason as any... to be optimistic.

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

	Quarter End Market Cap (billions)	Percent Impact
Rivian Automotive, Inc.	\$ 30.2	0.74%
Snowflake Inc.	54.4	0.65
Tesla, Inc.	831.2	0.55
ZoomInfo Technologies Inc.	16.8	0.54
EPAM Systems, Inc.	20.8	0.44

Rivian Automotive, Inc. designs, manufactures, and sells consumer and commercial electric vehicles (EVs). Shares of Rivian were up 30% in the third quarter, driven by second quarter production that beat expectations, a new partnership with Mercedes Benz, and the positive potential impact of the recently announced Inflation Reduction Act on accelerating broader EV adoption. While Rivian continues to be impacted by supply-chain issues that are causing delays in its production ramp, it is addressing the challenges by diversifying its supply chain to alleviate shortages while also consolidating the number of variants in development to reduce cash burn (the company guided that current cash will be enough to support the company's future platform launch R2 in 2025). The company also recently reported stronger-than-expected third quarter production results while reiterating its annual guidance of producing 25,000 units. As semiconductor shortages ease, we believe that the company will be able to rapidly ramp its production. While we retain conviction in the shares given the company's vision, product positioning, relationship with Amazon.com, and strong balance sheet, we have slightly reduced the size of our position to meet investor redemptions and to further consolidate the portfolio.

Snowflake Inc. provides a cloud platform for large-scale data analytics. Snowflake's shares were up 22%, reacting positively to second quarter results that beat market forecasts with revenue growth of 83% year-over-year and adjusted free-cash-flow margins of 12%. Record new customer additions and world-class dollar net retention of over 170% implied resiliency in demand despite increasing macro uncertainties. We remain shareholders and believe that Snowflake will be able to benefit from long-term growth with favorable unit economics, addressing one of the largest

opportunities in technology. Snowflake's culture of innovation (such as its expansion into cloud application development and data sharing), go-to-market initiatives, and an ongoing secular shift to the cloud in its end- markets should help, in our view, sustain the company's competitive moats over the long term.

Tesla, Inc. manufactures EVs, related software offerings, solar and energy storage products, and battery cells. Shares rose 18% during the quarter on increased production volumes from Tesla's global factories, new full self-driving functionality, evolving manufacturing techniques that improve quality and reduce costs, and industry-leading margins. This was achieved despite continued COVID-related shutdowns, ongoing supply-chain challenges, and semiconductor shortages. The recently introduced Inflation Reduction Act should also serve as a catalyst for broader EV adoption, while the company is well positioned to also benefit from domestic manufacturing credits, which should further support its competitive positioning in the market. With a roughly 1% market share, we believe that Tesla is well positioned to enjoy a long runway of growth as the market shifts to EVs.

ZoomInfo Technologies Inc. operates a cloud-based B2B platform that provides sales, marketing, and HR teams with comprehensive business intelligence, enabling shorter sales cycles and higher win rates. Shares were up 25% during the quarter, driven by the company's robust results that were above consensus expectations, with revenues up 54% year-over-year and adjusted operating margins of 40%, making ZoomInfo a "Rule of 94" company (revenue growth plus operating margins). ZoomInfo remains early in its core market with only about 30,000 customers out of a 700,000 B2B opportunity. Additionally, new products continue building momentum, and we believe ZoomInfo can become a much larger company over time as it grows into its \$100 billion total addressable market. We therefore remain shareholders.

EPAM Systems, Inc. provides outsourced software development to business customers. Shares were up 23% in the third quarter, rebounding from their steep decline earlier this year, after the company reported financial results that beat consensus and demonstrated resilience despite major disruptions from the Russia-Ukraine war. Organic revenue growth was 34% year-over-year in the second quarter, and management is confident that strong growth will persist despite relocating a significant portion of its workforce outside of the impacted regions. This strong performance is enabled by EPAM's ability to maintain its high quality of project delivery despite employee relocations and accelerated hiring outside of the impacted regions. While we continue monitoring the ongoing situation in Ukraine, we remain shareholders due to EPAM's long runway for growth, which is underpinned by accelerated demand for digital transformations across industries and economies.

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

	Quarter End Market Cap (billions)	Percent Impact
ServiceNow, Inc.	\$ 76.3	-1.20%
Alphabet Inc.	1,251.0	-0.85
NVIDIA Corporation	302.3	-0.67
Mastercard Incorporated	274.8	-0.50
Veeva Systems Inc.	25.6	-0.47

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ServiceNow, Inc. offers cloud-based solutions that improve workflow efficiency through automation and digitalization. Shares fell 21% on soft quarterly bookings that were negatively impacted by longer sales cycles due to a more complex spending environment. Despite the bookings weakness, management reported strong demand, excellent gross retention of 99%, and a solid combination of growth and profitability at scale with 29.5% subscription revenue growth (year-over-year, in constant currency) to a run rate of over \$6.5 billion and with non-GAAP operating margins of 23%. We believe the company remains well positioned to enjoy durable growth, with its unique platform that enables rapid new product innovation and cross-selling and up-selling existing customers while remaining early in penetrating its \$200 billion opportunity.

Alphabet Inc. is the parent company of Google, the world's largest search engine and online advertising company. Shares of Alphabet were down 12% in the third quarter, driven by continued concerns about a slowing economy that would lead to weaker demand for digital advertising. Despite short-term headwinds, we remain investors as Alphabet 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 also remain encouraged by Alphabet's investments in Cloud, AI, and Autonomous Driving (through its Waymo subsidiary).

Shares of **NVIDIA Corporation**, a fabless semiconductor mega cap that is a global leader in gaming cards and accelerated computing hardware and software, sold off 20% in the third quarter. The sell-off was driven by a near-term inventory correction in gaming due to a COVID-related pull forward in demand as well as the shift in Ethereum 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 macro 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 scale of these markets, will enable the company to benefit from durable growth for years to come and therefore remain shareholders. With demand for computing power doubling every one to two years, and Moore's Law slowing down, there is more need for computing power than ever. At the same time, "near-free" supply growth (that was possible thanks to Moore's Law) has slowed dramatically. NVIDIA's accelerated architecture, with parallel computing at scale, meets that need.

Shares of global payment network **Mastercard Incorporated** declined 10% despite reporting financial results that exceeded analyst estimates. Revenue grew 21% and EPS grew 32% year-over-year in the most recent reported quarter, and strong payment activity has persisted despite high inflation. Share price weakness represented a reversal of strong performance earlier this year and was likely driven by adverse foreign exchange movements and concerns about weaker consumer spending. We retain conviction due to Mastercard's long runway for growth underpinned by the continued migration from cash to card/digital and its significant competitive advantages, operating in a duopoly with Visa.

Shares of **Veeva Systems Inc.**, a cloud platform offering solutions to the life sciences industry, declined 17% in the quarter as the business was negatively impacted by foreign currency exchange rates, deceleration in its

marketing-related offerings, and results that were below expectations from small and medium customers. Despite these headwinds, the company benefited from a growing traction for its newer products targeting large pharmaceutical customers, who are increasing their spending on the company's platform. We remain confident that Veeva will continue to benefit from the life sciences industry's ongoing modernization initiatives by selling its innovative end-to-end software platform.

PORTFOLIO STRUCTURE¹

The Strategy is constructed on a bottom-up basis with the quality of ideas and level of conviction determining the size of each investment. Sector weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view."

As we have discussed in prior letters, during times of heightened market volatility, we tend to concentrate the portfolio in our higher conviction ideas. As of September 30, 2022, the top 10 holdings represented 56.1% of the Strategy, and the top 20 represented 84.6%. This compares to 51.6% and 78.0%, respectively, as of December 31, 2021, and 43.0% and 71.3%, respectively, as of December 31, 2020. At the same time, the total number of investments in the portfolio has also declined, ending the quarter with 29, which compares to 36 at the end of December 2021, and 37 holdings at the end of December 2020.

IT, Consumer Discretionary, Communication Services, and Health Care made up 96.5% of net assets. The remaining 3.5% was made up of **GM Cruise** and **SpaceX**, our two private investments classified as Industrials, and cash.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	\$1,151.2	\$35.6	9.2%
Alphabet Inc.	1,251.0	30.1	7.8
Mastercard Incorporated	274.8	22.5	5.8
Snowflake Inc.	54.4	22.1	5.7
Tesla, Inc.	831.2	21.0	5.4
ServiceNow, Inc.	76.3	20.7	5.3
CrowdStrike, Inc.	38.5	18.9	4.9
Datadog, Inc.	28.1	15.9	4.1
EPAM Systems, Inc.	20.8	15.3	4.0
NVIDIA Corporation	302.3	15.1	3.9

RECENT ACTIVITY

During the third quarter, we initiated two new positions: the leading developer-focused software provider, **Atlassian** and the leading media buying platform, **The Trade Desk**. We also took advantage of market volatility by adding to 10 existing holdings in the portfolio: **Shopify**, **Datadog**, **MercadoLibre**, **Endava**, **ASML**, **Tesla**, **Cloudflare**, **GitLab**,

¹ Portfolio characteristics, top 10 and 20 holdings, sector exposures, 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.

llumina, and **Adyen**. Lastly, we reduced two positions and sold three others (**Adobe**, **Twilio**, and **10X Genomics**) to fund the additions above as well as reallocate to names in which we believe the risk/reward equation has become more favorable.

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Atlassian Corporation Plc	\$53.7	\$9.6
Shopify Inc.	29.1	5.4
Datadog, Inc.	28.1	4.7
The Trade Desk	29.2	4.0
MercadoLibre, Inc.	41.7	1.1

In the third quarter, we initiated a new position in **Atlassian Corporation Plc**, a software company that provides solutions for designing, developing, and maintaining software, including JIRA for team planning and project management, Confluence for team content creation and sharing, Bitbucket for code sharing and management, and JIRA Service Desk for IT services and support applications. Over the years, JIRA has become the industry standard for developer collaboration tools, which has driven Atlassian to benefit from durable growth, compounding revenues over 30% for nine consecutive years with free cash flows compounding at higher rates. Atlassian's opportunity is underpinned by three large markets (DevOps, IT service management, and Work Management) with product leadership in each area, and a disruptive go-to-market model. Atlassian's products are easy to use and are still primarily purchased online via a highly efficient self-service model, driving attractive unit economics with substantially lower-than-industry Sales and Marketing spend at approximately 15% of revenues (versus 30% to 40% for peers), enabling it to invest more in R&D and powering disruptive pricing dynamics (where customers get similar or better functionality for a much lower price).

Additionally, Atlassian began its business model shift to the cloud in earnest in fiscal year 2020, which has driven accelerating subscription growth of over 50% for the last five quarters (with only about 10 points of growth due to cloud migrations). The model transition is expected to mature in fiscal year 2024, which should unlock smoother long-term cross selling and up selling activity, opening an opportunity to drive up average customer spending by six to eight times over time. While seat expansion remains the most important revenue growth driver in the near term, the recently introduced Enterprise and Premium offerings, priced at a one and a half to three times compared to the standard package, are also starting to contribute, and are expected become even more prominent with the cloud transition.

Management continues to exude confidence that it has a clear line of sight to \$10 billion in revenues just based on the company's existing products. We believe the company will enjoy a long runway of growth by creating better feedback loops with customers thanks to its transition to the cloud, enabling it to innovate faster and cross sell better and more efficiently. Lastly, Atlassian has a founder-led, entrepreneurial management team with significant skin in the game, holding over 40% of the company's shares, making it well aligned with long-term shareholders such as ourselves.

During the quarter, we also initiated a new position in the leading media buying platform, **The Trade Desk**. Trade Desk is the leading Demand-Side

Platform, allowing advertisers to efficiently purchase online advertising through PC, mobile, and video channels by connecting with supply-side platforms and with publishers, enabling real-time bidding on inventory. The company was founded by Jeff Green in 2009, went public in 2016, and has been extremely successful since, growing total gross spending on the platform from just over \$1 billion in 2016 to over \$6 billion in 2021, with adjusted EBITDA compounding at a remarkable 50% CAGR during that time, growing from \$65 million to just over \$500 million. The massive \$750 billion-plus global advertising market is undergoing several key evolutions, including the move towards programmatic and automated ad buying (as opposed to manual ad purchases), the shift from linear to Connected TV (CTV), with longer-term growth fueled by the global rise of e-commerce. While streaming already represents approximately one-third of TV viewing hours (and growing rapidly), only 6.5% of the total \$250 billion TV advertising spending has moved to CTV (\$16 billion out of \$250 billion), and only \$4 billion was transacted programmatically, where Trade Desk has a leading position.

We also believe that Trade Desk is benefiting from strong and sustainable competitive moats, due to its unique strategic positioning (where it only serves the buyers of ads), competing with companies such as Google that also purchase ads for their own publishers (such as YouTube), creating potential conflicts of interest. The company's co-founder, Jeff Green described its competitive advantages during the latest Investor Day in the following way:

*"Objectivity matters more tomorrow than it did today, and it matters more today than it did yesterday... So Google, Apple, Amazon, Meta, they all have a place in advertising... But **none of them really have a place in objectively buying the open Internet**, and most of them are trying to monetize supply of their own. And it actually creates a very complicated problem for all of them because much of the inventory that they have, they're swimming in it, and their cost of goods sold or TAC is almost zero. And when you contrast that to things that are very expensive like premium content and CTV, it becomes very hard to have that barbell strategy where something is very expensive and something is almost free, and then to monetize those well and **especially make good tradeoffs for the advertiser**."*

*"So many of those, like Meta, for instance, at one point, tried to monetize the open Internet in the sense that we're just going to monetize our sites. And I think there's some wisdom in that, especially because I think there's some honesty in saying to your advertisers, yeah, I think mine is the best and I'm going to try to help you monetize there, **which is different than saying I'll objectively help you buy the Internet, and by the way, I think you should spend 90% of your spend on my stuff.**"*

More recently, as the broader advertising market has slowed due to worsening economic conditions, Trade Desk's quality and positioning has become even more evident, enabling it to remain one of the very few internet names still sustaining premium (over 20%) growth, while maintaining healthy adjusted EBITDA margins north of 40%. In particular, we find the company's positioning in CTV and the recently announced partnership with Disney+ promising, since significant ad inventory in streaming services is expected to enter the market in 2023, accelerating the shift from linear TV. We are also optimistic about the company's longer-term goals in creating a unified ID for advertisers to better target customers in a privacy-safe way, combined with initiatives like shopper marketing, which enable connecting offline buying behavior with online ads viewed, significantly improving ad targeting. We believe Trade Desk's founder-led

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executive team has historically managed the business well and expect the company to continue benefiting from the growth in programmatic and CTV for years to come.

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

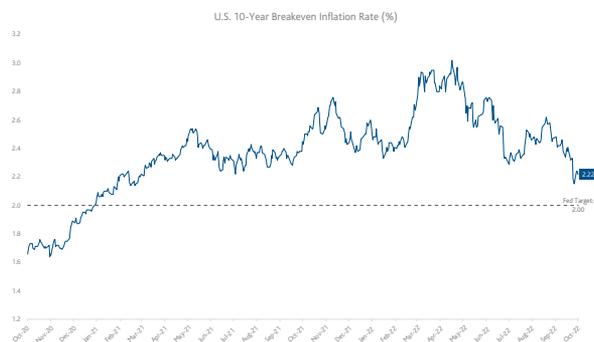
	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Adobe Inc.	\$127.9	\$12.6
Twilio Inc.	15.9	7.8
Rivian Automotive, Inc.	30.2	7.0
Block, Inc.	32.5	3.9
10X Genomics, Inc.	3.2	2.6

During the third quarter, we somewhat reduced our **Rivian Automotive, Inc.** and **Block, Inc.** positions and sold our positions in **Adobe Inc., Twilio Inc.,** and **10X Genomics, Inc.** in order to fund the aforementioned purchases, meet investor redemptions, and further consolidate the portfolio in names that we think have a more favorable risk/reward profile.

OUTLOOK

Do Not Fight The Fed! Do Not Fight The Fed! Do Not Fight The Fed!!!

OK... we get it. Maybe the Fed still has a way to go, and maybe it doesn't. The talking heads seem to suggest that bringing the economy to a screeching halt is the only way to stop inflation, and that a recession in 2023 is a foregone conclusion, unless of course... it is already here. However, we are long-term investors and as such feel compelled to point out that longer-term data continues to move in the right direction, at least as it relates to inflation. The 10-year inflation breakeven rate remains at its *lowest* level since early 2021 prior to the Fed's rate hike cycle – implying that in the long term, the market is pricing in that inflation would revert to 2.22%, or just 22 basis points above the Fed's long-term stated 2% objective.



Source: FactSet.

Now, we would be the first to admit that we cannot add much value here. We have no idea whether the next hike will be 50 basis points or 75 basis points, whether the inflation has peaked or whether the Fed can somehow engineer a soft landing. We spend our time thinking about competitive advantages and the duration of growth.

"Don't stare at your screens. Talk to your companies. Go visit with management teams and talk to customers and competitors and don't worry about the market!" – we hear Ron hollering on a daily basis. Well... he doesn't really holler, but the message is delivered loud and clear. All the time!

We do not know what will happen tomorrow, let alone a year from now, but we do know that our portfolio offers a much better deal/investment opportunity now than it did at the end of 2021. New money invested today will have significantly better long-term returns than investments we made only 12 months ago. If only we can stop our emotions from getting in the way...

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve rate changes, ongoing trade disputes, government shutdowns, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day and seem to drive them up or down the next. We often find it difficult to know why market participants do what they do over the short term. The constant challenges we face are real and serious, with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create.

We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities while remaining patient and investing only when we believe target companies are trading at attractive prices relative to 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.

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. The Strategy invests primarily in equity securities, which are subject to price fluctuations in the stock market. 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. 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.