Baron Opportunistic Small Cap Growth Strategy

March 31, 2023

Dear Investor:

Performance

Baron Opportunistic Small Cap Growth Strategy® was up 9.45% in the first quarter of 2023, outperforming the Russell 2000 Growth Index (the Benchmark) and the S&P 500 Index, which were up 6.07% and 7.50%, respectively.

As shown in the table below, the Strategy has outperformed the Benchmark, which is the most comparable index, for all the periods shown. Since inception over 25 years ago, we have outperformed by an average of 358 basis points a year.

Table I.
Performance for annualized periods ended March 31, 2023 (Figures in USD)[1]

	Baron Opportunistic Small Cap Growth Strategy (net)[2]	Baron Opportunistic Small Cap Growth Strategy (gross)[2]	Russell 2000 Growth Index[2]	S&P 500 Index[2]
Three Months[3]	9.45%	9.72%	6.07%	7.50%
One Year	(10.48)%	(9.58)%	(10.60)%	(7.73)%
Three Years	17.12%	18.29%	13.36%	18.60%
Five Years	8.46%	9.55%	4.26%	11.19%
Ten Years	9.95%	11.06%	8.49%	12.24%
Fifteen Years	9.60%	10.71%	8.67%	10.06%
Since Inception (December 31, 1997)[4]	9.84%	11.10%	6.26%	7.87%

Table II.
Calendar Year Performance 2018-2022 (Figures in USD)

	Baron Opportunistic Small Cap Growth Strategy (net)[2]	Baron Opportunistic Small Cap Growth Strategy (gross)[2]	Russell 2000 Growth Index[2]	S&P 500 Index[2]
2018	(7.09)%	(6.15)%	(9.31)%	(4.38)%
2019	34.93%	36.29%	28.48%	31.49%
2020	40.82%	42.23%	34.63%	18.40%
2021	15.87%	17.03%	2.83%	28.71%
2022	(31.03)%	(30.34)%	(26.36)%	(18.11)%

It was an eventful quarter that saw the market and the Strategy bouncing back nicely from the drubbing of 2022, while the macro outlook gyrated. The market performed well in January, as the economy seemed solid, inflation readings showed steady declines, and the prevailing sense was that the Fed was close to ending interest rate hikes. However, some important economic reports came in surprisingly stronger than anticipated in February, pushing up interest rates and shifting the narrative to continued Fed tightening and higher rates persisting. Three regional banks failed, which raised serious issues about the health of the banking sector. Though concerns about the safety of consumer deposits and of systemic risk have stemmed, the consensus assumption is that bank lending practices will be more restrictive, which could have a dampening effect on the economy. Economic data in March showed softening employment data and continued declines in inflation, which has resulted in lower bond yields and fear of a potential slowdown in the offing.

Stocks and other assets acted well in the quarter even in the face of cross currents. We are nearing the end of the most aggressive Fed tightening cycle in recent history, but present inflation readings (5% CPI) and employment

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, 2023, total Firm assets under management are approximately $38.9 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. 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 Report please contact us at 1-800-99BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

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.

[1] With the exception of performance data, most of the data is based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and 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.

[2] The **Russell 2000® Growth Index** is an unmanaged index that measures the performance of small-sized U.S. companies that are classified as growth. 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 in an index.

[3] Not annualized.

[4] The Strategy has a different inception date than its representative account, which is 9/30/1997.

levels (3.5% unemployment) are still well above target levels. The Fed continues to talk tough/dogmatically to crush inflation. Restrictive monetary policy usually takes about a year to impact the economy, which we are now feeling. The severely inverted yield curve is a warning sign that the risk of recession is elevated. Against this complicated backdrop, we believe stocks acted well because they were oversold and cheap, even if the outlook is softer. If rates stabilize and eventually decline and business remains firm for the most part, the environment for equities will be supportive.

The Strategy had a strong quarter on an absolute and relative basis. On a relative basis, the Strategy benefited from positive stock selection in most sectors. Our Consumer Discretionary stocks were standouts, led by strong performance from **Floor & Decor Holdings, Inc.**, **Installed Building Products, Inc.**, **European Wax Center, Inc.**, and **Red Rock Resorts, Inc.** All of these stocks were terrible performers in 2022, and their stocks recovered to more reasonable valuation levels as the business fundamentals remained intact. Our Industrials holdings, where we have our largest sector concentration, did well, led by appreciation in the stocks of **SiteOne Landscape Supply, Inc.**, **TransDigm Group Incorporated**, **John Bean Technologies Corporation**, and defense providers **Mercury Systems, Inc.** and **Kratos Defense & Security Solutions, Inc.** **Liberty Media Corporation–Liberty Formula One** and **The Trade Desk** stood out among our Communication Services stocks though they aren't communications companies. GICS makes some weird classifications. Our relative returns also benefited from good performance among our Health Care and Financials stocks, most notably gains in **ICON Plc** and **Neogen Corp.** in Health Care and **Kinsale Capital Group, Inc.** and **WEX Inc.** in Financials.

Our Information Technology stocks were relative underperformers this quarter. The sector performed well, but two of our big positions, **Gartner, Inc.** and **Endava plc**, were down, and we don't own semiconductor companies, which soared. Conversely, we don't own Energy or biotechnology stocks, which was a benefit this quarter. Our style of favoring higher earnings quality companies and skewing higher in market cap was helpful this period. We mentioned in the last quarterly report that we suspected that our worst performing stocks in 2022 could likely be some of our best performers in 2023…. which proved to be the case in the first quarter.

Table III.
Top contributors to performance for the quarter ended March 31, 2023

	Percent Impact
Floor & Decor Holdings, Inc.	1.01%
Installed Building Products, Inc.	0.82
Guidewire Software, Inc.	0.59
SiteOne Landscape Supply, Inc.	0.54
Altair Engineering Inc.	0.47

Floor & Decor Holdings, Inc. is a high-growth, differentiated specialty retailer of hard-surface flooring, offering the widest in stock selection of flooring options at everyday low prices in large warehouse format stores. Shares rose this quarter as the company reported strong results for the end of 2022 and strong guidance for the upcoming year. Floor & Decor beat guidance for the fourth quarter, with sales up 24%, comp store sales up 9%, and earnings up 39%. The company had a monster year in 2021, benefiting from COVID, as folks invested more in their homes, so to grow nicely off that base was impressive. For 2023, the forecast is for flattish earnings, as same-store-sales are expected to be flat to down with the economy slowing and housing in the doldrums. We see Floor & Decor as the category killer, growing its store base from 190 presently to over 500 stores in time, generating higher margins as the business grows and matures, and succeeding in ancillary categories, like the commercial flooring space. We believe the company will get back on its historic pace of growing operating income 25% per year and driving earnings from around $3 per share today to over $8 per share in five years.

Installed Building Products, Inc. (IBP) is a leading installer of insulation and other building products for the residential housing end market. Like Floor & Decor, IBP's shares rose this quarter from depressed levels, as the company reported strong current results and forecasted that business would remain firm even in the face of higher interest rates. IBP had an incredible year in 2022, with revenues up 36% and EBITDA up 54%. Margins expanded 280 basis points, and management returned $200 million to shareholders via dividends and share repurchases. Still, the stock traded down to about 11 times earnings and seven times EBITDA over fear of a much tougher environment ahead. Though housing starts have declined with the rise in interest rates, we now believe that IBP can have about flat earnings in 2023, and then revert to growth. The company has been public for nearly a decade and has an impressive record of revenue growth at 20% per year and EBITDA growth of 40% per year over that period. From a combination of organic growth and accretive acquisitions, we underwrite about 15% growth per year go forward from this higher base. Even after the rise this year, the stock is cheap on our near-term estimates and trades about four times our projection of EPS in five years.

Shares of property and casualty (P&C) insurance software vendor **Guidewire Software, Inc.** contributed to performance for the quarter. The company has crossed the midpoint of its cloud transition and is now demonstrating more consistent recurring revenue growth and durable gross margin expansion. We believe Guidewire will be the leading software vendor for the global P&C insurance industry, capturing 30% to 50% of its $15 billion to $30 billion total addressable market and generating margins above 40%. Early in the quarter, Guidewire's largest competitor was acquired by a private equity firm at a meaningful premium to Guidewire's current valuation. We believe this acquisition will help further enhance Guidewire's win rates and pricing power, while also illustrating the significant multiple expansion opportunity embedded in its current share price.

SiteOne Landscape Supply, Inc. is the largest distributor of wholesale landscape supplies in North America, selling irrigation, hardscapes, agronomics, and nursery products to professional contractors through its network of branches primarily for residential and commercial maintenance. Shares rose during the quarter on a 2023 financial outlook that beat analyst estimates and a recovery in investor sentiment for housing-related stocks. However, we expect EBITDA to be lower this year as margins retrace from extended levels and organic sales soften from an anticipated slowdown in housing starts. Still, we have great confidence that SiteOne is poised for continued growth and margin enhancement. We think SiteOne can more than double its present 16% share of the highly fragmented market through organic growth and strategic acquisitions and, over time, greatly increase its profit margins. We believe that EBITDA can double over the next five years, that the company will generate excess free cash flow (FCF), and that the trading multiple of the stock will rise from present levels, all which should drive strong stock performance over the long term.

Altair Engineering Inc. is a leader in the multi-billion dollar computer aided simulation market. Alongside a general recovery in technology stocks, Altair's shares appreciated after it reported above-consensus quarterly results. Management described a strong demand environment despite ongoing macroeconomic concerns. Large deal momentum remained healthy, while key verticals, including automotive and technology, performed at or above expectations across all key geographies. Over the past few years, the company has expanded its core offering to data analytics, mostly through acquisitions, and management described improved dynamics in this segment of the business as it scales. In addition to strong quarterly results, company guidance pointed to higher growth and profitability and implied additional margin expansion in the years to come. We believe Altair should benefit from secular trends, including an increase in product complexity that will require customers to adopt more simulation, while reduced computing costs and product innovation should allow its products to be adopted by a broader set of users.

Other stocks that appreciated 25% or more but added less to our overall performance in the quarter include **European Wax Center, Inc.**, **Liberty Media Corporation–Liberty Formula One**, **The Beauty Health Company**, **The Trade Desk**, **Kratos Defense & Security Solutions, Inc.**, **DraftKings Inc.**, and **Holley Inc.**

Table IV.
Top detractors from performance for the quarter ended March 31, 2023

	Percent Impact
Gartner, Inc.	–0.19%
Axonics, Inc.	–0.18
Endava plc	–0.18
Liberty SiriusXM Group	–0.15
Repay Holdings Corporation	–0.13

Shares of **Gartner, Inc.**, the leading provider of syndicated research to business leaders, gave up some of last year's strong relative performance in the first quarter. Business conditions have softened modestly, as Gartner's IT vendor customer base is being negatively impacted by layoffs and cost reductions across the sector. The company is projecting that revenues in 2023 will grow in the high single digits, not the low double digits as in the last few years. The company is guiding for lower margins to pay for the expanded sales staff that ramped up last year. Though this year will be tougher, we think the company will continue to grow revenues at high rates, that margins will expand, and that FCF will be substantial and used primarily for share repurchases (the company bought back $1 billion of stock in 2022). We expect FCF per share to compound at over 20% a year, and we believe the stock is attractive short term at a mid-teens multiple of our 2024 estimate and trading at under nine times our FCF estimate in five years.

Axonics, Inc. offers a novel implantable sacral neuromodulation device for the treatment of urinary and bowel dysfunction. Through an acquisition, it also offers Bulkamid, a unique injectable product to treat stress urinary incontinence in women. Axonics reported strong results for the fourth quarter, with revenues growing 62% and positive profitability, which was ahead of schedule. Shares declined somewhat during the first quarter as Health Care was out of favor and the stock's multiple compressed. We like Axonics for the long term, as we believe its product is unique and superior to existing competitive solutions. The addressable market is sizeable and underpenetrated. We think the company can triple its revenues over the next five years and eventually earn mid-30% margins.

Endava plc provides outsourced software development for business customers. Shares fell after the company reduced financial guidance to reflect slower bookings, as macroeconomic uncertainty weighed on client decision-making in December. Nevertheless, the company reported solid quarterly results, with 30% revenue growth and 26% EPS growth. Management noted that bookings have improved in the first couple of months of 2023, and it expects annualized revenue growth to quickly return to greater than 20%. We remain investors because we believe Endava will continue gaining share in a large global market for IT services.

Liberty SiriusXM Group consists of Liberty Media Corporation's majority interest in Sirius XM Holdings, Inc. SiriusXM is a large U.S. commercial-free subscription-based music service. Shares were down this quarter on 2023 guidance that missed analyst estimates and continued investor uncertainty around advertising revenue given unclear macroeconomic conditions. The company expects FCF to fall by about a third this year, as it spends on satellite launches and platform rebuilds, while revenues face headwinds of slow auto sales and soft advertising. The company is focused on building its streaming only service, but growth and profitability of that offering is uncertain. Standalone Sirius shares now trade at a low multiple, and the Liberty Sirius shares trade at a steep discount to that. Liberty Media Corporation continues to increase its percentage ownership and, ultimately, we expect some change in corporate structure, which we think would benefit shareholders.

Shares of payment processing solutions provider **Repay Holdings Corporation** fell this quarter. Although the company reported strong fourth quarter results with 17% organic gross profit growth and 29% EBITDA growth, its 2023 financial guidance missed Street expectations. We believe Repay's weaker outlook reflects macroeconomic uncertainty, the divestiture of a non-core business, tough comparisons in the B2B segment due to biennial political ad spending at its media clients, and, perhaps, some conservatism on the company's part. We are disappointed that growth has slowed in the core consumer segment but are hopeful that results will return to mid-teens growth. We think the shares are cheap, at less than seven times depressed EBITDA, for a well-managed business with unique offerings and a scalable operating platform.

Portfolio Structure & Recent Activity

As of March 31, 2023, we had $4.3 billion under management and held 62 stocks. The top 10 positions made up 32.2% of net assets. Compared to usual levels, we own fewer stocks and are somewhat less diversified than usual. We find ourselves reducing positions we are less enamored with and not adding many new names, given the dearth of new issues, which have historically been a good pipeline to find fresh new investments. Our top 10 holdings are listed below and are similar to those in prior periods. Most all of the stocks have been held for a long time…four over 10 years, three between five and 10 years, and three less than five years. For the most part, they all have been *big winners* and have appreciated multiple fold. They remain in the top 10 because we still believe that they are special businesses and can continue to perform well in the future.

Table V.
Top 10 holdings as of March 31, 2023

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$232.9	5.4%
Kinsale Capital Group, Inc.	2019	150.1	3.5
ICON Plc	2013	149.5	3.5
ASGN Incorporated	2012	144.7	3.4
Floor & Decor Holdings, Inc.	2017	137.5	3.2
SiteOne Landscape Supply, Inc.	2016	136.9	3.2
Red Rock Resorts, Inc.	2016	122.6	2.9
Vertiv Holdings Co	2019	109.5	2.6
Guidewire Software, Inc.	2012	100.5	2.4
Chart Industries, Inc.	2022	94.1	2.2

At the end of the quarter, the sectors of highest concentration were Industrials (27.4% of net assets), IT (18.9%), Consumer Discretionary (15.4%), and Health Care (12.8%). Compared to the Benchmark, we are notably overweight in Industrials, meaningfully underweight in Health Care, modestly overweight in Consumer Discretionary, and essentially market weight in IT. We don't own any stocks in the Energy or Utilities sectors and are underweight in Materials and Consumer Staples, which adds to the variance between the Strategy and the Benchmark. Our process is to identify and invest for the long term in differentiated, high-quality, well-managed, secular growth companies, and the sector weightings are an outgrowth of this effort. We are underweight Health Care because we don't own biotechnology stocks, as small-cap biotechnology companies aren't established enough. We don't invest in Energy and Utilities because we struggle to find exciting special niche businesses whose success isn't too heavily based on the movement of commodity prices. We find an oversized number of terrific companies in the Industrials and Consumer Discretionary sectors, not to express a view on the state of the economy, but because our expertise in those sectors permits us to identify businesses and management teams that meet our high standards.

We are true to our characterization as long-term investors. About a third of the assets in the portfolio are invested in companies that we have owned for over 10 years. Another quarter is in stocks of companies we have owned for between 5 and 10 years. These holdings have appreciated about 20% on an annualized basis since initial purchase, which is a testament to our ability to benefit from this long-term approach. We have about 60% of the Strategy invested in stocks that have doubled or more since their initial purchase and 28.5% in stocks that have appreciated more than five times since our initial purchase.[1] These *big winners* have been the drivers to our strong historic relative returns…. on average 358 basis points better than the Benchmark for over 25 years.

Our turnover is low…. about 16% on average over three years…. because of our long-term approach. Market capitalization is a consideration in our management of the Strategy. Our approach is to buy only small-cap stocks, but to hold onto our winners as long as we believe they will continue to be strong performers. We regularly monitor and reduce the position sizes of some of our long-term and successful holdings to manage the overall market cap of the Strategy. However, since the Strategy is now over 25 years old, and we hold on to our winners (though reducing our exposure along the way), the Strategy skews higher in market cap than many other funds of our ilk.

Table VI.
Top net purchases for the quarter ended March 31, 2023

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Clarivate Plc	2019	$6.3	$16.0
Neogen Corp.	2022	4.0	13.0
Chart Industries, Inc.	2022	5.4	12.6
Clearwater Analytics Holdings, Inc.	2021	3.9	1.9
E2open Parent Holdings, Inc.	2021	1.8	0.2

We added to our position in **Clarivate Plc**, a leading global information services provider that serves customers across academia and government, life sciences & health care, and intellectual property. Clarivate goes to market with a collection of well-known brands, including Web of Science, ProQuest One, Alma, Cortellis, Derwent, and CompuMark.

Clarivate has an attractive business model. The company's foundation is its highly valuable proprietary data assets (#1 or #2 player in most markets) that are combined with analytical tools and insights to help users apply the underlying data to everyday business problems. As an important part of the end users' daily workflow, Clarivate's indispensable, mission-critical solutions create a sticky and predictable business model with high levels of recurring revenue (about 80% recurring revenue and over 90% renewal rates). Clarivate has strong operating leverage ("build it once, sell it many times") and should be able to sustain adjusted EBITDA margins in the low to mid-40% range.

We see several areas of opportunity for the business going forward. First, new CEO Jonathan Gear and CFO Jonathan Collins appear to have set attainable financial targets that should lead to an improved execution track record. Second, prior management assembled a collection of great assets via acquisition, but integration proved challenging, leaving the balance sheet stretched. Management is now pausing large-scale M&A and pivoting its operating model to lower net leverage (less than three times by 2025) and to drive an improvement in organic growth (from low single digits today up to mid-single digits by 2025) with a renewed operating framework. Third, Clarivate has an attractive underlying FCF profile that will become more apparent this year, as one-time integration costs wind down. We have confidence that the new management team can execute these initiatives, and they also have a prominent activist investor monitoring their progress.

We believe that Clarivate trades at a cheap valuation for such a high-quality, recurring revenue business that operates in resilient end markets. We think Clarivate will show attractive growth in FCF per share in the coming years, which should drive solid returns for the stock.

We also added to **Neogen Corp.** and **Chart Industries, Inc.** at attractive stock prices relative to our long-term estimates of intrinsic value of their businesses.

[1] Stock appreciation cited in this paragraph reflects security performance from the date of the Strategy's first purchase through 3/31/2023. The return of the investment in Baron Opportunistic Small Cap Growth Strategy may be lower or higher than the security performance, depending on the Strategy's purchases and sales over the period.

Table VII.
Top net sales for the quarter ended March 31, 2023

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Installed Building Products, Inc.	2017	$2.4	$ 3.2	$48.1
Progyny, Inc.	2022	3.9	3.1	21.5
Nuvei Corporation	2020	4.3	4.2	19.6
Americold Realty Trust	2018	2.4	7.7	12.4
Gartner, Inc.	2007	2.2	25.8	12.3

We trimmed **Installed Building Products, Inc.**, **Americold Realty Trust**, and **Gartner, Inc.** to manage their respective position sizes. We exited our position in **Progyny, Inc.**, a leading provider of carve-out employer sponsored fertility benefits. Progyny benefited from a first-mover advantage in a benefit which is growing in popularity, but concerns about increased competition, a weaker employment market, slower growth, and a more capital-at-risk model led us to redeploy funds to other ideas. We sold **Nuvei Corporation** due to a meaningful slowdown in its revenue and earnings growth, while also growing skeptical of the company's competitive advantage.

Outlook

We are in the late innings of an interest rate tightening cycle, which has succeeded in slowing down the economy and reducing inflation. However, there is much consternation as to the degree of the slowdown and the time in which rates need to rise or stay elevated to get inflation to levels the Fed is targeting. Since the Fed is data dependent and investors are highly focused on what the Fed will do next, we are living in a world of intense scrutiny of the next data point, which often is capturing somewhat stale information. It is very frustrating.

We find evidence of lower inflation and slowing growth from both economic reports and our discussions with companies, which offers a broad and diverse sample. Our companies relate, for the most part their input costs are declining, except for wages that are now rising modestly. They raised prices on their goods and services over the last two years, after the intense price shocks coming out of supply-chain disruptions and unusual demand of the post-COVID period. Those price increases are running through their P&Ls now, as they have caught up on the price/cost equilibrium and we are seeing those price increases as inflation in the economic data. But our companies are largely done increasing prices, in our view, and now hope to hold onto prior hikes as demand slows. A very different scenario. Also, now that labor is available, wages do not have to keep rising to attract new employees or retain present staff. We take this all to bode well for the future path of inflation, which might be a little higher than in the recent past, but not an issue like it has been for the last year.

We also hear that demand is softening. This is more unsettling. Presently, business is pretty good, slowing somewhat but remarkably resilient. However, we do not believe that we or company managements have a good feel on the path of future demand. This is what we are monitoring closest.

To simplify the concern that many strategists and market prognosticators have about the market, the bear case is:

- The market is expensive.
- Earnings estimates are too high, as they don't take into account negative growth that will be caused by a pending recession.
- Stock multiples will decline if estimates are reduced.

We look at companies and our portfolio on a more granular and micro basis and come to different conclusions.

First, we view our portfolio as cheap, not expensive. Based on our estimates of what our companies will earn, we think our stocks are trading at multiples that are at a discount to…often a significant discount to… what we think are the appropriate and likely long-term trading multiples. Of our top 10 stocks, we think four are trading at reasonable multiples on our 2023 estimates and six are undervalued. When we look to 2024, all of our top 10 holdings trade at discount multiples.

Second, we believe we will see growth this year. We project that about 85% of our holdings will have up earnings (or EBITDA, FCF….) this year. We are in constant contact with our managements, and we derive our estimates from those conversations and keen understanding of the sectors in which they operate. The growth metrics of our holdings are probably better than the market in general because we invest in leading niche companies benefiting from secular growth, market share gains and pricing power. We acknowledge that growth rates will be slower this year than we would normally expect, since the macro environment is challenging; however, we do expect growth.

Third, we are monitoring our estimates for accuracy. After fourth quarter results, we raised or kept constant our earnings estimates for about two-thirds of our holdings and reduced them for one-third. So, if anything, we deem our earnings estimates as realistic tending toward conservative.

The $64,000 question is are trends going to change for the worse and do we and our companies just not see it yet? If trends do decelerate, how bad can it get and for how long? Time will tell as this will determine the near-term course of the market.

Longer term, we believe strongly that our companies will revert to their historic growth rates and earnings will be considerably higher. Stocks will revert to trading at appropriate multiples, which for the most part, are higher than present, irrespective of where interest rates settle out. And the combination of higher earnings and higher multiples will result in higher stock prices and strong returns for the Strategy.

Cliff Greenberg
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. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. 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 manager only through the end of the period stated in this report. The portfolio managers' 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.