Baron Opportunistic Small Cap Growth Strategy

June 30, 2022

Dear Investor:

Performance

Baron Opportunistic Small Cap Growth Strategy was down 18.60% in the second quarter. The Strategy modestly outperformed the Russell 2000 Growth Index, which was down 19.25% for the period, but lagged the S&P 500 Index, which was down 16.10%. Year-to-date, the Strategy is down 31.36%, which trailed the Russell 2000 Growth Index and the S&P 500 Index, which were down 29.45% and 19.96%, respectively. As shown in the table below, the Strategy's long-term performance far surpasses the returns of the Russell 2000 Growth Index. Since inception, we have beaten the Russell 2000 Growth Index by over 371 basis points per year.

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

	Baron Opportunistic Small Cap Growth Strategy (net)[1]	Baron Opportunistic Small Cap Growth Strategy (gross)[1]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	(18.60)%	(18.40)%	(19.25)%	(16.10)%
Six Months[2]	(31.36)%	(31.02)%	(29.45)%	(19.96)%
One Year	(27.18)%	(26.46)%	(33.43)%	(10.62)%
Three Years	5.34%	6.40%	1.40%	10.60%
Five Years	9.09%	10.18%	4.80%	11.31%
Ten Years	11.11%	12.23%	9.30%	12.96%
Since Inception[3] (December 31, 1997)	9.73%	10.99%	6.02%	7.70%

The market had a terrible first six months of 2022, the worst since 1970, after a very bad second quarter. Inflation, higher interest rates, and the portend of recession dominated the extremely negative narrative. Each progressive CPI report raised alarm, with the May print of 8.6% inflation, a four decade high, fanning the flames. The Fed became increasingly strident in their message that they are primarily focused on defeating inflation by raising rates, even if there is corollary damage to the economy and the stock market. Labor reports remained strong, with the unemployment rate hovering in the mid-3% range, and the economy maintained its strong pace for the most part. The Fed Funds rate was increased by 75 basis points in June, and additional large increases seem to be in the offing. The yield of the 10-year U.S. Treasury bond rose from 2.4% to 3.5% at the end of the first quarter.

Most commentators now predict a recession, brought on by higher inflation, higher interest rates, and lower asset (stocks, homes) values. Some fear a "hard landing" because of concerns that inflation will be hard to tame, especially since a key component…high energy prices, and, to a lesser degree, food costs…are the product of the war in Ukraine, which is beyond the Fed's control. There are no signs that the war will end any time soon (the "forever war"), and it will be hard to get inflation in check without lower oil prices.

These macro concerns and policy machinations are leading to very uncertain and confusing times, and wreaking havoc on the market. No one knows how this will play out. Inflation, interest rates, and economic growth/downturn are all intertwined and reflexive. I can't recall another time in my investment career when things have been so foggy. We do sense that the economy is slowing, and more is to come. However, we don't know if the slowdown will be mild or severe, short lived or longer term. So, it is hard for us to underwrite the nearer-term earnings outlook for our holdings with any degree of certainty. With stocks presently untethered from fundamentals, they are universally out of favor until there is more clarity. And in the grips

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For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of June 30, 2022 total Firm assets under management are approximately $37.7 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 the Firm's 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. The Strategy invests mainly in small cap growth companies.

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.

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

† The Strategy's 3-year historical performance was impacted by gains from IPOS and there is no guarantee that these results can be repeated on that the Strategy's level of participation in IPOS will be the same in the future.

1 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. 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. The indexes and the Strategy include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Strategy performance. Investors cannot invest directly in an index.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is 9/30/1997.

of fear, the market is assuming the worst and seemingly indiscriminately trading stocks to prices that reflect low multiples on low expectations.

During the quarter, growth continued to underperform value. This is because higher interest rates hurt trading multiples, and the earnings outlook for growth stocks is more uncertain. Small caps modestly underperformed larger caps because their businesses are less time tested, their shareholder bases are less secure, stocks are less liquid, and they trade at richer multiples that get squeezed in periods like this. Because the Strategy invests in small-cap growth stocks, it is in harm's way. The underperformance of small caps has resulted in very low relative historic valuations versus larger caps, which bodes well for future performance. Small-cap stocks now trade at a large negative delta to large caps, and it's usually the opposite. Value has significantly outperformed growth since the downturn began in November 2021. Unless the economy really tanks, we believe growth stocks now seem more attractively valued and have more upside.

The Strategy performed better than the Russell 2000 Growth Index this quarter due to its higher cash exposure (averaging 7.6% for the quarter) and, to a lesser extent, stock selection in Financials, Real Estate, and Communication Services. Style biases…. larger market caps and lower volatility…also helped our relative performance somewhat. We were underweight the best performing sectors this quarter-Consumer Staples and Utilities. On the whole, we have little to crow about. Most stocks did poorly this quarter; we had only 6 gainers of 76 stocks. And many stocks, across a broad swath of the portfolio, were down over 30%. The most common characteristic of our worst performers is that they were our highest multiple stocks, the ones that could be hit hardest if we were to enter a severe recession.

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

	Percent Impact
Shoals Technologies Group, Inc.	0.11%
Grid Dynamics Holdings, Inc.	0.09
Americold Realty Trust	0.08
Driven Brands Holdings Inc.	0.06
Chart Industries, Inc.	0.04

As mentioned, only a handful of stocks rose in the quarter. Those stocks were higher primarily because of positive developments with the companies or their sectors.

Shoals Technologies Group, Inc., is a leading provider of electrical products and solutions used in constructing large-scale solar projects and electric vehicle charging infrastructure. The stock was down significantly coming into the quarter due to concerns that a U.S. Government Department of Commerce investigation of alleged circumvention of anti-dumping and countervailing duties by solar module manufacturers would cause project delays in constructing new solar plants. In early June, President Biden announced the lifting of tariffs, and the shares of Shoals and other solar equities rose. We believe that Shoals provides a unique solution to its end markets, selling patented products as complete systems that are needed in all projects, less costly to install, and more reliable. We foresee a long runway of growth for its end market and believe the company can quadruple its EBITDA from last year to 2025 and return to being a darling of growth investors.

Grid Dynamics Holdings, Inc. is a pure play Information Technology (IT) service provider focused on digital transformation. Grid employs a highly skilled, competitively priced workforce, which was primarily located in Ukraine and Russia. When war broke out, the stock collapsed over fears of a catastrophic effect on Grid's business. However, the company has weathered the storm masterfully… supporting and relocating its Ukrainian engineers and their families, shuttering operations in Russia, growing its footprint in other countries in Eastern Europe, and opening new offices in India and Mexico. The company reported strong earnings and outlook. Demand for its services has remained strong, and its operational resilience has been herculean. We expect the company will grow its revenues by over 20% organically, though margins will be lower because of the incremental expenses to reshuffle the workforce. The company is back on track to build a billion dollar revenue, highly profitable entity that we believe will be worth multiple fold of its current value. We tip our hat to the management team for its skill in building the company and its heart in taking care of its employees.

Americold Realty Trust contributed to our performance this quarter. Americold is a large owner/operator of cold storage facilities. The stock had lagged because of two issues: first, frozen food manufacturers and their customers had labor issues that restricted production and thus the need for storage; and second, the company had execution issues. It seems like industry trends are improving. Plus, the company is making progress increasing its productivity and improving margins, somewhat from the effect of hiring some new senior executives. The stability of the business and the fact that it pays a nice dividend as a REIT is a positive in this market. Even after its recent pickup, we think the stock still trades at a modest cap rate and well below its private market value, so the stock can work via growth and multiple expansion.

Driven Brands Holdings Inc. is the largest automotive service company in America, owning and overseeing multiple brands that offer repair and high frequency services such as collision, oil change, car wash, and auto glass repair. Driven operates over 4,400 locations, primarily as the franchisor and sometimes operates units of its brands. This past quarter, the company posted strong results that beat estimates. Even in a tough macro environment, same store sales rose over 15%, which highlights the resiliency of its needs-based service offerings. EBITDA grew 52%, with organic growth supplemented by acquisitions. The company also announced that it opened over 100 new stores and that unit development, across all brands, was intact. Management also unveiled its plans to build a new leg of growth in the auto glass segment, which we feel could become an important contributor over time. We believe the company will be able to continue to grow its cash flow by double-digit rates, and that its high-quality business model and earnings stream will be re-rated higher.

Chart Industries, Inc. is a manufacturer of cryogenic equipment for LNG and other industrial gases, most notably hydrogen, which allows Chart to sell *picks and shovels* to the quickly growing LNG and hydrogen industries. The stock has performed well, as the company is positioned to benefit from increasing demand for LNG and clean energy solutions driven by the supply consequences of the Russian-Ukrainian conflict. The company also received several large LNG orders earlier than expected, including the first large-scale project using a proprietary liquefaction process called IPSMR. Please see the writeup of Chart in the "Top Net Purchases" section of this report for more about the company and upside we see in the stock.

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

	Percent Impact
ASGN Incorporated	–1.01%
Cognex Corporation	–0.93
Gartner, Inc.	–0.91
Vertiv Holdings, LLC	–0.90
DexCom, Inc.	–0.76

Since most of the stocks we held were down in the quarter, many of the top detractors were amongst our largest holdings.

Our largest detractor was **ASGN Incorporated**, a leading provider of IT staffing and consulting services. ASGN actually reported a very strong quarter. Revenues were up 20%, and EBITDA was up 39%. The burgeoning consulting segment, an offshoot of the company's tech staffing offering, grew 70% in the quarter, continuing its torrid pace. Management explained that demand for its core IT staffing services was strong, and expected it to be resilient, as the projects the company works on are mission critical to its clients. They also pointed out that the company's business mix has significant exposure to more stable, counter-cyclical government work. However, the stock traded off pretty hard because of fear of a potential recession and a downturn in hiring, and now trades cheaply on both an earnings and cash flow basis. This year, the company did significant share buybacks at prices above its quarter end closing price. Management has been prescient in the past when making opportunistic share repurchases. Near the end of the quarter, the company announced an acquisition of a fast-growing consulting business, which fits well with other services and clients the company serves, and we think it has great growth prospects.

Cognex Corporation is the market leader in machine vision products used in factory automation and logistics. The company reported a good quarter, with revenues up 18% and margins above their long-term 30% target. However, management provided cautious guidance, and the stock sold off. Growth momentum is slowing as automation projects are taking longer to deploy or being delayed by customers because of supply-chain challenges and staffing shortages. We believe that Cognex is a unique, special company that has great growth prospects as its products are incorporated in more plants and processes across more end markets. The company has a fortress balance sheet, over $7/share in net cash, some of which was used for share repurchases in the quarter. Shares traded down to under 20 times projected earnings (though earnings are uncertain). We have owned the shares for over a decade, and the stock has appreciated over five times since our initial investment. There have been ups and downs, caused by product cycles or economic growth, but the company has always powered through, as we expect will be the case now as well.

Shares of **Gartner, Inc.**, a provider of syndicated research sold on a subscription basis, detracted from performance as investors grew concerned about the impact of a potential recession on future growth trends. Presently, business is strong; and first quarter results were outstanding, led by the research business, which is growing at double-digit levels. The company increased guidance for revenues and free cash flow. Gartner's conference offerings are returning to in-person events, which will also add to profitability. Free-cash-flow generation was strong, and the company has a renewed focus on cost control to drive margin expansion, even as it ramps up hiring salespeople to keep up with demand. As with ASGN and Cognex, Gartner has a been an aggressive repurchaser of its shares…which we think is a good sign of management's confidence in the value and future of the business. Though the business might slow and reported earnings will be negatively impacted by the rising dollar, we expect the business to remain solid and do not think the shares are expensive.

Vertiv Holdings, LLC, a leading provider of critical infrastructure for data centers, fell in the quarter. The market became concerned that capital spending for data centers might be slowing along with the economy, which could be the case. Shares of Vertiv were very weak when the company reported first quarter costs were not properly passed through to their customers, so margins would fall well short of projections. We believe that Vertiv is now ahead of the curve on this and will demonstrate robust earnings power in the back half of 2022 and into next year. We think it's a very cheap stock, with strong management and board oversight, and remain hopeful that when the company reverts to form, the shares can appreciate significantly.

DexCom, Inc. is the leading provider of continuous glucose monitoring systems for patients with diabetes. The stock fell along with other premium valuation growth stocks, primarily on multiple contraction. Concern about price competition from Abbott Labs' Libre product also played a role. Results for the first quarter were solid. Sales increased 22% organically, margins expanded 350 basis points, and the company maintained guidance for continued strong results. An important new and revolutionary product, the G7, was approved and launched in Europe, and the company expects it to be approved in the U.S. soon. The product is 60% smaller, fully disposable, and designed for extended wear. We remain excited that CGM will become the standard of care for Type 1 diabetics and will be used extensively for Type 2 diabetics as well, which we think will be a major driver of continued sales and profit growth well into the future.

Portfolio Structure & Recent Activity[1]

As of June 30, 2022, the Strategy had $4.2 billion under management. We owned 71 stocks. The top 10 holdings made up 29.2% of the Strategy, similar to the prior period.

The top 10 holdings are a familiar group to long-time holders of the Strategy. We have owned half of them for about a decade or more. We have owned the other half for five years on average. All have been winners for the Strategy. All of them are companies in which we have great confidence and see continued growth. We think the stocks can continue to perform well.

[1] Portfolio characteristics, sector exposures, top 10 holdings, market caps of purchases and sales, 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.

Baron Opportunistic Small Cap Growth Strategy

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$205.6	4.9%
ASGN Incorporated	2012	157.9	3.8
ICON Plc	2013	151.7	3.6
SiteOne Landscape Supply, Inc.	2016	124.8	3.0
Installed Building Products, Inc.	2017	116.4	2.8
Kinsale Capital Group, Inc.	2019	114.8	2.8
Red Rock Resorts, Inc.	2016	89.7	2.2
Floor & Decor Holdings, Inc.	2017	88.1	2.1
Guidewire Software, Inc.	2012	87.0	2.1
SBA Communications Corp.	2004	80.0	1.9

The Strategy is most heavily invested in four sectors…. Industrials (25.5% of the net assets at the end of the quarter), IT (21.6%), Consumer Discretionary (14.7%), and Health Care (12.3%). The weighting of IT stocks is lower than in prior periods, as those stocks have been weaker performers, and our new investments have been focused more in other sectors. As compared to the Russell 2000 Growth Index, we are overweight in Industrials and Consumer Discretionary, we are in line in IT, and underweight in Health Care.

Our overweight in Industrials is not a call on the economy or a statement about that sector. Our Industrials holdings are a collection of leading businesses in their niches that are benefiting from secular trends, strong market positions, and excellent execution by their management teams. We believe that the businesses of our Industrials holdings will do well even if the economy slows somewhat. Some of how GICS characterizes our holdings adds confusion. For example, our largest sub-industry exposure is to human resources & employment services, which includes **ASGN Incorporated** and **First Advantage Corporation**. ASGN primarily does placements of tech workers and consulting focused on digital conversion, which is similar to the work of other holdings **Endava plc** and **Grid Dynamics Holdings, Inc.**, which are characterized as IT companies. First Advantage is a leader in doing automated background checks in the hiring process, and is a beneficiary of the growing trend toward more turnover of jobs, especially among younger workers. Our other large Industrials exposures include aerospace & defense (**Mercury Systems, Inc.**, **Kratos Defense & Security Solutions, Inc.**, and **TransDigm Group, Inc.**); trading companies & distributors (**SiteOne Landscape Supply, Inc.** and **Hillman Solutions Corp.**); industrial machinery (**John Bean Technologies Corporation**, **RBC Bearings Incorporated**, and **Chart Industries, Inc.**); and building products (**Trex Company, Inc.**, **The AZEK Company Inc.**, and **Janus International Group, Inc.**).

We don't own Energy or Utilities stocks, as they don't fit our approach to invest in differentiated secular growth companies. We also are underweight in the Materials and Consumer Staples sectors, as we find less exciting businesses in those sectors. For the quarter and year-to-date periods, this positioning has hurt our relative returns. We got a material and welcome inflow during the quarter, which we used to increase our holdings in many of our favorite stocks. We also maintained a higher cash position in the quarter than normal, averaging about 7.6%, which we think is prudent during such a volatile time in the market. We have been putting those funds to work deliberately, when stocks get disjointed, or we find great new ideas.

As the economy comes out of COVID and reacts to the new environment and issues caused by inflation and war in Ukraine, we note that some new investment themes are emerging. For instance, we expect a movement to reshoring manufacturing and production, a renewed focus on energy independence and exporting our technology and resources to energy-short countries, a need to upgrade our infrastructure and develop additional reserves, and production of needed raw materials, to name a few. We have some existing and new holdings that we think will squarely benefit from these new trends. However, it's important to note, that the trends that were in place prior to COVID and this slowdown that we are now investing behind are still very secure and intact. Some of our holdings might have had some demand pull forward during COVID, or their growth might slow with the economy, but just on the margin.

Typically, our Strategy outperforms in down markets. So far this year we are slightly underperforming our primary benchmark. It is a function of the market we are in versus previous times. In this market, most all stocks are down and for sale, irrespective of the quality of the businesses or how they are performing near term. There is uncertainty about the near-term outlook of all businesses with these macro conditions. And the relative valuations of our holdings are higher…rightfully, to us, taking into account their superior quality and long-term opportunity…and is the reason they are being punished as the premiums get squeezed and stocks trade less on fundamentals than fear and momentum. This has happened before in bad market stretches. This dynamic notwithstanding, we expect multiple expansion from these levels to take in account quality and long-term opportunity to contribute to outsized returns in the future.

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

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
SiteOne Landscape Supply, Inc.	2016	$5.3	$39.1
Chart Industries, Inc.	2022	6.1	31.7
Progyny, Inc.	2022	2.7	30.3
The Beauty Health Company	2021	1.9	29.6
Sprout Social, Inc.	2022	3.2	28.7

We initiated a position in **Chart Industries, Inc.**, a leading global manufacturer of highly engineered cryogenic equipment used in liquid gas supply chains supporting industrial gas, natural gas, liquified natural gas (LNG), and emerging clean energy end markets. Chart's primary products are heat exchangers and cryogenic storage vessels supported by upfront engineering, service, and repair. CEO Jill Evanko took over a more cyclical fossil-fuel-focused company in mid-2018 and revamped the business by leveraging strong market positioning in key cryogenic technology and deploying strategic capital to create a lean *picks and shovels* supplier serving not only legacy Industrial gas and LNG customers, but also Specialty Markets such as hydrogen, carbon capture, water treatment, and food & beverage. This broader end-market focus has led to several first-of-a-kind orders and customer wins, with an impressive 402 new customers added in 2021. Jill also emphasized and expanded a repair, service, and leasing business with long-term contracts that provide stable recurring revenue streams. Chart maintains high market share given its long history (over 100 years!) of operations, depth and breadth of quality product and solutions (87% of products include Chart's intellectual property), and global operating footprint. Chart is also one of a few companies that can make brazed-aluminum heat exchangers, a key component in liquefaction processes, and has the two largest brazing furnaces in the world.

At its early 2022 investor day, the company released 2025 targets of greater than 17% revenue CAGR and greater than 25% EPS CAGR from 2022 levels, driven principally by LNG and Specialty Markets growth. The world's limited investment in natural gas and LNG infrastructure over the past decade, exposed by the current Russia-Ukraine conflict, and a growing mentality towards *cleaner and greener*, both play into Chart's core capabilities. Within LNG, Chart is benefiting from strong demand for large-scale export terminals, small/utility-scale projects, and infrastructure equipment. Within Specialty Markets, the fastest growing and highest margin segment, global decarbonization and sustainability trends will drive increased hydrogen, carbon capture, and water treatment demand, with segment revenues expected to increase from $433 million in 2021 to upwards of $1 billion over the next several years.

We believe we are buying the stock at a very reasonable multiple of 2023 EBITDA, and that the company can exceed its 2025 targets and continue to grow revenues at a mid- to high single-digit CAGR, and EBITDA at a faster clip through the end of the decade. Given its capital-light manufacturing model, the company will produce meaningful free cash flow (mid-teens % of revenues) to use for strategic M&A and returning capital to shareholders. We believe Chart can compound cash flow at a mid-teens rate through the end of the decade with a demand profile driven more by customers' long-term investment decisions and less by near-term macroeconomic factors, making it a great addition to our Industrials holdings and existing portfolio.

Sprout Social, Inc. provides cloud-based social media management software. Sprout's industry-leading platform empowers businesses of all sizes to leverage social media–Facebook, Twitter, Instagram, LinkedIn, Pinterest, and TikTok–for marketing, customer care, public relations, business intelligence, and collecting product feedback, among other use cases. Brands are increasingly going directly to consumers as more products are purchased online and through social platforms, and recent developments around first party/IDFA are likely to augment this trend. Sprout is the solution to consolidate and centralize the complexity of social channels into an elegant, integrated platform that can be leveraged across an organization. Sprout continues to differentiate its platform through its clean user interface, easy onboarding process, and single code base. The company serves 32,000 customers across 100 countries, and 90% of the leads are inbound with a 30-day free trial, which highlights the value of the product. Recent account wins include IBM Watson, Department of Labor, and Kraft Heinz. Sprout's home-grown, single-code base enables the company to innovate and deliver feature enhancements to all customers at once, a distinct advantage versus others with customized codes, heavy professional services requirements, and long sales cycles. Sprout customers typically spend four to five hours a day on the platform with an annual contract value of just around $7,000. Further, Sprout's deep, integrated network relationships are hard to replicate, and provide the customer ease of use of the product without having to switch modules. The recent TikTok integration highlights the company's speed to market and leadership in the space. Salesforce, Inc. recently decided to sunset its product and exit the market (following Adobe and Oracle), choosing Sprout as its preferred partner. Salesforce's decision is a validation of the company's platform development efforts and domain expertise and provides an installed base of 4,000 large customers for Sprout to convert over the coming years (end of life for Salesforce's product is 2024).

We are attracted to Sprout's recurring SaaS model, which is 99% subscription, cash rich balance sheet, and strong returns on growth investments. The company has grown its customers at a 15% CAGR over the past two years, with growth of 36% total annual recurring revenue, seeing the value of those customers increase as Sprout moves up market and layers on premium products. We believe the business can maintain over 30% per year growth in the coming years, while scaling its operating margins to over 20% and even higher FCF margins over time. We believe the social media management opportunity is underpenetrated today, and the shifting landscape of social media will present new channels and challenges for platforms for Sprout to address, providing a significant runway for customer acquisition and wallet share growth.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Berry Global Group, Inc.	2012	$1.3	$ 7.2	$31.8
SmartRent, Inc.	2021	2.6	0.9	9.8
MaxCyte, Inc.	2021	1.1	0.5	9.6
Inspire Medical Systems, Inc.	2019	1.3	5.0	8.6
Gartner, Inc.	2007	2.2	19.5	7.5

During the quarter, we sold out of **Berry Global Group, Inc.**, a plastic packaging company. The business has struggled to sustain organic EBITDA growth, and M&A, historically a hallmark of value creation, makes little sense at its current valuation. We held the stock for almost 10 years, generating an annualized return of 13.85%. We exited **MaxCyte, Inc.**, an early-stage cell and gene therapy tools company, whose value largely depends on milestone payments and commercialized product revenues of its customers. Reduced biotechnology funding is a near-term headwind. **SmartRent, Inc.** has struggled with sourcing product and supply-chain snafus, and as a result its path to profitability has been pushed out. We sold to harvest a tax loss. **Inspire Medical Systems, Inc.** and **Gartner, Inc.** were trimmed at advantageous prices to manage position sizes.

Outlook

We are writing this report in early July, as earning season is beginning and after the latest CPI report showing consumer inflation accelerated to 9.1% last month, a pace not seen in more than four decades. It is an uncomfortable moment. Inflation is very high, increasing pressure on the Federal Reserve to act aggressively to slow the rapid price increases. However, the economy is slowing, as we expect to hear from corporate executives as they report results. We are not sure how the market will digest the expected cautious outlooks and earnings impacts from foreign exchange conversion with the dollar appreciating.

Concerning inflation, though the headline numbers are alarming, there are real-time signs that inflation is moderating. Commodity prices (e.g., for metals, energy, and agricultural products) have declined significantly off their highs, as have the stocks of companies in those industries. Freight and shipping costs are down a lot. Housing starts have fallen, as mortgage rates have almost doubled. Consumer confidence has plummeted, and we are hearing anecdotal evidence of slowing retail sales. The interest rate on the 10-year U.S. Treasury bond has declined from 3.5% to under 3.0%, though it bounces around. The hot CPI prints are less worrisome because they are backward looking, and there is a plethora of evidence that the slowing economy is taking the edge off inflation big time, which naturally happens in the business cycle. However, the negative is that energy and food prices are high because of the war in Ukraine and geopolitics, which are much more unpredictable and subject to potential increases even in a slowing economy. Plus, the country is short of housing

stock and blue collar workers, so rent and wages will be stickier on the upside than other inflation inputs. These are inflationary pressures not driven by excess demand and are outside of the Fed's ability to address.

Concerning the economy, a slowdown is coming. We don't know its severity or duration. As we speak with our companies, almost all indicate that business remains solid, but they are beginning to see signs of softer orders or sales. With most commentators calling for a recession and their stocks under pressure, they are bracing for softer conditions…some proactively considering expense control and layoffs. Though reported national employment figures remain very strong, with the unemployment rate at a low reading of 3.6%, we hear mixed stories from our portfolio companies. Some companies that operate service businesses and employ blue collar workers are struggling to maintain their workforce and fill openings, which we think is more an issue with the number blue collar workers and their desire to work in those jobs. Other businesses, especially tech and newer digital businesses, will stop hiring or lay off portions of their employees to conserve capital and focus on profitability.

Wall Street analysts are cutting earnings estimates and investment ratings in anticipation of slower growth. That is reasonable and mirrors how we have been thinking. Some of the cuts and opinions seem well reasoned, others more draconian. With stocks down so much, we observe that most of our holdings are trading at low multiples of low estimates. This reflects the great fear and disgust prevalent in the market. This would make sense if we were going to have a deep and long lasting recession, or if additional macro curveballs add future pressure. That is not our present view, so we suspect the bulk of the damage has been done to our investments.

Though the majority of the investment world now seems focused on macro and near-term market timing, we remain primarily focused on fundamentals and the long term. We are in frequent contact with the managements of our companies to understand how they are dealing with the present environment and also their plans to grow and succeed in the future. We always seem to get off the calls excited about the businesses and stocks. We believe our companies will be able to achieve the bright futures and strong earnings that we have been underwriting for them…just that there is a delay in achieving those results because of the slowdown. That is because the businesses we invest in are leaders, are well managed, have significant competitive advantages, and had great business momentum coming into this, which we believe will return as the environment returns to normal. Which it will. When we look at the valuations of our holdings against our expectations of future earnings, we think the stocks are super cheap and can go up multiple fold.

We don't know what will happen in the short term; however, I would point out that we expect stocks to turn around once we are near the end of rising interest rates, even if earnings are under pressure.

Stock multiples will expand first, especially for the high-quality growth companies that we own.

Yes, this has been miserable. We have been living in policy and macro hell. But when the market is most challenged and fear is highest, it is often the level from which to make the best returns over the longer term. As stocks go lower, we are more excited about future returns. We are focused on fundamentals and are investing in businesses in which we have great conviction and alongside executives for whom we have great respect. This has been our approach in other challenging times and has served us well, as we expect it to this time as well.

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.