MICHAEL A. LIPPERT

PORTFOLIO MANAGER

Retail Shares: BIOPX
Institutional Shares: BIOIX
R6 Shares: BIOUX

Dear Baron Opportunity Fund Shareholder:

Performance

After a robust 2020, Baron Opportunity Fund (the "Fund") held firm in the first quarter, advancing 0.88% (Institutional Shares), effectively in line with the Russell 3000 Growth Index, which rose 1.19%, but behind the S&P 500 Index, which increased 6.17%.

Table I.
Performance
Annualized for periods ended March 31, 2021

	Baron Opportunity Fund Retail Shares[1,2]	Baron Opportunity Fund Institutional Shares[1,2,3]	Russell 3000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	0.82%	0.88%	1.19%	6.17%
One Year	104.05%	104.55%	64.31%	56.35%
Three Years	38.25%	38.62%	22.39%	16.78%
Five Years	33.14%	33.50%	20.87%	16.29%
Ten Years	18.06%	18.37%	16.35%	13.91%
Fifteen Years	14.67%	14.91%	12.20%	10.02%
Since Inception (February 29, 2000)	10.47%	10.64%	6.55%	7.25%

Review & Outlook

If a stock market oracle had predicted to me on New Year's Eve 2020, after the Fund finished the year up about 90%, that the Fund would rise another 1% or so in the first quarter, I would have said something like, "fine, makes sense." But, boy, it didn't feel that way.

The performance of the Fund and the market[5] was bit of a wild – volatile – ride during the period. Both rose steadily through February 12th (with the Fund rising more), both retreated through March 8th (with the Fund declining more), and both climbed back (about equally) through quarter's end, finishing pretty much in the same place. This year began as last year ended, with the "digital transformation trade" continuing to lead the market (I'm using quotes because, as our shareholders know, we at Baron Funds don't focus on or try to predict short-term market trades). But then market sentiment flipped, and the prevailing "trade" rotated into value and cyclical-recovery stocks. The dominant themes became the $1.9 trillion stimulus package, the post-COVID pandemic reopening, the 2021 economic recovery, the rise of the 10-year treasury yield, and inflation fears. Fundamentals for our investments remained strong, based on fourth quarter earnings reports and 2021 guidance, but the heightened volatility I just described ensued.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2020 was 1.34% and 1.08%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2031, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month-end, visit www.BaronFunds.com or call 1-800-99BARON.

The Fund's 1Q 2021, 3-, 5- and 10-year historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

1 The indexes are unmanaged. The **Russell 3000® Index** measures the performance of the broad segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The **Russell 3000® Growth Index** measures the performance of those companies classified as growth among the largest 3,000 U.S. companies and the **S&P 500 Index** of 500 widely held large cap U.S. companies. 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 Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. Index performance is not Fund performance; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

5 For purposes of this discussion, I'm using the Fund's primary benchmark the Russell 3000 Growth Index, as the market proxy.

BARON FUNDS 1987

We appreciate most investors would love for the market – and the funds they invest in – to steadily go up and to the right. A proverbial Goldilocks market – not too hot, not too cold. But, as we all know and have experienced, it is unrealistic and not the way it works. The market goes up, sometimes it keeps going up (occasionally too far, too fast), it plateaus or pulls back (every so often, sharp retreats and bear markets), and then it goes up again. But you never know what the market will do next – and it is almost impossible to predict – until you can look back in 20/20 hindsight.

Most investors do not trade these ups and downs beneficially. Ron told a great story about this, and a conversation with his friend Jeffrey, in his September 30, 2020 "Letter from Ron": "If you sell and you happen to be right and you're lucky and stock prices fall sharply, and I then call you to buy back, you won't. That's because you will be too afraid and will miss a great opportunity. On the other hand, if you are wrong and stock prices keep rising, you will say, well I missed it, and you won't buy back either. So, if you sell, you will have replaced great growth investments that are steadily increasing in value with cash that is inexorably losing value."

Ron further emphasized – as I did in many of my letters last year, underpinned by what I have learned over my 20 years at Baron Funds – that we don't have to make "predictions" of "developments that we believe cannot be predicted" to be successful long-term investors on behalf of our shareholders. While many market participants are consumed with the short term and trying to predict what is unpredictable, we "spend our time trying to find terrific, entrepreneurial management teams, many led by founders, who operate competitively advantaged, fast-growing businesses in which we invest for the long term."[6]

We believe market volatility and pullbacks provide great opportunities for longer-term investors, like us. We don't attempt to predict the 10-year yield, whether Congress will pass a large infrastructure bill and major tax reform, or the next cycle of sector rotation. We stay aware of these things, but don't concentrate our research or portfolio management on them. Instead, we focus on the key elements of Ron's quote above; and identifying the powerful and durable secular growth trends that will drive economic growth regardless of short-term economic cycles or stock market gyrations, and the individual companies that are leading or capitalizing on those trends. As I declared last quarter, it "is what we do" and the bedrock of our long-term performance.

On pullbacks, we look for opportunities to improve the quality and return profile of our portfolio. During the quarter, we added to and bought on weakness cloud computing and software names like **Microsoft** (Azure cloud computing, Office 365), **Workday** (human capital/financial management software), **Alphabet** (search, YouTube, cloud computing), **Ceridian** (workforce management/payroll software), **NVIDIA** (AI/ML[7] and accelerated computing chips), **HubSpot** (marketing, sales, and service software), **Twilio** (communications platform software), **ServiceNow** (business workflow-automation software), **Adobe** (creative and marketing software), and **RingCentral** (unified communications software); e-payments leaders, including name brands **Visa**, **Mastercard**, and **PayPal**; e-commerce disruptors, such as **Stitch Fix** (personalized apparel) and **Farfetch Limited** (luxury apparel); genomics pioneer **Guardant Health** (liquid-biopsy genetic cancer diagnostics); and bio-tech innovators, **Arrowhead Pharmaceuticals** (silences genes causing intractable diseases) and **argenx** (life-changing immunology solutions); among others.

Pullbacks occur frequently across the market, sometimes focused on certain industries or verticals. But we believe long-term investing in companies or industries that can grow faster for longer and generate substantial cash flow trumps obsessing about or trying to time such market cycles. Short-term market volatility is typically driven by shifts in investor sentiment reflected in valuation multiples overshooting or undershooting intrinsic value rather than material revisions of long-term growth and profit expectations.[8] Below I will share a few historical examples to provide context for the current environment and the Baron approach.

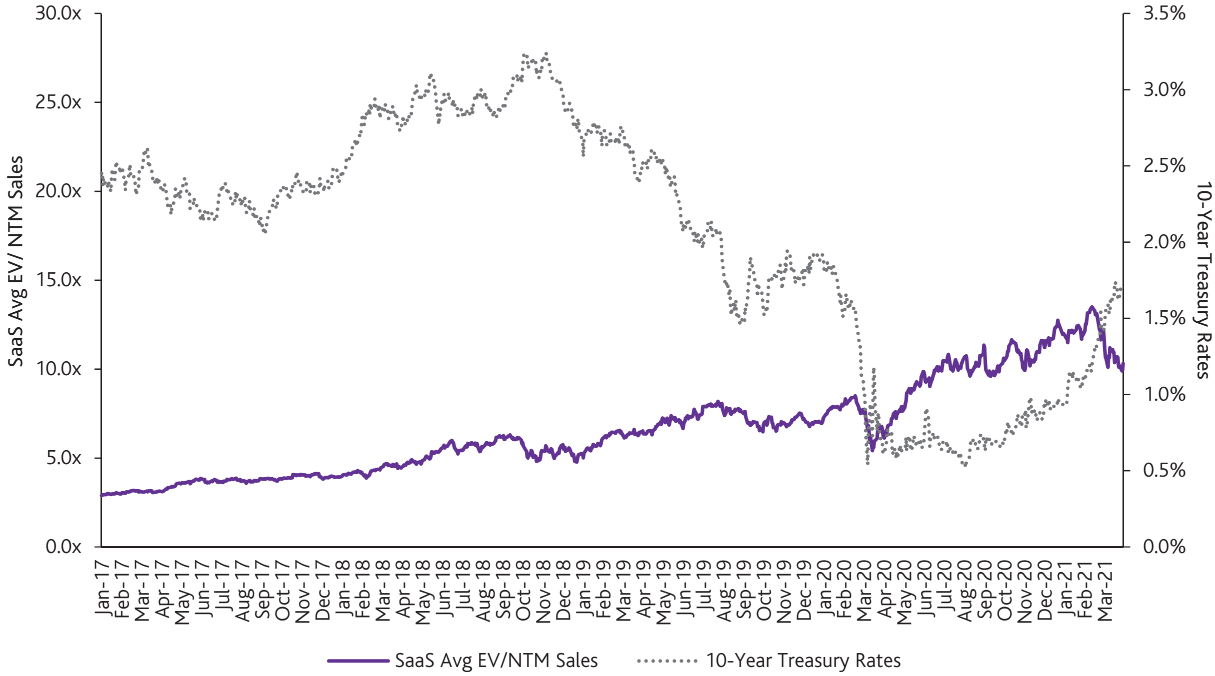
First, a brief synopsis of the current environment. Among other secular growth verticals, the cloud-software group (software-as-a-service or "SaaS") saw stock prices and valuation multiples retreat from their mid-February peaks over the course of the late-February/early-March pullback. Despite resilient software fundamentals, many investors became concerned with the rising 10-year treasury yield and the potential for further rate increases. As any student of discounted cash flow analysis knows, all other things being equal, a higher risk-free rate and thus a higher discount rate generates lower net present value calculations. So, in theory, higher treasury rates should lead to lower multiples, as setting price targets based on valuation multiples is a proxy for DCF calculations. Historically, rates are not the only factor affecting multiples, which are also impacted for any company or industry by other considerations, such as long-term growth and profit expectations. As can be seen from the chart below, sometimes SaaS valuations matched the 10-year rate and sometimes they didn't. The correlation is relatively low.

6 The quotations in the last two paragraphs are from the September 30, 2020 "Letter from Ron."

7 AI = artificial intelligence. ML = machine learning.

8 As I have written in prior quarterly letters, in our internal price target work, we don't shift our targets around based on applying prevailing multiples – which, as I wrote above, often overshoot or undershoot intrinsic value. Instead, we calculate and establish ranges of long-term average or median multiples for sets of comparable companies (reflecting sectors and peer groups), based on and adjusted for our projections of revenue growth rates, profit margins and cash generation at scale, competitive intensity and risks, and other fundamental factors. We establish (and monitor) short- and long-term price targets for our holdings and prospects, utilizing our own internal projections of revenues, earnings, and free cash flow, and what we believe is the appropriate multiple (or tight ranges of multiples) for each company based on the factors cited above. See longer discussion of multiples, valuations, and price targets in our third quarter 2019 letter.

Graph I.
Average SaaS EV/NTM Sales Multiple and 10-Year Treasury Rates



Source: Goldman Sachs.

Rather than economic or political cycles, we believe secular trends, durability of growth, and free cash flow ("FCF") generation at scale are the key factors in long-term growth investing and ultimately stock returns. Here are two historical examples that support our view.

A recent Goldman Sachs report studied software sector pullbacks for the last 20 years, showing 16 group valuation declines that averaged -27%, ranging from a low of -9% to a high of -60%.

Table II.
Software Sector Multiple Pullbacks

	Peak Date	Trough Date	EV/Sales Multiple Decline
2001	7/17/2001	9/27/2001	–37%
2002	1/9/2002	10/7/2002	–50%
2003	1/14/2003	3/11/2003	–12%
2004	1/20/2004	8/12/2004	–22%
2005	1/3/2005	4/28/2005	–23%
2006	4/27/2006	7/13/2006	–19%
2007	2/21/2007	3/13/2007	–13%
2008	6/5/2008	11/20/2008	–60%
2009	1/6/2009	3/9/2009	–20%
2010	4/26/2010	6/30/2010	–15%
2011	7/7/2011	8/19/2011	–26%
2014	3/5/2014	4/11/2014	–32%
2016	1/4/2016	2/9/2016	–35%
2018	1/26/2018	2/8/2018	–9%
2020	2/19/2020	3/16/2020	–37%
2021	2/12/2021	3/8/2021	–27%
Average			–27%

Source: Goldman Sachs.

Yet during that time, measured from the end of the year 2000 through the end of the first quarter of 2021, the Russell 3000 Growth Index Software Industry Group returned 12.91% annualized, above both the overall Russell 3000 Growth Index at 8.25%, and the S&P 500 Index at 7.69%.

Table III.
Software Returns December 31, 2000 through March 31, 2021

	Annualized Returns
Russell 3000 Growth Index Software Industry Group	12.91%
Russell 3000 Growth Index	8.25%
S&P 500 Index	7.69%

The performance data quoted represents past performance. Past performance is no guarantee of future results. Index performance is not Fund performance; one cannot invest directly into an index.

We believe short-term focused investors and consensus often miss the longer-term strength and durability of growth and business-model efficiency (earnings and free cash flow margins) of truly special businesses. An example of this is ServiceNow, a SaaS-industry leader and pioneer, and a long-time Fund investment. As shown in the table below, over the seven years from March 2014 through March 2021, ServiceNow experienced eight multiple declines that averaged –32%, ranging from a low of –19% to a high of –52%.

Table IV.
ServiceNow Multiple Pullbacks

Peak Date	Trough Date	EV/Sales Multiple Decline
3/5/2014	5/9/2014	–40%
4/16/2015	9/30/2015	–26%
12/4/2015	2/8/2016	–52%
11/1/2016	1/2/2017	–19%
9/14/2018	12/24/2018	–27%
7/15/2019	10/23/2019	–33%
2/20/2020	4/3/2020	–31%
2/12/2021	3/18/2021	–24%
Average		–32%

Source: Goldman Sachs.

But during that period, ServiceNow demonstrated compounding revenue performance and stronger operating leverage and FCF generation than expected by consensus. The table below shows the first quarter 2014 projections of one of the top software analysts on the Street, Keith Weiss of Morgan Stanley, versus what ServiceNow achieved.

Table V.
ServiceNow: Morgan Stanley 2014 Model vs. Actual

	Morgan Stanley 2014 Model			Actual			Difference	
	2014	2015	2016	2014	2015	2016	2016	%
Revenue	642	830	1,076	683	1,006	1,391	315	29%
Growth	51.3%	29.1%	29.7%	60.7%	47.3%	38.3%	8.6%	
FCF	33	112	135	85	228	322	186	138%
Margin	5.2%	13.5%	12.6%	12.4%	22.6%	23.1%	10.6%	

Source: Morgan Stanley.

As you can see, over this three-year period, ServiceNow beat revenue expectations by $315 million, or 29%, and generated FCF margins of 23%, trouncing estimates by $186 million, or 138%.The compounding effects of seven years of strong revenue growth and FCF generation drove ServiceNow's share price to increase from $70.03 on March 5, 2014 to $500.11 on March 31, 2021, a 32% annualized return. A 7-bagger!

Table VI.
ServiceNow Prices and Returns

	ServiceNow
March 5, 2014 Stock Price	$ 70.03
March 31, 2021 Stock Price	$500.11
Total Return	7.1x
Annualized Return	32%

The performance data quoted represents past performance. Past performance is no guarantee of future results.

ServiceNow delivered these point-a-to-point-b returns despite the eight multiple pullbacks described above, including the one that occurred towards the end of the first quarter. The power of faster-for-longer, cash-generative business models.

Of course, we want to find more ServiceNows – not to mention Alphabets, Amazons, Equinixs, Teslas, CoStars, all of which we still own in the portfolio – and other successful long-term investments. We believe our powerful and sustainable secular growth themes are the right hunting grounds. As I emphasized in my letters over the last year, our research and management conversations have convinced us that the structural "digital-transformation" changes accelerated by the pandemic on top of the secular tailwinds already in place will drive durable growth for many more years. We believe long-term durable growth is often underestimated by the market. Let me highlight the digital trend of cloud software, following the discussion above, which we believe is emblematic of the trends and opportunities we see across our portfolio and the themes listed below.

Piper Sandler has issued two reports this year showing the historical growth and future "exceptional" market opportunity of the 70 largest cloud-software businesses, including its Cloud Titans of Microsoft Cloud, Amazon Web Services, Google Cloud, and Salesforce. The following chart summarizes their findings and future projections.

Summary | Entering the Next Cloud Era = Growth at Scale

	2010	2020	2030
Cloud software (XaaS) **Cloud industry**	**$4B** (n=13)	**$220B** (n=70)	**$1,133B** (n=70)
% of enterprise stack spending **Penetration rate**	**0.3%**	**13%**	**43%**
Number of $10B+ scale models **Revenue >$10B+**	**0**	**5** MSFT, AMZN, CRM, GOOGL, ADBE	**19** MSFT, AMZN, CRM, GOOGL, ADBE, SAP, SHOP, NOW, SNOW, ORCL, WDAY, SQ, TWLO, ZM, ADSK, TEAM, CRWD, OKTA, DOCU
Microsoft, AWS, Google, Salesforce **Cloud Titan Revenue**	**$2B** (n=4) **$1.6B Salesforce** $0.3B Google Cloud $0.1B Amazon AWS $0.1B Microsoft Cloud	**$139B** (n=4) **$59B Microsoft Cloud** $46B Amazon AWS $21B Salesforce $13B Google Cloud	**$689B** (n=4) **$305B Microsoft Cloud** $215B Amazon AWS $85B Google Cloud $83B Salesforce

Source: Corporate Reports, FactSet, Piper Sandler Estimates

As you can see, over the last decade, the cloud industry has grown from $4 billion to $220 billion. Few sectors this large are growing as fast, with 2020 growth coming in at 30%. While cloud growth and adoption has been quite strong, it is still early as cloud software has only reached 13% penetration of the enterprise stack (defined as spending across software, data center systems, and IT services). Piper Sandler forecasts cloud adoption to reach 43% of the enterprise stack by 2030, and for the cloud industry to achieve revenues of $1.1 trillion, a compound annual growth rate of 18%. Moreover, Piper Sandler projects 19 companies to achieve $10 billion revenue scale by 2030 versus 5 today. We have significant cloud-software investments across our portfolio, including Microsoft (Azure cloud computing, Office 365), Alphabet/Google (cloud computing, ML/AI), **Amazon** (Amazon Web Services), **ZoomInfo** (business-to-business marketing data/analytics/ intelligence), RingCentral (unified communications-as-a-service), Ceridian (workforce management/payroll), **Guidewire** (property and casual insurance core systems), Workday (HR/ financial systems), Adobe (creative/marketing clouds), ServiceNow (business automation solutions), **Snowflake** (data cloud), and **CrowdStrike** (cloud/ endpoint cyber security).

We remain convinced that our investments and themes, many of which thrived and proved vital over the last year, will be even stronger when the "new normal" world takes shape. The pandemic – and the consumer and business reactions to it – merely accelerated the changes underway from the last few decades of innovation, technology disruption, and digital transformation. The world is not going back. The human law of inertia is as inescapable as gravity. Change is hard, but once we do change, whether forced or voluntary, and see that change is better, we seldom return to the way things were before. We invest with an eye towards where the world is going, not where it has been.

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

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

By investing in businesses capitalizing on these potent trends, we have been able to build portfolios that have revenue growth rates that are multiples of the general economy, as reflected in broad market indexes. Below we compare the revenue growth rates of our Fund and three indexes for the trailing four quarters for which we have reliable data:

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

	Actual Q4 2020	Actual Q3 2020	Actual Q2 2020	Actual Q1 2020
Baron Opportunity Fund	31.2%	24.8%	18.3%	18.6%
S&P 500 Index	2.8%	–1.3%	–9.5%	–1.8%
Russell 3000 Index	2.7%	–1.7%	–10.4%	–1.2%
Russell 3000 Growth Index	13.5%	9.3%	1.4%	8.7%

Source: BAMCO and FactSet.

Table VII.
Top contributors to performance for the quarter ended March 31, 2021

	Percent Impact
Tripadvisor, Inc.	1.06%
Alphabet Inc.	0.64
Pacific Biosciences of California, Inc.	0.54
Microsoft Corporation	0.41
Rivian Automotive, Inc.	0.29

Tripadvisor, Inc., an online travel company on whose website users can browse reviews and plan trips, outperformed during the quarter following a renewed consumer interest in travel and several company specific developments. Tripadvisor is in the early stages of further monetizing its traffic by rolling out a travel-focused subscription offering named Trip Plus. Investors believe that Trip Plus might represent not only a strong value proposition to consumers, but the most important new revenue and profit growth driver for the company going forward. We discuss our conviction in Tripadvisor's long-term opportunity in further detail in Top Purchases section below.

Alphabet Inc., the parent company of Google, is discussed further in the Review and Outlook section above and the Top Purchases section below. Google is the world's largest search and online advertising company, and a top cloud computing player. Shares rose in the quarter on strong fourth quarter results that saw solid revenue growth of 23% and expanding operating margins. Search grew 17%, YouTube grew 46%, and total cloud revenue grew 46%, with Google cloud computing meaningfully ahead. CEO Sundar Pichai began the earnings call with this statement: "The past year…accelerated the shift to cloud and adoption of online services. This has profound implications for all companies and consumers….Google's products…have been a lifeline for millions of small, medium businesses hit hard by the pandemic."

Pacific Biosciences of California, Inc. provides long-read DNA sequencing systems to help scientists conduct genetic analysis. Shares performed well during the quarter. We believe there is increasing excitement about the potential for its platform to move beyond research into clinical applications. During the quarter, Softbank made a $900 million investment in PacBio, giving the company more than $1 billion in firepower to invest in its platform and drive scale. Recently appointed CEO Christian Henry previously served as CFO and Chief Commercial Officer at Illumina, Inc., and we think he is well qualified to commercially execute on PacBio's differentiated long-read platform.

Microsoft Corporation is a cloud-software Titan, and also discussed further in the Review and Outlook section above and the Top Purchases section below. Microsoft was a top contributor in the period because it trades at reasonable FCF and earnings valuations, has cloud and digital transformation tailwinds at its back, and reported an excellent December quarter, beating Street expectations by a wide margin. Microsoft's results were strong across the board, with accelerating trends in Azure cloud computing and solid growth in its overall commercial cloud businesses. Azure accelerated to 48% constant-currency ("cc") revenue growth from 47% the quarter before, and commercial cloud grew 32% cc, ahead of Street estimates at 26%. Microsoft's profitability was also a significant beat, with operating income coming it at $17.9 billion, almost $3 billion ahead of Street estimates. Microsoft's March quarter guidance also outstripped Street projections, with revenue growth of 16.5% versus the Street at 10.6%, and operating income over $1 billion ahead. CEO Satya Nadella began the earnings call with this proclamation: "What we are witnessing is the dawn of a second wave of digital transformation sweeping every company and every industry. Digital capability is key to both resilience and growth … Microsoft is powering this shift with the world's largest and most comprehensive cloud platform … I'm energized by our increasing momentum and the expanding opportunity fueled by the structural change brought about by the rapid adoption of digital technology."

Rivian Automotive, Inc. is a private investment that we added to the portfolio during the second half of 2020. The company designs, manufactures, and sells consumer and commercial electric vehicles ("EVs") that share a similar underlying architecture. As electrification of the global automotive fleet is still in its infancy, we expect multiple winners and believe Rivian is well positioned for success. Beyond secular EV tailwinds, Rivian should be able to capitalize on its unique and strategic partnerships, particularly with Amazon. Amazon is both Rivian's largest outside investor and a significant anchor commercial customer, announcing it will buy 100,000 short-haul delivery EVs from Rivian in the coming years. By leveraging such large orders and operating in both the commercial and consumer vehicle segments, we believe Rivian will be able to scale rapidly, benefitting vehicle unit economics, allowing rapid data collection, and enabling efficient utilization of its expanding service, charging, and delivery networks. We have also been impressed with the Rivian management team, led by founder and CEO R.J. Scaringe, which combines people with experience in both the traditional automotive and innovative technology sectors. We value Rivian based on recent transactions and a proprietary valuation model, driving the recent price appreciation.

Table VIII.
Top detractors from performance for the quarter ended March 31, 2021

	Percent Impact
RingCentral, Inc.	–0.46%
QuantumScape Corporation	–0.39
Guidewire Software, Inc.	–0.38
Ceridian HCM Holding Inc.	–0.30
Arrowhead Pharmaceuticals, Inc.	–0.27

RingCentral, Inc. provides global cloud communications solutions across multiple channels (voice, video, and messaging). Despite continued solid execution with revenue acceleration, RingCentral's stock corrected during the quarter as the market rotated out of fast-growing cloud-software stocks. In its December quarter, RingCentral's subscription revenue expanded almost 34%, and its annualized recurring revenue metric accelerated to 35% growth. With its distribution advantage and the pandemic crystalizing the need for a communications platform that is agile, scalable, and global, RingCentral remains early in penetrating its addressable market, which we think should drive sustainable growth for years to come. CEO and Founder Vlad Shmunis began the December quarter earnings call as follows: "2020 was a transformational year. The global pandemic is fundamentally changing how businesses operate…[M]any businesses are preparing for hybrid work environments. They are planning for some workers in the office and some at home for the foreseeable future. If companies adapt to this new work from anywhere norm, digital transformation of business communications will become more critical. Enabling this transformation, our cloud-based communication solutions. This is essential to enabling employees to productively engage with customers, partners and peers from anywhere on any device and on any mode." We added to our RingCentral position during the quarter.

QuantumScape Corporation is an early-stage developer of solid-state battery technology for electric vehicles aimed at improving key aspects of batteries, including safety, charging times, energy density, and cost. The company went public via a SPAC in November. After rapid appreciation, the stock came under pressure when the company raised additional capital to help accelerate its commercialization process. We exited our small position, as described below.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** detracted from performance as shares of growth cloud-software stocks lagged. The company is near the midpoint of its cloud transition, which should correspond with improving financial results. Despite short-term headwinds, we believe Guidewire has tripled its addressable market through new products and cloud delivery, and it will become the critical 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%.

Ceridian HCM Holding Inc., a leader in payroll and workforce management cloud-software, detracted on concerns that increased pandemic-related mobility restrictions will slow the rate of employment recovery in its customer base. We expect its SaaS Dayforce product to generate rapid revenue growth, leading to meaningful margin expansion, improved free cash flow conversion, and rapid deleveraging. We are also excited about the potential for Dayforce Wallet, which will allow employees access to earned wages on a real-time basis rather than the traditional two-week pay cycle. On its December quarter earnings call, CEO David Ossip expressed confidence that Ceridian's "sales pipeline [was] very strong" and that "by the second half of 2021, …Dayforce recurring revenue growth (excluding float revenue) will return to pre-COVID-19 levels above 25%." We added to our Ceridian position during the quarter.

Arrowhead Pharmaceuticals, Inc. is a developer of RNAi-based therapeutics for a host of genetic disorders primarily focused on the liver with eventual planned expansion into treatments for the lung, muscle, and tumors. The stock declined in conjunction with the general market rotation from growth into value and the unwind in biotechnology stocks. There were no real fundamental events for Arrowhead in the quarter and we retain conviction as we expect more significant activity later in the year. We added to our Arrowhead position during the quarter.

Portfolio Structure

The Fund invests in secular growth and innovative businesses across all market capitalizations, with the bulk of the portfolio landing in the large-cap zone. The Fund is categorized as Large Growth by Morningstar. As of the end of the first quarter, the largest market cap holding in the Fund was $1.8 trillion and the smallest was $321 million. The median market cap of the Fund was $20.7 billion.

The Fund had $1.55 billion of assets under management. The Fund had investments in 76 securities. The Fund's top 10 positions accounted for 35.8% of net assets.

Fund inflows, which accelerated during 2020, remained solidly positive during the first quarter.

Table IX.
Top 10 holdings as of March 31, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$1,778.2	$136.4	8.8%
Alphabet Inc.	1,392.6	80.2	5.2
Amazon.com, Inc.	1,558.1	75.1	4.8
Tripadvisor, Inc.	7.3	53.5	3.4
Tesla, Inc.	641.1	45.4	2.9
Facebook, Inc.	838.7	36.3	2.3
ZoomInfo Technologies Inc.	19.1	36.1	2.3
Pinterest, Inc.	46.5	33.5	2.2
Visa, Inc.	467.8	31.8	2.0
PayPal Holdings, Inc.	284.4	29.1	1.9

Recent Activity

Table X.
Top net purchases for the quarter ended March 31, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Microsoft Corporation	$1,778.2	$36.8
Tripadvisor, Inc.	7.3	34.6
Workday, Inc.	60.4	17.2
Alphabet Inc.	1,392.6	16.4
BridgeBio Pharma, Inc.	9.2	16.2

We continued adding to our **Microsoft Corporation** position during the quarter. Microsoft is a software and computing Titan, which has successfully pivoted from the legacy client-server and PC era to today's world of digital transformation and cloud. As described above, Microsoft sits among the cloud leaders with its Azure infrastructure and platform-as-a-service offerings, and by porting its dominant Office suite of desktop solutions to the cloud via its SaaS products (Office 365, Dynamics 365, and Teams). Microsoft remains well-positioned to benefit from cloud growth for many years to come.

Tripadvisor, Inc. is the world's largest travel platform, with over 460 million unique monthly visitors to its travel sites and approaching 1 billion customer reviews on hotels, restaurants, and experiences. Tripadvisor's revenues and profitability were materially impaired by the pandemic, and the company is a clear travel recovery play. More importantly, we believe there are a series of positive changes underway at the company that are underappreciated by the broader market. The company is testing its newly announced Tripadvisor Plus subscription, which provides consumers with discounts and perks at more than 100,000 hotels, as well as exclusive savings on hundreds of thousands of bookable experiences. Management believes many subscribers will save more than the $99 annual subscription on their first vacation booking. We have seen similar subscription products drive high-quality recurring revenue and strong customer loyalty at companies like Amazon and DoorDash. For every 2% of its 460 million monthly unique visitors that subscribes to Plus, Tripadvisor can add nearly 10 million subscribers and about $1 billion in high-margin recurring subscription revenue. We are further encouraged by the high level of involvement of Liberty Tripadvisor Holdings Vice Chairman and Tripadvisor board member Greg O'Hara, who helped us build conviction in the Tripadvisor Plus subscription strategy. We believe O'Hara's contributions go well beyond the traditional board member or investor in that he brings specific industry relationships and expertise to bear, both in the short and long term. Finally, Tripadvisor made $250 million of fixed and discretionary cost reductions in 2020, most of which will be permanent. We believe these savings will help drive a faster-than-expected recovery to pre-pandemic operating cash flow levels. At bottom, we think Tripadvisor is well positioned to better monetize its industry-leading traffic with Plus, which we view as a favorable, margin-accretive transition in the business model.

Workday, Inc. is the undisputed market leader in human capital management ("HCM") cloud software, with adoption of its financial management solutions steadily ramping. With about half of the Fortune 500 as HCM customers, Workday is the 800-pound gorilla in the space. Workday has evolved and expanded its financial management product strategy over the past few years, including the addition of planning, procurement, and analytics to its suite, as well as the recent introduction of Accounting Center. This versatile product suite has positively impacted Workday's ability to penetrate HCM customers with elements of its broader set of financial management solutions. At about 20% to 30% of its revenue mix today, growth in the financial management segment will be the key driver for the next five years to help Workday sustain, or even accelerate, the overall growth of the company and drive substantial operating leverage.

We added to long-term holding **Alphabet Inc.**, parent company of Google, due to the continued positive trends across its search, YouTube, and cloud computing businesses. Google is a Titan in all three of these key business lines. We believe Alphabet is attractively valued on its consolidated earnings and cash flow streams, which penalizes the company for its investments in Google Cloud and Waymo autonomous driving, but even more so on a sum-of-the-parts basis.

BridgeBio Pharma, Inc. is a biotechnology company developing a portfolio of breakthrough medicines for genetic diseases and cancers with genetic drivers. BridgeBio operates with a decentralized corporate structure in which each program is housed in its own subsidiary. Management believes this enables a team of experts who are economically incentivized at the program level to make key operational decisions, thereby making the development process more efficient. In addition, by focusing on drugs that target well-characterized genetic diseases at their source, the company increases its probability of success compared with other therapeutic categories. As evidence of the platform's ability to deliver, there are four late-stage trials and a small commercial opportunity expected to readout or launch in 2021, just six years after the company's founding. We expect the number of key value-creating pipeline candidates to keep increasing every year going forward.

Table XI.
Top net sales for the quarter ended March 31, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Pacific Biosciences of California, Inc.	$ 6.4	$16.6
Splunk, Inc.	21.9	12.1
Opendoor Technologies Inc.	12.2	11.5
QuantumScape Corporation	19.2	11.1
Vertex Pharmaceuticals Incorporated	55.9	9.1

The sales of **Pacific Biosciences of California, Inc.** and **Opendoor Technologies Inc.** were both trims for position-sizing purposes after orders-of-magnitude type stock returns over the last year for these investments. We continue to believe both companies are disruptive innovators with open-ended long-term opportunities.

We concluded it was prudent to trim **Splunk, Inc.** to a smaller position as it experienced a couple of challenging quarters last year and withdrew its long-term guidance, raising concerns that we are carefully researching.

We sold **QuantumScape Corporation**, an early-stage solid-state electric vehicle battery innovator, because it was an undersized position with an ambitious valuation. We will continue to monitor QuantumScape's developments and may revisit the company as an investment at a future point in time.

We sold **Vertex Pharmaceuticals Incorporated** to fund other biotechnology investments, including those discussed above.

To conclude, I remain confident in and committed to the strategy of the Fund: durable growth based on powerful, long-term, innovation-driven secular growth trends. In the highly unpredictable times we live in – both during this crisis and in the "new normal" hopefully just around the corner – we believe non-cyclical, sustainable, and resilient growth should be part of investors' portfolios.

Sincerely,

Michael A. Lippert
Portfolio Manager

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Risks: The Adviser believes that there is more potential for capital appreciation in securities of high growth businesses benefiting from innovation through development of pioneering, transformative or technologically advanced products or services, but there also is more risk. Companies propelled by innovation, including technological advances and new business models, may present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. Securities issued by small and medium sized companies may be thinly traded and may be more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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