Baron Small Cap Growth Strategy

September 30, 2022

Dear Investor:

Performance

Baron Small Cap Growth Strategy declined 1.73% during the quarter ended September 30, 2022. The strategy trailed its primary benchmark, the Russell 2000 Growth Index (the "Benchmark"), which rose 0.24%. The S&P 500 Index, which measures the performance of publicly traded large-cap U.S. companies, declined 4.88% during the period. Persistently high inflation led most central banks to continue aggressive interest rate increases that weighed on equity returns.

Stocks have declined significantly on a year-to-date basis. While our performance is largely in line with our Benchmark, we have continued to generate positive relative results from stock selection, which is the focus of our fundamentally oriented investment process. Despite growing fears of a macroeconomic slowdown, the businesses in which we have invested have continued to report robust financial results while also reinvesting back into their businesses to pursue long-term growth. We think that the combination of attractive long-term growth outlooks and increasingly compelling valuations positions our portfolio for attractive compound returns over time.

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

	Baron Small Cap Growth Strategy (net)[1]	Baron Small Cap Growth Strategy (gross)[1]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	(1.73)%	(1.50)%	0.24%	(4.88)%
Nine Months[2]	(30.96)%	(30.48)%	(29.28)%	(23.87)%
One Year	(26.41)%	(25.73)%	(29.27)%	(15.47)%
Three Years	6.32%	7.30%	2.94%	8.16%
Five Years	9.67%	10.68%	3.60%	9.24%
Ten Years	11.35%	12.38%	8.81%	11.70%
Fifteen Years	8.55%	9.57%	6.82%	8.03%
Since Inception[3] (December 31, 1982)	12.48%	13.71%	7.58%	11.11%

Global markets continued their declines during the third quarter. The S&P 500 Index's 23.87% year-to-date decline represents its third-worst performance at this point of a year since 1931, according to Bloomberg. The Benchmark was approximately flat in the third quarter, while the MSCI ACWI ex USA Index, which measures stock performance across 46 different global markets, declined 9.91%.

For strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of September 30, 2022, total Firm assets under management were approximately $36.0 billion. The strategy is a time-weighted, total-return strategy of all small-cap accounts as of calendar quarter-end managed using our standard investment process. Since 2010, accounts in the strategy are market-value weighted and are included on the first day of the month following one full month under management. Prior to 2010, accounts were included on the first day of the quarter after one full quarter. Gross performance figures do not reflect the deduction of investment advisory fees 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 separately managed accounts managed by BCM, one mutual fund (Baron Growth Fund since 1999) and two sub-advised accounts managed by BAMCO. Baron Asset Fund was added to the strategy in 1987 and was removed in 1999.

BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies or a GIPS-compliant presentation please contact us at 1-800-99BARON.

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 The indexes are unmanaged. **The Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth and the **S&P 500 Index** 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 are with dividends, which positively impact the performance results.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is December 31, 1994.

Global equities were adversely impacted by a hawkish outlook from the Federal Reserve, which is aggressively raising interest rates to combat persistently elevated inflation. The Federal Reserve has raised its benchmark Federal Funds Rate by 3% through September 30, driving the yield on 10-year Treasury bonds above 4% for the first time in over a decade. Higher U.S. interest rates have correspondingly boosted the dollar's attractiveness versus international currencies. Year-to-date through September 30, the dollar has risen approximately 21% versus the British pound, 16% versus the euro, and 26% versus the yen. Investors have actively debated how this combination of higher interest rates, elevated core inflation, and a stronger dollar will impact global GDP in the short term. International developments, such as the ongoing war in Ukraine and September's sudden change in the U.K.'s fiscal policy also moved to the front of investors' minds, further muddling an already uncertain outlook.

We do not employ discrete macroeconomic forecasts to construct or manage our portfolio. We believe that the $100 trillion global economy is far too complex, too interdependent, and too contingent on external factors such as geopolitics for us to reliably predict macroeconomic developments. Additionally, when such forecasts occasionally prove accurate, outcomes may already be reflected in equity prices. Instead, we focus on identifying and researching well-managed unique businesses with significant barriers to entry and compelling growth prospects, investing in them at attractive prices, and holding them for the long term.

The businesses in which we have invested have continued to report strong financial results despite growing concern of a slowdown. We believe this is a result of the powerful and durable secular drivers that are benefiting the businesses in which we have invested. For example, **CoStar Group, Inc.**, a leading provider of real estate information, analytics, and marketplaces, reported near-record net new sales in its most recently reported quarter. Its quarterly net new sales grew a remarkable 62% year-over-year, and trailed only the 65% growth generated in the prior quarter. **Iridium Communications Inc.**, a provider of global communications via its low-earth orbit satellite constellation, reported that growth in its recurring services revenue was 8.8% during its most recently reported quarter. Iridium's growth is benefiting from increased demand for communications services in regions of the world that lack terrestrial network coverage, as well as the emerging Internet of Things. Simulation software pioneer **ANSYS, Inc.** reported annual contract value growth of over 13.4% on a constant currency basis, a meaningful acceleration from over 11.0% in the prior quarter. ANSYS is benefiting from growing adoption of simulation software to design, develop, and optimize ever-more complex products and systems. Finally, excess & surplus lines (E&S) insurer **Kinsale Capital Group, Inc.** grew its written premiums by 44% in its most recently reported quarter. The robust expansion of the overall E&S market, which is driven by strong pricing and the migration of standard risks away from the admitted market, has propelled Kinsale's growth.

Our investments have also continued to exercise their pricing power, with pricing realization accelerating over the course of the year. Most recently, insurer Kinsale reported benefiting from average prices that are rising at a low-teens percentage versus last year. This premium rate growth is higher than Kinsale's claim loss growth, leading to enhanced profitability. Veterinary diagnostic leader **IDEXX Laboratories, Inc.** realized a global 4% price increase during the first half of the year and elected to raise prices in the U.S. by an additional 4% to 5% in August. Scale and analytical instrument vendor **Mettler-Toledo International, Inc.** reported 4% price increases in the first quarter, 4.5% in the second quarter, and currently expects to raise prices by 5% in the second half of the year. Finally, child-care provider **Bright Horizons Family Solutions, Inc.** raised prices by 5% to 6% to begin 2022, and opportunistically went back to certain markets to adjust prices again over the summer. Despite the above-trend price increases taken during 2022, we expect all these businesses to implement their traditional annual price increase in early 2023.

While we have not observed a slowdown in macroeconomic conditions, we recognize that the business cycle has valleys as well as peaks. We have observed that negative economic cycles frequently create multi-year growth opportunities for well-managed, competitively advantaged businesses. Such businesses continue to invest in critical areas such as R&D, sales, and product development regardless of the macroeconomic backdrop. They accommodate customers, which creates loyalty and goodwill and enhances lifetime value. This is a stark contrast to sub-scale, poorly capitalized, or less well-managed businesses. Such businesses frequently cut costs critical for future growth too deeply, lose focus on servicing their customers, or experience financial distress. When conditions subsequently normalize, we find that weaker competitors have folded or have been acquired, and survivors are better positioned than ever to take advantage of their resiliency and expand market share.

We have also observed that well-capitalized, well-managed businesses participate in opportunistic M&A during downturns. Valuations for assets have been reset this year, and sub-scale or over-leveraged businesses will find that sources of capital are presently expensive and scarce. We think that strategic acquirers with robust balance sheets will be attractive buyers. We have already had several conversations with management teams boasting robust balance sheets that have been fielding large numbers of inbound M&A calls. Most recently, CoStar seized on its addition to the S&P 500 Index to enhance its already stellar balance sheet, and now boasts almost $5 billion of cash on hand to deploy. An M&A cycle may take some time to play out as potential sellers remain anchored to last year's valuations, but we expect strategic M&A to be a compelling use of capital for many of our portfolio companies.

Table II groups our portfolio based on our assessment of the attributes that best characterize each investment. While this does not perfectly correlate to the Global Industry Classification Standard, the industry standard nomenclature, we believe it provides added transparency into our thought process.

Table II.[1]
Total returns by category for the three months ended September 30, 2022

	% of Net Assets (as of 9/30/2022)	Total Return (%)	Contribution to Return (%)
Disruptive Growth	**11.4**	**1.13**	**0.14**
Iridium Communications Inc.	5.6	18.13	0.74
Northvolt AB	0.3	2.16	0.01
ANSYS, Inc.	3.5	–7.35	–0.24
Farmers Business Network, Inc.	0.2	–7.84	–0.02
Guidewire Software, Inc.	1.0	–13.26	–0.12
Altair Engineering Inc.	0.5	–15.77	–0.08
Pegasystems, Inc.	–	–22.02	–0.08
Figs Inc.	0.2	–25.12	–0.07
Financials	**39.3**	**0.58**	**–0.04**
Kinsale Capital Group, Inc.	4.1	11.28	0.32
FactSet Research Systems, Inc.	7.7	4.25	0.16
Primerica, Inc.	3.0	3.55	0.06
MSCI, Inc.	10.4	2.56	0.21
Arch Capital Group Ltd.	6.6	0.11	–0.06
Cohen & Steers, Inc.	1.9	–0.80	–0.04
Houlihan Lokey, Inc.	0.5	–3.85	–0.02
Essent Group Ltd.	0.3	–9.87	–0.03
Morningstar, Inc.	3.2	–12.21	–0.37
Moelis & Company	0.2	–12.92	–0.03
The Carlyle Group Inc.	0.7	–17.73	–0.13
SS&C Technologies Holdings, Inc.	0.6	–17.83	–0.11
Real/Irreplaceable Assets	**24.5**	**–2.51**	**–0.51**
Marriott Vacations Worldwide Corp.	2.4	5.33	0.07
Red Rock Resorts, Inc.	0.9	3.37	0.02
Vail Resorts, Inc.	6.9	–1.11	–0.05
Choice Hotels International, Inc.	5.2	–1.68	–0.07
Gaming and Leisure Properties, Inc.	3.8	–2.11	–0.06
Alexandria Real Estate Equities, Inc.	1.7	–2.52	–0.04
Boyd Gaming Corporation	0.3	–3.92	–0.01
OneSpa World Holdings Limited	0.0	–9.40	–0.00
PENN Entertainment, Inc.	2.2	–9.58	–0.17
American Assets Trust, Inc.	0.1	–12.39	–0.01
Douglas Emmett, Inc.	1.0	–18.71	–0.20
Core Growth	**25.3**	**–4.50**	**–0.97**
CoStar Group, Inc.	5.9	15.30	0.67
Gartner, Inc.	6.7	14.42	0.60
Mettler-Toledo International, Inc.	1.2	–5.64	–0.08
IDEXX Laboratories, Inc.	3.0	–7.14	–0.14
Bio-Techne Corporation	3.5	–18.02	–0.63
West Pharmaceutical Services, Inc.	2.0	–18.57	–0.38
Trex Company, Inc.	0.9	–19.34	–0.15
Littelfuse, Inc.	0.2	–21.59	–0.04
Dechra Pharmaceuticals PLC	0.3	–31.13	–0.11
Bright Horizons Family Solutions, Inc.	1.1	–31.81	–0.40
Marel hf.	0.2	–31.93	–0.08
BrightView Holdings, Inc.	0.2	–33.83	–0.06
Neogen Corp.	0.3	–42.01	–0.16
Cash	**–0.5**	**8.29**	**0.00**
Fees	**–**	**–**	**–0.28**
Total	**100.0***	**–1.63****	**–1.63****

Sources: FactSet PA, BAMCO, and FTSE Russell.

* *Individual weights may not sum to the displayed total due to rounding.*

** *Represents the blended return of all share classes of the Strategy.*

Our investments in **Financials**, **Core Growth**, and **Real/Irreplaceable Assets** represent between 24% and 40% of the Strategy's net assets, and aggregate to 89% of net assets. The remaining 11% of net assets is invested in businesses that we consider to be **Disruptive Growth** businesses, which we believe offer greater growth potential, albeit with more risk relative to other investments. We believe this balance appropriately reflects our goal to generate superior returns over time with less risk than our Benchmark.

Financials have garnered increasing attention from the market given this year's dramatic change in interest rates. While we have chosen to make significant investments in businesses that are classified as Financials, this is not a function of a view on interest rates, credit spreads, or capital ratios. Instead, approximately 60% of our Financials investments are technology-enabled market data vendors, and the remaining 40% of our Financials exposure includes sustainably differentiated P&C carriers or unique advisory businesses. While we consider these investments Financials, their success is not dependent on GDP growth or interest rates, and they do not assume any credit risk. All share the attractive characteristics that we value in our investments, which include large addressable markets, positive secular trends, sustainable competitive advantages, attractive business models underpinned by recurring revenue, annual price increases, robust free-cash-flow generation, and best-in-class management teams.

[1] With the exception of contributors and detractors, most of the ensuing data through the end of the letter 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.

These attributes have enabled our investments to generate robust business growth, and attractive compound returns, in both falling and rising rate environments. For example, our three largest Financials investments are **MSCI, Inc.**, **FactSet Research Systems, Inc.**, and **Arch Capital Group Ltd.**, and we have owned these positions for 14.9 years, 15.9 years, and 20.5 years, respectively. During this period, yields on 10-year Treasuries have fluctuated in a 5% range, from a trough around 0.52% to a peak around 5.36%. Despite rates both rising and falling, MSCI has grown its revenue by a factor of 6.6 times since we first invested, FactSet's has grown by a factor of 3.9 times, and Arch Capital's has grown by a factor of 2.7 times. This has driven shares of MSCI to compound at 21.6% annualized since our initial purchase, FactSet to compound at 15.1%, and Arch Capital to compound at 14.5%, all meaningfully ahead of our Benchmark. We believe it is the growth of these competitively advantaged businesses, not changing interest rate dynamics, that has driven their equity returns. We are optimistic that these three companies, like the entirety of our portfolio, will continue to generate robust growth despite inevitable fluctuations in interest rates, and offer compelling risk-adjusted returns.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Iridium Communications Inc.	2014	$0.6	$ 5.6	18.13%	0.75%
CoStar Group, Inc.	2004	0.7	28.3	15.30	0.67
Gartner, Inc.	2007	2.3	21.9	14.42	0.61
Kinsale Capital Group, Inc.	2016	0.6	5.9	11.28	0.32
MSCI, Inc.	2007	1.8	34.0	2.56	0.22

Shares of **Iridium Communications Inc.**, a leading satellite-based mobile voice and data communications services vendor, rose after it announced a related development agreement with a smartphone manufacturer, potentially creating a new revenue stream for the company. In addition, Iridium reported record quarterly results showing an acceleration of revenue growth with strong profitability. Lastly, growth initiatives including Aireon, an award from the Space Development Agency, and faster Certus speeds continue to progress.

Shares of real estate data and marketing platform **CoStar Group, Inc.** contributed to performance on strong financial results and its inclusion in the S&P 500 Index. We believe the company is well positioned to benefit from the continuing migration of real estate market spend to online channels. CoStar is investing aggressively to build out its residential marketing platform, which will launch later in 2022 and offers significant upside potential, in our view. CoStar has over $4.7 billion of cash on its balance sheet, which we expect it to begin to deploy for opportunistic M&A.

Shares of **Gartner, Inc.**, a provider of syndicated research, contributed to results. Business conditions remained strong, with Gartner's research business compounding at double-digit levels. We expect sustained revenue growth and renewed focus on cost control to drive margin expansion and enhanced free cash flow generation. The company's balance sheet is in excellent shape and can support aggressive repurchases and bolt-on acquisitions, in our view.

Shares of specialty insurer **Kinsale Capital Group, Inc.** increased after the company reported quarterly results that exceeded analyst estimates. Gross written premiums grew 43% and EPS grew 51%. Market conditions remain favorable, with rising premium rates and more business shifting from the standard lines market to the excess and surplus lines market where Kinsale operates. We continue to own the stock because we believe Kinsale is well managed and has a long runway for growth in an attractive segment of the insurance market.

Shares of **MSCI, Inc.**, a leading provider of investment decision support tools, contributed to performance. Despite the negative impact of broad market weakness, which has hurt MSCI's asset-based fee revenue in particular, the company reported solid earnings results, and the underlying business continued to perform well. We retain long-term conviction as MSCI owns strong, "all weather" franchises and remains well positioned to benefit from numerous secular tailwinds in the investment community.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Bio-Techne Corporation	2009	$2.1	$11.1	–18.02%	–0.63%
Bright Horizons Family Solutions, Inc.	2013	1.8	3.3	–31.81	–0.40
West Pharmaceutical Services, Inc.	2013	2.3	18.2	–18.57	–0.38
Morningstar, Inc.	2005	0.8	9.0	–12.21	–0.37
ANSYS, Inc.	2009	2.3	19.3	–7.35	–0.24

Bio-Techne Corporation is a leading developer and manufacturer of reagents, instruments, and services for the life sciences research, diagnostics, and bioprocessing markets. Short-term headwinds, including COVID-related lockdowns in China, foreign currency exchange rates, and some pull forward of sales into the prior quarter ahead of a price increase, pressured shares. We view these headwinds as temporary and continue to have conviction that Bio-Techne can generate strong long-term growth.

Bright Horizons Family Solutions, Inc. is the leading U.S. provider of corporate-sponsored childcare. Shares fell as labor shortages exacerbated the time needed to backfill center enrollment lost during COVID. While we believe full enrollment recovery is a matter of when, not if, it now appears that this recovery will occur sometime in 2023 as opposed to the year-end 2022 target. Margins will also remain pressured as wage hikes to attract new teachers outpace tuition increases. Despite near-term headwinds, we remain bullish on this high-quality company.

West Pharmaceutical Services, Inc. detracted from performance. West manufactures components and systems for the packaging and delivery of injectable drugs. The stock fell on investor concerns about a decline in the company's COVID-related revenue due to a drop in vaccine demand and a slowdown in the shift to single use vials and syringes. Once COVID-related revenue stabilizes, we believe the stock will perform well driven by healthy fundamentals in the ex-COVID base business.

Morningstar, Inc., a provider of independent investment research, detracted in the quarter due to multiple short-term headwinds. Market volatility has caused a slowdown in asset- and transaction-based revenue, while margins were pressured by an increase in merit-based compensation. Finally, there is investor concern that license revenue could decline if clients implement headcount reductions. We remain confident in Morningstar's ability to grow organically despite the difficult near-term macro environment.

ANSYS, Inc. is a leading provider of physics-based simulation software. Despite an upbeat analyst day and results that exceeded analyst estimates, shares got caught up in the broader sell-off of software stocks. The risk that ANSYS' customers will cut back on software purchases in a moderating macro environment, thus pressuring its large deals cadence and growth profile, also weighed on shares. Despite these short-term challenges, we think ANSYS will benefit from secular trends, differentiated products, and strategic customer relationships in the long term.

Recent Purchases

This quarter the Strategy made an initial investment in **Figs Inc.**, a fast-growing disruptor of the global health care apparel industry. The company was founded in 2013 to design and sell scrub wear to health care professionals using a digitally native direct-to-consumer (DTC) strategy. It has since expanded to offer additional non-scrub offerings, such as lab coats, underscrubs, outerwear, activewear, loungewear, compression socks, and footwear.

We believe that Figs' technical product innovation and digital DTC capabilities position it to disrupt the traditional health care apparel market. Prior to Figs, health care workers purchased highly commoditized scrubwear through an antiquated distribution network. Figs has broken this dynamic by selling directly to consumers, thereby engaging with its customers in authentic and meaningful ways. Eliminating the wholesale channel frees up financial resources for Figs to reinvest into its products, which it has used to engineer a product set with highly differentiated function and style. Additionally, since customer interactions all happen digitally, Figs collects a unique data set that provides a sustainable competitive advantage in product design and customer acquisition.

We believe these competitive advantages have resulted in high customer loyalty and strong first order retention rates, which are presently running at around 50%. Additionally, the finite life of scrubwear and the physically taxing nature of most health care jobs creates a natural reorder cycle that provides Figs with a level of baseline revenue visibility. The combination of these factors has enabled Figs to maintain best-in-class customer acquisition costs even as the company has experienced exponential growth.

We believe that Figs serves a vast and growing addressable market that will allow it to generate durable revenue growth over time. The Health Care sector is benefiting from attractive long-term secular growth trends, driven by an aging population, longer expected average life spans, and growing intensity of care. According to the U.S. Bureau of Labor Statistics, overall domestic health care employment is expected to grow around 13% this decade, or almost twice the rate of overall national employment growth. Today, Figs has two million active customers, or less than 10% of the estimated 21 million health care professionals in the U.S. Figs is presently laying the groundwork to expand internationally, which we believe could increase the addressable market by four to five times. We also expect Figs to expand spending per customer from growing its product set in professional, activewear, and loungewear, providing–an additional growth vector that is showing early signs of traction.

This quarter's purchase of Figs is representative of our disciplined investment process and focus on purchasing competitively advantaged businesses at attractive prices relative to their long-term opportunities. Figs came public in May of 2021 at $22 per share and soared to $50 per share after its first month of trading. Over the subsequent 15 months, the stock declined from $50 to $8.25 as of September 30 as market multiples contracted and Figs wrestled with post-COVID headwinds including supply-chain challenges and normalizing consumer purchasing behaviors. While the stock has declined, our level of conviction in the company's long-term opportunity has increased through iterative due diligence and repeated management meetings on both coasts. We believe that the market's focus on short-term headwinds has enabled us to purchase shares at particularly compelling prices relative to Figs' long-term potential.

Portfolio Structure And Investment Strategy

We seek to invest in businesses with attractive and durable fundamental characteristics. These attributes include competitive advantages, large and growing addressable markets, and favorable secular tailwinds. We favor business models that have high levels of recurring and predictable revenue, generate attractive incremental margins, are cash generative, and are not dependent on third-party financing. We exclusively invest with management teams that we believe are exceptional and that consistently reinvest in their businesses in pursuit of long-term profitable growth. We apply an iterative and holistic research process to verify, refine, or refute our assessment of these businesses and our expectations for durable growth over time.

We hold investments for the long term. As of September 30, 2022, the weighted average holding period of the Strategy was 15 years. This is dramatically longer than most other small-cap growth strategies, which, according to Morningstar, turn over about 71% of their portfolios annually. The portfolio's 10 largest positions have a weighted average holding period of 16.5 years, ranging from a 5.8-year investment in **Kinsale Capital Group, Inc.** to investments in **Choice Hotels International, Inc.** and **Vail Resorts, Inc.** that now both exceed 25 years. We have held 22 investments, representing 76.3% of net assets, for more than 10 years. We have held 12 investments, representing 21.8% of net assets, between 5 and 10 years. We have owned an additional nine investments, representing 2.4% of net assets, for less than 5 years. We believe that Table V and Table VI quantify the merits of our long-term holding philosophy.

Table V.
Top performing stocks owned more than five years

	Year of First Purchase	Cumulative Total Return Since First Date of Purchase
Choice Hotels International, Inc.	1996	2,209.6%
IDEXX Laboratories, Inc.	2005	2,163.7
MSCI, Inc.	2007	1,744.1
CoStar Group, Inc.	2004	1,639.5
Arch Capital Group Ltd.	2002	1,492.9
Mettler-Toledo International, Inc.	2008	1,402.8
Vail Resorts, Inc.	1997	1,241.1
Gartner, Inc.	2007	1,149.7

The cohort of investments that we have held for more than five years earned an annualized rate of return of 17.3% based on weighted average assets since we first purchased them. This exceeded the performance of the Benchmark by 9.4% annualized. Seven of these investments have achieved annualized returns that exceeded the Benchmark by more than 10% per year, including three that have achieved annualized returns that exceeded the Benchmark by more than 15% per year and one that has exceeded the Benchmark by more than 40% annually. The subset of this cohort that we have held for more than 10 years has compounded at a similar 15.8% based on weighted average assets and exceeded the Benchmark by 7.9% annualized.

Table VI.
Top performing stocks owned less than five years

	Year of First Purchase	Cumulative Total Return Since First Date of Purchase
Altair Engineering Inc.	2017	141.5%
Houlihan Lokey, Inc.	2017	103.7
Northvolt AB	2020	90.0

The cohort of investments that we have held for less than five years has returned 8.8% annually based on weighted average assets since our initial purchase and exceeded the Benchmark by 8.0% annualized. Three of these investments have achieved annualized returns that exceeded the Benchmark by more than 10% per year, including two that have achieved annualized returns that exceeded the Benchmark by more than 15% per year.

Portfolio Holdings

As of September 30, 2022, the Strategy had 43 investments. The top 10 holdings represented 62.7% of net assets. All were small-cap businesses at the time of purchase and have become top 10 positions mostly through stock appreciation. Our holdings in these stocks have returned 18.6% annually based on weighted average assets since our initial investment, exceeding the Benchmark by a weighted average of 11.8% annually. We attribute much of this relative outperformance to the superior growth rates and quality exhibited by these businesses relative to the Benchmark average. We believe all our positions offer significant further appreciation potential individually, and that the Strategy's diversification offers potentially better-than-market returns with less risk than the market as measured by beta. Note that diversification cannot guarantee a profit or protect against loss.

While we only purchase small-cap companies, we tend to hold stocks as long as our investment thesis remains intact and we see a path to earning attractive compounded returns. This causes the Strategy to own a significant percentage of assets in securities that have appreciated beyond their market capitalizations at the time of purchase. The Strategy's median market cap is $5.2 billion, and its weighted average market cap is $14.9 billion. This compares to Morningstar's U.S. market cap breakpoints for small- and mid-cap strategies of $5.9 billion and $33.5 billion, respectively, as of September 30, 2022.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
MSCI, Inc.	2007	$1.8	$34.0	$653.8	10.4%
FactSet Research Systems, Inc.	2006	2.5	15.2	480.1	7.6
Vail Resorts, Inc.	1997	0.2	8.7	431.3	6.9
Gartner, Inc.	2007	2.3	21.9	422.0	6.7
Arch Capital Group Ltd.	2002	0.4	16.8	415.3	6.6
CoStar Group, Inc.	2004	0.7	28.3	367.4	5.8
Iridium Communications Inc.	2014	0.6	5.6	350.5	5.6
Choice Hotels International, Inc.	1996	0.4	6.1	325.8	5.2
Kinsale Capital Group, Inc.	2016	0.6	5.9	255.4	4.1
Gaming and Leisure Properties, Inc.	2013	4.2	11.4	238.9	3.8

Respectfully,

Ronald Baron
CEO and Lead Portfolio Manager

Neal Rosenberg
Co-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: The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. The Strategy may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.