Baron Global Advantage Strategy

December 31, 2023

Dear Investor:

Performance

Baron Global Advantage Strategy® (the Strategy) was up 15.70% during the fourth quarter, compared to the 11.03% gain for the MSCI ACWI Index (the Index) and the 12.74% gain for the MSCI ACWI Growth Index, the Strategy's benchmarks. For the year, the Strategy finished up 29.17% compared to gains of 22.20% and 33.22% for the benchmarks, respectively.

Table I.

Performance for annualized periods ended December 31, 2023 (Figures in USD)†1

	Baron Global Advantage Strategy (net)[2]	Baron Global Advantage Strategy (gross)[2]	MSCI ACWI Index[2]	MSCI ACWI Growth Index[2]
Three Months[3]	15.70%	15.94%	11.03%	12.74%
One Year	29.17%	30.18%	22.20%	33.22%
Three Years	(14.31)%	(13.62)%	5.75%	3.66%
Five Years	10.50%	11.38%	11.72%	14.58%
Ten Years	9.90%	10.44%	7.93%	10.06%
Since Inception (May 31, 2012)[4]	12.42%	12.89%	10.06%	11.83%

Table II.

Calendar Year Performance 2019-2023 (Figures in USD)

	Baron Global Advantage Strategy (net)[2]	Baron Global Advantage Strategy (gross)[2]	MSCI ACWI Index[2]	MSCI ACWI Growth Index[2]
2019	45.71%	46.77%	26.60%	32.72%
2020	79.71%	81.19%	16.25%	33.60%
2021	0.86%	1.70%	18.54%	17.10%
2022	(51.70)%	(51.32)%	(18.36)%	(28.61)%
2023	29.17%	30.18%	22.20%	33.22%

Equity markets started with a strong January and a solid first quarter, amid generally gloomy predictions and an unrelenting Fed continuing its tightening cycle. It got modestly better in the spring and early summer as the Fed signaled that a 0.25% hike in July was likely its last. We divested during the fall when investors recognized that a robust economy implied a prolonged period of elevated interest rates. Ending the year on a high note, we experienced a strong finish, with the prevailing sentiment suggesting a soft landing. The MSCI ACWI Index achieved an impressive 22.2% gain, marking its most notable performance since 2019 and ranking as the third-best in the past ten years. However, the journey wasn't without its challenges. Within the Index, China was down 11.2% for the year, while

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 December 31, 2023, total Firm assets under management are approximately $43.1 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of a U.S. mutual fund, a SICAV fund, a Collective Investment Trust, and sub-advised accounts managed by BAMCO. The Strategy invests mainly in growth companies of all sizes located throughout the world. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). GIPS is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report. To receive a complete list and description of the Firm's Strategies please contact us at 1-800-99-BARON.

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

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

1 With the exception of performance data, most of the data is based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

2 The **MSCI ACWI Index** measures the equity market performance of large and midcap securities across developed and emerging markets, including the United States. The **MSCI ACWI Growth Index** measures the performance of large, mid and small cap growth securities across developed and emerging markets, including the United States. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Strategy include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. The index performance is not Strategy performance; one cannot invest directly into an index.

3 Not annualized.

4 The Strategy has a different inception date than its underlying portfolio, which is 4/30/2012.

Hong Kong was down 14.8%. Giant-cap stocks rose 28.9%, while mid-caps only gained 15.0%, and small-cap stocks were up just 7.3%. The U.S. ended the year at 62.5% of the Index, versus the Strategy at 46.1%, and outperformed. While we maintain a bottom-up investment philosophy, the prevailing market conditions were not conducive to our value identification process, requiring a more cautious and selective approach.

In terms of quarterly performance attribution, strong stock selection in Information Technology (IT) was the primary driver, contributing 5.11% to relative returns. Ten out of our thirteen IT holdings gained at least 20% each, solidifying this sector's positive impact. We also benefited from positive stock selection in Financials, driven by **Block** and **Adyen's** respective surges of over 70%. However, these gains were partially offset by weak stock selection in Consumer Discretionary, Health Care, and Industrials, detracting a combined 4.11%. Sector allocation also played a role, contributing 2.31% due to an overweight position in IT and the absence of exposure to Energy and Consumer Staples.

For 2023, performance attribution was unlike anything we have seen before. All of the Strategy's outperformance came from sector allocation, which contributed 10.94% to relative returns and was offset by stock selection, which detracted 7.62%. This was heavily skewed by the multiple write-downs of our three private investments – **Think & Learn**, **Farmers Business Network**, and **GM Cruise**, which combined accounted for over 100% of the negative stock selection. India-based Think & Learn was also the reason why we underperformed in emerging markets, which was offset by outperformance in developed markets, as well as other investments (Argentina). Having significantly reduced our exposure to China over the past few years, we are currently not invested in the country at all. This is also a first since the inception of the Strategy. Ironically, this is the closest to consensus that we perceive our views on China to be. We have been addressing the China conundrum since the government crackdown on Alibaba and the cancellation of the Ant Financial IPO in November 2020. The situation worsened as regulators targeted the technology and education industries, leading to the eradication of after-school tutoring companies. Additionally, escalating geopolitical tensions with the U.S. and the impending dispute over Taiwan's future heighten the likelihood of permanent capital losses, in our view. While we are not entirely comfortable with the consensus view, we require compelling reasons to adopt a contrarian stance. Unfortunately, at this moment, we cannot identify any such reasons. It is essential to note that our decision to refrain from investing in China currently does not imply a permanent stance, and we remain open to reconsidering if the conditions improve, presenting suitable opportunities.

We had many big winners in 2023. From a company-specific perspective, we had 25 gainers against 16 detractors. Six of our investments more than doubled in price, while seven more were up between 50% and 100%. **NVIDIA**, **MercadoLibre**, **Shopify**, **CrowdStrike**, **Cloudflare**, and **Tesla** contributed over 2.00% each to absolute returns, while **Snowflake**, **Datadog**, **Zscaler**, **ASML**, **InPost**, and **SpaceX**, added between 1.00% and 2.00% each. This strong performance was partially offset by five large detractors, which detracted at least 1.00% each, three of which were private investments mentioned earlier that were revalued lower.

Decision making and learning from mistakes

We have written a lot in the past about the importance of making good decisions and exercising good investment judgment. When we broke it down, it came to creating conditions that are necessary to enable good investment judgment. In one word – it was balance. A balance between having the courage of conviction to see an investment through versus the flexibility to acknowledge a mistake. Balance arrogance to believe in our divergent view with humility to understand that our perspective could be wrong. The ability to imagine an incredibly exciting future for our portfolio businesses (and the world) versus being grounded in the reality of the world as it is. Since the beginning of the COVID-19 disruption creating and maintaining balance has been more challenging. While mistakes are definitionally unavoidable, we work hard on minimizing the frequency and the impact of mistakes. We strive to prioritize humility and flexibility, consistently searching for evidence that challenges our views. We remain vigilant against biases, making ongoing adjustments as we learn and evolve in our pursuit of improvement, aiming to gain a bit more wisdom each day.

We operate in an environment of incomplete information and high uncertainty with a wide range of investment outcomes. It is not obvious that all bad outcomes are necessarily a result of poor decision making. In this way investing is akin to poker. At its core, poker revolves around managing your chip stack, essentially your capital allocation. We're oversimplifying a bit, but the primary goal of the game is to place a significant portion of your money into the pot when the odds are most favorable. A skilled poker player can calculate the likelihood of forming a winning hand with a reasonably high level of certainty, considering the perceived strength of the opponents. Subsequently, they evaluate whether the current price, either received or given, to continue with the hand justifies allocating more capital. For instance, if there's a 33.3% (or 1 in 3) chance of creating a winning hand, the player needs to win at least $2 for every $1 invested to break even. Therefore, consistently putting more money in when the pot odds exceed 2:1 proves to be a profitable strategy over the long run. Conversely, folding or losing money over the long term is inevitable if the pot odds are lower. In this analysis, we're simplifying matters by excluding implied odds. Even novice players would likely call a bet offering 20:1 or 10:1, recognizing it as a favorable opportunity. However, it's crucial to understand that even with the right decision, you'll still lose two out of three hands in this scenario. Accepting this element of randomness and learning effective risk management (using tools like the Kelly Criterion) is key to honing your poker skills.

Investing presents a unique obstacle compared to games like poker. In poker, probabilities can be definitively assessed and verified after each hand. In contrast, accurately gauging probabilities in the investment world is considerably more challenging. This inherent subjectivity adds an extra layer of complexity to learning from decision-making, particularly when outcomes hinge on probabilistic events. Take, for example, a biotechnology company with an estimated 80% chance of success in a crucial trial. Success promises a 50% increase in the company's value, while failure (a 20% probability) could lead to a 50% decline. Mathematically, this scenario appears attractive for capital allocation, boasting a highly positive expected value (0.8 * 50% + 0.2 * -50% = 30%).

However, whichever scenario materializes, it will be challenging for us to know whether our probabilities are right.. This challenge is further amplified by the binary nature of most investment decisions. Unlike poker, where numerous hands offer opportunities to refine probability assessments, investing presents a "one-shot" scenario. We experience only the realized outcome, making it difficult to discern whether our estimated probabilities were accurate or simply succumbed to unforeseen random events. In essence, the inability to definitively verify our probability assessments in investing creates a significant hurdle in learning from our decisions. Distinguishing between a poor decision leading to a bad outcome and simply experiencing an unfortunate event despite a sound decision becomes nearly impossible. This lack of clear feedback loops impedes our ability to refine our investment strategies and ultimately achieve long-term success.

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

	Percent Impact
Shopify Inc.	2.79%
MercadoLibre, Inc.	2.57
Endava plc	1.95
NVIDIA Corporation	1.55
Snowflake Inc.	1.47

The way in which an investor defines risk is another factor that, on the one hand, helps long-term investors make better risk-adjusted decisions, but, on the other hand, makes it more challenging to identify mistakes. While most market participants define and measure risk as volatility of stock prices, long-term investors could take advantage of volatility by thinking about risk differently. We define risk as the probability of a permanent loss of capital. The market certainly knows how to price volatility, but not necessarily a permanent loss of capital. In allocating capital, we attempt to ensure we get an appropriate reward for every unit of that risk. Because our calculus is different, it results in greater volatility on average for the stocks we tend to invest in.

This can be seen through the Strategy's higher beta since its inception, as well as high idiosyncratic volatility. Greater volatility makes it even more challenging to identify mistakes.

With this preamble, some of our bad outcomes can be attributed to poor decision making with a higher degree of confidence than the others. Here is a list of some of these mistakes and lessons learned in order of conviction:

- Notably increasing the number of investments in late 2020 and through 2021 in response to unpalatable valuations in large pockets of the Strategy was a mistake. It was a tough set up, and allocating significant inflows to 90% of quality for 50% of the price was not unreasonable per se, but it required a change in the process and quite possibly a different skill set. Most of these investments ended up performing worse than higher quality businesses since then, even though the higher quality companies were more expensive. What's worse, the resultant dilution in the sizes of positions in these higher quality investments cost us when they started recovering this year. Great investors do not hit more singles or doubles than ordinary investors do. They hit more grand slams. We have become more vigilant in guarding against over-diversification.

- We were too slow to sell when the probability of a likely thesis change dictated action over inaction. Each investment is like a puzzle. Different pieces are missing in different puzzles. Our process is deliberately slow and is built on collecting and analyzing as much information as possible and building conviction over time. In a highly stressful environment with a wide range of outcomes, a recognized lack of balance with emotions running high, postponing "bad decisions" is often the correct course of action except when there is evidence of a potential or likely thesis change on the negative side in a bear market. We were often too slow and too timid in running for the exit. For instance, consider the case of **ZoomInfo**, a business-to-business (B2B) sales data and software provider. We erred in selling the stock too gradually, as we failed to fully grasp the degree to which the company had excessively sold unused licenses to its customers. This intensified the deceleration in demand, creating a whiplash effect as the license inventory was depleted later on, resulting in a significant slowdown in revenue growth.

- Few decisions felt more satisfying than selling Meta (formerly Facebook) in late 2021, just before it missed its third-quarter targets and downgraded its future outlook. The stock price then took a massive hit, plummeting from the $350s to the $80s over the next year. However, our success with Meta was short-lived. Despite recognizing the enduring value of platform businesses with vast ecosystems and powerful network effects, we not only failed to buy back Meta when it dipped, but also compounded the error by selling Alphabet and Amazon in 2022. We justified those decisions by arguing that these companies were transitioning from innovative pioneers to mature value propositions, as their core businesses (digital advertising and e-commerce) reached saturation and faced increasing competition. We also believed our other holdings, with their longer growth runways, would capitalize on similar tailwinds to a greater extent. In hindsight, we underestimated the extent to which both customers and investors gravitate towards the most established and stable platforms during periods of uncertainty. Not owning any Amazon, Meta, Alphabet, Microsoft, or Apple certainly did not help our returns in 2023.

These decisions, while resulting in recent negative outcomes, could have led to positive results under different market conditions, access to additional information, or alternative timing. Regardless, we view them as valuable learning opportunities that will contribute to stronger investment decision-making in the future.

Shopify Inc. is a cloud-based software provider for multi-channel commerce. Shares rose 42.8% in the fourth quarter and finished the year up 124.5% on strong financial results with growth in gross merchandise value (GMV) of 22% year-over-year, revenue growth of 25%, and non-GAAP operating margins surpassing 15% (up 19% year-over-year). The company also hosted a well-attended Investor Day in which it shared a variety of data points showcasing growing success in new segments in which it historically has been less well known, such as enterprise, B2B, and offline commerce. The company's continuously improving product, revamped go-to-market strategy, and the lapping of the large COVID cohorts also helped the company add more merchants to its platform in the last year than in the prior two. Existing Shopify merchants also continue to outperform the overall market. Lastly, the company provided data on the rapid adoption of new offerings, with its emerging products category growing at a 71% CAGR from 2019. We remain shareholders due to Shopify's strong competitive positioning, innovative culture, and long runway for growth, as it still holds less than a 2% share of the global commerce market.

MercadoLibre, Inc., Latin America's leading e-commerce company, contributed to performance in the fourth quarter with shares rising 23.9% and closing the year up 85.7% after reporting third quarter earnings that beat Street expectations across the board. It had 59% constant-currency year-over-year growth in GMV, 69% growth in commerce revenues, 121% growth in total payments volume, and a 7.20% increase in operating margins year-over-year. The company is generating above-market GMV growth across its major Latin American markets and is increasingly outperforming its peers in e-commerce, particularly in Brazil thanks to its broad selection and differentiated logistics capabilities, which enable the company to deliver items faster than its competitors. Over the last several quarters, MercadoLibre has also benefited from product innovation in fintech and solid underwriting in the growing credit business, which we believe will drive continued margin expansion and earnings growth as e-commerce in the region continues maturing over the next decade.

Endava plc provides outsourced software development for business customers. Shares followed through on last quarter's positive momentum after lagging for most of 2022 and the first half of 2023, rising 35.8% in the fourth quarter and finishing the year in positive territory, up 1.8%. Macroeconomic uncertainty has weighed on client demand and revenue growth, but management expects a meaningful rebound early in 2024 supported by a growing pipeline of large projects from newer clients. Margins should expand alongside faster revenue growth as the company leverages upfront costs to build capacity in anticipation of an expected recovery. The company has been acquisitive and is benefiting from vendor consolidation. We remain investors because we believe Endava will continue gaining share in a large global market for IT services.

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

	Percent Impact
Think & Learn Private Limited	–1.76%
GM Cruise Holdings LLC	–1.29
argenx SE	–1.01
BILL Holdings, Inc.	–0.82
Bajaj Finance Limited	–0.41

Think & Learn Private Limited, the parent entity of Byju's – the Learning App, detracted during the quarter. Weak performance was driven by a marked slowdown in business momentum as COVID-related tailwinds that benefited online/digital education have begun to dissipate. The Strategy made an investment in Think & Learn in early 2021 as part of a private round of financing. As India's largest edtech player, the company has a significant opportunity to benefit from structural growth in online education services in the country.

GM Cruise Holdings LLC offers autonomous driving software and a fleet of vehicles aimed at reducing costs and improving the safety of transporting people and goods. Our position was revalued lower after the company lost its autonomous operating license in California. Despite achieving significant milestones over the past year, including completing millions of fully autonomous miles with passengers in various states and cities, an October incident involving a pedestrian in San Francisco prompted the California DMV to rescind the company's license. The regulator cited concerns about incomplete incident information disclosure. Consequently, this triggered a near-complete cessation of operations and key management changes at Cruise, as General Motors, the majority shareholder, charts a new course for the organization and its capital needs. While we strongly believe the life-saving technology achieved through the autonomous revolution holds immense value for both investors and society at large, the path to recovery for Cruise remains uncertain at this juncture, which is reflected in our valuation framework.

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares fell 22.6% in the quarter, though they still closed the year up 0.7%, on the back of failed clinical trials in immune thrombocytopenic purpura and pemphigus vulgaris that called into question the breadth of FcRn's treatment applicability. While the exact nature of these data sets is nuanced and not thesis-breaking, in our view, there are now real questions for the FcRn space that have not existed in the narrative for years. On the positive side, the strong launch of Vyvgart, with early sales tripling consensus expectations and global approvals coming earlier than guided, should continue to drive revenue growth and justifies a defensible valuation based on cash flow analysis. We expect 2024 to be another year of solid performance, with many catalysts including readouts in myositis, Sjogren's syndrome, multifocal motor neuropathy, and argenx's subcutaneous formulation launch. We believe that positive readouts within those trials and others would expand argenx's opportunity set and therefore remain shareholders.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level having the most significant roles in determining the size of each individual investment. Sector and country weights are an outcome of the stock selection process and are not meant to indicate a positive or a negative "view."

As of December 31, 2023, the top 10 positions represented 60.2% of the Strategy, and the top 20 represented 87.7% (this compares to 45.9% and 73.0% at the end of 2022, respectively). We ended 2023 with 34 investments compared to 41 at the end of 2022, and 57 at the end of 2021.

Our investments in the IT, Consumer Discretionary, Industrials, Financials, and Health Care sectors, as classified by GICS, represented 100.0% of the Strategy's net assets. Our investments in non-U.S. companies represented 54.1% of net assets, and our investments in emerging markets and other non-developed countries (Argentina) totaled 26.8%.

The Strategy's active share was 96.2% compared to 94.2% on average over the last three years, and its 3-year average turnover was 12.4% compared to its 13.1% average over the last five years.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
MercadoLibre, Inc.	$ 79.5	$63.3	9.2%
NVIDIA Corporation	1,223.2	62.9	9.2
Shopify Inc.	100.2	53.4	7.8
Endava plc	4.5	46.1	6.7
Snowflake Inc.	65.5	36.4	5.3
Cloudflare, Inc.	28.0	32.4	4.7
Space Exploration Technologies Corp.	–	31.8	4.6
Tesla, Inc.	789.9	30.1	4.4
Coupang, Inc.	28.9	29.3	4.3
Bajaj Finance Limited	54.4	27.5	4.0

Table VI.
Percentage of securities by country as of December 31, 2023

	Percent of Net Assets
United States	46.1%
Argentina	11.5
Netherlands	8.0
Canada	7.8
United Kingdom	6.7
India	6.4
Korea	4.3
Israel	4.1
Poland	2.4
Brazil	2.2
Spain	0.7

Recent Activity

During the fourth quarter, we added to one investment – the leading freelancing platform **Fiverr** as we took advantage of continued weakness in its share price to increase our position. We also reduced 22 positions and sold 2 investments, digital services provider **EPAM** and Chinese local services provider **Meituan**, in order to meet investor redemptions.

Table VII.
Top net purchases for the quarter ended December 31, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Fiverr International Ltd.	$1.0	$0.8

Fiverr International Ltd. is the leading two-sided online freelance marketplace, offering a platform that connects businesses with freelancers across a variety of functions, from web design to digital marketing, computer programming, and inventory management. The stock has been weak due to a complex macro environment driving small businesses, who represent the majority of Fiverr's buyers, to cut down on freelancing spending. This recent trend was exacerbated by investor fears that Generative AI (GenAI) would disrupt various freelancing jobs. While we agree that some freelancing functions are more exposed to artificial intelligence (AI) disruption than others (logo design for example), we believe Fiverr's diverse platform as well as new incremental demand from AI-related work, would minimize the potential negative impact from GenAI. In our view, macro conditions are behind the recent deceleration in the company's revenue growth. However, the fact that growth decelerated at the same time as GenAI adoption began gaining steam, created a bearish narrative for the stock. In our view, Fiverr's current stock price overly discounts that risk and offers an extremely attractive risk-reward equation for long-term investors. Over 20% of the company's market cap is in net cash, the stock is trading at approximately an 8% free-cash-flow yield, and management continues to make rapid progress on margin expansion; EBITDA margins are expanding from 7.2% in 2022 to 16.3% in 2023 based on the company's mid-point guidance.

Table VIII.
Top net sales for the quarter ended December 31, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
MercadoLibre, Inc.	$ 79.5	$11.2
Snowflake Inc.	65.5	9.6
EPAM Systems, Inc.	17.3	9.5
NVIDIA Corporation	1,223.2	9.4
Meituan Inc.	529.5	7.6

As mentioned above, we exited investments in **EPAM Systems, Inc.** and **Meituan Inc.** during the quarter in order to meet investor redemptions and reallocate into ideas in which we see a more positively skewed risk/reward profile for the long term.

Outlook

Seth Klarman, the renowned value investor and CEO of the Baupost Group, once said, "Macro is like sports-talk radio. Anybody can do it." Debating whether the economy will grow by 1% or 2% (or not at all), whether interest rates will remain at 5 ½% or decrease to 4 ½%, or deliberating on three rate cuts versus six – these discussions are enjoyable for equity investors; we engage in them as a form of recreation. However, it is essential to recognize that this macro-level analysis is significantly more challenging than identifying a company that is misunderstood and whose stock is mispriced. In the latter case, being wrong about various aspects still allows for the potential of achieving an attractive return over the long term.

When will the Fed start cutting rates? How aggressive will it be in 2024? Will the economy have a soft landing or a hard one? What are the implications of the upcoming elections? How about the ongoing wars in Europe and the Middle East or the evolving geopolitical conflict with China? How big could GenAI be? What are the implications of GenAI on digitization, cloud adoption, IT spending, and broader economies? What are the implications for employment? Which industries are at an increased risk of disruption?

Though we have a view on many of these important topics, we do not have the answers. The range of outcomes continues to be extremely wide, creating a challenging environment for investors. Since we are not macro investors or sports-talk radio hosts, we stick to focusing on high-quality businesses with durable competitive advantages and large and growing addressable markets that create innovative solutions for their customers and that are managed by exceptional people.

From the 30,000-foot view, our companies have reported improving business trends as 2023 progressed.

Most of our portfolio companies have seen stabilization and modest improvement in short-term business fundamentals as the year progressed. More importantly in our view, many have been able to drive significant improvement in long-term key performance indicators (KPIs) such as share gains, expansion of total addressable market, and improvement in unit economics. These KPIs are significantly more meaningful in driving the intrinsic values of our businesses, which we believe have increased noticeably during 2023. In the meantime, disruptive changes that we expect will benefit many of our businesses have also continued to pick up steam. Some examples include:

- The inflection in GenAI: While a company like **NVIDIA** is a clear beneficiary of GenAI, as its hardware and software solutions are used to train and run GenAI models, we believe that GenAI has the potential to benefit many of our other businesses as well.

  This trend should be a tailwind for many of our businesses that enable or benefit from digitization such as the cybersecurity platform, **CrowdStrike**, the infrastructure and application monitoring platform, **Datadog**, the data platform, **Snowflake**, or the digital IT service providers **Endava** and **Globant**.

- Market share gains: Many of our portfolio companies have been reporting on customer consolidation trends and rising win rates against competitors. In their most recent quarterly conference call, **Datadog** described a customer who consolidated seven different tool providers onto the Datadog platform and another one that consolidated a dozen different tools and moved to Datadog.
- Rapid innovation: The velocity of innovation separates our portfolio companies from their competitors, while lengthening their revenue growth runway. The leading commerce platform, **Shopify**, is a great example. Over the last year, despite announcing a 23% reduction in workforce, the company was able to accelerate innovation as they improved its offering for large enterprise merchants (driving a 38-to-1 win-loss ratio for enterprise merchants), B2B merchants, and merchants with brick-and-mortar stores. In addition, the company deepened and improved a variety of merchant solutions while also enhancing third-party development capabilities through solutions such as Shopify Functions that enable customization of Shopify's software.
- Improving unit economics: Many of our companies were able to significantly expand margins during 2023 even though revenue growth decelerated for some of them, showcasing the leverage of their capital-light and recurring revenue business models and their increased focus on efficiency. We described several examples above such as **MercadoLibre** and **Fiverr**. We expect Shopify to expand its operating margins from breakeven to 11% thanks to the sale of the money losing logistics business, the 23% reduction in workforce, and the improving productivity of its sales and marketing efforts. Two other noteworthy companies are CrowdStrike and Wix.com. CrowdStrike expects its operating margins to increase from 15.9% in 2022 to 20.8% in 2023. As for Wix.com, the company anticipates its operating margins to rise from -2.6% in 2022 to 14.5% in 2023 due to the increasing maturation of its new offering for web designs and agencies and the significant improvement in marketing efficiency.

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

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

Sincerely,

Alex Umansky
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

Risks: Past performance is not a guide to future performance. The value of investments and income from them may go down as well as up. Your capital is at risk. Growth stocks can react differently to issuer, political, market and economic developments than the market as a whole. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell. The Strategy may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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