Baron Global Advantage Strategy

March 31, 2024

Dear Investor:

Performance

Baron Global Advantage Strategy (the Strategy) gained 3.56% during the first quarter, compared to the 8.20% gain for the MSCI ACWI Index (the Index), and the 9.50% gain for the MSCI ACWI Growth Index, the Strategy's benchmarks.

Table I.
Performance for annualized periods ended March 31, 2024 (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]	3.56%	3.76%	8.20%	9.50%
One Year	21.58%	22.55%	23.22%	28.21%
Three Years	(12.78)%	(12.08)%	6.96%	6.74%
Five Years	6.21%	7.06%	10.92%	13.57%
Ten Years	10.13%	10.69%	8.66%	11.02%
Since Inception (May 31, 2012)[4]	12.47%	12.95%	10.58%	12.43%

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%

Table III.
Top contributors to performance for the quarter ended March 31, 2024

	Percent Impact
NVIDIA Corporation	6.82%
CrowdStrike Holdings, Inc.	0.91
Codere Online Luxembourg, S.A.	0.82
ASML Holding N.V.	0.80
Cloudflare, Inc.	0.76

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of March 31, 2024, total Firm assets under management are approximately $43.0 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.

Throughout the transition into 2024, global equity indexes sustained their upward trajectory. As observed in the previous year, these gains were not evenly distributed or broadly based. Notably, the U.S. market demonstrated robust performance, posting a 10.3% increase, alongside developed markets, which saw an 8.9% uptick. Conversely, emerging markets experienced more subdued growth, registering a modest 2.3% rise, with Brazil declining by 7.4% and China by 2.2%. Additionally, Argentina, which had an average of 11.6% of the Strategy's net assets and was not firmly classified within MSCI's categories, witnessed a 3.8% decrease. Large-cap stocks continued their outperformance, surging by 10.2% during the quarter. These stocks, along with giant-cap stocks, accounted for a significant 83.0% of the Index, while U.S.-based stocks represented an average of 63.4% during the quarter. The Strategy was underweighted by 15.9% in giant/large-cap stocks and 16.7% in U.S. stocks, which posed challenges for relative returns.

Fortunately, our significant holding in **NVIDIA** paid off, which aligned with our thesis outlined in previous letters over the past six quarters. However, alongside NVIDIA, we held other stocks, which, while not inherently problematic, performed poorly this quarter, particularly our investments in electric vehicles (EVs), IT services, and software. As much as we did not feel good about last year's 25.6% gain, the first quarter's +3.6% return feels like a victory in comparison.

From a company-specific perspective, we had 19 contributors compared to 15 detractors, resulting in a performance that lagged the Index's 8.2% gain. Many of our holdings experienced significant stock price fluctuations this quarter. On the positive side, NVIDIA (+83%), **Codere Online** (+140%), **Resident Home** (+113%), **Astera Labs** (+106%), **Zomato** (+48%), **Adyen** (+31%), **ASML** (+29%), and **CrowdStrike** (+26%) all posted outsized gains. All but Astera Labs contributed over 0.50% each to absolute returns. Unfortunately, **Endava** (down 51%), **Tesla** (down 29%), and **Rivian** (down 53%) all cost us over 1.00% each, while Snowflake and a write-down of **Think & Learn** cost us over 0.50% each, offsetting much of the earlier gains.

This quarter showcased some of *The Good, the Bad, and the Ugly* of what many of our investments go through over their entire life cycles. In a way, it could be perceived as a microcosm of applying our investment philosophy and process.

The Good – NVIDIA, AI, disruptive change, and Big Ideas

Our investment philosophy is fundamentally rooted in identifying and investing in Big Ideas. These are businesses that either enable or benefit from disruptive change, exhibit characteristics of becoming platforms with network effects and attractive unit economics and are poised to expand significantly in the future. This philosophy serves as our compass in evaluating potential investment opportunities.

We identified NVIDIA as the company at the epicenter of one of the biggest technological paradigm shifts of the last 50 years. This shift involves computing moving from sequential to accelerated processing, and we are beginning to see the early stages of generative AI (GenAI) use cases entering the mainstream. GenAI is real and has the potential to be material, sustainable, and disruptive.

Is there hype around GenAI? Sure. There is always a hype cycle around major new technologies. Is GenAI a bubble similar to the Internet bubble of the late 1990s/early 2000s? We don't think so. First of all, it is important to recognize that while many stocks were trading at outlandish valuations on newly invented metrics (peak multiples on peak eyeballs), the internet itself proved to be a paradigm-changing disruption, giving birth to a plethora of Big Ideas. But even more importantly, while the rise in NVIDIA's stock price has been nothing short of unprecedented for a company of its size, it was fueled almost entirely by rapid growth in revenues, earnings, and cash flows – not multiples. NVIDIA's stock price exited 2023 with a P/E ratio of 24.7 and ended the first quarter with a P/E ratio of 35. We can debate whether it is cheap or expensive, but it cannot be compared to the triple-digit multiples assigned to the perceived market leaders of the early Internet era that were not in as strong of a competitive position then as NVIDIA is today.

We're fully aware that the semiconductor industry is prone to cycles. In the past, the hyperscalers (AWS, Azure, GCP, etc.), who are significant customers for NVIDIA, have not maintained a consistent level of investment. It wouldn't be surprising if a demand pullback led to a significant growth slowdown and a potential correction in the stock price in the near future. Therefore, it's crucial for us to manage the size of this investment prudently while also envisioning the future without losing sight of the current reality.

There's more to NVIDIA than just semiconductors. Many investors have missed the boat, thinking that Apple is just a smartphone company, Amazon is just a retailer, and Tesla is just a car company. We have long argued that, just like the other three, NVIDIA is a platform. We are more certain of this now than ever before.

In March, we spent four days in San José, attending NVIDIA's annual developer conference, GTC 2024, and experienced firsthand what Forbes magazine called the Nerd Woodstock. Over 17,000 attendees (including ourselves) participated in the four-day event in person. There was a lot to choose from, with more than 900 sessions, 1,700 presenters, over 300 exhibits, and more than 20 technical workshops, all centered around AI. We were particularly interested in sessions on Large Language Models (LLMs) and how they compare to domain-specific Small Language Models. Other topics that caught our attention included how to enable LLMs to have long-term memory and the key challenges that need to be addressed to create reasoning, planning, and multi-agent LLMs. When the event was finished, we came away with several observations:

- **AI is developing rapidly across industries** – In the near term, there is a lot of excitement around AI for areas such as consumer chatbots, AI-based customer service, and AI-based assistants for a variety of business tasks like coding, marketing, back-office functions, and more. Longer-term avenues of development are broad, including drug discovery, where the opportunity for AI is significant due to the long timelines for drug approval and the high probability of failure (90% of drugs fail). This also includes planning and running factories and supply chains using digital twins (with help from NVIDIA Omniverse – NVIDIA's real-time collaborative simulation platform) and using AI to build robots across a variety of use cases, from autonomous machines to humanoids. We believe this points towards multi-domain, multi-industry disruption.
- **We are early on the S-curve** – Most companies are still in the proof-of-concept stage. However, very few are ready for production today due to hurdles in implementing AI. These hurdles include data preparation, model adaptation, and fine-tuning. To overcome these challenges, a surge of innovation is emerging. This includes tools and

infrastructure that help companies build and run AI models more easily. Additionally, third-party AI models are now exposed via Application Programming Interfaces (APIs) that enable companies to use them without building their own models from scratch. NVIDIA's ecosystem, encompassing developers, system integrators, cloud providers, independent software vendors, and internal software innovation, is also lowering these hurdles. For example, one of the most interesting announcements at the GTC Conference was NVIDIA Inference Microservices (NIMs). NIMs are APIs that provide easy access to open-source models (NVIDIA already has dozens available) without the need to worry about model optimizations, security, patching, or sending data to third parties. NIMs could ease AI adoption for enterprises while also driving incremental monetization for NVIDIA, priced at $4,500/GPU or at $1/GPU hour if used on the cloud, and increase the stickiness of NVIDIA's platform.

- **We are rapidly coming down the demand elasticity curve** – In the Moore's Law era, performance gains were achieved by increasing transistor density, but now, with the power of AI, performance enhancements stem from advancements at every layer of the system:

    1. GPUs: NVIDIA's latest Blackwell GPUs, with 208 billion transistors across two dies, deliver two and a half to five times better performance than the previous generation (Hopper), catering to diverse use cases.

    2. System Layer: NVIDIA's innovations span from accelerators (GPUs) to CPUs (Grace), server design, and networking. For instance, the fifth-generation NVLink boosts memory bandwidth by 14 times compared to PCIe, which is crucial for AI models. The NVSwitch enables connecting up to 576 GPUs, significantly enhancing overall bandwidth, especially for large language models (LLMs), resulting in up to a 30-fold performance improvement in inferencing.[1]

    3. Software Layer: NVIDIA's rapid software advancements optimize performance on existing hardware and facilitate easier adoption. Innovations like TensorRT LLM software offer up to 2.9 times better inference performance by incorporating features like in-flight batching.[2]

    4. AI Algorithms: AI algorithms, such as models from the Mixture-of-Experts (MoE) family, are becoming increasingly complex. MoE models distribute parameters among experts, allowing for faster training and inferencing. For example, Databricks' DBRX model demonstrated superior performance with 3.7 times less compute power compared to previous models, due to these efficiency improvements.[3]

Another way to look at the pace of innovation is to compare the price OpenAI charges for its latest model, GPT-4 Turbo, compared to its previous model, GPT-3.5 Turbo. For the earlier model, the price is $10 for 1 million input tokens and $30 for 1 million output tokens. For GPT-4 Turbo, the price is 95% lower at $0.5 for 1 million input tokens and $1.50 for 1 million output tokens.

Roughly 18 months after the ChatGPT moment, GenAI is already showing rapid real-world adoption, revenues of GenAI companies exceeding $3 billion, excluding the revenues that the large cloud providers (like Google and Meta) are generating from AI due to better engagement and better ad targeting.

We believe we are in the early stages of a multi-decade disruption. Jensen Huang, NVIDIA's co-founder, president, and CEO, suggested at the conference that similar to how in the industrial revolution, raw materials came into the plant and final products came out, in the GenAI era, companies would become AI factories with data as a raw material and tokens as the output. Tokens can represent words, images, videos, or controls of a robot. Over time, as models continue to improve and the cost of running them declines, an increasing number of human tasks could be augmented or replaced entirely by AI. As demographics become more challenging across many economies (especially developed markets), a greater share of global growth must come from productivity enhancements. AI, in our view, is likely to be a key driver behind these gains and could form the basis for technological breakthroughs that help humanity address some of the most pressing challenges, from climate change to finding cures for intractable diseases. We believe this disruptive change will be truly profound.

The Bad and (for brevity's sake) the Ugly

A long-term ownership mindset is foundational to our philosophy and process. As owners of businesses, we assign less weight and importance to short-term trends and macro/geo-political events and evaluate them almost exclusively in the context of how they impact our long-term investment thesis. We rarely trade around positions, let alone initiate or exit an investment based on these shorter-term trends. This approach works exceedingly well during some parts of the market cycle but could be better during others. To be clear, we do not ignore those trends or a challenging macro environment, but we are honest in acknowledging that we have absolutely no edge in forecasting near-term trends better than the market, and we can't forecast investors' expectations of companies' reported results better than the market.

Whenever our businesses face cyclical headwinds, we tend to take no action as long as we believe the long-term prospects remain intact. This typically leads to increased volatility in our portfolio, especially during periods of heightened uncertainty and stress. This quarter was a good example of our investments in IT services, EVs, and software getting hit particularly hard on what we believe are largely cyclical and short-term issues.

We held positions in digital transformation consultants **Endava**, **Globant**, and **EPAM** for many years. Until 2022, these were some of the most successful investments in the 10-year history of the Strategy. The fundamentals of their businesses began to weaken in early 2022. This coincided with the Fed's tightening cycle, and for EPAM specifically, with Russia's invasion of Ukraine. While we eventually exited EPAM, we maintained Endava and Globant through 2022 and 2023, expecting their businesses to return to historical growth rates once the cycle turned. Though both companies' fundamentals stabilized and started improving,

[1] https://NVIDIAnews.NVIDIA.com/news/NVIDIA-blackwell-platform-arrives-to-power-a-new-era-of-computing
[2] https://blogs.NVIDIA.com/blog/tensorrt-llm-inference-mlperf/
[3] https://www.databricks.com/blog/introducing-dbrx-new-state-art-open-llm

their stock prices were hit hard when growth failed to materialize in the first quarter. While we may have underestimated the magnitude of the cyclical slowdown and these businesses' sensitivity to it, we believe their intrinsic values have not changed nearly as dramatically as the contraction in their multiples would suggest.

It was just as challenging for software holdings **Snowflake** and **Zscaler,** who reported far more impressive growth numbers but offered muted guidance due to reduced visibility and continued macroeconomic softness (though Snowflake did have an unexpected change in senior management). And then things became particularly challenging for our EV manufacturers, **Tesla** and **Rivian**, where classic product cycle transitions created a bit of a vacuum in demand. This caused short-term focused market participants to question the long-term attractiveness and viability of the overall addressable market for EVs.

While we couldn't anticipate the exact timing or severity of all these events, we did identify potential headwinds. We dedicate most of our time to researching the business's long-term prospects, the sustainability of their competitive advantages, and the durability of their growth drivers. Our investment theses are built around what companies will likely look like five or ten years down the road. Cyclical or economic downturns often push out the timing, but they rarely imperil the theses themselves. Hence, more often than not, we choose to ride it out.

NVIDIA Corporation sells semiconductors, systems, and software for accelerated computing, gaming, and GenAI. NVIDIA's stock rose 83.2% in the first quarter, driven by continued strong demand for its GPUs that stand at the epicenter of the GenAI revolution. NVIDIA closed 2023 with unprecedented revenue growth at massive scale, with a fourth quarter revenue run-rate just shy of $90 billion, growing over 3.5 times year-over-year with operating margins of 67%. NVIDIA's fourth quarter was even more impressive than numbers suggest, considering both the fact that sales to China declined significantly due to U.S. regulations and as we are nearing the end of the current generation of the Hopper architecture, with the next generation, Blackwell coming out in the third quarter. NVIDIA continues to improve the performance of its chips and systems significantly from generation to generation, thanks to its full-stack approach, optimizing every layer from the chips through systems, networking, and software. NVIDIA is taking a page from Apple's vertical integration book, adding to its competitive advantage. For example, the recently introduced GB200 NVL72, a liquid-cooled rack with 72 GPUs interconnected with the latest generation NVLink technology, offers a significant boost to performance with one-fourth of the GPUs required to train a 1.8 trillion parameter model using one-fourth of the power. NVIDIA is also removing hurdles for AI adoption through software innovation, such as the recently announced NIMs, which make it easier for companies to adopt GenAI at scale.

CrowdStrike Holdings, Inc. is a cloud-architected SaaS cybersecurity vendor offering end-point security, threat intelligence, and cyberattack response services. Shares increased 25.6% in the first quarter, following one of the strongest reported quarterly results in the company's history. With market share gains in end-point detection and response (EDR) accelerating, emerging products (Cloud, Identity, and SIEM) scaling to about $850 million in annual recurring revenue (ARR), and new partnership channels like Dell and Pax8 already making meaningful contributions, the outlook suggests sustained revenue growth of 30% or more over the next two years. Fiscal year 2025 guidance looks conservative, as it projects 8% to 12% net new ARR growth, a modest increase from the 6% growth it reported in fiscal year 2024. This guidance would suggest net new contributions from emerging products would significantly decelerate, landing in the range of 30% to 35% (on a 25% larger base), or that core EDR contributions would contract by roughly 15%, which are unlikely scenarios, in our view. With its leading competitive positioning in cybersecurity, the growing threat landscape, which is also driven by the advancements in AI and is making hackers more dangerous, its unique single-agent architecture, and its platform approach, we retain conviction in CrowdStrike, which is emerging as the security platform to beat in terms of scale, profitability, and free-cash-flow conversion.

Codere Online Luxembourg, S.A. is an operator of online gaming and sports betting assets in Latin America and Spain. Shares increased 140.4% during the quarter as the company reported net gaming revenue and EBITDA growth that beat consensus estimates, with net gaming revenue growth of 33% year-over-year, while guiding for positive adjusted EBITDA for 2024. Profitability is inflecting as Codere exits a period of accelerated investments to build its brand and gain share in Latin America, a key growth market. This is also helped by the growing mix of existing user cohorts, whose overall spending continues to grow. Marketing spending is focused almost exclusively on new users (net gaming revenues are already accounted for net of promotional spending on existing users). This focus is driving a structural profitability improvement with the growing mix of existing cohorts. This should accelerate earnings growth and drive a re-rating in the stock, which currently trades at a steep discount relative to its global peers – Codere is trading at 1.3 times EV/Revenues (on consensus 2024 estimates, though we believe the company will grow revenues much faster, so the real multiple is likely closer to 1.1-1.2 times), whereas competitors such as DraftKings or Flutter trade at three to four and a half times. We remain shareholders and believe the company remains early in addressing the €4 billion TAM in its core markets in Mexico, Colombia, Panama, and Argentina.

Table IV.
Top detractors from performance for the quarter ended March 31, 2024

	Percent Impact
Endava plc	–3.36%
Tesla, Inc.	–1.33
Rivian Automotive, Inc.	–1.23
Snowflake Inc.	–0.95
Think & Learn Private Limited	–0.86

Shares of IT services provider **Endava plc** fell 51.1% after management cut guidance for the fiscal year ending June 30, 2024, by 7% to 8%. Growth has slowed over the last year as business customers pulled back on discretionary IT spending due to macroeconomic uncertainty. Last fall, management saw early signs of a recovery, but new projects have been taking longer to materialize as customers delay spending decisions. Higher expenses due to increased staffing to meet anticipated demand also weighed on margins. Management acknowledged that it misread the market and is taking steps to right-size the cost structure to improve margins. We remain invested because we expect these near-term headwinds to decrease over time, leading to better growth as the demand for digitization remains strong, with AI likely to serve as a tailwind to digitization over the long term.

Tesla, Inc. designs, manufactures, and sells EVs, related software and components, and solar and energy storage products. Shares fell 29.2% in the first quarter as the core automotive segment remained under pressure due to a complex macroeconomic environment, factory shutdowns, growing competitive risks in China, and Tesla's price reductions throughout 2023. During the first quarter of 2024, production was negatively impacted by the Red Sea maritime supply-chain interferences, sabotage in Tesla's factory's power supply in Berlin, and factory closure for the launch of the refreshed Model 3. We remain shareholders. Tesla commenced delivery of its highly anticipated Cybertruck pickup, which features new technologies within the car and its manufacturing lines. Tesla also launched version 12 of its Full Self Driving product, which shows significant progress from prior versions and increases the probability that Tesla's unique data collection, and verticalized software and hardware approach will position Tesla as a leader in the future of autonomous driving and shared mobility. We also expect energy storage sales to continue to grow over the coming years as the adoption of renewable energy continues. Lastly, we believe Tesla's core automotive segment will recover with the company remaining a leader in the EV market, which continues to expand, with EVs still accounting for only around 10% of vehicle sales globally.

Shares of **Rivian Automotive, Inc.**, a U.S.-based EV manufacturer, declined 53.3% in the first quarter. Despite substantial improvements in production and delivery volumes in 2023 and improved unit economics, Rivian's business remains constrained by its limited scale, negative gross margins, and elevated cash outflows. Additionally, Rivian expects to temporarily shut down its production facilities for upgrades, impeding anticipated production growth in 2024. Compounding these challenges is the potential for demand constraints, which may not keep pace with production due to the continued complex macro environment and the relatively small automotive segments that Rivian's initial products target. Nevertheless, the recent unveiling of Rivian's mass-market products, the R2 and R3, garnered enthusiastic responses, evidenced by over 68,000 pre-orders within the first 20 hours post-launch. In a strategic move, management opted to produce the R2 in Rivian's existing facility, deferring the construction of a new factory. This decision should help reduce mid-term capital expenditure obligations while ensuring higher utilization of current facilities as the R2 ramps production in 2025. We 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 March 31, 2024, the top 10 positions represented 59.4% of the Strategy's net assets, and the top 20 represented 87.6%. We ended the first quarter with 35 investments compared to 34 at the end of 2023. Note that our top 25 investments represented over 95% of the Strategy.

Our investments in the Information Technology, Consumer Discretionary, Industrials, Financials, and Health Care sectors, as classified by GICS, represented 99.6% of the Strategy's net assets. Our investments in non-U.S. companies represented 52.8% of net assets, and our investments in emerging markets and other non-developed countries (Argentina) totaled 26.1% of net assets.

Table V.
Top 10 holdings as of March 31, 2024

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
NVIDIA Corporation	$2,258.9	$70.6	11.1%
MercadoLibre, Inc.	76.7	56.0	8.8
Shopify Inc.	99.9	50.9	8.0
Cloudflare, Inc.	32.7	34.7	5.4
Coupang, Inc.	31.9	32.0	5.0
Space Exploration Technologies Corp.	180.3	31.8	5.0
CrowdStrike Holdings, Inc.	77.5	28.3	4.4
Snowflake Inc.	54.0	26.9	4.2
ASML Holding N.V.	384.6	24.0	3.8
argenx SE	23.3	23.7	3.7

Table VI.
Percentage of securities by country as of March 31, 2024

	Percent of Net Assets
United States	46.9%
Argentina	10.9
Netherlands	9.8
Canada	8.0
India	5.8
Korea	5.0
Israel	4.1
United Kingdom	3.4
Poland	2.6
Brazil	1.7
Spain	1.4

Recent Activity

During the first quarter, we initiated three new investments: a biotechnology company developing a drug for obesity, **Viking Therapeutics**; a networking-focused fabless semiconductor provider, **Astera Labs**; and an automotive-focused fabless semiconductor provider, **indie Semiconductor**.

We reduced 21 existing positions and sold our investment in the life sciences simulation software provider **Schrodinger**. We also had a positive realization with one of our private investments – the direct-to-consumer retail company **Resident Home**, which was acquired by Ashley Home. Following this acquisition, we now hold four private investments, representing just under 5.5% of net assets, with **SpaceX** accounting for 5.0% of that total.

Table VII.
Top net purchases for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Viking Therapeutics, Inc.	$ 8.9	$7.1
indie Semiconductor, Inc.	1.3	2.9
Astera Labs, Inc.	11.5	2.8

During the first quarter, we initiated a new position in **Viking Therapeutics, Inc.**, a developer of metabolic disease medicines with a focus on diabetes, obesity, and metabolic steatohepatitis (MASH) (i.e., fatty liver). Viking's lead asset is an injectable and oral version of a GLP-1/GIP combo medication that directly competes with the well-known Mounjaro/Zepbound medicines from Eli Lilly. Viking's second asset is a competitor to Madrigal's recently approved MASH asset. Both of Viking's drugs appear to be more efficacious than their competitors, which is the primary basis of the investment thesis bolstered by what are potentially the largest revenue end-markets for the industry ever. The pharmaceutical industry has returned to primary care medicines, meaning large volumes as opposed to high prices, after about 20 years of working in the rare disease space, including oncology. This macro trend is led by the obesity space. For reference, 50 million people (or one-third of the current U.S. market) treated at only $200/year, significantly lower than current pricing, would result in a $100 billion addressable opportunity just in the U.S.

Another new addition was **indie Semiconductor, Inc.**, a fabless designer, developer, and marketer of automotive semiconductors for applications including advanced driver assistance systems (ADAS), car connectivity, user experience, and electrification. The automotive semiconductor vertical is attractive for long-term investors as semiconductor content is increasing over time from several hundreds of dollars of content in legacy internal combustion engine vehicles to as much as several thousands of dollars in high-end, feature-rich EVs driven by improving safety features (including autonomous driving), electrification and digitization, and premiumization of interior and exterior features for all types of vehicles driven by both consumer demand and regulation. Indie is a small but rapidly growing market share through leveraging mixed-signal expertise and its 100% automotive focus to design more integrated, power-efficient, and lower-cost solutions than larger competitors focused on various end markets. Specific to ADAS, despite indie's size, it is the only company to offer all key ADAS modalities (vision, radar, ultrasonic, LiDAR) under a single roof. Indie's size and focus also enable it to be more agile in supporting OEM's needs whereas competition, which has significantly consolidated in the past 10 years, is encumbered by inertia of large organizations and has been slower to innovate. These advantages have led to indie securing more than $6.3 billion in lifetime design awards, of which $4.6 billion is in ADAS applications, compared to approximately $220 million in 2023 revenue. 2023 was the third year in a row that indie doubled its revenues.

Driven by a growing backlog of design wins and a strong opportunity funnel, we believe indie can grow to over $500 million in revenues in the medium term and more than $1 billion in revenue towards the end of the decade, as its large program wins in radar and driver/occupant monitoring systems, start ramping. In addition, the company is expanding its gross margins by leveraging a growing mix of new products with higher-than-average margins. They are targeting a gross margin of over 60% (up from the low 50s% currently) and an operating margin of over 30%, with breakeven expected by the end of 2024. Despite the company's long runway for growth, making it a potentially Big Idea, valuation is still significantly below both other high-growth semiconductor companies and slower-growing mature peers, as the stock price was negatively impacted by its de-SPAC history, the stock still being small and obscure, and the cycle challenges impacting the broader automotive industry, which also creates uncertainty with indie's near-term numbers. We see significant upside for indie's stock in the medium and the long term and have decided to initiate a position.

We also initiated a small position in **Astera Labs, Inc.**, a fabless semiconductor company focused on addressing connectivity challenges in data-centric systems. It offers multiple product lines of mixed-signal connectivity products with embedded COSMOS software and has been first to market with its PCIe retimers, Ethernet smart cable modules, and CXL memory controller products, securing over 300 design wins in the short time since its founding in October 2017. These products are critical in solving data and networking bandwidth bottlenecks, signal integrity challenges and memory capacity limitations that hyper-scale customers are facing across their entire data center networks, especially in AI-related applications. Today, its Aries PCIe retimers are shipping alongside every NVIDIA GPU with virtually 100% market share, driving significant growth, and the company sells to every hyperscale customer and AI platform provider. In the coming years, its Taurus Active Electrical Cables modules and Leo Compute Express Link controllers could potentially further expand its market, ramping into AI and general-purpose server applications, respectively.

As AI advances further, solving networking bottlenecks becomes even more critical. This presents a significant tailwind for Astera's average content per server opportunity. The reason is that signal loss worsens as the PCIe standard gets faster. This necessitates either using more expensive PCB materials or more retimers, with the latter being the more cost-effective option. This dynamic, together with the strong AI server unit growth, should drive solid revenue expansion from $200 million to around $1 billion towards the end of the decade. We also expect the company to benefit from operating leverage, with operating margins expanding towards 40%. Astera benefits from strong competitive advantages due to its first-mover advantage. It has solved interoperability challenges between its retimers and dozens of third-party devices, allowing its chips to connect to a wider range of products.

Table VIII.
Top net sales for the quarter ended March 31, 2024

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
NVIDIA Corporation	$2,258.9	$37.0
Resident Home Inc.	0.9	7.7
Schrodinger, Inc.	1.9	6.9
MercadoLibre, Inc.	76.7	5.3
Bajaj Finance Limited	53.8	5.2

After significant runs, we made some profits in **NVIDIA Corporation**, **MercadoLibre, Inc.**, and **Bajaj Finance Limited**. As mentioned earlier in the letter, **Resident Home Inc.** was acquired for cash, and we exited our small four-year investment in **Schrodinger, Inc.** with a small profit.

Outlook

The market is beginning to grapple with the concept of *higher for longer*. Will there be one cut? Two cuts? No cuts at all this year? We're uncertain. The 10-year U.S. Treasury yield has returned to 4.5%, having dropped to 3.8% towards the end of last year. We maintain our belief that the Fed's tightening cycle has concluded, and the next step in interest rates will likely initiate an easing cycle whenever that occurs.

We believe that the disruptive change ushered in by the commercialization and use of AI is real and substantial. It will likely have a long-term deflationary effect despite the high cost of GPUs. Major technological innovations have generally been deflationary forces – from hardware to software to the internet. For example, Moore's Law demonstrated a doubling of performance for the same cost every two years or so for decades. Innovations in software enabled a significant boost in productivity for information workers by reducing manual work and improving work quality. The internet's impact has been profoundly deflationary. It slashed distribution costs to near zero and ushered in cloud computing, which significantly reduced software costs. This lowered the barrier to entry for startups, as they no longer needed millions in upfront hardware investments, allowing them to scale their costs with their growth. In our view, AI will further accelerate these deflationary forces. If we are correct, longer-term interest rates will likely decrease, making the timing of Fed cuts less significant.

As we do every quarter, we analyzed the change in the weighted average multiple of the Strategy and the weighted average change in consensus expectations for 2024 (for revenues, operating income, and operating margins). The weighted average multiple for the Strategy as a whole increased by 3.5% during the first quarter. However, excluding NVIDIA, it declined by 1.6%. Revenue expectations for 2024 increased by 2.1%. Excluding NVIDIA, this number falls to 0.2%. Similarly, operating income expectations increased by 0.9% overall but declined by 2.2%, excluding NVIDIA. Operating margin expectations declined by 0.36%, or 0.64% if we exclude NVIDIA. Looking deeper, the headwinds were mostly due to our IT consulting and EV holdings. These stocks suffered from significant multiple contractions and a cyclical reduction in short-term expectations. The other sub-industries were much more balanced, and the trend of stable fundamentals observed in the second half of 2023 continues to hold true.

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 risks, managing 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 the target companies 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.