Baron High Growth Strategy

December 31, 2023

Dear Investor:

Performance

During the fourth quarter, Baron High Growth Strategy® (the Strategy) rose 15.15%, outperforming the broader market, including the Russell 3000 Growth Index, which gained 14.09%, and the S&P 500 Index, which advanced 11.69%. For the full-year 2023, the Strategy increased 50.23%, materially ahead of both indexes, and a solid rebound after a challenging 2022.

Table I.

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

	Baron High Growth Strategy (net)[2]	Baron High Growth Strategy (gross)[2]	Russell 3000 Growth Index[2]	S&P 500 Index[2]
Three Months[3]	15.15%	15.43%	14.09%	11.69%
One Year	50.23%	51.71%	41.21%	26.29%
Three Years	(1.14)%	(0.17)%	8.08%	10.00%
Five Years	20.65%	21.84%	18.85%	15.69%
Ten Years	14.12%	15.23%	14.33%	12.03%
Fifteen Years	17.61%	18.77%	16.37%	13.97%
Since Inception (June 30, 2000)[4]	9.88%	11.15%	6.74%	7.21%

Table II.

Calendar Year Performance 2019-2023 (Figures in USD)

	Baron High Growth Strategy (net)[2]	Baron High Growth Strategy (gross)[2]	Russell 3000 Growth Index[2]	S&P 500 Index[2]
2019	40.13%	41.50%	35.85%	31.49%
2020	88.86%	90.74%	38.26%	18.40%
2021	12.20%	13.30%	25.85%	28.71%
2022	(42.68)%	(42.12)%	(28.97)%	(18.11)%
2023	50.23%	51.71%	41.21%	26.29%

Review & Outlook

U.S. equities rose sharply in November and December, pushing the broad market indexes to double-digit gains for the quarter and reversing the losses suffered over the preceding three months. Moderating inflation coupled with a softening labor market and a perceived peak in the current cycle of interest rate hikes were the main drivers of the broad-based rally. The S&P 500 Index was up more than 26% for the year, closing at a new all-time high, while the NASDAQ Composite Index appreciated nearly 45%, its best year since COVID in 2020. Most of the gains in the major market indexes came from the so-called *Magnificent Seven*, which together were up 76% for the year, driven, in part, by excitement surrounding their ability to gain from widespread adoption of artificial intelligence (AI). The Strategy remains exposed to AI and other industry trends driving the performance of these technology leaders. We have significant investments in individual companies such as **Microsoft Corporation**, **NVIDIA Corporation**,

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 one mutual fund managed by BAMCO; and separately managed accounts and one wrap account program managed by BCM. 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 Report please contact us at 1-800-99-BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

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 3-, 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 **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market and the **S&P 500 Index** measures the performance 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 include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Strategy performance. Investors cannot invest directly in an index.

3 Not annualized.

4 The Strategy has a different inception date than its representative account, which is 2/29/2000.

Amazon.com, Inc., **Tesla, Inc.**, and **Meta Platforms, Inc.**, and we are overweight across the software, cloud computing, semiconductor, and electric vehicle (EV) industry verticals.

For the full-year 2023, we had 21 stocks that delivered total returns over 50% each, driving the Strategy's return of nearly 50%. In the table below, we show our top 12 contributors to portfolio return for 2023, as well as the key secular megatrends driving these businesses.

As we start the new year, it appears the market is trying to find its 2024 footing. On the one hand, an extension of the past few years, it continues to be dominated by the macro uncertainties and debates about such hard-to-forecast issues as inflation levels (falling rock or persistent), an economic soft landing versus a recession, when the Federal Reserve will first cut rates and how many cuts will it make, wars in Europe and now the Middle East, U.S. trade relations with China, and the upcoming 2024 presidential election. On the other, the market has rewarded the secular winners, as just described. But the mere act of flipping the calendar sometimes has a short-term impact on market sentiment and trading. Some investors look to sell winners and buy laggards. Every sell-side analyst announces top picks and favorite trends for the new year. But arbitrary dates – yes, even January 1 – has absolutely no impact on fundamental business trends and secular themes.

I caution those trying to time the market or bet on short-term leadership changes. Our founder, Ron Baron, has written eloquently many times regarding the perils of market timing. I have echoed his wisdom in several of my own letters. I remind our investors, as I have done in the past, of the simple but fundamental basics of investing, as opposed to trading. The market and individual stocks require a sustainable increase in earnings and free cash flow to yield durable returns, rather than merely gyrating with shifts in investor sentiment. The only way to realize a persistent increase in earnings is to consistently grow sales. The best stocks in the history of the stock market have been the most durable, long-term growers. Our Firm's 40-year investment approach has relentlessly been to find and own more of them – driven by indisputable, generational, permanently disruptive long-term secular growth themes and trends.

The trends we emphasize are real, and they are intact; they are not stopping or pausing. AI is real. Cloud computing is real. Digital media, entertainment, commerce are real. Electric vehicles are real. Semiconductors powering every single digital or electronic device are real. I understand fears sometimes arise regarding hype cycles, these days mostly centered around AI. But AI is NOT hype. The impact it is having – and will have – is real. And we are now just glimpsing the dawn of the AI era. At the start of my career, people worried whether the internet was hype. But today, there is no longer a shred of doubt how it forever changed the world. At the time of its launch, people argued the iPhone was hype, and that smartphone adoption would be a challenge. But today, it is near universal, and no one disputes how a computer in the palm of our hand has transformed our lives. It is the same with AI. Our interaction with computers and data is undergoing a fundamental shift, echoing countless science fiction narratives. With natural language interfaces becoming increasingly sophisticated, the way we control technology is on the brink of a revolutionary change.

Indeed, the best technology investments of the last half century are those companies that forged disruptive trends and grew faster for longer than consensus estimates initially predicted. However, the market has historically underestimated the long-term growth potential for top companies in new and innovative verticals. The market misjudged the growth that would be achieved by such disruptive and revolutionary developments as Microsoft's Windows operating system, Google's internet search engine, Amazon's e-commerce platform, Apple's iPhone, and Tesla's EVs. These companies always looked expensive when valued based on then-current Street estimates; but they weren't. They yielded great returns not because they were awarded premium multiples but because they crushed expectations, delivering loftier revenues, earnings, and cash flow than most investors thought they would. We believe the same thing will drive returns for the innovators across many layers of the AI stack, from semiconductors to cloud services to applications.

We continue to run a high-conviction portfolio with an emphasis on the secular trends discussed above. Among others, during the fourth quarter we initiated or added to the following positions:

- Semiconductors and Semiconductor Equipment: **Lam Research Corporation**, **Advanced Micro Derives, Inc.**, **indie Semiconductor, Inc.**, and **Marvell Technology, Inc.**
- Digital Media/Advertising: **The Trade Desk**, **Meta Platforms, Inc.**, and **Alphabet Inc.**
- Software: **Dynatrace, Inc.**, **HubSpot, Inc.**, **Ceridian HCM Holding Inc.**, and **Workday, Inc.**
- Biotechnology/Pharmaceuticals: **Structure Therapeutics Inc.**, **Viking Therapeutics, Inc.**, and **Legend Biotech Corporation**
- Health Care Equipment: **Shockwave Medical, Inc.**
- Electric Vehicles: **Rivian Automotive, Inc.**

Below is a partial list of the secular megatrends we focus on:

- Cloud computing
- Software-as-a-service (SaaS)
- AI
- Mobile
- Semiconductors
- Digital media/entertainment
- Targeted digital advertising
- E-commerce
- Genetic medicine/genomics
- Minimally invasive surgical procedures
- Cybersecurity
- Electric vehicles/autonomous driving
- Electronic payments
- Robotics

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

	Percent Impact
Microsoft Corporation	2.96%
Amazon.com, Inc.	1.36
NVIDIA Corporation	1.28
CrowdStrike Holdings, Inc.	1.00
Gartner, Inc.	0.97

Microsoft Corporation is the world's largest software company. Microsoft was traditionally known for its Windows and Office products, but over the last five years, it has built a $135 billion run-rate cloud business, including its Azure cloud infrastructure service and its Office 365 and Dynamics 365 cloud-delivered applications. The stock contributed to performance because of continued strong operating results, and investor enthusiasm regarding Microsofts's leadership across the secular megatrends of AI and cloud computing. For the September quarter, Microsoft again reported better-than-expected financial results, highlighted by Microsoft Cloud growing 23% in constant currency and Azure revenue growing 28% in constant currency, a one-point acceleration from the June quarter, bolstered by ramping AI revenue contributing three points of growth (vs. guidance of two points). December quarter guidance came in well ahead of consensus, driven by continued strong trends across Microsoft Cloud, Azure, and AI. We remain confident that Microsoft is one of the best positioned companies across the overlapping software, cloud computing, and AI landscapes, with its vertically integrated technology stack and broad sales distribution. We believe Microsoft will continue taking share across its business, driving durable, long-term, double-digit growth and best-in-class profitability.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were up in the quarter. Reported results were better than consensus estimates, with a significant beat in North American operating profit and stabilization of AWS cloud computing trends. We believe the AWS cloud division has many years ahead of growth, with recent customer optimizations attenuating and AI emerging as a key driver. We also believe Amazon is well positioned in the short-to-medium term to meaningfully improve core North American retail profitability to above pre-pandemic levels, benefiting from its new regionalized fulfillment network and its growing margin-accretive advertising business. Longer term, Amazon has substantially more room to grow in e-commerce, where it has less than 15% penetration of the total addressable market. Amazon also remains one of the clear leaders in the vast and growing cloud infrastructure market, with large opportunities enabling generative AI workloads.

NVIDIA Corporation is a leading semiconductor company that sells chips and software for accelerated computing and gaming and is indisputably recognized as one of the leaders and pioneers of AI. The stock rose in the fourth quarter, finishing the year up over 200% because of the unprecedented demand acceleration for generative AI.

NVIDIA is seeing the fruits of its nearly 20-year investment in AI and accelerated computing with data center revenues growing five-fold from $3 billion in 2019 to $15 billion in 2022, and they are expected to at least triple to $45 billion in 2023. This extraordinary top-line growth drove even faster growth in earnings per share, resulting in multiple contraction despite the rapid rise in shares. Over the last year, since AI's "iPhone moment" with the November 2022 public launch of ChatGPT, I've spent a lot of time answering investor questions about AI and our research, analysis, and investments. I've stated publicly that we have been investors in AI for many years and have shared the story of our team's visit with Jensen at NVIDIA's headquarters in September 2018, over five years ago now, and a full four years before most people had ever heard of ChatGPT.

While 2023 was a banner year for generative AI, we remain at the early innings of broad adoption. While the opportunity within the data center installed base is already large at roughly $1 trillion, the pace of innovation in AI in general, and generative AI in particular, should drive significant expansion in the addressable market, as generative AI creates a new way for human-computer interaction through natural language, and as companies are better able to utilize their data for decision-making.

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

	Percent Impact
argenx SE	–0.66%
GM Cruise Holdings LLC	–0.47
Illumina, Inc.	–0.35
X Holding Corp.	–0.27
Tesla, Inc.	–0.20

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares fell in the quarter on the back of failed clinical trials in immune thrombocytopenic purpura and pemphigus vulgaris that called into question the scope of the FcRn treatment landscape. While the exact nature of these data sets is nuanced and not entirely thesis-breaking, we acknowledge that these trial results raise 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 grow revenue, supporting 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, as well as argenx's subcutaneous formulation launch.

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. We marked down the stock 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.

Illumina, Inc. has been the leading provider of DNA sequencing platforms. The stock declined due to weak financial results, management turnover, and uncertainty about the outcome of the acquisition of Grail, which regulators have challenged on antitrust grounds and in the meantime has been burning cash flow and hampering Illumina's consolidated performance. We exited our Illumina position during the quarter but will continue our research and analysis regarding the adoption of Illumina's new sequencing instruments, management's plan to divest Grail, the evolving DNA-sequencing competitive environment, and the new company management team.

Portfolio Structure

We invest in secular growth and innovative businesses across all market capitalizations, with the bulk of the portfolio landing in the large-cap zone. As of the end of the fourth quarter, the largest market cap holding in the Strategy was $2.8 trillion and the smallest was $500 million. The median market cap of the Strategy was $35.3 billion, and the weighted average market cap was $805.8 billion.

To end the quarter, the Strategy had $1.1 billion of assets under management. We had investments in 45 unique companies. The Strategy's top 10 positions accounted for 53.1% of net assets.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$2,794.8	$161.1	14.2%
NVIDIA Corporation	1,223.2	97.3	8.6
Amazon.com, Inc.	1,570.2	73.8	6.5
Tesla, Inc.	789.9	64.7	5.7
Meta Platforms, Inc.	909.6	43.0	3.8
Gartner, Inc.	35.2	34.7	3.1
CoStar Group, Inc.	35.7	32.5	2.9
Space Exploration Technologies Corp.	—	31.2	2.8
Visa Inc.	536.8	31.2	2.8
Alphabet Inc.	1,756.0	31.1	2.8

Recent Activity

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

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Lam Research Corporation	$103.2	$7.0
Structure Therapeutics Inc.	1.9	5.0
The Trade Desk	35.3	4.2
Viking Therapeutics, Inc.	1.9	4.1
Dynatrace, Inc.	16.1	4.0

Lam Research Corporation is a leading global supplier of wafer fabrication equipment (WFE) and services to the semiconductor industry. Lam's products tend to focus on etch and deposition process steps, and its tools are critical in the production of NAND and DRAM memory chips, as well as logic devices. While the share of overall WFE spending looks relatively fragmented across the top four to five players in the industry, each of these leading companies tends to have significant share within smaller slices of the industry, creating a stable and favorable industry structure with share shifts tending to only happen at times of technology transition in the broader industry. In the quarter, we purchased shares of Lam, anticipating significant advantages for the company at a pivotal industry transition. This shift, driven by the adoption of gate-all-around transistors in logic, is leading to a rising demand for intricate deposition and etch processes. Additionally, the emergence of high-bandwidth memory and advanced packaging is amplifying the need for progressively intricate high-aspect-ratio (i.e., very deep) etching processes, an arena where Lam has virtually 100% market share. We also believe the market is underestimating the pent-up earnings power in the company as NAND WFE spending recovers in the coming years from one of its worst downcycles ever in 2023.

We recently initiated a position in **Structure Therapeutics Inc.**, a biotechnology company developing a small molecule oral GLP-1 drug used to treat diabetes and obesity. The space is currently dominated by drugs like Ozempic/Wegovy that offer superb blood sugar control for diabetics, and impressively can drive up to 15% weight loss and improve cardiovascular outcomes in both diabetics and non-diabetic obese patients. We estimate that in the U.S. alone, there are about 32 million Type 2 diabetics and an additional 105 million obese patients who would qualify for GLP-1 drugs, and only about 14% of Type 2 diabetics and 1% of obese patients are currently on GLP-1 medication. We see Structure as a leader in the development of oral options that promise lower pricing and open access to these larger markets. Currently, Structure is in Phase 2 trials and is potentially the second oral option to make it to market this decade after Eli Lilly's orforglipron.

We added opportunistically to our long-term position in **The Trade Desk** when shares traded down sharply after the company reported third quarter results and issued initial fourth quarter guidance. While third quarter results were solid, with sales growing 25% year-over-year (and 27% adjusting for political spending in 2022), Trade Desk's management team gave cautious fourth quarter guidance as they saw advertisers pause or taper advertising spending after the tragic October 7 events in Israel. Apart from this real but short-term pressure, Trade Desk demonstrated how it continued to gain market share, discussed the major drivers of its business, including streaming video advertising and shopper marketing, and expressed optimism for the remainder of the fourth quarter and 2024. We snapped up shares given our conviction in Trade Desk's business and management team and our long-term investment perspective.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
ServiceNow, Inc.	$144.8	$11.4
CrowdStrike Holdings, Inc.	61.3	11.4
TKO Group Holdings, Inc.	14.4	9.9
ZoomInfo Technologies Inc.	6.2	9.8
DexCom, Inc.	30.6	7.5

We trimmed our positions in leading software vendors, **ServiceNow, Inc.** and **CrowdStrike Holdings, Inc.**, after the stocks performed well in 2023, resulting in higher valuations on both companies. Both remained in the top 25 of portfolio investments at year end. We spread this capital around several of our other software investments (as shown in the Review and Outlook section above), as well as another cybersecurity name we purchased after the first of the year. We will discuss this in more depth in our next quarterly letter.

We exited our investments in **TKO Group Holdings, Inc.**, **ZoomInfo Technologies Inc.**, and **DexCom, Inc.** during the period.

I remain confident in and committed to the Strategy: durable growth based on long-term, innovation-driven secular growth trends. We continue to believe that non-cyclical, durable, and resilient growth should be part of investors' portfolios and that our Strategy will deliver solid long-term returns for our investors.

Sincerely,

Michael A. Lippert
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. Securities issued by small and medium sized companies may be thinly traded and may be more difficult to sell during market downturns. Companies propelled by innovation, including technology advances and new business models, may present the risk of rapid change and product obsolescence, and their success may be difficult to predict for the long term. Even though the Strategy is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Strategy's returns.

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.