Baron High Growth Strategy

BARON CAPITAL

September 30, 2023

Dear Investor:

Performance

During the third quarter, Baron High Growth Strategy fell 4.98%, slightly underperforming the broader market, including the Russell 3000 Growth Index, which dropped 3.34%, and the S&P 500 Index, which declined 3.27%. For the year-to-date period, the strategy was up 30.47%, ahead of both indexes.

Table I.

Performance for annualized periods ended September 30, 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]	(4.98)%	(4.75)%	(3.34)%	(3.27)%
Nine Months[3]	30.47%	31.43%	23.77%	13.07%
One Year	24.69%	25.92%	26.63%	21.62%
Three Years	0.98%	1.98%	7.54%	10.15%
Five Years	13.17%	14.29%	11.70%	9.92%
Ten Years	13.44%	14.54%	13.94%	11.91%
Fifteen Years	13.98%	15.11%	13.35%	11.28%
Since Inception (June 30, 2000)[4]	9.32%	10.60%	6.21%	6.78%

Table II.

Calendar Year Performance 2018-2022 (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]
2018	8.57%	9.62%	(2.12)%	(4.38)%
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)%

Review & Outlook

Like the market environment of 2022, the third quarter just concluded and the first weeks of the fourth quarter proved to be dominated by macroeconomic and exogenous issues, including: (1) economic debates and considerations regarding a soft landing vs. a recession, Fed policy (i.e., when will the Fed stop raising rates, when might it lower rates, the risk of *higher for longer*), the U.S. government budget picture, the spike to fresh multi-decade highs on the 10-Year U.S. Treasury yield, and the first United Auto Workers strike in more than 80 years; (2) domestic political instability, such as the absence of a Speaker of the House and the ensuing legislative paralysis, the possibility of a government shutdown (now, in mid-November), and the upcoming 2024 election; and (3) geopolitical fears and risks, particularly China-U.S. relations and U.S. semiconductor-technology export restrictions, the war in Ukraine, and now the tragic developments and threats of a wider conflict in the Middle East. As in the past, this backdrop restrained investor

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of September 30, 2023, total Firm assets under management are approximately $39.6 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 1-800-99BARON. 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.

Table III.
Top contributors to performance for the quarter ended September 30, 2023

	Percent Impact
Rivian Automotive, Inc.	0.45%
argenx SE	0.35
NVIDIA Corporation	0.29
Guidewire Software, Inc.	0.22
CrowdStrike Holdings, Inc.	0.19

sentiment and negatively impacted equity market and strategy performance in the third quarter, and the Strategy slightly underperformed the broader market indexes.

There has been no change at all in our research-based view of the longer-term secular trends we emphasize. But in our interactions with management teams, we are hearing a little more macroeconomic uncertainty, both in terms of the impact on customer behavior and company investment decisions. I chose the word *uncertainty* deliberately because it is not weakness we are hearing, but genuine hesitation, indecision, and a wait-and-see attitude about the macroeconomic issues listed above. History has taught us that in these types of conditions the strong get stronger, particularly for well-managed and well-capitalized businesses, and most of our companies are prudently investing to capture the large opportunities ahead of them, as well as sustaining healthy growth rates.

What are we doing considering all this uncertainty? Effectively running the same play that has worked for us in the past. As I have written, rather than attempting to find bottoms, we are buying or adding when our target companies are in our *buy zones* based on our qualitative research, our quantitative modeling, and price target work. We are leaning into the secular trends for which we have the highest conviction and the companies with the sturdiest competitive advantages and most critical products and services. We are seeking to take advantage of our long-term mindset – in contrast to the market's typical myopia in times like these – by buying or adding to companies when we identify short-term overreactions in their stock prices that provide us with even more attractive long-term returns.

I set out below several key takeaways for our investors, including passages from recent quarterly letters, because they capture and articulate: (1) our views regarding market environments like these; and (2) our steadfast investment approach and philosophy:

- Macro issues (economics, politics, geopolitics):
  - We don't know the answers to the varied macro questions, and don't believe anybody does. We stay well informed of the analyses and forecasts of smart and experienced experts on these issues, but the range of plausible projections and outcomes is so wide you could drive the proverbial truck through them. We are not taking that drive. We continue to discipline ourselves not to make portfolio decisions based on macro projections.
  - In the June 2022 Quarterly Letter from Ron, Ron shared some of the wisdom he's gained over his half-century as an investor: "…in my 52-year Wall Street career, I have never known anyone to accurately and consistently predict markets…economies…interest rates…inflation…oil prices…wars…commodity prices…and election outcomes."
- Our investment approach and philosophy:
  - Instead, we manage the Strategy based on what we can control: our long-term investment philosophy, processes, research, analysis, judgment, and portfolio management decisions. Our points of differentiation at Baron are our in-house research and time/duration. The second shapes and distinguishes the first, because the focus of our research and analyses is on long-term durable growth as opposed to near-term results. The second also enables us to prioritize long-term returns, rather than trying to predict and trade the short-term blowing of the market, economic, and geopolitical winds.
  - We remain focused on our long-term investment mandate (my tag line: faster for longer); our in-house research differentiation; secular growth trends disrupting industries and driving long-term growth; and exceptional businesses with durable competitive advantages, cash-generative business models, and double-digit multi-year projected annual returns.
  - We believe durable growth – of revenue, earnings, and cash flow – is the critical foundation of successful growth investing. We have shown the best investments of the last half century are those companies that expanded faster for longer than consensus initially predicted. We have demonstrated how the market repeatedly underestimated growth for top companies in new and innovative verticals. The market misjudged the long-term 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 electric vehicles (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 artificial intelligence (AI) stack, from semiconductors to applications.
- Investor questions – short term vs. long term and "have I/we missed it":
  - I have articulated consistently that we are not market timers. So, if this question is with a three-month, six-month, or even a one-year time frame, I candidly have no idea. But if it is with a four-to-five year, or even longer, perspective, my answer is no. Think about the *faster-for-longer* maxim discussed earlier in this letter and in our letters over the years. Think about where the world is going, not where it's been. Think about how early we are in the generational, tectonic, revolutionary shifts underlying the themes – like AI, EVs, cloud computing, genetics, etc. – that we emphasize in our portfolio. We are confident that these trends and the leading companies driving them forward will gain a lot of weight and be worth a lot more in the future than they are today.

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

- Software: **Dynatrace, Inc.**, **CrowdStrike Holdings, Inc.**, **Workday, Inc.**, and **Ceridian HCM Holding Inc.**

- Biotechnology/Pharmaceuticals: **argenx SE**, **Legend Biotech Corporation**, and **Rocket Pharmaceuticals, Inc.**
- Semiconductors: **indie Semiconductor, Inc.**
- Health Care Equipment: **DexCom, Inc.** and **Shockwave Medical, Inc.**
- Digital Media: **Meta Platforms, Inc.**
- Information Technology and Other Services: **CoStar Group, Inc.** and **Gartner, Inc.**

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

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

Shares of **Rivian Automotive, Inc.**, a U.S.-based electric vehicle manufacturer, rose during the quarter. As we wrote last quarter, we concluded that Rivian was hitting a turning point in its execution, particularly ramping vehicle production, rolling out engineering innovations (such as the Enduro motor and lithium-iron-phosphate (LFP) battery pack) and lowering costs-of-goods-sold per vehicle. Rivian's second quarter results demonstrated that Rivian's unit-level economics continued to improve due to the company's rising production rate, which is driving better fixed cost absorption, and the ramp-up of its cheaper in-house technologies, including Enduro and LFP batteries. Management expects a long road of profitability in the years ahead as Rivian continues to scale production. While backlog remains healthy for now, we are monitoring levels as production volume and competition increase. We think Rivian will benefit from the release of its next-generation R2 model, which it plans to unveil in early 2024. More recently, the company raised $1.5 billion of additional Strategy to support its longer-term business plan and reported third quarter production and delivery figures that beat Street expectations and confirmed that it remained on track to hit its 52,000 annual production target.

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares increased in the quarter given a positive chronic immune demyelinating polyneuropathy (CIDP) Phase 3 trial result. CIDP is an important commercial market representing billions of dollars in potential sales, and investors viewed this data set as a high-profile catalyst. Overall, the market expects the company's strong Vyvgart launch for treatment of generalized myasthenia gravis – with early sales tripling consensus expectations and global approvals coming faster than expected – to continue to grow revenue. We expect the remainder of 2023 and 2024 to have many catalysts, including readouts in pemphigus vulgaris, immune thrombocytic purpura, bullous pemphigoid, myositis, and argenx's Vyvgart subcutaneous formulation launch.

NVIDIA Corporation is a leading semiconductor company that sells chips and software for accelerated computing and gaming. Shares have nearly tripled year-to-date, as the company continues reporting unprecedented growth because of the acceleration in demand for its data center chips. After reporting revenue of $7 billion in the first quarter and providing guidance of $11 billion for the second quarter, NVIDIA reported second quarter revenue of $13.5 billion and guided for another step up in the third quarter to $16 billion, with its CFO declaring "Demand for our Data Center platform for AI is tremendous and broad-based across industries and customers." We are at the tipping point of a new era of computing with NVIDIA at its epicenter.

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 a significant expansion in the addressable market, as generative AI enables natural language human-computer interaction better utilization of data to guide decision making.

Table IV.
Top detractors from performance for the quarter ended September 30, 2023

	Percent Impact
Microsoft Corporation	–0.97%
indie Semiconductor, Inc.	–0.60
Farmers Business Network, Inc.	–0.59
ZoomInfo Technologies Inc.	–0.48
CoStar Group, Inc.	–0.40

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 an over $60 billion cloud business, including its Azure cloud infrastructure service and its Office 365 and Dynamics 365 cloud-delivered applications. The stock detracted from performance because Microsoft is the Strategy's largest holding and shares retreated 7.1% after strong first half performance. For the June quarter, Microsoft reported better-than-expected Azure results for the third straight period, highlighted by Azure revenue growing 27% in constant currency. Its computing division also beat expectations, with Windows revenue benefiting from an early back-to-school inventory build. Microsoft's September quarter revenue guidance came in below Street expectations; however, with Azure effectively in line and demonstrating stabilization, but computing seeing the negative sequential impact of the pull-forward in back-to-school purchases. Looking at the big picture, Microsoft continues to execute at a high level, navigating a challenging macro backdrop while aggressively investing in long-term growth, and we remain confident that Microsoft is well positioned to leverage AI over the medium to long term as it infuses Open AI and other generative AI technologies across its entire product portfolio.

Indie Semiconductor, Inc. is a fabless designer, developer, and marketer of automotive semiconductors for advanced driver assistance systems and connected-car user experience and electrification applications. Shares fell during the quarter due to investor concerns that near-term automotive semiconductor demand will face headwinds because of excess inventory in the automotive semiconductor supply chain, combined with third quarter revenue guidance that slightly missed consensus expectations due to a customer slightly delaying the launch of a new vehicle model where indie had secured a design win (so delayed, not lost sales). As indie steadily ramps new product and design wins into production, we are confident the company will achieve its targeted model of profitability by year end, while effectively doubling revenues as it delivers on its $4.3 billion and growing strategic backlog. We believe indie has the potential to grow from its $200 million revenue run rate today to its targeted $500 million by 2025 and $1 billion by 2028. In the years ahead, indie should benefit as it develops differentiated, highly integrated, energy-efficient products, while the automotive semiconductor vertical remains highly attractive over the long term.

Farmers Business Network, Inc. is a private company attempting to create a two-sided marketplace to connect farmers and agricultural data and supplies. By leveraging its technology and community, it is seeking to disrupt large global agricultural markets dominated by oligopolistic counterparties that control distribution channels. Farmers is a young business and still consuming cash; it remains under-scale and in investment mode. During the third quarter, the company initiated a process for a new funding round with terms that negatively reduced the value of our holdings. The funding round closed after the end of the third quarter. The new securities we purchased during the round resulted in a slight increase in the value we assigned to our Farmers investment at the end of the period. We believe the new round, led by a well-regarded consortium of existing investors, should lead to a fundamental change in Farmers' management team, board, and financial planning. We continue to believe that, with the right structure and management, Farmers can become a larger and more profitable business.

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 third quarter, the largest market cap holding in the Strategy was $2.3 trillion and the smallest was $1.1 billion. The median market cap of the Strategy was $30.8 billion and the weighted average market cap was $668.3 billion.

To end the quarter, the Strategy had $999.4 million of assets under management. We had investments in 47 unique companies. The Strategy's top 10 positions accounted for 52.8% of net assets.

Despite the market decline, Strategy flows remained positive during the third quarter.

Table V.
Top 10 holdings as of September 30, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$2,345.9	$135.3	13.5%
NVIDIA Corporation	1,074.4	85.5	8.6
Tesla, Inc.	794.2	65.2	6.5
Amazon.com, Inc.	1,311.6	61.7	6.2
Meta Platforms, Inc.	772.5	32.6	3.3
argenx SE	28.8	31.8	3.2
Visa Inc.	480.2	29.3	2.9
ServiceNow, Inc.	114.0	29.1	2.9
Gartner, Inc.	27.1	29.1	2.9
CoStar Group, Inc.	31.4	28.6	2.9

Recent Activity

Table VI.
Top net purchases for the quarter ended September 30, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
argenx SE	$28.8	$8.1
Dynatrace, Inc.	13.7	5.9
Legend Biotech Corporation	11.4	5.2
CrowdStrike Holdings, Inc.	40.0	4.9
indie Semiconductor, Inc.	1.1	3.4

Argenx SE is a biotechnology company focused on differentiated antibody-based therapies for the treatment of severe autoimmune diseases and cancer. Argenx's lead product candidate, efgartgimod–now commercially branded as Vyvgart–was developed as a treatment for autoimmune diseases with high levels of circulating pathogenic IgG antibodies. Efgartigimod was approved for the treatment of generalized myasthenia gravis in the U.S., Japan, and Europe, and as described above, early sales have tripled consensus projections. We increased our position in argenx after the company reported positive CIDP Phase 3 trial results, further confirming efgartigoimod's autoimmune disease platform potential. CIDP is an important commercial market representing billions of dollars in potential sales. Going forward, we expect argenx to have a series of catalysts, including data readouts across a plethora of autoimmune diseases, including pemphigus vulgaris, immune thrombocytic purpura, bullous pemphigoid, and myositis.

We initiated an investment in **Dynatrace, Inc**. this quarter. Dynatrace provides an AI-powered data analytics platform for application performance monitoring (APM), information technology (IT) infrastructure monitoring, and application security. The platform gives companies complete visibility of their IT systems, improves application performance, and reduces downtime by predicting IT issues and remediating problems faster when they occur. Dynatrace is trusted by more than 3,000 large enterprises, including many of the world's largest financial institutions, health care companies, retailers, and government agencies. With nearly 20 years of monitoring experience, petabytes of IT telemetry data, and the most powerful AI engine in the space, Dynatrace is the best-positioned vendor to serve these large customers. The company is recognized as a technology leader in its category, helping its clients remediate issues faster than most competitors. As a result, Dynatrace has low churn, commands industry-leading free-cash-flow (FCF) margins, and it is winning market share as customers consolidate their IT monitoring spending away from legacy point solutions onto the Dynatrace platform. We see a long runway for profitable growth as customers expand their digital applications and cloud footprints, consolidate more spending onto Dynatrace, and embrace new complementary products.

During the quarter, we also initiated an investment in **Legend Biotech Corporation**, a biotechnology company dedicated to researching, manufacturing, and distributing cellular therapies for cancers. Legend's lead product is called Carvykti, which is now in the midst of a commercial launch for the treatment of multiple myeloma patients who have second line or more advanced disease. Demand significantly outstrips supply in this approximately 60,000 patient opportunity, as Carvykti has shown best-in-class clinical response rates and offers patients a potential curative one-and-done treatment for their cancer. Partner Johnson & Johnson has already invested about $1 billion into making this cellular therapy possible and investments are expected to continue as the therapy is scaled to what could be a $10 billion to $20 billion revenue opportunity. Given this is a niche market with limited competition, we expect continued strong financial growth from Legend.

Table VII.
Top net sales for the quarter ended September 30, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Electronic Arts Inc.	$35.2	$9.7
Cloudflare, Inc.	21.1	3.9
TKO Group Holdings, Inc.	14.5	1.2
GitLab Inc.	7.0	1.1
Datadog, Inc.	29.6	0.5

We exited our investment in **Electronic Arts Inc.** to fund purchases of other names in which we have more conviction.

We slightly trimmed our investments in **Cloudflare, Inc.**, **GitLab Inc.**, and **Datadog, Inc.** to fund increases in the software names listed in the Review and Outlook section above. Effectively, we engineered a slight shift from companies currently valued on sales multiples to those valued on FCF.

We trimmed our investment in **TKO Group Holdings, Inc.** down to a position size we were more comfortable with because of uncertainties regarding the competitive environment in the mixed martial arts space and TV carriage deals in the wrestling vertical.

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.