Baron Large Cap Growth Strategy

December 31, 2023

Dear Investor:

Performance

Baron Large Cap Growth Strategy® (the Strategy) was up 17.64% in the fourth quarter, which compared favorably to the 14.16% gain for the Russell 1000 Growth Index (the Benchmark) and the 11.69% gain for the S&P 500 Index, the Strategy's benchmarks.

For the year, the Strategy finished up 57.79% compared to gains of 42.68% and 26.29% for the benchmarks, respectively.

Table I.
Performance for annualized periods ended December 31, 2023 (Figures in USD)†[1]

	Baron Large Cap Growth Strategy (net)[2]	Baron Large Cap Growth Strategy (gross)[2]	Russell 1000 Growth Index[2]	S&P 500 Index[2]
Three Months[3]	17.64%	17.84%	14.16%	11.69%
One Year	57.79%	58.86%	42.68%	26.29%
Three Years	(4.59)%	(3.94)%	8.86%	10.00%
Five Years	12.01%	12.77%	19.50%	15.69%
Ten Years	11.17%	11.94%	14.86%	12.03%
Fifteen Years	13.87%	14.62%	16.68%	13.97%
Since Inception (September 30, 2004)[4]	9.78%	10.65%	11.91%	10.00%

Table II.
Calendar Year Performance 2019-2023 (Figures in USD)

	Baron Large Cap Growth Strategy (net)[2]	Baron Large Cap Growth Strategy (gross)[2]	Russell 1000 Growth Index[2]	S&P 500 Index[2]
2019	34.36%	35.24%	36.39%	31.49%
2020	51.10%	52.12%	38.49%	18.40%
2021	11.22%	11.99%	27.60%	28.71%
2022	(50.51)%	(50.18)%	(29.14)%	(18.11)%
2023	57.79%	58.86%	42.68%	26.29%

U.S. large-cap growth equities staged a remarkable comeback in 2023, with the Russell 1000 Growth Index registering its strongest year ever with a 42.7% return. As 2023 began, pessimism lingered due to the Federal Reserve's interest rate hikes, concerns about a recession, ongoing geopolitical tensions, and weak investor confidence following the prior year's brutal 29.1% market decline, the worst since the Great Financial Crisis of 2008. However, defying expectations, stocks declines came to a halt. Restructuring announcements and modest earnings downgrades, surprisingly, met with positive reactions from analysts and investors, pushing the index up 14.4% in the first quarter. This momentum continued through spring and early summer as the Fed signaled potential pauses in interest rate hikes, resulting in a further 12.8% gain for the index. Fall, however, brought a realization that a stronger economy with a lower recession risk meant higher interest rates for longer, prompting a 3.1% pullback in the third quarter. Yet, declining inflation data and a shift in investor focus towards potential rate cuts fueled a final surge, ending the year with a stellar 14.2% quarterly gain.

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 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- and 5-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund'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 1000® Growth Index** is an unmanaged index thagt measures the performance of large-sized U.S. companies that are classified as growth 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 Strategy includes reinvestment of dividends, net of foreign withholding taxes, while the **Russell 1000® Growth Index** and the **S&P 500 Index** includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts performance results. The indexes are unmanaged. Index performance is not Strategy performance. Investors cannot invest directly into an index.

3 Not annualized.

4 The Strategy has a different inception date than its underlying portfolio, which is April 30, 2004.

The Strategy delivered impressive gains during market upswings, recording quarterly increases of 19.7%, 16.0%, and 17.6%. Even during the single down quarter, it demonstrated resilience with a moderate 3.5% decline, resulting in a remarkable annual return of 57.79%. While we celebrate this achievement and the significant outperformance against benchmarks, it's important to acknowledge the challenging year of 2022. We are encouraged by this positive start, but we recognize the work ahead to regain lost ground.

In terms of quarterly performance attribution, the results were solely influenced by stock selection, contributing 3.45% to the 3.49% outperformance. The impact of selection was particularly notable in Information Technology (IT), where all our investments recorded double-digit gains, with seven out of thirteen holdings experiencing increases of at least 30%. We also benefited from positive stock selection in Financials, driven by **Block** and **Adyen's** respective surges of over 70%. However, this positive performance was partially offset by underperformance in Health Care, Consumer Discretionary, Communication Services, and Industrials. Notably, there were few significant detractors during the quarter. For instance, **argenx**, a leading immunology company, experienced a stock decline of 22.6% due to a failed clinical trial, while **GM Cruise**, an autonomous driving company, suffered a significant revaluation downward following a well-publicized setback in San Francisco, resulting in a 0.71% and 0.52% impact on the Strategy, respectively.

For the full year, the Strategy's 14.90% of outperformance was driven mostly by stock selection, which was responsible for 10.39% of outperformance, while sector allocation effect contributed 4.47%. IT was our most productive sector, driving 9.04% of outperformance, followed by Consumer Discretionary, which drove another 4.06%. Most of the relative gains were attributed to stock selection within our top three sectors, yielding returns of 82.7% in IT, 74.6% in Consumer Discretionary, and 68.2% in Communication Services. These returns surpassed the Russell 1000 Growth Index sector returns of 64.9%, 52.7%, and 64.7%, respectively. Additionally, our decision to avoid investments in Consumer Staples, Energy, Real Estate, and Utilities, the worst-performing sectors in the Benchmark in 2023, proved beneficial. However, our strong performance was somewhat offset by suboptimal stock selection and our overweight positions in Financials and Health Care, resulting in a 2.49% decline in relative returns.

The past two years were a rollercoaster for equity investors, showcasing the dramatic swings that stock prices can experience. However, we've always maintained that while prices may fluctuate, the underlying fundamentals of businesses tend to evolve much slower. This principle held true in the recent quarter. Despite stock prices dropping 50% in 2022 and surging 58% in 2023, our businesses' intrinsic value didn't experience such drastic changes. Competitive advantages, brand reputation, company culture, and innovation capabilities aren't built overnight. They are nurtured and developed over years, gradually increasing a company's ability to solve customer problems and create economic value. This value compounds over time, eventually becoming more evident and reflected in the stock price. As long-term investors, we stay focused on the quantitative and qualitative fundamentals of our companies. We firmly believe that, in the long run, stock prices will catch up to these underlying realities.

We think it is important to differentiate between stock market volatility and the risk of a permanent loss of capital. While most investors define risk as volatility, we are not convinced that trying to manage or even mitigate the effects of market volatility is a worthwhile exercise. We believe that long-term investors should prioritize maximizing capital appreciation over time while minimizing the likelihood of permanent capital losses. This approach closely aligns with our expectations for how management teams should allocate capital in the businesses they oversee. We believe that accurately predicting the market's direction consistently is impossible. Consequently, we are not willing to sacrifice the potential long-term upside in the values of our businesses for the sake of mitigating temporary losses during corrections or bear markets. However, we are not hesitant to seize the opportunities presented by market corrections, as we did in 2022.

So how would we assess the performance of our businesses in 2023?

Towards the latter part of 2022, it had become apparent that the broader economic uncertainty was impacting business fundamentals even in the most resilient companies. As customer focus shifted to cost-cutting, sales cycles lengthened, and deal closure rates declined significantly. Digital transformation companies like **EPAM** and **Endava** experienced it earlier as projects got delayed and pushed out. We may have overestimated how high these projects were on their customers' priority lists – at least during times of severe budget constraints and economic downturns. Similarly, companies with consumption-based business models, like **Snowflake**, **Datadog**, and even **Amazon**'s Web Services (AWS), saw the impact of lower usage by their customers translate immediately into lower revenue growth. Even though this trend continued into early 2023, stock prices stopped going down and, in many cases, started moving up as the sentiment changed that this is likely as bad as it is going to get. Towards the middle of the year, many of our companies started reporting stabilization, and some have seen improvement in short-term business fundamentals. As the year progressed, it became clear that many of those customers were moving towards the final stages of their optimization processes. During the second half of the year, investors became aware of the transformative impact of generative artificial intelligence (GenAI). This introduced a new and potentially strong catalyst for digitization and widespread adoption of cloud technology.

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

	Percent Impact
Shopify Inc.	2.27%
ServiceNow, Inc.	2.03
Amazon.com, Inc.	1.85
CrowdStrike Holdings, Inc.	1.79
NVIDIA Corporation	1.67

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

new offerings, with its emerging products category growing at a 71% CAGR from 2019. We remain shareholders due to Shopify's strong competitive positioning, innovative culture, and long runway for growth, as it still holds less than a 2% share of the global commerce market.

ServiceNow, Inc. offers cloud-based solutions that improve workflow efficiency through automation and digitalization. The stock rose 26.4% in the fourth quarter, finishing the year up 82.0%. Stock appreciation was supported by strong quarterly results above expectations with 24.5% year-over-year subscription revenue growth in constant currency and 30% non-GAAP operating margins despite ongoing macro complexities. In addition, the stock benefited from growing investor expectations that the company would benefit from the integration of GenAI technology into its products, and a rise in software stocks more broadly. Management noted that key business drivers included strong traction with government customers, improving momentum with new customers, and budget consolidation into platforms like ServiceNow. Furthermore, the company introduced its GenAI-supported product line, marketed under a new higher-priced Pro Plus SKU, at the end of the quarter. It has already secured multiple customers, with hundreds more in the pipeline. We expect the new product line to yield significant efficiencies for customers by enhancing their capacity for automation and digitization. We also anticipate a wider adoption of the Pro Plus SKU, establishing an additional growth engine for ServiceNow. This will further support the company's sustained long-term growth.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were up 19.5% in the quarter and finished the year up 80.9%. Reported quarterly results were better than consensus estimates, with 11% year-over-year revenue growth in constant currency, a significant beat in North American operating profit as operating margins reached 4.9% and a recovery in the cloud division, AWS, which grew 12% year-over-year, and management reported that the impact of customer optimizations was attenuating. We believe AWS has several years of growth ahead, driven by the ongoing shift of IT budgets from on-premise solutions to the cloud. Additionally, Amazon's dominant position in the market solidifies its leadership, presenting substantial opportunities for expansion, particularly in application software and the facilitation of GenAI workloads. We also believe Amazon is well positioned in the short-to-medium term to further 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.

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

	Percent Impact
argenx SE	–0.71%
GM Cruise Holdings LLC	–0.53
The Trade Desk	–0.41
Rivian Automotive, Inc.	–0.33
Veeva Systems Inc.	–0.21

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares fell 22.6% in the quarter, though they still closed the year up 0.8%, on the back of failed clinical trials in immune thrombocytopenic purpura and pemphigus vulgaris that called into question the breadth of FcRn treatment applicability. While the exact nature of these data sets is nuanced and not thesis-breaking, in our view, there are now real questions for the FcRn space that have not existed in the narrative for years. On the positive side, the strong launch of Vyvgart, with early sales tripling consensus expectations and global approvals coming earlier than guided, should continue to drive revenue growth and justifies a defensible valuation based on cash flow analysis. We expect 2024 to be another year of solid performance, with many catalysts including readouts in myositis, Sjogren's syndrome, multifocal motor neuropathy, and argenx's subcutaneous formulation launch. We believe that positive readouts within those trials and others would expand argenx's opportunity set and therefore remain shareholders.

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.

The Trade Desk is the leading internet advertising demand-side platform, enabling agencies and companies to efficiently buy and track digital advertising across desktop, mobile, online video, and connected TV (CTV) channels. Shares were down 8.0% in the fourth quarter, though they still finished the year up 59.1%, after the company guided fourth quarter revenue growth of 18% year-over-year. This was as a result of heightened macro uncertainty impacting advertising budgets early in the fourth quarter particularly in the auto, consumer electronics, and media and entertainment industries, and despite the company noting an improvement in November. While guidance significantly outpaces competitors, suggesting that the Trade Desk is gaining market share, it was below consensus expectations and drove the share price action. We do not view this slowdown as structural and believe the company remains well positioned for 2024 and beyond, with strong tailwinds in CTV as more households continue to cut the cord and as more streaming services adopt and grow their CTV advertising businesses, while a growing proportion of advertisers adopt programmatic advertising. In addition, we believe that the company would benefit from growth in retail media, which enables connecting offline retail sales data with online digital advertising data, the adoption of the company's new platform, growth in audio, and more. Longer term, we remain positive on the company given its technology, scale, and estimated 10% share in the $100 billion programmatic advertising market, a small and growing subset of the $700 billion global advertising market.

Portfolio Structure

The Strategy is constructed on a bottom-up basis, with the quality of ideas and conviction level determining the size of each investment. Sector

weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view."

As of December 31, 2023, our top 10 holdings represented 59.4% of net assets, and our top 20 represented 86.9%. This compares to weightings of 54.5% and 86.2%, respectively, at the end of 2022. We finished the year with 30 individual investments. IT, Consumer Discretionary, Health Care, Communication Services, and Financials made up 97.3% of net assets. The remaining 2.7% was made up of **GM Cruise** and **SpaceX**, our two private investments classified as Industrials and cash.

The Strategy's turnover was 11.6% in 2023, compared to an average turnover of 21.6% over the last three years and an average turnover of 20.1% over the last five years.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
NVIDIA Corporation	$1,223.2	$54.3	10.1%
Amazon.com, Inc.	1,570.2	43.7	8.1
ServiceNow, Inc.	144.8	38.5	7.1
Meta Platforms, Inc.	909.6	32.2	6.0
Shopify Inc.	100.2	32.0	5.9
Snowflake Inc.	65.5	26.8	5.0
Intuitive Surgical, Inc.	118.8	25.2	4.7
Tesla, Inc.	789.9	23.3	4.3
CrowdStrike Holdings, Inc.	61.3	22.5	4.2
MercadoLibre, Inc.	79.5	21.7	4.0

Recent Activity

During the fourth quarter, we bought one new investment – the leading software provider, **Microsoft**, which we believe has a high likelihood of becoming a key beneficiary of GenAI. We also added to five existing positions, including continuing to build our newer position in the leading e-commerce platform in Korea, **Coupang**, while also adding to the financial services and point-of-sale software and payments provider, **Block**, the leading demand side advertising platform, **Trade Desk**, the cloud-based commerce platform, **Shopify**, and the leading Latin American e-commerce platform, **MercadoLibre**. Lastly, we reduced twelve existing positions and sold one – the B2B sales and data provider **ZoomInfo** – reallocating to names in which we saw a more positively skewed long-term risk-reward equation.

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

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Microsoft Corporation	$2,794.8	$11.9
Block, Inc.	47.5	1.4
Coupang, Inc.	28.9	1.3
The Trade Desk	35.3	0.6
Shopify Inc.	100.2	0.4

Our biggest purchase in the fourth quarter was a new position we initiated in the software platform **Microsoft Corporation**. Under the leadership of Satya Nadella, Microsoft has undergone a transformation, shifting from a windows-centric, on-premises technology provider to one of the top two global cloud providers. Currently, cloud services account for over 55% of the company's total revenues and have exhibited rapid growth. Microsoft has successfully built a $125 billion run-rate cloud business that continues to expand at a brisk pace, solidifying its position and gaining market share. In the latest quarterly earnings release, Microsoft Cloud demonstrated a remarkable 23% year-over-year growth in constant currency, surpassing the company's overall 12% constant currency growth and outpacing its main competitors. This impressive growth rate implies that Microsoft added a run rate of approximately $24 billion in cloud revenues year-over-year. To provide context, $24 billion is nearly equivalent to the size of Mastercard's business, more than eight times Snowflake's total revenue, and almost three times ServiceNow's total revenue.

We also believe that Microsoft is one of the best competitively positioned large-cap companies with its vertically integrated software stack (infrastructure + applications), while the inflection in the adoption of artificial intelligence (AI) and GenAI represents potentially the biggest addressable market expansion for the company in recent history. We also believe that Microsoft's competitive position in AI is advantageous. This advantage stems from the fact that Microsoft doesn't encounter the innovator's dilemma in its core business, unlike Alphabet's core search business, which might face risks due to GenAI technology. Microsoft also has a tight partnership with OpenAI, has a large proprietary data asset built over time, and has a go-to-market advantage through a vast and robust partner ecosystem and its significant installed base and product bundling opportunities. These should enable it to cross-sell its existing user base as AI becomes embedded into current and new products.

While businesses are early in their adoption of GenAI, Microsoft has shared various data points last quarter that point to broad interest by organizations in GenAI:

- 18,000 companies used Azure OpenAI in the September quarter, up from 11,000 in the prior quarter.
- M365 Copilot, Microsoft's productivity assistant that only went live on November 1, 2023, was used by 40% of Fortune 100 companies in early access (prior to going live).
- GitHub Copilot, an AI-based coding assistant, has passed the 1 million paid users milestone, with number of customers up 40% quarter-over-quarter.

M365 Copilot could become the next major franchise for the Office customer base of around 400 million business seats and 70 million consumer seats, which we expect to help power results for years to come. When Office 365 was released, it took approximately two years to reach 20% of the Office Commercial base, which we believe is a useful construct to think about the potential ramp for M365 Copilot. Ultimately, we believe every Office user will be a candidate to upgrade to Copilot over time as more enhancements are made to the platform and Microsoft employs its bundling strategies.

We maintain our belief that this will empower the company to consistently gain market share across its various segments, particularly in cloud and AI. This, in turn, will drive durable, long-term double-digit growth trajectory for the business, accompanied by best-in-class profitability. Lastly, we believe shares are reasonably priced for this high-quality franchise and what should be a year of accelerating revenue growth in fiscal 2024. The company can lap the easy comps from the cyclical consumer business, F/X headwinds are

abating, and Azure continues to post upside to the conservative guidance and likely reaccelerates later this year as customer optimizations attenuate. We also expect Microsoft to invest prudently in the business, prioritizing rapidly growing segments, which should support continuous healthy double-digit EPS growth for years to come.

During the quarter, we also added to our existing investment in **Block, Inc.** The company provides a point-of-sale technology to small businesses and operates the Cash App ecosystem of financial services for individuals. Following the company's announcement of strong quarterly results, it has also provided guidance indicating its aim to achieve a rule of 40 on GAAP profitability for the fiscal year 2026. This implies that the combined growth of gross profit and GAAP operating margins would be at least 40%. We believe Block's businesses are resilient, and greater management focus on cost discipline should drive further margin expansion over the long term. We also believe that Block has a long runway for growth, durable competitive advantages, and a robust track record of innovation.

We also took advantage of stock price volatility and slightly added to several existing positions:

- The Korean e-commerce platform **Coupang, Inc.**, whose stock corrected during the quarter following a miss on EBITDA margins, which we don't view as structural. The company continues to gain market share while holding significant competitive advantages thanks to its robust delivery network.
- The demand side advertising platform, **The Trade Desk**, which also saw stock price volatility as a result of near-term slowdown in advertising spend by customers in several industries (see above), which we also don't view as structural.

Lastly, we modestly increased the size of our investment in the e-commerce platform, **Shopify Inc.**, which shared robust progress in expanding its platform both horizontally (to the enterprise segment, the B2B segment, and to international and cross-border markets) as well as vertically with incremental offerings (both internal and external through its robust ecosystem) while also rapidly expanding profit margins, increasing our conviction in the name.

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)
Mastercard Incorporated	$ 400.0	$8.5
ZoomInfo Technologies Inc.	6.0	5.4
EPAM Systems, Inc.	17.2	2.9
Datadog, Inc.	39.9	2.0
NVIDIA Corporation	1,223.2	1.3

Outlook

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

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

Though we have a view on many of these important topics, we do not have the answers. The range of outcomes continues to be extremely wide, creating a challenging environment for investors. Since we are not macro investors or sports-talk radio hosts, we stick to focusing on high-quality businesses with durable competitive advantages and large and growing addressable markets that create innovative solutions for their customers and that are managed by exceptional people. From the 30,000-foot view, our companies have reported improving business trends as 2023 progressed.

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

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

  This trend should be a tailwind for many of our businesses that enable or benefit from digitization such as the cybersecurity platform, **CrowdStrike**, the infrastructure and application monitoring platform, **Datadog**, the data platform, **Snowflake**, or the digital IT service provider **Endava**. We also believe that GenAI offers an opportunity for leading platforms such as **ServiceNow** to effectively increase the monetization of their software platforms by embedding AI solutions into their existing products, which could significantly increase the value of their solutions for customers and hence enable incremental monetization for the platform.

- Market share gains: Many of our companies have been reporting on customer consolidation trends and rising win rates against competitors. In its their most recent quarterly conference call, Datadog described a customer who replaced seven different tool providers with the Datadog platform and another one who replaced a dozen different tools and moved to Datadog.

- Rapid innovation: The velocity of innovation separates our portfolio companies from their competitors, while lengthening their revenue growth runway. The leading commerce platform, **Shopify**, is a great example. Over the last year, despite announcing a 23% reduction in workforce, the company was able to accelerate innovation as they improved its offering for large enterprise merchants (driving a 38-to-1 win-loss ratio for enterprise merchants), B2B merchants, and merchants with brick-and-mortar stores. In addition, the company deepened and improved a variety of merchant solutions while also enhancing third-party development capabilities through solutions such as Shopify Functions that enable customization of Shopify's software.
- Improving unit economics: Many of our companies were able to significantly expand margins during 2023 even though revenue growth decelerated for some of them, showcasing the power of their capital-light, recurring revenue business models, and their increased focus on efficiency. One notable public example that played a role in encouraging other companies, particularly in the IT sector, to enhance their efficiency is X (formerly Twitter). After Elon Musk's acquisition, X significantly reduced its headcount by 80%, despite experiencing increased user engagement. Another well-known example is **Meta**, for which cost controls and margin expansion this year have been a key reason behind the stock's outperformance. Other less well-known examples include the commerce platform, Shopify, which anticipates its operating margins to go from breakeven to 10.9% in 2023 thanks to the sale of its money-losing logistics business, and a 23% reduction in its workforce. Even more impressive is the fact that the company managed to increase its innovation velocity while reducing its headcount, alongside enhancing sales and marketing productivity. **CrowdStrike** expects its operating margins to increase from 15.9% in 2022 to 20.8% in 2023. The company's platform offering is gaining traction among a growing number of customers, evident from the significant increase in deals involving eight or more modules, which surged by 78% year-over-year in the last quarter. This will serve as a boost to sales productivity.

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

We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities while remaining patient and investing only when we believe 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.

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. The Strategy invests primarily in equity securities, which are subject to price fluctuations in the stock market. 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. The Strategy may not achieve its objectives. 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 managers 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.