Baron Large Cap Growth Strategy

June 30, 2023

Dear Investor:

Performance

Baron Fifth Avenue Growth Strategy® gained 16.04% during the second quarter, which compares to gains of 12.81% for the Russell 1000 Growth Index and 8.74% for the S&P 500 Index, the Strategy's primary and secondary benchmarks. Year-to-date, the Strategy is up 38.93% compared to the gains of 29.02% for the Russell 1000 Growth and 16.89% for the S&P 500 Indexes.

Table I.
Performance for annualized periods ended June 30, 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]	16.04%	16.23%	12.81%	8.74%
Six Months[3]	38.93%	39.39%	29.02%	16.89%
One Year	25.35%	26.19%	27.11%	19.59%
Three Years	(2.56)%	(1.89)%	13.73%	14.60%
Five Years	6.46%	7.18%	15.14%	12.31%
Ten Years	12.45%	13.24%	15.74%	12.86%
Fifteen Years	10.39%	11.13%	12.92%	10.88%
Since Inception (September 30, 2004)[4]	9.31%	10.17%	11.64%	9.83%

Table II.
Calendar Year Performance 2018-2022 (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]
2018	1.40%	2.04%	(1.51)%	(4.38)%
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)%

We have seen an unusually wide dispersion of returns in the first half of 2023. The *Magnificent Seven* – **NVIDIA** +190%, **Tesla** +113%, **Meta** +138%, **Apple** +50%, **Amazon** +55%, **Microsoft** +43%, and **Alphabet** +36% led the surging NASDAQ Composite Index to a 32.3% gain, while the Dow Jones Industrial Average advanced just 4.9%. Large-cap stocks gained 16.7%, as measured by the Russell 1000 Index, while small-cap stocks were only up 8.1%, as measured by the Russell 2000 Index. The S&P 500 Index advanced a respectable 16.9%, but would have only been up about 6% without the massive gains of the *Magnificent Seven*.

The Information Technology (IT) sector had its strongest half-year performance in more than 25 years, appreciating 48.8% and outperforming the Russell 1000 Growth Index by 19.8% (including IT) or by 32.1% if we exclude IT from the Russell 1000 Growth Index. As of June 30, 2023, NVIDIA, Amazon, Meta (though classified as Communication Services), and Tesla (classified as Consumer Discretionary) were among our five largest holdings, representing 29.2% of the Strategy, after we added to them in the latter parts of 2022 and the first quarter of 2023.

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 June 30, 2023, total Firm assets under management are approximately $41.8 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 1-800-99BARON. 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.

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.

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

	Quarter End Market Cap (billions)	Percent Impact
NVIDIA Corporation	$1,044.9	4.27%
Amazon.com, Inc.	1,337.5	2.07
Meta Platforms, Inc.	735.5	1.83
Intuitive Surgical, Inc.	119.8	1.71
Shopify Inc.	82.8	1.70

The second quarter was characterized by a continuation of trends we saw earlier in the year. The macro-related uncertainty remains elevated and continues to point to a wide range of outcomes. The yield curve is still inverted as the Fed tries to thread the needle between bringing inflation under control and not driving the U.S. economy into a recession. Inflation is clearly slowing down as supply chains improve following the shocks of COVID-19 and the Ukraine war. The most recent reading of the CPI (for the year ended June 2023) came in at 3.0%, the lowest reading in over two years. According to an analysis by UBS[1], headline *global inflation is now below pre-pandemic levels* and core inflation has reversed two thirds of the pandemic run up and the improvement is in both goods and services. As always, we have no idea how many more hikes the Fed has in store for us before it ends the most significant interest rate hiking cycle in over 40 years, but it is clear to everyone that we are inching closer to the end of it with every passing day. The jobs report suggests that the Fed rate hikes are having an impact, as monthly job openings have dipped below 10 million a few times in recent months after being above that number for over two years. After the gloomy outlook investors had at the end of 2022, markets are up significantly from the bottom, with both the S&P 500 Index and the Russell 1000 Growth Index now technically in bull market territory.

From a performance attribution perspective for the second quarter, compared to the Russell 1000 Growth Index, about half of our outperformance came from stock selection and half from the effect of sector allocation. Stock selection was strongest in Communication Services, Health Care, and Information Technology, while not having any investments in Consumer Staples, Real Estate, Energy, and Materials also contributed to relative returns. Looking under the hood at the contribution of individual holdings we had 20 gainers against 9 decliners for an impressive 69% batting average in the quarter. We were equally happy with our slugging percentage as NVIDIA, **GitLab**, Meta, **Datadog**, **Shopify**, and **Intuitive Surgical** all gained over 30%, while four other investments were up over 20%. On the other side of the ledger, **EPAM**, **Endava**, and **Illumina** were the main detractors to performance.

Other than NVIDIA, which is seeing material tailwinds, our companies reported consistent trends for the past several quarters. On the one hand, macro headwinds are still causing a cautious spending environment with elongated sales cycles as customers are taking longer to decide and require higher level approvals for lower budgetary commitments, which is driving lower conversion rates to signed contracts. On the other hand, the leading solution providers are gaining market share as customers are consolidating spending on their top vendors. These are the companies we tend to favor in the Strategy. As leading platforms gain market share, they widen their competitive moats – the more customers they win, the more data they get, enabling them to continuously improve their products over time, which in-turn should help them win more customers, reinforcing the cycle. Here are a few examples of supporting commentary from our companies during recent public calls:

- **ServiceNow**'s CEO during the company's 2023 investor day: "*40% of the CEOs out there today say, "If I don't change course, I will not have a viable company in the next 10 years." And digital transformation is at the top of their agenda. The tech landscape is consolidating quite quickly. As you know, point solutions have really gone out of favor. And platforms now, especially if they're cloud-based, are ruling the day.* ***93% of the execs out there are consolidating point solutions and tech that doesn't matter into cloud-based platforms that do.*** *"*
- **CrowdStrike**'s CEO on the company's quarterly earnings call: "*Another megatrend continuing to unfold in cybersecurity is consolidation. The macro backdrop has only accelerated the need for customers to reduce vendor sprawl, reduce agents, reduce cost and protect their businesses with the best of SaaS platform… In Q1,* ***we closed over 50% more deals involving 8 or more modules compared to a year ago****… Over the past few months, I have personally met with many of our customers, prospects, and partners. These conversations all centered on the same topic.* ***Customers want to consolidate their security stack with Falcon*** *and drive greater cost efficiencies while unlocking new capabilities."*
- **Datadog**'s CFO in a William Blair conference: "*What we've been finding over time is, there's been a* ***steady consolidation away from other point solutions or observability towards Datadog. That appears to be accelerating****, of which, because they can both increase the functionality of the platform by having it integrated and save money by consolidating."*

Is Generative Artificial Intelligence (GenAI) real? Is it material? Is it sustainable?

We believe the answer to all three of these questions is Yes. Ever since ChatGPT burst onto the scene in November of 2022, the buzz and excitement in the investment community has been overshadowing the healthy skepticism of many Wall Street analysts and executives who were pointing out the lack of clear business models or tangible evidence of broader enterprise adoption in any quantifiable way. And then NVIDIA reported its first quarter results and offered the guidance "heard around the world." The company's guidance for the July quarter revenues was for $11 billion, which compared to consensus expectations of $7 billion and the first quarter's revenues of $7.2 billion. We cannot recall a comparably large percentage sequential revenue revision for a company of this size… ever. Now add to this everything we just described about the current economic environment with elongated sales cycles and lower closure rates, and it plainly baffles the mind. How did the company explain what was happening? **GenAI!**

In November of 2018, Ron Baron, Michael Baron, Mike Lippert, Ashim Mehra, Ishay Levin, Guy Tartakovsky, and I visited NVIDIA's headquarters in Santa Clara, California. NVIDIA is the leading fabless semiconductor company focused on the design and development of Graphics Processing Units (GPUs) that are used in high-end computers for gaming and servers that run data centers. Jensen Huang, the company's CEO, was incredibly generous with his time and spent a few hours with us explaining how large of an opportunity AI was and why no other company was better positioned to benefit from this paradigm shift than NVIDIA. Jensen suggested that the accelerating power of

[1] UBS note from 06/30/2023 – Global Economic Perspectives "The state of global inflation".

computing will result in a 100x improvement over the next 10 years. Well… he was wrong. His company's GPUs got there in less than five.

Over the last few years our thesis on NVIDIA has been that it will be the biggest beneficiary of AI entering the mainstream because its GPUs give it a de facto monopoly on AI training. The well documented slowdown in Moore's Law and Dennard scaling (doubling of computing power every 18 months for the same price) has significantly constrained the growth of supply at a time when demand for accelerated computing power is exploding. NVIDIA's data center revenues came in at $4.3 billion in the first quarter and accounted for the majority of the guidance raise, essentially implying a *near doubling of data center revenues…sequentially!*

> *"The AI revolution is officially here!"* – proclaimed Seeking Alpha in early July.
>
> *"AI could contribute $15.7 trillion to the economy in 2030. That's more than the current output of China and India combined"* – PriceWaterhouseCoopers.
>
> *"97% of our customers said GenAI will be transformative to their company and industry, and 67% of organizations are planning to increase their level of spending in technology and prioritize investments in data and AI."* – Accenture on its most recent quarterly earnings call while simultaneously disclosing over 100 ongoing GenAI projects with customers and its own $3 billion investment in AI.

We have explained the significance and importance of Microsoft's/Open AI ChatGPT over the last two quarterly letters. Microsoft's AI copilots, ServiceNow's AI-based Now Assist, **Adobe**'s Firefly for creators and marketers, **Snowflake**'s collaboration with NVIDIA, and container services in Snowpark enabling customers to train and run domain-specific AI-models on Snowflake's platform using customers' own proprietary data. And so on… suffice it to say, there is now plenty of *tangible evidence of broader enterprise adoption*.

The undeniable hype notwithstanding, we think GenAI is real. We think it is material. And not only do we believe it is sustainable, but we also recognize how early we are in this transformation. This is why we are not selling our NVIDIA stock even though it appreciated 190% in the first six months of the year. We often talk about pattern recognition. Remember Lou Gerstner's estimate of how many personal computers were going to be sold in the entire world? There are more recent examples too. The iPhone was introduced in June of 2007. Its revenues in 2013 were 3x of consensus expectations in 2009. Tesla's revenues in 2020 exceeded initial estimates from 2012 by 5x.

There is of course another side to disruptive change.

"Since March, we saw a significant spike in student interest in ChatGPT. We now believe it's having an impact on our new customer growth rate." – CEO of Chegg, an education technology company, on its quarterly earnings call in May of 2023.

The next day, Chegg's stock lost almost half of its value. In the days that followed, several sell-side analysts published reports listing baskets of companies they perceived as being at risk of becoming the next Chegg. Predictably, many investors chose to shoot first and ask questions later, as the stocks of Adobe, GitLab, Endava, EPAM and others sold off. While some companies, such as Adobe and GitLab, have quickly recovered lost ground by introducing their own AI products, reporting solid financial results, or successfully changing the narrative (shares of GitLab are up 91% from the early May lows), many have not. The digital IT service providers, Endava and EPAM, are in that latter camp. The bear thesis on these companies is that GenAI will make developers more productive, and since Endava and EPAM's business models are mostly based on time and materials, the productivity boost will negatively impact them. The fact that both companies are experiencing near-term cyclical headwinds due to the current complex macro environment (and of course, EPAM has been significantly disrupted by the war in Ukraine), feeds right into these concerns, making them impossible to disprove in the near term. Both companies are among our top detractors for the second quarter and year-to-date. While we acknowledge there is a range of possible outcomes here, we believe both companies offer compelling long-term risk/reward profiles and hence do not view their 30%-plus year-to-date declines as permanent losses of capital. Here are a few reasons that underpin our conviction:

- The demand for digitization will likely increase due to the rise of AI as most enterprises are still at the earlier stages of modernizing their data architecture and processes, which is a prerequisite before they could take advantage of AI. Here is the CEO of Accenture again on the company's recent earnings call: *"All are interested in AI, and particularly, generative AI. But most* ***recognize the work ahead of them to get their data, people, and processes ready for GenAI****. To reinvent requires a strong modern digital core."*
- As customers benefit from greater productivity, history suggests that they are likely to spend more, not less – productivity enhancements have been ongoing for years and have not driven a decline in demand. On the contrary, the expanded opportunity set and demonstrably high returns on investments have proven to be reliable catalysts in the past.
- Digital IT services companies focus on helping their clients build new products and improve existing ones as opposed to mundane maintenance or business process outsourcing work. It is unclear to us whether this type of end-to-end work from ideation to implementation can be automated with AI.
- Both Endava and EPAM are trading near multi-year low valuation multiples on cyclically impacted earnings – this offers a significant margin for safety for long-term shareholders, in our view.

Having investments in areas that are undergoing a disruptive change is never easy, particularly when it coincides with challenging macro-economic ***and*** geo-political times. The majority of market participants focus, and act based on their near-term expectations. Sometimes, that creates inefficiencies and opportunities for long-term oriented investors. We have identified opportunities in companies that we believe have been erroneously placed into the losers' bucket and companies that market participants are likely to underestimate their duration of growth. Human beings are much better at thinking linearly as opposed to exponentially[2] and have historically underestimated the steep parts of the S-curves as disruptive change occurs. The rate of change, the velocity of change in GenAI is breakneck. New AI models are introduced almost on a weekly cadence, outperforming existing, state-of-the-art models, which themselves were much better than models released just months prior. We have also moved beyond models. GenAI is now diagnosing rare diseases that had gone undiagnosed for years, creating new musical and photographic content indistinguishable from similar content made by humans, and creating virtual avatars that can fool both

[2] https://hbr.org/2017/05/linear-thinking-in-a-nonlinear-world

family members and voice authentication systems. Mark Andreesen launched the Mosaic browser in 1993 in the process, making the internet accessible to everyone. Someone recently suggested that the launch of ChatGPT in 2022 will do the same for GenAI. If they are right… we are in for an exciting ride!

NVIDIA Corporation is a fabless semiconductor company focused on designing chips and software for gaming and accelerated computing. Shares continued their torrid first quarter rise, increasing 52.3% in the second quarter (now up 190% year-to-date), after the company reported a meaningful acceleration in demand for its data center GPUs, which drove a material guidance beat with revenues expected to increase from $7.2 billion to approximately $11 billion sequentially. This unprecedented acceleration is driven by growing demand for GenAI. We are at the tipping point of a new era of computing with NVIDIA at its epicenter. While the opportunity within the datacenter installed base is already large at approximately $1 trillion, the pace of innovation in AI in general, and GenAI in particular, should drive a significant expansion in the addressable market, as AI creates a new way for human-computer interaction through language, and as companies are better able to utilize their data for decision-making. We remain shareholders as we believe NVIDIA's end-to-end AI platform and the ecosystem it has cultivated over the last 15 years will benefit the company for years to come.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. During the quarter, Amazon's shares increased 26.2% as a result of improving investor perception regarding the company's advancements in AI, as well as an anticipated slowdown in customer cloud optimization initiatives, which is expected to pave the way for the reacceleration of growth in Amazon Web Services in the latter part of 2023. We are also optimistic about Amazon's ability to significantly enhance the profitability of its core North American retail segment in the short to medium term. This optimism stems from the company's transition to a new regionalized fulfillment network, the rightsizing of its infrastructure from the increased spending levels during the early stages of the pandemic, and its rapidly growing advertising business, which is margin accretive. Looking further ahead, Amazon's potential for growth in e-commerce remains substantial, considering it currently captures less than 15% of its total addressable market. Amazon also remains the clear leader in the vast and growing cloud infrastructure market, with large opportunities in application software, including enabling GenAI workloads.

Shares of **Meta Platforms, Inc.**, the world's largest social network continued their upward trajectory, rising by 35.4% due to stabilizing revenues and ongoing improvements in margins. Meta reported continued growth in Instagram Reels adoption and other new advertising products. In addition, the company's advancements in AI continue contributing to its targeting and measurement capabilities, while GenAI innovation presents an opportunity for new products and incremental monetization. The company also achieved a significant milestone of 3 billion daily active users across its family of apps, representing a 5% year-over-year increase. User engagement remains robust, with video content and Instagram Reels playing a significant role in user time on the platform. The monetization gap between Reels and other ad formats is steadily narrowing, and Meta anticipates it will reach revenue neutrality by late 2023 or early 2024. Meta has also reported an increase in its speed and agility of execution following the recent organizational changes and cost cuts. Longer term, we believe Meta will benefit from its leadership in mobile advertising, massive user base, innovative culture, leading GenAI research and potential distribution, and technological scale, with further monetization opportunities ahead.

Table IV.

Top detractors from performance for the quarter ended June 30, 2023

	Quarter End Market Cap (billions)	Percent Impact
EPAM Systems, Inc.	$13.0	–0.73%
Endava plc	2.9	–0.66
Illumina, Inc.	29.6	–0.62
MercadoLibre, Inc.	59.5	–0.41
Mobileye Global Inc.	31.1	–0.21

EPAM Systems, Inc. provides outsourced software development to business customers. Shares declined 24.8% due to investor concerns over the negative potential impact of GenAI, slowing growth and a weaker financial outlook. Greater economic uncertainty is causing a pullback in customer demand as corporate clients temporarily focus on near-term cost optimization rather than more strategic digital transformation projects. Management reduced its full-year guidance twice during the quarter, which was highly unusual given the company's strong execution track record. We believe this slowdown is temporary and continue to own the stock due to EPAM's long runway for growth and strong technical capabilities.

Endava plc provides outsourced software development for business customers. Shares fell 22.9% during the second quarter due to investor concerns over the negative potential impact of GenAI on the company as well as a pullback in customer demand following the Silicon Valley Bank crisis in March, which drove increased customer cautiousness. Management reduced financial guidance for the second quarter to reflect greater macroeconomic uncertainty and lower revenues from private equity-backed companies, which represent about 20% of its business. Sales activity has since rebounded, which supports management's view that the current slowdown is temporary, and demand for digital transformations should persist. Management also believes GenAI will be a tailwind for its business. We continue to own the stock because we believe Endava will remain a share gainer in a large and growing global market for IT services as digitization only becomes more important for customers to sustain their competitive positioning and take advantage of the advancements in AI.

Illumina, Inc. is the market leading provider of DNA sequencing technologies. Shares declined 19.4% during the second quarter, due to the proxy battle led by activist investor Carl Icahn, who criticized the Board's decision to approve the closing of the Grail acquisition without regulatory approval. Icahn nominated three new Board members. After a shareholder vote, one of Icahn's nominees was elected to the Board to replace the Chair. Shortly after the vote, Francis deSouza announced his resignation as CEO, and Illumina started a search for a permanent CEO. Despite these near-term challenges, we remain shareholders and believe that Illumina's continuous innovation will enable it to broaden DNA sequencing adoption to areas like oncology, reproductive health, genetic disease, infectious disease, drug discovery and proteomics as well as across geographies around the world. For example, its latest NovaSeq X tool removes the need for a cold storage supply chain, opening the opportunity for geographies where it is not readily available. We also believe that Illumina's growth duration remains long as the percentage of humans who have had their DNA sequenced is still below

1/10th of 1%, while the percentage of other species that have been sequenced is still below 1/100th of 1%.

Portfolio Structure

The Strategy is constructed on a bottom-up basis with the quality of ideas and level of conviction playing the most significant role in 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 June 30, 2023, the top 10 holdings represented 59.7% of the Strategy and the top 20 represented 86.1%. The total number of investments in the portfolio was 29 at the end of the second quarter, unchanged from the end of 2022.

IT, Consumer Discretionary, Health Care, Communication Services, and Financials made up 97.2% of net assets. The remaining 2.8% was made up of **GM Cruise** and **SpaceX**, our two private investments classified as Industrials, and cash.

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

	Quarter End Market Cap (billions)	Percent of Net Assets
NVIDIA Corporation	$1,044.9	10.2%
Amazon.com, Inc.	1,337.5	8.0
ServiceNow, Inc.	114.5	6.5
Meta Platforms, Inc.	735.5	5.6
Tesla, Inc.	829.7	5.4
Intuitive Surgical, Inc.	119.8	5.4
Snowflake Inc.	57.4	5.0
Shopify Inc.	82.8	4.8
Mastercard Incorporated	372.7	4.8
Datadog, Inc.	31.7	3.9

Recent Activity

During the second quarter, we added to seven existing holdings, including the outsourced software development company, **Endava**, taking advantage of the stock's correction. We also added to several newer positions, such as the connected TV (CTV) leader, **Trade Desk**, the electric vehicle (EV) manufacturers **Rivian** and **Tesla**, and the assisted driving and autonomous driving solution provider **Mobileye**. Lastly, we also added to our position in the biotechnology company, **argenx**, which is focused on developing treatments for autoimmune disorders. Finally, we slightly reduced five existing positions mostly to reallocate to ideas in which we saw a more attractive risk/reward.

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

	Quarter End Market Cap (billions)
Endava plc	$ 2.9
argenx SE	21.7
The Trade Desk	37.7
Rivian Automotive, Inc.	15.6
Mobileye Global Inc.	31.1

During the quarter, we added to our position in **Endava plc** after the stock continued selling off on investor concerns around the potential negative impact of GenAI on the company's business, which coincided with lower cyclical demand due to the ongoing macro challenges. While the range of outcomes on the potential impact from AI remains wide, we believe that in most scenarios, AI would prove to be a tailwind for Endava.

We also slightly added to our position in the leading autoimmune biotechnology company, **argenx SE**, as we believe the company continues to prove the uniqueness of its solution to treat autoimmune disorders with efgartigimod across a range of diseases. The company just announced successful results in its Chronic Inflammatory Demyelinating Polyneuropathy trial, which showed significant efficacy with 67% response rate and a 61% lower risk of relapse as compared to placebo. This, we believe, is another milestone in the company's path towards achieving its goal of 15 autoimmune indications by 2025 across neurology, hematology, rheumatology, dermatology, and nephrology.

We also added to our position in the leading CTV-focused advertising demand-side platform, **The Trade Desk**. We took advantage of the attractive stock price earlier in the quarter before the significant rerating, which was driven by broader recovery in digital advertising expectations, as well as the company's strong quarterly results with 21% year-over-year revenue growth and nearly 30% EBITDA margins, continuing to outperform digital advertising peers. The company also hosted an upbeat product event in June, in which it announced various AI-based innovations, as well as continued enhancements to its measurement tools and its shopper marketing offerings, among others. We believe the company would be a key beneficiary as advertising dollars increasingly shift from linear TV to CTV and advertisers look for a leading solution provider that can help them optimize their CTV budget.

During the second quarter, we also added to our position in EV manufacturer **Rivian Automotive, Inc.** After a complex period since the company's IPO, in which Rivian tried to ramp multiple vehicles simultaneously while struggling to overcome unprecedented supply-chain bottlenecks, the company seems to have turned the corner. Production is now starting to scale up, which should help the company improve its plant utilization and subsequently help gross margins. The company is making notable progress in cost improvements by renegotiating with its suppliers, utilizing its larger scale to get better pricing, as well as incorporating various technological advancements that would improve its cost structure while also improving the vehicles' performance (for example it's Enduro drive unit which is progressing ahead of plan).

Lastly, we took advantage of the volatility in **Mobileye Global Inc.**'s (the leading ADAS and autonomous driving technology supplier) stock to add to our existing position following the company's quarterly earnings report, in which it revised its 2023 guidance due to a decrease in volume for its point-to-point assisted driving navigation solution, SuperVision, due to reduced orders from its initial Chinese customer, Zeekr. While the company remains a leader in ADAS (with an approximate 70% market share), we believe the real potential lies in leading the autonomous driving revolution. This transition has the potential to significantly enhance safety, meaningfully increase vehicle utilization rates (which presently hovers around 4%), and substantially grow the company's content per vehicle. SuperVision for example, has a price point approximately 20 times higher than its basic ADAS offering, while Mobileye's higher level autonomy solutions, such as Chauffeur, are priced at even a greater premium.

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

	Quarter End Market Cap (billions)
Veeva Systems Inc.	$ 31.7
Mastercard Incorporated	372.7
Datadog, Inc.	31.7
Meta Platforms, Inc.	735.5
ServiceNow, Inc.	114.5

We slightly reduced five positions during the quarter, reallocating to names in which we saw a more favorable risk/reward.

Outlook

The recently released economic reports continue to show that inflation is moderating. The headline CPI number is now back to 3.0%, the lowest level since March 2021. If you think about it, inflation has fallen roughly as fast as it has risen. Could the Fed have been right all along? Was inflation transitory?

The 10-year break-even inflation remains steady in the 2.0% to 2.5% range and real rates (as measured by 10-year TIPS) while moving up from the lows of around 1.1% reached shortly after the collapse of Silicon Valley Bank, are still in favorable territory at around 1.5%. "For the United States, growth has slowed, but our labor market continues to be quite strong. I don't expect a recession," Treasury secretary Janet Yellen said in a recent speech. "The most recent inflation data were quite encouraging." There we have it. While the Fed is expected to raise rates a quarter of a percent once or twice more, it is clear that we are closer to the end of the rate hike cycle. That, coupled with most of our companies reporting stabilizing trends in their businesses and leaner cost structures, creates a favorable backdrop for growth stocks in our view.

Many of our companies have become leaner by cutting unprofitable projects and improving their go-to-market efficiency. The volatility in stock prices observed during 2022 and early 2023 was overwhelmingly due to volatility in multiples. While investor psychology often drives dramatic changes in multiples, our businesses exhibit far greater stability and resilience than their stock price movements imply. For long-term investors, this volatility in multiples should be less meaningful since long-term returns are almost always dependent on the business' intrinsic value compounding over time.

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Fed 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.