Baron Opportunistic Small Cap Growth Strategy

December 31, 2023

Dear Investor:

Performance

Baron Opportunistic Small Cap Growth Strategy® (the Strategy) had a solid fourth quarter and a strong 2023, both on an absolute and relative basis. The Strategy was up 12.65% in the quarter and gained 27.25% for the year. This was essentially in line with the performance of the Russell 2000 Growth Index (the Benchmark) in the fourth quarter, which was up 12.75% and was 859 basis points better than the Benchmark for the year. The Strategy slightly outperformed the broader S&P 500 Index this quarter and for the year, which was a good achievement as larger-cap stocks outperformed small caps in 2023. Overall, a very satisfying year.

As shown on the right, the Strategy has outperformed the Benchmark for all relevant periods. We have beaten the Benchmark six of the last seven years. The down year we had in 2022, when quality growth underperformed, is now safely in the rearview mirror. We appreciate the confidence and support of those who have been with us for these past 26 years, or any portion thereof.

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

	Baron Opportunistic Small Cap Growth Strategy (net)[2]	Baron Opportunistic Small Cap Growth Strategy (gross)[2]	Russell 2000 Growth Index[2]	S&P 500 Index[2]
Three Months[3]	12.65%	12.94%	12.75%	11.69%
One Year	27.25%	28.53%	18.66%	26.29%
Three Years	0.56%	1.57%	(3.50)%	10.00%
Five Years	14.08%	15.23%	9.22%	15.69%
Ten Years	9.37%	10.46%	7.16%	12.03%
Fifteen Years	13.46%	14.59%	12.07%	13.97%
Since Inception (December 31, 1997)[4]	10.18%	11.44%	6.53%	8.30%

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

	Baron Opportunistic Small Cap Growth Strategy (net)[2]	Baron Opportunistic Small Cap Growth Strategy (gross)[2]	Russell 2000 Growth Index[2]	S&P 500 Index[2]
2019	34.93%	36.29%	28.48%	31.49%
2020	40.82%	42.23%	34.63%	18.40%
2021	15.87%	17.03%	2.83%	28.71%
2022	(31.03)%	(30.34)%	(26.36)%	(18.11)%
2023	27.25%	28.53%	18.66%	26.29%

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. 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-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 2000® Growth Index** is an unmanaged index that measures the performance of small-sized U.S. companies that are classified as growth. 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 2000® 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 in an index.

3 Not annualized.

4 The Strategy has a different inception date than its representative account, which is 9/30/1997.

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

	Percent Impact
Vertiv Holdings Co	2.12%
Gartner, Inc.	1.95%
Installed Building Products, Inc.	1.17
Red Rock Resorts, Inc.	0.91
Planet Fitness, Inc.	0.78%

The market staged a powerful rally late in the fourth quarter. U.S. Federal Reserve (the Fed) Chairman Powell indicated that the Fed was likely done raising interest rates, which ignited a big decline in yields and a corresponding increase in stock prices. Softer economic news and lower inflation readings contributed to the significant decrease. The yield on the 10-year government bond fell from 5% to under 4%, reversing the large increase in just the prior quarter when the market was focused on strength in the economy, sticky inflation, and troubling government debt and deficits. While the market has exhibited fluctuations in its stance on inflation and interest rates, this instance appears to mark a substantial shift—a pivot, signifying the conclusion of the assertive rate hikes that commenced in early 2022.

The market broadened in the fourth quarter. After a year of terrible relative performance, small-cap stocks finished strong to modestly outperform large caps for the quarter. However, the small-cap rally was tilted toward lower-quality issues and had a value bent. We consider our relative performance to be solid, as the Strategy, which invests in high-quality growth companies, frequently lags behind the Benchmark at the onset of such rallies.

Throughout the year, the market exhibited strong performance, with the highly anticipated recession failing to materialize. Inflation has experienced a notable decline and is trending lower, dropping from a peak of over 8% to under 4%. This decrease appears to be attributable to spikes caused by the pandemic, which have since reversed with time. Despite this, the economy has demonstrated resilience, and corporate earnings, while less-than-stellar in most sectors, have remained stable. Stock gains were led by the NASDAQ Composite Index, which appreciated nearly 45%, with dramatic gains from the so-called *Magnificent Seven*. The S&P 500 Index ended close to an all-time high. However, small caps are still far from their peaks and are comparatively undervalued, and we estimate that they have more potential for growth.

The Strategy's performance in the fourth quarter was broad based and driven by good stock selection. Our Consumer Discretionary and Information Technology (IT) stocks did very well in the quarter. Some strong performers in Consumer Discretionary were **Red Rock Resorts, Inc.**, which opened its new casino in Las Vegas, and **Planet Fitness, Inc.**, which brought on a new interim CEO and enhanced relations with franchisees. Of our IT investments, **Gartner, Inc.** and **Guidewire Software, Inc.** gained on robust earnings performance. The shares of perceived interest rate sensitive stocks or those helped by lower borrowing costs were strong – including Consumer Discretionary names **Installed Building Products, Inc.** and **Floor and Decor Holdings, Inc.**, Industrials company **Trex Company, Inc.**, and telecommunications company **SBA Communications Corp. Vertiv Holdings Co** continued to climb based on a strong outlook and higher trading multiple. Our results were negatively impacted by not owning biotechnology stocks, which were stronger this quarter.

For the year, our performance was based on great one-off stock performance. We derived benefits from both the robust earnings of many of our holdings and the expansion of multiples. This expansion was driven by improved outlooks or a rebound from previously depressed levels. We had a dozen stocks that rose over 50% in the year. Our largest holdings did great, so our portfolio construction helped our performance significantly. Of our top ten, nine holdings outgained the results of the Strategy itself, with the top ten rising anywhere from 18% (**ASGN Incorporated**) to 252% (Vertiv). In our top four areas of concentration, our Industrials and Consumer Discretionary stocks well outpaced those in the Benchmark. Our Health Care stocks did well and were nice contributors to our results, led by **ICON Plc**, **Dechra Pharmaceuticals PLC**, **Neogen Corp.**, and **IDEXX Laboratories, Inc.** Our IT holdings underperformed because we had some losers in that sector offsetting our winners.

Vertiv Holdings Co, a manufacturer of critical infrastructure equipment for data centers, continued its ascent, up 29% for the quarter. The company is benefiting from a robust demand environment as well as successful implementation of its strategy to improve margins. As one of the leading providers of precision cooling for data centers, Vertiv stands to benefit from the increasing adoption of artificial intelligence (AI), as AI-related servers have higher energy density, which will necessitate more complicated cooling solutions. During the quarter, Vertiv held its first Analyst Day, where it introduced long-term growth targets for revenue growth of 8% to 11% CAGR out to 2028 and 500 bps of margin expansion to 20% adjusted EBIT margins and $3 billion of share repurchases over that same time frame. We trimmed the position into strength, but we remain significant investors as we see substantial upside over the long term, as the company executes its strategy in a strong industry backdrop.

Shares of **Gartner, Inc.**, a provider of syndicated research, soared after reporting yet another beat and raise quarter. Gartner's core subscription research businesses continued to compound at attractive rates, and growth is poised to accelerate over the next several quarters. We believe Gartner will emerge as a critical decision support resource for many companies evaluating the opportunities and risks of AI for their businesses. We expect this development to provide a tailwind to Gartner's volume growth and pricing realization over time. Gartner's sustained revenue growth and focus on cost control should drive continued margin expansion and enhanced free-cash-flow generation. The company's balance sheet is in excellent shape and can support aggressive repurchases and bolt-on acquisitions.

Installed Building Products, Inc. (IBP) is a leading distributor and installer of insulation and complementary building products for residential and commercial end markets in the U.S. Stock performance was helped by a pronounced decline in mortgage rates during the fourth quarter and expected continuation into 2024, which would make new residential home purchases, a key driver of IBP's business, more affordable. Continued strong operating and financial results (record third quarter EBTIDA and EBITDA margins) also helped boost the share price. IBP is poised to benefit from outsized growth across U.S. residential construction, which remains below long-term historical averages.

Other stocks that rose over 30% in the quarter but contributed less to the overall performance of the Strategy were **Red Rock Resorts, Inc.**, **Planet Fitness, Inc.**, **DexCom, Inc.**, **Trex Company, Inc.**, **Altair Engineering Inc.**, **Endava plc**, **Kratos Defense & Security Solutions, Inc.**, **ODDITY Tech Ltd.**, and **Clarivate Plc**.

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

	Percent Impact
Kinsale Capital Group, Inc.	–1.19%
Chart Industries, Inc.	–0.84
The Beauty Health Company	–0.41
E2open Parent Holdings, Inc.	–0.34
European Wax Center, Inc.	–0.22

Shares of specialty insurer **Kinsale Capital Group, Inc.** gave back some gains from earlier this year after the company reported slower premium growth in the third quarter. Earnings beat Street expectations with EPS doubling and ROE exceeding 34%. However, investors focused on the slowdown in gross written premiums to 33% growth(!) from 58% growth in the prior quarter, which management attributed to normal seasonality for property insurance. Additionally, we believe some of the share price weakness resulted from a market rotation away from defensive stocks to more speculative stocks, following a decline in yields. We continue to own the stock because we believe Kinsale is well managed and has a long runway for growth in an attractive niche segment of the insurance market.

Chart Industries, Inc. is a global leader in design, engineering, and manufacturing of process and storage technologies and equipment for gas and liquid handling. Shares fell during the quarter, as the company missed third quarter 2023 earnings expectations on project revenue recognition timing, along with free cash flow below expectations due to an accounting treatment of assets being divested. Despite this, fundamentals for the business continue to be strong, with management seeing solid order momentum across its entire portfolio, cost synergies ahead of targets from the Howden acquisition, and a higher-than-normal backlog into 2024. Chart held an Analyst Day introducing updated medium-term financial targets of mid-teens organic revenue growth, mid-30% gross margin (up from a low-30% margin currently), and mid-40% EPS CAGR, which imply earnings power well above current consensus expectations. We believe Chart is a globally diversified, high-quality, high-growth industrial business, with proprietary technology and solutions serving the growing hydrogen, carbon capture, water treatment, LNG, and other end-markets. We added to the position as valuation remains attractive, in our view, against Chart's growth and margin profile.

The Beauty Health Company is a skin care and beauty company that sells the flagship HydraFacial machine and related consumables. Shares declined after reporting disappointing results that revealed execution issues associated with the roll out of Syndeo, the latest generation of the HydraFacial machine. While the features and functionality of this new device surpassed the prior version, the machine also had several defects that caused potential buyers to delay their purchases. To remedy the defects, the company had to incur added costs to repair and replace existing Syndeos in the field. The company also announced that the CEO was leaving. Due to the continued uncertainty, lowered near-term financial results, suspension of 2025 guidance, and heightened management turnover, we exited our position.

Other stocks that declined over 10% this quarter but had less impact on our results were **E2open Parent Holdings, Inc.**, **European Wax Center, Inc.**, **Fox Factory Holding Corp.**, and **Shoals Technologies Group, Inc.**

Portfolio Structure & Recent Activity

As of December 31, 2023, the Strategy had $4.6 billion in net assets. We held 61 stocks. The top ten stocks made up 39.2% of net assets. As has been the trend, this is a more concentrated composition than in the past. The performance of the largest holdings was strong this quarter and year, as mentioned earlier, which led to the higher concentration. We remain excited about the prospects for each, and even after good stock performance, we believe there is still great upside in the stocks over the long term. During the year, we sold out of ten smaller holdings and added four. We expect to add more new names in the future, especially if the capital markets open up and IPOs become more prevalent.

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Vertiv Holdings Co	2019	324.2	7.0%
Gartner, Inc.	2007	259.4	5.6
ICON Plc	2013	198.1	4.3
ASGN Incorporated	2012	168.3	3.6
Red Rock Resorts, Inc.	2016	160.0	3.5
Kinsale Capital Group, Inc.	2019	159.1	3.4
SiteOne Landscape Supply, Inc.	2016	154.4	3.3
Guidewire Software, Inc.	2012	133.6	2.9
Installed Building Products, Inc.	2017	128.9	2.8
Floor & Decor Holdings, Inc.	2017	128.3	2.8

The Strategy is concentrated in four sectors, as has been the case for a while. Industrials make up 32.0% of the Strategy, IT 17.8%, Consumer Discretionary 17.3%, and Health Care 12.8%. Compared to the Benchmark, we are notably overweight in Industrials and Consumer Discretionary, underweight in IT, and significantly underweight in Health Care. Our weightings are not a reflection of which sector we expect to perform best in the near future but are an outgrowth of where we have found special companies that meet our high standards. Besides these main sectors, we have 8.5% of the Strategy in Financials, which includes some specialty insurance and investment banks, and 3.9% in Communication Services. Our largest stocks in this sector are not typical communications companies; they are a digital advertising platform, and some sports franchisees. While certain sectors may thrive while others may lag in any given year—for example, IT excelled while Health Care fell behind—we emphasize that the performance of the Strategy is primarily influenced by the success and prospects of its individual holdings rather than sector weightings. Additionally, we consistently maintain a portion of cash in the Strategy for new investments. Last year, this allocation averaged 4.6% and concluded the year at 3.4%. Due to the robust market conditions, this impacted our performance slightly for the year.

The Strategy is different than many of its peers in that we hold our stocks longer than most to stay invested in our best ideas. This approach has proven to be successful, and we believe it contributes to the factors behind our strong long-term performance. Entering its 27th year, the Strategy stands out with a distinctive approach that sets it apart from others. We'll highlight three unique attributes: the inclusion of what we term "big winners," a low turnover rate with extended stock holdings, and a market-cap stratification that leans toward larger entities.

We aim to identify exceptionally promising companies in their early stages. Typically, we invest in these companies when their market capitalization ranges from $1.5 billion to $2 billion. Our strategy involves holding onto these investments for the long term, allowing the companies to grow and achieve success. We are continually astonished by the substantial growth potential of our top investments, experiencing significant appreciation in their stocks with impressive annualized returns. We've observed a pattern where success tends to breed more success, and our most successful investments are typically in companies capable of sustained growth over many years, often by executing the strategic plan we initially invested in when they were in their early stages.

As of the end of 2023, we own 15 stocks that have appreciated over five-fold since their initial purchase price, nine of which have gone up over ten times. These 15 stocks make up 37.0% of the Strategy's net assets. They have generated a weighted average annualized return of 29.4%. These are our *big winners*. Many of these stocks were among our best performers last year, including big gains in **TransDigm Group Incorporated**, **Gartner, Inc.**, **IDEXX Laboratories, Inc.**, **The Trade Desk**, **ICON Plc**, and **SiteOne Landscape Supply, Inc.** In addition, another 19 holdings, which make up an additional 33.1% of the Strategy's net assets, have at least doubled. These too have compounded at high rates. 70.1% of the stocks in the Strategy have already doubled or more, which, based on our experience, we regard as a reliable indicator of more to come, not that these investments have run their course.

These significant successes serve as a stabilizing force in the portfolio. Their established business models, coupled with our enduring relationships with management and confidence in their execution, further strengthen our investment position. Additionally, these stocks typically exhibit resilience in challenging market conditions, enhancing our Strategy's appealing risk-adjusted profile, as indicated by our elevated Sharpe ratio and noteworthy Upside/Downside capture ratios.

As committed long-term investors, our strategy involves identifying exceptional companies and investments during their early stages and maintaining our positions as they undergo growth. At the end of 2023, about 58.7% of the Strategy's net assets were in 32 stocks that we have held for five years or more. Of that, 15 stocks representing 30.8% of net assets are in stocks we have held for ten years or more. The weighted average annualized return for the stocks we have held for over five years was 19.6%. This is well in excess of the annualized return of the Benchmark over the holding period of 8.6%.

The resulting marketcap range of the Strategy is that 33.5% of the Strategy's net assets is invested in companies with market caps of $10 billion or more, 33.4% was in stocks that range from $5 billion to $10 billion, and 29.7% is invested in stocks with market caps under $5 billion, with the remainder in cash. Remember, the average market cap on initial purchase of all these names is approximately $2 billion, and we don't initiate any position if it isn't considered small cap. As market caps rise, we need to have higher conviction in the business and the stock for it to remain in the portfolio as we consciously balance investment returns and our small-cap mandate. We actively manage the position sizes of our largest market cap stocks by reducing holdings during periods of strength. Currently, we hold only a small percentage of our initial positions in some of our largest companies. For example, our ownership of TransDigm has decreased from a peak position of 1.9 million shares to 125,000 shares, and our ownership of **DexCom, Inc**. has gone down from a peak of 5 million shares to 550,000 shares. Despite these reductions, our investors still benefit from the fact that we retain even a fraction of the positions in these remarkable companies.

We are focused on maintaining control over the Strategy's market capitalization, even in light of the strong performance exhibited by some of our largest companies This entails selling or trimming stocks with higher market caps and reinvesting the proceeds into smaller caps. For the year just ended, the weighted average market cap of new investments, both initial purchases and additions to existing holdings, was $3.6 billion. The weighted average market cap of stock sales, including both trimming positions and outright sales, was $13.5 billion.

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

	Year Acquired	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Fox Factory Holding Corp.	2023	$2.9	$39.0
nCino Inc.	2023	3.8	16.2
Chart Industries, Inc.	2022	5.8	13.1
ODDITY Tech Ltd.	2023	2.6	9.2
Neogen Corp.	2022	4.4	6.4

We more than doubled our position in **Fox Factory Holding Corp.** following its third quarter earnings release, which we believe created an attractive buying opportunity. Fox manufactures premium components for high-end bicycles and powered vehicles, such as side-by-sides, on-road trucks with off-road capabilities, and all-terrain vehicles. During the third quarter, Fox's auto business was negatively impacted by the UAW strike, which limited sell-in of their suspension products to OEM customers and effectively shut off supply of chassis for their aftermarket re-styling business. Management has also set low expectations for the recovery of the bike business in 2024, considering factors such as the COVID-driven pull-forward effect on demand and today's oversupply in the retail channel. The challenges in the powered vehicles group are short term in nature, and we believe the off-road and upfitted truck end markets have a long runway for growth.

Additionally, Fox announced its sizeable acquisition of Marucci Sports, a high-end manufacturer of baseball equipment. This is a new category for Fox's specialty sports group, which was previously only bikes, and investors were spooked by the headlines, as Marucci is primarily a baseball bat business perceived as a low-growth category lacking differentiation. We spent time meeting with Fox management and the founder of Marucci, and we believe Marucci has several actionable opportunities to continue to capture market share in the baseball category, continuing its impressive growth trajectory (at 25%-plus EBITDA margins). While Marucci is not directly related to Fox's other businesses, the companies share complementary cultures as a special enthusiast brand operating at the highest end of its market. The deal is immediately accretive to top and bottom lines, offers further opportunities in the form of engineering and sourcing synergies (aluminum and composites, for example), and we are confident in management's track record of generating successful returns from M&A outside of its legacy core shock and suspension business. We view Fox to be a high-quality, well-managed business that is fighting through some near-term issues. We were excited to buy more at what we believe is a cheap multiple.

This quarter, we initiated a position in **nCino Inc.**, a leading provider of cloud-based banking software that was founded in 2012. The company's platform helps more than 1,850 global financial institutions modernize their processes around client onboarding and account opening, making loans, and managing loans after they have been originated. NCino's solutions support a large majority of customers at a financial institution, including commercial, small business, consumer, and mortgage customers.

NCino operates in a large market – the addressable market is approximately $10 billion in the Americas and $18.5 billion on a global basis – and has achieved high levels of customer satisfaction as evidenced by a strong net promoter score of 74 and very little voluntary churn. The company's solutions are deeply embedded in customer workflows and generate a strong return on investment in the form higher revenue from more loans, lower costs from a reduction in paper-based processes, faster decision making, and improved efficiency with the ability to consolidate several legacy systems. Relative to the competition, nCino's solution has several advantages. It operates a cloud-native single platform built on top of Salesforce, free from legacy tech debt. Additionally, it boasts a well-known brand highly regarded in the marketplace, particularly strong in commercial banking. nCino also has a long history of successful deployments with an impressive roster of customers, including institutions like Bank of America, Wells Fargo, Barclays, Fifth Third, and many others, who can serve as reference accounts.

nCino is well-positioned to achieve mid-teens or greater organic revenue growth for many years, driven by a combination of factors. This includes expanding with existing clients; even within its large U.S. customer base, we estimate that nCino is only around mid-20% penetrated. Additionally, there is an increasing adoption of nIQ (data analytics and machine learning products), ongoing success in acquiring new commercial clients, making strides in newer end-markets like consumer loans and mortgages, and scaling up its international expansion. The company is already seeing good success in the U.K., Canada, New Zealand, Japan, and several countries in continental Europe. The company has also started to ramp its margin profile, but we see a path for additional margin expansion from the low double-digit range today up to 30% to 35% operating margins over time. We believe there is a long runway for profitable growth for nCino, as banks and other financial institutions choose it as a partner to help digitize and transition to the cloud.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Net Amount Sold (millions)
Gartner, Inc.	2007	$2.2	$35.2	$41.4
SBA Communications Corp.	2004	0.2	27.4	41.1
Dechra Pharmaceuticals PLC	2018	2.8	5.6	18.7
Vertiv Holdings Co	2019	1.0	18.3	16.2
Installed Building Products, Inc.	2017	2.4	5.2	15.2

We exited positions in **E2open Parent Holdings, Inc.** and **Liberty Media Corporation – Liberty SiriusXM** this quarter. E2open's organic growth stalled out, and senior management was let go. We have lost confidence, so cut bait. Liberty SiriusXM was a longtime successful holding. The stock reacted favorably to their definitive agreement for the tracking stock to be combined with SiriusXM in creating a new public company. This was the catalyst we had been anticipating, and the implied valuation for the combination felt fair to us, so we sold out because future growth is suspect. We exited **The Beauty Health Company**, as discussed above. We trimmed our holdings in larger caps **Gartner, Inc.**, **SBA Communications Corp.**, and **Vertiv Holdings Co** to manage their respective position sizes and be attentive to market cap. We sold some of our position in **Dechra Pharmaceuticals PLC**, which is being acquired by a private equity firm.

Outlook

The market is off to a shaky start at the beginning of 2024. At the end of last year, the market had surged ahead, factoring in multiple anticipated interest rate cuts, which were expected to start relatively soon. However, the latest inflation report ticked up, and yields rose as market participants and Fed governors seemed to back away from prognostications of easing in the near term.

Despite the modest pullback, the prevailing market sentiment remains optimistic, grounded in three key expectations. First, there is an anticipation of continuing disinflation, with inflation projected to decrease towards the Federal Reserve's target of 2% in the medium term. Second, a significant shift in global monetary policy from a restrictive stance to easing is anticipated, involving a prolonged period of rate cuts following 14 months and 5.25% of increases. Lastly, there is an expectation that the economy and earnings will exhibit resilience and growth.

Lower interest rates are perceived positively for stock multiples. Ideally, lower rates, coupled with improved financial markets, may generate positive momentum in the economy, contributing to future growth rates. The pandemic has markedly distorted the economy, witnessing accelerated growth in late 2020 and 2021, followed by a deceleration in 2022 and 2023. As inflation appears to be reverting to historical trends, there is optimism that growth might follow suit, representing a welcome uptick from current levels.

The most significant risk confronting the market is not the timing of the Fed's commencement or the extent of its interest rate reductions, but rather the potential failure of the consensus-anticipated soft landing. Economists and market prognosticators we respect are referencing historical patterns and academic studies, suggesting an imminent economic slowdown. They argue that the recent Federal Reserve tightening cycle typically precedes a recession. Additionally, they emphasize that monetary policy operates with long and variable lags, indicating that its impact on the economy is yet to fully manifest. The confluence of declining corporate earnings and contracting stock multiples poses a risk to the market, potentially negating the positive effects of falling interest rates. And there are other concerns, such as more persistent inflation than anticipated, government debt and deficits resulting in higher rates, and countless geopolitical and domestic political tensions. We remain attentive to all these factors.

We believe we have a good lens through which to monitor the economy with our constant communications with the executives who manage the businesses in which we invest. These conversations have been predictive in

the past. Our present sense is that business is stable and trending as it has for the past year; that many businesses have or are presently bottoming. We are picking up on some positive signs and anticipate an improvement in the trend as the year unfolds. We foresee significant earnings growth from our companies. The valuations of our stocks have transitioned from being inexpensive to reasonable. As a result, it's highly probable that we won't reap the benefits of multiple expansions in our arsenal this year. However, we observe that valuations are not stretched, and we anticipate them to expand if growth reaccelerates.

Taking a step back, we own a diversified group of high-quality, innovative, and well-managed businesses across many industry sectors. We have assembled this portfolio over many years with the assistance of a top-notch research team. We believe that the future is bright for each and every one of these investments, and the success that we expect will result in strong stock performance individually for the holdings and collectively for the Strategy. That has been the case for the past 26-plus years we have managed the Strategy in this manner, and our expectations for the future. I am optimistic.

I would like to thank assistant portfolio manager David Goldsmith for his great contribution to the Strategy's management and success. I also commend the Baron Capital research and investment team for its help as well.

Cliff Greenberg
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. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. 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.

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