BARON CAPITAL

Baron Opportunistic Small Cap Growth Strategy

September 30, 2023

Dear Investor:

Performance

Baron Opportunistic Small Cap Growth Strategy® (the Strategy) had a fine quarter and is having a good year. In a weak market, the Strategy is down 3.10% in the third quarter. For the year-to-date period, the Strategy is up 12.96%. The Strategy is well ahead of the Russell 2000 Growth Index (the Benchmark) which was down 7.32% in the quarter and is up just 5.24% year-to-date. The Strategy performed slightly better than the larger-cap S&P 500 Index in the quarter and trails that index year-to-date by 11 basis points, as large-cap stocks have performed much better than small caps this year.

Table I.
Performance for annualized periods ended September 30, 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]	(3.10)%	(2.85)%	(7.32)%	(3.27)%
Nine Months[3]	12.96%	13.81%	5.24%	13.07%
One Year	17.77%	18.95%	9.59%	21.62%
Three Years	2.02%	3.04%	1.09%	10.15%
Five Years	5.99%	7.06%	1.55%	9.92%
Ten Years	9.12%	10.21%	6.72%	11.91%
Fifteen Years	10.53%	11.64%	8.82%	11.28%
Since Inception (December 31, 1997)[4]	9.77%	11.03%	6.10%	7.92%

Table II.
Calendar Year Performance 2018-2022 (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]
2018	(7.09)%	(6.15)%	(9.31)%	(4.38)%
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)%

The market began the third quarter on an upswing, continuing the positive momentum from the previous quarter. This was due to the surprising resilience of the economy, which contradicted the consensus predictions of an imminent recession. Also, there was a sense that the Federal Reserve (the Fed) was close to ending its rate hikes. However, sentiment changed after the rating agency Fitch downgraded the U.S. credit rating mid-quarter. Economic data continued to come in strong, and the Fed adopted a *higher-for-longer* stance, meaning that even if it were to stop raising the Fed Strategys rate, it planned to keep interest rates at elevated levels. Plus, investors who had ignored federal deficits when inflation was low, are now paying attention and getting worried. This led to a sharp rise in Treasury yields, even as the inflation picture had marginally improved. Higher rates are bad for the economy, corporate earnings, and stock multiples. Stocks sold off accordingly.

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of September 30, 2023, total Firm assets under management are approximately $39.6 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual strategy 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 1-800-99BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

† The Strategy's 3-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.

Baron Opportunistic Small Cap Growth Strategy

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

	Percent Impact
Vertiv Holdings Co	2.03%
Kinsale Capital Group, Inc.	0.42
Guidewire Software, Inc.	0.36
Aspen Technology, Inc.	0.28
ASGN Incorporated	0.24

Small-cap stocks underperformed, and growth did worse than value, but the Strategy did well. Our performance was based on the strong business performance of the businesses in which we have invested and our favorable stock selection. Our Industrials, Information Technology and Health Care holdings did much better than stocks in those sectors in the Benchmark. Of our larger concentrations, only our Consumer Discretionary stocks did not perform well on a relative basis. Energy was the best performing sector in the Benchmark this quarter, as oil prices rose due to supply cuts, but since we don't directly invest in that sector, our relative performance was hurt. We also don't own biotechnology stocks, which were down considerably this quarter, helping the Strategy's relative performance.

Many of our largest positions gained nicely in the quarter, which was an important driver of performance. Eight of our top 10 holdings outperformed the Benchmark. This was led by our largest position **Vertiv Holdings Co** (up over 50% in the quarter!), **Guidewire Software, Inc.**, **Kinsale Capital Group, Inc.**, **ASGN Incorporated**, and **Chart Industries, Inc.** Our Consumer Discretionary holdings (such as **Red Rock Resorts, Inc.** and **Floor & Decor Holdings, Inc.**) performed poorly this period. As we will detail in the next section, business fundamentals are strong and outlooks for continued durable growth are compelling.

Vertiv Holdings Co, a provider of critical infrastructure solutions to the data center industry, increased over 50% in the quarter. Vertiv is a leading vendor of thermal management solutions and stands to benefit from the growth in artificial intelligence (AI) and corresponding investments in more complex cooling systems necessitated by the expected increase in the energy density of data centers. Vertiv is again reporting strong margins and free-cash-flow (FCF) under new leadership, after an operational deficiency in managing rising costs in the fourth quarter of 2022 chunked earnings and sent the stock swooning. The multiple has since expanded as investors gained confidence in the duration of the company's growth trajectory as well as its ability to capture the massive investment cycle ahead. We selectively trimmed our position into strength, but the stock remains the top holding given upside in earnings power as the company closes the margin gap with peers and benefits from accelerated industry growth.

Specialty insurer **Kinsale Capital Group, Inc.** contributed to performance after reporting consensus-beating quarterly results. Gross written premiums grew 58% and earnings per share increased 50%. Market conditions remained favorable, with rising premium rates and more business shifting from the standard lines market to the excess and surplus lines market where Kinsale operates. The company is also capitalizing on disruption in the property market, where rates are rising rapidly after years of industry losses and a reduction in reinsurance capacity. We believe Kinsale is well managed, has sustainable competitive advantages in technology and underwriting, and has a long runway for growth in an attractive segment of the insurance market.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** rose after the company announced robust quarterly results. Recent sales wins include 17 cloud deals, 11 of which are with Tier 1 carriers, including Allstate Canada, Progressive, and Insurance Australia Group, the largest insurer in Australia. We expect to see the company's consistent annual recurring revenue growth accelerate next year as sales momentum continues and ramped deals contribute revenue. We are also encouraged by Guidewire's gross margin expansion during the quarter. We believe Guidewire will be the critical software vendor for the global P&C insurance industry, capturing 30% to 50% of its $15 billion to $30 billion total addressable market and generating margins above 40%.

Shares of industrial automation software leader **Aspen Technology, Inc.** reported financial results that surpassed consensus expectations and provided initial guidance calling for "at least 11.5%" growth for 2024. Looking further out, we believe Aspen is well positioned to generate consistent double-digit growth in contract value, driven by secular adoption of industrial automation technologies that help improve productivity, reduce cost, and control emissions. We expect the businesses acquired through Aspen's merger with a subsidiary of Emerson to meaningfully contribute to financial results in 2024 and beyond, as management continues to make product and operational improvements with much of the integration and re-platforming now complete. Aspen generates significant FCF, which it can use to fund both an aggressive share repurchase program and accretive M&A activity over the long term.

Other stocks that rose over 15% in the quarter but contributed less to the overall performance of the Strategy were **Grid Dynamics Holdings, Inc.**, **Holley Inc., Clearwater Analytics Holdings, Inc.**, and **HealthEquity, Inc.**

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

	Percent Impact
Driven Brands Holdings Inc.	–0.73%
Inspire Medical Systems, Inc.	–0.61
Cognex Corporation	–0.43
DexCom, Inc.	–0.42
Planet Fitness, Inc.	–0.40

Driven Brands Holdings Inc. is the largest automotive services company in North America, providing a range of need-based services to consumer and commercial customers through 4,800-plus locations. The company operates many well-known and trusted brands that provide customers with a full suite of automotive services across paint, collision, glass, vehicle repair, oil change (Take 5), maintenance, and car wash. The stock declined significantly during the quarter after the company reduced its revenue and profitability expectations for the balance of the year, driven by weakness in its car wash business and integration delays in the company's recent foray into the glass repair segment. The company is now in the process of reviewing each of its car wash locations to determine how they fit in the portfolio and have paused future development as the company implements processes to improve operations and use FCF to de-lever the balance sheet. In glass, while Driven remains encouraged by the long-term potential to consolidate the glass industry, they are a few quarters behind where they anticipated due to integration delays of the recent businesses they've acquired. Despite these challenges, we think the stock has overreacted to the downside, and are currently evaluating management's long-term assumptions calling for EBITDA to more than double over the next three years.

As AI was the topic du jour in the first half of the year, the market was captivated with the impact of weight loss drugs this quarter. Diabetes medications called GLP-1s, branded as Ozempic, Wegovy, and Mounjaro, are showing great efficacy and adoption is skyrocketing. The market is attempting to evaluate the potential long-term impact on various businesses, including those in the fields of pharmaceuticals, medical services, facilities, food, gyms, and other sectors. It aims to determine which stocks are winners and which are losers in this context. Some of our holdings have been caught up in this hype. Two such holdings are **Inspire Medical Systems, Inc.,** which offers a treatment for sleep apnea, and **DexCom, Inc.**, the leading provider of continuous glucose monitoring (CGM) technology for people with diabetes. They declined over concerns that their business would be negatively affected. As it related to Inspire, the concern was that if there is less obesity, there will be less sleep apnea. With DexCom, the onset of diabetes could be lower so less monitoring would be necessary. We are following developments to closely understand the potential impacts. Both companies believe that these drugs might provide new usages for their products so are sanguine about the impact. We have reevaluated our expectations for future growth under various scenarios and have determined that the stocks are oversold, as is often the case with these broad selloffs. They offer great value, and as a result, we are maintaining our positions. Also, the market's overreaction similarly led to stock declines in companies further afield, derivatives of weight loss (less food consumption) such as **UTZ Brands, Inc.** (salty snacks), **Neogen Corp.** (food safety testing), and **Americold Realty Trust** (frozen food storage) that detracted from performance in the quarter.

Cognex Corporation manufactures machine vision systems; software and sensors used in automated manufacturing to inspect and identify parts, detect defects, verify product assembly, and guide assembly robots. Shares fell during the quarter following a weak earnings update as uncertainty around the return of increased logistics spending from large customers (e.g., Amazon) persists. Additionally, the company noted deterioration across other key end-markets as economic conditions slowed. On a brighter note, management highlighted strength in the electric vehicle manufacturing space, which is becoming a larger part of its business. We believe Cognex's best-in-class, unique machine vision solutions will benefit over time from the strong secular growth trend in automation and robotics across the globe.

Other stocks that declined over 20% this quarter but had less impact on our results were **Clarivate Plc, Shoals Technologies Group, Inc., The Beauty Health Company, Planet Fitness, Inc.,** and **Liberty Media Corporation–Liberty SiriusXM**.

Portfolio Structure & Recent Activity

As of September 30, 2023, the Strategy had $4.2 billion in net assets. We held 63 stocks. The top 10 stocks made up 38.8% of net assets, which is higher than in the past because our largest position has performed well year-to-date and especially this quarter. We are pleased with the increased concentration in our portfolio, as we maintain our enthusiasm for the potential of each of these distinct companies. We are confident in the strong performance of their respective businesses and consider their valuations to be reasonable, if not undervalued. Moreover, the stocks exhibit sufficient liquidity, which offers flexibility should we decide to adjust our position sizes.

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Vertiv Holdings Co	2019	$264.1	6.3%
Gartner, Inc.	2007	231.9	5.5
Kinsale Capital Group, Inc.	2019	196.7	4.7
ICON Plc	2013	172.4	4.1
SiteOne Landscape Supply, Inc.	2016	155.3	3.7
ASGN Incorporated	2012	142.9	3.4
Chart Industries, Inc.	2022	126.8	3.0
Red Rock Resorts, Inc.	2016	121.0	2.9
Floor & Decor Holdings, Inc.	2017	113.1	2.7
Guidewire Software, Inc.	2012	110.3	2.6

As has been the case for a while, our sectors of highest concentration were Industrials (31.5%), IT (17.3%), Consumer Discretionary (15.1%), and Health Care (13.3%). Compared to the Benchmark, we are notably overweight in Industrials and Consumer Discretionary, and significantly underweight in Health Care and IT. We now have a nice concentration and are overweight in Financials, favoring specialty insurers, fintech providers, and banks, which are not the typical financials in the Benchmark. We own no Energy or Utilities and are underweight in Materials and Consumer Staples. We have run about a 4% cash position in the quarter and for the year, on average.

We were more active this quarter in adding more positions and trimming the tail of the Strategy. Still our portfolio turnover is very low, especially when compared to most small-cap strategies. It's about 15% as measured over three years, which means we own stocks for about seven years on average. We hold 15 stocks which we have owned for 10 years or more, and 16 stocks which we have held for 5 to 10 years. These make up 31% and 27% of the net assets, respectively. Each cohort has had annualized total returns of over 18%, which we believe is stellar, justifying our decision to hold them for such extended timeframes.

We manage the market cap of the Strategy by buying only small-cap stocks, using the proceeds of money raised usually from harvesting gains in our large-cap holdings. In this quarter, the weighted average market cap for new stocks bought was $2.8 billion. We also increased existing positions whose weighted average market cap was $3.9 billion. We buy more to build our position as we gain conviction. Our sales this quarter were stocks that had a weighted average market cap of $10.7 billion.

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

	Year Acquired	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Fox Factory Holding Corp.	2023	$4.2	$28.8
indie Semiconductor, Inc.	2023	1.1	28.4
ODDITY Tech Ltd.	2023	1.6	10.6
Planet Fitness, Inc.	2018	4.3	10.3
Red Rock Resorts, Inc.	2016	4.3	8.7

We re-initiated a position in **Fox Factory Holding Corp.** Fox Factory is a manufacturer of premium components for high-end bicycles and powered vehicles (side-by-sides, on-road trucks with off-road capabilities, all-terrain vehicles, etc.). The business has a long legacy as an innovator and market leader within its various suspension categories, and its high performance products generate a loyal enthusiastic customer base. The company has relationships with bike original equipment manufacturers (OEMs) such as Giant, Trek, and Specialized; and truck and off-road OEMs such as Ford, Toyota, Polaris, BRP, and Honda. Fox attempts to keep its business balanced between OEMs and aftermarket products. While end-products are discretionary purchases, Fox sells into the highest end of the market where customers consider these products essential to their lifestyle.

We have been impressed with management's ability to find new opportunities for growth via adjacent market penetration, M&A, and new products that remain synergistic with the company's vision and brand. Fox's success in the off-road truck market and its early development of a new Aftermarket Applications Group are examples. We believe legacy auto OEMs are incentivized to increase volumes of their premium off-road derivatives (e.g., the Ford Raptor). These derivatives currently represent just a low to mid- to single-digit share of OEM production, but they are highly profitable vehicles. Fox shocks are firmly entrenched in many of these platforms and through existing customer expansion and new customer wins, Fox's auto OEM business has a durable growth runway. Additionally, Fox has established itself as a leader in the pickup truck upfitting (premium re-styling) business. Upfitting is a secularly growing category that has customer and product overlap with Fox's suspension systems. By moving into this market, Fox is able to capture more revenue from the sale of its shocks and other vertically integrated components. Over the long term, the combination of organically growing end-markets, management's proven M&A track record, and the company's competitive positioning give us confidence that Fox can compound earnings per share at high rates. Fox's business has been greatly affected by COVID, both increasing demand at first but now dealing with an inventory headwind. We believe that the company will soon revert to more normal growth, and we believe the stock trades cheaply, so we view this to be a good entry point.

During the quarter we initiated a position in **indie Semiconductor, Inc.**, a fabless designer, developer, and marketer of automotive semiconductors for advanced driver assistance systems and connected car, user experience (*CarPlay*, interior lighting), and electrification applications. The automotive semiconductor vertical is attractive as silicon content in cars increases over time from improving safety features and autonomous driving, electrification, and premiumization of interior and exterior features. Indie is a small but rapidly growing player in the industry, leveraging unique technology expertise, innovation, and 100% automotive focus to design more highly integrated, power efficient, and lower cost solutions than larger competitors. Indie has a larger than $4.3 billion strategic backlog of program design wins, providing strong visibility to its revenue ramp in the coming years, with its largest wins to date across key growth applications such as radar, vision processing, and cabin occupant monitoring.

Indie has doubled its revenue each year for the past three years (inclusive of 2023), and we believe can grow from just over $200 million in revenue in 2023 to near $500 million in 2025, and as much as $1 billion in 2028 from its current design wins and funnel of opportunities. Additionally, the company continues to expand its gross margins each quarter with new products ramping up and expects to achieve breakeven profitability by the end of 2023, on a path to 60% gross margin and 30% operating margins by the end of 2025. On top of this, indie's management team previously built a semiconductor company from the ground up and achieved a successful exit, giving us high confidence in management's ability to execute indie's strategic plan. With valuation significantly below other high-growth semiconductor companies and even slower growing, mature peers, we see significant upside for indie stock in the near and long term.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Liberty Broadband Corporation	2014	$4.4	$13.4	$24.7
Vertiv Holdings Co	2019	1.0	14.2	20.6
Clarivate Plc	2019	0.9	4.5	14.2
Driven Brands Holdings Inc.	2021	4.4	2.1	10.9
PENN Entertainment, Inc.	2020	2.4	4.1	10.8

We exited our position in **Liberty Broadband Corporation**, a long-term and successful holding. The company is one of the leading cable and broadband service providers. The cable business has changed for the worse, with the phenomenon of cord cutting continuing, but the provision of internet service thrived. Now that is challenged as well, and the business faces a large capex upgrade program. The stock has rebounded this year, and we decided to exit.

We trimmed back **Vertiv Holdings Co** to manage the size of the position. We sold some **Clarivate Plc** and **Driven Brands Holdings Inc.**, as each business is performing below our expectations. With just a stub position left in **PENN Entertainment, Inc.**, we sold out of the name when the stock popped on the announced partnership with ESPN. We prefer owning **DraftKings, Inc.**, an established leader in online gaming that is gaining share, as a play on the growth in that space.

Outlook

Since the end of the quarter, interest rates have continued to rise and exceeded 5% for the 10-Year. This is up on a spike from 4% in July. Fed Chairman Powell recently noted the strong recent economic data saying, “we have a resilient economy on our hands.” Though we are probably at the end, or close to the end, of the rate hiking cycle, interest rates are likely to stay elevated. The fiscal position of the U.S. government is terrible. Debt to GDP is over 1.2 times. Higher rates and more issuance caused by historically high deficits will cause interest expense for the Federal government to soar. The market has taken notice and the risk premium on government debt has expanded.

This is a very challenging environment for investors.

Though the economy is performing fine now, we sense a continued softening from our conversations with the executives who manage the businesses in which we invest. We hear that consumer demand is slowing, which adds to already subdued spending by corporations and weak trends in the housing market. The positive is that inflation is cooling significantly. Businesses are no longer facing cost pressures from supply-chain issues or labor shortages, and with the economy cooling and conditions more competitive, are no longer increasing prices on their goods and services.

As we invest in high-quality businesses that have the advantages of being industry leaders with secular tailwinds, we expect our companies, which are doing well now, to continue to do well even if conditions worsen. We believe their stock prices reflect the issues of the day and the economic crosscurrents, and we think they are cheap on the near term and very attractive over the long term, especially when growth reverts to more normal levels. Small-cap stocks are so out of favor and cheap, absolutely and relatively, that we believe returns from these levels will be strong over time. However, the inflection point might not be imminent, and we suspect to be in a volatile market as things shake out. In the meantime, we will keep our heads down and keep working hard to find great investment opportunities for the Strategy.

Sincerely,

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.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio managers’ 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.