



QUARTERLY LETTER | SEPTEMBER 30, 2025

Baron Fifth Avenue Growth Fund®

Retail Shares: BFTHX | Institutional Shares: BFTIX | R6 Shares: BFTUX

Dear Baron Fifth Avenue Growth Fund Shareholder,

Performance

Baron Fifth Avenue Growth Fund® (the Fund) gained 5.7% (Institutional Shares) during the third quarter, lagging the 10.5% gain for the Russell 1000 Growth Index (R1KG) and the 8.1% gain for the S&P 500 Index (SPX), the Fund's benchmarks.

Year to date, the Fund is up 14.4% compared to gains of 17.2% and 14.8% for the Fund's benchmarks, respectively.

Three quarters of the year are in the books, and U.S. large-cap equity investors continue to enjoy nice gains. Since the start of 2023 when the rally began, the R1KG and SPX Indexes have gained 123% and 81%, respectively, while the Morningstar Large Growth Category was up 101%.^{*} The Fund returned 148% over the same period. After appreciating 14.5% during the most recent quarter, the Information Technology (IT) sector now represents a chunky 52.6% of R1KG and continues to be the main driver of its returns. In fact, since the start of 2023, the IT sector of R1KG is up 186%, compared to the 123% return for the Index.

Ever since digesting the Liberation Day tantrum the market has continued to grind higher, driven by the anticipated interest rate cuts by the Federal Reserve (the Fed) and of course, the daily barrage of AI announcements and deals. On September 9, Oracle announced a massive backlog of AI bookings which soared to \$455 billion (measured by Remaining Performance Obligations), an increase of 359% year-over-year. The news overshadowed the company's miss of its quarterly revenues and earnings per share estimates and its stock surged 36%, adding approximately \$245 billion to its market capitalization. Less than two weeks later, on September 22, **NVIDIA** announced a \$100 billion investment into OpenAI, which committed to purchase and deploy enough NVIDIA chips to power



Alex Umansky
Portfolio Manager

Annualized performance (%) for period ended September 30, 2025

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2,3}	Russell 1000 Growth Index ¹	S&P 500 Index ¹
QTD ⁴	5.78	5.72	10.51	8.12
YTD ⁴	14.29	14.35	17.24	14.83
1 Year	27.58	27.76	25.53	17.60
3 Years	31.85	32.13	31.61	24.94
5 Years	7.88	8.13	17.58	16.47
10 Years	15.29	15.57	18.83	15.30
15 Years	14.49	14.78	17.36	14.64
Since Inception (4/30/2004)	10.53	10.73	12.85	10.88

10 gigawatts (GWs) of compute, worth approximately *half a trillion dollars*.⁵ While we have been anticipating this accelerating pace of AI investments, we along with the rest of the market participants were caught a bit off guard by this massive scale. Add to this that company earnings have generally been better than expected, with more positive earnings revisions, and you have pretty good ingredients for the markets continuing to move higher.

Though the Fund gained 5.7%, it was a challenging quarter from a relative return perspective. Most of the shortfall was due to poor stock selection in IT, Communication Services, and Consumer Discretionary, as well as an underweight to Magnificent Seven, which appreciated 15.5% as a group and accounted for 77% of R1KG's 10.5% quarterly gain. Not owning Apple cost us 137bps. A 410bps overweight to Health Care and a 774bps underweight

Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail and Institutional Shares as of January 28, 2025 was 1.03% and 0.76%, respectively, but the net annual expense ratio was 1.00% and 0.75% (net of the Adviser's fee waivers), respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser waives and/or reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2036 unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit BaronCapitalGroup.com or call 1-800-99-BARON.

to IT also hurt, while an underweight to Industrials and lack of investments in Consumer Staples, Real Estate, Energy, Utilities, and Materials contributed modestly to narrow the gap.

From an absolute return and stock specific perspective, we had 19 contributors against 12 detractors, which was too many losers and not enough winners to keep up with the R1KG's double-digit gain. Ten investments contributed at least 20bps to absolute returns, with NVIDIA, **Shopify**, **Tesla**, and **Alphabet** contributing over 100bps each, while **Taiwan Semiconductor** (TSMC) "chipped" in (pun intended) with 91bps. Unfortunately, we also had eight detractors costing us 20bps or more, and although we had no 100bps hits, **Trade Desk**, **Intuitive Surgical**, and **MercadoLibre** detracted between 85bps and 55bps each.

"History doesn't repeat itself, but it often rhymes."
— Mark Twain

Is this the internet bubble all over again?

We don't think so. One does not have to be a student of history to recognize some obvious similarities. On October 13, 1994, Netscape released its first browser – the Mosaic, which quickly captured the imagination of the tech community. It was the very first stock I had recommended to my first employer's head of equity growth investing when the company filed to go public in August of 1995. "But they don't make any money!" he said in the closest possible imitation to Mr. Wonderful. "Would you bet your bonus on it?" – "Yes, sir." "Would you bet your career on it?" – "Yes, sir!" As a junior tech analyst, I wasn't expecting much of either, and I was the only one on the desk who saw no connection between being a public company and having actual profits. The five million share offering was expected to price at \$14 per share, but the underwriters had never seen this much demand, and so they priced it 100% above that, at \$28. The stock opened at \$71, peaked at \$74.75 before closing the first day of trading at \$58.25 and marking the beginning of the dot-com era. Many people started writing about how the internet will change the world and our lives, but few, if any, were able to articulate exactly how. In early 1996, Bill Clinton signed into the law the Telecom deregulation act, catalyzing a massive investment cycle into the infrastructure layer (fiber). But of course, there was no e-commerce yet, no social media, no streaming, no smart phones, no cloud computing, etc. – the application layer had not been built out yet. In December of 1996, Alan Greenspan first talked about "irrational exuberance" asking "how one could know when the stock market had become too excited and was potentially overvalued," leading to speculation about the dot-com bubble that appeared to be growing at the time. Of course, grow it did, and it did not stop growing until the NASDAQ Composite Index reached a high of \$5,049 in March of 2000 – 557% higher than it was on October 13, 1994 (\$768) for a compounded annual return of 41.7%.

Almost exactly 28 years later, in October of 2022, OpenAI released to the public ChatGPT. It reached over one million registered users in the first five days and over 100 million registered users in the first two months.

Less than 3 years later... OpenAI is estimated to have \$13 billion in annual recurring revenues and a valuation of \$500 billion with an investor base highlighted by Microsoft, Softbank, and NVIDIA, making it the most valuable private company in the world. As soon as Oracle gave the AI trade a boost with its unexpected \$455 billion order backlog, Alphabet said its own cloud-computing business has a \$106 billion backlog, while Microsoft announced a \$19.4 billion deal with Nebius to get more capacity. NVIDIA followed with its own order of up to half a trillion dollars and Broadcom announced a \$10 billion order from a new customer (most likely OpenAI). Add in an IPO frenzy (remember the talking dog sock puppet of Pets.com?) with companies that have yet to make a profit enjoying strong public debuts and the NASDAQ Composite Index hitting new record highs every week and the parallels to 2000 may start to feel eerily familiar.

But... that's where the similarities end.

Bubbles are marked by "bubble thinking," where investors stop questioning valuations and believe that an asset must be owned regardless of price. Today, we observe the opposite. Whether it is Liberation Day a few months ago, or a Fed-induced sell-off in 2022, still fresh in investors' minds, market participants are clearly nervous and complaints about AI-driven irrational exuberance and excessive valuations are front and center across every financial publication we see. Ironically, valuations are far more rational and reasonable in 2025. In March of 2000, the seven largest "internet beneficiaries" traded at approximately 104 times earnings estimates⁶. The Roundhill Magnificent Seven ETF trades at about 32 times. That's not cheap, but hardly bubbleliciously expensive either. Cisco, the mega-cap company that was the poster child for internet enthusiasm saw its multiple expand from around 30 times in 1996-1997 to 126 times in March 2000, while Oracle, 2025's version of Cisco went from a P/E of approximately 30 times to 106 times. Today's valuations are not in the same zip code. NVIDIA is at 32 times (lower than its five-year average of 39 times), Alphabet is at 23 times, Meta at 24 times, both around market multiples, Microsoft at 32 times, and even Oracle is at 40 times. Obviously, valuations today should be higher compared to the late 1990s as interest rates are expected to be structurally lower, and the leaders of the digital economy today driven by platform economics have proven to be massively more profitable with stronger competitive advantages, and sustainably higher profit margins.

The dot-com bubble burst after a series of interest rate increases from the Fed, which peaked at 6.5% in May of 2000, increasing the cost of capital and driving up borrowing costs for tech companies that had taken on heavy debt loads. In contrast, the Fed is likely to resume a rate-cutting cycle with the consensus expectations of 50bps of cuts in the December quarter. Stephen Miran, the odds-on favorite to ascend to the Fed chair post early next year, is on the record that interest rates in the mid-2% range are more appropriate today (compared to 4% to 4.25% currently), and so the path of interest rates in the foreseeable future is clearly pointing downward. With more than \$7 trillion sitting in money market funds facing lower yields due to lower interest rates, plenty of dollars could be heading into the stock market.

Watching for tangible signs of AI demand and refreshing the lessons learned from the dot-com bubble is wise. But in our experience, bubbles do not get formed when everyone is anxious and valuation conscious. They certainly do not burst while the Fed is aggressively cutting interest rates, and the leading players are generating tens of billions of dollars in cash AND are able to raise capital at will. In our experience the signs are more subtle, like your barber starting to give you stock tips, and your gardener handing in his notice because he is making more money day-trading the market.

Top contributors to performance for the quarter

	Quarter End Market Cap (\$B)	Contribution to Return (%)
NVIDIA Corporation	4,533.9	2.02
Shopify Inc.	193.0	1.42
Tesla, Inc.	1,478.8	1.27
Alphabet Inc.	2,942.7	1.22
Taiwan Semiconductor Manufacturing Company Limited	1,448.6	0.91

NVIDIA Corporation is a fabless semiconductor company specializing in platforms for accelerated computing. Its dominant position in AI infrastructure with a comprehensive portfolio spanning graphics processing unit (GPUs), systems, software, and high-performance networking solutions, continues to drive strong performance. Shares rose 18.1% during the quarter as investor confidence in AI infrastructure expansion grew. NVIDIA reported mid-term visibility of tens of GWs in AI buildouts, with each GW representing an estimated \$35 billion total addressable market (TAM). During its last earnings call, the company announced that its long-term TAM expanded from \$1 trillion to between \$3 and \$4 trillion, while more recently announcing a 10 GW deal with OpenAI. As AI infrastructure investment accelerates, NVIDIA's leadership continues to strengthen through durable moats across compute silicon, networking, systems, software, and supply chain. We maintain a long-term constructive view, as leading AI labs show growing confidence in their ability to achieve human-level intelligence and deploy AI products in enterprise settings. All the industries bottlenecked by intelligence will leverage AI, unlocking trillions of dollars in value. Most of these AI workloads will be supported by large language models running in the datacenters. NVIDIA is uniquely positioned to power this transformation through its full-stack approach, spanning silicon, systems, software, and developer ecosystem, and hence its competitive moat continues to widen.

Shopify Inc. is a cloud-based software provider for multi-channel commerce. Shares rose 28.6% during the quarter as the company continued to deliver stellar results, with second quarter revenue up 30% year-over-year in constant currency, reflecting sustained market share gains driven by 29% growth in gross merchandise volume (GMV). Growth was broad based across Shopify's core e-commerce merchant base and supported by successful expansion into offline, international, and business-to-business channels, which grew 29%, 42%, and 101%, respectively.

Shares also benefited from developments in agentic commerce, underscored by Shopify's recently announced partnership with OpenAI, the owner of ChatGPT. We believe the company's maturing product suite is becoming increasingly attractive to merchants of all sizes and geographies, enabling it to further expand its addressable market. We remain shareholders due to Shopify's strong competitive positioning, innovative culture, and long runway for growth, as it still holds less than a 2% share of the global commerce market.

Tesla, Inc. designs, manufactures, and sells fully electric vehicles (EVs), related software and components, solar products, and energy storage solutions. Shares rose 40.0% during the quarter due to three key catalysts. First, Tesla's core automotive business is showing renewed strength, with record third quarter delivery volumes across major markets following an enthusiastic consumer response to a new Model Y variant in China and the expiry of EV credits in the U.S. Second, investor confidence in the company's long-term vision and in Elon Musk's leadership was reinforced by a newly proposed CEO compensation package and nearly \$1 billion in personal share purchases by Musk. Finally, Tesla's AI initiatives continue to advance rapidly, highlighted by the Austin robotaxi network's expansion from 20 to over 170 square miles since its June 2025 launch and plans for rollouts to additional cities. The Full Self-Driving version 14 release is also expected to deliver a major leap in capability for the company's consumer-owned fleet, while humanoid robot production is anticipated next year as Tesla finalizes its latest Optimus design.

Top detractors from performance for the quarter

	Quarter End Market Cap (\$B)	Contribution to Return (%)
The Trade Desk	24.0	(0.85)
Intuitive Surgical, Inc.	160.3	(0.59)
MercadoLibre, Inc.	118.5	(0.55)
ServiceNow, Inc.	191.4	(0.34)
Atlassian Corporation	41.9	(0.33)

The Trade Desk is the leading internet advertising demand-side platform (DSP), enabling agencies to efficiently purchase digital advertising across Connected TV (CTV), PC, mobile, and online video channels. Shares declined 31.9% during the quarter as the company reported in-line earnings relative to conservative guidance amid a strong quarter for peers in digital advertising. Trade Desk's TAM remains large and underpenetrated, but advertisers may take longer to shift towards biddable programmatic CTV advertising and could be drawn to lower fees offered by competitors. We continue to monitor the competitive landscape, particularly as Amazon enters the market more meaningfully with its rapidly improving DSP offering. Even so, we believe Trade Desk remains the market leader. Execution has improved in managing the rollout and client adoption of the company's upgraded Kokai platform, and operations have stabilized following organizational changes in late 2024. As growth has moderated going forward, we have significantly reduced our position.

Intuitive Surgical, Inc. manufactures the da Vinci robotic surgical system for minimally invasive surgical procedures. Shares detracted from performance in the quarter declining 17.7%, due to system placements in the U.S. falling short of investor expectations. In addition, investors are concerned about financial pressure on hospital customers resulting from cuts to Medicaid in the One Big Beautiful Bill Act. Finally, concerns emerged about the use of reprocessed instruments from third parties with Intuitive's robotic systems. We believe it is unlikely that hospitals would be willing to take a risk using third party reprocessed instruments because of the potential for quality, reliability, and liability issues. We continue to believe Intuitive has a long runway for growth driven by the continued adoption of the company's robotic systems in an expanding number of surgical procedures.

MercadoLibre, Inc., the leading e-commerce marketplace across Latin America, detracted from performance as shares declined 10.6% due to macro and competitive pressures and despite strong quarterly results across GMV – up 21% year-on-year, total payments volume – up 39%, and revenues – up 34%. On the macro side, the sharp sell-off in Argentine assets weighed heavily on the shares given that Argentina represents roughly 20% of MercadoLibre's revenues and 40% of direct group contribution. The Argentine business, which had been a source of recent growth upside and upward forecast revisions, now faces potential downside as consumer confidence and currency stability have deteriorated. At the same time, Amazon, one of MercadoLibre's largest competitors in the region, announced new promotional rates for sellers in Brazil, reinforcing concerns around intensifying competition in e-commerce. While these factors drove near-term pressure, we maintain conviction in MercadoLibre's long-term opportunity: the company remains uniquely positioned to capture a large share of Latin America's underpenetrated e-commerce and fintech markets, with scale, brand trust, and a powerful ecosystem that continue to provide significant competitive advantages.

Portfolio Structure

The Fund 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 September 30, 2025, the top 10 holdings represented 60.3% of the Fund's net assets, and the top 20 represented 87.0%. The total number of investments in the portfolio was 31 at the end of the third quarter.

IT, Consumer Discretionary, Communication Services, Health Care, and Financials made up 93.8% of net assets. The remaining 6.2% was made up of **SpaceX** and **GM Cruise**, two of our three private investments classified as Industrials (the other one, **xAI**, is included in Communication Services), and cash.

Top 10 holdings

	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
NVIDIA Corporation	4,533.9	96.9	12.7
Meta Platforms, Inc.	1,844.9	65.4	8.6
Amazon.com, Inc.	2,341.7	62.4	8.2
Shopify Inc.	193.0	39.6	5.2
Taiwan Semiconductor Manufacturing Company Limited	1,448.6	37.6	4.9
Alphabet Inc.	2,942.7	37.5	4.9
Tesla, Inc.	1,478.8	33.0	4.3
MercadoLibre, Inc.	118.5	32.7	4.3
Cloudflare, Inc.	74.8	29.3	3.8
KKR & Co. Inc.	115.8	25.3	3.3

Recent Activity

During the third quarter, we initiated a small investment in the collaborative design platform, **Figma**. We also added to four existing holdings: the global alternative asset manager, **KKR**, the leading search and advertising company, **Alphabet**, the leading global semiconductor manufacturer, **Taiwan Semiconductor**, and the cybersecurity platform, **CrowdStrike**. We funded the purchases by reducing seven other holdings where we chose to actively manage position sizing and by exiting our investments in **GitLab** and **Mobileye**.

Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
KKR & Co. Inc.	115.8	7.1
Alphabet Inc.	2,942.7	6.6
Taiwan Semiconductor Manufacturing Company Limited	1,448.6	2.3
CrowdStrike Holdings, Inc.	123.1	2.2
Figma, Inc.	25.4	1.6

We initiated a small position in **Figma, Inc.**, a software business that offers both designers and non-designers (designers work alongside developers, product managers, researchers, marketers, writers, and other non-designers) a collaborative product to ideate, visualize, build, and ship software – to help companies deliver the best possible user interface in order to optimize user experience and overall customer satisfaction. With the expansion of its product portfolio over the last few years, the company has broadened its focus from traditional designers to non-designers creating a platform that helps teams across companies of all sizes share and explore ideas, align on a vision, visualize concepts, and translate them into coded products – all on a single, connected, AI-powered platform that collaborators around the world can access with a web browser (think "Google Docs" for everything that comprises software design).

Figma's business model is 100% subscription based, with a land and expand approach to the over \$30 billion TAM comprised of the global workforce engaged in software design. Figma has been taking share over the last decade and has become the dominant vendor in the design space, enabling it to grow well above market – thanks to the quality of its offering, replacing a variety of point solutions across the design and collaboration landscape. The company generated \$749 million in subscription revenue, over 48% year-over-year with 30% adjusted free cash flow margins in 2024. The company's unique product helped it reach an 80% market share within its core design end market (around 85% of revenue) with the key longer-term opportunity to extend into attractive non-designer adjacencies. We believe the company also has a significant opportunity in AI due to the accelerated pace of software development, the growing number of surfaces for creation, and the fact that humans would always be visual creatures, increasing the importance of design as the differentiator for customers. Dylan Field, Figma's Co-Founder and CEO, further emphasized this during the company's second quarter earnings call: *"Design is now the differentiator. It's how companies win or lose. And our goal at Figma is to build and expand our platform so we can do even more to unleash the taste and craft of our customers who together are shaping and defining this next era of digital products."*

We increased the size of our position in **KKR & Co. Inc.**, as we took advantage of price volatility towards the end of the quarter. KKR is a leading alternative asset manager. The company manages \$686 billion in assets across a diverse range of strategies in Private Equity (PE), Private Credit, and Real Assets. The company is in the middle of a three-year fundraising super-cycle, in which it expects to raise over \$300 billion in new capital. KKR is a prime example of the shifting trends in the alternative asset management industry. Historically, the industry was characterized as buyout PE, typically in North America and Europe, while nowadays, alternative asset classes have significantly expanded including Real Estate, Infrastructure, and Private Credit. We think KKR will continue to be an industry leader as it has successfully diversified its business beyond PE into these other asset classes, and now boasts three scaled businesses (PE, Private Credit and Real Assets) that are each over \$150 billion in assets under management and continuing to grow. Alongside the Asset Management business which generates highly recurring fees, KKR also has a large insurance company, Global Atlantic, which participates in the growing market for retirement assets, and a collection of long-term holdings in private business called Strategic Holdings.

We think KKR is poised to leverage its scale, strong track record, and relationships to continue building on this foundation as it scales towards \$1 trillion in assets. This includes a more nascent opportunity in Private Wealth, where KKR is partnering with existing large firms such as Capital Group to rapidly scale its distribution capabilities. This is an investor class that has historically not been well served by alternative asset managers (aside from ultra-high-net-worth) and so presents a large growth potential, with retail assets estimated to be \$150 trillion. We took advantage of a sell-off in the stock to add to our position, which was related to some concerns over potential weakness in Private

Credit given bankruptcy headlines around one or two companies, although our belief is that these companies' debt was not actually underwritten in the private markets. As compared to peers, we think KKR has arguably the most diverse earnings stream given its scale with multiple business models helping drive earnings growth, which we think gives the company many ways to win over the long term, across macroeconomic cycles.

We also continued adding to the parent company of Google, the world's largest search and online advertising company, **Alphabet Inc.** While the company continues to hold high market share in search, it also owns the world's leading video platform, YouTube, a leading hyperscaler, Google Cloud, a leading ad network, and optionality in a number of smaller subsidiaries like the autonomous vehicle company, Waymo.

Generative AI models like ChatGPT have introduced a bear case for Alphabet for the first time in over 20 years, centering on the potential disruption of its core search business and massive advertising revenue stream. While Google has long held a near-monopolistic position in the search engine market, the rise of LLMs like ChatGPT could lead to a shift in user behavior and a potential erosion of Google's long-standing lead. For long-term investors, the central risk is that generative AI-powered interfaces could fundamentally change how users seek information, bypassing traditional search results and threatening Alphabet's most profitable advertising engine. However, Google has thus far only seen growth in the number of search queries supported by AI overviews and AI mode, which have also expanded the addressable opportunity to longer and more complex queries. Additionally, Google has seen paid clicks reaccelerate despite the rise of ChatGPT.

More broadly, the bull case for Alphabet is multifaceted, leveraging its extensive AI expertise and vast ecosystem. Firstly, Alphabet's DeepMind is a leader in AI research, with a superior talent pipeline and retention, allowing the company to attract top-tier talent and convert research into products at scale – see the recent Veo 3 video generation model release or the significant progress that Alphabet has made with its Gemini models. Second, in contrast to rivals like Meta, Alphabet's diversified revenue streams and hardware investments, such as its custom tensor processing units, provide a crucial advantage. By developing its own full-stack AI infrastructure, from hardware to applications, Alphabet gains superior price-to-performance relative to general-purpose chips like GPUs. This approach enables a more cost-efficient scaling of AI workloads all else being equal. Third, Alphabet's scaled user aggregation surfaces, offers a significant competitive moat. The company has a "billion user club," with nine software products boasting over a billion users each, including Android, Chrome, YouTube, Gmail, and Google Maps. This massive, existing user base provides a substantial advantage by effectively lowering customer acquisition costs for new AI products. Critically, this scaled user base is a powerful magnet for developers, who are incentivized to build applications that integrate with Google's AI engine to reach a vast audience. This flywheel effect – where users attract developers, and a robust app ecosystem attracts more users – strengthens Alphabet's position at the heart of the AI landscape. A fourth forward-looking driver is the coming evolution in

commerce, in which every piece of content becomes "shoppable." With its scaled surfaces like YouTube and Google Maps, combined with advanced AI, Alphabet is uniquely positioned to capitalize on this shift. For instance, AI models could recognize products in real-time within videos or images, and via integrations with merchants, enable them to be shoppable just in time – this should strengthen Alphabet’s positioning in commerce.

Lastly, the recent resolution in the Department of Justice case against Alphabet, which was close to a best-case scenario, removes a significant overhang from the stock. Getting everything Alphabet has to offer across its platform and ecosystem at a 23 times P/E multiple is attractive for long-term investors in our view.

We continued to build our position in **Taiwan Semiconductor Manufacturing Company Limited (TSMC)**. We believe that while near-term uncertainty is heightened due to the developing China-U.S. geopolitical relations, TSMC’s competitive positioning in leading-edge semiconductor manufacturing remains unmatched with a 90% market share (and 65% overall). TSMC’s unique positioning in the market is underlined with the company’s ability to raise prices as demand for its next generation nodes continues to be robust – this should also enable TSMC to offset any margin pressures from cost inflation or the headwinds from opening fabs in the U.S. at an accelerated pace. We also believe that TSMC will benefit from a long duration of growth as the adoption of AI continues to accelerate. Note that TSMC will benefit regardless of the ultimate market share split between NVIDIA, Advanced Micro Devices, OpenAI, or Anthropic and whether application-specific integrated circuits would garner any significant market share. It’s the ultimate picks and shovels supplier to AI.

Lastly, we added to our position in the leading cybersecurity platform, **CrowdStrike Holdings, Inc.** A year post the famous outage that grounded planes and impacted a broad array of the company’s customers, we can conclude that management has done an excellent job in the aftermath of the outage. CrowdStrike is now seeing a reacceleration in net new annualized recurring revenues driven by strong adoption of its new Flacon Flex offering, which enables customers to use multiple modules from the company without having to go back to procurement. Additionally, customer care packages provided in the aftermath of the outage also incentivized customers to use more of the platform, planting seeds for broader adoption over time.

We visited CrowdStrike’s West Coast office in September, to spend some time with management and drill down into the emerging growth areas and ability to consolidate more wallet share. We came away incrementally positive on several of the products, including Next-Gen SIEM (security information and event management), Cloud Security and Identity, as well as their opportunity in Security for AI. A week later we spent three days at Falcon, the company’s annual user conference, speaking with customers and partners, and attending its Investor Day. Key takeaways include: i) customer trust as high as we’ve seen; ii) CrowdStrike’s platform leverages its market leading end point product and best-in-class threat prevention capability powering its Threat Graph that collects and correlates the data across its large customer base, adding key

contextual awareness, and; iii) utilizing this across a large and growing set of products on the back of strong innovation and a rapid customer feedback loop, helps customers plan and spend more with CrowdStrike over time. We continue to view CrowdStrike as one of the long-term winners in cyber and a core long-term durable grower with strong margin and cash flow generation.

Top net sales for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Net Amount Sold (\$M)
Shopify Inc.	193.0	24.3
Eli Lilly and Company	722.1	11.4
The Trade Desk	24.0	8.4
GitLab Inc.	7.8	6.3
Mobileye Global Inc.	11.5	5.8

Outlook

Linear thinking versus exponential growth

In September, we spent a week on the West Coast meeting with management teams of public companies, early and later stage private companies, entrepreneurs, venture capital (VC) investors, and AI researchers. Our goal during these trips is to absorb as much information as we can, test our hypotheses, search for disconfirming evidence (prompting us to update our thinking) and build relationships with companies. It felt different this time than it did even six months ago and even more so than it did last September. The excitement in the air was palpable! We came away from the trip with several observations:

- We are still very early in the days of AI - enterprise adoption remains relatively low as AI talent is very expensive and hard to find/procure. Production-grade solutions that are easy to use are not generally available yet. We expect this to change over the next few years as the application layer of AI starts to mature and as the cost of using AI continues to drop. According to International Data Corporation, spending on agentic AI is forecast to rise to around \$1.3 trillion over the next four years. Agentic AI adoption is similarly early - we expect this to change as the accuracy of models continues to improve (agentic workflows require a much higher accuracy due to the compounding error dynamic in more complex and lengthy workflows).
- Nevertheless, AI is already having a growing tangible impact across the ecosystem - it is a huge driver of VC investment with more than 50% of total global VC investment year-to-date going towards startups in AI.⁷
- Proprietary data continues to be a key ingredient in advancing AI and should serve as a competitive moat driven by a data feedback loop as customer data helps improve the product with the use of AI, driving greater product differentiation, which in turn drives market share gains, more customer data, and so on. We continue to expect winner-take-most dynamics for companies with proprietary data to accelerate.

- On the other hand, in segments in which there is no proprietary data and in which differentiation has mostly been driven by unique product features, we expect AI to reduce barriers to entry and competition to intensify - as imitating the latest features of competitors becomes easier and faster to do.

In addition to this trip, the quarterly earnings reporting season offered a flurry of data points supporting the significant opportunity behind AI in terms of both productivity enhancements and incremental revenues:

- **Meta** reported quarterly revenue growth of 22% and highlighted AI as a tailwind to engagement and to advertiser's return on ad spend, prompting the company to increase 2026 estimated capex expectations to \$100 billion, \$30 billion higher than Wall Street expectations. We thought Mark Zuckerberg's comments regarding "Early glimpses of AI improving itself" were particularly insightful.⁸ If AI can improve itself, a self-reinforcing flywheel can emerge resulting in super-intelligence.
- Andy Jassy, the CEO of **Amazon**, described AI as the "*Biggest technology transformation in our lifetimes. Will change customer experience. Will change how we work - code, analyze, research, business processes, customer service. Every area will be impacted meaningfully by AI*".⁹ This is the company that invented Cloud Computing!
- **Alphabet** reported a doubling in AI tokens in the last two months alone.¹⁰ "*AI is positively impacting every part of the business.*" Later, in a separate blog, Alphabet announced that AI will be deeply embedded into YouTube, enabling both video creation with their excellent Veo 3 model, and making videos shoppable.¹¹ AI would help video creators and brands tag products, significantly expanding the monetization potential of YouTube. Meantime, the latest Gemini model climbed to #1 in the LLM comparison leaderboard across a variety of different tasks.¹²
- Microsoft's Azure revenue growth accelerated to 39% with demand continuing to outstrip supply despite the company bringing on 2 GW of new DC capacity online just in the last 12 months. Microsoft's AI foundry used over 500 trillion tokens in the last quarter, up 700% year-over year.¹³
- **NVIDIA** now expects \$3 to \$4 trillion in infrastructure spend over the next five years as demand is proving to be higher than the recent expectations presented to investors during their GTC conference in the spring.¹⁴ NVIDIA also unveiled its next generation Rubin CPX, an inference-focused GPU that offers 7.5 times more performance than the current generation GB300 NVL72 GPU. This GPU is optimized for the prefill phase of inference and is great for AI video generation and long context windows. Since the prefill phase of inference is highly compute-heavy (and yet memory light), using a regular GPU that has a lot of expensive HBM memory is wasteful. Similarly, running the decode phase, which is memory-heavy on a regular GPU, wastes compute resources. Disaggregating the two processes enables a leap forward in performance.¹⁵

- **CrowdStrike** described that while the cloud increased their opportunity by 10 times, they expect agentic AI to increase it again... by 100 times as the sheer volume of assets to be protected and the complexity of protecting them is increasing exponentially.¹⁶

This is a non-exhaustive list of recent developments - just over the last three months. Human beings tend to perceive and process change linearly, i.e., incrementally. But as disruptive change investors we know that tectonic shifts in computing platforms often result in changes that are exponential. For example, the length of software engineering tasks AI could do has been doubling every seven months, for the past six years now.¹⁷ That's around 10 doubles or 1,000 times better with a similar pace of progress identified across a wide range of other tasks.¹⁸ Can you imagine what another 1,000 times in capability would mean for AI over the next six years? To what extent would it be able to make information workers more productive? Accelerate R&D? Discover new materials and sources of energy? New medicines? Cure cancer? What is the value of that to humanity?

The very nature of these questions and some of the behavior that we see in the markets is starting to resemble some aspects of the internet bubble. But with the benefit of hindsight, whoever was the most bullish about the internet in the year 2000 was still not bullish enough! There were no smart phones, no tablets, no Wi-Fi, no Google, no Facebook, no TikTok, no cloud, and no video streaming. The internet has become much more important than even the biggest optimists believed. There is little doubt in our minds that 25 years from now, AI will turn out to be even more important and even more value-creating than we currently imagine.

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



Alex Umansky
Portfolio Manager

- ¹ The **Russell 1000® Growth Index** measures the performance of large-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 Fund includes reinvestment of dividends, net of withholding taxes, while the Russell 1000® Growth Index and S&P 500 Index include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.
- ² The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.
- ³ Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.
- ⁴ Not annualized.
- ⁵ Based on NVIDIA's 2Q26 earnings call, every 1GW is worth \$50 billion to \$60 billion.
- ⁶ Compared to the S&P 500 on next 12m of eps.
- ⁷ <https://www.mittrade.com/insights/news/live-news/article-3-1170528-20251003#:~:text=Venture%20capital%20funding%20for%20AI,according%20to%20data%20provider%20PitchBook>.
- ⁸ Meta's 2Q25 results.
- ⁹ Amazon's 2Q25 results.
- ¹⁰ Alphabet's 2Q25 results.
- ¹¹ <https://blog.youtube/news-and-events/earn-more-with-brand-partnerships/>.
- ¹² <https://lmarena.ai/leaderboard>.
- ¹³ Microsoft's 4Q25 results.
- ¹⁴ NVIDIA's 2Q25 results.
- ¹⁵ <https://nvidianews.nvidia.com/news/nvidia-unveils-rubin-cpx-a-new-class-of-gpu-designed-for-massive-context-inference>.
- ¹⁶ CrowdStrike Investor Day, 2025.
- ¹⁷ <https://metr.org/blog/2025-03-19-measuring-ai-ability-to-complete-long-tasks/>.
- ¹⁸ <https://openai.com/index/gdpval/>.
- * As of 9/30/2025, the annualized returns of the Morningstar Large Growth Category average were 21.73%, 13.71%, and 15.90% for the 1-, 5-, and 10-year periods, respectively.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting BaronCapitalGroup.com. Please read them carefully before investing.

Risks: The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta** explains common variation in stock returns due to different stock sensitivities to market or systematic risk that cannot be explained by the US Country factor. Positive exposure indicates high beta stock. Negative exposure indicates low beta stock. **Price/Earnings Ratio or P/E (next 12-months):** is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation. **EPS Growth Rate (3-5-year forecast)** indicates the long term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance.

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