



QUARTERLY LETTER | DECEMBER 31, 2025

Baron Durable Advantage Fund®

Retail Shares: BDAFX | Institutional Shares: BDAIX | R6 Shares: BDAUX



Alex Umansky
Portfolio Manager

Dear Baron Durable Advantage Fund Shareholder,

Performance

We had an in-line quarter and another good year.

Baron Durable Advantage Fund (the Fund) gained 2.6% (Institutional Shares) in the fourth quarter, in-line with the 2.7% gain for the S&P 500 Index (the Index or Benchmark). For calendar year 2025, the Fund appreciated 16.6%, compared to the 17.9% gain for the Index and the 16.1% gain for the Morningstar Large Growth Category average (the Peer Group).

It was an exciting year. After two years of strong market returns with the S&P 500 Index posting consecutive 25%-plus gains, and the Fund adding over 45% and over 27% to its ledger, many thought we were due for a breather. We started on a positive note, and by mid-February, the Index was up 4.5%. Then we started hearing about a new tariff policy and that breather – or a slow but sustained slide - had begun. Right before the “Liberation Day,” the Index was already down 4% for the year. As soon as Liberation Day announcement hit, with its “reciprocal” tariff policy the market dropped like a rock. By April 8, the Index was down 19.5% from its February peak. But the tariff policy was quickly adjusted: most tariffs got suspended due to trade negotiations with many countries, and markets rallied again. By mid-summer, the TACO trade was on. No one believed in 120% tariffs on China and the 25% tariff on Mexico and Canada only hit a limited number of goods not covered by the USMCA, which was negotiated by this administration in its first term. The Fund had an excellent second quarter recording a 15.6% gain to check-in up 7.5% at the half-year mark, ahead of the 6.2% return for the Index. We commented at the time that if this torrid pace were to continue, “we may struggle to keep up.”

Annualized performance (%) for periods ended December 31, 2025

| | Fund Retail Shares ^{1,2} | Fund Institutional Shares ^{1,2} | S&P 500 Index ¹ |
|------------------------------|-----------------------------------|--|----------------------------|
| QTD ³ | 2.59 | 2.65 | 2.66 |
| 1 Year | 16.25 | 16.56 | 17.88 |
| 3 Years | 28.87 | 29.20 | 23.01 |
| 5 Years | 16.17 | 16.47 | 14.42 |
| Since Inception (12/29/2017) | 16.14 | 16.42 | 14.33 |

By the end of summer, everyone forgot the tariffs, and the AI boom took over. The Fed signaled that despite some reservations it was finally ready to resume lowering interest rates, and the Index added another 8.1%, while we lagged with a 5.6% gain. By fall, “Are we in an AI bubble?” became the topic DuJour. It seems somewhat obvious that when everyone is talking about a bubble, we are unlikely to be in one. And so, we finished the year with a 16.6% gain, modestly behind the Index, slightly ahead of the Peer Group. All in all, we were happy with the decisions we made and the outcomes we experienced.

If we zoom out and look over the longer term, the Fund is up 115.6%, cumulatively, since the market recovery began in 2023, which compares favorably to the 86.1% gain for the Benchmark and 101.8% gain for the Peer Group. In our view, the results were even more impressive when examined over the longer periods which include full market cycles, such as the last five years, when the Fund recorded a 16.5% annualized gain, compared to the 14.4% gain for the Benchmark and 11.3% for the Peer Group, outperforming 97% of peers in the Morningstar Large Growth Category.

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 1.04% and 0.77%, respectively, but the net annual expense ratio was 0.95% and 0.70% (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.

LARGE CAP

From a quarterly performance attribution perspective, there was not much insight to be gleaned from what was an in-line quarter with 31bps of outperformance from stock selection offset by a 32bps headwind from sector allocation. Consumer Discretionary, Financials and Information Technology (IT) outperformed slightly, while Real Estate and Health Care slightly underperformed. **Alphabet, Taiwan Semiconductor (TSMC), Broadcom, Amazon, and Thermo Fisher** were our top contributors to absolute returns, while **Meta, CoStar, Microsoft, and Blackstone** were our main detractors. We do not believe we have suffered any permanent losses of capital in any of our investments during the quarter.

For the year, stock selection detracted 125bps. While our IT stocks performed exceptionally well (+403bps) and we did well in Real Estate (+52bps), relative performance was poor in Consumer Discretionary (-44bps), Health Care (-170bps), and especially in Financials (-356bps) which was the largest absolute and relative sector for the Fund. We had no exposure to legacy banks that thrived as regulation eased with the diversified banks sub-industry rising 35.3%, costing the Fund 53bps of relative returns. Whether this continues in 2026 remains to be seen given the barrage of re-regulation announcements from the administration over the last few weeks. To add insult to injury, the high-quality companies we favor – ratings agencies, exchanges, information services, alternative asset managers, and payment networks underperformed in 2025 due to concerns around possible AI disintermediation, growing worries about private credit, and as capital rotated into banks. While some of these things bear watching, we are not overly concerned at this time. More than 100% of the underperformance of our Financials stocks was driven by multiple contraction, while business fundamentals remained robust. We believe this bodes well for our prospective returns.

On the positive side, our IT stocks gained 39.7% compared to the 24.0% gain for the stocks in the Index. The strong result was driven by our semiconductor investments (+326bps), which continue to benefit from the AI buildout. Looking under the hood, over 100% of the performance of our semiconductor stocks was explained by growth in fundamentals rather than multiple expansion, as the *weighted average multiple declined 2.3% during the year, while FactSet consensus expectations for 2026 revenues and operating income were revised higher by 24.3% and 25.1%, respectively.*

From an absolute return and stock specific perspective, we had 23 contributors against 14 detractors. We suffered from a poor batting average as only 10 of our 37 investments beat the market but as is often the case, we made up for it with slugging percentage as our best performers were some of our largest holdings. **NVIDIA, Broadcom, Alphabet, TSMC, Monolithic Power Systems (MPS), Meta, and HEICO** contributed at least 100bps each, to absolute returns, while **Amphenol, Welltower, Brookfield, and Microsoft** contributed over 50bps each. Eight of our investments gained over 35%, of which five increased over 50%, with Alphabet roaring back into investor favor with a 65% rise, while Amphenol appreciated 122% after we scooped up the shares during the tariff tantrum. On the other side of the ledger **UnitedHealth Group** cost the Fund 112bps after a 48% drawdown. Though it once was a high

conviction idea, we had been reducing the size of the position for a while and sold our remaining stake in the second quarter.

Once again, the *Magnificent Seven (Mag7)* – Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla outperformed, though the magnitude of outperformance was less pronounced than in the prior two years. After accounting for 62% and 53% of S&P 500's gains in 2023 and 2024, respectively, Mag7 again punched above their weight, driving 42% of the Benchmark's returns in 2025 while representing 32.9% of the Index on average. Performance of Mag7 was much more concentrated in 2025 as only Alphabet and NVIDIA outperformed while the other five underperformed the Index. We owned both and in size, which helped our performance as our Mag7 were up 26.1% compared to 22.9% for the Index, contributing 69bps to our relative results.

Alphabet, NVIDIA, Amazon, Arch Capital and ability to adapt to change

Since the ChatGPT moment in late 2022, NVIDIA's stock has been a monster. Its attractiveness, or at least the extraordinary opportunity set as a primary beneficiary of the AI buildout, was immediately apparent to investors even without the benefit of hindsight. Almost simultaneously, the fortunes of Alphabet, the parent company of search leader Google, went in the opposite direction. The bear case was just as easy to grasp – the AI world will likely be dominated by Large Language Models (LLMs) such as ChatGPT, and Google with its near monopoly position in legacy search had the most to lose. This narrative was further reinforced by the seemingly insurmountable lead built by OpenAI, and the innovators' dilemma confronting Google's search – a highly profitable business that had to adapt to the AI disruption and required significant changes and massive upfront investments. While investor optimism drove NVIDIA's shares to unprecedented returns, Alphabet's stock languished to a point where its valuation dropped to historical lows of 20% below the S&P 500 Index (based on the next-twelve-months P/E multiple) in the second quarter of this year. But here is the thing... you know what else happened in late 2022 after the release of ChatGPT, albeit to much less fanfare? Sergei Brin, one of the two co-founders of Google, returned to the company full time to begin work on Gemini, Google's own LLM. By early 2025 Brin's AI team was known for 60-hour in office work weeks and the margin pressure caused by the company's accelerated investments in AI began to alleviate. By the time the company released its Gemini 3 family of AI products in the fall, the stock was in full recovery mode. Pushing the Pareto frontier on performance and cost of AI models⁴, the number of Gemini monthly active users reached 650 million, closing the gap with ChatGPT's 900 million, helping Alphabet fully regain its mojo. Not coincidentally, the growth in Google Cloud Platform, its cloud computing business accelerated, while Waymo continued to scale up its autonomous ride sharing platform. Though it took some time, the narrative had flipped and this \$4.5 trillion market cap company finished the year with a 65.5% gain. Though the challenges were real, the company proved to be more adaptable to change than investors had realized.

The Alphabet story is instructive and will contribute to our collection of “Lessons Learned” insights and perspectives from two different angles. First, perceptions and narratives have always influenced the short-term performance of stocks more than fundamentals, but the magnitude has changed. The rise of passive investing, which lacks a price-discovery mechanism (buying and selling indiscriminate of company-specific prices or fundamentals) combined with high frequency and algorithmic trading accounting for larger and larger shares of the trading volumes have made this phenomenon even more pronounced. When a company finds itself on the wrong side of the prevailing narrative, the impact on its stock price is often significant. In addition to Alphabet, we have experienced other stock price reactions that were downright violent. Broadcom lost 23% of its value over five days in December due to concerns that their customers could one day in-source their chip design. Monolithic Power declined almost 39% at one point in the first quarter on rumors that their products were designed out of NVIDIA’s Blackwell chip, and of course, NVIDIA itself, suffered a 25% pullback after a DeepSeek scare in late January. There were other examples. In most cases, our research and due diligence will lead us to either validate or disprove the prevailing narrative relatively quickly and we would take advantage of stock price dislocations where we can. But it can be quite jarring and disconcerting when it happens to your largest holdings.

Second, we have often written about the importance of our businesses being able to adapt to disruptive change. We believe it will be even more critical in the age of AI. The stakes are much higher this time around as AI disruption is coming for ALL knowledge workers and that will be just the beginning. Most physical workers will also likely get disrupted (think autonomous cars, then humanoid robots). To survive, let alone to succeed, our companies must overcome innovators’ dilemmas, challenge conventional wisdom, embrace the disruption by making sure that decision makers on AI are NOT the same people whose jobs are on the line, and most importantly, be willing to invest aggressively and penalize short-term results. Those companies that cannot or will not – will be left behind. This requires having a certain culture. Jeff Bezos famously described Amazon’s Day 1 culture as a “mindset to maintain the energy, agility, and customer focus of a startup, even as a large company, to prevent complacency (Day 2) and drive constant innovation, experimentation, and long-term vision, centered on customer obsession and quick, reversible decisions. It’s about operating with urgency, embracing failure as learning, taking ownership, and always working backward from customer needs to build and invent.” Bezos also introduced the “one-way door” decision framework at Amazon where the goal is to *apply deep analysis to truly consequential, one-way decisions while moving quickly on reversible ones, preventing indecision and ensuring agility*⁵.

We believe that most companies we own have adopted a similar mindset. NVIDIA started out as a graphics-card supplier for gamers and has evolved into the leading platform for AI infrastructure. The company has been accelerating its innovation cycle at a

breathhtaking pace, compressing it to an annual cadence by moving to extreme co-design where it *designs half a dozen chips simultaneously* from networking to CPUs, GPUs, racks, and full AI data centers, while continuously challenging its pre-existing beliefs. At the same time, the company focuses on remaining true to its unique characteristics – a focus on the ecosystem, investing for the long term and solving hard problems that others cannot. NVIDIA’s Co-Founder and CEO, Jensen Huang, described it best in the company’s recent presentation to investors at the CES:

“We like to solve insanely hard problems we are uniquely positioned to solve... I like these things that take a long time, but when you finally get there, it’s very likely you’ll be quite alone... NVIDIA is powering just about every quantum computer in the world and everybody goes ‘zero, zero, zero.’

“Models change all the time... that’s why NVIDIA is the right answer - because we’re flexible... versatile... You have finite power... Have to utilize that finite power for the overall consumption of the data center. And the more flexible it is, the better it is... We are constantly trying to come up with a new way to do better... I’m trying to disrupt myself all the time”⁶

It is important to understand that this culture is not unique to technology companies. Arch Capital, the leading property and casualty insurance company, is a great example of a company and a culture built on its ability to adapt to change. While operating in a highly cyclical industry, Arch’s strategy has been to act anti-cyclically, providing capital and underwriting business when conditions are tight and others would not. When capital is widely available and prices do not adequately represent the risks, Arch would pull back and allow its market share to fall rather than underwrite questionable or unprofitable business. By zigging when others zag, constantly adapting to the changing environment and operating as long-term owners of the business, Arch has built an incredible track record of capital allocation and has proven itself to be a great steward of shareholder capital.

As long only investors...

Our goal is to generate 150 to 200bps of annualized alpha, net of all fees and expenses, while minimizing the probability of permanent loss of capital. We believe that the best way to assess whether we are successful in doing what we set out to do is to measure our performance over longer periods of time and over full market cycles. We believe that rolling monthly returns can be insightful in analyzing whether the process we employ works and whether it is repeatable. This analysis shows that on an annual basis, the Fund has outperformed S&P 500 Index and its Morningstar Peer Group, 60% and 66% of the time, respectively. But as the time horizon extends, so does the Fund’s winning percentage. On a 3-year rolling basis, the Fund outperformed the Index and Peer Group 82% and 89% of the time, respectively, while on a 5-year rolling basis, the Fund outperformed 97%, and 100% of the time, respectively. It is the opposite story for our average competitor, especially over the long term. Note of course, that past performance does not guarantee future results.

Percentage of time Fund outperformed benchmark and peers over different time periods from inception through 12/31/2025

| Rolling Return Period | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years |
|--|---------|----------|--------|---------|---------|
| Outperformance vs. S&P 500 Index | 55% | 60% | 60% | 82% | 97% |
| Outperformance vs. Morningstar Large Growth Category Average | 51% | 56% | 66% | 89% | 100% |
| Morningstar Large Growth Category Average vs S&P 500 Index | 59% | 57% | 64% | 38% | 3% |

Sources: Baron Capital, S&P Global Inc., and Morningstar Direct.

Top contributors to performance for the quarter

| | Quarter End Market Cap (\$B) | Contribution to Return (%) |
|--|------------------------------|----------------------------|
| Alphabet Inc. | 3,781.6 | 1.60 |
| Taiwan Semiconductor Manufacturing Company Limited | 1,576.1 | 0.55 |
| Broadcom Inc. | 1,641.0 | 0.38 |
| Amazon.com, Inc. | 2,467.5 | 0.30 |
| Thermo Fisher Scientific Inc. | 217.7 | 0.29 |

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares rose 28.9% (and 65.5% for the year) on strength in the company's core businesses, as well as accelerating growth in Google Cloud and Other Bets. In the third quarter, revenues grew 15% in constant currency while EPS grew 35% year-on-year. Despite strong growth of AI competitors such as ChatGPT, both Search and YouTube delivered double-digit revenue growth year-on-year. Additionally, Google Search paid clicks increased compared to the prior year. Google also released the latest version of its AI assistant, Gemini, which currently sits at the top of most AI leaderboards, suggesting the company's frontier AI research capabilities remain world class. Meanwhile, Cloud revenue growth also accelerated to 34% year-over-year, driven by demand for AI cloud services, with the number of large deals over \$1 billion, signed through the third quarter of 2025, greater than the prior two years combined, and the number of monthly AI tokens processed in September up 20 times year-on-year. We believe there is further runway for cloud acceleration, given a significant increase in backlog and a large deal announced with leading AI startup Anthropic. Long term, we believe AI innovation should lead to further broad-based opportunities such as autonomous driving (through Waymo), agentic commerce (through the recent partnerships with Shopify and others on Universal Commerce Protocol) and a continued healthy cloud infrastructure business in GCP.

Semiconductor giant **Taiwan Semiconductor Manufacturing Company Limited (TSMC)** contributed to performance during the quarter with shares up 9.0%, and up 55.5% in 2025, driven by robust demand for AI chips. After reporting its most recent quarterly results, TSMC raised its 2025 revenue growth guidance from "close to mid-20s%" year-on-year in the first quarter to "around 30%" in the second, and now to "close to mid-30s%" (in USD terms) as "AI demand continues to be very strong, even stronger than we thought three months ago". We believe that TSMC's competitive position in leading-edge semiconductor manufacturing remains unmatched with a 90% market share (and 65% overall). TSMC's unique positioning in the market is underlined by the company's ability to raise prices as demand for its next generation nodes continues to be robust. We also believe that TSMC will benefit from a long duration of growth underpinned by the AI buildout. Note that TSMC will benefit regardless of the ultimate market share split between NVIDIA, Advanced Micro Devices, OpenAI, or Anthropic and whether ASICs would garner any significant market share. It's the ultimate picks and shovels supplier to AI.

Broadcom Inc. is a leading fabless semiconductor and enterprise software company, generating approximately 60% of revenue from semiconductors and 40% from software. The company is strategically positioned at the intersection of high-performance AI compute and networking infrastructure, while also demonstrating disciplined execution in software. Broadcom has extended its leadership in merchant networking silicon from the cloud era into the AI era and is regarded as the most reliable silicon partner for AI foundational model builders designing custom chips to train frontier models. Shares rose 5.0% in the fourth quarter, ending 2025 up 50.6%, driven by strong momentum in AI, with key customer Google continuing to ramp and additional large customers entering significant volume production. The company ended its fiscal 2025 with AI revenue growth of 65%, which reached \$20 billion (nearly one-third of total revenues), with quarterly AI revenues up 10x in the last 11 quarters. Broadcom also announced overall AI backlog of \$73 billion, which is almost half of the company's total backlog of \$162 billion. It now has 5 XPU (AI accelerator) customers, including Anthropic which was announced in the last quarter. Despite the robust growth, Broadcom guided AI revenues to further accelerate in fiscal year 2026. In addition, VMware integration progresses and the non-AI semiconductor businesses appear to be bottoming, which has driven overall company growth to 24% in fiscal year 2025 with 67% EBITDA margins. We believe that Broadcom's growth runway is long as an enabler of a full-stack solution as demand is expected to remain durable for years to come underpinned by the AI infrastructure build-out.

Top detractors from performance for the quarter

| | Quarter End Market Cap (\$B) | Contribution to Return (%) |
|------------------------------|------------------------------|----------------------------|
| Meta Platforms, Inc. | 1,664.1 | (0.74) |
| CoStar Group, Inc. | 28.5 | (0.40) |
| Microsoft Corporation | 3,594.4 | (0.37) |
| Blackstone Inc. | 190.6 | (0.27) |
| Costco Wholesale Corporation | 382.8 | (0.08) |

Meta Platforms, Inc., the world's largest social network, detracted from performance as shares declined 10.0% during the quarter, though still finished 2025 up 13.1%. While Meta reported strong quarterly results with 25% revenue growth (year-on-year in constant currency) and 40% operating margins (both above expectations) and provided solid forward revenue guidance, 2026 capital and operating expenditures guidance was above Street expectations, raising concerns that it may be overspending on AI for less certain returns relative to competitors. While hyperscalers have an existing cloud business, through which they rent out GPUs and can therefore generate a short-term return on their AI spend, Meta doesn't have a cloud business and so its investment profile is longer duration in nature. Still, we believe Meta continues to benefit from its AI investments across the core business, making improvements in content recommendations (with rising time spent) and in ad targeting and ranking (leading to higher conversions and better return on ad spend). Our industry checks also validate strong advertiser adoption and satisfaction, including in newer areas such as easy-to-use AI creative tools and business messaging. We believe Meta will begin to realize returns from its AI investment or rationalize spending over time. Longer term, Meta's leadership in mobile advertising, massive user base, innovative culture, leading generative AI research and distribution, and technological scale position it well for continued performance, with additional monetization opportunities ahead in areas such as smart glasses and commerce.

CoStar Group, Inc. is the leading provider of information and marketing services to the commercial and residential real estate industries. Shares fell 20.4% in the fourth quarter (and down 6.1% for the year) as the company's net new sales came in below expectations. The stock has been weighed down by significant growth investment in CoStar's residential product, where sales performance has remained modest. That said, we are encouraged by improving momentum as the company builds out its dedicated residential sales force, enhances its customer targeting, and potentially benefits from changes in Multiple Listing Service practices. We also expect growth in CoStar's non-residential business to accelerate as sales productivity ramps and the sales team refocuses on core offerings, a trend likely to be amplified by 20% sales force growth in 2025 alone. We believe the value of CoStar's core non-residential business exceeds the current share price of the stock, suggesting that investors are ascribing little value to the long-term residential opportunity.

Shares of **Microsoft Corporation** fell 6.5% during the quarter while the stock returned 15.5% in 2025 overall. Management highlighted

accelerating demand signals across bookings, remaining performance obligations, and product usage, but pointed to supply constraints extending at least through fiscal 2026. Microsoft reported slightly accelerating year-over-year constant currency revenue growth in fiscal first quarter, alongside stable gross margins and expanding operating margins. The company ended the quarter with current remaining performance obligations (cRPO) of \$157 billion, up 35% year-over-year, and expects cRPO to rise to roughly \$167 billion in the second quarter. Assuming Microsoft's recently announced \$250 billion OpenAI agreement spans five years, it would add about \$50 billion to cRPO, implying a potential balance of roughly \$217 billion early next year. cRPO is a key forward-looking indicator of commercial revenue growth and now represents approximately 80% of total revenue. We are confident in the durability of Microsoft's revenue growth profile, while the company's strong operating expense discipline suggests there is additional room for margin expansion.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level (rather than benchmark composition and its weights) determining the size of each individual investment. Sector weights tend to be an outcome of the stock selection process and are not meant to indicate a positive or a negative "view."

As of December 31, 2025, our top 10 positions represented 58.0% of the Fund's net assets, the top 20 were 85.3%, and we exited 2025 with 31 investments (this compares to 53.5%, 79.5%, and 34 investments as of the end of 2024, respectively). As of year end, IT and Financials were our largest sectors, representing 63.1% of the Fund. Communication Services, Consumer Discretionary, Industrials, Health Care, Real Estate, and Consumer Staples represented another 36.8% of the Fund. Cash was the remaining 0.1%.

The Fund's turnover was 11.6% in 2025, compared to an average turnover of 5.7% over the last three years, and 13.4% average turnover over the last five years.

Top 10 holdings

| | Quarter End Market Cap (\$B) | Quarter End Investment Value (\$M) | Percent of Net Assets (%) |
|--|------------------------------|------------------------------------|---------------------------|
| NVIDIA Corporation | 4,532.0 | 42.6 | 8.1 |
| Meta Platforms, Inc. | 1,664.1 | 37.7 | 7.1 |
| Amazon.com, Inc. | 2,467.5 | 37.4 | 7.1 |
| Alphabet Inc. | 3,781.6 | 36.4 | 6.9 |
| Taiwan Semiconductor Manufacturing Company Limited | 1,576.1 | 34.6 | 6.6 |
| Broadcom Inc. | 1,641.0 | 29.5 | 5.6 |
| Microsoft Corporation | 3,594.4 | 26.7 | 5.1 |
| Monolithic Power Systems, Inc. | 43.4 | 22.3 | 4.2 |
| Visa Inc. | 686.2 | 21.9 | 4.2 |
| LPL Financial Holdings Inc. | 28.6 | 17.0 | 3.2 |

Recent Activity

During the fourth quarter, we initiated a new position in the leading energy-focused specialty contracting company, **Quanta Services**. We also added to five existing positions: a leading provider of indexes and investment decision support tools, **MSCI**, a leading medical tools supplier, **Danaher**, the leading derivatives marketplace **CME Group**, a leading owner and operator of senior housing, **Welltower**, and a leading aerospace and defense aftermarket parts supplier, **TransDigm**. We funded these purchases by reducing seven other holdings.

Top net purchases for the quarter

| | Quarter End Market Cap (\$B) | Net Amount Purchased (\$M) |
|-----------------------|------------------------------|----------------------------|
| MSCI Inc. | 43.1 | 3.0 |
| Danaher Corporation | 161.7 | 2.4 |
| Quanta Services, Inc. | 62.9 | 1.3 |
| CME Group, Inc. | 98.5 | 1.1 |
| Welltower Inc. | 127.4 | 0.8 |

During the quarter, we initiated a new position in **Quanta Services, Inc.**, a leading specialty contracting company that provides comprehensive engineering, procurement, construction and repair, and maintenance services for electric and gas utilities, renewable energy projects, telecom projects, and other types of infrastructure. We invested in Quanta due to the company's world-class track record, compounding revenues and EPS at 14% and 18% CAGR over the last 15 years, respectively. What makes this even more impressive is that Quanta has achieved that result in a relatively flat electric load environment (power demand) driven by material market share gains. Going forward, we believe that Quanta will increasingly benefit from secular growth tailwinds for energy-related infrastructure. We also like the company's leading competitive position, which is derived from its reputation and experience completing large-scale infrastructure projects and its ability to utilize its 68,000 person craft-skilled labor force to self-perform projects, ensuring they are completed on-time and on-budget. We believe Quanta can reliably grow its earnings at a mid-teens cadence or better for the foreseeable future and that the company has the right management team in place to execute on the opportunity in front of it.

Quanta is well positioned to benefit from strong secular tailwinds due to increasing demand for energy-related infrastructure. While the growth of AI data centers and the resulting increase in load (electricity demand) is certainly a material part of the story, additional growth tailwinds include investments in modernization and grid resilience, electrification and the energy transition, industrial reshoring, and continued investment in communications infrastructure. The utility capex cycle is accelerating through at least the end of the decade, which should lead to strong and consistent growth for years to come. Due to these secular trends, management believes that 15% EPS growth per annum through at least 2029 is achievable (we believe it can sustain beyond that time

frame), while also citing their track record of delivering growth above that target over the last several years.

As mentioned above, Quanta's competitive differentiation is grounded in its experience executing large-scale infrastructure projects and the size and quality of its craft-skilled workforce. Quanta is recognized as the most experienced and most reliable contractor for electric power transmission and distribution projects. This is due to the company's self-perform model in which it handles design, procurement, construction, and maintenance in-house. Self-performing its own projects allows Quanta to minimize risk, ensure coordination and provide greater certainty on complex, multi-year projects, meeting planned budget and schedules significantly more often than peers. This strategy only works if the workforce is capable of executing the projects, and as such, Quanta has consistently emphasized a focus on developing and training its craft-skilled employees over time. The company has its own dedicated training facilities and will require people to spend as many as five years working through its training programs. This ensures a high-quality pipeline of employees that is fungible across different project types to service demand as needed across different geographies (and driving economies of scale for Quanta). Quanta's craft-skilled labor force of approximately 68,000 people is at least twice as large as its next closest competitor and is several times larger than most other contracting companies. Given labor shortages and lack of skilled labor throughout the industry, the availability of a massive, well-trained workforce is a significant advantage that cannot be easily replicated by other businesses.

Lastly, Quanta's CEO and many of the operational leaders have spent their entire careers either with the business or in the industry. The management team is viewed as a thought-leader in the space and they have been a big part of why Quanta has its reputation as the go-to contractor for large-scale infrastructure projects. The management team also has a strong track record of capital allocation and execution, hitting their financial targets and consistently delivering on growth while emphasizing risk management in the process. All of this means that Quanta is well aligned with shareholder interests and makes us feel good about investing in the business.

Putting this all together, we see a path for Quanta to grow its earnings at a mid-teens cadence or better over the next several years, with secular tailwinds continuing to drive further growth in the business thereafter. We believe this will lead to attractive returns for shareholders over time.

Within the existing portfolio, our biggest addition during the quarter was to **MSCI Inc.**, a leading provider of indexes and investment decision support tools. While the stock outperformed most of its information services peers in 2025, it lagged the broader markets due primarily to information services companies being perceived as potential AI losers. Specific to MSCI, the company reported steady financial results throughout the year, but did call out some lingering pressure in the asset manager end market (around half of MSCI's total business) and so some investors are likely waiting to see a reacceleration in net new sales.

From an AI perspective, we see MSCI as relatively well positioned with CEO Henry Fernandez recently saying that “AI is a *godsend to us*”. MSCI has vast amounts of proprietary data and analytics, and nearly everything MSCI sells to customers is proprietary in nature. The index business is further insulated by the nature of its benchmark status where it serves as a trusted common language for industry participants. MSCI should also benefit from AI through increased efficiencies in data collection, which will enable the company to both increase margins and invest more into new product development.

We retain long-term conviction in MSCI and continue to believe in their ability to compound growth for years to come. CEO Henry Fernandez is a strong leader who has shown his conviction in several ways: 1) the company repurchased over \$1.5 billion of stock in 2025; 2) Henry has personally bought around \$25 million of stock over the past year and a half; and 3) Henry has aligned the compensation structure of the company to be leveraged to stock performance, subscription run-rate growth, and net new sales. We believe that subscription growth has the potential to reaccelerate as the company has materially ramped up new product innovation efforts across the business (key areas of focus include private markets, custom indexes and climate), is being much more proactive in selling to non-asset manager client segments and recently called out early signs of improvement with asset managers.

We also added to our position in **Danaher Corporation**. Danaher supplies life science tools for lab research, genomics, and bioprocessing/drug manufacturing. It also offers instruments to run clinical diagnostics in large core labs, hospitals, and at the point of care.

The stock has come under pressure in recent years along with the rest of the life science tools space due to several reasons: First, biotechnology funding had been constrained, and earlier-stage, discovery research had been under particular pressure. In addition, uncertainty around pharmaceutical tariffs and Most-Favored-Nation drug pricing had been a headwind for large pharmaceutical companies. Second, National Institutes of Health (NIH) funding has been another area of softness, given the priority of the current administration in cutting university grant funding. Finally, China has been a weak geography. For Danaher, their clinical diagnostics business has been subject to volume-based procurement, which is leading to pricing pressure in the region.

We view these as cyclical factors that create an opportunity for long-term investors. Recently, we have seen green shoots emerge:

- Pharmaceutical companies have announced heavy investments in domestic manufacturing in response to the Trump Administration’s push for reshoring, which opens up a large capital equipment purchasing opportunity. Given Danaher’s dominant positioning in multiple end markets, particularly their scaled bioprocessing portfolio, we believe the company stands to benefit from the upcoming capex cycle. Drug production is a highly regulated industry, and Danaher is a trusted brand that is spec’ed into production workflows.

- On NIH, the latest outlays data has seen a rebound into the end of calendar year 2025, which is promising. Regardless, government/academic research is only a low single-digit percentage of Danaher’s business, so we believe Danaher is less exposed to fluctuations in NIH funding policy.
- China has also begun normalizing for Danaher within diagnostics. Beyond diagnostics, the life science market in China has been robust with new innovations that multinationals are licensing.

We continue to see Danaher as a quality compounder with long-term revenue growth of high single digits, 40% operating profit fall-through, and double-digit EPS growth.

We increased our investment in the premium senior housing provider, **Welltower Inc.** We believe the company will continue to benefit from the structural supply/demand imbalance, due to muted supply growth with secular demand tailwinds underpinned by aging demographics. Welltower recently changed its compensation structure to be even more aligned with the long-term shareholders of the company. CEO Shankh Mitra described this best during the company’s recent earnings call:

“As Charlie (Munger) would constantly tell us, show me the incentives and I’ll show you the outcome. Following years of deep structural changes in this area, I’m delighted to inform you that my utopian idea of everyone swimming or sinking together is finally taking shape, an ecosystem of internal and external participants where everybody is fully aligned and everybody is all in.

“...the changes that are taking place in three distinct steps to achieve the same goal of alignment and ownership. One, elimination of compensation for Welltower management and making them owners through performance-oriented Welltower stock. Two, introduction of RIDEA 6.0 construct where the operator wealth creation is now irrevocably tied to Welltower stock. And three, a \$10-million annual grant for site-level employees for the 10 best performing senior housing communities, also in Welltower stock.

“All of them capture the five key tenets of the incentive design that we have previously laid out to you. Simple, significant, non-gameable, earned as a team, and duration matched with the immediacy of a role’s impact. 10 years to forever for Welltower management, 5 to 7 years for operating partners, and 1 year for site-level employees.”

Top net sales for the quarter

| | Quarter End Market Cap (\$B) | Net Amount Sold (\$M) |
|-------------------------|------------------------------|-----------------------|
| Broadcom Inc. | 1,641.0 | 6.3 |
| Mastercard Incorporated | 512.6 | 5.0 |
| S&P Global Inc. | 162.0 | 3.1 |
| Intuit Inc. | 184.3 | 2.3 |
| Arch Capital Group Ltd. | 34.8 | 2.2 |

Outlook

"The stock market is a device for transferring money from the impatient to the patient." — Warren Buffett

As we enter 2026, we find ourselves in an environment where headlines are dominated by geopolitics, shifting regulatory tides, and AI. However, as long-term investors, we remain purposefully indifferent to the prognostications that occupy so much of the financial media's attention. We do not know where the S&P 500 Index will trade a month or a quarter from now, nor do we believe that such knowledge is necessary to achieve our long-term goals. Our focus remains squarely on identifying and investing in high-quality, competitively advantaged, well-managed businesses for the long term.

The recent volatility – from the tariff tantrum in early 2025, to the second half private credit and AI bubble concerns that impacted our financials and software holdings, was a useful reminder of the benefits of investing in a “sleep-well-at-night” Fund. As a reminder, we intentionally avoid the lower-quality “legacy” businesses that may benefit from a temporary regulatory or macro tailwind, as well as the high-flying growth stocks that benefit from the narrative de jour. While our lack of exposure to traditional banks on the one end and the high-flying AI-beneficiaries on the other, cost us some relative performance in 2025, we remain steadfast in our belief that the higher-quality businesses – those with durable growth, sustainable competitive advantages, and a low risk of disruption represent the better path to wealth creation over full market cycles when one of your key goals is to minimize the probability of permanent loss of capital.

To get a glimpse into the direction of intrinsic values and investor perception, we deconstructed the Fund's returns into two components – the change in multiples and change in the fundamentals. During the quarter, the Fund's weighted average multiple declined by 3.3%, and finished 2025 down 3.3% (multiples were up 6.4% in 2024).⁹ Since the Fund was up 2.6% in the quarter and 16.6% during 2025, **over 100% of our performance in 2025 was driven by growth in fundamentals** as opposed to the more unpredictable and volatile change in multiples – a positive data point for the Fund's prospective returns.

Furthermore, the fundamentals of our businesses continue to move in the right direction with consensus revenue expectations for 2026 rising by 4.4% and 10.2%, and operating income estimates increasing by 3.9% and 8.5% during the quarter, and in 2025, respectively. A longer-term perspective on the weighted average multiple of the Fund shows that the weighted average multiple today is 1% lower than the weighted average multiple of our holdings over the last five years¹⁰, which again **bodes well for the Fund's prospective returns**.

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

Our goal is to invest in large-cap companies with, in our view, strong and durable competitive advantages, proven track records of successful capital allocation, high returns on invested capital, and high free-cash-flow generation, a significant portion of which is returned regularly to shareholders in the form of dividends or share repurchases. It is our belief that investing in great businesses at attractive valuations will enable us to earn excess risk-adjusted returns for our shareholders over the long term. We are optimistic about the prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities.

We thank you for your continued trust and for being our partners in this journey.

Sincerely,



Alex Umansky
Portfolio Manager

¹ The **S&P 500 Index** measures the performance of 500 widely held large cap U.S. companies. The Fund includes reinvestment of dividends, net of withholding taxes, while the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The index is 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 Not annualized.

⁴ <https://blog.google/products-and-platforms/products/gemini/gemini-3-flash/>

⁵ <https://aws.amazon.com/executive-insights/content/how-amazon-defines-and-operationalizes-a-day-1-culture/>

⁶ <https://video.ibm.com/GTC-Financial-Analyst-QA>

⁷ TSMC's 3Q25 earnings conference call

⁸ MSCI 3Q25 earnings conference call

⁹ We calculate the change in P/E multiple (based on FactSet consensus expectations for EPS for the next 12 months) for each holding except for Apollo and Blackstone for whom we use the more appropriate P/FRE (price to fee related earnings) multiple and Welltower, for whom we use the more appropriate multiple for REITs, P/FFO (price to funds from operations). We exclude Brookfield Corporation from the calculation since we value the firm on a sum of the parts basis. We then use the ending weights of each position in the Fund to calculate the weighted average change in the Fund's multiple.

¹⁰ Note that we exclude Brookfield Corporation from this calculation as well.

* As of 12/31/2025, the annualized returns of the Morningstar Large Growth Category average were 16.10%, 27.59%, 11.28%, and 14.47% for the 1-, 3-, 5-year, and since inception (12/29/2017) 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 equity securities, which are subject to price fluctuations in the stock market. In addition, because the Fund invests primarily in large-cap company securities, it may underperform other funds during periods when the Fund's securities are out of favor.

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. **EBITDA**, short for earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. It's used to assess a company's profitability and financial performance. **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. **Free Cash Flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets. **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.

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