



QUARTERLY LETTER | JUNE 30, 2025

Baron Durable Advantage Fund®

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

Dear Baron Durable Advantage Fund Shareholder,

Performance

We had a great quarter.

Baron Durable Advantage Fund® (the Fund) increased 15.6% (Institutional Shares) during the second quarter, compared to the 10.9% gain for the S&P 500 Index (the Index), the Fund's benchmark.

Year to date, the Fund is up 7.5%, compared to the 6.2% gain for the Index.

Investing should be a simple business. Buy and hold high quality, well managed companies at reasonable prices and avoid bad businesses – in our case, at *any* price. But our industry tends to overcomplicate things... It is important to remember that it is always, *always* simpler in the long term than in the short term.

After two consecutive years of strong market recovery, which saw the Fund post an 85% cumulative gain, there was a meaningful correction over the later part of the first quarter and the early part of this one. Tariffs, DOGE, the pace of interest rate cuts, and geopolitical uncertainty combined to cause what in hindsight looks and feels like a flash sale. Following a 7.0% drawdown in the first quarter, the Fund rebounded with a 15.6% gain for a healthy 7.5% return over the first half of the year, which compares favorably to the 6.2% return for its benchmark. From our perspective, the uncertainty surrounding tariffs, DOGE, the pace of interest rate cuts, and geopolitical complexities remain largely unchanged. It is always simpler in the long term...

From a quarterly performance attribution perspective, over 90% of the Fund's 469bps of outperformance was due to stock selection. Information Technology (IT) was our best sector with 368bps of outperformance. Stock selection within IT contributed 406bps while being underweight the sector detracted 38bps. Our next best



Alex Umansky
Portfolio Manager

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

| | Fund Retail Shares ^{1,2} | Fund Institutional Shares ^{1,2} | S&P 500 Index ¹ |
|------------------------------|-----------------------------------|--|----------------------------|
| 3 Months ³ | 15.55 | 15.63 | 10.94 |
| 6 Months ³ | 7.37 | 7.51 | 6.20 |
| 1 Year | 16.89 | 17.21 | 15.16 |
| 3 Years | 25.20 | 25.52 | 19.71 |
| 5 Years | 18.01 | 18.29 | 16.64 |
| Since Inception (12/29/2017) | 16.07 | 16.34 | 13.76 |

sectors were Communication Services and Consumer Staples, which drove 121bps of relative returns combined. Not having investments in Energy, Utilities and Materials contributed an additional 104bps. Negative stock selection in Health Care was largely offset by a meaningful underweight to the sector, whereas our significant overweight to Financials proved to be the largest detractor given the sector's overall lackluster gains of just 5.5% in the period.

From an absolute return and stock specific perspective, the second quarter saw a V-shaped recovery as many of our biggest losers from the March quarter were among the biggest winners in June. **Broadcom, Amazon, NVIDIA, Microsoft, and Taiwan Semiconductor** cost the Fund 463bps in absolute terms in March. We highlighted our high degree of confidence that the drawdown would not result in permanent losses of capital. These five holdings contributed 972bps (or more than 2 times) to this quarter's gains. Overall, we had 26 contributors against 7 detractors, with many big winners and just a few underperformers of note. **UnitedHealth** was the exception. Following a stream of bad

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, 2035, 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.

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news including a change in the CEO, the withdrawal of guidance, and confirmation of a regulatory investigation, the stock collapsed, losing over 50% of its value. Obviously, there is a wide range of outcomes in how this will play out and so we chose to move out of the way and to reallocate to higher conviction ideas.

Despite a strong market recovery, investors continue to be hyper-focused on the day-to-day news flow. The sharp sell-off experienced around “Liberation Day” and the subsequent recovery to new highs are the most recent examples of the stock market’s momentous volatility and short termism. We can state with a high degree of confidence that the fundamentals of our businesses, while not immune, are much more stable. Many of our core holdings saw significant declines in their stock prices during the first half of this year, while their business fundamentals AND our estimates of their intrinsic values continued to rise.

What is NOT going to change...

In one of his iconic shareholder letters, Jeff Bezos, the founder of Amazon, once articulated the following: *“I very frequently get the question: ‘What’s going to change in the next 10 years?’ And that is a very interesting question; it’s a very common one. I almost never get the question: ‘What’s not going to change in the next 10 years?’ That second question is actually the more important of the two -- because you can build a business strategy around the things that are stable in time... we know that customers want low prices, and I know that’s going to be true 10 years from now. They want fast delivery; they want vast selection... When you have something that you know is true, even over the long term, you can afford to put a lot of energy into it.”*⁴

Baron Durable Advantage Fund is laser focused on what is *not* going to change. As disruptive change investors, we will continue to map out where the opportunities and land mines are likely to be. We will continue to seek out high-quality, competitively advantaged businesses that trade at reasonable prices, and avoid bad businesses – at any price. We will continue to invest in long-term compounders with compelling business models and durable growth characteristics, that solve critical problems for their customers and face lower risk of disruption. We will continue to *minimize the real risk* for our shareholders – the probability of permanent losses of capital.

Since the inception of the Fund in December 2017 it has generated an annualized rate of return of 16.34% (net of all fees and expenses) – 258bps higher than the Index. Past performance is obviously no guarantee of future results, but if we continue to execute our process, it should enable our investors to sleep well at night.

Percentage of time Fund outperformed benchmarks and peers over different time periods from inception

| Rolling Return Period | 3 Months | 1 Year | 3 Years | 5 Years |
|--|----------|--------|---------|---------|
| Outperformance vs. S&P 500 Index | 61% | 61% | 80% | 97% |
| Outperformance vs. Morningstar Large Growth Category Average | 57% | 67% | 87% | 100% |

The performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. The index is unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.
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 (%) |
|--|------------------------------|----------------------------|
| Broadcom Inc. | 1,296.5 | 2.77 |
| NVIDIA Corporation | 3,855.0 | 2.68 |
| Meta Platforms, Inc. | 1,855.8 | 2.14 |
| Taiwan Semiconductor Manufacturing Company Limited | 1,174.7 | 1.57 |
| Microsoft Corporation | 3,697.0 | 1.56 |

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. Shares rose 65.0% during the quarter on continued momentum in Broadcom’s AI application-specific integrated circuits and networking with improved visibility into 2026. VMware, Broadcom’s recently acquired infrastructure software business, is performing in line with expectations, while the non-AI semiconductor segment appears to have bottomed and is poised for a recovery over the next 12 months. We retain strong conviction in Broadcom’s long-term outlook, as the company is well positioned to capture a majority share of the \$60 billion to \$90 billion serviceable addressable market by 2027 with its AI business, driven by demand from key customers such as Google, Meta, and ByteDance, accompanied by durable growth in its other segments.

NVIDIA Corporation is a fabless semiconductor company specializing in next generation compute and networking platforms for accelerated computing. Its dominant position in AI infrastructure with a comprehensive portfolio spanning graphics processing units (GPUs), systems, software, and high-performance networking solutions, continues to drive strong performance. Shares rose 45.5% during the quarter as increasing data points emerged that the AI cluster buildout is likely to be durable, with NVIDIA maintaining its leadership. The company also removed all AI-related revenue contributions from China from its guidance going forward, effectively de-risking that part of the business. 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, in our view. Most of these AI workloads will be supported by large language models running in data centers. 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.

Shares of **Meta Platforms, Inc.**, the world’s largest social network, rose 28.2% this quarter on impressive top-line growth with revenues growing 19% year-on-year in constant currency and solid forward guidance. Meta is already seeing solid returns on its AI investments across its core business, with improved content recommendations driving increased time spent on the platform, and enhanced ad targeting and ranking delivering higher conversion rates and stronger return on ad spend. Our industry checks also suggest

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strong advertiser adoption and satisfaction, including in newer areas such as AI-powered creative tools and business messaging. Meta continues to manage costs effectively and remains focused on profitable growth. Over the long term, we believe Meta is well positioned to leverage its leadership in mobile advertising, massive user base, innovative culture, strength in generative AI research, and technological scale, with additional monetization opportunities ahead.

Top detractors from performance for the quarter

| | Quarter End Market Cap (\$B) | Contribution to Return (%) |
|---------------------------------|------------------------------------|-------------------------------|
| UnitedHealth Group Incorporated | 279.4 | (1.18) |
| Thermo Fisher Scientific Inc. | 153.1 | (0.53) |
| Texas Instruments Incorporated | 154.1 | (0.20) |
| Arch Capital Group Ltd. | 34.1 | (0.13) |
| Accenture plc | 178.0 | (0.11) |

UnitedHealth Group Incorporated is a diversified health and well-being company with \$450 billion in annual revenue, operating across four segments: UnitedHealthcare (insurance), Optum Health (care), Optum Insight (data), and Optum Rx (pharmacy benefits manager). Shares fell 50.2% during the quarter after the company missed earnings estimates and cut its 2025 earnings per share guidance, citing higher-than-expected medical costs in its Medicare Advantage business. Investor confidence was further shaken in early May by the abrupt departure of CEO Andrew Witty and the suspension of 2025 guidance. The company also mispriced its Medicare Advantage business for 2025—a challenge compounded by reimbursement changes and an influx of newly acquired members who had not been properly risk coded. While we acknowledge UnitedHealth’s potential to restore profitability in this segment over time through disciplined pricing and benefit adjustments, we chose to exit our position during the quarter in favor of higher conviction opportunities.

Thermo Fisher Scientific Inc. is a life sciences company that offers instruments and consumables for research, tools for bioproduction, specialty diagnostics, and contract research and manufacturing services. Shares declined 18.5% in the second quarter. The life sciences segment remains under pressure due to continued grant cancellations by the National Institutes of Health (NIH) and persistent funding constraints at universities. We retain conviction as Thermo Fisher is dominant across several attractive and diversified end markets and its scale gives it resilience. Once the macroeconomic environment stabilizes, we expect the company to resume organic growth in the high single-digit range and deliver double-digit earnings per share growth.

Shares of **Texas Instruments Incorporated**, the leading global analog semiconductor company, fell 13.4% during the quarter amid investor concerns about the impact of tariffs on semiconductors and their end markets, as well as a potential delay in the industry’s cyclical recovery. The company has been investing heavily in 300 millimeter wafer capacity to support revenue growth over the next 10 to 15 years and is now nearing the end of this investment cycle. While 300 millimeter capacity offers significant cost advantages over the

200 millimeter wafers used by many competitors, Texas Instruments’ free cash flow has been meaningfully pressured in the near term. We expect free cash flow to improve as the cycle turns, revenue grows, and capital expenditures decline; however, we believe this upside is already reflected in the stock’s valuation. We sold our shares in favor of opportunities where we believe the risk/reward profiles to be more attractive.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level, rather than benchmark composition and 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 negative view.

As of June 30, 2025, our top 10 positions represented 54.2% of the Fund’s net assets, the top 20 represented 83.4%, and we exited the quarter with 30 investments.

Financials and IT represented 63.0% of the Fund, while Communication Services, Consumer Discretionary, Industrials, Health Care, and Real Estate represented another 35.0%, with the remaining 1.9% held in Consumer Staples (Costco) and cash.

Top 10 holdings

| | Quarter End Market Cap (\$B) | Quarter End Investment Value (\$M) | Percent of Net Assets (%) |
|--|------------------------------------|---|---------------------------------|
| Meta Platforms, Inc. | 1,855.8 | 42.1 | 8.2 |
| NVIDIA Corporation | 3,855.0 | 36.1 | 7.1 |
| Amazon.com, Inc. | 2,329.1 | 35.5 | 7.0 |
| Broadcom Inc. | 1,296.5 | 28.4 | 5.6 |
| Microsoft Corporation | 3,697.0 | 27.5 | 5.4 |
| Taiwan Semiconductor Manufacturing Company Limited | 1,174.7 | 25.8 | 5.1 |
| Visa Inc. | 703.8 | 22.2 | 4.3 |
| Alphabet Inc. | 2,145.4 | 20.6 | 4.0 |
| S&P Global Inc. | 165.5 | 20.5 | 4.0 |
| Monolithic Power Systems, Inc. | 35.0 | 18.0 | 3.5 |

Recent Activity

During the second quarter, we took advantage of market volatility to initiate a new position in the electrical systems and components designer and manufacturer, **Amphenol**.

We also added to 11 existing investments: the derivatives marketplace **CME Group**, the AI leader **NVIDIA**, the casual dining chain **Texas Roadhouse**, the life sciences tools leaders **Danaher** and **Thermo Fisher**, the search and AI giant **Alphabet**, the premium senior housing owner **Welltower**, the independent broker-dealer **LPL Financial**, the tax and small business software provider **Intuit**, the fabless semiconductor power company **Monolithic Power Systems**, and the payments network **Mastercard**.

To finance these purchases, we exited three investments: **UnitedHealth**, **Accenture**, and **Texas Instruments**, and reduced two existing positions – **Microsoft** and **Mettler-Toledo**.

Top net purchases for the quarter

| | Quarter End Market Cap (\$B) | Net Amount Purchased (\$M) |
|-----------------------|------------------------------------|----------------------------------|
| CME Group, Inc. | 99.3 | 4.9 |
| Amphenol Corporation | 119.4 | 3.5 |
| NVIDIA Corporation | 3,855.0 | 3.1 |
| Texas Roadhouse, Inc. | 12.4 | 1.4 |
| Danaher Corporation | 141.4 | 1.4 |

During the quarter, we initiated a new position in **Amphenol Corporation**, one of the world's largest providers of high-technology interconnect, sensor, and antenna solutions. We invested in Amphenol due to the company's strong competitive advantages which are derived from both its distinct operating culture as well as its technological leadership, along with the secular tailwinds that should enable it to benefit from durable growth. Amphenol is a highly diversified business operating in seven different end markets – Industrial, Automotive, Mobile Devices, IT Datacom, Communications Networks, Defense, and Commercial Aerospace, with no end market representing more than 25% of sales. The company's mission-critical products are needed in electrical systems to move data, transmit signals, and enable specific outcomes. As the world electrifies and more systems move from analog to digital, Amphenol's content opportunity grows.

In 2024, Amphenol had approximately \$15 billion in sales in an estimated \$250 billion worldwide market for interconnect and sensor related products. The company has historically grown sales at an approximately 11% CAGR over the last 10 years driven by both organic and acquisition-driven growth. We think the company is entering a period of accelerated organic growth driven by its dominant position in connectors used in AI data centers, which represent multiple times larger content opportunity compared to traditional data centers, requiring a greater interconnect intensity and power density. We think Amphenol is well positioned to capture this opportunity due to their technology leadership as well as their ability to scale manufacturing rapidly at very high quality and with minimal defects.

Amphenol has a highly distinguished, entrepreneurial operating culture with 140 general managers running unique, independent businesses. With no centralized operating functions, these 140 general managers (who report to group general managers in three distinct operating divisions) have complete accountability for the performance of their businesses and are incentivized to grow and develop their businesses for the short and long term. This flat organizational structure enables Amphenol to drive with “one foot on the gas and one foot on the brake”⁵, meaning that the business can scale rapidly to meet customers’ needs as well as take action to preserve margins during cyclical downturns. It enables Amphenol to operate like many small companies, be nimble with quick feedback loops between customer needs and product development.

Capital allocation is a key part of Amphenol’s strategy. The company aims to return 50% of capital to shareholders through dividends and share buybacks and allocate the remaining 50% to its disciplined acquisition program. Amphenol has acquired more than 50 companies over the last 10 years which have contributed approximately one-third of revenue growth over the long term. The company is focused on three characteristics in potential targets: great people, great product, and great market position. Amphenol takes a long-term approach, noting that they do deals for life, not for the quarter. Amphenol has historically grown EPS at a 13% CAGR over the last 10 years and we believe that thanks to AI, growth should accelerate going forward. Moreover, we continue to believe that the company will continue to execute on its acquisition program in the fragmented but consolidating industry which allows it to continue creating substantial shareholder value over the long term.

Our largest add to an existing investment was **CME Group, Inc.** CME operates the world’s largest financial exchanges for trading derivatives on interest rates, equity indexes, energy, agricultural commodities, currencies, and metals. The company benefits from higher trading volumes during periods of high market volatility. Over the long term, the company benefits from global capital markets expansion, increasing demand for risk management tools, and bank capital requirements that favor CME’s centrally cleared securities over non-cleared OTC products. CME has significant competitive advantages due to its proprietary products, deep liquidity pools, and capital efficiencies for its customers. These advantages lead to high margins, low capital intensity, and strong capital returns to shareholders. Given the uncertain path of inflation and interest rates, we believe demand for CME’s financial derivatives will likely remain firm. The company’s average daily trading volume has increased 15% year-to-date as of June 30. While easing market volatility may cause trading activity to slow from record high levels, we believe CME provides an attractive hedge against tariff- and macro-related uncertainty. We also believe concerns about competition from a new derivatives exchange called FMX are overblown and have created an attractive entry point to increase our position.

We took advantage of the sell-off in shares early in the second quarter to add to our position in **NVIDIA Corporation**. Despite the company’s continued world-class execution, the stock sold off dramatically into “Liberation Day,” enabling us to pick up additional shares in the high \$90s and low \$100s. We believe the intrinsic value of the company has actually increased, while the price of the stock declined significantly. The DeepSeek moment has driven an expansion in demand for inference reasoning AI - for example, Microsoft’s CEO stated in his last earnings call: “We processed over 100 trillion tokens this quarter, up 5x year-over-year, including a record 50 trillion tokens last month alone.” Second, AI diffusion rule was cancelled, which could have potentially capped the demand for AI – and we’ve already seen hundreds of billions of dollars’ worth of AI projects announced by the Gulf States since then. Third, NVIDIA disclosed “a line of sight to projects requiring tens of gigawatts of NVIDIA AI infrastructure in the not-too-distant future”⁶ with every gigawatt representing a “\$40 billion to \$50 billion opportunity for NVIDIA.” Lastly, scaling laws have expanded from the original pre-training scaling (the model’s quality improves with more compute, more data, and a larger model

size) to post-training (teaching models to be more task-specific) and time-test scaling (thinking longer on more complex questions) – which all drive demand for GPUs. We believe NVIDIA remains an attractive investment with durable growth characteristics.

Our third largest addition in the quarter was to our newer position in **Texas Roadhouse, Inc.**, the largest casual dining chain in the U.S., where we were also able to benefit from the increased market volatility to add to our position in the \$150s and \$160s. Its main brand, Texas Roadhouse, is known for "Legendary Food, Legendary Service" and the company continues to gain share due to its high-quality, made from scratch meals served at affordable prices. The company's most recent quarterly results have corroborated our view as the company saw increasing traffic at its restaurants, despite a volatile operating environment characterized by softening consumer spending and one-off factors such as poor weather, which negatively impacted demand for restaurants. The company continues to show strong value for guests, choosing not to raise prices as fast as inflation. While actions like these pressure short-term margins, over the long term this strategy has yielded strong results as shown by continued market share gains and growth in profit dollars. The company also continues to invest in restaurants with new kitchen displays and guest management systems. These systems should lead not only to better labor retention, but also to an improved guest experience. We continue to believe that Texas Roadhouse is a durable compounder. We expect units to grow at a mid-single-digit CAGR, positive same-store sales, and profit growth in the high single-digit to low double-digit range with shareholder returns bolstered by both their dividend and share repurchases.

We also added to our position in **Danaher Corporation**. Within life sciences, Danaher supplies instruments for lab research, genomics services, and bioproduction tools. For its diagnostics business, Danaher offers instruments to run clinical tests in labs, hospitals, and at the point of care. We are particularly interested in Danaher's market leading position and broad portfolio within bioprocessing, which we expect to benefit from a wave of biosimilars entering the market after key patents expire. The stock has come under pressure along with the rest of the life science tools space, creating an opportunity for investors with the right time horizon. Multiple headwinds have been shared across the life science sector, but either those headwinds are temporary, or Danaher is better positioned than peers, in our view.

- First, biotechnology funding has been constrained, and earlier-stage, discovery research has been under pressure. That said, Danaher has noted that 75% of their bioprocessing business is in Phase 3 trials or commercial—not as tied to funding-sensitive, speculative areas. Drug production is a highly regulated industry, and Danaher is a trusted brand that is spec'd into production workflows.
- NIH funding has been another area of softness, given the priority of the current administration in cutting university grant funding. That said, government/academic research is only a low single-digit percentage of the business. We also continue to believe that long term, the U.S. will continue to be at the forefront of university research and life science innovation.

- China has also been an area of weakness. This is about 12% of the business, and volume-based procurement or pricing negotiations have been a headwind. That said, Danaher has noted that demand is stable, and they are also seeing a modest benefit from China stimulus.

We 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.

Very briefly on the other, smaller adds to existing investments during the second quarter:

- **Alphabet Inc.** – We believe Alphabet will ultimately maintain its market leadership despite near-term competition and stock volatility. The combination of Alphabet's world-class AI talent, unmatched data across nine platforms with a billion users or more, and its full-stack cloud platform will serve as keys to success, in our view.
- The premium senior housing provider **Welltower Inc.** – we continued to build our position in this offensive and defensive name. "Defensive" due to the needs-based service offering the company provides with a focus on the best micro-markets with substantial pricing power, given the company serves a higher net-worth demographic; and "offensive" given the company's structural supply-demand imbalance, due to muted supply growth with secular demand tailwinds underpinned by demographics.
- The life sciences tools provider **Thermo Fisher Scientific Inc.** – the company is facing similar cyclical headwinds to Danaher, which we believe creates an opportunity for long-term investors.
- The independent broker dealer **LPL Financial Holdings Inc.** – we believe that LPL's continuous market share gains will be further supported by its recently announced acquisition of Commonwealth Financial Network, which improves LPL's positioning at the high-end of the market.
- Tax and small business software provider **Intuit Inc.** – the company continues to execute at a high level and has not seen a cyclical slowdown with stable Small Business revenue growth at 19% in the company's most recently reported quarter, strong Consumer segment growth of 11%, and very robust Credit Karma growth of 31%, which underpinned annual guidance raise to 15% revenue growth and 18% to 19% EPS growth.
- Fabless analog and power semiconductor company **Monolithic Power Systems, Inc.** – we like Monolithic's consistent above-industry growth and its attractive end market exposure and have taken advantage of short-term volatility to add to our position.
- Payments network **Mastercard Incorporated** – we took advantage of stock price volatility. Despite the news around stable coins, we believe payment processing networks (which we think of as digital railroads) are unlikely to be disrupted since consumers are unlikely to change payment methods without personal benefits. Credit cards offer plentiful rewards, a 30- to 45-day free revolving credit, and various consumer protections against fraud and other abuse.

Top net sales for the quarter

| | Quarter End Market Cap or Market Cap When Sold (\$B) | Net Amount Sold (\$M) |
|-----------------------------------|--|--------------------------------|
| Microsoft Corporation | 3,697.0 | 9.4 |
| UnitedHealth Group Incorporated | 279.4 | 7.0 |
| Accenture plc | 178.0 | 5.2 |
| Texas Instruments Incorporated | 154.1 | 4.7 |
| Mettler-Toledo International Inc. | 24.4 | 0.4 |

As mentioned above, we sold our holdings in **UnitedHealth Group Incorporated**, **Accenture plc**, and **Texas Instruments Incorporated** and reduced two existing investments, reallocating to ideas that, in our view, have more positively skewed risk/reward for the long term.

Outlook

“No one knows what will happen short term and we don’t really care. Interesting and entertaining but we should not be trying to take advantage of short term vol. Not what we do. The reason we have outperformed forever is because of our long term focus on people and business fundamentals. MACRO had Zero impact on our 43-year record. You got to remember John Lennon premise: ‘in the end, everything will work out. And if it doesn’t, it’s not the end.’ Nothing truer.” – Ron Baron, in a note to all research staff during the worst of market volatility earlier this year.

We agree. Many market participants overcomplicate things. Unless they aim to outperform every quarter, and every month, and every week – in which case it really does get complicated. “All-Weather” portfolios sound appealing in theory but are very complicated and difficult to construct in reality. It requires pursuing many conflicting goals simultaneously – chasing the latest trends, reacting to short-term news and events, hedging and rotating, and constantly repositioning the portfolio for different scenarios and outcomes vis-à-vis tariffs, interest rates, elections, etc. Complicated and difficult to accomplish with any consistency. Instead, we choose to focus on the simple. Identify, invest, and *HOLD* high-quality, competitively advantaged, well-managed businesses for the long term. We know that economies and markets are cyclical and that future outcomes are inherently unpredictable. We also believe it is not necessary and so we do not even try.

As we do every quarter, we analyzed the change in the weighted average multiple of the Fund and the weighted average change in consensus expectations for the year, for revenues, operating income and operating margins. After contracting by 8.4% in the first quarter, the weighted average multiple for the Fund expanded by 14.4% in the second quarter. Overall, the weighted average stock in the portfolio has a multiple 5.3% above its 5-year average⁷. Note that excluding Broadcom, whose P/E multiple is 83% above its 5-year average (and deserves to be higher than its historical average due to the company’s new growth opportunities in AI), the weighted average would have been 0.5% above its 5-year average.

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 the 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 regularly returned 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.

Sincerely,



Alex Umansky
Portfolio Manager

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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://www.goodreads.com/quotes/966699-i-very-frequently-get-the-question-what-s-going-to-change>

⁵ Amphenol's Q3, 2024 earnings conference call

⁶ NVIDIA's 1Q FY2026 earnings conference call.

⁷ We calculate a 5-year average multiple for each stock in the portfolio

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.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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