



QUARTERLY LETTER | JUNE 30, 2025

Baron Global Advantage Fund®

Retail Shares: BGAFX | Institutional Shares: BGAIX | R6 Shares: BGLUX

Dear Baron Global Advantage Fund Shareholder,

Performance

We had a great quarter.

Baron Global Advantage Fund (the Fund) gained 22.7% (Institutional Shares), compared to the 11.5% gain for the MSCI ACWI Index (the Index), and the 17.3% gain for the MSCI ACWI Growth Index, the Fund's benchmarks.

Year to date, the Fund is up 11.2%, compared to gains of 10.1% and 9.3% for the benchmarks, respectively.

After two consecutive years of 25%-plus gains, we highlighted being vigilant entering 2025. Broadly speaking, we thought valuations were reasonable, and while there was a lot of momentum and potential positive catalysts, there was also a lot of uncertainty regarding tariffs, DOGE, and wars in Europe and the Middle East. The only thing we were truly confident in was that we were in for a lot of volatility in 2025. On February 19, more than halfway through the first quarter, the Fund was up 10.4%. Just over five weeks later, it ended the first quarter down 9.4%. Writing that quarterly letter, shortly after "Liberation Day," and philosophizing "*that above all else, financial markets dislike uncertainty,*" we were "*expecting some challenging times ahead.*" Naturally, what followed was the best quarter of absolute performance for the Fund since the second quarter of 2020, and the second time in just the last three quarters that the Fund outperformed by a double-digit margin. "*It's tough to make predictions, especially about the future.*" This Yogi Berra truism got us thinking... ***what if we actually could see the future?*** We often talk about a range of outcomes and how within that range, some outcomes are clearly more likely to happen than others. On April 8, 2025, the headlines screamed of doom and gloom, with markets supposedly teetering on the edge of collapse. The New



Alex Umansky
Portfolio Manager

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

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2}	MSCI ACWI Index ¹	MSCI ACWI Growth Index ¹
3 Months ³	22.62	22.68	11.53	17.26
6 Months ³	11.03	11.15	10.05	9.26
1 Year	30.92	31.23	16.17	16.71
3 Years	17.52	17.82	17.35	21.44
5 Years	2.48	2.73	13.65	13.87
10 Years	11.33	11.59	9.99	12.34
Since Inception (4/30/2012)	11.90	12.15	10.16	12.13

York Times reported: "*Trade War Cascades from Europe to Asia and to the Gulf Coast,*" while the Wall Street Journal emphatically stated: "*Historic turmoil in financial markets left investors with few places to hide.*" The VIX Index, the market's measure of volatility, surged to its highest level since COVID. Now imagine on that same April 8, 2025, a "lucky" investor would receive a verified message from the future that would factually inform him that over the next three months... the Russia-Ukraine war would get worse, tariffs and looming trade wars would remain unresolved, government debt and deficits would continue to grow, that contrary to consensus expectations, there would be ***NO interest rate cuts*** from the Federal Reserve, and... that U.S. would bomb Iran! How many investors armed with that "predictive" information would want to be long anything other than gold and oil? Well... that happened, and while it was happening the MSCI ACWI Index rose 24%, the S&P 500 Index rose 25%, the MSCI

Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail Shares and Institutional Shares as of April 30, 2025 was 1.22% and 0.96%, respectively, but the net annual expense ratio was 1.16% and 0.91% (net of the Adviser's fee waivers, comprised of operating expenses of 1.15% and 0.90%, respectively, and interest expense of 0.01% and 0.01%, respectively), 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.

ACWI Growth Index rose 31%, and the NASDAQ Composite Index advanced 34%. The Fund managed to keep up and then some, gaining 36% over the same period of time.

From a quarterly performance attribution perspective, 788bps of our 1,115bps of overall outperformance was driven by stock selection while sector allocation contributed the remaining relative gains. Information Technology (IT) was our best performing sector with our holdings gaining 34%, compared to the 23% gain for the Index, while a meaningful overweight contributed an additional 252bps. Within IT, performance was strongest in systems software, driven by **Cloudflare**, **Snowflake**, **Zscaler**, and **Datadog**, and semiconductors led by **NVIDIA**, **Taiwan Semiconductor** (TSMC), and **indie Semiconductor**. Our second best sector in the quarter was Consumer Discretionary, which contributed 405bps to our relative results, driven entirely by stock selection. Long-term investments and top ten holdings **MercadoLibre** (MELI), **Coupang**, and **Eternal** (formerly known as Zomato) led the way with an average quarterly gain of 34% compared to the 9% gain for the Index.

The Fund outperformed across all market types; developed, emerging, and the “other” category (Argentina), with the U.S. contributing 905bps to our relative returns *despite being 20.8% underweight*. Argentina (driven by MELI) and Korea (Coupang) rounded out our top three countries for the quarter, adding an additional 253bps.

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. NVIDIA, Datadog, **Shopify**, and Eternal, the Fund’s four biggest losers in the first quarter, detracting 434bps, were now among our top 10 contributors, adding 704bps (combined) to absolute gains. Overall, we had 28 contributors against just 6 detractors, with many big winners and just a few underperformers of note. Twenty of our investments posted quarterly gains of over 20%, while Cloudflare, NVIDIA, Snowflake, Zscaler, **CrowdStrike**, and indie Semiconductor appreciated over 40% each. Our top 8 contributors added over 100bps each, while on the other side of the ledger, the 6 decliners combined to cost the Fund 125bps.

Despite a strong market recovery, investors continue to be hyper-focused on the day-to-day news flow. The significant drawdowns 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 in the first half of this year, while their business fundamentals AND our estimates of their intrinsic values continued to rise. A couple of glaring examples:

- NVIDIA’s stock price had a 37% drawdown during the first half of 2025. The “DeepSeek moment” was misunderstood or misinterpreted by investors. We argued in the last quarterly letter that it will actually drive an expansion in demand for inference reasoning AI. On its most recent earnings call, Microsoft’s CEO stated: “We processed over 100 trillion tokens this quarter, up 5x year-over-year, including a record 50 trillion tokens last month alone.” After spending the better part of a week at NVIDIA’s developer conference (you can read details about it in the last quarterly letter) we were all bulled up with “a line of sight to

projects requiring tens of gigawatts of NVIDIA AI infrastructure in the not-too-distant future” with every gigawatt representing a “\$40 billion to \$50 billion opportunity for NVIDIA.” Finally, 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 graphics processing units (GPUs). Our conviction that NVIDIA is at the epicenter of the most transformative technology of our lifetime (which is saying a lot since we have all experienced the Internet, the Smart phone, and the Cloud) remains unshaken.

- MELI had a maximum drawdown of 21%, likely driven by a decision to reduce its minimum threshold for free shipping (as well as the general market weakness). We liked the initiative, which we think could drive up purchase frequency, since MELI customers on average buy 9 to 10 times per year, versus almost 50 times for Amazon. The rapid improvement in Argentina’s economy is beneficial to MELI, by far the largest e-commerce player in the country with around 65% market share (next player is less than 10%) and the country has a significant runway for e-commerce penetration which is still only in the mid-teens. In fintech, MELI has seen strong, broad-based growth with 43% year-on-year growth in total payments volume (TPV), 75% growth in the credit portfolio, and 111% growth in credit cards, while also increasingly becoming the main bank for customers as it attracts deposits. Our estimate of MELI’s intrinsic value has risen considerably over time.
- The shares of Cloudflare had a maximum drawdown of 45% during the first half, while we believe the intrinsic value of the business has only grown. Cloudflare is rapidly becoming a more important vendor for its customers with \$1 million and \$5 million customers growing 48% and 54% year-over-year, respectively, while the company also booked a milestone *contract of over \$130 million* during the quarter. The company is seeing strong early success with its AI offering enabling customers to run AI models on top of Cloudflare’s global network. Cloudflare has a strategic advantage in having its network closer to end consumers, reducing latency which is critical for AI inferencing. Cloudflare Workers AI inference requests were up “nearly 4,000% year-on-year.” While the stock is expensive by any measure, we continue to believe that Cloudflare is an important company whose fundamentals continue to get stronger.
- Datadog’s shares had a correction of 43% during the first half. At the same time, we judged their reported financial results to be strong and improving. The company demonstrated success expanding into the lucrative enterprise segment with new logo annual contract value up 70% year-on-year and gross retention of existing logos exceeding 99%. Datadog is seeing success with AI native companies, serving 8 of the top 10 AI companies including OpenAI, Anthropic, Cursor, Scale AI, and Replit. Four of these customers tripled spending with Datadog in 2024. Datadog’s innovation velocity helps strengthen its platform, and underpins a long duration of growth, supported by continual annual share gains.

Separating Signal from Noise and Alpha versus Beta

We live in the Information Age. It has become increasingly more challenging to filter out the irrelevant information directed at us from every conceivable channel. It is estimated that the amount of information created every two days is equivalent to all information created from the beginning of human civilization to 2003⁵ and that data is doubling every three years⁶.

On the one hand, having more data is great! Accurate, high-quality data enables better analysis and expands our circle of competence. We can learn new subjects and master new areas faster, and in more detail, than ever before, which expands our opportunity set across all market caps and geographies. On the other hand, the constant flow of information creates significant risks. It is time consuming (just going over emails probably detracts as much value as it adds), it can create a false sense of confidence (leading to confirmation bias and general overconfidence), and it makes it harder to separate the signal from the noise – which is so critical in decision making. In short, the wide availability of high-quality data makes the investing world more competitive, while information overload makes it even harder to earn alpha.

Long-term investors must hone their ability to separate the signal from the noise. During the periods of heightened market and stock price volatility it is easy to confuse the deterioration in the sentiment and the overall investing environment for a structural change in companies' fundamentals. It is harder to have the courage of conviction and not to overreact to news that has clear short-term consequences but uncertain long-term effects. We try to filter out the noise by focusing our time and research on what matters for the long-term value creation of the business. How unique is it? Does it solve real and difficult problems for its customers? Is it a beneficiary of disruptive change? How big is the opportunity? Is it run by a management team that thinks and acts like long-term owners of the business? Does it have competitive advantages that are sustainable? Does it demonstrate attractive unit economics? Does it have pricing power? And so on, and so forth...

We believe that over the last 25 years, overemphasis of short-term, news driven, macro-focused, data points and events caused many investors to sell the biggest winners of our generation too early, or to avoid them altogether. Many investors choose to keep away from highly volatile stocks in an effort to “manage” market volatility or to lower the Beta of a portfolio. It certainly paid off when the dotcom bubble burst and Amazon's stock went to 30 cents (split adjusted). But it did not hold up to the test of time with Amazon trading at \$225 per share now. *Since its IPO in January 1999, NVIDIA lost more than half of its value SEVEN times, before becoming the most valuable company on the planet.* Shopify had one such drawdown but is up 30-fold in the last decade, while MELI had two declines over 50% and is up 18 times over the same timeframe. Many of our investments have endured, and will likely continue to endure, heightened volatility on their journeys. Cloudflare (up 12 times since the IPO less than six years ago), **Bajaj Finance** (13 times over the last decade), **argenx** (33 times since IPO eight years ago), and of course, **Tesla**, a super volatile stock since its public debut in June of 2010, up nearly 300 times since then. Over our 30-plus years of allocating capital, these are just a handful of examples where we have experienced significant short-term beta translate into real long-term alpha.

Once again, we believe the range of outcomes is as wide as we have seen in a long time, and that means extreme market volatility is likely on tap. Once again, we have looked into what we could potentially do to mitigate its impact on the portfolio, and once again, we have concluded that it would lead to exchanging opportunities to generate significant Alpha over full market cycles for efforts to reduce the Fund's short-term volatility. An exchange we are not willing to make. We do not have a crystal ball or any particular insight into how the economy and the markets will react to this current bout of fear, uncertainty, and doubt. Fear drives markets over the short term (both down, AND up), but it is fundamentals that drive wealth creation over time. Really big opportunities come if you are willing to invest when other people are not!

Top contributors to performance for the quarter

	Quarter End Market Cap (\$B)	Contribution to Return (%)
Cloudflare, Inc.	67.9	3.68
MercadoLibre, Inc.	132.5	3.33
NVIDIA Corporation	3,855.0	3.29
Coupang, Inc.	54.4	1.80
Shopify Inc.	149.8	1.71

Cloudflare, Inc. offers enhanced security and performance for websites, applications, and software-as-a-service, and is increasingly well positioned to help power AI-enabled applications at the edge. Shares increased 74.4% after Cloudflare reported solid quarterly results, with revenues rising 27% year-over-year, slightly above expectations. Results were boosted by a \$130 million-plus deal, the largest in the company's history, driven by demand for its Workers platform, which allows developers to build and deploy applications at the edge for faster performance. The deal represented a competitive win, with the customer choosing Cloudflare over a major hyperscaler due to faster development time and better total cost of ownership. Cloudflare also continued to improve its go-to-market execution, including stronger sales productivity, improved pipeline attainment, and solid customer growth. Management noted record additions of customers spending over \$1 million and \$5 million annually, while churn remained stable and dollar-based net retention held steady at 111%. We continue to have high conviction in Cloudflare, given its differentiated platform, capable management team, and significant long-term growth opportunity.

MercadoLibre, Inc., the leading e-commerce marketplace across Latin America, contributed to performance as shares rose 34.0%. Performance was driven by better-than-expected quarterly results across gross merchandise value (GMV) – up 40% year-on-year, TPV – up 43%, revenues – up 37%, and EBIT margin up 70bps to 12.9%. The margin outperformance was driven largely by Argentina, where revenues grew to 34% of the total in 1Q25 (up from 14% a year ago) while Argentina is structurally more profitable than other geographies. This helped offset expected margin pressure from ongoing investments in new distribution centers and the expansion of the credit card portfolio. Management noted solid business momentum in Argentina, supported by a more favorable macro backdrop, including falling interest rates that are boosting credit demand, lowering funding costs, and driving higher consumption. In 1Q25, the number of items sold in Argentina rose 52% year-over-

year, and MELI continues to gain GMV share in the region. We remain excited about the company's long-term prospects given the still-low penetration of e-commerce and financial services in Latin America, and MELI's category leadership in both segments.

NVIDIA Corporation is a fabless semiconductor company specializing in compute and networking platforms for accelerated computing. Its dominant position in AI infrastructure with a comprehensive portfolio spanning GPUs, systems, software, and high-performance networking solutions, continues to drive strong performance. Shares rose 45.8% during the quarter as increasing data points emerged that the AI cluster buildout is likely to be durable, with NVIDIA maintaining its leadership, driven by scaling laws expanding outside of pre-training, demand for reasoning-based inference accelerating following DeepSeek and AI factory investments starting to realize. The company also removed all AI-related revenue contributions from China, 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. 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.

Top detractors to performance for the quarter

	Quarter End Market Cap (\$B)	Contribution to Return (%)
Endava plc	0.9	(0.38)
argenx SE	33.7	(0.30)
Globant S.A.	4.0	(0.26)
PDD Holdings Inc.	148.6	(0.17)
BILL Holdings, Inc.	4.8	(0.12)

Shares of IT services provider **Endava plc** declined 21.5% in the second quarter due to a continuation of soft demand trends. Organic revenue fell modestly in the recent quarter due to a slowdown in new projects. Management trimmed their revenue outlook to reflect slower pipeline conversion and incremental currency impacts. We remain invested because we expect these headwinds to abate over time, leading to better growth as clients return to investing in digital transformation.

Argenx SE is a biotechnology company best known for developing Vyvgart, the leading FcRn inhibitor for the treatment of autoimmune conditions. Shares declined 6.8% after Q1 Vyvgart sales came in below elevated investor expectations, due to a combination of seasonal factors (such as insurance reverification) and higher Medicare Part D utilization and associated discounts. Our conversations with management and neurologists continue to reinforce Vyvgart's value as an important treatment option with strong long-term growth potential. The drug continues to launch well in both generalized myasthenia gravis and chronic inflammatory demyelinating polyneuropathy. Over time, we expect Vyvgart to demonstrate efficacy across an expanding range

of autoantibody-driven autoimmune conditions, supported by encouraging Phase 2 myositis data recently presented by argenx at a major medical conference.

Shares of IT services provider **Globant S.A.** fell 22.8% after the company reported weaker-than-expected financial results and cut guidance. Revenues grew 7% in the first quarter and are expected to slow further given full-year revenue growth guidance of 2%. Management attributed the slowdown to macroeconomic uncertainty, tariffs, and weakness in certain geographies. Globant's performance had been resilient despite the broader softness in IT services spending, so this slowdown was especially disappointing. We continue to own the stock because we believe Globant has a long runway for growth in a very large global market for IT services.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level having the most significant roles in determining the size of each individual investment. Sector and country weights are an outcome of the stock selection process and are not meant to indicate a positive or a negative "view."

As of June 30, 2025, the top 10 positions represented 60.1% of the Fund's net assets, and the top 20 represented 83.9%. We ended the second quarter with 40 investments. Note that our top 30 investments represented 96.4% of the Fund.

Our investments in the IT, Consumer Discretionary, Industrials, Financials, and Health Care sectors, as classified by GICS, represented 98.6% of the Fund's net assets. Our investments in non-U.S. companies represented 55.9% of net assets, and our investments in emerging markets and other non-developed countries (Argentina) totaled 32.8% of net assets.

Top 10 holdings

	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Space Exploration Technologies Corp.	349.1	60.6	9.7
MercadoLibre, Inc.	132.5	59.8	9.6
NVIDIA Corporation	3,855.0	56.4	9.0
Shopify Inc.	149.8	53.8	8.6
Coupang, Inc.	54.4	33.3	5.3
Cloudflare, Inc.	67.9	25.8	4.1
Bajaj Finance Limited	67.9	22.2	3.6
Snowflake Inc.	74.7	21.4	3.4
Datadog, Inc.	46.4	20.8	3.3
argenx SE	33.7	20.4	3.3

Percentage of securities by country

	Percent of Net Assets (%)
United States	42.8
Argentina	10.4
Netherlands	8.8
Canada	8.6
India	6.8
Korea	5.3
Brazil	3.2
Israel	2.9
China	2.6
Taiwan	2.5
Poland	1.8
Spain	1.7
United Kingdom	1.2

Recent Activity

During the second quarter, we established two new positions in leading Latin American digital bank, **Nu Holdings**, and aerospace and defense components supplier, **Loar Holdings**.

We also took advantage of stock price volatility and continued to build our position in the leading semiconductor manufacturer, **TSMC**, as well as our newer position in the leading software provider for the trades, **ServiceTitan**. We also added to the leading DNA sequencing tools supplier, **Illumina**, and the electric vehicle manufacturer **Tesla**.

We have reduced 15 existing holdings in order to reallocate capital to investments in which we believe the risk-reward equation to be more attractive from a long-term perspective.

Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Nu Holdings Ltd.	66.1	11.2
Loar Holdings Inc.	8.1	8.5
Taiwan Semiconductor Manufacturing Company Limited	1,174.7	4.8
Illumina, Inc.	15.1	3.8
ServiceTitan, Inc.	9.7	0.6

During the quarter, we initiated a position in **Nu Holdings Ltd.**, a leading Latin American digital bank operating in Brazil, Mexico, and Colombia. Founded in 2014 to provide Brazilian consumers with better access to financial products, Nu is disrupting a banking system long dominated by an oligopoly of incumbents notorious for high fees, poor service, and limited credit availability. By leveraging a user-friendly, tech-first platform and a relentless focus on customer experience, Nu has already attracted over 100 million users with minimal marketing spend. We believe Nu's success is underpinned by four core advantages: a digital platform that enhances engagement and lowers costs, disciplined credit underwriting, a

retail deposit-driven funding base, and a strong, trusted brand. The company continues to scale rapidly, gaining traction in new markets like Mexico and Colombia, and expanding its product suite. In Brazil, Nu already holds a 13% share of the credit card market, and we see similar potential in adjacent markets and products.

We see a long runway for growth given the structural under-penetration of financial services in Nu's core markets. In Brazil, roughly 30% of the adult population remains underbanked, and credit card penetration is only 35%, compared to more than 70% in developed markets. Retail credit penetration (consumer loans as a percentage of GDP) remains low at around 30%, versus about 50% to 60% in mature economies. In Mexico and Colombia, the gaps are even wider as over half of the population is unbanked or underbanked, and credit penetration is below 20% of GDP. Cash still accounts for more than 50% of personal consumption expenditures in these markets, highlighting the significant opportunity to digitize payments and expand credit access. We believe Nu is uniquely positioned to capture this opportunity with its scalable platform and durable cost advantages. We also believe that Nu benefits from a structurally lower customer acquisition cost driven by its virality, which fuels organic adoption. This creates a flywheel effect: Nu's low-cost structure enables more competitive pricing than rivals, enhancing customer appeal, driving viral adoption, and reducing the need for significant spending on paid customer acquisition, further strengthening its efficient customer acquisition funnel. Looking ahead, we expect strong balance sheet growth and increasing monetization per user. We also anticipate a rise in return on equity from 28% to 34% over the medium term, driven by operating leverage and an optimized balance sheet. We are confident that this combination of robust growth and improving profitability positions Nu for strong long-term stock performance.

We recently initiated a position in **Loar Holdings Inc.**, a niche aerospace parts manufacturer founded in 2012. Loar boasts an 85% proprietary product portfolio, with over 50% of its revenue derived from the high-margin aftermarket channel. Proprietary, aftermarket-focused products are among the strongest business models in the aerospace and defense industry, as evidenced by the success of TransDigm. This segment is attractive for several reasons. First, the aerospace industry is growing, with passenger miles increasing faster than GDP at roughly 4% per year. Second, Loar benefits from strong pricing power due to the critical nature of its components, the absence of substitute products (owing to high proprietary content), and high barriers to entry. These components are high-risk, low-cost for airlines, which are reluctant to compromise safety for minimal cost savings (most Loar parts cost less than \$1,000). Additionally, substitution of existing parts requires a lengthy and costly FAA approval process, which is often uneconomical for competitors to pursue given the high-variability, low-volume nature of aircraft components (millions of components per aircraft, each with low production volumes). These factors should enable Loar to achieve approximately 10% organic revenue growth and 15% adjusted EBITDA growth. Furthermore, beyond these value drivers, Loar is executing a disciplined acquisition strategy, successfully integrating 17 acquisitions over the past 13 years.

The aerospace supply chain is highly fragmented, with many components supplied by smaller, privately owned businesses that sell to system integrators, Tier 1 or Tier 2 manufacturers, or large original equipment manufacturers. Loar aims to double the EBITDA of acquired businesses within three to five years, focusing on: 1) aerospace and defense businesses; 2) proprietary content and processes; 3) significant aftermarket exposure or the potential to expand it; 4) niche markets or products with strong market positions; 5) opportunities to cross-sell existing products; and 6) long-standing customer relationships. Compared to its peers, Loar places less emphasis on the commercial segment, maintaining a more diversified end-market mix that management believes provides greater stability across economic cycles. This robust M&A strategy has been integral to driving elevated growth since the company's inception, with revenue and EBITDA compounding at 17% and 18%, respectively, over the past five years, and 26% and 35% over the past ten years. We believe Loar has a long runway for growth. In comparison, peer TransDigm generated over \$4 billion in EBITDA last year (compared to Loar's \$146 million) and continues to grow at a high single-digit to low double-digit rate. Given the strength of Loar's business model and a management team with over a decade of proven success, we believe the company could compound EBITDA organically at a mid-teens rate, further enhanced by accretive M&A, for years to come.

Our largest add during the quarter was **Taiwan Semiconductor Manufacturing Company Limited** as we continued to build our position. We believe that while near-term uncertainty due to tariffs and macro remains heightened, TSMC's competitive positioning in leading-edge semiconductor manufacturing remains unmatched. We also believe that TSMC will benefit from a long duration of growth as the adoption of AI proliferates across industries – and the recent developments in the space which we discussed above (e.g. removal of the AI Diffusion rule, accelerated adoption of reasoning-based AI inference, and the expansion of scaling laws) will serve to further accelerate the adoption of AI. We also like the fact that TSMC will benefit regardless of the ultimate market share split between GPUs and application-specific integrated circuits. It's the ultimate "arms dealer" to AI.

We also added to our position in the leading DNA sequencing platform, **Illumina, Inc.** Illumina is the dominant next generation sequencing tools provider, a technique that enables massive amounts of genetic analysis in both research and clinical diagnosis. The stock has come under heavy pressure recently due to a confluence of several factors including: 1) Pricing pressure from transition to the next-gen 'X' platform; 2) China business at risk after getting caught up in U.S./China trade tensions; 3) The new administration's focus on cutting National Institutes of Health (NIH) funding for life sciences; and 4) Roche's competitive launch coming next year.

We believe, however, that the risk reward is quite attractive for long-term investors. The transition to the new 'X' platform masks strong underlying growth of 30% to 40% in recent quarters due to the lower per-genome price – and historically lowering the price of sequencing has been a positive driver of industry growth despite volatility during transition periods. China represents only 5% of the business, while NIH is 10% to 12%. The new Roche tool has not been

launched yet – but we believe that given the long runway for growth in the industry and Illumina's strong end-to-end competitive moat, it should maintain a leading positioning in the market.

Fewer than 1% of humans and 0.1% of species have had their DNA sequenced to date. We believe the opportunity is over \$40 billion just within the clinical diagnostics segment (with the research market representing an additional multi-billion dollar opportunity), driven by new ways of testing for disease like liquid biopsy (blood-based testing for cancer). Even in a scenario in which Illumina loses ground significantly on their current monopoly position due to competition from the likes of Roche, capturing just 50% of this total addressable market would imply a \$20 billion revenue opportunity (about 5 times the size of the entire business in fiscal year 2024). Nevertheless, we believe that Illumina is well positioned to maintain their market share at high levels thanks to the high quality of its offering, its end-to-end workflow and the ecosystem around its offering, from sample prep to sequencing and bioinformatic analytics. This is especially sticky in clinical diagnostics, which face regulatory hurdles and high switching costs. Over a 10-plus year time horizon, we believe that the U.S. will continue to be the premier location for life science research and innovation. And that this innovation in the lab will translate into biopharmaceutical and clinical applications in increasingly impactful ways. Demographic trends mean populations will continue to age and require more care, and genetic sequencing will become an increasingly important part of personalized diagnostics and medicine.

Top net sales for the quarter

	Quarter End Market Cap (\$B)	Net Amount Sold (\$M)
Cloudflare, Inc.	67.9	25.2
Snowflake Inc.	74.7	4.4
BILL Holdings, Inc.	4.8	4.3
Fiverr International Ltd.	1.1	1.3
Wix.com Ltd.	8.8	1.2

While we continue to believe that **Cloudflare, Inc.** (up 74% during the quarter) and **Snowflake Inc.** (up 53% during the quarter) are high-quality businesses with significant opportunities ahead, we took advantage of market volatility to manage position sizing and to reallocate to other ideas.

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.

Once again, we believe the range of outcomes is as wide as we have seen in a long time and that means extreme market volatility is likely on tap. In fact, we have experienced it already. We are razor focused on minimizing the probability and the possibility of permanent losses of capital. However, we do not view our mission as outperforming a benchmark each quarter, or even every year. Were that the case, we would have a completely different approach to portfolio construction. It would also lead to exchanging opportunities to generate significant Alpha over full market cycles for efforts to reduce the Fund's short-term volatility. An exchange we are not willing to make. We do not have a crystal ball or any particular insight into how the economy and the markets will react to this current bout of fear, uncertainty, and doubt. Fear drives markets over the short term (both down, AND up), but it is fundamentals that drive wealth creation over time. Really big opportunities come if you are willing to invest when other people are not!

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 2025 (for revenues, operating income, and operating margins). After contracting by 10.2% in the first quarter, the weighted average multiple for the Fund expanded by 21.9% in the second quarter. Since the Fund was up 22.7%, fundamentals (or expectations) improved only slightly during the quarter.

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 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 the target companies are trading at attractive prices relative to their intrinsic values.

Sincerely,



Alex Umansky
Portfolio Manager

[†] The Fund's historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

¹ The **MSCI ACWI Index Net (USD)** is designed to measure the equity market performance of large and midcap securities across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The **MSCI ACWI Growth Index Net (USD)** is designed to measure the equity market performance of large and mid cap securities exhibiting overall growth style characteristics across 23 DM countries and 24 EM countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact 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 Not annualized.

⁴ NVIDIA's 1Q FY2026 earnings conference call.

⁵ <https://www.frontiersin.org/journals/psychology/articles/10.3389/fpsyg.2023.1122200>

⁶ <https://www.designrush.com/agency/big-data-analytics-companies/trends/how-much-data-is-created-every-day>

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: Growth stocks can react differently to issuer, political, market and economic developments than the market as a whole. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell.

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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