Baron Large Cap Growth Strategy

BARON CAPITAL

June 30, 2022

Dear Investor:

Performance

Baron Large Cap Growth Strategy lost 30.6% during the second quarter, which compared to losses of 20.9% for the Russell 1000 Growth Index and 16.1% for the S&P 500 Index, the Strategy's benchmarks. Year-to-date, the Strategy has lost 45.2% compared to losses of 28.1% and 20.0% for the Strategy's benchmarks, respectively.

Table I.
Performance†
Annualized for periods ended June 30, 2022

	Baron Large Cap Growth Strategy (net)[1]	Baron Large Cap Growth Strategy (gross)[1]	Russell 1000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	(30.58)%	(30.46)%	(20.92)%	(16.10)%
Six Months[2]	(45.15)%	(44.96)%	(28.07)%	(19.96)%
One Year	(45.54)%	(45.17)%	(18.77)%	(10.62)%
Three Years	(0.73)%	(0.05)%	12.58%	10.60%
Five Years	7.22%	7.94%	14.29%	11.31%
Ten Years	11.49%	12.27%	14.80%	12.96%
Since Inception[3] (September 30, 2004)	8.47%	9.33%	10.83%	9.31%

The correction that started in late 2021 and intensified during the first quarter of 2022, turned into a full-fledged bear market driven by the combination of high inflation, a rising interest rate environment, and broad investor concerns over the health of the economy. While many equity indexes are down in the 20% range year-to-date, growth indexes are down in the 30% range. Within our benchmark, the declines were much more severe for longer duration assets – companies that penalize near-term profitability by reinvesting heavily into future opportunities expected to pay off in 3, 5, and 10 years – exactly the type of companies we target in this Strategy. Within the Russell 1000 Growth Index, the median operating margin of stocks that are down less than 30% year-to-date is 18%, which compares to 13% for stocks that are down more than 30% year-to-date. Similarly, stocks projected to grow faster are down more, as companies with stock prices down over 30% have a median expected revenue growth of 17% compared to just 11% for the companies whose stock prices have declined less than 30%. If we use a 40% decline as the cut-off, the data is even more dramatic with the median operating margins for stocks that are down more than 40%, dropping to only 3%, while their median revenue growth rate is 20%. Another way to slice this data is to look at the median stock decline year-to-date of companies ranked both in the top quartile of revenue growth as well as in the bottom quartile of operating margins. Those stocks declined by a median of 46% year-to-date. This data suggests that our addressable universe (Big Ideas – faster growth and less profitable in the near term) has experienced the brunt of the sell-off.

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of June 30, 2022, total Firm assets under management are approximately $37.7 billion. The Strategy is a time-weighted, total return composite of all large-cap accounts greater than $1 million using our standard investment process. Since 2010, accounts in the Strategy are market-value weighted and are included on the first day of the month following one full month under management. Prior to 2010, accounts were included on the first day of the quarter after one full quarter. Gross performance figures do not reflect the deduction of investment advisory fees. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO and separately managed accounts managed by BCM. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies please contact us at 1-800-99BARON. For a GIPS compliant report, click here.

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

† The Strategy's 3-, 5-, and 10-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs will be the same in the future.

1 The **Russell 1000® Growth Index** is an unmanaged index that measures the performance of large-sized U.S. companies that are classified as growth and the **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group. The indexes and the Strategy include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Strategy performance. Investors cannot invest directly into an index.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is April 30, 2004.

4 Based on performance of the representative account, excluding fees.

From a performance attribution perspective, most of the Strategy's underperformance relative to the Russell 1000 Growth Index was due to stock selection. By sector, Information Technology (IT), Consumer Discretionary, and Health Care were responsible for 88% of the underperformance in the quarter. The rest was due to lack of exposure to the four best performing sectors in the Russell 1000 Growth Index – Energy, Consumer Staples, Utilities, and Real Estate, as well as underperformance in Communication Services, which was partially offset by positive stock selection in Industrials. Within GICS sub-industries, we were hurt the most by the performance of our systems software holdings (part of IT) **Cloudflare**, **Twilio**, **Snowflake**, **Datadog**, and **CrowdStrike**, which were hit hard due to rising investor concerns over a potential slowdown in growth should the economy enter a recession. Within Consumer Discretionary, we were hurt by EV manufacturers **Tesla** and **Rivian**, as concerns over the continued supply-chain disruptions leading to production delays started to materialize. Within Health Care, the life sciences tools & services sub-industry was the culprit as increased competitive noise in DNA sequencing caused a 47% decline in the stock price of **Illumina**.

At the company-specific level, there was a broad correction across the entire portfolio. While four of our holdings contributed to performance, the contribution to absolute returns was less than 100 bps combined, as unfortunately none of them were large enough to move the needle. We had 16 investments detracting over 100 bps each with **NVIDIA**, our second largest detractor, costing the Strategy 255 bps, and our largest detractor **Amazon.com**, costing us 319 bps. Despite the violent sell-off, we believe that these declines are *unlikely to result in permanent losses of capital*.

Amazon's stock price declined 34.8% in the quarter, driven by the slowdown in the growth of e-commerce due to the reopening of the economy. The company's near-term profitability is also likely to be negatively impacted by overbuilding capacity in two prior years in response to the COVID pandemic. We were surprised by the magnitude of the decline as Amazon's leadership positions in e-commerce and cloud computing remain unassailable, with both categories relatively early in their penetration curves with many years of good growth ahead. More importantly in our view, Amazon continues to be one of the most innovative companies in the world, with opportunity to create significant economic value over the long term. This is how Andy Jassy, Amazon's CEO, ended his first annual shareholder letter: *"Albert Einstein is sometimes credited with describing compound interest as the eighth wonder of the world ("He who understands it, earns it. He who doesn't, pays it"). We think of iterative innovation in much the same way. Iterative innovation creates magic for customers. Constantly inventing and improving products for customers has a compounding effect on the customer experience, and in turn on a business's prospects. Time is your friend when you are compounding gains. Amazon is a big company with some large businesses, but it's still early days for us. We will continue to be insurgent – inventing in businesses that we're in, in new businesses that we've yet to launch, and in new ideas that we haven't even imagined yet. It remains Day 1."*

NVIDIA's stock was hit even harder, down 44.4%, impacted by concerns over the health of the consumer, dramatic declines in crypto, and COVID-related lockdowns in China. Despite the sell-off and the increased near-term volatility in its gaming business, NVIDIA's revenues grew 46% year-over-year with 48% operating margins, driven by continued strength in its data center business as companies across industries adopt AI and ML. Jensen Huang, NVIDIA's Co-Founder and CEO, spoke to the size of the opportunity at its last investor day: *"Now how many companies in the world will be doing data processing, feature engineering, classical machine learning graph analytics to deep learning? Well, I happen to believe that **every company's fundamental production, fundamental output is intelligence**, a recommendation for our financial strategy, a recommendation for some health regimens, some recommendation for a therapy, so it's a recommendation. And so, in the future, almost **every company will be a tech company and every company will be an AI company producing intelligence**."*

While the intrinsic values of our businesses continued to compound, the multiple[1] of our holdings has declined by a whopping 52% since the beginning of the year. Part of the multiple decline could be attributed to the increase in discount rate leading to lower present value for future profits since they are discounted at a higher rate. However, we believe there are several factors that could offset much of the negative impact:

- **Pricing power**: The terminal value of a business is dependent as much on the discount rate used as it is dependent on *terminal growth rates*. Since many of our businesses offer critical solutions to their customers, they have pricing power with a proven ability to pass on the cost of inflation over the full business cycle. Therefore, even if inflation remains elevated for longer, the likelihood of them being able to offset it is high, and so their terminal growth rate would also increase.
- **Business resiliency**: During times of economic stress, companies tend to cut spending on non-critical, non-revenue generating items. Additionally, they will consolidate spending on their most important vendors. Our businesses tend to be leaders in their industries and be critical for their customers, and hence we expect them to fare better.
- **Attractive business models**: Our portfolio companies tend to be capital-light, have clean balance sheets without significant financial leverage or cash burn, have a sticky customer base, and many of them have recurring, subscription-based revenue models.

Over the short term, macro considerations such as inflation, the price of oil, and investor confidence will likely determine how our investments will *trade*, but over the following five years, it will be their revenues and earnings and cash flows that will determine their true intrinsic values. In the long run, stock prices always, always follow the intrinsic values of businesses. We have no edge whatsoever over the former. We believe we have a significant edge in figuring out the latter.

Table II.
Top contributors to performance for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Percent Impact
argenx SE	$20.6	0.61%
GM Cruise Holdings LLC	–	0.21
Space Exploration Technologies Corp.	–	0.14
GitLab Inc.	7.8	0.02

[1] We compare P/E or P/Sales multiples depending on the company and its current profitability between December 31, 2021 and June 30, 2022 based on consensus expectations for the next 12 months.

Argenx SE is a biotechnology company focused on autoimmune disorders. Shares increased 20.2% driven by the strong launch of Vyvgart, a treatment for generalized myasthenia gravis, a chronic autoimmune disease that causes muscle weakness. Early sales tripled consensus expectations and global approvals are coming in earlier than previously expected by investors. Data from Vyvgart's trial to treat immune thrombocytopenia was positive as well. We expect the next two years to have many catalysts, and, assuming a well-received commercial launch, 2022 should be another year of solid performance. Longer term, Vyvgart has multi-billion dollar sales potential in our view. The company also has a pipeline of additional drug candidates with significant commercial potential.

GM Cruise Holdings LLC offers an autonomous driving fleet with the goal of reducing the cost and improving the safety of transporting people and goods. The company reached significant milestones including paid, driverless rides on public roads in San Francisco. This milestone is a positive early sign of GM Cruise's ability to execute against a large Transport-as-a-Service market opportunity. We expect the commercial progress to be significant over the following several years. We value GM Cruise using prices of recent transactions and a proprietary valuation model.

Space Exploration Technologies Corp. (SpaceX) is a high-profile private company founded by Elon Musk that designs, manufactures, and launches rockets, satellites, and spacecrafts. Its long-term goal is to enable human beings to inhabit Mars. We believe SpaceX is creating substantial value through the expansion of its Starlink broadband service. It also reliably provides reusable launch capabilities, including crewed space flights, and is making progress on its largest rocket, Starship. We value SpaceX using prices of recent financing transactions and a proprietary valuation model.

Shares of **GitLab Inc.**, a leading software tools development platform, outperformed in the quarter after reporting strong quarterly results with 75% year-over-year revenue growth while raising annual guidance to over 58% growth. The results were driven by robust net new customer wins with base customers growing 64% year-over-year while existing customers continue expanding rapidly. We continue to believe GitLab's easy-to-use and open development platform, combined with its disruptive pricing model, position the company well for continued market share gains.

Table III.
Top detractors from performance for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Percent Impact
Amazon.com, Inc.	$1,080.6	–3.19%
NVIDIA Corporation	379.0	–2.55
ZoomInfo Technologies Inc.	13.4	–1.79
Alphabet Inc.	1,437.8	–1.78
Rivian Automotive, Inc.	23.2	–1.77

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon declined 34.8% in the quarter due to weaker-than-expected profits resulting from an overcapacity of resources coming out of COVID. We expect Amazon to grow into its retail capacity in the quarters to come, which would enable it to improve profitability accordingly. Amazon remains one of our largest holdings due to its durable competitive advantages with a leading position in multiple trillion dollar markets with a long runway for growth. According to the U.S. Census Bureau, domestic e-commerce was only 14.3% of retail (as of the first quarter of 2022). Internationally, the opportunity is even earlier as Amazon has still less than 2% market share of international retail spending. Its advertising share is roughly 3% and growing, underpinned by its structural closed loop, which enables accurate targeting and measurement. Lastly, Amazon Web Services (AWS) remains the leading cloud provider, while cloud computing still represents only 9.5% out of the $4.3 trillion of global IT spending according to Gartner. Areas such as logistics and health care present additional optionality.

NVIDIA Corporation is a fabless semiconductor company and a leader in gaming and accelerated computing. NVIDIA is powering the growth of artificial intelligence from the data center to the edge. Shares sold off 44.4% during the second quarter, driven by a slowdown in NVIDIA's gaming segment coupled with the broader market sell-off in growth stocks. Given NVIDIA's end-to-end AI platform and its leading market share in gaming, data centers, and autonomous machines, along with the size of these markets and how early we are in the penetration of AI and big data, we believe the company can sustain a long duration of growth and therefore remain shareholders.

ZoomInfo Technologies Inc. operates a cloud-based B2B platform that provides sales, marketing, and HR teams with comprehensive business intelligence, enabling shorter sales cycles and higher win rates. Shares declined 44.4% during the quarter, driven by the broad sell-off in growth stocks as well as a short report that questioned ZoomInfo's compliance with existing and upcoming privacy regulations. Based on our diligence including outside counsel, we remain comfortable that the company is compliant with all current legislation and that it has every intent and likelihood to remain compliant with any new or pending privacy legislation. While the stock corrected, fundamentals remain strong with quarterly revenues up 58% year-over-year (over 49% organically) along with 39% adjusted operating margins. New products are building momentum, and we believe ZoomInfo can become a much larger company over time as it grows into its $100 billion total addressable market.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet declined 21.6% in the quarter due to concerns about slower global growth impacting the company's core advertising business. We retain conviction in Alphabet's merits as it continues to benefit from growth in mobile and online video advertising, which accrues to its core assets of search, YouTube, and the Google ad network. We are further encouraged by Alphabet's investments in cloud, AI, and Autonomous Driving (through its Waymo subsidiary).

Rivian Automotive, Inc. designs, manufactures, and sells consumer and commercial electric vehicles. Shares of Rivian declined 48.2% in the second quarter as investors continued rotating out of long-duration assets and have become increasingly concerned about capital intensity and cash burn. At the same time, Rivian continues to be impacted by supply chain issues which are causing delays in its production ramp. Rivian is addressing those challenges by diversifying its supply chain to alleviate shortages while also consolidating the number of variants in development to reduce cash burn (the company guided that current cash will be enough to support the company's future platform launch 'R2' in 2025). Rivian recently reported stronger-than-expected second quarter production numbers while reiterating its annual guidance of producing 25,000 units. As semiconductor shortages ease, we believe that the company will be able to rapidly ramp its production. We retain conviction in the shares given management's vision, Rivian's product positioning, the company's relationship with Amazon.com, and its strong balance sheet. As of the end of the first quarter, Rivian had $17 billion of cash and cash equivalents, which will help it overcome the current challenges while taking advantage of the long-term opportunity as the market transitions to electric vehicles.

Portfolio Structure[1]

The Strategy is constructed on a bottom-up basis with the quality of ideas and level of conviction determining the size of each investment. Sector weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view."

As we discussed in prior letters, during times of heightened market volatility, we tend to concentrate the portfolio in our higher conviction ideas. As of June 30, 2022, the top 10 holdings represented 55.4% of the Strategy, and the top 20 represented 84.3%. This compares to 51.6% and 78.0%, as of December 31, 2021, and 43.0% and 71.3% as of December 31, 2020, respectively. At the same time, the total number of investments in the portfolio has also declined, ending the quarter with 30, which compares to 36 at the end of December 2021, and 37 holdings at the end of December 2020, respectively.

IT, Consumer Discretionary, Health Care, and Communication Services made up 96.7% of net assets. The remaining 3.3% was made up of **GM Cruise** and **SpaceX**, our two private investments classified as Industrials, as well as cash.

Table IV.
Top 10 holdings as of June 30, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Alphabet Inc.	$1,437.8	$34.2	8.5%
Amazon.com, Inc.	1,080.6	33.4	8.3
ServiceNow, Inc.	95.3	26.0	6.5
Mastercard Incorporated	306.8	24.9	6.2
CrowdStrike, Inc.	39.1	19.3	4.8
NVIDIA Corporation	379.0	18.9	4.7
Snowflake Inc.	44.2	18.1	4.5
Tesla, Inc.	697.9	17.3	4.3
Veeva Systems Inc.	30.7	15.4	3.8
argenx SE	20.6	15.1	3.8

Recent Activity

During the second quarter, we took advantage of stock market volatility by adding to eight of our holdings: the data cloud platform, **Snowflake**, the EV leader, **Tesla**, the cloud-based networking infrastructure provider, **Cloudflare**, the outsourced software development provider, **Endava**, the cloud-based data analytics platform, **Datadog**, the commerce solutions and financial services provider, **Block** (formerly known as Square), the leading DNA sequencing platform, **Illumina**, and the single-cell focused genomics company, **10X Genomics**. We also reduced 12 positions to meet investor redemptions as well as to fund the additions to the Strategy above.

Table V.
Top net purchases for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Snowflake Inc.	$ 44.2	$3.8
Tesla, Inc.	697.9	3.3
Cloudflare, Inc.	14.3	2.9
Endava plc	4.9	2.7
Datadog, Inc.	30.0	2.6

During the quarter, we added to three of our cloud infrastructure positions – **Snowflake Inc.**, **Cloudflare, Inc.**, and **Datadog, Inc.** While investors are concerned that a weakening macroeconomic environment will be a near-term headwind to growth as customers may slow down their cloud expansions, we remain focused on the long term – duration of growth, competitive advantages, and innovative capabilities and are happy to increase our positions at a more attractive price.

For example, Snowflake, the leading data cloud provider, during its recent user conference, announced several new products, which significantly expand its addressable market. Its new Unistore product for instance enables combining transactional use cases with analytical ones. If they are successful, the opportunity is significant as it would enable customers to make better decisions in real time, analyzing transactional data as it comes in, helping remove silos between stakeholders in the value chain. Snowflake's SVP of Product, Christian Kleinerman during investor day said the following on Unistore:

"This is pretty much the holy grail of the database world, which is how do you create a transactional store with very, very fast performance, and that data is also seamlessly readily available for analytics."

Importantly, Snowflake also shared that it continues seeing strong network effects within its data cloud (with 63% of its $1 million-plus customers now sharing data with others). Kleinerman spoke to the customer benefits that this enables:

"The thesis is that delivering amazing technology for customers is insufficient. We believe that better decisions, better outcomes, better services, better applications are going to happen if companies can collaborate with data, exchange data."

While over the last three years Snowflake was able to grow revenues by more than 12 times from around $97 million in the fiscal year ended January 2019 to $1.2 billion in fiscal year ended 2022, we believe it would be able to grow again by more than 10 times over the next six years. Despite this, Snowflake's stock is down 58% year-to-date and its revenue multiple declined by 73%.

Another example is Cloudflare, the leading cloud-based networking and software infrastructure provider, which we first purchased during the first quarter and took advantage of the significant sell-off in the shares to add to our position. We continue to be impressed with Cloudflare's speed of innovation, enabling it to introduce new offerings at a rapid pace, as they expand their developer platform (Workers), their core networking offerings as well as their zero-trust solution. This helps the company solve more

1 Portfolio characteristics, top 10 and 20 holdings, sector exposures, top net purchases, and top net sales are based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

problems for customers over time, as can be seen by the growing percentage of customers who use multiple products from Cloudflare (for example, 58% of customers now use seven or more products compared to 49% last year). During Cloudflare's recent investor day, Thomas Seifert, Cloudflare's CFO described what Cloudflare's innovation velocity has enabled:

"The heart of Cloudflare and the frame of Cloudflare and the center of Cloudflare is innovation. This is what drives the company and enables all the opportunities that we have in front of us. And if you look at what this has allowed us to do ***over the last 4 years alone since we've become a public company, it allowed us to literally quadruple the TAM, the market that we address and that we disrupt.****"*

While investors are concerned about a potential near-term slowdown in the business, sending the stock down over 60% in the quarter, we remain excited about the company's long duration of growth ahead. Despite revenues growing by more than seven times over the last five years from $85 million in 2016 to $656 million in 2021, we believe that they could grow by another seven times over the next six to seven years.

We continued building our **Tesla, Inc.** position during the quarter, as its stock sold off 37.8%. In addition to the broader growth stock sell-off, a COVID-related lockdown in China and ongoing supply-chain shortages impacting the company's production levels pressured shares. Despite the near-term uncertainty, we remain focused on Tesla's long-term opportunity. As the world transitions to electric vehicles, Tesla's 1 million car production rate represents only about 1% market share of annualized new cars sold.

We also continued building our position in **Endava plc**, a leading outsourced software development provider, taking advantage of the significant volatility in its stock price, which sold off 33.9% during the quarter.

Table VI.
Top net sales for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Amount Sold (millions)
Shopify Inc.	$ 36.0	$8.0
Adobe Inc.	171.3	3.2
Mastercard Incorporated	306.8	2.0
Alphabet Inc.	1,437.8	1.7
EPAM Systems, Inc.	16.8	1.5

During the second quarter, we reduced 12 existing holdings in order to fund purchases and meet investor redemptions, with the largest being **Shopify Inc.**, **Adobe Inc.**, **Mastercard Incorporated**, **Alphabet Inc.**, and **EPAM Systems, Inc.**

Outlook

There's been a regime change and it is impossible to tell when this bear market will end. In the short term, prices for stocks (and valuations) are almost always driven by investor sentiment, which in turn is driven by exogenous factors (inflation, interest rates, oil, etc.) and the way investors perceive them (investor confidence). However, we observe that stock appreciation over the long term depends significantly more on a business's ability to sustain its *duration of growth* rather than the entry *multiple* that an investor has paid for it. This is because business fundamentals compound exponentially, while the price paid for a stock is a linear function. Mathematically, the annualized return would equal the product of the *change in multiple* and the *compounded growth* in the underlying fundamentals, annualized:

$$Return\ CAGR = \left(\frac{Multiple\ at\ time\ T}{Multiple\ today} x(1+r)^T\right)^{1/T} - 1 = \left(\frac{Multiple\ at\ time\ T}{Multiple\ today}\right)^{\frac{1}{T}} x(1+r) - 1$$

Most of the businesses we own in this strategy have proven track records of *durable growth*, companies that are undisputed leaders in their industries with sizable competitive advantages that we believe to be both sustainable, and in some cases, insurmountable. This gives us a lot of conviction that *Time* (or the T in the above equation) is on our side. When growth is durable, the intrinsic value of a business compounds at healthy rates over very long periods of time in a way, *making time work for us*. Getting back to the math, as T in the above equation gets larger (or as time passes), the first part of the equation (or the multiple correction) increases asymptotically to 1, the annualized return gets closer and starts to approach how well the business itself is doing. For instance, if company A compounds free-cash-flow per share (or revenues, or stock price) at an annualized rate of 26%, it would double in 3 years. Now, if we overpaid for company A by 50%, our return would be significantly impaired to a CAGR of approximately 10%, instead of the original 26%. However, if company A is able to continue to grow and compound at the same rate for 10 years (instead of 3), it will become a ten-bagger (a return of 10 times)! In this case, overpaying by the same 50%, would decrease our annualized rate of return from 26% to approximately 21%, still a good result. "Time is the friend of the wonderful business and the enemy of the mediocre"[1]. We believe our Strategy is filled with wonderful businesses.

While the overwhelming majority of market participants are preoccupied with the here and now, we are focused on the *duration of growth*. Though the future is inherently uncertain, bear markets and meaningful stock price declines have historically offered attractive buying opportunities for long-term investors. We believe the intrinsic values of the businesses we own, and the cumulative "weight" of our portfolio companies have continued to grow while their stocks have fallen significantly. In our view, the margin of safety has widened considerably, and the prospective investment returns of our portfolio look very attractive at this time.

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.

1 Warren Buffett

We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities while remaining patient and investing only when we believe target companies are trading at attractive prices relative to their intrinsic values.

Sincerely,

Alex Umansky
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

Risks: Past performance is not a guide to future performance. The value of investments and income from them may go down as well as up. Your capital is at risk. The Strategy invests primarily in equity securities, which are subject to price fluctuations in the stock market. Even though the Strategy is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Strategy's returns. The Strategy may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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