March 31, 2024

BARON CAPITAL INVESTOR

A Distinct Approach to Global Investing

Baron Global Advantage Fund® | Non U.S./Global

Alex Umansky
Portfolio Manager

The most transformative secular growth trends in the world today are global. Internet and mobile disruption, health care innovation, robotics and AI, energy efficiency, paperless payments – these and other secular shifts are all happening on a global scale. Many leading businesses are global, selling and sourcing their products and services across the world.

The U.S.'s share of the global pie is also shrinking. In 1960, U.S. GDP represented 40% of global GDP. By 2023, this percentage shrunk to about 23%.[1] Many disruptive changes originate in the U.S. and the repercussions undoubtedly reverberate globally. However, over the last decade, the drivers of global growth have come from overseas.

A global approach gives Baron Global Advantage Fund the flexibility to capture opportunities in the market wherever they might arise! In today's economy, opportunity is borderless. No country or region has a monopoly on good ideas or good entrepreneurs. We can invest in cloud-based data storage and analytics service **Snowflake Inc.** in the U.S., leading financial corporation **Bajaj Finance Limited** in India, and **argenx SE**, a Dutch biotechnology pioneer. Because we are not restricted by geographic boundaries, we need not forego investments in these or any other stocks.

This freedom to invest regardless of borders allows us to think more broadly and more horizontally. We believe horizontal expertise – the ability to compare business models across sectors, sub-industries, regions, and market caps – is key to effective capital allocation. Orit Gadiesh, chairman of Bain & Co., coined the term "expert-generalist" to describe this approach – someone who has studied widely and deeply in many fields and applies insights from them to investing.

Baron Global Advantage Fund

Baron Global Advantage Fund is managed by Alex Umansky, who brings over 30 years of research and investment management experience to what we believe is a truly distinct approach to investing in global equities. The Fund is differentiated by its high conviction – 35 stocks as of March 31, 2024, high active share of 95.1%, low three-year turnover of 12.76%, and long-term view of risk, return, and volatility.

We are pleased to report that in March 2022 the Fund was named the best fund in its category by Lipper analytics for risk-adjusted returns over five years ended 12/31/21.[2]

Disruptive Change

With more than 58,000 publicly traded companies in the world, global equities present a formidable market in which to invest. How do we find the stocks that we think represent the most promising investment opportunities among the thousands of possibilities?

We focus on disruptive change. We believe the only constant in the world's economy is change.

Understanding whether a change is real, durable, and material, and identifying which companies will be disrupted and dislocated and which will grow stronger and bigger is key to finding the best investment opportunities, especially in the global space. Examples of disruptive change include:

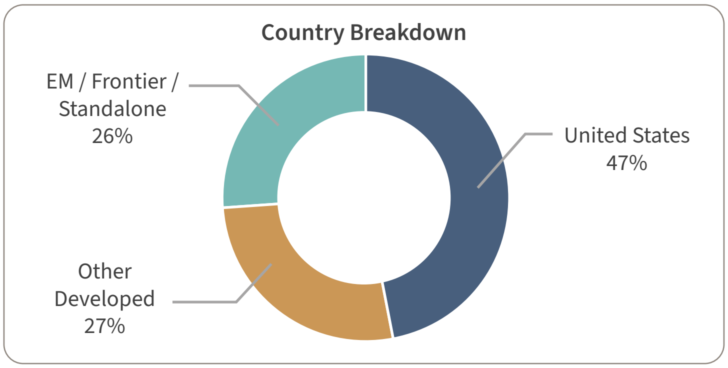
- Digitization
- Big data
- Cloud computing
- Machine learning
- Artificial intelligence
- Autonomous driving
- Virtual reality
- Blockchain

[1] Source: World Economics Research, London.
[2] Please refer to p.6 for Lipper disclosures

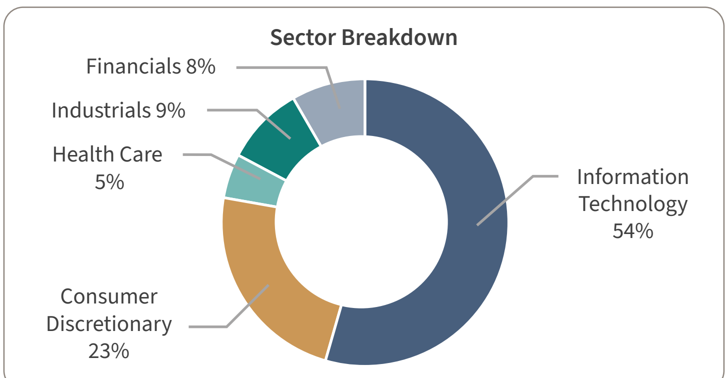
The Fund invests in Big Ideas – unique, competitively advantaged companies that are agents or beneficiaries of disruptive change on a global scale. These are companies that are in it for the long term, investing in game changers such as digitization, artificial intelligence, and machine learning that reach across multiple industries and are set to transform the world as we know it. They have visionary leaders that inspire and encourage a culture of constant innovation and improvement. They are unique.

We do not manage to the benchmark. Our country and sector exposures are purely a reflection of where we are finding Big Ideas. As seen in the graphic below, approximately 47% of our assets by weight are in U.S. equities, as many of the leading beneficiaries of disruptive change are U.S.-based companies. We are also big believers in the growth opportunities in emerging markets, where our exposure is significantly higher than the benchmark. As seen in the second graphic below, on a sector basis, our highest exposure is to Information Technology, which is again a reflection of the companies that are benefiting the most from disruptive change.

We Find Big Ideas Across the Globe...



... and Across Sectors



A Differentiated Investment Approach

To identify the companies that we believe are the agents and/or beneficiaries of disruption, we take a multi-pronged approach, looking for unique companies we believe have open-ended growth potential, excellent management, and durable competitive advantages, at an attractive valuation.

Growth potential

First, we must be convinced that the company can become materially larger, reaching what we call its endgame. To do so, we first determine the size of the market opportunity. Then we look at the company's current market share and estimate the market share it will need to capture to meet our objective or endgame. We project cash flows based on different growth rates over different periods of time and calculate the projected EBIT. Then we bring our calculations back to present value. The process is akin to the one used to ascertain discounted cash flow, except the reverse.

In evaluating growth potential, we favor companies with:

- Secular, organic growth
- Free cash flow and higher or rising returns on invested capital
- Low capital intensity
- Positive optionality (hidden assets, unexpected/mispriced monetization opportunities)

Secular, organic growth

We prefer companies that grow organically over the long term. Organic growth is repeatable and we think more durable, whereas growth by acquisition is neither. In addition, acquisitions can carry higher risk, as many are bought at a premium and/or may have packaged themselves for sale by overearning while underinvesting in growth.

Free cash flow and higher or rising returns on invested capital (ROIC)

We run screens for free cash flow yield and ROIC as a source of investment ideas. We prefer free cash flow as a valuation measure because unlike earnings, it cannot be manipulated. We also emphasize ROIC, as it demonstrates whether growth can be profitable and is the metric most correlated to future stock performance. Growth for the sake of growth is not maintainable.

Asset-light, low capital-intensity businesses

We like asset-light, low capital-intensity businesses because as they scale, margins can expand significantly. **Shopify Inc.**, which has built an online platform connecting third party vendors with customers, illustrates this concept. After the platform is built, the cost involved in adding new businesses or customers is de minimis, meaning that the incremental margins on these additions are exceptionally high.

Positive optionality

We have found that the market tends to undervalue or even ignore businesses, products, or services a company may have that are peripheral to its core business. For example, most of the analysts covering **Tesla, Inc.** focus on its electric vehicles, with little or no attention paid to the rest of Tesla's portfolio, encompassing batteries, solar and other energy solutions, software offerings such as full self-driving, and even insurance. We are invested in Tesla based on our expectation that, despite near-term challenges, it will continue to grow its automotive business over the long term given its first mover advantage, technology innovation, vertical integration, brand, and growing supplier support. But we also believe that the optionality offered by its other endeavors are substantial, and we do not have to pay much to own them.

Company specific criteria

In addition to the size of the potential market, we develop a company thesis for each of our investments. In particular, we seek companies with the following attributes:

- Uniqueness
- Durable competitive advantage
- Platform business
- Exceptional management
- Recurring revenue
- Pricing power

Uniqueness

The uniqueness of a company is determined by its culture, which is shaped by the values and vision of its leaders. Elon Musk, CEO of Tesla and **Space Exploration Technologies Corp. (SpaceX)**, has said, “Constantly think about how you could be doing things better. Keep questioning yourself.” We think this vision is a large part of the force behind these companies’ stories of innovation and relentless focus on the future that have produced – and we think will continue to produce – outstanding results for their investors.

Durable competitive advantage

To build a durable competitive advantage in today’s knowledge-based economy, we believe that a company must continually improve – the Japanese term is kaizen – and innovate. If a company stands still while its competitors move ahead, it will inevitably fall behind, lose its edge, and die. We think this is especially true given increasing digitization, or the shift to computer-processed information. In the digital era, innovation happens at a much more rapid pace than in the past as companies can iterate much faster, assessing the success of a product or service and challenging its capabilities to deliver something better. Digitization has moved well beyond traditional IT companies and is penetrating and transforming many other industries, including health care, banking, commerce, and consumer goods and services.

Platform business

Baron Global Advantage Fund is invested in companies that have built, or are on their way to building, a platform that others can use to easily connect their businesses, market and sell their products and services, and co-create value. Users, sellers, providers, and others typically seek to work with these businesses, leading to better monetization opportunities over time. We think that, as a group, platform companies offer the most significant growth opportunities in the global market today as they benefit from economies of scale, the network effect, and formidable barriers to entry. We think our focus on identifying and investing in future platform companies gives us a competitive edge, as we are getting in on the ground floor where we see massive potential growth opportunities.

Exceptional management

Management can make or break a company. A great product or service will only rarely, if ever, save a mismanaged company. In addition, we believe a firm’s unique culture – the shared values, attitudes, standards, and beliefs – is shaped by management. For these reasons, our assessment of the strength of a company’s leadership is at the core of our research process. We look for a track record of successful capital allocation with proven ability to reinvest excess cash flows at high rates of return.

Recurring revenue and diverse customer base

From both a business and investor perspective, the recurring revenue model has many benefits, including predictable and measurable revenue, higher levels of customer retention, steady and repeatable cash flow, reduced risk, and greater opportunities for growth. We also prefer a diverse customer base as it helps reduce risk as well since the loss of one or two customers will not break the bank. Our concentrated portfolio necessitates that each of our holdings is diversified.

Pricing power

We prefer companies that have pricing power tied to the utility of their product or service rather than a monopolistic grip on that product or service. For instance, we like software-as-a-service businesses, which use a subscription revenue model and typically become deeply embedded in customer workflows. This dynamic allows the vendor to raise prices in exchange for incremental improvements. As Warren Buffett puts it, “If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business.” We agree.

Long-term holding **Illumina, Inc.**, the leading provider of next-generation DNA sequencing instruments and consumables, is an excellent example of what we are looking for in a company. DNA sequencing – the reading and analysis of the three billion chemical “letters” in a human genome – is a transformative technology, with potentially far-reaching impact in the prevention and treatment of disease. Illumina, which was founded in 1998, was at the forefront of the genome sequencing revolution, and its machines now generate 90% of all DNA sequence data. Its razor/razor blade business model means that a high percentage of its revenue is recurring, generating steady cash flow even when sales of its systems lag. Illumina’s user base also continues to expand. It is becoming increasingly common, for instance, to sequence a patient’s cancer tumor to determine custom therapies and targeted drugs. Genome sequencing is also starting to become a foundational part of patients’ health records. We believe this exceedingly well-run company will continue to benefit from increasing adoption of DNA sequencing.

Baron Global Advantage Fund

Top 10 Holdings as of March 31, 2024

Holding	Sector	% of Net Assets
NVIDIA Corporation	Information Technology	11.1%
MercadoLibre, Inc.	Consumer Discretionary	8.8%
Shopify Inc.	Information Technology	8.0%
Cloudflare, Inc.	Information Technology	5.4%
Coupang, Inc.	Consumer Discretionary	5.0%
Space Exploration Technologies Corp.	Industrials	5.0%
CrowdStrike Holdings, Inc.	Information Technology	4.4%
Snowflake Inc.	Information Technology	4.2%
ASML Holding N.V.	Information Technology	3.8%
argenx SE	Health Care	3.7%
Total		**59.4%**

Valuation

We estimate the intrinsic value by forecasting the key financial metrics – revenue, margins, capex, depreciation, amortization, etc. – of every company we invest in and will only make the investment if we can buy it at 20% discount to that value. We also sell when the price moves up to over 20% above intrinsic value estimates.

We often find hidden value by looking for underappreciated companies due to market inefficiencies. Many of the platform companies in the Fund fall into this category. Market inefficiencies include:

- Lack of easily understood comparables
- Overemphasis on short-term results
- Use of conventional valuation metrics

Lack of "comparables" / mischaracterization of a company's business

SpaceX is a high-profile private company that designs, manufactures, and launches rockets, satellites, and spacecrafts. It is the world's only company to design, manufacture, and launch reusable orbital launch systems. It is now launching a broadband service leveraging its new satellite constellation, Starlink. We believe SpaceX could leverage its unique capability of reusable rockets to continue to drive costs of space launches lower and capture an increasing market share in a growing market. As launch costs decline, we expect that the demand to reach space would increase in the coming years. By leveraging its launch cost leadership, vertical integration, and innovative design approach, we expect SpaceX will have an advantage in building its new constellation of satellite-based broadband services, allowing the company to access a materially larger total addressable market than the rocket launch market. And as a vertically integrated company that makes all the equipment it needs to build and manage its broadband services, SpaceX has no peers.

Overemphasis on short-term results

Short-term fluctuations in the market are rarely based on the fundamental strengths or weaknesses of a company. The market will move one way or another in reaction to any manner of macro event that has nothing to do with the intrinsic long-term value of a particular stock. Recency bias is another source of mispricing. Investors tend to overweight the most recent events – the latest earnings report or company news – in their expectations for the future.

Use of conventional valuation metrics

A company's price to earnings ratio is typically an easy compare – a high P/E ratio means the company is expensive, and a low P/E ratio means it's inexpensive.

We also think it's the worst valuation metric there is. First, earnings can be manipulated. Second, by definition, growth companies are penalizing short-term profits to invest in long-term growth. Because of these shortcomings, we think of the widespread use of P/E ratios as yet another source of mispricing. Instead, as discussed above, we focus on free cash flow yield and return on invested capital.

A Differentiated View of Risk

After several years dominated by the COVID-19 pandemic, supply chain disruptions, alarming inflation, and rising rates, not to mention Russia's sudden and disturbing invasion of Ukraine, risk is understandably top of mind for many investors. However, we do not look at risk in the same way as most investors.

We define risk as the possibility of a permanent loss of capital. At the securities level we seek to manage risk by investing in what we believe are well-managed, high-quality companies with low to no leverage, organic growth, a durable competitive advantage, recurring revenue, and high ROIC and free cash flow yield. On a portfolio level, we seek to manage risk by investing in companies with multiple end markets that are not necessarily correlated.

In addition, although we are not all that sensitive to short-term macro events, we do take into consideration macroeconomic and geopolitical concerns such as government regulations, currencies, interest rates, inflation, and the like if we believe they will have a material impact on our investment thesis. There are many regions across the globe in which we are not invested and likely will not invest anytime soon, because conditions are hostile to the types of investments we look for.

Every day we live and invest in an uncertain world. Events, such as Federal Reserve interest rate changes, inflation, wars, pandemics, and the unpredictable behavior of important politicians across the world, 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 the market participants do what they do over the short term. The constant challenges we face are real and serious, with 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.

However, over time, as the table to the right demonstrates, our strategy has worked. On a monthly basis, the Fund beats its primary benchmark 58% of the time. This is essentially a coin flip. As the time frame increases, the percentage of time the Fund is ahead of its benchmark increases as well. When measured on a 10-year rolling basis, the Fund outperforms its primary benchmark 100% of the time.

Baron Global Advantage Fund's Outperformance Based on Rolling Returns*

Rolling Return Period	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
Fund Outperformance vs MSCI ACWI Index	58%	60%	64%	74%	81%	100%

* Since 4/30/2012 inception through 3/31/2024
Calculation is based on monthly returns

These results are not an accident. They are a direct outcome of our long-term approach to risk and return. We own about half of the names when compared to the average actively-managed global fund, because we believe there are a limited number of truly compelling investment ideas at any given time. We acknowledge that the Fund may not be the best fit for the short-term investor who is concerned about volatility because of the increased probability of exiting at the wrong time. However, we believe the Fund is an excellent choice for the investor who is willing to overlook short-term noise in the interest of maximizing potential alpha over the long term.

Baron Global Advantage Fund's annualized returns for the Institutional Shares as of March 31, 2024: 1-year, 18.88%; 5-year, 5.63%; 10-year, 9.29%. The gross annual expense ratio for the Institutional Shares as of December 31, 2023 was 0.95%, but the net expense ratio was 0.91% (net of reimbursements from the adviser).

The **MSCI ACWI Index**'s annualized returns as of March 31, 2024: 1-year, 23.22%; 3-year, 6.96%; 5-year, 10.92%; 10-year, 8.66%; Since Fund Inception (4/30/2012), 9.63%.

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 Baron Fund expenses pursuant to a contract expiring on August 29, 2034, 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 baronfunds.com or call 1-800-99-BARON.

The Fund's 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 Fund's level of participation in IPOs will be the same in the future.

You should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The prospectus and summary prospectus contain this and other information about the Fund and can be obtained from the Fund's distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting baronfunds.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 discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

Portfolio holdings as a percentage of net assets as of March 31, 2024 for securities mentioned are as follows: **Bajaj Finance Limited** – 3.4%; **Tesla, Inc.** – 2.8%; **Illumina, Inc.** – 0.0%.

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The Refinitiv Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. The Refinitiv Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible classification wins the Refinitiv Lipper Fund Award. For more information, see lipperfundawards.com. Although Refinitiv Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Refinitiv Lipper.

The **MSCI ACWI Index Net (USD)** is designed to measure the equity market performance of large and mid cap securities across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The index and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The index is unmanaged. Index performance is not fund performance; one cannot invest directly into an index.

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Active Share is a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics M. Cremers and A. Petajisto, as a measure of active portfolio management.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

Price/Earnings Ratio or P/E (next 12-months): is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.

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