Dear Baron Fifth Avenue Growth Fund Shareholder:

Performance

We had an excellent quarter to close out another strong year.

Baron Fifth Avenue Growth Fund® (the Fund) was up 11.7% (Institutional Shares) in the fourth quarter, which compared favorably to the 7.1% gain for the Russell 1000 Growth Index (R1KG), and the 2.4% gain for the S&P 500 Index (SPX), the Fund's benchmarks.

For the year, the Fund finished up 37.8% compared to gains of 33.4% and 25.0% for the benchmarks, respectively.

Table I.
Performance
Annualized for periods ended December 31, 2024

	Baron Fifth Avenue Growth Fund Retail Shares[1,2]	Baron Fifth Avenue Growth Fund Institutional Shares[1,2,3]	Russell 1000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	11.64%	11.72%	7.07%	2.41%
One Year	37.38%	37.75%	33.36%	25.02%
Three Years	2.16%	2.43%	10.47%	8.94%
Five Years	12.21%	12.51%	18.96%	14.53%
Ten Years	13.44%	13.74%	16.78%	13.10%
Fifteen Years	13.55%	13.83%	16.45%	13.88%
Since Inception (April 30, 2004)	10.21%	10.42%	12.48%	10.55%

It's been a blockbuster two-year run for U.S. large-cap growth equities with plenty of plot twists along the way. After the biggest gain in its history of 42.7%, the Russell 1000 Growth Index followed it up with a rise of 33.4% for a two-year cumulative return of a gaudy 90.3%. For context, 2023 began with doom and gloom amid the unrelenting Fed continuing its historical tightening cycle, broad expectations of U.S. and global recessions, heightened geopolitical uncertainty, and poor investor psychology following a 29.1% drawdown the year before, the worst decline experienced by the R1KG since the Great Financial Crisis of 2008. But interest rates peaked during the spring, the economy proved to be more resilient, geopolitical uncertainty did not get worse, and the Fed signaled it was ready to begin the easing cycle in 2024. Though we only got three rate cuts instead of the expected seven, the economic soft-landing scenario materialized and the optimism regarding the Trump administration's return to office buoyed the markets to an encore performance and further gains. The Fund performed well throughout this period with a 37.8% gain this year on top of a 57.6% rise in 2023, for a two-year cumulative return of 117.1%.

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PORTFOLIO MANAGER

Retail Shares: BFTHX
Institutional Shares: BFTIX
R6 Shares: BFTUX

Once again, the stocks of the Magnificent Seven (**Alphabet**, **Amazon**, Apple, **Meta**, **Microsoft**, **NVIDIA**, and **Tesla**) were the key driver of the R1KG returns. After accounting for 65% and 62% of the R1KG's and SPX's gains, respectively, in 2023, the Magnificent Seven drove 68% and 53% of the benchmarks' returns in 2024 and now represent 56% and 33% of the

Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail and Institutional Shares as of September 30, 2023 was 1.06% and 0.78%, respectively, but the net annual expense ratio was 1.01% and 0.76% (net of the Adviser's fee waivers, comprised of operating expenses of 1.00% and 0.75%, 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.

1 The **Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. The Fund includes reinvestment of dividends, net of withholding taxes, while the Russell 1000® Growth Index and S&P 500 Index include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts 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 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

BARON FUNDS® 1987

respective Indexes. According to Jefferies[1], active fund managers' inability to own enough of these stocks was one of the key reasons why the average large-cap growth mutual fund underperformed its benchmark by 312bps last year. We were *15% underweight the Magnificent Seven*, on average, in 2024, and managed to outperform the R1KG by 439bps despite the headwind. A favorable outcome, indeed.

From a quarterly performance attribution perspective, stock selection generated 422bps of outperformance, relative to R1KG, and was strongest in Information Technology (IT), Health Care, and Industrials. Sector allocation added 42bps. We had 25 gainers versus 7 detractors with **Shopify**, Tesla, NVIDIA, and Amazon contributing over 100bps each to absolute returns. Shares of 18 of our holdings posted double-digit percentage gains during the quarter. **MercadoLibre**, **ASML**, and **Coupang** were the only decliners of note, costing the fund 131bps combined.

For the year, stock selection contributed 366bps to relative returns and was particularly strong in Health Care (**Intuitive Surgical** and **argenx**) and in Communication Services (**Trade Desk** and Meta). Sector allocation added 66bps, largely as a function of having had no investments in Consumer Staples or Real Estate. The Fund did not perform well in Consumer Discretionary (MercadoLibre, **Mobileye**, and Rivian – which we sold earlier in the year), and in Financials (**Block** and **Adyen**). From a stock specific perspective, we had 26 gainers against 9 detractors. As mentioned earlier, while we did now own "enough" of the Magnificent Seven stocks, we owned the best performing ones in size with NVIDIA (+170%), Meta (+66%), Tesla (+60%), and Amazon (+44%), accounting for 31% of the Fund's assets, on average, during the year. Our investments in NVIDIA, **SpaceX**, Meta, Trade Desk, argenx, Tesla, Intuitive Surgical, **ServiceNow,** Amazon, Shopify, Coupang, and **KKR** appreciated in excess of 30% each over the course of 2024. On the other side of the ledger, **Endava**, Mobileye, Rivian, and **Snowflake** detracted over 100bps each. Regrettably, Endava and Rivian will now go under the "Permanent Loss of Capital" column as we exited both investments. We clearly overestimated the resilience of Endava's business model and underestimated the relative ease with which customers delayed spending when their IT budgets came under pressure. We also underestimated the execution risks in scaling a new electric vehicle company, especially in a tougher macroeconomic environment.

To better understand the Fund's performance, we deconstructed it into its two main components – change in multiples and change in the fundamentals. During the fourth quarter, the Fund's weighted average multiple[2] expanded by 5.7%, closing the year up 7.3%. Since the Fund was up 11.7% in the quarter and 37.8% during 2024, the "fundamentals" of our holdings grew (or improved) by approximately 6% in the quarter and by approximately 30% during 2024 – implying that *81% of our performance in 2024 was driven by growth in fundamentals*, while 19% could be attributed to the change/increase in multiples. The fundamentals of our businesses continue to improve after the slowdown in 2022 and 2023 with consensus revenue expectations for 2025 increasing by 1.9% in the fourth quarter and 10.7% during 2024[3], operating income expectations increasing by 5.7% this quarter and 19.3% during the year, and operating margin expectations increasing by 45bps and 122bps, respectively. Most of our companies have reported improving business trends across most customer segments and geographies.

The value of a crystal ball and predicting the direction of the market

Imagine you were gifted a crystal ball for the 2023 holidays. Like any magic ball it could only answer a few questions. Naturally, the first question you asked is "how many interest rate cuts will the Fed implement in 2024?" Consensus expectations were for seven cuts. The crystal ball says… three. "When will they start cutting?" The consensus was March. Crystal ball says… September. "How much will the 10-year yield decline after the three cuts?" The ball says… it won't! The 10-year yield would rise… to almost 5%. "Oy…" you say. We're in for a tough year, as Cramer's voice (sell, sell, sell!!!) is ringing in your ears. If asked to assess the probability of the S&P 500 Index gaining 25% and most major indexes worldwide hitting new all-time record highs – you don't even include it in the range of outcomes. And yet…that is exactly what happened! A fabulous reminder that all these important macro variables are not only difficult to predict with any consistency, but that making investment decisions based on these factors is unlikely to lead to more predictable or successful outcomes. While we're on the subject of predictions…

Predicting the future is easy… getting it right is the hard part

"Making predictions is hard… especially about the future." Too many business leaders ignored this Yogi Berra truism at their own peril.

1946: "*Television won't be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night.*" – Darryl Zanuck, 20th Century Fox.
1966: "*Remote shopping, while entirely feasible, will flop.*" – Time Magazine.
1981: "*Cellular phones will absolutely not replace local wire systems.*" – Marty Cooper, inventor.
1995: "*I predict the Internet will soon go spectacularly supernova and in 1996 catastrophically collapse.*" – Robert Metcalfe, founder of 3Com.
2005: "*There's just not that many videos I want to watch.*" – Steve Chen, CTO and co-founder of YouTube expressing concerns about his company's long-term viability.
2006: "*Everyone's always asking me when Apple will come out with a cell phone. My answer is, 'Probably never.'*" – David Pogue, The New York Times.
2007: "*There's no chance that the iPhone is going to get any significant market share.*" – Steve Ballmer, Microsoft CEO.

This is just a small sample of what we call "short-term thinking." As disruptive-change investors, we have come to realize that the majority of market participants tend to be anchored to the most recent data point or event. Human beings are inherently biased towards short-termism because our brains are evolutionarily wired to think linearly and underestimate the impact of compounding. We systematically underestimate the impact of time. More often than not, the magnitude of the disruptive change becomes obvious to everyone only in hindsight. In 1880, Alexander Graham Bell

1 Jefferies Equity Strategy note from 01/13/2025 – JEF's Manager Holdings – Tough '24 for Active; Not Owning Names Dented Returns
2 We calculate the change in P/E multiple (based on FactSet consensus expectations for EPS for the next 12 months) for each holding as long as the starting P/E is below 100x (and positive). Otherwise, we use an EV/Revenues multiple. We then use the ending weight of each position in the Fund to calculate the weighted average change in the Fund's multiple (and exclude our private holdings).
3 We calculate the change in FactSet consensus expectations for 2025 estimated revenues, operating income, and operating margins for our holdings and calculated the weighted average using end of the year weights. We use Gross Profit for Block (since Sales include the volatile impact of crypto prices).

predicted that *"One day there will be a telephone in every major city in the U.S.[4] ."* It took over 40 years for the telephone to reach 25% penetration of U.S. households. Ironically, just over 100 years later barely a quarter of the U.S. households still own a landline phone[5]. Maybe Mr. Bell will prove to be right after all. It will just take a little bit longer…

We are incredibly bullish on the development and adoption of Artificial Intelligence (AI). As disruptive change investors, we deploy pattern recognition combined with long-term ownership mindset. We start our analysis by asking if the disruption is real, material, sustainable, and whether it is likely to meaningfully change the way companies do business. In other words, we evaluate every investment opportunity through this disruptive change lens. In the fourth quarter of 2022, amid the market carnage for U.S growth stocks we identified AI as such a disruption. From that quarterly letter: "The advancements in the fields of Artificial Intelligence (AI) and Deep Learning are profound examples of the innovation era we live in today… ChatGPT reached *1 million users a mere five days after it was released* in December of 2022… We believe AI will prove to be a real tailwind for many of our businesses in the years to come." We further identified NVIDIA as the company at the epicenter of this paradigm shift and built a 5.5% position in the stock which exited 2022 with a market capitalization of $359.5 billion, or about 10% of what it would be worth just two short years later.

Still, we believe we are in the early stages of a multi-decade transformation, and we hope you will join us for what will likely be an exciting ride ahead.

Table II.
Top contributors to performance for the quarter ended December 31, 2024

	Quarter End Market Cap ($ billions)	Contribution to Return (%)
Shopify Inc.	137.6	1.73
Tesla, Inc.	1,296.4	1.50
NVIDIA Corporation	3,288.8	1.48
Amazon.com, Inc.	2,306.9	1.33
ServiceNow, Inc.	218.4	0.93

Shopify Inc. is a cloud-based software provider for multi-channel commerce. Shares rose 32.7% in the fourth quarter, finishing 2024 up 36.5% on strong financial results, including year-over-year revenue growth of 26% thanks to continued market share gains with gross merchandise value growth of 24%. Shopify reported continued success in its original online commerce segment while also expanding into offline, international, and business-to-business (B2B), which grew 27%, 30%, and 145%, respectively. Operating margins of 18% came in 240bps above expectations. While the company again guided for an accelerated pace of reinvestments into the business, which will limit short-term margin expansion, we believe this is the correct long-term strategy, as Shopify is taking advantage of its continuously improving product set and maturing go-to-market, in order to further expand its addressable market, targeting international merchants, offline and B2B retailers and going up market. We remain shareholders due to Shopify's strong competitive positioning, innovative culture, and long runway for growth, as it still holds less than a 2% share of the global commerce market.

Tesla, Inc. designs, manufactures, and sells electric vehicles, related software and components, and solar and energy storage products. Shares rose 54.4% in the fourth quarter (and were up 59.6% in 2024) on growth in the energy segment, the promise of new model launches in 2025, and increasing investor confidence in Tesla's AI initiatives. Despite macroeconomic challenges, delivery data in major markets like China have shown considerable improvement, and the energy and automotive segments overall demonstrated stronger-than-expected profitability. Tesla also expanded its advanced computing center in Texas, released an improved version of its FSD solution, and is set to launch new mass market vehicles shortly. Expectations of deregulation under the incoming administration point to the potential acceleration of new technology rollouts, which could enhance Tesla's leadership position in real world AI and bolster investor confidence that Tesla will benefit from these large and attractive growth opportunities.

NVIDIA Corporation is a fabless semiconductor company specializing in compute and networking systems for accelerated computing and AI. Shares increased 10.6% for the quarter and were up 170.3% in 2024, on strong quarterly results, with record data center revenue, which surpassed $30 billion, driven by demand for its Hopper GPUs, while Gaming and Automotive also beat expectations. Key investor debates include the continued progress on improving the capability of AI models (e.g. scaling laws – see more in the outlook section below), transition from AI training to inference and the potential impact on competitive dynamics, and the pace of adoption of AI across industries. Despite near-term uncertainties, we maintain conviction in NVIDIA's leadership in accelerated computing, driven by its ability to innovate and adapt to market shifts. With robust margins, a dominant data center presence, and a growing ecosystem across hardware and software, we believe NVIDIA is well positioned to capitalize on the structural growth in AI and high-performance computing.

Table III.
Top detractors from performance for the quarter ended December 31, 2024

	Quarter End Market Cap ($ billions)	Contribution to Return (%)
MercadoLibre, Inc.	86.2	–0.63
ASML Holding N.V.	280.9	–0.46
Coupang, Inc.	39.5	–0.21
Microsoft Corporation	3,133.8	–0.13
Adyen N.V.	46.1	–0.13

MercadoLibre, Inc. is the leading e-commerce marketplace across Latin America. Shares declined 17.1% in the quarter (although finished the year up 8.2%) as the company reported weaker-than-expected operating margins, driving a reduction in near-term earnings expectations. The margin contraction was driven by growth in the credit portfolio (with loan loss provisions accounted ahead of revenue recognition), temporary accounting changes, accruals for long-term incentive plans, and investments to expand the company's distribution network. We see these as temporary and necessary to expand MercadoLibre's competitive advantages relative to peers, supporting its growth runway. MercadoLibre is investing in the

[4] https://quotefancy.com/quote/765433/Alexander-Graham-Bell-One-day-there-will-be-a-telephone-in-every-major-city-in-the-USA
[5] https://www.washingtonpost.com/business/2023/06/23/landline-telephone-holdouts/

business, which sacrifices near-term profitability but is the correct strategic decision, in our view. Apart from the margin miss, financial results were strong, with 35% year-on-year revenue growth (+103% in constant currency), 28% growth in items sold, and 34% growth in total payments volume (+73% in constant currency). We retain conviction in MercadoLibre as an attractive long-term growth story tied to the secular growth of e-commerce and the penetration of financial services across Latin America.

ASML Holding N.V. is a Dutch company that designs and manufactures photolithography equipment for semiconductor manufacturing. While ASML is the leader across all types of lithography, most importantly, it is the only manufacturer of extreme ultra-violet lithography tools, which are critical for the manufacturing of leading-edge chips. Shares fell 16.6% during the fourth quarter (finishing the year down 7.7%) on reduced guidance for 2025 as well as growing investor concerns about the potential impact of U.S. government restrictions on Chinese demand and the possibility of peaking lithography intensity. Despite near-term noise, we believe that the growing demand for chips in general and AI chips in particular will continue to support long-term growth for the wafer fab equipment industry with ASML's competitive positioning remaining unassailable. While lithography as a percentage of capital expenditure may decrease from current levels, the chip layer count requiring lithography will continue to increase, in our view, as chips continue to become more complex. As a monopoly on critical lithography tools supporting an industry with growing demand fueled by the proliferation of AI, we see strong long-term upside for ASML.

Shares of **Coupang, Inc.**, Korea's largest e-commerce platform, corrected 10.5% in the fourth quarter (even though they finished 2024 up 33.9%). While the company delivered solid quarterly results with 27% year-on-year revenue growth with Farfetch and other initiative losses narrowing significantly, its product commerce EBITDA margin missed expectations due to a temporarily elevated spending on technology and automation. Sluggish domestic consumption in Korea, with the e-commerce market experiencing flattish to negative growth, and political uncertainty stemming from President Yoon's declaration of martial law and subsequent impeachment, further weighed on the stock. Despite these short-term challenges, we maintain a positive outlook on Coupang's long-term market share expansion and margin growth trajectory, and view Coupang as one of the most competitively advantaged e-commerce businesses globally, with significant runway for both revenue and earnings growth.

Portfolio Structure

The Fund is constructed on a bottom-up basis with the quality of ideas and conviction level 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 of December 31, 2024, our top 10 holdings represented 58.8% and our top 20 represented 84.4% of the Fund's net assets, respectively. This compares to weightings of 59.4% and 86.9%, respectively at the end of 2023. We finished the year with 33 investments. IT, Consumer Discretionary, Communication Services, Health Care, and Financials made up 97.9% of net assets. The remaining 2.1% was made up of **GM Cruise** and **SpaceX**, two of our three private investments classified as Industrials (the third one is **X.AI** which is included in IT), and cash.

The Fund's turnover was 26.8% in 2024, compared to an average turnover of 22.9% over the last three years, and 20.4% average turnover over the last five years.

Table IV.
Top 10 holdings as of December 31, 2024

	Quarter End Market Cap ($ billions)	Quarter End Investment Value ($ millions)	Percent of Net Assets (%)
NVIDIA Corporation	3,288.8	71.8	9.9
Amazon.com, Inc.	2,306.9	63.1	8.7
Meta Platforms, Inc.	1,478.6	53.2	7.3
Shopify Inc.	137.6	50.1	6.9
ServiceNow, Inc.	218.4	38.8	5.4
Intuitive Surgical, Inc.	185.9	36.3	5.0
Tesla, Inc.	1,296.4	32.5	4.5
Microsoft Corporation	3,133.8	28.9	4.0
Cloudflare, Inc.	37.1	26.0	3.6
The Trade Desk	58.0	25.4	3.5

Recent Activity

During the fourth quarter, we invested in Elon Musk's AI company, **X.AI**. We bought back shares in the autonomous and assisted driving solutions provider, **Mobileye**, and added to nine existing positions including the leading cloud networking and cybersecurity platform, **Cloudflare**, the developer platform, **GitLab**, the owner of Google and Waymo, **Alphabet**, the leading next-generation sequencing platform, **Illumina**, and the leading semiconductor manufacturer, **Taiwan Semiconductor**. We trimmed our positions in **Trade Desk**, **NVIDIA**, and **Intuitive Surgical**, to what we felt were more appropriate levels given the strong recent performance in their shares.

Table V.
Top net purchases for the quarter ended December 31, 2024

	Quarter End Market Cap ($ billions)	Net Amount Purchased ($ millions)
Mobileye Global Inc.	16.2	7.0
Cloudflare, Inc.	37.1	6.9
GitLab Inc.	9.1	4.5
Alphabet Inc.	2,324.0	3.9
X.AI Corp.	45.1	3.5

During the fourth quarter we invested in Series C of **X.AI Corp**. Founded by Elon Musk to focus on the development and implementation of AI, the company's modest stated goal is *"to understand the true nature of the universe."*. To put it simply: we would not have invested had it been anyone else! But since we did…

X.AI's growth potential is underpinned by increasing demand for credible AI solutions and continuous product improvements. We believe the company will have an opportunity to revolutionize large and broad sectors of the AI market. In a short period since its inception, X.AI launched its first AI model and product, Grok and its successor Grok 2, which demonstrated impressive results compared to more established models. This early success, coupled with the ongoing development of the next version, Grok 3, showcased X.AI's ability to drive rapid innovation cycles. The company's leadership is a significant asset. Elon's track record in AI development spans many years, including co-founding OpenAI, developing related software and hardware capabilities at Tesla, and deploying AI to improve X.com's (formerly Twitter) functionality. Across his other businesses, Elon has demonstrated unique abilities as a leader who can drive incredible innovation in complex environments. The founding team also includes key figures from OpenAI, Google's DeepMind, Tesla, Microsoft, and Meta, bringing extensive and relevant experience. Beyond its team, X.AI's competitive advantages include data access, computation power, and ability to execute complex engineering challenges with its recently built 100,000 GPU cluster (appropriately named Colossus), software and hardware integration, and distribution opportunities. X.AI has access to X.com's unique data, representing one of the largest growing repositories of real time, multimodal, diverse, human to human interaction data sets available in the world today. There are 600 million active monthly users on X.com who spend 100 million hours and watch over 8 billion videos daily on the platform.

On the computational front, X.AI deployed one of the largest and densest compute clusters in the world, featuring 100,000 GPUs, in only 122 days and started running workloads just 19 days after the first servers were delivered. According to NVIDIA's CEO, Jensen Huang, this was *"super-human… there's only 1 person in the world who can do this and that's Elon."*[6]. These dense compute clusters, though complex, can drive significant improvements in compute utilization and drive cost efficiencies. X.AI plans to follow this by building additional large data centers with a goal to deploy 300,000 even more powerful GPUs by summer of 2025. The founding team's experience in chip development, related software, thermal, and energy management is expected to allow further hardware innovation. The integration of hardware and software expertise provides a unique advantage in the AI space, where computational efficiency is crucial.

Distribution opportunities for X.AI are also substantial. The company's collaboration with X.com provides immediate access to hundreds of millions of users, offering a valuable user base early in its development. Additionally, X.AI is well positioned to explore more traditional distribution channels, including business-to-business integrations and dedicated standalone consumer solutions.

Although these are still relatively early days for AI, we are really excited about the disruptive potential and value creation opportunities that lie ahead. X.AI's focused strategy, formidable talent, and innovative approach position it as a significant player in shaping the future of AI. As AI continues to reshape industries and create new market opportunities, X.AI can benefit substantially in the coming years and decades.

During the quarter, we also bought back our shares in **Mobileye Global Inc.**, a leading provider of advanced driver-assistance systems (ADAS) and autonomous driving technologies for the automotive industry. Last year was a particularly challenging year for the company, as it was impacted by cyclical headwinds due to inventory build-up as well as market share losses in China. We believe the company is making progress in its advanced solution portfolio. We were encouraged that the Volkswagen Group signed contracts for 18 different models across brands such as Audi, Bentley, Lamborghini, and Porsche. We maintain our belief that the autonomous vehicle market is substantial and strategically important. Despite recent challenges, we believe that Mobileye can be a key supplier as the market matures and the undemanding valuation creates an attractive risk/reward for long-term investors.

We took advantage of recent inflows to add to several of our existing holdings, in which our relative conviction level and attractive valuations warranted an increase in position sizes. Our largest addition was **Cloudflare, Inc.**, which offers enhanced security and performance for websites, apps, and software as a service. The company continues reporting solid quarterly results with 28% year-on-year revenue growth and 14.8% non-GAAP operating margins, which increased 210bps year-on-year. A double-digit year-on-year increase in sales productivity has started to benefit EMEA and APAC growth rates. Customer additions were also robust and remaining performance obligations were well ahead of expectations, up 39%. In addition, the company announced the hiring of CJ Desai as President of Product & Engineering, a well-regarded executive that helped build ServiceNow into one of the best software businesses of all time – and a large position in the portfolio. Our relative conviction in Cloudflare warranted adding to our position, given the company's visionary management team, and stacking S curves or markets that it can address with its platform as it helps companies modernize their networking infrastructure.

We added to our position in **GitLab Inc.**, a leading software development platform. The company continues to perform well with revenue growth of 31% year-on-year while non-GAAP operating margins were up 1,100bps to 13%. While some analysts suggested that GitLab as a laggard in AI, we believe the company is well positioned due to its unique end-to-end platform which gives it a data advantage, enabling agentic AI. Lastly, we also increased several of our other existing positions including **Alphabet Inc.**, as we still believe the market underappreciates the company's positioning in AI – as could be seen for example with the rapid progress it has been making in both LLMs and physical AI (through Waymo); and the next-generation sequencing platform **Illumina, Inc.** – as we believe the company remains well positioned to benefit from the growing adoption of DNA sequencing as still less than 1% of people had their DNA sequenced. We also believe that as the adoption of the most recent technology matures over the next several years, growth rates which are currently masked (due to the lower price of the new technology), will become more evident. Lastly, we added to our investment in **Taiwan Semiconductor Manufacturing Company Limited**, the leading semiconductor manufacturer, as we believe it will continue to benefit from the company's long duration of growth ahead as a critical enabler of semiconductors for AI.

Table VI.
Top net sales for the quarter ended December 31, 2024

	Quarter End Market Cap ($ billions)	Net Amount Sold ($ millions)
The Trade Desk	58.0	5.7
NVIDIA Corporation	3,288.8	3.9
Intuitive Surgical, Inc.	185.9	2.7

OUTLOOK

We are excited about what is to come!

No, we are not talking about further interest rate cuts, deregulation, improved efficiency and productivity, increased M&A activity, and a more benign geopolitical background – things that are reasonably likely to happen that could provide a nice tailwind for the market and our stocks. No one

6 https://www.youtube.com/watch?v=bUrCR4jQQg8&pp=ygUVamVuc2VuIG9uIGJnMiBwb2RjYXN0

gifted us a crystal ball this holiday season and even if we had one, we would not know how to use it. We do not know what is priced in or how the market would react to the events in the short term as they unfold. After a blockbuster two-year run with the Fund gaining 117.1% curbing our enthusiasm would seem to be in order. U.S. large-cap growth stocks are not cheap. The prospective returns are always negatively correlated to the recent ones and some normalization or mean reversion is possible. But truthfully – *we have no idea*.

As our crystal ball metaphor was meant to illustrate, short-term market moves, as measured by quarters or even years, are impossible to forecast. We know we have no edge there (we are not sure anyone really does) and so we do not even try. However, when it comes to longer-term trends… we know something about taking advantage of that, and we are really excited about what we think is to come.

We are in the early stages of one of the biggest disruptive changes we have witnessed in our careers and perhaps in all human history. Invoking pattern recognition once again, this reminds us of the early 90's with the internet. Jeff Bezos, whose company was arguably at the epicenter of that transformation, recently remarked that *"This is most like electricity. There was electricity, then compute, and now AI. These horizontal layers, they go everywhere. I guarantee there is not a single application that you can think of, that is not going to be made better by AI*[7]*."* Elon Musk, no stranger to disruptive change himself, recently said that *"Probability that AI exceeds the intelligence of all humans combined by 2030 is about 100%."*[8] *Tobi Lutke, the CEO and Founder of Shopify said in a recent podcast that even if AI development completely stopped today "there's probably $10 trillion of value for industry that can be pulled out of just that over the next ten years."*[9] *Jensen Huang, NVIDIA's Co-Founder and CEO, commented during his 2025 CES keynote*[10] *that "AI agents will drive a multi-trillion dollar industry and transform how people work."*

We own a portfolio of great businesses that we expect will create and realize a lot of value from this disruptive change over long periods of 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.

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

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7 https://medium.com/said-differently/jeff-bezos-nails-the-ai-story-5a2ebb86a0e5#:~:text=This%20is%20most%20like%20electricity,be%20made%20better%20by%20AI.

8 https://x.com/elonmusk/status/1871083864111919134?ref_src=twsrc%5Etfw%7Ctwcamp%5Etweetembed%7Ctwterm%5E1871083864111919134%7Ctwgr%5E495a1e92e9aa11543a659ec927de237b53e1c346%7Ctwcon%5Es1_&ref_url=https%3A%2F%2Fgagadget.com%2Fen%2F555224-ilon-musk-predicted-when-artificial-intelligence-will-surpass-the-intelligence-of-all-of-humanity%2F

9 https://joincolossus.com/episode/building-islands-of-innovation/

10 https://www.youtube.com/watch?v=k82RwXqZHY8&t=3911s

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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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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. **EPS Growth Rate (3-5-year forecast)** indicates the long term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance. **Enterprise value (EV)** is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization. EV includes in its calculation the market capitalization of a company but also short-term and long-term debt as well as any cash on the company's balance sheet.

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