BARON CAPITAL

QUARTERLY LETTER | JUNE 30, 2026

# Baron Durable Advantage Fund®

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

Alex Umansky
Portfolio Manager

## Dear Baron Durable Advantage Fund® Shareholder,

### Performance

We had an OK quarter.

Baron Durable Advantage Fund® (the Fund) gained 13.6% (Institutional Shares) during the second quarter, compared to the 15.2% gain for the S&P 500 Index (the Index), the Fund's benchmark.

Year to date, the Fund is up 3.4%, compared to the 10.2% gain for the Index.

We wrote in the last quarterly letter how the first quarter of 2026 had many similarities to the first quarter of 2025. We were coming off of multiple years of strong market returns buoyed by a strong economy and optimism about the AI buildout, with the Fund performing exceedingly well, and it "felt" like we were due for a "breather". Obviously, those things are impossible to predict so we don't even try, but we are fond of reminding ourselves that your prospective returns are negatively correlated to the recent ones, and when you have done this long enough, there are times when it's just... in the air. The market is looking for an excuse to consolidate or for an outright pullback. In the first quarter of last year, we got the "tariff tantrum" in mid-February and experienced an approximately 15% drawdown over the next seven weeks, with the Fund posting a 7.0% decline for its March 2025 quarter. This year, we were once again coming off of multiple years of strong returns (23.0% 3-year annualized return for the Index, and 29.2% for the Fund) buoyed by a strong economy and optimism about the AI buildout, and we got the Iran war and $140 oil. The Fund lost 9.0% for the March 2026 quarter. In the second quarter of last year the market staged a nice recovery with a gain of 10.9% for the Index, while the Fund was up 15.6%. It's not like tariffs went away or trade deals were finalized, but some tariffs were postponed, some compromises were agreed to, the worst outcomes were avoided, and investors figured it's unlikely to have a material long-term impact on the market. Entering this quarter, we speculated that something similar was likely to happen because past history (including recent examples of Russia-Ukraine and Israel-Middle East-Iran) suggested that geopolitical events have minimal lasting impact on equity markets. This is basically how it played out. It's not like there was a regime change in Iran, or a peace treaty was signed, but there was a Memorandum of Understanding, and ships resumed transiting the Strait of Hormuz (sort of... ), oil pulled back to $70, and the worst outcomes seemed to have been avoided. This time, the markets rallied even harder, with the Index rising 15.2%, and even though we failed to keep up, a 13.6% gain is not a terrible outcome.

**Annualized performance (%) for periods ended June 30, 2026**

| | Fund Retail Shares[1,2] | Fund Institutional Shares[1,2] | S&P 500 Index[1] |
|---|---|---|---|
| QTD[3] | 13.57 | 13.64 | 15.20 |
| YTD[3] | 3.26 | 3.39 | 10.21 |
| 1 Year | 11.81 | 12.09 | 22.32 |
| 3 Years | 19.88 | 20.19 | 20.61 |
| 5 Years | 13.43 | 13.71 | 13.41 |
| Since Inception (12/29/2017) | 15.56 | 15.84 | 14.74 |

LARGE CAP

*Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail and Institutional Shares as of January 28, 2026 was 1.00% and 0.73%, respectively, but the net annual expense ratio was 0.95% and 0.70% (net of the Adviser's fee waivers), respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser waives and/or reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2036, 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.*

It was an unusual quarter from a performance attribution perspective. Information Technology (IT) was the only sector in the Index to outperform the Index, accounting for two-thirds of its total gain. The Fund's entire 156bps shortfall relative to the Index could be attributed either to weak stock selection in IT, which detracted 279bps, or to weak stock selection in Financials, which cost an additional 227bps. Somehow, all 11 of our holdings classified as Financials, including **Visa** and **Mastercard**, which we view as digital railroads, and **MSCI**, **Moody's**, and **S&P Global**, which we view as business services, detracted from our relative returns during the quarter. We cannot recall another instance like it. It's not like they were all down, although **CME Group** was down a bunch and **LPL** was down a little, but we did not own any large commercial or investment banks, many of which were up a lot! It was a similar story in IT where our holdings gained an impressive 24.0%, but that was still well short of the 31.8% return for IT stocks in the Index. Not owning Micron Technology, up 241.7% in the QUARTER, detracted 157bps (basically the exact shortfall) from relative returns, while not owning Advanced Micro Devices, Intel, Applied Materials, and Sandisk – detracted an additional 267bps. On the other hand, our lack of exposure to Energy, Utilities, and Materials contributed 184bps. That is just how it goes sometimes.

From an absolute return and stock-specific perspective, we had 25 gainers versus 6 detractors for what appears to be a solid batting average, but only 10 of the 25 gainers outperformed the Index's 15.2% gain, resulting in an unusually weak slugging percentage. The quarter still included several good outcomes as **Alphabet**, **Monolithic Power Systems**, **NVIDIA**, **Broadcom**, **Amazon**, and our largest addition during the first quarter, **Lam Research**, each added more than 100bps. **Taiwan Semiconductor** (TSMC), the Fund's largest holding, appreciated 41.6% and contributed 310bps to absolute returns. **Amphenol**, **HEICO**, Visa, **Welltower**, and our newest addition, **Arxis**, added more than 40bps each. On the other side of the ledger, only CME Group and **Intuit** detracted more than 40bps, costing the Fund 106bps combined.

We have to admit that recent price action in many of our stocks has been confusing to us. On the one hand, fundamentals of many of our businesses have been nothing short of extraordinary. On the other hand, their stock performance has been rather muted, leading to a compression in multiples that is puzzling to us. NVIDIA has been a stellar, truly unicorn-like performer as its revenues grew from $61 billion in 2023 to $130 billion in 2024, and to $216 billion in 2025, with revenues expected to almost double again this year to $424 billion. With stellar profit margins, consensus earnings per share and free cash flow are expected to grow 113% and 116% this year, respectively. Yet, the stock is trading at a 14.5 times P/E on next year's estimate and at a 6.3% free cash flow yield, a 25% to 30% discount to the S&P 500 Index. The current price of NVIDIA's stock implies a terminal growth rate of 3% (GDP or less?), assuming weighted average cost of capital of 10%, starting next year. In other words, from 100%-plus growth this year, to 3% growth next year. We think not! **Meta** (16.5x), TSMC(18.5x), Broadcom (19.2x), Alphabet (20.9x) and Amazon (22.8x) all trade at multiples that seem irrationally low to us. All of these companies are being lumped together as part of the "AI trade" but they are somewhat on opposite sides of it. While Amazon, Alphabet, and Meta are ramping up their CapEx in what has clearly become the most expensive technology-led arms race in history, NVIDIA, Broadcom, and TSMC are the beneficiaries of the spend. We get that AI is controversial and unpredictable with a fairly wide range of outcomes. Still, certain conclusions can be made with a high degree of confidence:

- **AI demand is proven!** In the first quarter letter, we have covered the dramatic acceleration in AI adoption and usage that led to staggering annualized recurring revenue (ARR) growth at the leading frontier companies Anthropic and OpenAI, as well as direct quotes from Amazon's Andy Jassy, Meta's Mark Zuckerberg, NVIDIA's Jensen Huang, and Cerebras' Andrew Feldman (among others) on how the industry remains supply constrained with demand far exceeding supply and continuing to accelerate. Alphabet's most recent quarterly results reported in July provided further indisputable evidence. Cloud revenue growth accelerated to 82% from 63% last quarter (at $100 billion scale), with 36% EBIT margins and an astonishing 47% incremental EBIT margin quarter over quarter. Backlog increased $52 billion to $514 billion with accelerating conversion - $257 billion will convert over the next eight quarters. Gemini Enterprise is now used by 90 Fortune 100 companies in some capacity. The breadth of growth has improved significantly with new customer acquisitions more than doubling year on year. Over 500 customers processed over 1 trillion tokens each over the last 12 months. We believe that demand questions can be put to rest.
- **Investor focus is shifting from AI demand to AI returns.** The key debate is now whether hyperscalers and others will be able to convert accelerating AI demand into attractive returns on larger capital bases, at scale. While we believe that the early signs are promising, AI economics remain unproven today. The cost of compute is falling even as the price of compute stays elevated. We think it is important to understand and differentiate between the two. AI is very expensive today, but this will almost certainly change as compute supply catches up over the next few years. By the end of the decade, the cost of 1 million tokens is expected to decline from approximately $2 today to about 10 cents, or by 95%.
- **There is no shortage of big debates in AI right now.** Frontier models versus open source. God model versus fleet of specialized models. NVIDIA versus custom silicon. Will chips have value after five years? Are we in an AI CapEx bubble? Will AI kill software? Model layer versus application layer. Will models get commoditized? And so on... These are fascinating questions to ponder, however no one has answers to them today. Our pattern recognition suggests that the answers to most of these questions will be "yes" or "both." This is not a zero-sum game. *Investors are simply not thinking big enough!*

The reason we are confused is that it does not look to us like investors are picking stocks anymore. It is much more about themes and factors. Even more so than usual. Is it all about the AI buildout or is this about the war with Iran and the price of oil? Is it all about the memory bottleneck and the power constraints or is it about inflation and interest rates? Is it all about the tail risk or is it about peak memory and peak CapEx spend?

We don't know. The short term is impossible to predict, but the fundamentals of many of our investments have been very strong suggesting that their stock prices have actually lagged behind.

We continue to encourage investors in the Fund to assess its performance over full market cycles. Since the inception of the Fund in December 2017, it has generated an annualized return of 15.8% (net of all fees and expenses) – 110bps ahead of the Index. We believe that rolling monthly returns can be insightful in analyzing whether the process we employ works and whether it is repeatable. This analysis shows that on an annual basis, the Fund has outperformed the Index and the Morningstar Large Growth Category Average (the Peer Group), 57% and 64%, respectively. But as the time horizon extends, so does the Fund's winning percentage. On a three-year rolling basis, the Fund outperformed the Index and Peer Group 82% and 87% of the time, respectively, while on a five-year rolling basis, the Fund outperformed 98% and 100% of the time, respectively. Of course, past performance does not guarantee future results. It is the opposite story for our average competitor, especially over the long term. On a five-year rolling return basis, the Peer Group average outperformed the Index an astounding... 2% of the time!

### Percentage of time Fund outperformed benchmark and peers over different time periods from inception through 6/30/2026

| Rolling Return Period | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|
| Outperformance vs. S&P 500 Index | 54% | 57% | 57% | 82% | 98% |
| Outperformance vs. Morningstar Large Growth Category Average | 50% | 54% | 64% | 87% | 100% |
| Morningstar Large Growth Category Average vs. S&P 500 Index | 58% | 56% | 59% | 42% | 2% |

*Sources: Baron Capital, S&P Global Inc., and Morningstar Direct.*

### Top contributors to performance for the quarter

| | Quarter End Market Cap ($B) | Contribution to Return (%) |
|---|---|---|
| Taiwan Semiconductor Manufacturing Company Limited | 2,476.9 | 3.10 |
| Alphabet Inc. | 4,327.0 | 1.57 |
| Monolithic Power Systems, Inc. | 67.9 | 1.40 |
| NVIDIA Corporation | 4,842.2 | 1.15 |
| Broadcom Inc. | 1,797.2 | 1.14 |

**Taiwan Semiconductor Manufacturing Company Limited** is the world's largest contract chipmaker and the leading manufacturer of advanced logic semiconductors used in modern AI accelerators. Shares rose 41.6% during the quarter as the company continued reporting stellar financial results underpinned by AI demand with revenue growth of 35% year-on-year and EPS growth of 58%, with 66% gross margins and 58% operating margins. High-performance computing now represents the majority of TSMC's business. AI demand is consuming so much leading-edge capacity that smartphone and PC production is increasingly shifting to older technology nodes, reversing a dynamic that defined the foundry industry for much of the past decade. Management also raised its full-year outlook and increased capital spending to support demand that remains well above available supply. We retain long-term conviction in TSMC and view its leading-edge manufacturing monopoly, pricing power, and technology roadmap as durable advantages that support a long duration of growth.

**Alphabet Inc.**, the parent company of Google, contributed to performance with the stock up 23.2% as the market increasingly recognized its unique position vis-à-vis AI. Alphabet is the industry's most vertically integrated AI player, with ownership across every layer of the stack, including custom TPU silicon, global cloud infrastructure, the Gemini foundation models, and distribution across 13 products with more than 1 billion users each. This full-stack ownership is translating into strong demand. Google Cloud revenue grew 63% year-over-year and backlog surged nearly 300% to roughly $460 billion, prompting management to raise 2026 capital expenditure guidance and signal a significant further increase in 2027. Search revenue grew 19% year-over-year as AI features drove record query volumes, demonstrating that generative AI is expanding, rather than eroding, the core franchise. Capital access has itself become a competitive moat, allowing Alphabet to fund supply aggressively and outbid peers for scarce compute. We maintain strong conviction, viewing Alphabet's vertical integration and balance sheet strength as durable advantages in a multi-year build cycle.

**Monolithic Power Systems, Inc.** is a semiconductor company that designs power management chips that regulate and distribute power within electronic systems. Shares rose 26.6% during the quarter as the company continues to benefit from the AI buildout. As AI accelerators draw more power at higher densities, delivering that power efficiently has become increasingly valuable, driving higher dollar content for MPS' products within AI servers. The company's AI server power business nearly doubled, and because its solutions are deeply integrated into server platforms, they are difficult to displace mid-cycle, creating a durable competitive position that we believe remains underappreciated by investors. We retain long-term conviction in MPS and view its rising power content per AI server, sticky design wins, and expanding capacity as key drivers of multi-year earnings power.

### Top detractors from performance for the quarter

| | Quarter End Market Cap ($B) | Contribution to Return (%) |
|---|---|---|
| CME Group, Inc. | 80.0 | (0.59) |
| Intuit Inc. | 76.9 | (0.47) |
| LPL Financial Holdings Inc. | 22.5 | (0.14) |
| S&P Global Inc. | 123.5 | (0.09) |
| Thermo Fisher Scientific Inc. | 162.9 | (0.06) |

**CME Group, Inc.** operates the world's largest and most diversified derivatives marketplace. Shares fell 24.8% due to a slowdown in trading activity, reflecting tough comparisons against the prior year and easing market volatility following the onset of the U.S.-Iran war in March. This cyclical softening was exacerbated by concerns over emerging competition from crypto-native "perpetual futures" and uncertainty triggered by the announcement that long-time CEO Terry Duffy will step down next year. We continue to own the stock because we believe that CME enjoys significant competitive advantages and should benefit from increasing adoption of exchange-traded derivatives and episodic volatility spikes.

**Intuit Inc.** is the leading provider of accounting software for small businesses and tax preparation software for individuals and tax professionals. Shares fell 36.5% due to modest underperformance in the TurboTax segment where revenue growth of 7% missed expectations for 8% growth. Management acknowledged volume loss from lower income filers who traded down to cheaper alternatives, fueling investor anxiety about competition and potential AI-driven disruption. The negative sentiment was further compounded by a 17% workforce reduction, which some investors interpreted as a defensive move to protect margins and an indicator of demand challenges. We decided to reallocate to other ideas.

Shares of **LPL Financial Holdings Inc.**, the largest independent broker-dealer in the U.S., declined 6.1% during the quarter due largely to market-driven concerns. With continued improvement in frontier AI models, investors worry that automated cash management could erode the client sweep balances that generate spread income, a meaningful contributor to LPL's revenue and margins. This narrative weighed on the stock even as the underlying business continued to perform well. LPL posted better-than-expected first quarter results with a 30% year-on-year AUM growth and a 20% year-on-year adjusted EBITDA growth, guided to improving recruiting momentum, and made progress integrating Commonwealth Financial Network, which it acquired in 2025. LPL's cash balances are actively managed by advisors, meaning there is little excess cash left for an AI tool to optimize. Cash held in client accounts is primarily used for trading, taxes, and fees. The company has also communicated that it is exploring options to reduce its reliance on sweep cash revenue, and we expect a change in the model over the next 12 to 18 months. Consequently, we view the recent weakness as a sentiment overhang rather than a deterioration in the company's long-term earnings power. We remain shareholders.

## Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level, rather than benchmark composition and weights, determining the size of each individual investment. Sector weights tend to be an outcome of the stock selection process and are not meant to indicate a positive or a negative view.

As of June 30, 2026, our top 10 positions represented 62.1% of the Fund's net assets, the top 20 represented 87.2%, and we exited the quarter with 29 investments.

IT and Financials represented 64.9% of the Fund, while Communication Services, Consumer Discretionary, Industrials, Real Estate, and Health Care represented another 33.3%, with the remaining 1.8% held in Consumer Staples (**Costco**) and cash.

### Top 10 holdings

| | Quarter End Market Cap ($B) | Quarter End Investment Value ($M) | Percent of Net Assets (%) |
|---|---|---|---|
| Taiwan Semiconductor Manufacturing Company Limited | 2,476.9 | 54.4 | 10.4 |
| NVIDIA Corporation | 4,842.2 | 45.7 | 8.7 |
| Alphabet Inc. | 4,327.0 | 41.0 | 7.8 |
| Amazon.com, Inc. | 2,563.8 | 38.6 | 7.4 |
| Broadcom Inc. | 1,797.2 | 29.1 | 5.6 |
| Monolithic Power Systems, Inc. | 67.9 | 28.2 | 5.4 |
| Meta Platforms, Inc. | 1,429.9 | 24.5 | 4.7 |
| Microsoft Corporation | 2,771.0 | 23.7 | 4.5 |
| Visa Inc. | 662.3 | 22.3 | 4.3 |
| Welltower Inc. | 160.2 | 18.3 | 3.5 |

## Recent Activity

During the second quarter, we initiated a new position in the aerospace and defense focused proprietary component manufacturer, **Arxis**.

We took advantage of market volatility to add to our electrical systems and components designer and manufacturer, **Amphenol**, and also continued building our recently initiated position in the semiconductor equipment manufacturer, **Lam Research**.

To finance these purchases, we exited two investments: **Thermo Fisher Scientific**, and **Intuit**, and reduced nine existing positions.

### Top net purchases for the quarter

| | Quarter End Market Cap ($B) | Net Amount Purchased ($M) |
|---|---|---|
| Arxis, Inc. | 18.9 | 3.6 |
| Amphenol Corporation | 216.9 | 0.6 |
| Lam Research Corporation | 541.9 | 0.5 |

During the quarter, we initiated a new position in **Arxis, Inc.**, a leading designer and manufacturer of proprietary, mission critical electronic and mechanical components (such as bearings, springs, connectors or capacitors) engineered for cutting edge performance across the defense and space (50% of sales), industrial technology (30%), and commercial aerospace (20%) end markets. About 90% of revenue is from proprietary products serving over 5,000 customers across 600 platforms. The product portfolio is built upon 67 foundational proprietary technologies from which the company has developed thousands of unique products. The company leverages significant IP and world-class engineering capabilities to design and deliver innovative solutions that address customers' most complex performance needs. While Arxis' products represent a low percentage of the end product's bill-of-materials, they are mission critical and are used in harsh environments. As a result, they are sticky, generating an annuity-like revenue stream once designed in, staying in production for decades.

The company has built a successful business system, Empower Data-Driven Growth and Execution (EDGE) that is unique across the broader industrials space and helps it continuously gain market share, creating an incremental and durable growth engine. EDGE leverages real-time analytics, insights, and communication across the organization to improve tracking of new business opportunities (tracking over 10,000 individual sockets) and increase win rates. The system supports team-based selling, aligning incentives across the different functions required to win a socket - engineering, technical sales people, and product managers; and between the different business units in order to drive better cross-selling.

Similar to the new business engine, the company follows a decentralized mergers and acquisition (M&A) strategy with ideas generated mostly bottom-up at the business-unit level compared to the typical top-down corporate development approach seen at other industrial companies. Each subsidiary's key engineers and operators know the most important players in their respective segments better than anyone, which allows them to generate a proprietary pipeline of potential targets, minimizing auctions. Since 2019, Arxis acquired and integrated 34 companies, each meticulously selected for its strategic alignment with its business model and IP-led, designed-in component portfolios. Over 84% of deals were sourced through proprietary efforts or limited competitive processes. This methodology enables scaling the deal volume while maintaining a focus on smaller targets, which are often available at lower, more attractive valuation multiples.

CEO Kevin Perhamus, who spent years at industrial compounders Teradyne and Amphenol (which helped him crystalize the benefits of accountability, agility, and decentralization) before scaling Winchester Interconnect which he sold to Aptiv, worked together with industrials-focused PE firm Arcline to implement lessons learned in architecting the structure and strategy of Arxis. We expect the company to grow revenue and EBITDA at least at high single digits and low teen rates organically, respectively, with potential upside driven by M&A. We also believe that Arxis has a long growth runway, representing today only around 1% to 2% of a $100 billion potential opportunity.

We added to our investment in **Amphenol Corporation**, a leading provider of mission critical interconnect, sensor, and antenna solutions to a diverse set of end markets – industrial, automotive, mobile devices, IT datacom, communications networks, defense, and commercial aerospace. As the world electrifies, Amphenol's content opportunity continues to grow.

The hallmark of the company is its unique, decentralized "Amphenolian" culture of agility and accountability, in which over 140 general managers each have autonomy over their individual business units. This leads to a highly agile organization that can quickly respond to changes in market dynamics with best-in-class products delivered on a global scale. This culture has enabled the company to compound growth in revenue and cash flow over many years through both above-market organic growth and successful M&A. Long-time CEO Adam Norwhitt commented on many occasions that his number one priority is to preserve and scale the unique Amphenolian culture. He has been a great capital allocator over his more than 15-year tenure in which Amphenol's market cap increased more than 50 times!

The stock continues to be volatile, driven by changing investor perceptions regarding the extent to which copper will continue to play a role in future generations of AI chips. We continue to believe that the market underestimates Amphenol's ability to innovate and adapt over many years and across many cycles and end markets, with the recent acquisition of CommScope's optical business, further increasing optionality for the company in case optical gathers steam faster than expected. Fundamentally, the company reported great first quarter results, reflecting continued momentum with strong 33% year-on-year organic growth and record $9.4 billion of orders, which suggest a clear growth trajectory ahead given a book to bill ratio that is well in excess of 1.0x.

While we expect the data center segment to continue to lead growth for the company, the rest of the business is also delivering outstanding results having finished 2025 with a 10% organic growth rate despite a weak global industrial spend environment, once again reflecting the unique franchises throughout the company. Margins are also at all-time highs and are expected to continue to expand as sales volume grows over time. Through a combination of organic growth both within the IT datacom segment and throughout its other end markets, continued margin expansion, capital allocation towards accretive M&A, and a strong management team grounded in a unique culture, we believe the company has a long runway for growth ahead.

**Lam Research Corporation** is a leading global supplier of semiconductor wafer fabrication equipment (WFE), specializing in etch, deposition, and clean technologies used in the manufacturing of semiconductors. We invested in Lam as we expect it to benefit from several robust secular tailwinds – from the AI buildout which is driving broad demand for semiconductors, to the increasing complexity and verticalization of chips over time, which raises the number of etch and deposition steps, increasing the demand for Lam's tools. Lam reported strong quarterly results for its March 2026 quarter with 24% year-on-year revenue growth and 35% operating margins (both above expectations), benefiting from the broad strength in WFE while also gaining market share thanks to its strong positioning in NAND, which has begun recovering from its cyclical downturn, as a result of significant growth in demand due to agentic AI. In a recent BofA conference, CFO Douglas Bettinger discussed the industry's strong outlook:

> *"The industry is undersupplied right now. You're seeing it in memory pricing, absolutely in profitability. Advanced foundry is constrained, advanced packaging is super tight... But what I will tell you is this bodes pretty well for what WFE is going to be next year... as projects become more available into '27. I think it's going to be a pretty darn good year in '27 and maybe beyond that."*

And on Lam's unique positioning, which enables it to gain market share:

> *"You look across the totality of advanced process nodes in foundry, in logic, in DRAM, in NAND, things are inflecting in the third dimension... When things inflect in the third dimension, etch and deposition intensity grows. That's all we do... In early '25... $0.32 of every dollar spent on WFE was spent on etch and deposition... As we sit here today, it's in the mid-30s... This is going to continue... . That's the unique story about Lam Research. Everybody in equipment is going to do well over the next several years. We're going to do even better. We outperformed WFE last year. We're going to outperform it this year. We're going to outperform it for the next several years based on what I see."*

### Top net sales for the quarter

| | Quarter End Market Cap or Market Cap When Sold ($B) | Net Amount Sold ($M) |
|---|---|---|
| Meta Platforms, Inc. | 1,429.9 | 8.8 |
| Thermo Fisher Scientific Inc. | 162.9 | 6.0 |
| Intuit Inc. | 76.9 | 4.8 |
| Monolithic Power Systems, Inc. | 67.9 | 2.6 |
| LPL Financial Holdings Inc. | 22.5 | 2.5 |

## Outlook

*"The stock market is a device for transferring money from the impatient to the patient"* – Warren Buffett.

As we begin the second half of 2026, we find ourselves in an environment where headlines are dominated by geopolitics, shifting regulatory tides, fear and excitement about AI, and Truth Social posts. However, as long-term investors, we remain purposefully indifferent to the prognostications that occupy so much of the financial media's attention. We do not know where the S&P 500 Index will trade a month or a quarter from now, nor do we believe that such knowledge is necessary to achieve our long-term goals. Our focus remains squarely on identifying and investing in high quality, competitively advantaged, well-managed businesses for the long term.

Rumors and noise are constant – copper will be disrupted by optics! **Amphenol**'s stock falls 20% in the first three weeks of May. Wait... actually, CPO (co-packaged optics) is delayed. The stock bounces back 48% in the last 10 days of May and June! **NVIDIA**'s next generation architecture is delayed, data centers are delayed, tokenmaxxing[5], **Meta** is building a cloud business. AI stocks sell off. Then IBM pre-releases earnings disclosing customer budgets have shifted to server purchases related to AI – and the AI trade is back on! And so it goes...

We focus on separating the signal from the noise. We intentionally avoid the lower quality "legacy" businesses that may benefit from a temporary regulatory, macro, or supply-constrained tailwind, as well as the high-flying growth stocks that benefit from the narrative de jour. While our lack of exposure to traditional banks on the one end and the high-flying AI-beneficiaries on the other, cost us some relative performance in the first half of 2026, we remain steadfast in our belief that the higher quality businesses – those with *durable growth*, *sustainable competitive advantages*, and *a low risk of disruption* is the better path to wealth creation over full market cycles when one of your key goals is to minimize the probability of permanent loss of capital.

Each quarter, we break down the Fund's performance into two components – fundamentals and valuation multiples. Comparing them can offer an insight into prospective stock returns. When fundamentals are revised higher, intrinsic values are expanding. That was the case in the second quarter.

After contracting 13.7% in the first quarter, the Fund's weighted average multiple expanded 3.8% in the second quarter but remained down 9.7% year to date.[6] At the same time, business fundamentals have been revised higher, suggesting the portfolio now offers higher intrinsic values at more attractive valuation multiples than it did six months ago, despite the Fund's positive 3.4% return. Year to date, *over 100% of the Fund's return was driven by growth in fundamentals*.

We also compared current valuation multiples for our companies with their average multiples of the past five years. At the end of the second quarter, the portfolio's weighted average multiple was 5.4% below its 5-year average, another positive signal for prospective returns in our view.[7]

Every day, we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve rate changes, ongoing trade disputes, government shutdowns, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day and seem to drive them up or down the next. We often find it difficult to know why market participants do what they do over the short term. The constant challenges we face are real and serious, with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create. We are confident that our process is the right one, and we believe that it will enable us to make good investment decisions over time.

Our goal is to invest in large-cap companies with, in our view, strong and durable competitive advantages, proven track records of successful capital allocation, high returns on invested capital, and high free-cash-flow generation, a significant portion of which is regularly returned to shareholders in the form of dividends or share repurchases. It is our belief that investing in great businesses at attractive valuations will enable us to earn excess risk-adjusted returns for our shareholders over the long term. We are optimistic about the prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities.

We thank you for your continued trust and for being our partners on this journey.

Sincerely,

Alex Umansky
Portfolio Manager

[1] The **S&P 500 Index** measures the performance of 500 widely held large cap U.S. companies. The Fund includes reinvestment of dividends, net of withholding taxes, while the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The index is unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

[2] The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

[3] Not annualized.

[4] As of June 30, 2026, the annualized returns of the Morningstar Large Growth Category average were 18.29%, 21.52%, 10.51%, and 14.70% for the 1-, 3-, 5-year, and since inception (12/29/2017) periods, respectively.

[5] From Google AI Overviews: "Tokenmaxxing" is the Silicon Valley trend of maximizing AI token consumption as a proxy for productivity.

[6] We calculate the change in multiples, by using a P/E multiple for most stocks. We use a P/FRE multiple for the alternative asset managers, Blackstone and Apollo, and use a P/FFO multiple for Welltower. We exclude Brookfield which is valued on a sum-of-the-parts and Arxis, which only recently went public. We then calculate the weighted average change in multiples based on the position sizing at the end of the period (so the analysis is more forward looking). We also normalize for cash.

[7] We calculate a 5 year average multiple for each stock in the portfolio and then calculate the weighted average for the entire portfolio using end-quarter weights.

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