BARON CAPITAL

QUARTERLY LETTER | JUNE 30, 2026

Baron Discovery Strategy

Randy Gwirtzman
Portfolio Manager

Laird Bieger
Portfolio Manager

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Dear Investor,

Performance

Baron Discovery Strategy (the Strategy) increased 19.03% in the quarter, which lagged the Russell 2000 Growth Index's (the Benchmark) performance of 25.71%. As has been the case for the last year, the Benchmark's second quarter performance was driven almost exclusively by a momentum-driven "AI winners"* trade. The table on the following page lists the top 20 contributors to the Benchmark's performance in the quarter with the "AI winners" highlighted in gray. The table highlights the concentration of the Benchmark's performance with AI winners representing 14 of the top 15 performers during the quarter. Analyzing the "Stock Total Return" column, you will see that the top 20 stocks were generally up 50% to 100% in the quarter!

Barra factor attribution reveals that the Strategy's 6.68% underperformance in the quarter was a combination of being underweight the strong-performing Momentum and Beta factors. We strive to maintain a long-term balanced portfolio that we expect will outperform the market over different cycles. We do not chase momentum. Rather, we use it to our advantage to take profits in severely overvalued investments and apply them to new ideas that are trading at significant discounts when they are out of favor. Software is a good example of this. Our software names were hurt badly in the first quarter of 2026, which we described in our last letter. We also described why we thought the market was overly pessimistic on the group. We initiated two new software

Annualized performance (%) for period ended June 30, 2026[†] (figures in USD)[1]

	Strategy (net)[2]	Strategy (gross)[2]	Russell 2000 Growth Index[2]	Russell 3000 Index[2]
QTD[3]	19.03	19.31	25.71	15.44
1 Year	9.82	10.89	38.74	22.82
3 Years	13.53	14.64	18.44	20.36
5 Years	0.20	1.18	5.57	12.31
10 Years	14.45	15.55	11.97	15.06
Since Inception (10/31/2013)[4]	12.65	13.64	10.07	13.61

Calendar year performance (%) (figures in USD)

	Strategy (net)[2]	Strategy (gross)[2]	Russell 2000 Growth Index[2]	Russell 3000 Index[2]
2021	4.92	5.97	2.83	25.66
2022	(34.96)	(34.32)	(26.36)	(19.21)
2023	22.80	24.01	18.66	25.96
2024	16.27	17.41	15.15	23.81
2025	11.06	12.15	13.01	17.15

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of 6/30/2026, total Firm assets under management were approximately $69.7 billion. The Strategy is a time-weighted, total return composite of all small-cap accounts managed on a fully discretionary basis using our standard investment process. Accounts in the Strategy are market-value weighted and are included on the first day of the month following one full month under management. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in the Firm's Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. Baron Discovery Strategy is currently composed of one mutual fund managed by BAMCO and separately managed accounts managed by BCM. * Includes client and proprietary accounts. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies or a GIPS Report please contact us at 1-800-99-BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.*

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

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Russell 2000 Growth Index - Top Contributors to Performance
3/31/2026 to 6/30/2026

#	Security Name	Index Average Weight (%)	Contribution to Index Return (%)	Stock Total Return (%)	Select Style Factor Metrics[1] Beta	Momentum	MSCI Barra Main Industry
1	Bloom Energy Corporation	3.1	1.92	86.0	High	High	US Electrical Equipment
2	Credo Technology Group Holding Ltd.	1.7	1.62	153.5	High	High	US Semiconductors
3	Sterling Infrastructure, Inc.	1.1	0.74	97.6	High	High	US Construction and Engineering
4	SiTime Corporation	0.8	0.51	94.6	High	High	US Semiconductors
5	IonQ, Inc.	1.0	0.50	71.0	High	Average	US Computers Electronics
6	Semtech Corporation	0.7	0.46	94.8	High	High	US Semiconductors
7	Guardant Health, Inc.	0.7	0.41	61.5	Moderate	High	US Health Care Providers (non-HMO)
8	Dycom Industries, Inc.	0.7	0.29	44.1	High	High	US Construction and Engineering
9	DigitalOcean Holdings, Inc.	0.6	0.27	62.4	High	High	US Internet Software and IT Services
10	Rambus Inc.	0.8	0.26	33.4	High	High	US Semiconductors
11	Viavi Solutions Inc.	0.6	0.25	43.1	High	High	US Communications Equipment
12	Vicor Corporation	0.3	0.25	103.1	High	High	US Electrical Equipment
13	TeraWulf Inc.	0.4	0.24	79.0	High	High	US Software
14	Applied Optoelectronics, Inc.	0.5	0.24	60.4	High	High	US Communications Equipment
15	D-Wave Quantum Inc.	0.5	0.24	66.3	High	High	US Software
16	Moog Inc.	0.6	0.23	45.0	Moderate	High	US Aerospace and Defense
17	BrightSpring Health Services, Inc.	0.4	0.23	63.7	High	High	US Health Care Providers (non-HMO)
18	Oscar Health, Inc.	0.3	0.22	148.6	High	Low	US Life Health and Multi-line Insurance
19	MaxLinear, Inc.	0.1	0.22	636.2	High	High	US Semiconductors
20	MYR Group Inc.	0.4	0.22	77.2	High	High	US Construction and Engineering
Top 20 Total		**15.1**	**9.34**	**85.7**	**High**	**High**	
Other 1,388 Index Securities		**84.9**	**16.37**	**22.3**	**Moderate**	**Low**	
Index Total		**100.0**	**25.71**				

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[1] The levels of the stock metrics are based on average raw factor exposures of the individual stocks according to the MSCI Barra USSLOWL Factor Model for the second quarter of 2026. The group level totals are averages for the top 20 and the remaining securities in the Russell 2000 Growth Index.

Sources: Baron Capital, FTSE Russell, MSCI Barra USSLOWL Factor Model, and FactSet PA.

investments in the teeth of this negative sentiment, **Samsara Inc.** and **Rubrik, Inc.**, which performed strongly in the second quarter. They are detailed below.

Similarities Between the Dot-Com Era and Today

One of the benefits of having almost 30 years of investing experience is that we lived through the dot-com bubble of the late 1990s, which is very analogous to the market we are seeing today. Back then we saw massive infrastructure buildout as telecommunication companies laid billions of miles of fiber-optic cable anticipating internet demand just as today, hyperscalers are pouring hundreds of billions of dollars into data centers in anticipation of AI token usage.

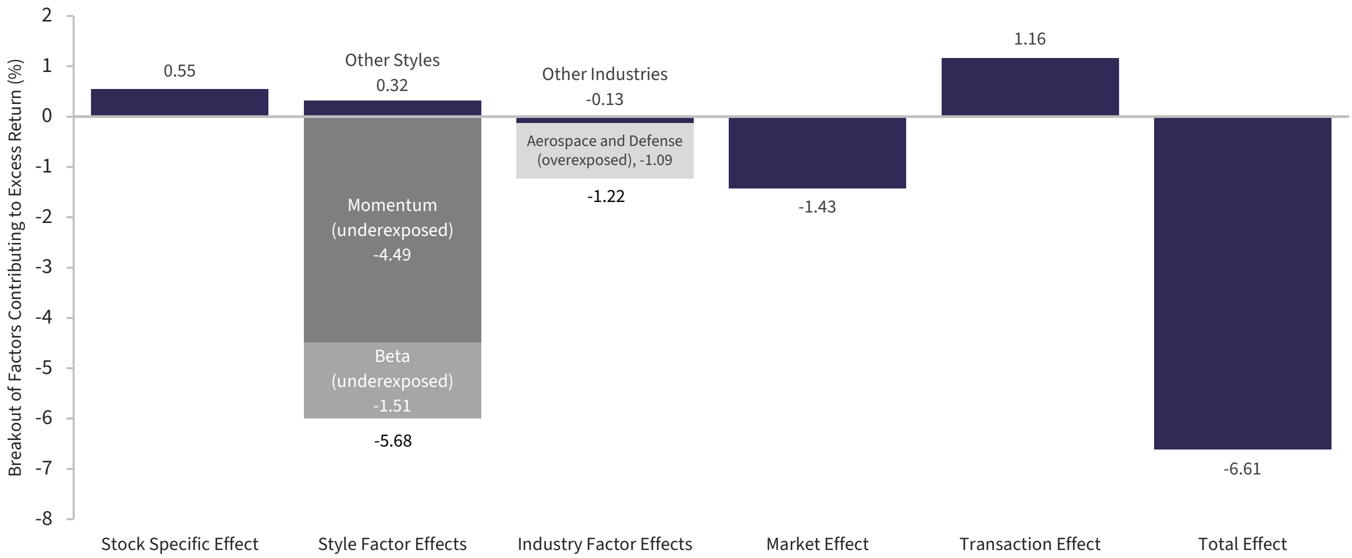
In the 1990s, the internet infrastructure buildout "picks and shovels" stocks such as Cisco, Lucent, JDS Uniphase, and Sun Microsystems were some of the best performers. Similarly, today AI "picks and shovels" stocks are the market's top performers. In fact, all but one (DigitalOcean) of the top 20 AI winners this quarter would be considered "picks and shovels" companies.

Lastly, the dot-com bubble illustrated a crucial distinction: a technology that will eventually create enormous economic value does not automatically translate into rising stock prices at any valuation. Simply put, investors assumed that since "the internet is going to be huge," they could buy internet stocks at any price and they would still go up in price. During the later phases of the dot-com bubble, investors piled into anything associated with the internet (even adding ".com" to a company name would cause a stock to immediately increase just as adding "AI" to a company name does today). The combination of momentum and fear of missing out pulled investors off the sidelines and into the market anxious not to be left behind by the next great technological revolution.

Baron Discovery Strategy vs. Russell 2000 Growth Index

Drivers of Underperformance for June 2026 Quarter Using Barra Factor Attribution

About 90% of Shortfall Associated with Impacts from Style Factors



The effects in the chart above were calculated using MSCI Barra's USSLOWL factor model. The model attributes a portfolio's excess return to five types of sources: style effects, industry effects, market effect, transaction effects, and stock specific effect. Style effects result from exposures to common market factors that include beta, dividend yield, earnings quality, earnings yield, growth, leverage, liquidity, long-term reversal, management quality, mid capitalization, momentum, profitability, prospect, residual volatility, size, and value, as defined and calculated by MSCI Barra. Industry effects result from exposures to common market factors that include 60 industries, as defined and calculated by MSCI Barra (a classification similar to GICS but not exactly GICS). The market effect is a reflection of the U.S. equity market exposure of a portfolio (e.g., a portfolio with a higher cash position is less exposed to the market). Transaction effects account for the impact of trading activity and management fees. Stock specific effect is the portion of excess return not explained by style effects, industry effects, the market effect, or transaction effects.

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

Sources: Baron Capital, FTSE Russell, MSCI Barra USSLOWL Factor Model, and FactSet PA.

What investors missed was not the internet's potential but its timeline. Investors were right that the internet would create significant economic value, but they were wrong about when (by our rough math, probably by a decade or more; this aligns with the fact that the NASDAQ Composite Index did not recapture its March 2000 peak level until April 2015!). Stocks are a claim on discounted future cash flows, so when the timing of internet company cash flows got pushed out, the bubble popped and share prices collapsed.

We believe the same structural forces that slowed the internet's economic impact are shaping AI's trajectory. To be clear, we believe that AI is a revolutionary technology far beyond "Dot-Com 1.0." We are simply arguing that momentum has carried market valuations too far and too fast. AI adoption will have fits and starts (it will be S-shaped as opposed to linear) and we have already started to see significant headwinds that could cause AI adoption to progress more slowly or with more fits and starts than investors currently anticipate. These include:

1. Token cost pushback: As enterprises move from AI experimentation to production deployment, scrutiny of token consumption (the unit by which large language models (LLMs) measure and charge for compute) is intensifying. Early adopters treated token costs as a rounding error relative to the novelty of the technology. That tolerance is eroding. Procurement and finance teams are now auditing AI usage the way they audit cloud infrastructure spend, and in many organizations the cost of running frontier models at scale is proving difficult to justify against the productivity gains realized so far. This is creating pressure on vendors to reduce pricing and pressure on internal teams to rationalize or curtail usage.
2. Data sovereignty and the rise of small language models (SMLs): Enterprise customers are becoming increasingly aware that frontier model providers have structural incentives to absorb customer data (both to improve their own models and, potentially, to inform competing products). This concern is driving a meaningful shift in how sophisticated customers architect their AI deployments. Rather than routing sensitive workflows through external frontier models, many are building or licensing SMLs that run within their own controlled environments. This approach simultaneously reduces token costs and walls off proprietary data from external exposure. The net effect is a fragmentation of the LLM market that was not anticipated in early adoption forecasts and that limits the revenue growth of frontier model providers (and ultimately could slow the investments being made into AI compute).

3. Community opposition to data center construction: Data centers strain power grids, consume millions of gallons of water, and generate substantial noise and heat. As a result, new data center construction has faced localized community resistance. NIMBY or Not In My Back Yard lawsuits have lengthened permitting timelines and caused some projects to be abandoned completely. This is a meaningful constraint on the pace at which AI capacity can expand, independent of the capital available to fund it.

Strategy and Positioning

2026 has been a challenging year for fundamental investors, like us, who focus on investing in companies with long-term sustainable earnings growth. Conversely, 2026 has rewarded managers who chase momentum in a narrow group of companies perceived to be AI winners. Given the strong performance of "AI winners" year to date, we believe these stocks are priced for perfection with zero tolerance for any "bumps in the road." We think this assessment is overly optimistic for the reasons we discussed in the previous section. While AI as a technology will be transformative, we are seeing real-time indicators that AI capital expenditures could have some lumpiness in the not-too-distant future.

Given this belief, we are not chasing the latest AI fad. Quite the contrary, we are sticking to our process in order to find companies with significant opportunities for growth, sustainable competitive advantages, exceptional management teams, and attractive valuations. While this means we might underperform if the "AI winner" stock mania continues, we believe it positions us to preserve capital when the inevitable "bump in the road" reverses the momentum in this "AI winner" trade.

Top contributors to performance for the quarter

	Contribution to Return (%)
SiTime Corporation	2.29
Forgent Power Solutions, Inc.	2.14
CareDx, Inc.	1.44
Mercury Systems, Inc.	1.22
Establishment Labs Holdings Inc.	1.20

SiTime Corporation is a fabless semiconductor company that designs and sells micro-electro-mechanical system (MEMS)-based timing solutions and clock chips across consumer, communications, data center, automotive, and industrial end markets. MEMS-based solutions continue to take share from traditional quartz-based timing solutions given their benefits including a smaller form factor, programmability, and robustness in harsh conditions. Shares rose during the quarter as the company reported meaningfully better-than-expected results and guidance driven by continued strong growth in its data center-related products which are proliferating with the adoption of AI. While investors expected close to 50% growth for the year, the company guided to 80%-plus growth, a "step change" driven by accelerating adoption of the company's unique offerings. Combined with its positioning on Apple's internal modem, growing presence in automotive, industrial, and aerospace and defense end markets, and accretion from the soon-to-close Renesas timing chip acquisition, we believe the company will continue to deliver strong growth for several years to come with strong operating leverage driving significant earnings growth and stock performance.

Forgent Power Solutions, Inc. is a leading manufacturer of electrical distribution equipment used in data centers, the power grid, and industrial applications. Forgent is a low- and medium-voltage equipment specialist focused on custom, "engineered-to-order" products (over 90% of revenue), whereas larger competitors in the industry generally focus more on higher voltage and standard products. The stock rose during the quarter as Forgent continued to deliver very strong financial results reflecting improving demand for its products amidst the broader data points on AI infrastructure and grid buildout continuing to point to strong growth for the next several years. Forgent is gaining share with its ability to offer customized products at industry-leading lead times and is still just scratching the surface of its opportunity, having sold very little directly to the biggest customers in the market. The company has invested heavily in capacity and people to support future growth, and we see many strong years of growth and margin expansion ahead as it grows from an approximate $1.2 billion revenue run-rate currently into its $5 billion manufacturing footprint.

Shares of **CareDx, Inc.** contributed to performance. CareDx sells diagnostic testing services which detect early rejection of heart, kidney, and lung transplants. Shares declined dramatically in the third quarter of 2025, as the Centers for Medicare and Medicaid Services (CMS) MolDX Program issued a draft local coverage decision (LCD) that, if finalized, would significantly limit reimbursement for CareDx's tests. In particular, the draft LCD would remove increased coverage for HeartCare (which is a dual test including donor-derived cell-free DNA (dd-cfDNA) and gene expression profiling (GEP) despite definitive data showing a heightened clinical benefit from using both tests. The draft LCD also proposes a bundled payment reimbursement model that has been studied and is recommended by medical societies. It is not yet clear whether the structure of the bundling program would help or hurt CareDx's revenues. We thought that at their lowest levels of $11 to $12 last summer, CareDx shares were pricing in a worst-case scenario, and we meaningfully increased our position at those levels. Recently, shares have outperformed and are trading in the high-$20s as investors better understood that the LCD process is a dialogue between the CMS and key stakeholders and that the CMS may come to better appreciate recent clinical data. We expect the LCD to be finalized very soon. Further, in the second quarter of 2026, CareDx announced a very solid 1Q26 result with revenues up 39% year over year and testing volumes up 17% year over year. The company also announced financially and strategically attractive deals to divest its lab products business and acquire Naveris, marking the company's entrance into the head and neck cancer testing market.

Top detractors from performance for the quarter

	Contribution to Return (%)
Shake Shack Inc.	(0.78)
Karman Holdings Inc.	(0.69)
Kratos Defense & Security Solutions, Inc.	(0.56)
Guidewire Software, Inc.	(0.55)
Procore Technologies, Inc.	(0.52)

Shares of **Shake Shack Inc.**, the better-burger fast-casual concept, detracted from performance in the second quarter. The stock fell sharply after the company reported weaker-than-expected first-quarter earnings, though we believe the reaction reflected poor communication and expectation-setting rather than any deterioration in the underlying business. Same-Shack sales grew 4.6%, including 1.4% in positive traffic, the third consecutive quarter of positive traffic growth, despite a 2.40% weather headwind. Restaurant-level margin expanded 0.5% to 21.2%. While adjusted cash flow (EBITDA) missed expectations, this was due to the timing of some costs (specifically accelerated pre-opening costs as well as the timing of some repair and maintenance costs). Lastly, while trends in April showed weakness, early May rebounded nicely with 8% same-Shack sales and 5% restaurant traffic growth driven by excitement around menu innovation. We continue to believe that Shake Shack is a compelling long-term growth idea and that its valuation is extremely attractive relative to business fundamentals.

Karman Holdings Inc. designs, tests, and manufactures mission-critical systems for existing and emerging missile and space programs, which are some of the growthiest and in-demand segments of the defense industry. It has unique experience in complex/proprietary manufacturing methods, high-end materials and composites, and system-level design. Nearly 90% of Karman's sales are sole-sourced from the company, and 94% of its revenue is tied to proprietary IP-driven solutions (including patent-protected technologies). This enables it to drive adjusted cash flow margins in excess of 30%. Shares declined during the quarter for a few reasons. First, markets are concerned about noise related to the defense budget during an election year, as well as the reversal of momentum into defense stocks earlier in the year when the Iran war started. This has compressed multiples across the industry. Second, in May there was a secondary share sale on behalf of Karman's private equity sponsor and its limited partners (we believe the sponsor is done selling its own shares, though some limited partners are likely to sell more in July). Finally, the company also changed its CEO, with Tony Koblinski stepping back to the board on his way to retirement. We very much liked Tony's leadership and admired his construction of the company as it exists today. We have now met with new CEO Jon Rambeau multiple times and we are confident that he will be able to move Karman to the next level. Jon is a mechanical engineer with a fantastic breadth of experience at Lockheed Martin and L3Harris Technologies.

Investors should be comforted that Jon has maintained Karman's expectation of 20% or greater organic growth for the foreseeable future. This is partly based upon the receipt of multi-year contingent contracts for missile components that started at around $1 billion in value but have progressed to amounts significantly in excess of this. This is in line with the Department of War's stated objective to increase missile production at rates of two to five times existing levels on systems such as Patriot (PAC-3), Standard Missile (SM3/6), THAAD interceptors, Tomahawks, and others. We expect to see Karman grow well above its peers given its mission-critical content on these and other programs that are seeing multi-fold increases in production over the next few years.

Similar to Karman, shares of leading defense technology provider **Kratos Defense & Security Solutions, Inc.** declined during the quarter as sentiment toward high-multiple small- and mid-cap defense companies weakened amid increased uncertainty surrounding the pace of defense budget growth and a reversal in momentum-driven investor flows. We remain investors and used recent weakness to add to our position. The company continues to execute well, with strong visibility into additional contract wins across its core business and new opportunities emerging across previously nascent segments. We believe CEO Eric DeMarco has built one of the most innovative defense players and continue to see compelling long-term prospects for Kratos.

Portfolio Structure

Top 10 holdings

	Percent of Net Assets (%)
Loar Holdings Inc.	3.5
Forgent Power Solutions, Inc.	3.1
Dynatrace, Inc.	2.7
Mercury Systems, Inc.	2.6
Liberty Live Holdings, Inc.	2.6
Enpro Inc.	2.3
Novanta Inc.	2.2
Rubrik, Inc.	2.2
Samsara Inc.	2.2
Casella Waste Systems, Inc.	2.1

The top 10 investments constituted 25.6% of the portfolio at quarter end, consistent with historical levels.

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Recent Activity

Top net purchases for the quarter

	Net Amount Purchased ($M)
Samsara Inc.	36.7
Advanced Drainage Systems, Inc.	34.3
Shake Shack Inc.	33.9
Blackstone Digital Infrastructure Trust Inc.	30.7
Rubrik, Inc.	28.6

We initiated a new position in **Samsara Inc.** Samsara provides a cloud software platform for commercial vehicle telematics, video-based driver safety, frontline worker workflow automation, and industrial equipment monitoring. Its software collects and analyzes data from millions of moving sensors and cameras installed in its customers' commercial trucks, construction equipment, warehouses, and other assets, helping companies visualize and improve their physical operations. More than 20,000 customers in the transportation, field services, construction, utilities, and other industries have adopted Samsara, giving it a leading market position in its software vertical.

Samsara has been winning share from competitors in the $175 billion connected fleet and industrial asset software market due to its superior cloud-native architecture, ability to address multiple use cases in a single platform, and its rapid product release cycle. Importantly, as Samsara continues to expand its connected asset base, it is building an unmatched data asset and physical sensor network that it is using to drive better outcomes for its customers relative to competitors. Capturing more than 25 trillion data points from over 100 billion miles driven across 99% of major U.S. roads, Samsara uses AI to help companies optimize their vehicle routes, prevent accidents, improve asset utilization, conduct predictive maintenance, and lower insurance premiums. In its fiscal 2026, across its customer base, the company prevented 380,000 accidents and reduced carbon emissions by billions of pounds. Seeing a fast and tangible return on investment, customers have renewed and expanded their Samsara subscriptions at a healthy rate.

We see a long runway for growth as Samsara expands in existing accounts and wins new logos. Samsara is less than 35% penetrated in its existing customers' vehicle fleets and has a significant opportunity to cross-sell newer non-vehicle products into its base. The company believes cross-selling all its products and covering all its existing customer assets wall-to-wall would increase its annualized recurring revenue eightfold without ever needing to add a new logo. That said, the company has also increased its customer count every quarter and identified hundreds of thousands of potential new accounts to win. As it has scaled, Samsara has delivered healthy operating leverage, and we think free cash flow margins will soon surpass 20%. Lastly, we believe the combination of Samsara's expansive sensor and camera network, its proprietary data asset, and its exposure to real-world operations insulates it from AI disruption better than most software businesses and positions it as an AI beneficiary over the long term.

During the quarter, we reinitiated a position in **Advanced Drainage Systems, Inc.** (ADS), the leading U.S. manufacturer of stormwater and onsite wastewater management products. The company offers a comprehensive suite of pipes, drainage structures, storage chambers, and water treatment systems designed to manage stormwater from the moment it hits the ground until it is returned cleanly to the environment. We view ADS as a high-quality, competitively differentiated business. It is the only national player of scale in an otherwise fragmented market and is roughly 10 to 15 times larger than its next closest competitors. Its manufacturing and logistics footprint is unmatched, spanning more than 60 plants and a company-owned fleet of roughly 600 trucks and 1,100 trailers that enables delivery of bulky products directly to jobsites. Its vertically integrated recycling operations, which supply roughly half of its raw materials at a discount to virgin resin, make it the lowest-cost producer in the space.

ADS operates in an industry that is currently benefiting from both secular and cyclical tailwinds. The company estimates the combined stormwater and onsite wastewater market at roughly $16 billion today, of which it holds only a high teens share, leaving ample room to grow. Several secular tailwinds are working in its favor, most notably the rising frequency and intensity of storms and the aging, undersized infrastructure across much of the country, both of which are driving greater investment into stormwater management systems. On the wastewater side, only about 25% of U.S. homes currently have an onsite septic system versus roughly a third of new homes being built, so adoption should rise naturally over time.[5] Underpinning all of this is the steady, multi-decade conversion from legacy concrete pipe and tanks to plastic, which is cheaper, lighter, and both faster and less labor-intensive to install. From a cyclical standpoint, both residential and non-residential new construction markets are potentially at cyclical lows following several years of muted activity.

We see a compelling, multi-year growth opportunity ahead for ADS. Management outlined a credible path to grow revenue organically at a rate "greater than 8%" through 2030, and at "greater than 10%" including acquisitions, drawing on a strong track record of using M&A as a growth lever. We also expect margins to expand over time, supported by operating leverage as residential and non-residential new construction markets eventually recover, along with ongoing new product introductions and favorable price/cost realization. Finally, we believe the valuation is attractive today, with shares trading at a below-average multiple of roughly 12 times fiscal 2027 EBITDA on what should prove to be near-bottom-of-the-cycle earnings.

During the quarter, we purchased **Shake Shack Inc.**, a premium fast-casual burger chain. We believe Shake Shack is one of the most compelling growth stories in restaurants today, with a differentiated brand, improving unit economics, and an accelerating unit growth algorithm. Shake Shack operates over 675 locations globally, with 390 company-operated units and 289 licensed units. The brand sells across urban street locations, suburban formats, and licensed venues including airports, stadiums, and international franchise territories. Average unit volumes in domestic company-operated restaurants exceed $4 million, among the highest in the fast-casual peer set. Shake Shack differentiates itself versus both conventional quick service burger chains and most fast-casual peers through a higher-quality product and a proven innovation ability that most burger chains cannot match. That product quality has translated into average unit volumes that exceed most fast-casual peers despite a price point that, while premium to quick service restaurant (QSR) operators, remains accessible relative to sit-down dining. Importantly, this quality positioning insulates Shake Shack from the aggressive discounting and value-war dynamics currently pressuring conventional QSR operators like McDonald's, Burger King, and Wendy's, whose core consumer is highly price-elastic and whose product is not meaningfully differentiated on quality.

We believe Shake Shack is still in the early innings of its growth lifecycle with significant runway across several dimensions. Management has articulated a long-term target of 1,500 domestic company-operated Shacks, compared to roughly 390 today. They expect to open 60 to 65 company-operated restaurants in 2026, up from 44 in 2025, which is supported by improving unit economics as the company has been able to expand restaurant-level margins while reducing build costs. Internationally, licensed partners in the Middle East, Asia, and Europe continue to expand. At the same time, restaurant-level margins are on an upward trajectory as the operations team captures efficiency gains unlocked under new management. We believe that Shake Shack will be able to grow revenue in the double digits and EBITDA mid-teens over the next several years and that shares are attractively priced relative to that growth.

We initiated a position in **Rubrik, Inc.**, a subscription software company focused on automating backup, storage, and recovery of corporate data, as well as creating resilience to cyberattacks on that data. It serves many Fortune 500 and Global 2000 companies including leading technology and defense firms. We purchased our investment in the mid-$50s per share during the “SaaS-pocalypse” when the market believed that every software company would be disintermediated by AI. Investors were also concerned that the increased cost of memory chips (due to an AI-data-center-induced shortage) would hamstring growth and margins of Rubrik as it and its customers use backup hardware. This has not materialized, and Rubrik does not believe memory costs are a material issue. At the time we invested, shares traded at about 21 times enterprise value to free cash flow (on 2027 numbers), with free cash flow growing over 40%. If the company has a clear competitive advantage (which we obviously believe based on our diligence), it was a steal at that price (it closed the quarter at over $80 per share).

Top net sales for the quarter

	Net Amount Sold ($M)
Establishment Labs Holdings Inc.	40.1
Advanced Energy Industries, Inc.	34.9
Birkenstock Holding plc	32.7
SiTime Corporation	27.6
Alkami Technology Inc.	27.3

Establishment Labs Holdings Inc. sells next-generation Motiva breast implants that have meaningfully lower safety risks and aesthetic benefits compared to competitors. Shares outperformed in the second quarter, driven by continued strong adoption of Motiva in the U.S. breast augmentation market and anticipation of the upcoming launch in the U.S. breast reconstruction market. Additionally, the macro consumer spending anxieties and silicone supplier contract fears that weighed on the stock last quarter have notably eased. Positive momentum was further amplified by the company's official inclusion in the Russell 2000 Index, which drives increased institutional visibility and index-related buying. This caused significant upward share price movement, and we trimmed our investment based upon shares nearing our long-term valuation targets. We believe Establishment Labs will capture substantial plurality share in the U.S. over the next few years, which is meaningfully reflected in the shares. There is further upside if Establishment Labs is successful in launching its new minimally invasive products that promise easier procedures and faster healing times for its patients.

Advanced Energy Industries, Inc. is a designer and manufacturer of power components that ensure precision power delivery for end-market applications including semiconductor manufacturing, medical procedures and data center equipment. We were meaningful buyers between $50 and $110 during calendar years 2020 and 2021 when the company was trading at very low multiples and its strategic value was unrecognized. In the quarter we sold about 60% of our investment at $375, on the back of excitement about the growth in AI data center buildouts. We believe that at those levels the company was approaching our long-term price target, and the position had grown to nearly 4% of the portfolio. Both are reasons that we would sell according to our long-standing risk management process. We really like the company and the management team and would look to add to our investment at lower valuations.

While we remain long-term believers in the brand, we exited our position in **Birkenstock Holding plc** in order to raise capital for new ideas that we felt had higher return potential.

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Conclusion

We never like to underperform, and 2026 has been disappointing thus far. That said, we believe in our process, and we aim to consistently focus on company fundamentals combined with objective long-term valuation measures in making our investments. There is no need to chase momentum—rather, we wait for opportunities to come to us by doing “the work” early and taking advantage of periods when “negative momentum” works in our favor. Warren Buffett said that one of his guiding principles is to “be fearful when others are greedy and greedy when others are fearful.” Holistically, we are trying to execute that plan. We see attractive valuations in a large part of the market where stocks don’t have exposure to AI. Broadly speaking, we are seeing investors ignore many industries and companies with strong earnings growth simply because these companies are considered “AI losers” or they don’t have any AI exposure. At the same time, we are hyperfocused on managing risk across the names where we have AI exposure, especially when they have experienced large stock gains year to date.

Thank you for your trust in us!

Randy Gwirtzman
Portfolio Manager

Laird Bieger
Portfolio Manager

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† Historical performance was impacted by gains from IPOs. There is no guarantee that these results can be repeated or the level of IPO participation will be the same in the future.

1 With the exception of the performance tables located on page 1, most of the data is based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

2 The **Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth. The **Russell 3000® Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market, as of the most recent reconstitution. 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 Strategy includes reinvestment of dividends, net of withholding taxes, while the Russell 2000® Growth and Russell 3000® Indexes include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Strategy performance. Investors cannot invest directly in an index.

3 Not annualized.

4 The Strategy has a different inception date than its representative account, which is 9/30/2013.

5 Source: U.S. Environmental Protection Agency, Primer for Municipal Wastewater Treatment Systems, EPA 832-R-04-001, September 2004, p. 24.v.

* Broadly speaking, in addition to data center operators, "AI winners" includes the hardware that goes into the data center (servers, memory, storage, semiconductors, networking equipment), the power source and energy infrastructure to energize the data centers, and other ancillary services (engineering and construction, HVAC/cooling, etc.).

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Figures in USD

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3. Since the offered securities are not registered in Chile, there is no obligation by the issuer to make publicly available information about the offered shares in Chile; and
4. The offered securities shall not be subject to a public offering in Chile unless registered with the relevant Securities Registry of the CMF.

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Middle East

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