DEAR BARON GLOBAL ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

Baron Global Advantage Fund (the "Fund") had a strong fourth quarter to finish an exceptional year. The Fund gained 12.3% (Institutional Shares), exceeding the 9.0% return for the MSCI ACWI Index, and the 10.2% gain for the MSCI ACWI Growth Index, the Fund's benchmarks. For calendar year 2019, the Fund returned 45.5%, the top result for an open-end mutual fund in its Morningstar peer category, and outperforming its benchmarks by 18.9% and 12.7%, respectively.

Table I.
Performance†
Annualized for periods ended December 31, 2019

	Baron Global Advantage Fund Retail Shares[1,2]	Baron Global Advantage Fund Institutional Shares[1,2]	MSCI ACWI Index[1]	MSCI ACWI Growth Index[1]
Three Months[3]	12.16%	12.26%	8.95%	10.23%
One Year	45.07%	45.45%	26.60%	32.72%
Three Years	27.77%	28.05%	12.44%	16.60%
Five Years	15.17%	15.42%	8.41%	10.70%
Since Inception (April 30, 2012)	14.78%	15.03%	9.54%	11.06%

ALEX UMANSKY

PORTFOLIO MANAGER

Retail Shares: BGAFX
Institutional Shares: BGAIX
R6 Shares: BGLUX

This result was achieved primarily through strong stock selection where the Fund benefited from both a high batting average and an excellent slugging percentage, with a favorable investing environment providing a tailwind to the overall returns. For the year, the Fund had 10 investments that contributed over 150 basis points ("bps") each to absolute returns–**Alibaba**, **argenx**, **EPAM**, **Veeva**, **Endava**, **Constellation Software**, **PagSeguro Digital**, **Worldpay**, **Facebook**, and **Globant**, with each of these stocks rising over 54%. The Fund's next 10 largest winners all contributed between 100bps and 150bps each, and an additional 15 investments generated between 49bps and 99bps each. This was an unusually good year.

We think its fair to point out that this was a good year for most investors. The majority of U.S. stocks recorded double-digit gains and every asset class recorded positive returns. International and Emerging Markets stocks showed solid gains too, while Bonds were also up. This does not happen very often. But here is where things got really strange. Gold, Oil, and other commodities were up, while the Dollar was up against all major currencies. We don't think this has ever happened during our lifetime. We do not spend a lot of time analyzing Macro but basically, it was hard NOT to make money in 2019, unless one simply chose… not to invest!

Back to Baron Global Advantage Fund and it's 45.5% return. While exposure to specific geographies and sectors are an outcome of our bottom-up stock selection process, we can't seem to catch a break from the performance attribution analysis standpoint. Relative to the MSCI ACWI Index, we detracted from returns by being underweight the U.S. and overweight in China, India, Brazil, Israel, and South Africa. We did make up for it with strong stock selection in all of the above geographies, highlighted by a 67% return for our investments in China (compared to a 23% return for the Chinese names in the MSCI ACWI Index) and a 126% return for our investments in Brazil (relative to a 26% return for Brazilian names in the MSCI ACWI Index). In fact, our stocks outperformed in every geography in 2019, except for two: Argentina, where our return of 62% paled in comparison to 80% in the Index, and Germany, where our investment in InflaRx proved to be a mistake. All in all, our stock selection added 18.9%, while geographic allocation was a modest headwind. We fared better in

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2018 was 1.45% and 1.18%, respectively, but the net annual expense ratio is 1.15% and 0.90% (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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, 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 www.BaronFunds.com or call 1-800-99BARON.

† The Fund's 1,3 & 5 year historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

1 The indexes are unmanaged. The index performance is not fund performance; one cannot invest directly into an index. The MSCI ACWI indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes reflected in US dollars. Effective 1/31/2019, the Fund has changed its primary benchmark to the MSCI ACWI Index. The MSCI ACWI Growth Index Net USD measures the equity market performance of large- and mid-cap growth securities across developed and emerging markets. The MSCI ACWI Index Net USD measures the equity market performance of large- and mid-cap securities across developed and emerging markets. The indexes and the Baron Global Advantage Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

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.

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terms of GICS sectors where a sizable overweight in Information Technology ("IT"), an underweight in Financials, and lack of investments in Energy and Consumer Staples contributed to an overall 3.6% positive allocation effect out of the Fund's 18.8% outperformance of the Index.

According to Morningstar, as of December 31, 2019, Baron Global Advantage Fund ranked in the top 1% for its 1-year return, top 1% for its 3-year return, and top 2% for its 5-year return. The Fund is also ranked in the top 1% since its inception on 4/30/2012. The Fund has been awarded a 5-star Morningstar rating for its 3-year, 5-year, and overall performance.*

Since its inception, Baron Global Advantage Fund has returned 192.6% (Institutional Shares) cumulatively, compared to 101.1% for the MSCI ACWI Index, and 123.5% for the MSCI ACWI Growth Index, the Fund's benchmarks. Over that period of time, the Fund has outperformed the Morningstar World Large Stock Category average, by 96.6% cumulatively. On an annualized basis, the Fund has generated excess returns of 5.5% and 4.0% over its benchmarks, and 5.9% over its peer group average.**

This section of the letter is typically devoted to answering the most common questions that we receive from clients and prospective investors during the covered period. In recent quarters we offered our take on growth vs. value, increased regulation of FANG stocks, trade tensions with China, and our thoughts on managing market volatility (we do not). This time, we seem to be fielding questions of a different variety. The Fund's performance has been strong and with that comes increased investor interest and increased examination. "How are you achieving it and why is it repeatable?" are the most commonly asked questions now. We believe we achieved it by sticking to our process, taking advantage of the Baron platform, exercising patience, focusing on balance, and taking account of lessons learned–all of which led to disciplined capital allocation decisions, and good investment outcomes, most of the time.

- **Process**
  We invest in unique, competitively advantaged businesses, for the long term. We seek companies that benefit from disruptive change, have exceptional management that is focused on long-term value creation, and specific characteristics (platforms, eco-systems, network effects, etc.) that enable companies' growth to be particularly durable. Valuations matter, so we only invest at a discount to our estimate of businesses' intrinsic value, and we focus on expected Free Cash Flow Yields and Returns On Invested Capital.

- **Baron Platform**
  We think we have a bit of a structural competitive advantage in the Fund. Having a Global All-Cap mandate allows us to approach every company as investors first. We are not looking for exposure to Emerging Markets, or Small Cap, or Health Care. We are looking for the best ideas anywhere in the world, regardless of geography, company size, or sector classification. We have the broadest opportunity set and a mandate to select only the most compelling investments. This mandate is supported by 36 investment professionals with combined *655* years of experience. We encourage you to examine the Baron Funds' long-term performance track record, which is impressive, although of course, it is no guarantee of future returns.

- **Patience**
  This is not a sprint. Nor is this a marathon. The best CEOs do not plan or invest for the next year or two. Longer-term thinking is always a competitive advantage. There is no finish line…

  We operate in the information age with "breaking news" delivered instantly to every device, frequently designed to get us to transact. Sometimes it is difficult not to act in haste. We work hard on staying patient and having the courage of conviction to ignore the market volatility long enough to allow our investments to succeed.

- **Balance**
  Confidence vs. hubris and arrogance. Patience vs. stubbornness or complacency. Knowing what you know and what can be known vs. what you don't know and what you don't even know that you don't know (courtesy of Donald Rumsfeld). In every case, we need as much as possible of the first without tipping the scale to the other side (i.e., lack of conviction makes for an ineffective investor whereas overconfidence or hubris is a common cause for investment mistakes and poor decisions).

- **Lessons learned**
  The best investors we know do not measure success in percentage gains, or dollars and cents. Neither do the best CEOs. They measure success in *lessons learned*. Intellectual curiosity, willingness to fail, resiliency, and the insatiable appetite to learn and improve are what separates these people from the rest. A flexible mindset is required.

* Morningstar calculates the **Morningstar US Fund World Large Stock Category** average using the Morningstar Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

As of 12/31/2019, the Category consisted of 873, 722, 605, and 439 share classes for the 1-, 3-, 5-year, and since inception (4/30/2012) periods. Morningstar ranked **Baron Global Advantage Fund** Institutional Share Class in the 1st,1st, 2nd, and 1st percentiles, respectively.

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

As of 12/31/2019, the Morningstar US Fund World Large Stock Category consisted of 722, 605, and 722 share classes for the 3-year, 5-year, and overall periods, respectively.

Morningstar has awarded **Baron Global Advantage Fund Institutional** Share Class 5 stars, 5 stars, and 5 stars for its 3-year, 5-year, and overall performance, respectively.

** As of 12/31/2019, the annualized returns of the Morningstar US Fund World Large Stock Category average were 25.68%, 12.09%, 8.10%, and 9.18% for the 1-, 3-, 5-year, and since inception (4/30/2012) periods.

We believe this is what allowed us to achieve good investment results. While it sounds simple and most of it is, it is by no means easy. As with most things in life, making good decisions consistently is difficult. Exercising, eating right, being patient with kids, kind and generous, taking time and giving time–these are obvious good decisions that we struggle to get right all the time. Imagine the less obvious ones… But we also want to measure success in terms of lessons learned. We will inevitably fail from time to time, but we will learn from those experiences, get up, and try again. We invite you to join us on this journey of growing and learning how to make better decisions all the time. There is no finish line, but following this path is what we think we need to do to give ourselves an opportunity to generate good investment results over time.

Table II.
Top contributors to performance for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Percent Impact
Alibaba Group Holding Limited	$569.0	1.56%
argenx SE	6.9	1.07
Splunk, Inc.	23.4	0.89
Acceleron Pharma Inc.	2.8	0.79
TAL Education Group	28.5	0.73

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Financial, which operates Alipay, the largest digital payment provider in China with over 1 billion active users. Shares of Alibaba were up 27% in the quarter and closed 2019 up 54%, contributing 294bps to the Fund's overall results. The strong quarterly performance was driven by continued revenue and earnings growth (sales and adjusted EBITDA were up 40% and 39% year-over-year, respectively) which was helped by traction in less developed regions, continued cost discipline, and an aggressive reinvestment strategy, with tailwinds from strong mobile and advertising revenue growth. We believe that Alibaba has the most comprehensive ecosystem of commerce platforms, logistics, and payments infrastructures that support the digital transformation of the retail sector. Alibaba's long-term opportunity remains open-ended, as the company continues to benefit from rising e-commerce penetration (about 35% of total retail sales now), and widening the moat around its platform (*785 million monthly active users!*) while increasing the value proposition to its customers and growing its addressable market.

argenx SE is a clinical-stage biotechnology company focused on research and development of human monoclonal antibodies for the treatment of cancer and oncological, autoimmune, and inflammatory diseases. Shares of argenx appreciated 41% in the fourth quarter and were up 67% in 2019, contributing 267bps to our overall results. Shares rose during the most recent period due, in part, to a successful capital raise adding an additional $450 million to its balance sheet. argenx's lead asset, efgartigimod, modulates a protein called FcRn, which is involved in the recycling of a subset of antibodies called IgG. Given the large number of diseases that are driven by rogue IgGs, FcRn drugs have blockbuster potential. We believe argenx's antibody *FcRn platform is one of the most valuable assets in the biotechnology development space*, offering significant long-term potential as the company proves its products' effectiveness in multiple autoantibody disorders.

Splunk, Inc. is a big data analytics company that sells software solutions that help enterprises run their IT organizations, including security, internet-of-things, application and business analytics, and infrastructure. Splunk enables customers to collect, index, store, and analyze data, generating insights through a flexible and efficient platform architecture. Splunk shares were up 27% during the quarter and 43% over the last 12 months, contributing 147bps to the Fund's annual returns. Earlier in the year, Splunk shares were pressured due to the transition to ratable revenue recognition and the adoption of accounting standard ASC 606, which have masked the company's true growth profile and have pressured its profitability. The stock outperformed during the quarter after management shared new metrics that gave visibility to the underlying business growth and post-transition cash generation; both were above expectations. We believe that Splunk is strategically leveraged to several important secular trends: the proliferation of structured and unstructured data and the growing demand to analyze that data, as companies across industries undergo digital transformations. We believe that Splunk's market position provides it with a unique opportunity to become the leading platform for big data analytics.

Acceleron Pharma Inc. is a biopharmaceutical company developing drugs for hematological, respiratory, and muscle disorders based on the TGF-Beta pathway. Shares rose 34% during the quarter (and contributed 60bps to overall performance during the year) after the company's lead asset, Luspatercept, was approved early for Beta Thalesemia, and Acceleron disclosed data for a follow-on indication of myelofibrosis that validates that the asset enables a full product pipeline. We now await data for cousin asset, Sotatercept in Pulmonary Arterial Hypertension, which is expected to be disclosed in the first quarter of 2020.

TAL Education Group is a leading K-12 after-school tutoring company in China with over 750 learning centers in 57 cities. Shares of TAL appreciated 41% in the fourth quarter (and contributed 127bps in 2019) after the company guided for accelerating capacity additions, better margins, and continued strength in the rapidly growing online education business. TAL has benefited from positive secular trends in China, including growing competition to gain admission to top universities and rising disposable incomes, and we believe it can continue to gain market share in the fragmented private education industry for years to come.

Table III.
Top detractors from performance for the quarter ended December 31, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Sage Therapeutics, Inc.	$ 3.7	–0.46%
PagSeguro Digital Ltd.	11.2	–0.42
Twilio Inc.	13.5	–0.29
Veeva Systems Inc.	20.9	–0.22
Elastic N.V.	5.2	–0.12

Sage Therapeutics, Inc. is a biopharmaceutical company focused on developing novel drugs for central nervous system disorders. Recently, Sage's lead asset, SAGE-217 had a failed Phase 3 trial in major depressive disorder, calling into question the size of the drug's potential market and leading to a 43% decline in the stock. Concomitantly, a competitor, Axsome released more compelling data in the same indication. We remain invested in Sage given the large unmet need in depression and the sizable addressable opportunity but have this investment under review pending updates from the FDA regarding the next steps. It is probably fair to point out that even after this quarter's 46bps hit, Sage contributed 103bps to the Fund's returns in 2019.

PagSeguro Digital Ltd. is a Brazilian payment processor, focused on facilitating small and micro-merchants in Brazil to accept different forms of credit, debit, and digital currency transactions. For most of its merchant customers, PagSeguro's simple product offering, an internet enabled payment device along with a mobile wallet, allows the merchant to instantly accept credit transactions without the need for a bank account. Shares of PagSeguro declined 26% during the quarter largely due to a secondary offering of shares by its controlling shareholder, UOL, to sell 5% of its 50% stake in the company. With the 26% decline, the stock still appreciated 86% in 2019 and was the Fund's 7th largest winner, contributing 170bps to our annual results. We believe PagSeguro has the potential to grow rapidly for many years due to its focus on the underserved micro-merchant segment, serving 1.5 million consumers out of a population of 70 million unbanked people in Brazil. We further believe that PagSeguro's platform, increasingly recognized brand, and rapidly improving penetration have the potential to dramatically lower transaction costs for these micro merchants. Over time, we expect PagSeguro to gain significant market share from the bank-controlled incumbent payment processors, who continue to overcharge and underserve this growing merchant community.

Twilio Inc., the leading Communications-Platform-as-a-Service ("CPaaS") provider, offers a set of application programming interfaces that help developers embed communications into their software through its cloud platform. Shares declined 11% during the quarter as the company admitted to accidentally (and modestly) overbilling some of its customers and had to issue refunds or credits that impacted its near-term growth projections by a few percentage points. We wrote extensively about our thesis on Twilio in a prior letter and our entry point has proven to be poorly timed. However, we retain conviction in the company's merits as Twilio continues to benefit from digital transformation trends that are leading enterprises to increasingly embed communications into their software, creating a potential multi-billion dollar market for the company.

Veeva Systems Inc. offers customer relationship management, content, collaboration, and data management solutions tailored mostly to the life sciences industry. After holding a well-attended, upbeat analyst day in early October, the stock came under pressure, declining 8% during the fourth quarter, due to long-term guidance that was cautious on margins and growth outside of life sciences, despite guiding above expectations on overall revenue growth and TAM opportunities. In addition, a competitor reported some early success with a competing product, creating some debate whether Veeva still has the market essentially all to itself. Despite these developments, Veeva shares closed 2019 up 58%, and contributed 244bps to our annual returns. Our conviction in this investment is rooted in the ongoing evolution of the Veeva platform, the growth of its Vault solution, and the ability to deliver significant value to customers over long periods of time, resulting in an impressive growth and margin profile. We believe the company's long-term opportunity set remains compelling.

Elastic N.V. provides data ingestion and search software to customers, enabling customers to generate insights from their data. The shares were down 21% for the period after the company reported results that were below expectations on billings, a future growth indicator, as well as on margins. Management noted that the billings weakness was mainly the result of non-recurring events and suggested that the overall business momentum remains strong. This strength, which drove their decision to increase the level of investment in both Sales & Marketing and R&D, which led to the margin pressure. While we remain excited about the secular opportunity of big data analytics, we prefer to invest in the space via our position in the market leader, Splunk, and so have decided to exit this investment.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level having the most significant roles in determining the size of each individual investment. Sector or country weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view." The top 10 positions represented 40.2% of the Fund, and the top 20 represented 64.1%. Our investments in the Information Technology, Consumer Discretionary, Health Care, Communication Services, and Financials sectors, as classified by GICS, represented 95.0% of the Fund's net assets. Our investments in companies domiciled outside the U.S. represented 48.7% of net assets.

The Fund's turnover was 19.4% in 2019, compared to turnover of 19.8% in the prior year and 22.9% average turnover over the last five years.

Table IV.
Top 10 holdings as of December 31, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Alibaba Group Holding Limited	$569.0	$26.2	6.7%
Amazon.com, Inc.	916.2	23.3	5.9
Alphabet Inc.	922.9	17.6	4.5
Splunk, Inc.	23.4	15.0	3.8
Facebook, Inc.	585.3	14.5	3.7
Mellanox Technologies Ltd.	6.5	14.2	3.6
Illumina, Inc.	48.8	12.2	3.1
EPAM Systems, Inc.	11.7	11.9	3.0
MercadoLibre, Inc.	28.4	11.8	3.0
argenx SE	6.9	11.6	2.9

Exposure By Country

Table V.
Percentage of securities by country as of December 31, 2019

	Percent of Net Assets
United States	46.3%
China	12.5
Israel	6.6
Netherlands	6.3
India	5.5
Brazil	5.0
Argentina	4.6
United Kingdom	3.5
Canada	3.3
United Arab Emirates	1.4

Recent Activity

During the fourth quarter, we initiated 4 new investments and added to 25 existing positions as we continued to put the Fund's inflows to work. We also sold out of 7 investments, most of which were stub positions, reallocating assets to higher conviction ideas. We ended the year with 49 investments, which include shares of Mellanox Technologies Ltd., whose (all cash) acquisition is expected to close in the early part of 2020, as well as several remaining stub holdings that we are in the process of either building a position in or selling out of.

Table VI.
Top net purchases for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Bajaj Finance Limited	$35.7	$6.8
Twilio Inc.	13.5	5.1
RingCentral, Inc.	14.5	4.5
Shopify Inc.	46.1	3.9
Fidelity National Information Services, Inc.	85.5	2.8

In a similar fashion to our buys earlier in the year, we took advantage of the inflows into the Fund to increase our holdings in 25 existing positions in which we have the highest conviction. This included purchases of **Twilio**, **RingCentral**, and **Fidelity National Information Services**.

During the quarter, we also initiated a position in **Shopify**, the leading cloud-based commerce software provider. Shopify's value proposition is to provide a single, easy to use, operating system for merchants to manage every aspect of their business including: selling across multiple channels (direct to consumer as well as on third-party marketplaces like Amazon), managing product listings, inventory, orders, payments, shipments, marketing, and customer relationships. The company has over 1 million merchants, who have processed more than $40 billion of sales during 2018 (and are expected to pass $60 billion this year), making Shopify the 3rd largest "behind-the-scenes" e-commerce player in the U.S. behind only Amazon and eBay, and ahead of Apple and Walmart! Shopify has developed a scalable cloud platform that caters to merchants of all sizes, from a new entrepreneur just starting out to big brands like PepsiCo and Uniliver.

What we really like about Shopify is the *ecosystem* that the company built, creating network effects and a virtuous cycle that will be very hard for competitors to overcome. The more merchants join, adopt, and transact on Shopify's platform, the more partners are attracted to its ecosystem, which adds more features and options to the platform (through Shopify's app store), increasing the company's moats and value. One example of how Shopify has become a platform is its recent introduction of Shopify Fulfilment Network ("SFN"). Shopify has built software that connects third-party logistics providers with its 1 million merchants, solving one of the biggest pain points for small merchants–shipping. Before SFN, the typical route was–you buy something online and by the time you get to the checkout page, you find out that shipping will cost you $20 and by the way, you will only get the product in 4 to 10 business days (unless of course you're willing to pay $20 more for expedited shipping). For many buyers, the next step was to close the browser and go to Amazon. Through SFN, Shopify will take advantage of the vast data it has on SKU-level transactions to help merchants optimize their working capital (i.e., store SKUs closer to end customers), while lowering shipping costs and increasing delivery speeds at the same time. The company's goal is to deliver to 99% of the U.S. in two days or less.

The bigger picture here is that Shopify is quietly building an Amazon competitor (which is still our 2nd largest holding so we believe there is room for both). But unlike Amazon, which also competes with its merchants (through first-party sales), Shopify is in the background, quietly helping merchants of all sizes to sell more online, aggregating the scale of the many merchants it has, to enable the benefits that only the largest merchants could get in the past.

The opportunity for Shopify is two-fold. First, it is still early in the adoption curve, with the amount of GMV transacted on the platform expected to reach $60 billion in 2019 out of $20 trillion TAM (global commerce, ex-China) or 0.3% penetration. Second, as Shopify consistently continues to remove hurdles for merchants to sell online, the company can increase its share of the economics (or take-rate) from 2.5% currently (Amazon charges between 10% and 20% on its fulfillment services).

Lastly and perhaps most importantly, Shopify has a great culture, and it is led by a visionary founder, Tobi Lutke. One example of the company's culture is a blog post from three years ago titled "Value Creation–Building for The Next 100 Years" (how many CEOs think, let alone talk about the next 100 years of their company?). The post starts with the following paragraph:

"At Shopify, value creation is measured not just by growth of dollars and cents, but also by the growth of small business, computing literacy and personal development. We are building for the long term."

In the latest shareholder letter, Lutke describes Shopify's mission as follows:

"Much has changed since my letter three years ago, but I'm proud of what has stayed the same. We're still motivated by our mission to make commerce better for everyone, our ecosystem of third-party partners continues to thrive, and we still view revenue growth as a secondary, though encouraging, byproduct of our work.

"Here's one more thing that hasn't changed: ***we're just getting started."***

And this is how he explains Shopify's success:

"Like all entrepreneurs, we are risk-takers. Fear of failing does not stop us, because we understand failure for what it is: a successful discovery of something that didn't work. It means we learned something, and it's critical that we continue to learn by doing."

We have been following Shopify for a while and have been patient in building our position. In our view, Shopify has all the ingredients necessary to become a core holding and we are excited about its long-term potential.

We also bought shares in **Bajaj Finance Limited**, a leading non-banking financial corporation in India. Bajaj offers various financial products and services including housing loans, consumer durables financing, SME credit, and rural loans. We believe that Bajaj is well positioned to benefit from the growing demand for consumer financial services in India driven by a growing economy and relatively low penetration of financial products in the country. In our view, the company's data analytics platform creates a key competitive advantage, enabling it to sustain good asset quality while earning high risk-adjusted returns (ROEs over 20%). We believe the company can compound earnings rapidly as it continues to gain market share from 1.2% to 1.4% today to 4% to 5% over the next four to five years.

Table VII.
Top net sales for the quarter ended December 31, 2019

	Market Cap When Sold (billions)	Amount Sold (millions)
Take-Two Interactive Software, Inc.	$13.9	$6.0
Housing Development Finance Corporation Limited	51.9	4.0
Lyft, Inc.	13.6	3.5
Trip.com Group Limited	18.6	3.2
Aerie Pharmaceuticals, Inc.	1.0	3.1

We sold **Take-Two Interactive Software**, a video-game publisher, since we believe that digital penetration, which was behind the improving economics in the business over the last decade, is now reaching the latter parts of the penetration curve and as the success of *Fortnite* suggests the industry has become more hit-driven. This might lead to slower future earnings growth than what we target for the Fund and have therefore decided to exit our position. We also sold **Housing Development Finance Corporation** during the quarter, reallocating capital to Bajaj Finance (see above). We sold **Lyft** as the market remains hyper-competitive with limited visibility regarding the ultimate winner and the companies' steady-state margin profile. We exited our position in **Trip.com** as we became increasingly concerned regarding escalating competition from domestic players (such as **Meituan**, one of our investments), which may pressure margins going forward. We sold **Aerie Pharmaceuticals** given the struggles it faced with the commercial launch of Roclatan/Rhopressa, causing the company to lower guidance twice this year. We still believe in the activity of the drugs and their importance to the glaucoma field, but the struggles to get reimbursement have far exceeded our expectations. We continue to monitor the company and the space and plan to re-visit this investment idea at some point in the future.

Outlook

We've had a nice year. In fact, we've had a nice run over the last three years, five years, and since inception of the Fund at the end of April 2012. Many of our clients and prospective investors want this section of the letter to be used to answer questions like, so what now? How much upside is left? Can growth continue to outperform? Can this be the right time to allocate fresh capital?

Entering 2019 we did not expect the Fund be up 45%, or for the annualized returns to exceed 28% over the last three years. These kinds of returns are plainly not sustainable for all the obvious reasons. But we did observe a favorable investing environment, despite the ever-present risks and challenges, where market participants seemed to be willing to focus more on the future than on the here and now. We pointed out that this is the environment in which we tend to do well.

As we enter 2020, we do not see anything materially different. Interest rates are low (or lower), and investors generally expect the Fed Policy to remain accommodating for the foreseeable future. We perceive the trade frictions between the U.S. and China, EU, and really the rest of the world, as largely unchanged. The clarity regarding Brexit and improvements/better outlooks in India and Brazil have been replaced by the new tensions in the Middle East, but when have there been no tensions in the Middle East? Valuations are higher across the board as 2019 was much more about multiple expansions than earnings growth, but they are not unreasonable and, in some cases, remain attractive. According to David Kostin, a global strategist at Goldman Sachs, the S&P 500 Index currently trades at 19x 2020 earnings (the majority of other markets in which we invest trade at lower multiples). This multiple is well below its 24x at the end of 1998 and its almost 30x in March of 2000 when the internet bubble burst. More importantly, as we look at our portfolio companies today, our confidence in the durability of growth over the next three to five years remains just as high, and so, we believe they continue to represent compelling long-term investment opportunities.

Every day we live and invest in a world full of uncertainty. Fed policy, trade wars, the health of EM economies, energy prices, global politics, terrorism– these are all serious challenges 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 believe that our process is the right one and that it will enable us to make good investment decisions over time. Our goal remains to maximize long-term returns without taking significant risks of a permanent loss of capital.

Sincerely,

Alex Umansky
Portfolio Manager