BARON CAPITAL

Financials: A Tech-Driven Opportunity

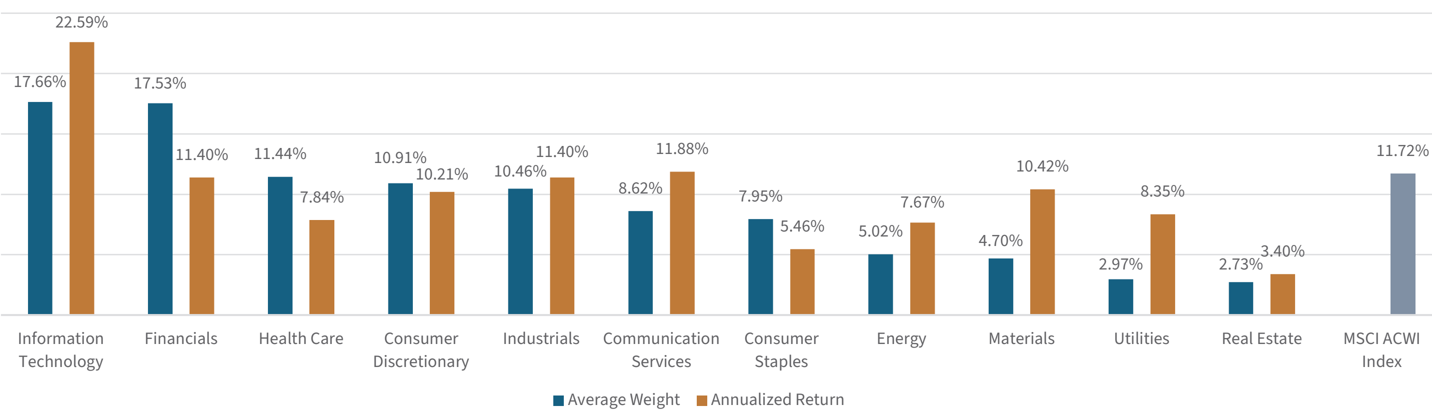
We believe Financials is one of the most exciting and potentially rewarding sectors for active investors. Not only is it one of the largest and best-performing sectors globally, but it is also well positioned to likely benefit from advancements in technology. AI-driven change offers both larger incumbents and smaller innovators extraordinary opportunities to create new services in digital banking and insurance, exploit data, reach new markets, and remake the financial industry. In addition, the sector is a beneficiary of several other transformative secular growth trends, including the largest generational wealth transfer in history, rising exposure to private markets, and expanding financial inclusion around the world. Given the scale and range of these long-term tailwinds, Financials can present a compelling investment opportunity for investors seeking excess returns and relatively stable growth exposure in their portfolios.

Large and Diverse

Financial Services is the second-largest sector in the global equity markets, totaling roughly $27 trillion in market capitalization. Financials has also been the third-highest performing equity sector over the last 10 years (**Exhibit 1**). Even modest gains can translate into outsized growth for companies, especially for those aligned with the long-term secular trends shaping the sector. The Financials sector is also diverse, spanning traditional banks, insurers, and asset managers, as well as financial-related companies such as payments, exchanges, and data providers.

Exhibit 1: Second in Size and One of the Better Performing Sectors

Annualized Total Return and Average Weights Over the Last 10 Years



As of 12/31/2025.

Sources: MSCI Inc. and FactSet PA.

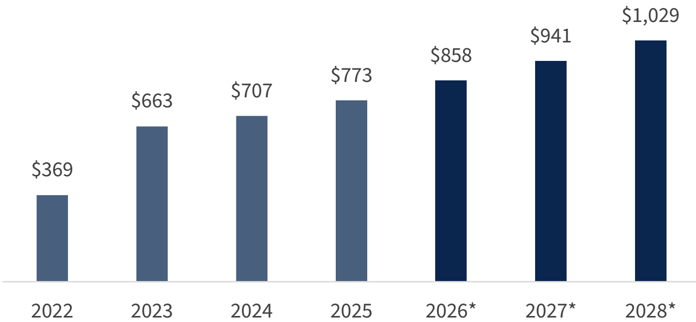
Average weights and annualized returns are representative of each sector within the MSCI ACWI Index for the period December 31, 2015 through December 31, 2025. Sectors are classified per the Global Industry Classification Standard (GICS).

On the Cutting Edge of Technology

Financial services firms continue to invest heavily in innovation. Banks and other investment services spent $773 billion on technology in 2025, more than any other industry, and that figure is projected to rise each year (**Exhibit 2**).

Exhibit 2: Financials Are Lead Investors in Technology

Annual Spending by Banking and Investment Service on Information Technology (IT) in $B



*2026-2028 - Forecasted. Source: Gartner Market Statistics "Forecast: Enterprise IT Spending for the Banking and Investment Services Market, Worldwide, 2022-2028, February 2, 2026 Update."

This is creating strong tailwinds for financial businesses to potentially capitalize on tech-driven change.

Digitization of financial services: Digital-first providers are increasingly challenging incumbents that rely on physical branches and manual processes. This accelerating shift toward digital finance services presents an opportunity for disruptive companies to capture incremental market share.

Shift to electronic payments: $11 trillion of consumer payments and $24 trillion of commercial payments are still made each year with cash or check, leaving substantial room for continued growth of electronic payments.[1]

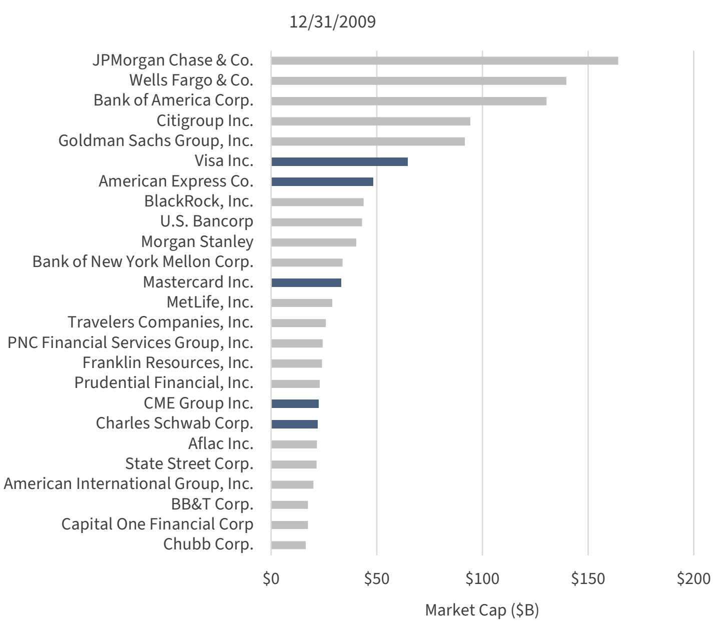
E-commerce: U.S. online sales continue to grow much faster than in-store sales, yet e-commerce accounts for only about 15% of total retail sales.[1] This low penetration highlights a significant runway for further growth and market share gains.

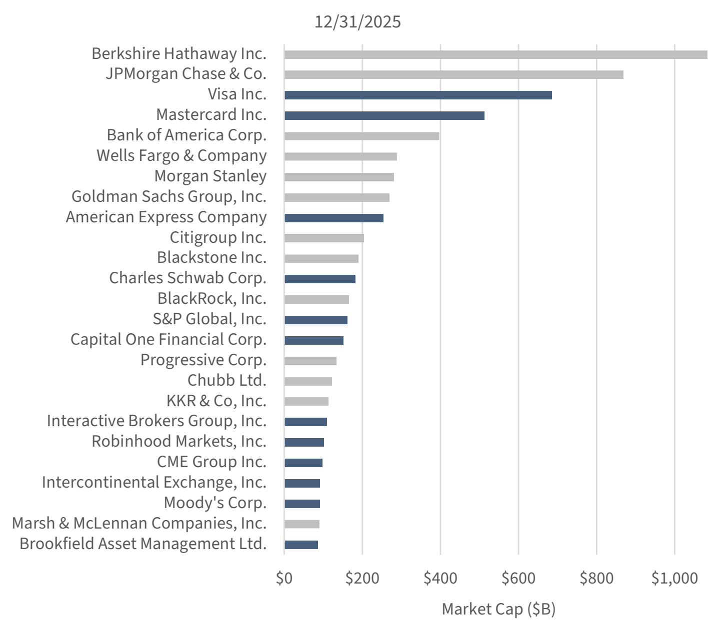
AI: The financial sector is poised to be the prime beneficiary from the explosive growth in AI capabilities. Financial companies rely on data to inform lending and underwriting decisions, which are well-suited for AI-driven improvement. In addition, financial institutions can leverage AI to automate manual processes, potentially leading to higher margins and faster earnings growth. Financial companies so far haven't directly benefited from the AI infrastructure buildout, but they may benefit from using AI. We view Financials as a nice complement to tech-heavy portfolios.

As technology adoption accelerates, the gap between financial outperformers and underperformers is widening. Firms that are embracing and using transformative technologies are expected to grow three times faster than traditional banks from 2023 to 2028.[2] Notably, since the global financial crisis, the number of asset-light, service-oriented companies has more than doubled among the top 25 financial businesses , displacing traditional asset-intensive financial institutions (**Exhibit 3**). This suggests that the industry shift toward disruptors is already well underway.

Exhibit 3: Disruptors Are Gaining Market Share

Top 25 Stocks in Financials by Market Capitalization





As of 12/31/2025. **This information is for illustrative purposes only and not necessarily representative of the past or future portfolio composition.** There is no assurance that Baron Capital's funds or strategies will invest in any or all of these innovation examples. This information is not intended as an investment recommendation nor does it constitute investment advice.

Source: FactSet.

Secular Growth Trends

In addition to technology, several secular growth themes are transforming investing opportunities in the Financials sector. These themes include optimism around banks, rising demand for private markets, expanding financial inclusion, and the largest generational wealth transfer in history.

Optimism around banks: After many years of underperformance and lackluster growth, banks are reporting stronger earnings thanks to a steepening yield curve and easing regulations. At the same time, capital market activity is increasing, boosted by higher asset values, strong trading activity, elevated issuance of equity and debt, and rebounding M&A. Together, these dynamics are reinforcing the role of financial institutions at the center of the economy.

Rising demand for private markets: Private capital market assets have more than doubled over the past 12 years to $22 trillion, much of it from institutional investors.[3] Individual investors, however, have relatively small allocations to private assets, and we see room for growth as private asset managers leverage technology and product innovation to broaden access. This highlights substantial room for growth among individual investors, supported by projections of 11% plus annual growth in private markets through 2028.[3]

Expanding financial inclusion: In emerging markets, rising smartphone adoption and favorable demographic trends are enabling fintech and e-commerce to reach underserved communities. These nimble, innovative platforms are bypassing traditional infrastructure to deliver low-cost access to credit, insurance, and investment services. Expanding the global footprint of financial services creates significant growth potential, supported by the growing middle class across regions in Southeast Asia and Latin America.

Largest generational wealth transfer in history: The U.S. baby boomer generation accounts for 20% of the U.S. population, but they own 31% of the wealth—or more than $85 trillion in assets. Millennials, in contrast, hold about one-fifth that amount, and their younger counterparts, Gen Z, hold less than one-tenth.[4] As baby boomers age, these assets will inevitably transfer to younger heirs. If past and current trends are consistent, firms that have modernized their offerings and distributions models are well positioned to capture these assets and deepen client relationships.

Together, these trends create a long runway for financial businesses that leverage technology, data, and software to scale efficiently, thereby contributing to a growing, increasingly differentiated opportunity set.

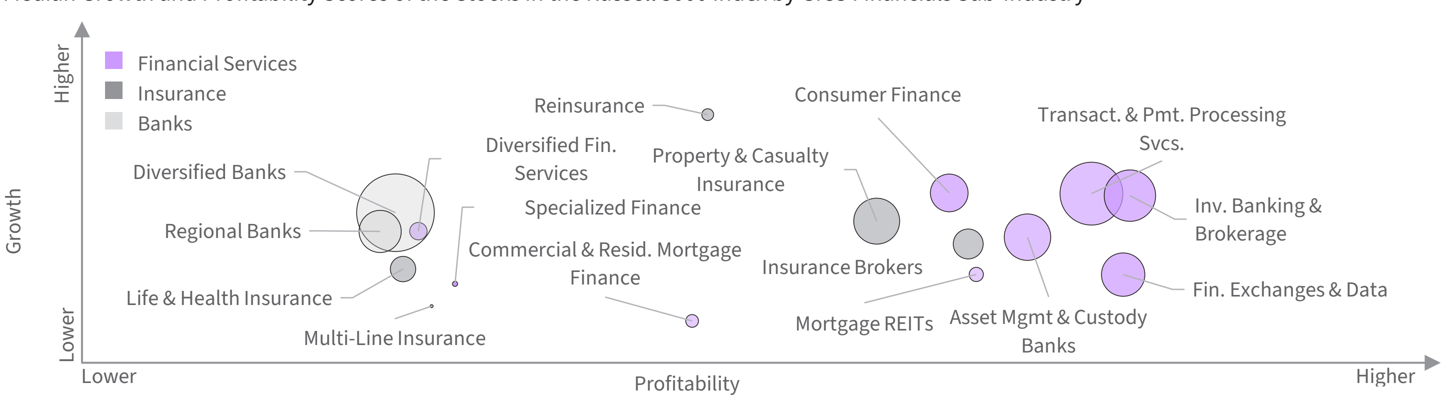
Financials: An Active Opportunity

Many growth-oriented investors are underweight Financials—especially given technology's recent outperformance—but we believe the sector presents a compelling opportunity. The size, performance, and secular growth trends of the Financials sector make it a rich environment for skilled active managers. Financial services are the backbone of the U.S. and global economy, providing vital services and helping to maintain financial stability. They have delivered strong returns to investors over the long term. The industry is also undergoing transformative change, offering a diverse range of opportunities. Broad financial indexes and passive strategies remain heavily weighted toward traditional, legacy institutions with lower growth potential, often overlooking capital-light, service-oriented innovators that are best positioned to benefit from secular change and potentially deliver stronger profitability (**Exhibit 4**).

We believe Financials are an opportunity to gain select, relatively stable growth exposure in their portfolios. In our view, investors are most likely to enjoy these benefits through active managers with strong resources, an established process, and deep experience in the sector.

Exhibit 4: The Financial Sector Offers Wide Dispersion in Return Potential

Median Growth and Profitability Scores of the Stocks in the Russell 3000 Index by GICS Financials Sub-Industry[5]



Source: MSCI Barra, U.S. Total Market Model for Long-Term Investors.

About Baron Capital

Baron Capital is a premier asset management firm focused exclusively on delivering growth equity investment solutions to institutions, financial advisors, and individual investors. Since its founding in **1982,** Baron Capital has been united under one style of investing with a single objective—to be long-term investors in secular growth businesses with durable competitive advantages, run by great management teams. With **$47.0 billion** in assets under management (as of 3/31/2026), Baron Capital prides itself on delivering the best solutions and outcomes for clients globally.

To learn more, visit **BaronCapitalGroup.com**

[1] Mastercard Investment Community Meeting as of 11/13/2024.

[2] McKinsey & Company as of 12/3/2025.

[3] BofA Global Research as of 10/21/2025.

[4] Apollo chief economist Torsten Slok, cited in Sasha Rogelberg, "Baby boomers have now 'gobbled up' nearly one-third of America's wealth share, and they're leaving Gen Z and millennials behind," Fortune, as of 12/8/2025.

[5] This information is for illustrative purposes only and not necessarily representative of the past or future portfolio composition. There is no assurance that Baron Capital's funds or strategies will invest in any or all of these innovation examples. This information is not intended as an investment recommendation nor does it constitute investment advice. The Growth score of each stock is calculated using the following descriptors and relative weights: (i) long term analyst-predicted EPS growth (50% weight), (ii) historical EPS growth (20%), and (iii) historical sales per share growth (30%). The Profitability score of each stock is calculated using the following descriptors and relative weights: (i) gross margin (~30% weight), (ii) return on assets (~30%), (iii) return on equity (~30%), (iv) asset turnover (~4%), and (v) gross profitability (~4%).

Important Information

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.

Risks: In addition to general market conditions, FinTech companies may be adversely impacted by government regulations, economic conditions and deterioration in credit markets. Companies in the Information Technology sector are subject to rapid changes in technology product cycles; rapid product obsolescence; government regulation; and increased competition, both domestically and internationally, including competition from foreign competitors with lower production costs. The IT services industry can be significantly affected by competitive pressures, such as technological developments, fixed-rate pricing, and the ability to attract and retain skilled employees, and the success of companies in the industry is subject to continued demand for IT services.

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views reflect our best judgment at the time and are subject to change at any time based on market and other conditions and Baron Capital has no obligation to update them.

The **Russell 3000® Index** measures the performance of the largest 3,000 US companies representing approximately 98% of the investable US 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 index is unmanaged. Investors cannot invest directly in an index.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).

© 2026 Baron Capital. All rights reserved.