BARON CAPITAL

JUNE 30, 2026

Co-President's Letter

Michael Baron
Co-President
Portfolio Manager

We have received a lot of "congratulations" over the past month regarding our investment in **Space Exploration Technologies Corp.** (SpaceX). I felt these calls, while well intended, were always awkward to accept. "Congratulations" is typically reserved for the beginning or end of an accomplishment: "congratulations on the birth of a child" or "congratulations on a graduation." Neither hold true for our involvement with SpaceX. Yes, we provided part of the capital that enabled the company to achieve various goals, a stable long-term owner on the cap table, and thoughts on how we believed the offering would be received in the public markets. But we did not sell a single share on June 12, 2026, the date of the company's well-publicized and historic initial public offering. In fact, we did the opposite and purchased approximately $1 billion worth of additional shares for our various portfolios and client accounts. Our investment in SpaceX still feels like it's in the early days. To us, the IPO of SpaceX was a momentous milestone for the company and validation for our investment thesis, instead of a congratulatory event. The many times oversubscribed deal was priced at $135 per share, valued the company at approximately $1.77 trillion, and was well received by investors as the stock traded smoothly over the subsequent weeks.[1] It substantiated our investment thesis derived over years of consistent research, analysis, and questioning all aspects of the business. But this event marks only a steppingstone in what we believe will be an extraordinarily lucrative investment in the years (and potentially decades) to come for Baron Capital clients.

The conversations with these well-intended well-wishers inevitably turned into their trying to understand what we had correctly understood about the company for years. They asked about our relationship with management (and Elon), what we saw that others missed, and what is next for the company and our various Baron Capital portfolios that hold it. Now that we are no longer constrained by a stringent NDA (that was eased upon their filing of the S1), I anticipate we will much more freely and readily discuss our investment thesis in SpaceX, the company's various achievements and milestones, and the several portfolios that own it. Clients should expect to be inundated with information and candor in our quarterly letters, client calls, and media interviews. All with the intention of providing clarity if Baron Capital's portfolios remain appropriate for you.

Our Conviction Is Built Over YEARS Of Research

One thing many get wrong about our initial investment is that we were "early." We do not attempt to be early investors but rather invest when we achieve the appropriate level of confidence and remain invested to see it through to fruition. SpaceX was founded in 2002, interestingly a year prior to the founding of Elon's other widely discussed company and significant investment at Baron Capital, **Tesla, Inc.** Similar to our investment in SpaceX, we were not "early" in Tesla. We made our initial substantial investment in Tesla in 2014 after having consistently met with executives since their IPO in 2010. At the time of our first investment, the company's yearly vehicle production was approximately 31,000 at a single facility in California. A sign at that facility shared Tesla's mission to change the world through "sustainable transport" and eventually "sustainable energy." It was a much more robust and lofty goal than vehicle manufacturing. We spent countless meetings understanding that mission, and the company's likelihood for achievement. At the time, there was no mass production of affordable vehicles, global plants producing a wide array of models and functionality, or Gigafactories producing batteries. Autonomous functionality, a viable energy business, and Optimus robots were years away. But over those diligence meetings, we spent time discussing how these concepts could eventually become meaningful contributors to the business and its mission. Over the course of our investment in Tesla, revenue has grown nearly 30x and profitability, we believe, is on the cusp of acceleration.

Our first investment in SpaceX came three years later in 2017. So, while we were significantly earlier than the vast majority of investors who only acquired shares in June, I do not consider us to be early-stage investors. Instead, we were early to do our research and invested at an appropriate time and level of understanding. At the time of our initial meetings, the company's Falcon 9 completed 18 orbital launches that year while reutilizing a booster twice. It delivered approximately 20% of global mass to orbit. The company did not possess satellites or AI capabilities. Today, the company successfully completes a launch approximately every other day and delivers about 80% of global mass to orbit. Its boosters have a reusability of 36 flights driving down costs significantly. Its Starship rocket is expected to again meaningfully lower cost to access space and deliver proprietary satellites at massive scale that would enable connectivity and artificial intelligence. And there are more business lines that this functionality could spur for government agencies, mining, and transport.

At our Investment Conference last year, Ron and Elon discussed some of those countless conversations with the executive team over the four years of diligence on Tesla prospects and likelihood for success. We questioned all aspects of the company's vision, mission, and the motivations behind its leaders before investing. And maybe most importantly, how the company's competitive advantage would be sustained and enhanced over the coming years. Elon jokingly stated that it took you long enough to be convinced on me. While never explicitly saying it, I believe while we were doing our homework over the years on this business and the executives who lead it, Elon was doing his analysis of us. He respected our diligence, our ownership mentality, and our investment horizon. And he determined that Baron Capital portfolios would be a good prospective owner of his privately held SpaceX. He invited us to participate, provided access to information and executives, and allowed us to form our own conclusions.

While we started purchasing shares in 2017, we consistently purchased in the years that followed. In fact, we purchased 27 times over the following nine years. We never missed an opportunity to build our stake in a suitable manner that was good for both our clients and the company. Our research and analysis never stopped either. Each conversation led to more discoveries and more questions.

We understood the mission and the possibilities behind what Elon was attempting to accomplish. It was much greater than a launch business to space. And we understood why only this vertically integrated company could succeed and achieve unmatched market share. With each conversation, each discovery, our conviction grew. And unlike typical venture capitalists, who distribute holdings upon the finite fund lives, Baron Funds are perpetual portfolios that usually do not need to sell or distribute shares other than remaining within its prospectus guidelines and regulatory requirements. This structure allowed us and our clients to realize the long-term value creation from the company.

We Believe the Greatest Value Creation Still Lies Ahead

Many investors may now look at this company as easily accessible. It trades readily on NASDAQ after approximately $86 billion worth of stock was offered in mid-June. It has a market capitalization that only a handful of others have eclipsed. For a minimal transaction fee on many platforms, most can purchase shares directly (and bypass a management fee on Baron Capital products.) But while access is now ubiquitous, conviction is not.

Ron appeared on CNBC the week following the IPO , laying out our thought process behind the company's opportunities and competitive advantages. It was obvious to viewers that it was difficult for him to contain his excitement. He encouraged interested investors to "read the prospectus," believing that they too would be equally as excited. Simple advice, and the most basic level of research, that shockingly most do not perform. Conviction cannot be achieved without primary research, knowledge, and understanding. And without conviction, investors cannot remain owners. And without being an owner, we believe, the potential appreciation in value cannot be realized.

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Volatility of a single stock (especially one of SpaceX's potential) makes ownership difficult outside of a balanced portfolio. Baron Strategies do not just examine investment merits of a company, but also portfolio construction attributes. The SpaceX security became a disproportionate amount in some portfolios because of significant appreciation. As of the end of the quarter, it represented 32.9% of total investments for Baron Partners Fund. We faced criticism and scrutiny by intermediaries who felt the position was too large a percentage in some portfolios. (It mirrored critiques we have faced in the past as we let some successful winners run.) But what many fail to recognize is that we constantly aim to mitigate risk and volatility by holding securities of various characteristics, but that also meet our time-tested investment criteria. Portfolio construction, we believe, is often taken for granted by investors who aim to reduce costs by directly owning a handful of securities. And therefore, holding individual stocks creates a risk level that is unappealing and unacceptable to most.

We have laid out a case for our investment in SpaceX. The company is attacking many massive markets: launch, connectivity, AI compute, and inference, to name only a few. Based on our research, we believe its superior services coupled with insurmountably massive cost advantages make the company prime to garner unprecedented market share of each opportunity. If correct, we believe its valuation could eventually reach $10-, $20-, $30 trillion and be the most valuable company ever. The day the IPO valuation range was announced, Baron Partners Fund® (the Fund) (Institutional Shares), which has one of the largest weights to SpaceX out of any '40 Act vehicle, increased 6.6%. The day of the IPO, the Fund increased 5.5%. After both days, we experienced a noticeable increase in client redemptions of that Fund. We scratched our heads. We have been discussing internally and publicly how this company could increase 5-, 10-, 15- times from the IPO level and yet some are choosing to lock in minimal early gains. Those redemptions were executed by those who do not share our ownership mentality. In all cases, we maintained or increased the weight of SpaceX in the portfolio on the day of the IPO. We believe long-term investors will benefit from other's shortsightedness.

While we continue to receive congratulatory calls about our investment in SpaceX, I believe the "congratulations" should be reserved for those who purchased portfolios that own SpaceX on or before June 12, those who are just beginning their journey with this company's potential. Moreover, "congratulations" to the Baron Capital clients who have for years entrusted us to steward their capital, properly understood and assessed portfolio construction, and realize the long-term potential on this and other investments.

And of course, congratulations to the 2026 NBA Champion New York Knicks!

Michael Baron
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Portfolio Manager

[1] The stock did retreat below the offering price after the end of the quarter due to an aborted test flight of Starship. The hiccup did not alter our long-term investment thesis.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting BaronCapitalGroup.com. Please read them carefully before investing.

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: The Fund is non-diversified which means, in addition to increased volatility of the Fund's returns, it will likely have a greater percentage of its assets in a single issuer or a small number of issuers, including in a particular industry than a diversified fund. Single issuer risk is the possibility that factors specific to an issuer to which the Fund is exposed will affect the market prices of the issuer's securities and therefore the net asset value of the Fund. Specific risks associated with leverage include increased volatility of the Fund's returns and exposure of the Fund to greater risk of loss in any given period.

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 letter 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.

Top 10 holdings
Baron Partners Fund
6/30/2026

	Percent of Total Investments (%)
Space Exploration Technologies Corp.	32.9
Tesla, Inc.	14.1
Hyatt Hotels Corporation	4.0
The Charles Schwab Corporation	4.0
MSCI Inc.	3.9
Shopify Inc.	3.7
Arch Capital Group Ltd.	3.3
Spotify Technology S.A.	3.1
FactSet Research Systems Inc.	2.6
Gartner, Inc.	2.5
Total	**74.1**

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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