Baron Discovery Strategy

BARON CAPITAL

March 31, 2018

Dear Investor:

Performance

During the first quarter of 2018, we witnessed a very different stock market from what we saw for most of 2017. During 2017, stock market volatility (as measured by the CBOE Volatility Index* otherwise known as the "fear index") remained near all-time lows while the market moved steadily higher throughout the year. This pattern came to an end in 2018, as February and March saw increased volatility and market choppiness, especially in the Technology sector. Despite the volatility, we continued to focus on the fundamentals of our individual companies. We believe that if our companies can grow revenues and profitability at the rates we expect, that over the medium to long term, we have the potential to earn the compounded return we target on those investments. We believe taking a longer-term view gives us an advantage over most market participants who are only focused on the short term. While the market may not reflect the intrinsic value of a business in the short run, it does a good job of weighing the discounted future free cash flows of a business in the long run. This is why, in addition to the quality of management, we focus a significant portion of our due diligence efforts on competitive advantages. We believe that competitive advantages are directly correlated to the sustainability of any businesses' future free cash flows.

Baron Discovery Strategy decreased 1.25% (net of fees) for the first quarter of 2018. This was 3.55% below the Russell 2000 Growth Index. While not the start to the year we would prefer, we analyze our performance using the same duration with which we look at the majority of our investments, which is a minimum of three to five years. On that basis, we continue to be pleased with our one-year, three-year, and since inception performance, as compared to the Russell 2000 Growth Index.

Table I.
Performance†
Annualized for periods ended March 31, 2018

	Baron Discovery Strategy (net)[1]	Baron Discovery Strategy (gross)[1]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	(1.25)%	(0.99)%	2.30%	(0.76)%
One Year	20.28%	21.40%	18.63%	13.99%
Three Years	9.71%	10.54%	8.77%	10.78%
Since Inception (October 31, 2013) (Annualized)[3]	14.57%	15.33%	10.50%	12.87%
Since Inception (October 31, 2013) (Cumulative)[3]	82.38%	87.76%	53.92%	64.85%

Table II.
Top contributors to performance for the quarter ended March 31, 2018

	Percent Impact
Cerus Corporation	0.84%
Wingstop Inc.	0.69
Teladoc, Inc.	0.57
The KEYW Holding Corporation	0.54
Qualys, Inc.	0.49

Cerus Corporation, an innovative developer of systems that inactivate viruses and bacteria in donated blood, made significant progress in the quarter. It increased sales in Europe under a new nationwide contract in France, as well as other markets, including Germany. In the U.S., Cerus

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 March 31, 2018, total Firm assets under management are approximately $27.1 billion. 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. The Strategy is currently composed of one mutual fund managed by BAMCO. The Strategy invests mainly in small cap growth companies.

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-compliant presentation please contact us at 1-800-99BARON.

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.

* Source: Morningstar Direct. Peers are defined as oldest share class of open-ended mutual funds, excluding index funds and fund of funds, that Morningstar categorizes in its US OE Small Growth Category.

† The Strategy's 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 Strategy's level of participation in IPOs and secondary offerings will be the same in the future.

1 The indexes are unmanaged. The Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large-cap U.S. companies. The indexes and the Strategy are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is 9/30/2013.

continued to move forward on its large-scale penetration into the blood bank market for platelets, as its customers continued to receive necessary regulatory approvals. It also made progress on large new market opportunities: getting ready to file its CE Mark application for red blood cell protection in Europe, advancing red blood cell studies in the U.S. (these regions have over $2 billion of potential market opportunity), and moving forward on a new market in cyroprecipitates (a $200 million market for blood products to help control bleeding in trauma and other patients). At the same time, the company raised $57 million in a secondary offering and has held down expenses to make its cash last. We feel that Cerus is on the cusp of accelerating its growth, with a product that has significant barriers to entry.

Wingstop Inc., an owner and franchisor of chicken wing-focused restaurants, was a top contributor during the quarter. In line with its strategy to distribute excess profits to shareholders, the company paid a $3.17 "special" dividend during the first quarter, which represented an almost 7% dividend yield (and was in addition to its regular quarterly dividend). The company continues to execute well on its strategy to both grow the number of restaurants globally and drive same restaurant sales through a new delivery program, increased advertising spending, and menu innovation. We believe Wingstop, which has approximately 1,100 restaurants today, has an opportunity for 5,500 in time. We remain bullish on the company's long-term growth opportunity.

Teladoc, Inc., the leading provider of tele-health services, continued to execute well. It beat fourth quarter consensus numbers and put up positive cash flow (EBITDA), as it had previously guided. This was a significant milestone, and we believe that the company could be close to free cash flow breakeven in 2018. At the same time, it has visibility under currently executed contracts to ramp its customer base to 42 million total patients by year-end 2018 from 23 million at the end of 2017. Of these, 19 million will be in a "visit only" fee category, where Teladoc can make significantly more revenue per member if utilization increases, and over 22 million members will pay visit fees as well as monthly fees to Teladoc for access to its network of physicians. While some investors grew nervous at the end of 2017 about the strategy to have more members pay only by visit, early signs are that this strategy is working and could potentially fuel healthy revenue growth.

Shares of **The KEYW Holding Corporation,** a provider of specialized cybersecurity and intelligence analytics products and services to government agencies, increased on strong Q4 performance, which was reported in March. While it took a few quarters longer than expected, CEO Bill Weber has built up a significant backlog of business and has integrated a large acquisition effectively. Now with book-to-bill ratios at about 1.1 times, the company looks to be able to grow at high single-digit levels, which could accelerate based on bidding win rates. KEYW is a unique asset in the defense services space. We believe the company has finally received an appropriate trading multiple, and we continue to believe that we can accrete further equity value through cash flow growth, debt paydown, and the company's potential as an acquisition target.

Qualys, Inc. is a provider of cloud-based cybersecurity software. In the quarter, the company beat consensus billings and adjusted earnings and guided 2018 metrics above consensus. The Strategy has benefited greatly as Qualys continues to succeed in its plan to accelerate revenues with new products, expand margins, and add accretive/strategic acquisitions. We are excited to see new product launches at the RSA cybersecurity conference in mid-April, and we believe that Qualys can continue to compound cash flow at a high rate for years to come.

Table III.
Top detractors from performance for the quarter ended March 31, 2018

	Percent Impact
MACOM Technology Solutions Holdings, Inc.	–0.98%
Sientra, Inc.	–0.79
Coherent, Inc.	–0.64
Impinj, Inc.	–0.56
Red Rock Resorts, Inc.	–0.47

MACOM Technology Solutions Holdings, Inc. is a designer and manufacturer of analog semiconductors for applications including optical networking, radar, and cellular 5G applications. Shares continued to disappoint in the first quarter after a key area of anticipated growth (optical network connectors inside large scale data centers) missed estimates. We have spent many hours researching the company's opportunity set in data centers, including dozens of industry interviews, and while we are convinced there is significant market potential here, we have become less convinced that MACOM will have a dominant position. Despite our view that radio frequency products such as radar and 5G cellular chips could be significant contributors in the years to come, we pared our position significantly in the quarter.

Sientra, Inc. is an aesthetics medical device company. It has one of only three FDA-approved silicone breast implant franchises in the U.S., and it recently purchased a company that uses a device to stop hyperhidrosis (excessive sweating) and odor in the underarms. The company is turning around from a disastrous 2015 in which it lost its Brazilian production plant to a fire (after unfounded concerns regarding contaminants in the implants). It is now on the cusp of re-starting U.S.-based production at a respected third-party manufacturer, and we believe that final FDA approval will occur any day. Sientra already received approval on the plant, and has two out of three process improvement approvals done. Shares were down in the quarter, we suspect, due to a one- to two-month delay in final plant approval and the company's $50 million "at the market," or ATM, facility filing. This facility allows the company to sell shares in the open market to raise cash, and this constant overhang has created uncertainty for investors. We believe once FDA approval is given, shares will rise, after which the company will be able to raise equity in an orderly secondary offering.

Coherent, Inc. designs and manufactures lasers used for numerous industrial, medical, and military end markets. One of the company's key products, of which it is the only provider in the world, is a specialized laser system that performs an essential step in OLED screen manufacturing. OLED is a new technology that is rapidly replacing LCD screens on mobile devices given its lower power consumption, faster refresh rate, and better color production. Coherent has had a single Korean customer dominate its OLED business for some time, but it is now quickly ramping other customers, including manufacturers based in China. Shares sold off on two concerns related to OLED. First, the new iPhone X, a high profile mobile OLED platform, initially sold poorly due to its expensive price tag. Second, reports that Apple is working on a new screen technology called MicroLED caused investors to question the longevity of Coherent's product. We believe the OLED screen was not the reason the iPhone X was so expensive, and many other manufacturers will create affordable OLED-based phones in the future. Also, MicroLED is a complex technology that is now many times more expensive than OLED, and is not yet production ready. Even if it works and is economical, it likely won't be produced in volume for at least three-to-five years. We believe shares of Coherent are now cheap and reflect little valuation credit to the OLED business.

Impinj, Inc., a leader in passive ultra-high-frequency Radio Frequency Identification ("RFID") was a detractor during the quarter. The company's chips are used to connect physical items to the digital world. Shares of Impinj declined in the first quarter as the result of delays in adoption by several large-end customers and increased pricing pressure from Impinj's primary RFID competitor. While we are strong believers in the technology and its longer-term opportunities, we sold our shares due to the intensifying competitive dynamics in the industry.

After being a top contributor last quarter, **Red Rock Resorts, Inc.**, an operator of casino and entertainment properties that primarily target "locals" in the Las Vegas market, gave back some of those gains to detract this quarter. The company is undergoing significant construction disruption while it performs upgrades at two of its large casinos. We believe these investments will achieve high ROI and will allow the company to grow faster starting in 2019. The market has been going back and forth on its willingness to look through these short-term profit headwinds and take a longer-term view that reflects what we believe is the ultimate profit potential of these projects. We still believe that Wall Street's profit projections for Red Rock Resorts are too low for 2019 and 2020 and that the company's stock has upside from current levels.

Higher than usual capital markets activity among a number of our holdings in the first quarter negatively impacted performance. **Sun Hydraulics Corporation**, **ForeScout Technologies, Inc.**, Cerus, Sientra, **Sage Therapeutics, Inc.**, **Gemphire Therapeutics Inc.**, and **Adamas Pharmaceuticals, Inc.** all raised (or in the case of Sientra expressed an intent to raise) capital during the quarter. These capital raises are critical (and modeled) components of these firms' growth plans, but they can depress stock prices (sometimes significantly) over the short term, as these capital raises are done at discounted pricing. We still believe in the long-term prospects for these businesses.

Portfolio Structure

Table IV.
Top 10 holdings as of March 31, 2018

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Teladoc, Inc.	2017	$9.6	4.2%
TPI Composites, Inc.	2016	7.4	3.3
Mercury Systems, Inc.	2015	7.3	3.3
Red Rock Resorts, Inc.	2016	7.3	3.2
Novanta Inc.	2017	7.2	3.2
Myriad Genetics, Inc.	2016	7.1	3.1
Qualys, Inc.	2013	6.5	2.9
Wingstop Inc.	2015	6.4	2.8
Varonis Systems, Inc.	2014	5.9	2.6
Sientra, Inc.	2016	5.7	2.5

Our top 10 holdings represented 31.1% of assets, which is in line with our historical average.

Recent Activity

Table V.
Top net purchases for the quarter ended March 31, 2018

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Hudson Ltd.	2018	$1.5	$5.2
Americold Realty Trust	2018	2.7	4.6
Brooks Automation, Inc.	2018	1.9	3.2
Liberty Media Corporation – Liberty Formula One	2016	7.1	2.5
Intersect ENT, Inc.	2018	1.2	2.5

We bought shares of **Hudson Ltd.** in the quarter. Hudson is the market leader in the North American travel retail market and is a subsidiary of the global travel retailer, Dufry. Hudson operates approximately 1,000 travel essentials and convenience stores, specialty stores, and duty-free stores, primarily in airports. Travel retail is insulated from e-commerce given a captive audience at airports that has immediate wants and needs. The industry is growing approximately 7% annually with consistent passenger volume growth. We believe that Hudson is well positioned to take share in this attractive industry by continuing to win new business and pursue acquisitions. Hudson's senior management team has deep industry expertise and strong political relationships, which is important in travel retail because of the complex regulatory environment. Hudson takes a local approach by customizing store assortments, layouts, and merchandising for each terminal. Airport food and beverage outlets and non-airport travel retail channels such as train stations, convention centers, and cruise ships all represent additional growth opportunities.

Americold Realty Trust is the largest operator of temperature regulated warehouses in the U.S. The company controls 160 warehouses that are collectively over 945 million cubic feet in size. We purchased the company's shares following its successful initial public offering in the first quarter. We like the cold storage business because of its stability, its "mission critical" nature, and its attractive organic and non-organic growth opportunities. We also believe the company's proprietary technology platform is a real differentiator as compared to other cold storage operators. Americold should continue to benefit from the strong demand environment, which will allow for same plant mid single-digit organic growth, in our view. This growth will be supplemented with additional greenfield expansions through which we believe the company can earn unlevered returns of 10% to 15% on capital investment, significantly higher than most other real estate categories. Lastly, we think the company can continue to consolidate smaller cold storage operators at accretive acquisition multiples.

We bought shares of **Brooks Automation, Inc.** in the quarter. The company is a leading provider of automation and cryogenic solutions for the semiconductor capital equipment market and the life sciences sample management market. We believe Brooks is undergoing a transformation as its Life Sciences business grows into a bigger percentage of the company's total revenue. In the Life Sciences business, Brooks provides sample management services, automated cold storage systems, consumables and informatics solutions for hospitals, biopharma companies, and academic/government institutions. We think the Life Sciences business is attractive, with secular growth driven by an increase in the number of life sciences samples that require storage and a trend in favor of outsourced storage services. Although the Life Sciences business represents only about 25% of total revenue today, it is growing over 20% on an organic basis, and management believes there are acquisition opportunities that can supplement organic growth. We think the Semi business is also attractive. Growth has been strong in the Semi business, and although we expect some volatility and cyclicality, we think it can generate mid single-digit growth over the cycle. In our view, the combined business is undervalued today based on our sum of the parts analysis. Assuming the Life Sciences business continues to grow rapidly, and profit margins expand as the business scales, we see substantial upside in the stock over a multi-year period.

Liberty Media Corporation–Liberty Formula One operates the Formula One race car series. We added to the position during the quarter as the stock traded down due to concerns around a new contract being negotiated with the racing teams in the series. Over the next few years, we believe Formula One will benefit from broadcast rights renewals, a longer race calendar, increased advertising and sponsorship, higher merchandising revenues, and monetization of its digital "over the top" channel. We remain bullish on both the management, who have been value creators in the past, and on the company's long-term prospects.

Intersect ENT, Inc. is an investment that we have returned to after a prior successful experience. The company makes special biodegradable medical implants that are used after sinus surgery. These implants hold the sinuses open while they heal post-surgery and deliver steroids locally to where they are needed to help the healing process. Our recent re-investment in the company occurred after Intersect ENT gained approval of an exciting new product called SINUVA in December 2017. This device (which has four times more drug than the original Intersect ENT products, and a 90-day delivery period, which is three times longer) can be implanted in-office by ENTs when a patient has recurring symptoms and/or polyps, despite having a prior functional endoscopic sinus surgery. The product is unique, and we believe it is well protected, as it required FDA approval as a drug versus just as a medical device due to the increased medication content. We believe SINUVA has the potential to nearly double the addressable market for the company's products to nearly $3 billion.

Table VI.
Top net sales for the quarter ended March 31, 2018

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Noble Midstream Partners LP	2017	$1.8	$1.8	$4.9
MACOM Technology Solutions Holdings, Inc.	2015	1.8	1.1	4.1
Foundation Medicine, Inc.	2013	0.9	2.9	4.1
Pinnacle Entertainment, Inc.	2016	0.7	1.7	4.1
CommerceHub, Inc.	2017	0.6	1.0	3.7

We trimmed our dividend paying stocks in the quarter (including **Noble Midstream Partners LP**) due to our view that interest rate increases would continue to be a headwind for these names. We significantly pared **MACOM Technology Solutions Holdings, Inc.** for aforementioned reasons. We reduced our position in **Foundation Medicine, Inc.** purely based on valuation. We continue to hold a meaningful position in Foundation Medicine, as we believe the company has industry-leading test quality that is driving a unique genomic cancer data base and will ultimately be acquired by Roche, which is its majority holder.

Both **Pinnacle Entertainment, Inc.** and **CommerceHub, Inc.** agreed to be acquired, and we sold these positions as a result. On that note, during all of 2017, we had six companies agree to be acquired, which matched the number we had in 2016. This is a large number, given that we typically run with about 55 to 60 total positions in the portfolio. While we are not investing in companies with the thesis that they will be acquired, we do think that the small and fast growing businesses we generally target make great bolt-on acquisitions for larger firms.

Outlook

To be sure, our style will be in and out of vogue over time. Our goal is, and will continue to be, to find small, fast growing companies that we think have great management teams, real competitive advantages and long runways for growth. We think finding these companies before they are discovered by the rest of Wall Street, in combination with our fundamental, bottom-up research process, should produce outsized returns over a full market cycle, although we cannot guarantee that will be the case.

Randy Gwirtzman & Laird Bieger
Portfolio Managers

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. The Strategy may not achieve its objectives.

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

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio managers' views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.