



Baron Mid Cap Growth Strategy

March 31, 2018

DEAR INVESTOR:

PERFORMANCE

U.S. equity indexes were mixed during the first quarter. The year commenced with rapid market gains, which reversed in late January as the prospect of faster inflation coupled with rising interest rates spooked investors. Volatility persisted throughout the remainder of the quarter, as various political developments, most notably the prospect of a "trade war," further unsettled the markets. Within this environment, growth stocks generally outperformed value stocks, and small- and mid-cap growth indexes outperformed large-cap indexes. Against this backdrop, Baron Mid Cap Growth Strategy gained 4.69% (net of fees) during the quarter. The Russell Midcap Growth Index (the "Index") gained 2.17%, and the S&P 500 Index fell 0.76%.

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

	Baron Mid Cap Growth Strategy (net) ¹	Baron Mid Cap Growth Strategy (gross) ¹	Russell Midcap Growth Index ¹	S&P 500 Index ¹
Three Months ²	4.69%	4.95%	2.17%	(0.76)%
One Year	20.23%	21.44%	19.74%	13.99%
Three Years	10.97%	12.08%	9.17%	10.78%
Five Years	13.62%	14.76%	13.31%	13.31%
Ten Years	10.17%	11.30%	10.61%	9.49%
Fifteen Years	11.98%	13.13%	12.12%	10.10%
Since Inception ³	8.24%	9.33%	7.96% ⁴	6.37%

The best performing sectors in the Index during the quarter included Information Technology ("IT") and Health Care, which make up nearly half

the Strategy's assets. The IT sector built on last year's outperformance, with gains driven by companies in the software and internet software & services industries. Performance of the Health Care sector was led by health care equipment, pharmaceuticals, and health care supplies companies. The Energy sector declined despite the rise in oil prices, while Real Estate was pressured by the sell-off in REITs over concerns surrounding rising interest rates. The Materials and Consumer Discretionary sectors also declined during the quarter.

Many of the Strategy's best performing stocks were in the IT sector. As discussed below, **CoStar Group, Inc.**, a real estate information company, and **Zillow Group, Inc.**, an operator of real estate websites, both gained after reporting strong business trends in the most recent quarter. Financial technology vendor **SS&C Technologies Holdings, Inc.** gained after announcing a large acquisition. Investments in several application software companies that we believe are disrupting existing markets, such as **Guidewire Software, Inc.** and **The Ultimate Software Group, Inc.** all performed well. **IDEXX Laboratories, Inc.**, a veterinary diagnostic company, **Bio-Techne Corporation**, a supplier of proteins to life sciences research, and **Veeva Systems Inc.**, a leading provider of cloud-based software solutions for the life sciences market, were standouts in the Health Care sector.

The Strategy's performance was hindered by a couple of large holdings that were hurt by idiosyncratic issues. **Mettler-Toledo International, Inc.**, a weighing instruments manufacturer, fell on concerns about the difficult growth comparisons it faces after outstanding performance last year. **Gartner, Inc.**, which provides research on the IT sector, fell on concerns about the pace with which it is integrating a large recent acquisition. **West Pharmaceutical Services, Inc.**, which manufactures pharmaceutical packaging devices, fell after reporting quarterly results that were marred by several factors that we believe to be short term in nature.

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. The Strategy is a time-weighted, total return composite of all mid-cap accounts greater than \$1 million using our standard investment process. Since 2010, accounts in the Strategy are market-value weighted and are included on the first day of the month following one full month under management. Prior to 2010, accounts were included on the first day of the quarter after one full quarter. Gross performance figures do not reflect the deduction of investment advisory fees. 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 our 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 and separately managed accounts managed by BCM. 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.

¹ The indexes are unmanaged. The Russell Midcap™ Growth Index measures the performance of medium-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 6/12/87.

⁴ Top contributors, top detractors, and top 10 holdings are based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversify 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.

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Table II.

Top contributors to performance for the quarter ended March 31, 2018^{1,2}

	Year Acquired	Percent Impact
IDEXX Laboratories, Inc.	2006	1.23%
CoStar Group, Inc.	2016	0.42
SS&C Technologies Holdings, Inc.	2014	0.39
Zillow Group, Inc.	2015	0.36
Verisk Analytics, Inc.	2009	0.33

IDEXX Laboratories, Inc., the leading player in the market for veterinary diagnostics, was the largest contributor to performance. The company's latest quarterly results exceeded Wall Street's expectations, as its organic revenue growth accelerated to 12%. This led management to raise its estimates for revenue and earnings growth for the full year 2018. Notably, placements of the company's flagship Catalyst instruments into veterinary offices continued to track at impressive rates. This is significant because these instrument placements result in ongoing sales of highly profitable reagents to these same customers. We are also excited about the launch of IDEXX's proprietary SDMA test for kidney disease and fecal antigens into vets' offices. We believe that this test will boost the company's overall organic revenue and earnings growth over time. In addition, operating margins have continued to move higher, and we believe there is meaningful room for continued expansion over the next several years.

Shares of **CoStar Group, Inc.**, a real estate information and marketing services company, gained in response to strong near-term business trends. CoStar announced that its fourth quarter 2017 sales jumped approximately 50% year-over-year. We remain excited by the company's successful experience upselling customers of its Loopnet Premium Searcher to its flagship CoStar product, which we believe can contribute an incremental \$150 million to \$200 million of highly profitable, recurring revenue. We believe CoStar has an even larger opportunity to drive profits by optimizing its Premium Lister product, and we expect the company's recent acquisition of ForRent to be meaningfully accretive.

Shares of financial technology vendor **SS&C Technologies Holdings, Inc.** contributed to performance as the company announced its largest acquisition – the approximately \$6 billion purchase of DST Systems, Inc., a key player in long-only portfolio administration. SS&C has amassed a strong M&A track record, and we expect that meaningful synergies will be recognized from this deal. In addition, SS&C reported solid earnings results and shared a positive outlook for 2018. We believe the company will generate attractive ongoing revenue growth through market share gains, cross-sales of its expanded services portfolio, and new product introductions.

Zillow Group, Inc. operates the leading online real estate sites in the U.S. These sites offer information on homes for sale and rent, as well as a marketplace to find mortgages. The company also owns StreetEasy, the leading real estate site for New York City. Shares of Zillow gained based on its strong financial results and positive forward outlook. Zillow makes money primarily by selling new home leads to real estate agents, and we believe the company can increase agents' spending meaningfully over time.

We believe that Zillow remains in the early stage of taking market share in the estimated \$8 billion market for online real estate advertising.

Shares of **Verisk Analytics, Inc.**, a leading vendor of data and analytics, reported good earnings results, highlighted by impressive growth in its Insurance segment, improved results in its Financial Services segment, and accelerating growth in its Energy segment. Verisk also issued optimistic commentary about its performance in 2018. We remain positive about the competitive positioning, long-term growth, margin, and capital deployment prospects for this longtime holding.

Table III.

Top detractors from performance for the quarter ended March 31, 2018^{1,2}

	Year Acquired	Percent Impact
Mettler-Toledo International, Inc.	2008	–0.36%
Gartner, Inc.	2007	–0.27
West Pharmaceutical Services, Inc.	2014	–0.20
Arch Capital Group Ltd.	2003	–0.17
Equinix, Inc.	2007	–0.16

Shares of **Mettler-Toledo International, Inc.**, the world's largest provider of weighing instruments for use in laboratory, industrial and food retailing applications, detracted from performance. Although the company reported strong fourth quarter 2017 results, Mettler faces difficult growth comparisons after an exceptionally strong 2017. This led management to forecast a more normalized growth rate in 2018, which pressured the stock. We continue to believe Mettler is an exceptionally well-managed, competitively differentiated business that can compound earnings at attractive rates.

Shares of **Gartner, Inc.**, the largest provider of syndicated research on the IT sector, detracted from performance. Gartner continued to integrate its approximately \$3 billion acquisition of CEB, Inc., which provides research on corporate best practices. This integration is proceeding ahead of schedule, and Gartner has chosen to increase its investment to pursue CEB's large market opportunity. This investment will likely reduce margins in the near term, but we believe it will ultimately drive faster revenue growth. Separately, we believe that key forward looking metrics in Gartner's core IT research business are solid, with contract value growth and sales productivity both improving.

Shares of **West Pharmaceutical Services, Inc.**, a designer and manufacturer of pharmaceutical packaging and delivery systems, declined. West reported a weak fourth quarter 2017 because of several factors we believe to be temporary, including its decision to exit the Venezuelan market and lost sales due to power outages at a plant in Puerto Rico impacted by recent hurricanes. We continue to believe West has a competitively advantaged business that can grow 6% to 8% per year on the top line, with mid-teens earnings growth driven by volume, price and product mix shift.

Arch Capital Group Ltd. is a Bermuda-based specialty insurance and reinsurance company, which also has a large segment that provides

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² Based on the gross performance results of the representative account.

mortgage insurance. Although Arch reported 10% growth in book value per share during the most recent quarter, its stock fell as industry pricing trends remained challenging. In addition, Freddie Mac introduced a pilot program for distributing mortgage insurance that sparked concern about looming competition in that market.

Equinix, Inc. operates a global network of carrier-neutral colocation data centers. Its shares fell after releasing 2018 earnings guidance that was short of Wall Street's expectations. We remain optimistic about the company's longer-term outlook based on meaningful ongoing demand among businesses to adopt cloud-based software and to outsource more IT services. We believe that Equinix holds a coveted position as one of the only operators with a global platform, coupled with a history of successful acquisitions.

PORTFOLIO STRUCTURE

At March 31, 2018, Baron Mid Cap Growth Strategy held 57 positions. The Strategy's 10 largest holdings represented 40.4% of assets, and the 20 largest represented 62.1% of assets. The Strategy's largest weighting was in the IT sector at 23.0% of assets. This sector includes software companies, IT consulting firms, and data processing firms. The Strategy held 22.8% of its assets in the Health Care sector, which includes investments in life sciences companies and health care equipment and supplies companies. The Strategy held 18.6% of its assets in the Industrials sector, which includes investments in research and consulting companies, industrial machinery companies, and conglomerates. The Strategy also had significant weightings in Financials at 15.2% of assets and Consumer Discretionary at 11.9% of assets.

Table IV.
Top 10 holdings as of March 31, 2018¹

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Percent of Net Assets
IDEXX Laboratories, Inc.	2006	\$2.5	\$16.7	6.5%
Gartner, Inc.	2007	2.9	10.7	5.7
Vail Resorts, Inc.	1997	0.2	9.0	4.7
Mettler-Toledo International, Inc.	2008	2.4	14.6	4.5
Verisk Analytics, Inc.	2009	4.0	17.2	4.2
The Charles Schwab Corp.	1992	1.0	70.3	3.6
Guidewire Software, Inc.	2013	2.8	6.5	3.2
ANSYS, Inc.	2009	2.3	13.1	2.7
Arch Capital Group Ltd.	2003	0.9	11.7	2.7
FactSet Research Systems, Inc.	2006	2.5	7.8	2.6

¹ Based on the representative account.

RECENT ACTIVITY

During the past quarter, the Strategy established three new positions and added to six others. The Strategy eliminated one holding and reduced its holdings in 14 others.

Table V.
Top net purchases for the quarter ended March 31, 2018¹

	Quarter End Market Cap (billions)
Waters Corporation	\$15.7
Sage Therapeutics, Inc.	7.4
TransUnion	10.4
Wix.com Ltd.	3.7
Veeva Systems Inc.	10.3

¹ Based on the representative account.

We initiated a position in **Waters Corporation**, a leading supplier of analytical instruments, such as liquid chromatographers and mass spectrometers. These devices are used by testing laboratories in markets including biopharmaceuticals, industrial, and quality assurance for applications that include drug discovery and development, quality control, nutritional safety analysis, and environmental testing.

We believe that Waters' business is driven by favorable secular trends, most notably increased regulation and rising quality standards for prescription medicines, food, and water. A key end market for Waters is the biopharmaceutical industry where market trends appear quite positive for Waters' products. We believe that Waters should benefit from increased drug volumes, increased use of generic drugs and biologics, and heightened FDA requirements regarding data quality. In addition, Waters' analytical instruments play an important role in food safety testing. Highly publicized incidents are driving more demand for food testing as food manufacturers seek to protect their brands. Increased regulations, such as the Food Safety Modernization Act in the U.S., and new food safety laws in Asian countries are also driving more food testing requirements.

We believe Waters has several competitive advantages. The company sells sophisticated, high-precision instruments that are protected by intellectual property and know-how. Because of regulatory requirements, switching from one company's product to a competitor's product is very difficult for customers. This has resulted in sticky market share divided among a few entrenched companies, each of which has a large installed base of instruments and longstanding customer relationships. Waters has a large sales and service force with roughly 3,600 field representatives, and the company annually invests more than \$100 million in research and development.

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In our opinion, Waters' business has attractive financial characteristics. The company generates a portion of its revenues from recurring sources, including disposable chromatography columns and service revenue. The company has industry-leading margins, ROIC, and free cash flow. We think the company has a long runway for mid-to-high single-digit revenue growth and faster earnings growth. We also think the company has multiple opportunities to deploy its capital to create shareholder value.

Table VI.

Top net sales for the quarter ended March 31, 2018¹

Henry Schein, Inc.
Arch Capital Group Ltd.
CBRE Group, Inc.
Booking Holdings, Inc.
SBA Communications Corp.

¹ Based on the representative account.

We exited our position in **Henry Schein, Inc.**, a distributor of dental, medical, and animal health products. We remained concerned about potential competition from online distributors, particularly Amazon.com, and the company's disappointing 2018 earnings guidance. We trimmed our position in insurer **Arch Capital Group Ltd.** on concerns about the outcome of a changing regulatory environment for its profitable mortgage insurance unit. We trimmed our position in commercial real estate services firm **CBRE Group, Inc.** on concerns about the possible impact of rising interest rates on the real estate market. We trimmed our position in longtime holding **Booking Holdings, Inc.**, the leading online travel agency, as its market cap increased to nearly \$100 billion. We reduced our position in longtime holding **SBA Communications Corp.** as its shares reached new highs during the quarter.

OUTLOOK

We remain optimistic about the environment for U.S. equities, despite the more volatile market conditions experienced thus far in 2018. The global economy continues to grow in concert across nearly all geographies, which bodes well for continued improvements in corporate earnings. Although interest rates have moved modestly higher, inflation remains tame, and we have seen several takeovers of mid-sized companies at attractive premiums, particularly in the IT and Health Care sectors.

We think our investments in what we believe are well-managed, competitively advantaged, fast growing companies will continue to perform well in this environment, although we cannot guarantee that they will. We continue to believe that high-quality, mid-sized growth stocks represent a compelling long-term investment opportunity. During the past 15-, 20- and 30-year periods, mid-cap growth stocks, as a category, have outperformed small-cap and large-cap growth stocks. However, mid-caps have underperformed both these asset classes during the past 10 years. We are optimistic that this trend will reverse, presenting an attractive opportunity for the mid-cap growth asset class in the future.

Sincerely,



Andrew Peck
Portfolio Manager

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 mid-sized companies, but there also may be more risk. Specific risks associated with investing in mid-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Prior to February 15, 2007, the Strategy invested primarily in small and mid-sized growth companies. Since then, the Strategy invests in mid-sized companies. 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 managers only through the end of the period stated in this report. The portfolio manager's 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.