Dear Baron Discovery Fund Shareholder:

Performance

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

	Baron Discovery Fund Retail Shares[1,2]	Baron Discovery Fund Institutional Shares[1,2]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[3]	(23.39)%	(23.36)%	(21.65)%	(13.52)%
One Year	0.42%	0.64%	(9.31)%	(4.38)%
Three Years	18.22%	18.50%	7.24%	9.26%
Five Years	9.83%	10.11%	5.13%	8.49%
Since Inception (September 30, 2013) (Annualized)	12.61%	12.88%	6.47%	10.15%
Since Inception (September 30, 2013) (Cumulative)[3]	86.54%	88.87%	38.94%	66.13%

RANDY GWIRTZMAN AND LAIRD BIEGER
PORTFOLIO MANAGERS

Retail Shares: BDFFX
Institutional Shares: BDFIX
R6 Shares: BDFUX

We are very lucky guys. We are living at a time in human history when innovation is accelerating at a blistering pace. As investors in earlier stage growth companies, we are privileged to meet visionary people, be exposed to new technologies, and be part of the flow of new ideas transforming our world. Within the space of about 30 years, communications have morphed from the rotary-style phone that hurt your finger to voice activated hand-held computers that can practically read your mind. Medical imaging has gone from fuzzy images to high resolution, real-time maps that can electronically guide surgery. And in this time, innovators in medicine seem finally to have come to the threshold of unlocking the human genome to understand the hereditary and malfunctioning genetic codes that cause disease, so that we may find them and treat them.

The pace of innovation is relentless and will not be deterred by the tantrums of a colicky stock market. Those pioneers who take innovation and productize it for consumption tend to be richly rewarded in time (and we, as investors, strive to share in those rewards by investing in the best of these entrepreneurs). But, of course, the timing of reward capture is highly uncertain. That is why we believe in long-term investing, where we seek to achieve excess market returns by investing strategically rather than by trading tactically. That is our philosophy. We also actively manage our risk through our rigorous investment process, which combines balancing the portfolio among different industry groups and types of investments, along with a continuous daily focus on valuation and due diligence on our investments. That is our process.

If we didn't believe in our philosophy, and we didn't execute on our process on a daily basis, it would be extremely difficult to post the superior medium- and long-term returns shown in Table I above. The December quarter was certainly challenging, however we believe that our close relative performance in a tidal-wave style market wipeout was a quality result given that we invest in so many young, high-growth companies. We also believe that our portfolio of quality growth investments will outperform meaningfully over time, net of fees. This is why we each have significant personal investments in the Fund.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2018 was 1.40% and 1.12%, but the net annual expense ratio was 1.35% and 1.10% (net of the Adviser's fee waivers which the Adviser has contractually agreed to for so long as it serves as the adviser to the Fund), 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 has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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 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.

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 Fund 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 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.

Baron Discovery Fund

We thank you, our investors, for hanging in there with us. Net inflows have been meaningful in the quarter, which leads us to believe that we have communicated our process, philosophy, and composition of the investment portfolio well to you. It is our goal to always provide transparency into our investments and our mindset. And, we want our investors to understand why, despite the challenging current market conditions, we are fundamentally excited about our investments. Even though we look at our investments over a three-to-five-year time horizon, we are mindful that near-term events are important to the performance of our investments in any given year. With that understanding, we would like to lay out some of the catalysts that we think could lead to significant reward capture for the Fund in 2019.

Health Care

This is a very important segment for us, constituting 27.5% of the portfolio at the end of 2018. We really like the space, as it has many innovative growth companies, provides meaningful opportunities to capture excess return, and tends to be less cyclical than many other industries. We invest in companies that can provide better patient outcomes for lower costs, and which have defensible product differentiation.

Pharmaceuticals and Biotechnology. Many of our companies have recently achieved major milestones and/or FDA approval of their drugs, which is the key prerequisite to future cash flow growth. These successes should lead to nice sales growth in 2019, and we expect solid share performance in 2019 versus the horrible industry backdrop we had in 2018. **TherapeuticsMD, Inc.** got approval for two key hormone therapy drugs, one for hot flashes (Bijuva) and one for vulvar vaginal atrophy, or VVA (Imvexxy). These are both multi-billion dollar market opportunities and will be generating revenues in 2019. **Sage Therapeutics, Inc.** gained approval in 2018 for its intravenous drug for postpartum depression (Zulresso). The company also produced positive clinical results in January 2019 for the pill version of this drug, which could also address the huge market for major depressive disorder (a multi-billion dollar opportunity). **Esperion Therapeutics, Inc.** put up a solid string of positive phase 3 clinical trial results in 2018 for its LDL cholesterol lowering drug (bempedoic acid or BA). It will submit new drug applications (NDAs) to the FDA in the first quarter of 2019, and to European Union regulators in the second quarter of 2019. It also just signed an important marketing agreement for European distribution of its BA drug (with $300 million in upfront milestone payments, additional potential milestones of $600 million and potential royalties of 15% to 25% of sales). The company estimates that the net present value of the EU deal is $1 billion (which is about what the market capitalization is for the entire company). Therefore, U.S. sales as well as additional marketing agreements are all upside. We anticipate U.S. approval of BA and a combination of BA with ezetimibe (a widely used, non-statin LDL lowering drug) in 2020, with significant cardiovascular outcomes study data coming in 2022.

Devices. **Cerus Corporation**, which sells devices that inactivate viruses and bacteria in donated blood, has made significant progress in the U.S. Its largest customers have started to gain regulatory approvals to sell Cerus treated platelets (a component of donated blood), which will lead to meaningful revenue growth in 2019. Also, Cerus is moving towards regulatory approval of big markets in red blood cells (RBC). It filed for EU approval of its RBC product in December 2018, and could be on the market in 2021 with this product (an opportunity worth over $1.5 billion). And RBC in the U.S. (a $1 billion market) could come a couple of years later. **Intersect ENT, Inc.**, which sells devices used to help the healing process for sinus surgery patients, gained approval in the second quarter of 2018 for a device called Sinuva, that can be used in a doctor's office, with the potential to avoid additional invasive sinus surgeries. This device has a recurring market opportunity of about $1.3 billion and should see growth accelerate in 2019. **Sientra, Inc.**, a medical aesthetics company that produces breast implants and has a device to stop underarm sweat and odor, should see solid growth in 2019 as its new outsourced manufacturing partner ramps up implant production. Sientra has suffered with unmet demand as the company waited for the plant to be approved.

Diagnostics. Accurately determining the presence of a disease and optimizing treatment is critical. We own **Myriad Genetics, Inc.**, which uses hereditary markers to determine the risks of cancer as well as to match the right antidepressants to patients. We believe the latter test, called GeneSight, will garner increased insurance coverage in 2019, driving significant growth in earnings. We recently bought **Accelerate Diagnostics, Inc.**, which has an automated analyzer that categorizes bacterial infections as well as the appropriate antibiotic treatment in the space of hours rather than days. No other company can do this, and placements of their analyzers are meaningfully accelerating (pardon the pun) in 2019. Finally, we own **CareDx, Inc.** a leader in transplant testing. Its new kidney transplant test, which helps to optimize anti-rejection medication post-transplant, is garnering significant share that we think will accelerate in 2019. The test generated about $23 million in 2018 revenue for CareDx by our estimates, a very small fraction of the market opportunity which could be $2 billion.

Information Technology ("IT")

Semiconductor Equipment. We are big believers that the overall secular trend in semiconductor capital spending is not over, but rather is just taking a pause. There are too many new themes driving demand for chip production for this to stop any time soon. Thus, despite the current softness in the cell phone market, which has led to weakness in the memory markets in particular, we see near- and medium-term drivers that will lead to increasing semiconductor volumes and a rebound in the sector later in 2019. These include artificial intelligence, machine learning, autonomous vehicles, 5G cellular and wireless broadband, the internet of things (connectivity of devices from cameras, to thermostats to all manner of consumer and industrial devices), chip-based storage (versus hard disk drives), the growth of massive server farms for cloud-based software delivery, China's need to establish its own semiconductor production capabilities, and the overall increase in semiconductor content into all devices. While it is not fashionable now to own the companies that produce sophisticated chip production equipment, we believe that compelling valuations combined with what we view as a looming bottom of the current down-cycle will lead to very good returns. We own **Ichor Holdings, Ltd.**, which is one of only two key suppliers of components that aid the delivery of chemicals into the circuit printing process. Ichor is profitable with secular growth even in the down cycle, and it has significant organic and acquisition-based growth opportunities going forward. We also own **Nova Measuring Instruments Ltd.**, which has sophisticated metrology equipment that ensures that semiconductors are being printed correctly. Nova's technology allows for measurement of even the smallest sizes of current circuit widths (down to 5 nanometers, or about two times the diameter of a strand of human DNA).

System Software. Cybersecurity will continue to be an important growth area. In 2018, the EU implemented the General Data Protection Regulation, protecting data and privacy for all EU and EC individuals. The legislation has stiff fines for non-compliance (20 million Euros or 4% of prior year revenues, whichever is greater). Similar legislation is being debated in the U.S. Along with continued large scale network hacks, penalizing legislation will continue to fuel growth for our portfolio companies, including **Qualys, Inc.** (vulnerability management and other products dealing with network endpoint equipment), **Varonis Systems, Inc.** (protection of critical files against theft and ransomware attacks) and **ForeScout Technologies, Inc.** (classification of all endpoint equipment operating off an IP address even if they are non-standard "internet of things" devices or even industrial equipment).

Application Software. The movement of application software from "on-premise" to the cloud continues to accelerate. Our investments in application software companies **QAD Inc.** (manufacturing ERP), **Anaplan, Inc.** (financial planning and analysis) and **Yext, Inc.** (digital knowledge management) all continue to benefit from this transition and, we believe, will see greater than 25% revenue growth in their cloud businesses. We also believe that **RIB Software SE** (construction design, management, and financial software) will see good growth as sales initiatives for its new subscription-based products take hold.

Industrials

Given the uncertainty of the global economy, our Industrials investments are generally geared toward strong secular growers and are a heterogenous group. **Mercury Systems, Inc.** is the leader in Tier 2 defense electronics outsourcing, and should benefit from increased share capture and modernization project flow in 2019 (particularly in missile defense and electronic warfare systems). **TPI Composites, Inc.** should benefit as it expands its production lines for fiberglass composite wind blades, improves production efficiencies in those lines, and ramps its business for producing fiberglass bodies and parts for electric buses and other vehicles. **Cubic Corporation** (detailed below in the Recent Activity section) will likely benefit from many new metropolitan transportation management contracts this year.

Consumer

Consumer Discretionary has been out of favor among investors in recent months despite what have been reasonably positive financial results from the sector and positive macroeconomic indicators (i.e., low unemployment and elevated wage inflation). We have used this weakness to initiate some new positions and to increase existing positions. We remain especially excited about some stock-specific catalysts. For example, **Red Rock Resorts, Inc.**, after undergoing two years of depressed profit growth due to major construction disruptions, will finally get its two renovated casinos opened and fully operating. This should lead to nice profit growth in the second half of 2019. In addition, the growth in digital restaurant ordering and restaurant delivery has been accelerating over the last couple of years. We expect this trend to continue and, in our opinion, will likely benefit companies such as **Wingstop Inc.** and **JUST EAT plc**.

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

	Percent Impact
Corium International, Inc.	0.23%
Studio City International Holdings Limited	0.16
Anaplan, Inc.	0.14
PAR Technology Corporation	0.08
Guardant Health, Inc.	0.07

We had a handful of winners this quarter.

Corium International, Inc. is a specialty pharmaceutical company that is developing extended release transdermal patches to treat patients with Alzheimer's. It was acquired by a private equity firm during the quarter.

Studio City International Holdings Limited is a gaming and entertainment property located on the Cotai Strip in Macau, China that opened in October 2015. It is a mass market focused gaming property with 1,600 luxury rooms containing 250 mass market tables, 45 VIP tables and 970 slot machines. We purchased the stock during the quarter because of what we believe are strong fundamentals for mass market gaming in Macau and Studio City's appeal to these types of customers. Macau is benefitting from its close proximity to 3.5 billion people in nearby regions in Asia, the continuing development of the middle class within China, investments in infrastructure, including the new Taipa ferry terminal, the Hong Kong Zhuhai bridge, and the Macau light rapid transit line. Finally, there are tailwinds from increased diversification of non-gaming amenities such as shows and amusements. These attract a different group of tourists than have historically visited Macau such as non-gamblers and families. The company is starting construction on a $1.4 billion expansion this year that we expect to open in 2022. The stock was a contributor in the quarter as both Macau visitation and Macau mass market gross gaming revenues have recently come in better than expected.

Anaplan, Inc. offers a connected planning software platform that allows businesses to efficiently and effectively perform financial planning and analysis. We purchased the stock during the quarter because we are strong believers in the Anaplan solution because of the high return on investment it provides its customers. Its software has led to a four-to-six-week reduction in planning cycle time, a 50% increase in financial planning accuracy, a 15% reduction in operating expenditures, and an 8% increase in first-year sales due to acceleration in time to market. Anaplan's Hyperblock technology enables scaling to billions of spreadsheet cells, and we do not believe there is another competitor that has this scaling capability. The stock was an outperformer in the quarter as it delivered revenue growth and billings growth that came in better than expectations. We remain excited about Anaplan's long-term prospects.

PAR Technology Corporation provides professional services and enterprise intelligence software. The stock was a contributor in the quarter as the CEO stepped down and an activist investor pushed the company to seek strategic alternatives including a potential sale. We still believe the company's Brink division, which has a cloud-based restaurant point of sale platform, is worth significantly more than is implied in the overall company valuation. We are hopeful the company's board will take actions that will help highlight that value.

Guardant Health, Inc. offers liquid biopsy tests for advanced stage cancers. It is also developing recurrence detection for cancer survivors and early detection of cancer in higher risk individuals. Guardant had its IPO in the quarter, and while we are enthusiastic about the technology, we hold a small position given its high valuation. That said, the technology is exciting as it could allow detection of cancer with a simple blood draw without the risk, expense, and inconvenience of a solid tissue biopsy.

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

	Percent Impact
IntriCon Corporation	–1.11%
Teladoc Health, Inc.	–1.08
Sientra, Inc.	–1.07
Myriad Genetics, Inc.	–0.98
TherapeuticsMD, Inc.	–0.93

A quarter like this one will inevitably produce detractors. We still like all of these companies and believe that their negative performance was more a reflection on market dynamics than any fundamental issues.

IntriCon Corporation is a medical device company which focuses on body-worn devices. The company has two businesses, one in components for medical devices and one in hearing aids. IntriCon manufactures Medtronic's wireless continuous glucose monitor (CGM), sensors, and accessories associated with Medtronic's insulin pump and CGM system for patients with diabetes. This business is accelerating as more of Medtronic's devices contain CGM capability. IntriCon's hearing business is on the verge of explosive growth driven by legislative and regulatory changes that will make it easier for consumers to obtain hearing aids over-the-counter at much lower cost than existing hearing aid products. Shares sold off in the quarter when the company slightly missed consensus estimates (margins were slightly lower due to product mix and new facility ramp inefficiencies). However, the business itself looks to be doing very well, and growth is particularly visible in the diabetes franchise. We believe shares will rebound as the company's valuation multiples are far too low for the revenue and cash flow growth it is likely to produce.

Shares of **Teladoc Health, Inc.**, the U.S.'s largest telehealth company, fell with the broader market retreat, which was particularly brutal for high-growth stocks. The sell-off also reflected news of the CFO/COO's resignation for violating the company's workplace relationship policy. We believe the incident will not stall Teledoc's substantial momentum in the rapidly expanding telehealth space where it is the dominant player. Guidance was reiterated and the CFO/COO's acting replacement is well known and respected by investors. We remain bullish on prospects for Teladoc. The lower cost, greater convenience, and broader access afforded by telemedicine is a powerful secular growth story; more insurers and large employers are providing telehealth benefits. With under 1% penetration of a $60 billion addressable telehealth market, the company should be able to build on its highly-scalable tech platform, driving high top-line growth for at least the next several years. In addition to adding new customers, growth will come through higher utilization and additional specialized services.

Sientra, Inc. is a medical aesthetics 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 excessive sweating and odor in the underarms. In April 2018, it received FDA approval to restart U.S.-based implant production at a respected third-party manufacturer. Shares were down in the quarter after management said that production from its new outsourced plant would be delayed from one to two quarters due to its methodical ramp of volume. We are not concerned, as it is critical that the products be perfect before sold and the delay is minor. Also, Sientra's new Miradry product (underarm sweat/odor) seems to be performing above expectations.

Myriad Genetics, Inc. is a provider of high-end genetic testing for hereditary cancer, compatibility with anti-depressant drugs, and many other conditions. The company is a free cash flow machine, with a pristine balance sheet. We believe that Myriad's earnings potential is significantly masked, as it only has reimbursement on a small percentage of its new tests, particularly the depression drug-oriented test called GeneSight. Since Myriad already has a full sales and research infrastructure, we believe it will achieve significant cash flow and margin growth as it expands coverage and grows revenues for its new tests. Concerns in the quarter included: (1) an FDA communication warning against the use of many hereditary-based drug tests that have unapproved claims (Myriad's GeneSight test has the best and most extensive clinical data in the group); (2) a cut in fiscal year 2019 (June 30, 2019) revenue guidance by $25 million or 2.8% (due to some reimbursement timing issues, though earnings guidance remained the same due to offsetting cost cuts); and (3) the delay in publication of a key study needed to get insurance coverage (which was accepted in late December and published in January 2019). All of these issues will be or have been managed and we expect to see significant upside from here.

TherapeuticsMD, Inc. is developing drugs that address the multi-billion dollar hormone replacement market. Despite the fact that its first drug for Vulvar Vaginal Atrophy (Imvexxy) has been putting up very good prescription growth, and that its second drug for hot flashes in menopause (Bijuva) was approved in the quarter, shares were down as part of a larger overall market drop in the pharmaceutical sector. We believe that 2019 will be a very good year as revenue accelerates on the back of three approved drugs in the company's portfolio, including a new birth control product that it acquired in 2018.

Portfolio Structure

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Mercury Systems, Inc.	2015	$13.0	3.9%
Intersect ENT, Inc.	2018	11.0	3.2
Myriad Genetics, Inc.	2016	10.7	3.2
CareDx, Inc.	2018	10.0	3.0
TPI Composites, Inc.	2016	9.9	2.9
The Trade Desk	2016	9.0	2.7
Americold Realty Trust	2018	8.9	2.6
Yext, Inc.	2017	8.9	2.6
ViewRay Incorporated	2018	7.4	2.2
Qualys, Inc.	2013	7.3	2.2

Our key sector weightings, per the GICS methodology as of 12/31/2018, were 27.5% Health Care, 24.7% IT, 15.9% Industrials, and 10.6% Consumer Discretionary. Our cash was at 9.7%, which is on the high end of our single-digit percentage target. This was due to inflows at the end of the quarter as well as our measured investment process during an extremely volatile quarter.

Our top 10 holdings represented 28.5% of assets, and it is in line with our historical average of around 30%.

Recent Activity

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

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
ViewRay Incorporated	2018	$0.6	$9.2
Boyd Gaming Corporation	2018	2.3	6.1
Potbelly Corporation	2018	0.2	5.5
Yext, Inc.	2017	1.5	4.3
Cubic Corporation	2018	1.7	4.2

We took advantage of the market turmoil to invest in some new ideas. As we had raised cash toward the end of the third quarter when valuations got extended, we were well positioned in this regard. We have found that there are always great long-term investment opportunities, even in markets perceived as unstable. We also increased our position in **Yext, Inc.** as we believe it is trading at far too great a discount to its fair value, and we think the market has not grasped the long-term competitive advantage it has in information management for its customers.

ViewRay Incorporated is one of our most exciting investments in recent years. Every year 1.6 million Americans are diagnosed with cancer and about 1 million (two-thirds of these) will be treated with radiation therapy. ViewRay designs and manufactures equipment used in such therapy. Its premier product, MRIdian combines a linear accelerator (a linac or radiation source) with a low-powered MRI (magnetic resonance imaging) machine, enabling real-time, accurate and faster radiation therapy. MRgRT (magnetic resonance guided radiation therapy) is a highly accurate treatment process because it uses real time imaging to guide the radiation dose. Because of the complexity of the technology, only two companies including ViewRay have been able to commercialize and gain regulatory approval of an MRgRT product. Further, ViewRay's design is unique in that it can automatically shut off the radiation if the tumor moves outside the planned treatment area. The accuracy of this new treatment modality allows higher doses to be given in fewer treatments (called fractions). Early studies have shown that MRgRT provides better outcomes with lower overall toxicity. It also allows treatment of anatomical areas such as the heart, lungs, colon, prostate and pancreas, that move during treatment and/or are very close to other vital organs that must not be harmed by stray radiation. We are particularly excited that in July 2018, the company named Scott Drake as CEO. Drake was the former CEO of The Spectranetics Corporation, a company that we owned and that was sold to Koninklijke Philips N.V. in 2017. We view Drake as a high-quality manager. He intends to improve production and client service, and will build a world-class sales force. There are 14,000 linacs installed worldwide as of September 2018 (of which only 27 are MRgRT). Each year 1,000 linacs are sold around the world. ViewRay believes that the available market per year for MRgRT is about 350 to 400 machines (representing about a $2 billion to $3 billion annual opportunity at $6 million to $8 million per machine).

Boyd Gaming Corporation is a broadly-diversified gaming operator with 36% of profits coming from the Las Vegas market and the remainder from "regional" gaming assets. The company owns 29 casinos in 10 states with 38,000 slot machines, 900 tables, 11,000 hotel rooms and 320 beverage outlets. The company owns the majority of its real estate, which gives it balance sheet flexibility for potential sale-leaseback transactions. We have followed Boyd for many years and purchased the stock when it fell to what we believe were extremely attractive valuations during recent market weakness. We like the quality of the company's assets, its geographic diversification, and its ability to generate significant free cash flow. We also respect the management team which has made opportunistic and accretive acquisitions historically. We believe the stock can double from these levels over the next two-to-three years.

Potbelly Corporation is an operator and franchisor of restaurants. We believe the company, which has seen a turnaround under new CEO Alan Johnson, is on the cusp of showing progress on new operational initiatives that will result in increased sales and a new strategy that will emphasize growth via franchising as opposed to company-owned restaurant growth. We believe as the company shows progress on these initiatives, we should see an upward re-rating in its stock valuation.

Cubic Corporation is a public transportation and aerospace & defense solution provider. In the transportation business, Cubic is the only system integrator to have successfully delivered a smartphone enabled fare collection solution (in London and Chicago). This has led to increased win rates in recent deals–the company has won all four of its most recent metro contract bids (New York City, Boston, San Francisco, and Brisbane). The company's competitive advantage in transportation has been further enhanced by recent acquisitions that will enable centralized, real-time, digital fare collection and transit management solutions, as opposed to today's legacy systems that are offline and disjointed among different modes of transit. In the defense business, the company's offerings are target combat modernization efforts, including those for the F-35 fighter aircraft and secure communication networks, that are strategic imperatives for the military. We are excited about the company's prospects going forward.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
QTS Realty Trust, Inc.	2018	$2.3	$1.9	$5.2
Corium International, Inc.	2018	0.4	0.3	3.6
LiveRamp Holdings, Inc.	2016	1.6	2.6	3.0
The Trade Desk	2016	1.2	5.0	2.8
CareDx, Inc.	2018	0.5	1.0	2.2

As mentioned before, we are cognizant of valuation, and when security prices extend toward and beyond our medium- and long-term targets, we are careful to trim positions to capture profits and to lower the risks of volatile downward movements. This helped us out in the quarter, as we had trimmed some holdings in the third quarter and into the fourth on extended valuations. Two of the larger valuation-based trims were **The Trade Desk** and **CareDx, Inc.** We still like the prospects of those companies very much.

We also had two companies involved in special situations in the quarter, which were **Corium International, Inc.**, a pharmaceutical company that was purchased by a private equity fund, and **LiveRamp Holdings, Inc.**, a digital-advertising oriented company that was spun out from **Acxiom Corporation**. LiveRamp was actually a "two-fer" because it was a special situation we trimmed after it ran up post-spin off.

We reduced the size of our position in **QTS Realty Trust, Inc.** While we remain excited by the demand drivers of QTS' data center business, we became concerned with the company's ability to fund its capital expenditure plan at costs of capital that would be accretive to shareholders.

Outlook

We are mindful of the pain that can be caused in down markets. That is why we continue to rely on the philosophy and daily process that we laid out above. It seems to us that we have a higher probability of a favorable return if we buy an investment that has fantastic prospects at a reasonable price, than if we try to time the mercurial moods of the market. We will continue this carefully reasoned process in both good and bad markets, as we strive to earn our targeted returns on capital.

Thank you for investing in the Fund.

Randy Gwirtzman & Laird Bieger
Portfolio Managers