

September 30, 2018

Institutional Shares (BGRIX)

# Baron Growth Fund Fact Sheet

BAMCO, Inc., Registered Investment Adviser



The Fund may not achieve its objectives. Portfolio holdings may change over time.

Definitions (provided by BAMCO, Inc.): 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. Morningstar calculates the **Morningstar US Fund Small Growth Category Average** using its Fractional Weighting methodology. Morningstar moved Baron Growth Fund from the **Small Growth Category** effective 5/31/2011 to the **Mid-Cap Growth Category**. The Fund's investment mandate has been, and continues to be, to invest in small-cap growth stocks for the long term. Because of its long-term approach, the Fund could have a significant percentage of its assets invested in securities that have appreciated beyond their market capitalization at the time of the Fund's initial investment. Morningstar calculates the **Morningstar US Mid-Cap Growth Category Average** using its Fractional Weighting methodology. © 2018 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Standard Deviation (Std. Dev.):** measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk). **Sharpe Ratio:** is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance. **Alpha:** measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta:** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **R-Squared:** measures how closely a fund's performance correlates to the performance of the benchmark index, and thus is a measurement of what portion of its performance can be explained by the performance of the index. Values for R-Squared range from 0 to 100, where 0 indicates no correlation and 100 indicates perfect correlation. **Tracking Error:** measures how closely a fund's return follows

the benchmark index returns. It is calculated as the annualized standard deviation of the difference between the fund and the index returns. **Information Ratio:** measures the excess return of a fund divided by the amount of risk the fund takes relative to the benchmark index. The higher the information ratio, the higher the excess return expected of the fund, given the amount of risk involved. **Upside Capture:** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture:** explains how well a fund performs in time periods where the benchmark's returns are less than zero. **Active Share:** a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management. **EPS Growth Rate (3-5 year forecast):** indicates the long-term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance. **Price/ Earnings Ratio (trailing 12-months):** is a valuation ratio of a company's current share price compared to its actual earnings per share over the last twelve months. **Price/Book Ratio:** is a ratio used to compare a company's stock price to its tangible assets, and it is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. **Price/Sales Ratio:** is a valuation ratio of a stock's price relative to its past performance. It represents the amount an investor is willing to pay for a dollar generated from a particular company's operations. Price/Sales is calculated by dividing a stock's current price by its revenue per share for the last 12 months. Historical portfolio characteristics are provided by Compustat and FactSet Fundamentals. **Weighted Harmonic Average:** is a calculation that reduces the impact of extreme observations on the aggregate calculation by weighting them based on their size in the fund.

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Not bank guaranteed, may lose value, not FDIC insured.



## Portfolio Facts and Characteristics

	Fund	Russell 2000 Growth Index
# of Equity Securities / % of Net Assets	58 / 98.8%	-
Turnover (3 Year Average)	3.64%	-
Active Share	95.6%	-
Median Market Cap†	\$4.43 billion	\$1.04 billion
Weighted Average Market Cap†	\$9.14 billion	\$2.69 billion
EPS Growth (3-5 year forecast)†	14.9%	18.2%
Price/Earnings Ratio (trailing 12-month)*†	25.3	22.2
Price/Book Ratio*†	4.2	4.1
Price/Sales Ratio*†	3.6	1.7

\* Weighted Harmonic Average

† Source: FactSet PA – Compustat, FactSet and BAMCO. Internal valuations metrics may differ.

R6 Shares are also available for this Fund.

## Performance Based Characteristics<sup>2</sup>

	3 Years	5 Years	10 Years	Since Inception
Std. Dev. (%) - Annualized	10.94	11.28	16.25	16.92
Sharpe Ratio	1.57	1.01	0.76	0.66
Alpha (%) - Annualized	5.06	3.18	2.38	7.21
Beta	0.70	0.70	0.79	0.68
R-Squared (%)	73.01	77.58	90.43	78.63
Tracking Error (%)	6.97	6.80	6.52	10.58
Information Ratio	-0.01	-0.04	0.00	0.48
Upside Capture (%)	86.64	82.27	82.09	82.77
Downside Capture (%)	65.98	70.32	72.75	61.08

## Top 10 Holdings

## % of Net Assets

Vail Resorts, Inc.	8.2
CoStar Group, Inc.	5.2
Gartner, Inc.	5.1
MSCI, Inc.	4.6
Arch Capital Group Ltd.	4.5
IDEXX Laboratories, Inc.	4.3
ANSYS, Inc.	4.0
FactSet Research Systems, Inc.	4.0
Choice Hotels International, Inc.	3.6
Primerica, Inc.	3.3
<b>Total</b>	<b>46.8</b>

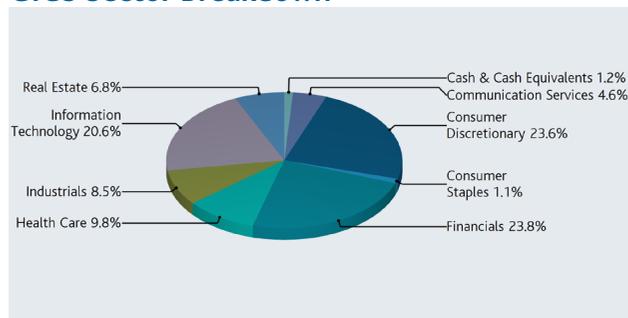
Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

1 - Industry sector or sub-industry group levels are provided from the Global Industry Classification Standard ("GICS"), developed and exclusively owned by MSCI, Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P"). All GICS data is provided "as is" with no warranties. The Adviser may have reclassified/classified certain securities in or out of a sub-industry. Such reclassifications are not supported by S&P or MSCI.

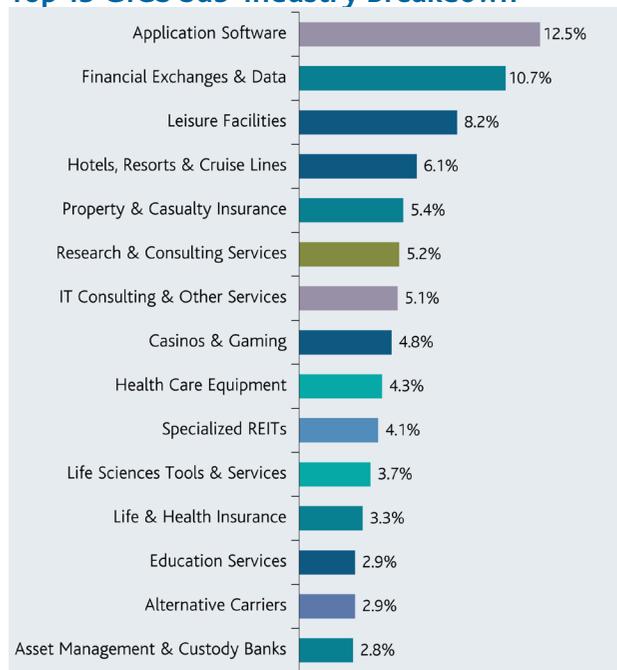
2 - Source: FactSet SPAR. Except for Standard Deviation and Sharpe Ratio, the performance based characteristics above were calculated relative to the Fund's benchmark.

3 - As of FYE 9/30/2017

## GICS Sector Breakdown<sup>1</sup>



## Top 15 GICS Sub-Industry Breakdown<sup>1</sup>



Colors of Sub-Industry bars correspond to sector chart above.

## Investment Strategy

The Fund invests in small-sized U.S. companies with significant growth potential. Diversified.

## Portfolio Manager

Ron Baron founded Baron Capital in 1982 and has 48 years of research experience. From 1970 to 1982, Ron worked for several brokerage firms as an institutional securities analyst. From 1966 to 1969, Ron worked at the U.S. Patent Office as a patent examiner, while attending George Washington University Law School. From 1965 to 1966, Ron worked at Georgetown University as a teaching fellow in biochemistry. Ron graduated from Bucknell University with a B.A. in Chemistry in 1965. Neal Rosenberg is the Assistant Portfolio Manager of this Fund.

## Investment Principles

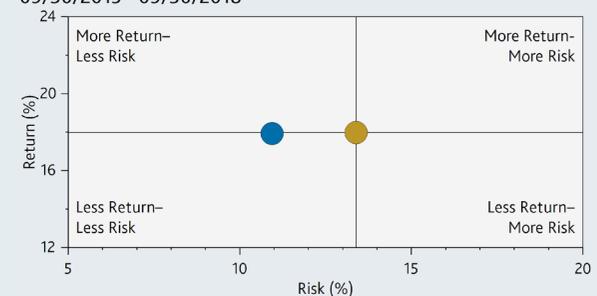
- Long-term perspective allows us to think like an owner of a business
- Independent and exhaustive research is essential to understanding the long-term fundamental growth prospects of a business
- We seek appropriately capitalized open-ended growth opportunities, exceptional leadership, and sustainable competitive advantages
- Purchase price and risk management are integral to our investment process

## Fund Facts

Inception Date	December 31, 1994
Net Assets	\$6.99 billion
<b>Institutional Shares</b>	
CUSIP	068278704
Expense Ratio <sup>3</sup>	1.04%

## Risk/Return Comparison<sup>2</sup>

09/30/2015 - 09/30/2018



- Baron Growth Fund - I
- Russell 2000 Growth Index



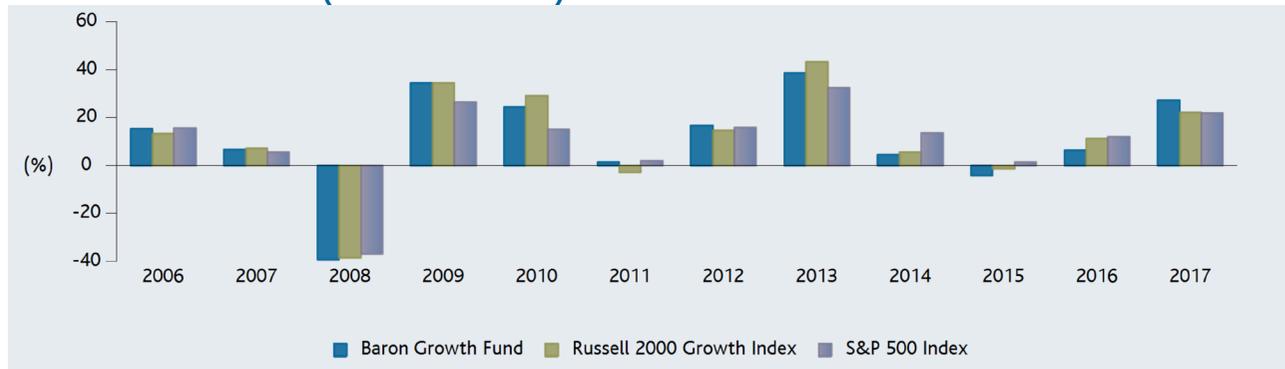
## Performance as of September 30, 2018



	Total Returns(%)				Annualized Returns(%)									
	3rd Q 2018		Year to Date		1 Year		3 Years		5 Years		10 Years		Since Inception 12/31/1994	
	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -
BGRIX - Institutional Shares	7.94		19.47		25.86		17.93		11.90		12.67		13.57	
Russell 2000 Growth Index	5.52	2.42	15.76	3.71	21.06	4.80	17.98	-0.05	12.14	-0.24	12.65	0.02	8.54	5.03
S&P 500 Index	7.71	0.23	10.56	8.91	17.91	7.95	17.31	0.62	13.95	-2.05	11.97	0.70	10.19	3.38
Morningstar Mid-Cap Growth Category Average	6.48	1.46	13.42	6.05	20.31	5.55	15.81	2.12	11.68	0.22	11.97	0.70	N/A	
Morningstar Small Growth Category Average	7.00	0.94	18.94	0.53	24.44	1.42	18.39	-0.46	11.75	0.15	12.57	0.10	N/A	

The blue shading represents Fund outperformance vs. the corresponding benchmark. The yellow shading represents underperformance.

## Historical Performance(Calendar Year %)



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
BGRIX - Institutional Shares	15.50	6.59	-39.18	34.44	24.32	1.51	16.74	38.69	4.66	-4.06	6.31	27.35
Russell 2000 Growth Index	13.35	7.05	-38.54	34.47	29.09	-2.91	14.59	43.30	5.60	-1.38	11.32	22.17
S&P 500 Index	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83

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 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](http://www.BaronFunds.com) or call 1-800-99BARON.

You should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The prospectus and summary prospectus contain this and other information about the Fund and can be obtained from the Fund's distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting [www.BaronFunds.com](http://www.BaronFunds.com). Please read them carefully before investing.

Unless otherwise noted, all performance and performance related calculations are based on the Institutional Shares. Performance for the Institutional Shares prior to 5/29/2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to 5/29/2009 did not reflect this fee, the returns would be higher.

Morningstar moved Baron Growth Fund from the **Small Growth Category** effective 5/31/2011 to the **Mid-Cap Growth Category**. The Fund's investment mandate has been, and continues to be, to invest in small-cap growth stocks for the long term. Because of its long-term approach, the Fund could have a significant percentage of its assets invested in securities that have appreciated beyond their market capitalization at the time of the Fund's initial investment. As a result, we provide comparative performance data for the Morningstar Mid-Cap Growth Category and the Baron-Adjusted Morningstar Small Growth Category, created to include Baron Growth Fund's Retail, Institutional, and R6 shares.



## Review and Outlook

After staging a recovery in the second quarter of 2018, U.S. equities continued their advance in the third quarter. Large-cap stocks outperformed their small-cap counterparts, and growth outpaced value across most size segments. Volatility was subdued as the markets shrugged off trade tensions and ongoing turmoil in Washington and focused on strong corporate earnings and solid economic conditions to push to record highs.

The economy is now in its ninth year of expansion. U.S. GDP growth came in at an annualized rate of 4.2% for the most recent reported quarter. Corporate earnings results were robust, boosted by tax cuts and continued economic growth. The employment picture remained healthy, with the unemployment rate of 3.7% the lowest since 1969. The Conference Board's Consumer Confidence Index rose to its highest level since November 2000. Retail sales increased for the seventh consecutive month in August and were up 6.6% year-over-year. Industrial production was up 4.9%, driven by manufacturing. The housing market moderated somewhat, as home sales were flat to slightly positive, while home price increases slowed to less than a 6% growth rate. Against this solid economic and earnings backdrop, it is not surprising that the markets continued their upward trajectory.

Baron Growth Fund increased in the quarter. Investments in Financials, Information Technology (IT), and Health Care contributed the most to performance. Life insurance company Primerica, Inc. was the top contributor within the Financials sector. The stock rose after the company reported strong quarterly results with 13% revenue growth and 42% EPS growth. Revenue growth was balanced across both segments, and margins were especially strong in the Term Life segment. IT benefited from broad sector strength, including second largest contributor Gartner, Inc. The Health Care sector had a good quarter as well, with five out of six stocks advancing. Third largest contributor Bio-Techne Corporation led performance. Real Estate was a modest detractor as rising interest rates weighed on overall sector performance.

We remain optimistic about the long-term environment for U.S. equities. While we always monitor geopolitical and other developments that may have a short-term impact on the markets, we remain focused on the long term. We invest only in growth businesses that we think can double in value about every five or six years. This compares to the stock market and economy which have doubled in value about every 11 years since 1960 on average. We believe that our research-driven approach to investing in companies with competitive advantages, experienced management, and strong, long-term growth prospects will lead to outperformance, although there are no guarantees.

## Top Contributors/Detractors to Performance for the Quarter Ended September 30, 2018

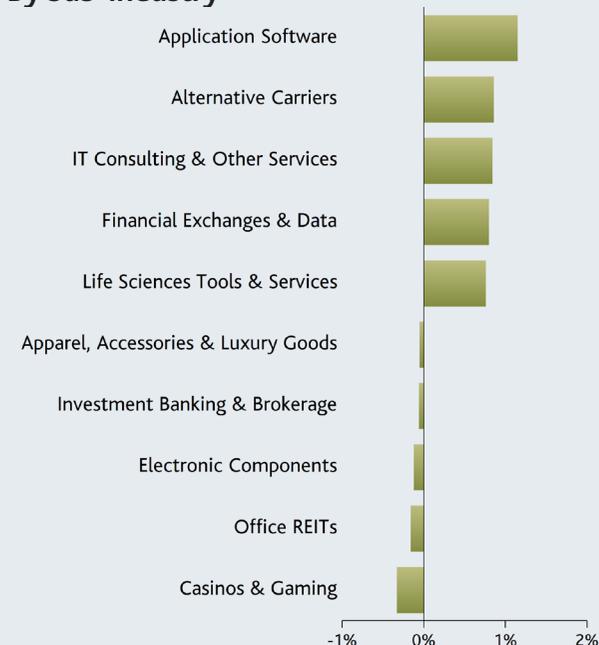
### Contributors

- Shares of satellite company **Iridium Communications Inc.** rose in the quarter on quarterly results that beat investor expectations with growth across all key segments. Following years of investment, Iridium has now launched 65 of its 75 NEXT satellites into orbit, significantly reducing execution risk. We expect Iridium to continue to grow its U.S. Department of Defense, maritime, aviation, and Internet of Things channels, especially given the upgraded capabilities of its new Certus services that should roll out commercially later in 2018.
- Shares of **Gartner, Inc.**, a provider of syndicated research, contributed to performance. We believe forward-looking metrics in Gartner's traditional IT research business are strong, with contract value growing at a mid-teens rate. Gartner recently introduced a seat-based product to heritage CEB clients, and is generating traction in closing new customers with this improved product. The company meaningfully expanded its sales force to pursue this large incremental opportunity, and we expect to see heritage CEB growth accelerate from 2% into the mid-to-high teens over time.
- Shares of **Bio-Techne Corporation**, a developer and manufacturer of life sciences tools, contributed to performance. The company reported strong quarterly results highlighted by 9% organic revenue growth. In addition, Bio-Techne recently acquired Exosome Diagnostics, which has a non-invasive liquid biopsy test to help physicians determine whether a prostate biopsy is necessary in patients with ambiguous screening results. The transaction has potential to become a meaningful growth driver for the company, in our view.

### Detractors

- Shares of **Red Rock Resorts, Inc.**, a casino operator focused on the Las Vegas locals market, decreased as many Las Vegas residents left on vacation given the strong economy and a heat wave that affected the area. We consider the drop in visitation to be temporary, and do not foresee a long-term slowdown in the locals market. Las Vegas' population continues to grow, wages continue to rise 2-3% per year, and housing prices are at record highs. We view such data optimistically, and we see the stock's current valuation as attractive.
- **Littelfuse, Inc.** is one of the world's leading suppliers of circuit protection products used in virtually every market that utilizes electrical energy. Shares declined on general macro concerns, including global automotive production volumes and uncertainty around U.S.-China tariffs. We continue to hold Littelfuse because we believe that the company maintains a strong competitive advantage, has a solid management team that will create value over time through organic growth and acquisition, and benefits from the attractive secular theme of electrification.
- **Douglas Emmett, Inc.** is a REIT that owns a portfolio of high-quality office and multi-family assets in Western Los Angeles and Honolulu. A rise in the 10-year interest rate, which made Douglas Emmett's dividend yield look relatively less attractive, drove weak performance in the quarter. We retain conviction because Douglas Emmett owns a portfolio of high-quality assets we believe are underappreciated at the current stock price.

## Contribution to Return<sup>1</sup> By Sub-Industry



## By Holdings

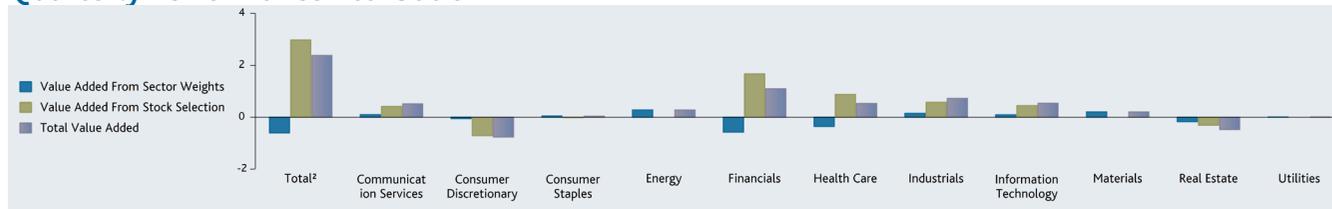
Top Contributors	Average Weight(%)	Contribution(%)
Iridium Communications Inc.	2.49	0.86
Gartner, Inc.	4.73	0.84
Bio-Techne Corporation	2.17	0.71
Primerica, Inc.	3.18	0.61
IDEXX Laboratories, Inc.	4.21	0.58

Top Detractors	Average Weight(%)	Contribution(%)
Red Rock Resorts, Inc.	1.46	-0.29
Littelfuse, Inc.	0.89	-0.12
Douglas Emmett, Inc.	2.12	-0.12
2U, Inc.	0.96	-0.09
Neogen Corp.	0.60	-0.06

1 - Source: FactSet PA.

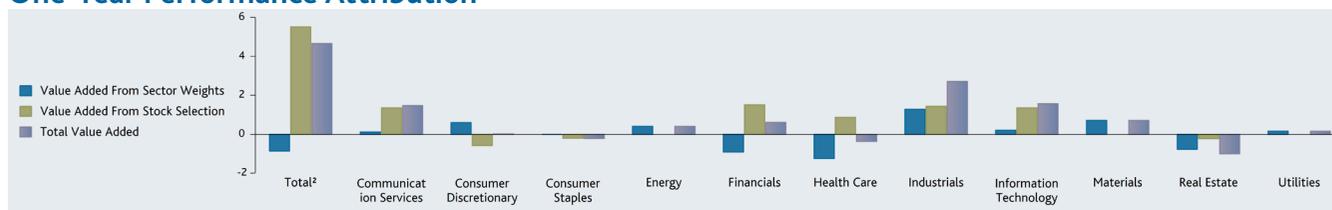


## Quarterly Performance Attribution<sup>1</sup>



Sector Average Weights(%)	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities
Baron Growth Fund	4.27	24.30	1.16	-	23.99	9.39	8.34	19.99	-	7.01	-
Russell 2000 Growth Index	3.29	14.90	2.78	2.30	7.52	26.56	18.31	17.32	4.13	2.48	0.41
Over/Underweight	0.98	9.41	-1.62	-2.30	16.48	-17.17	-9.97	2.66	-4.13	4.53	-0.41
<b>Total Return(%)</b>											
Baron Growth Fund	26.47	1.76	2.08	-	9.19	18.24	11.19	10.71	-	-2.24	-
Russell 2000 Growth Index	14.55	4.94	3.12	-6.12	1.90	7.64	4.00	8.17	0.83	1.75	4.48
Relative Return	11.92	-3.17	-1.04	6.12	7.29	10.60	7.19	2.54	-0.83	-3.99	-4.48

## One-Year Performance Attribution<sup>1</sup>



Sector Average Weights(%)	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities
Baron Growth Fund	3.66	24.41	1.34	-	24.62	9.02	6.73	21.68	-	7.58	-
Russell 2000 Growth Index	2.89	13.95	2.63	1.56	6.52	25.06	17.96	21.40	4.41	3.03	0.61
Over/Underweight	0.77	10.47	-1.28	-1.56	18.11	-16.04	-11.23	0.28	-4.41	4.55	-0.61
<b>Total Return(%)</b>											
Baron Growth Fund	71.07	23.13	10.56	-	22.74	42.58	24.89	35.81	-	0.60	-
Russell 2000 Growth Index	22.69	26.13	25.06	-2.03	14.42	30.03	9.77	27.63	5.24	4.17	5.67
Relative Return	48.39	-3.01	-14.50	2.03	8.32	12.55	15.12	8.18	-5.24	-3.57	-5.67

Return calculations for the Portfolio are transaction based and are calculated from the underlying security-level data; they may not correspond with published performance information based on NAV per share.

1 - Attribution analysis for other periods or versus another index will be provided upon request. Source: FactSet PA.

2 - Fund total returns include cash, fees and unassigned securities.

When reviewing performance attribution on our portfolio, please be aware that we construct the portfolio from the bottom up, one stock at a time. Each stock is included in the portfolio if it meets our rigorous investment criteria. To help manage risk, we are aware of our sector and security weights, but we do not include a holding to achieve a target sector allocation or to approximate an index. Our exposure to any given sector is purely a result of our stock selection process.

## Quarterly Analysis

Baron Growth Fund gained 7.94% in the third quarter, outperforming the Russell 2000 Growth Index by 242 basis points due to stock selection. Style biases were also a tailwind to relative performance, driven by underexposure to the earnings variation and volatility factors and overexposure to larger caps stocks, which outperformed smaller caps in the quarter.

Outperformance of investments in Financials, Industrials, Information Technology (IT), and Health Care contributed the most to relative results. Stock selection in Financials added nearly 170 basis points to relative results, driven by insurers Primerica, Inc. and Arch Capital Group Ltd. Primerica's stock price rose after reporting strong quarterly results, featuring top-line growth of 13% and stabilizing margins. The company is benefiting from salesforce growth and a rising stock market. Arch's shares rebounded after reporting quarterly earnings that exceeded Street expectations. Favorable stock selection in Financials was somewhat offset by meaningfully higher exposure to this underperforming sector. Within Industrials, outperformance of recent addition Bloom Energy Corporation and composite wood decking manufacturer Trex Company, Inc. added value. Shares of Bloom Energy, a maker of electricity-generating fuel cells, almost doubled following the company's successful IPO in late July. Trex's share price gains reflected the company's sustained strong fundamental performance as Q2 results and Q3 sales guidance topped Street expectations. Organic growth continued and margin execution remained excellent despite recent marketing investments and higher transportation costs. Strength in IT came from the outperformance of Gartner, Inc., the second largest contributor on an absolute basis. The two largest positions in Health Care, Bio-Techne Corporation and IDEXX Laboratories, Inc., lifted relative results. Bio-Techne was the third largest contributor to absolute performance after its stock price rose significantly during the quarter. Shares of veterinary diagnostics leader IDEXX were up as competitive trends remained strong, highlighted by instrument installed base growth of 20%, domestic lab growth more than twice that of competitor VCA, and improving sales productivity.

Consumer Discretionary and Real Estate investments weighed the most on relative performance. Weakness in Consumer Discretionary was mostly attributable to the underperformance of global ski resort operator Vail Resorts, Inc. and Red Rock Resorts, Inc., the largest detractor on an absolute basis. Vail's shares fell late in the quarter after season pass sales growth came in modestly below Street expectations. Within Real Estate, underperformance of office REIT Douglas Emmett, Inc. and greater exposure to this lagging sector hurt relative results. Douglas Emmett was the third largest detractor from absolute results after the stock underperformed alongside other REITs due to rising interest rates.



## Top 10 Holdings as of September 30, 2018

### Company

### Investment Premise

**Vail Resorts, Inc. (MTN)** is the largest operator of ski resorts in the U.S. It owns 15 resorts across Colorado, Utah, Lake Tahoe, Whistler Blackstone in Canada, Perisher in Australia and Stowe in Vermont. It is in the process of closing on three other ski resorts in Vermont, New Hampshire, and Colorado.

Most of Vail's revenues come from its ski resorts. The company has been upgrading its properties to offer new and higher quality services and amenities and summer recreational activities, which we believe should help attract more visitors and allow it to continue to raise lift ticket prices. Vail is also focused on increasing season-pass sales and has been acquiring resorts to enhance the attractiveness of its multi-resort season pass. The company generates strong free cash flow that it is using for increased dividends and debt reduction.

**CoStar Group, Inc. (CSGP)** is the leading provider of information and marketing services to the commercial real estate industry.

CoStar has built a proprietary database through primary and data collection research over a 20-year period, creating high barriers to entry. The conversion of legacy Loopnet search customers to CoStar suite customers should add \$200mm+ of recurring revenue with almost no cost, and the conversion of Loopnet listing customers can be even more material. CoStar has expanded into the apartment space via several acquisitions, and we think it can grow its apartment marketing offerings at 20% sustainable with few incremental costs.

**Gartner, Inc. (IT)** is the leading independent provider of research and analysis on the information technology industry.

Gartner has a vast addressable market, which management estimates exceeds \$70 billion annually, implying a penetration rate of less than 3%. IT is rapidly changing and growing in strategic importance, leading users to turn to third-party providers for insight into trends. The low price of Gartner's research relative to its value has created strong renewal trends, with retention rates running above 100%. We think management can improve results with its recent acquisition of CEB, accelerating growth towards 15%+ over the next three years.

**MSCI, Inc. (MSCI)** provides investment decision support tools to global investment institutions.

We believe MSCI, the de-facto standard for measuring global market performance, is well positioned to benefit from the continuing development of emerging markets, passive investing, and the growth of global financial assets. We believe the company's indexes remain the global standard for cross-border investing and will continue to be selected by institutions when issuing new mandates. Both the index and multi-asset portfolio and risk analytics products are mission critical and deeply embedded in a client's workflow.

**Arch Capital Group Ltd. (ACGL)** is a specialty insurance and reinsurance company with operations in Bermuda, the U.S., Europe, and Canada.

Arch Capital is led by an experienced management team with a successful track record across insurance cycles. The company excels at underwriting specialized policies and can nimbly shift its business mix to target the most profitable lines. Arch has a compensation system that rewards long-term profitability rather than short-term premium growth. In our view, management has demonstrated strong underwriting discipline and capital stewardship, allowing Arch to maintain industry-leading returns on equity with less risk.

### Company

### Investment Premise

**IDEXX Laboratories, Inc. (IDXX)** is the leading provider of diagnostics to the veterinary industry.

IDEXX has continued to benefit from secular growth spending on pets, due to a growing human-animal bond, favorable demographics, increased use of diagnostics, and enhanced focus on preventative care. We think IDEXX has the best menu of diagnostics, which it has continuously improved by spending six times more on R&D annually than all its competitors combined. The company's products are sold via a razor/razorblade model, which creates high retention rates and incremental margins. IDEXX generates strong cash flow, which it has returned to shareholders via repurchases.

**ANSYS, Inc. (ANSS)** is the market leader in simulation-driven product development. Engineers use its simulation software to test the effects of real-world forces on a design without a physical model.

ANSYS's software allows engineers to test a broad range of designs, enabling lower development costs, reduced time to market, and optimized products. The company has high recurring revenue and customer retention rates in excess of 95%. It generates high margins due to the scalability of its software and significant levels of free cash flow, which it has reinvested in R&D and niche acquisitions. The company has also increased the pace of its share repurchases in light of what we believe is its vast long-term opportunity and attractive valuation.

**FactSet Research Systems, Inc. (FDS)** provides financial information to the global investment community.

FactSet serves only a small part of the addressable market, which we estimate is roughly \$20 billion annually. The company has been taking market share and offering broader data sets and more advanced portfolio analytics than its competitors, and has a highly regarded customer service model. FactSet has also been expanding into the fixed income and wealth management markets. Its products are sticky, leading to retention rates of over 95% and high visibility. FactSet generates robust free cash flow, which it has returned to shareholders via share repurchases and dividends.

**Choice Hotels International, Inc. (CHH)** is one of the largest hotel franchisors in the world, with 6,883 hotels and an additional 1,024 properties under development. Its franchise contracts are long term, many as long as 20 years. Brands include Quality Inn, Comfort Inn, Comfort Suites, and Sleep Inn.

Choice has a strong franchising business with recurring revenue. It has demonstrated consistent profitability across up and down cycles through increased rates and occupancy, new unit growth, and increased royalty rates. The company has a strong pipeline of new hotel franchises and is looking to expand the number of upscale brands in its portfolio, through acquisitions and new brand creations such as Cambria Suites and Ascend Collection. It is also selling its systems to third-party hotels, which we think will generate significant income over time.

**Primerica, Inc. (PRI)** is a leading provider of term life insurance and investment products to middle income households in the U.S. and Canada.

As the responsibility for retirement savings shifts from employer pensions to individuals, Primerica serves a growing need for financial planning in an underserved customer segment. Primerica has a variable-cost sales model that uniquely positions it to reach customers in a cost-efficient manner. The company is growing its sales force and increasing productivity, leading to higher sales and asset-based fees. Primerica generates significant excess capital, which is being returned to shareholders through share repurchases and dividends.



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