Baron Mid Cap Growth Strategy

BARON CAPITAL

December 31, 2019

Dear Investor:

Performance

Stocks finished 2019 with strong gains, driven by factors that included growing optimism about U.S.-China trade negotiations, firming economic data, better-than-expected corporate earnings, and favorable moves by the Federal Reserve. The Information Technology (IT) and Health Care sectors continued to perform well, led by semiconductor and pharmaceutical stocks. The Energy sector rebounded amid rising oil prices, while defensive and yield-oriented sectors, such as Consumer Staples, Utilities, and Real Estate, underperformed. Growth stocks resumed their leadership during the quarter to finish well ahead of value stocks for a third consecutive year.

Against this backdrop, Baron Mid Cap Growth Strategy gained 6.77% (net of fees), while the Russell Midcap Growth Index (the "Index") gained 8.17%, and the S&P 500 Index gained 9.07%.

Table I.
Performance
Annualized for periods ended December 31, 2019

	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]	6.77%	7.03%	8.17%	9.07%
One Year	38.08%	39.43%	35.47%	31.49%
Three Years	20.51%	21.70%	17.36%	15.27%
Five Years	13.32%	14.45%	11.60%	11.70%
Ten Years	14.64%	15.78%	14.24%	13.56%
Fifteen Years	10.09%	11.21%	10.15%	9.00%
Since Inception[3] (June 30, 1998)	8.95%	10.04%	8.46%	7.00%

Investments in Communication Services, Consumer Discretionary, and Financials and the Strategy's lack of exposure to the lagging Materials and Consumer Staples sectors added the most value. Favorable stock selection in Communication Services was driven by **Zillow Group, Inc.,** an online real estate database company, and **Liberty Broadband Corporation**, a holding company for shares of cable company Charter Communications. Zillow's shares rebounded after the company reported strong quarterly financial results, which accelerated in its core Premier Agent business and continued to grow in its newer Offers home-buying business. Liberty Broadband's stock price gained in response to outstanding quarterly results from Charter Communications, with broadband net adds, its most important key performance indicator, exceeding expectations. Strength in Consumer Discretionary came from jewelry retailer **Tiffany & Co.** and global hotelier **Hyatt Hotels Corp.** Tiffany received an unsolicited acquisition offer from French luxury conglomerate LVMH, and Hyatt sold two additional hotels while retaining lucrative management contracts. Within Financials, outperformance of electronic trading platform **MarketAxess Holdings Inc.** and brokerage firm **The Charles Schwab Corp.** added the most value. MarketAxess's stock rebounded following an earnings-driven decline in September, as trading activity on its platform remained impressive. Schwab's shares rose on optimism related to the company's announced acquisition of rival TD Ameritrade.

Underperformance of investments in Health Care, Industrials, and IT detracted the most from relative results. Poor performers in Health Care included veterinary diagnostics leader **IDEXX Laboratories, Inc.** and biotechnology company **Sage Therapeutics, Inc.** Weakness in Industrials was driven by the Strategy's sizeable position in data and analytics vendor **Verisk Analytics, Inc.**, whose shares fell due to a negative court ruling related to the company's Geomni product. Several IT holdings underperformed in the quarter, led by internet infrastructure services provider **Verisign, Inc.** and insurance software vendor **Guidewire Software, Inc.**

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 December 31, 2019, total Firm assets under management are approximately $31.1 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.

Table II.
Top contributors to performance for the quarter ended December 31, 2019[1,2]

Ceridian HCM Holding Inc.
ANSYS, Inc.
Mettler-Toledo International, Inc.
Tiffany & Co.
Gartner, Inc.

Ceridian HCM Holdings, Inc. provides software that assists businesses with human capital management (HCM), which includes functions such as payroll processing, employee time and attendance oversight, recruiting, and monitoring. The company's shares gained after reporting that its organic growth had accelerated to 33% in its most recent quarter. Dayforce, the company's flagship Software-as-a-Service (SaaS) platform, continued to generate rapid and accelerating revenue growth, which led to meaningful gross margin expansion, improved free cash flow conversion, and rapid deleveraging of the company's balance sheet. We believe that Ceridian has a technologically superior product portfolio that will continue to expand. We also believe that it is serving a vast end market that is under significant pressure to adopt modern SaaS solutions.

ANSYS, Inc. is a leading provider of physics-based simulation software, which is utilized by engineers to evaluate how products will perform within various real-world environments. The company's stock performed well throughout the year. During the fourth quarter, ANSYS reported earnings results that demonstrated continued positive momentum in its business, highlighted by strong forward-looking revenue metrics. Despite some investor concerns that the company would suffer from macroeconomic uncertainty, there did not appear to be any signs of a purchasing slowdown. Instead, ANSYS demonstrated continued strength in expanding its sales activity with large corporate accounts.

Mettler-Toledo International, Inc., a leading global supplier of weighing and other precision instruments and services, performed well. Cooling of trade tensions with China led to share price outperformance, given Mettler's outsized sales and manufacturing presence in the region. The company also reported solid quarterly results, excluding softness in its non-core Food Retail business, and management provided 2020 guidance that we believe is achievable. We continue to believe Mettler operates an exceptionally well-managed business and can compound earnings at attractive rates.

Tiffany & Co., the well-known luxury jewelry retailer, outperformed during the quarter after news of LVMH's takeover offer leaked to the press. Tiffany ultimately accepted LVMH's increased offer of $135 per share in cash, a meaningful premium to where its stock had recently traded. We had long believed that a takeover of Tiffany had been possible. Tiffany is one of the most prominent luxury jewelry brands in the world. Under the LVMH umbrella, Tiffany should be able to accelerate its turnaround strategy without the scrutiny of public markets' quarterly reporting. Tiffany should also benefit from LVMH's deep luxury expertise. We believe this deal will be positive for both Tiffany and LVMH shareholders.

Shares of **Gartner, Inc.,** the leading provider of syndicated research on the IT industry, contributed to performance. Forward-looking metrics in Gartner's core research business remained robust. Trends in the company's GBS segment, which includes business acquired from CEB in 2017, have begun to improve, with rapid uptake of its new seat-based research product. We expect GBS growth soon to accelerate into the double-digits, which we believe will be viewed favorably by investors. Gartner also has now completed a significant investment cycle, and we expect modest operating margin improvement going forward.

Table III.
Top detractors from performance for the quarter ended December 31, 2019[1,2]

Sage Therapeutics, Inc.
Verisk Analytics, Inc.
IDEXX Laboratories, Inc.
Expedia Group, Inc.
Veeva Systems Inc.

Shares of **Sage Therapeutics, Inc.** fell after the company reported disappointing results in the Phase 3 clinical trial for an important drug in its development pipeline, SAGE-217, which targets major depressive disorder. While the clinical results were unexpected, we had considered this possibility, given the fraught history of drug development in this area. Depression and neurology are notoriously challenging areas in clinical development because of the subjective nature of the disease. We believe it is likely that this drug will still be approved by the FDA. Drugs targeting depression are often approved with failed trials in their FDA dossier given the large unmet need for treatment options. (One recent example is Johnson & Johnson's Spartavo). We are awaiting updated information about how Sage will modify its clinical trial program to expedite this process. It is still possible that Sage's drug will be approved on the same timelines as before the study's failure, but we expect to know more over the coming months. It is for this reason that we continue to hold the position as we evaluate Sage and the evolving competitive landscape. Meanwhile, we are monitoring the other assets in Sage's development pipeline (in tremor, Huntington's disease, insomnia, etc.) and its rate of cash burn.

Shares of **Verisk Analytics, Inc.,** a leading data and analytics vendor, declined despite the company's reporting solid earnings results. We believe the stock pulled back during the quarter because of a negative legal ruling related to the company's Geomni product segment, which we believe will ultimately be insignificant to the company's long-term earnings power. We remain confident about the competitive position and defensive business model, along with its potential to achieve consistent revenue growth and expanded operating margins.

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** detracted from performance. We believe the stock declined because investors rotated out of higher-multiple veterinary stocks, and there was some concern about more aggressive competition in its reference laboratory business. We remain confident in IDEXX's prospects. Competitive trends remain impressive, and sales force productivity continues to improve. We believe newly developed proprietary tests should meaningfully contribute to future growth, and we think operating margins have room to expand.

[1] 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.

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

Shares of **Expedia Group, Inc.** the world's second largest global travel agency, fell after reporting disappointing results and muted near-term growth expectations. Expedia experienced higher costs to attract visitors to its websites, as the company was forced to rely on more expensive marketing channels, particularly paid placements on Google. Overall travel demand and hotel room rates also softened, causing additional revenue headwinds. We sold out of our position during the quarter.

Veeva Systems Inc. offers customer relationship management, content, collaboration, and data management solutions tailored mostly to the life sciences industry. After holding a well-attended, upbeat analyst day in early October, the stock came under pressure after management issued long-term guidance that exceeded expectations for revenue growth but was more cautious on margins targets and the pace of revenue growth outside its core life science market. In addition, IQV, a competitor, demonstrated some early success in this market. We remain confident in Veeva's long-term opportunity.

Portfolio Structure

At December 31, 2019, Baron Mid Cap Growth Strategy held 58 positions. The Strategy's 10 largest holdings represented 38.0% of assets and the 20 largest represented 60.4% of assets. The Strategy's largest weighting was in the IT sector at 28.2% of assets. This sector includes software companies, IT consulting firms, internet services companies, and data processing firms. The Strategy held 22.4% of its assets in the Health Care sector, which includes investments in life sciences companies, and health care equipment, supplies, and technology companies. The Strategy held 17.2% of its assets in the Industrials sector, which includes investments in research and consulting companies, industrial conglomerates, and machinery companies. The Strategy also had significant weightings in Financials at 12.4% of assets and Consumer Discretionary at 7.8% of assets.

Table IV.
Top 10 holdings as of December 31, 2019[1]

IDEXX Laboratories, Inc.
Gartner, Inc.
Mettler-Toledo International, Inc.
Verisk Analytics, Inc.
ANSYS, Inc.
Guidewire Software, Inc.
Vail Resorts, Inc.
Verisign, Inc.
CoStar Group, Inc.
TransUnion

[1] Based on the representative account

Recent Activity

During the past quarter, the Strategy established one new position and added to nine others. The Strategy eliminated one position and reduced its holdings in six others.

Table V.
Top net purchases for the quarter ended December 31, 2019[1]

Amphenol Corporation
Alexandria Real Estate Equities, Inc.
RingCentral, Inc.
Roper Technologies Inc.
Aspen Technology, Inc.

[1] Based on the representative account

We purchased **DexCom, Inc.** earlier in 2019, and it performed well during the year. The company sells a continuous glucose monitoring (CGM) device for people with diabetes. DexCom's CGM device is a superior method for monitoring blood sugar compared with finger sticks (the traditional method) because DexCom's CGM provides its users with real-time blood glucose levels along with alerts, alarms, and trend information. In contrast, finger sticks can determine someone's blood sugar level only at a single point in time, cannot indicate trends or rate of change, and lack alerts/alarms. Studies have shown that CGM results in significant improvement in maintaining blood sugar levels within the patient's target range compared with patients relying only on finger stick measurements. This lowers the risk of long-term health complications associated with diabetes, such as cardiovascular disease, eye disease, nerve damage, and kidney disease. DexCom's alerts and alarms can also prevent hypoglycemia, a condition which can be life threatening. DexCom's Share function allows parents, spouses and designated caregivers to monitor a patient's blood sugar remotely.

DexCom's market opportunity is large, in our view. Its core market consists of the 3.2 million insulin intensive patients in the U.S. plus another 3 million to 5 million insulin intensives outside the U.S. This market has seen rapid adoption and is driving DexCom's near-term growth. At the beginning of 2019, DexCom management guided to 14% to 19% revenue growth. After three quarters of revenue growth that exceeded investor estimates, management raised revenue growth guidance to 38% to 41% during the fourth quarter. We see continued runway for growth in the core insulin intensive market.

Beyond the core market, DexCom has an opportunity to expand adoption of its CGM device into the much larger non-insulin-intensive diabetes market, which consists of an estimated 27 million diabetes patients in the U.S.; the gestational diabetes market, which consists of an estimated 4 million patients in the U.S.; the hospital market for intensive care unit monitoring, which consists of an estimated 14 million patients in the U.S.; and the pre-diabetes market, which consists of an estimated 84 million patients in the U.S. Globally, over 400 million people have diabetes.

To access the market opportunity beyond DexCom's core market, DexCom plans to launch a new product called the G7, a device DexCom is developing in partnership with Google/Verily. The G7 will be a low-cost, miniaturized, disposable, bandage-sized device. Management expects to launch the G7 in late 2020 or early 2021.

Although DexCom has competitors such as Abbott Laboratories and Medtronic, we think DexCom's features, functionality, and performance characteristics differentiate the product, and we think the product will continue to improve with future generations. DexCom's proprietary sensor technology has taken time and investment to develop and refine, DexCom has manufacturing expertise, and DexCom has a strong reputation among physicians and regulators as well as a loyal customer base. We see a long runway for growth for years to come.

Table VI.
Top net sales for the quarter ended December 31, 2019[1]

Expedia Group, Inc.
Booking Holdings, Inc.
MAXIMUS, Inc.
The Charles Schwab Corp.
Veeva Systems Inc.

[1] Based on the representative account

As discussed above, we sold out of our position in **Expedia Group, Inc.**, the world's second largest global travel agency, after the company reported disappointing results and muted near-term growth expectations. We reduced our stake in **Booking Holdings, Inc.**, the largest global travel agency, on concerns surrounding growth in the travel sector. We reduced our holdings in **MAXIMUS, Inc.**, which provides outsourced services to governments, on concerns that it would not be able to sign many new long-term government contracts. We reduced our stake in brokerage firm **The Charles Schwab Corp.** because its market capitalization is expected to increase meaningfully after it completes its announced acquisition of TD Ameritrade. We reduced shares of **Veeva Systems Inc.**, which had appreciated considerably during the year, to manage its position size in the Strategy.

Outlook

Throughout the past decade's bull market, prominent market commentators and strategists have offered various reasons to avoid equities. However, investors who have ignored "short-term noise" in the stock market while pursuing a long-term strategy of "buying and holding" great companies have generally been richly rewarded. We believe this straightforward method remains the best approach for investors to follow.

We remain optimistic that the prospects for U.S. equities are solid. We believe that the U.S. economy is generally robust and that the outlook for continued earnings growth from the companies in our portfolio is encouraging. The U.S. unemployment rate remains at historically low levels, and most leading economic indicators remain favorable. Inflation is muted, and the Federal Reserve seems committed to ensuring that interest rates stay at presently low levels.

We believe that our portfolio of well-managed, competitively advantaged, fast growing companies will continue to perform well, 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.

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.