Baron Mid Cap Growth Strategy

BARON CAPITAL

June 30, 2017

Dear Investor:

Performance

Baron Mid Cap Growth Strategy continued its excellent start to the year. The Strategy gained 7.72% during the quarter, bringing its year-to-date performance to 18.66%. The Russell Midcap Growth Index gained 4.21% during the quarter, and the S&P 500 Index gained 3.09%.

Table I.
Performance
Annualized for periods ended June 30, 2017

	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]	7.72%	7.99%	4.21%	3.09%
Six Months[2]	18.66%	19.25%	11.40%	9.34%
One Year	24.86%	26.11%	17.05%	17.90%
Three Years	10.07%	11.17%	7.83%	9.61%
Five Years	15.85%	17.01%	14.19%	14.63%
Ten Years	7.76%	8.89%	7.87%	7.18%
Fifteen Years	9.48%	10.59%	10.34%	8.34%
Since Inception (June 30,1998)[3]	7.96%	9.04%	7.49%	6.06%

An important component of the Strategy's good performance was attributable to its investments in the Information Technology (IT) and Health Care sectors. The Strategy has approximately 45% of its assets in these two sectors, which were the two best performing sectors in the Index, and the Strategy outperformed the Index returns in both of these key sectors. The strength in IT was broad-based across the Strategy's investments. **Gartner, Inc.**, the leading research firm covering the IT space, and the Strategy's largest holding, performed well, as the market's view of Gartner's recent acquisition of CEB, Inc. grew more favorable. The Strategy's software investments also gained as their earnings results shed greater visibility on the size of their addressable markets and the pace at which they are gaining market share. Notable performers included **Guidewire Software, Inc.**, which targets the insurance industry, and **ANSYS, Inc.**, which sells product simulation software across many different industries. In addition, **Zillow Group, Inc.** and **CoStar Group, Inc.,** both of which are internet services firms focused on different areas of the real estate information market, were also standout performers.

In Health Care, the Strategy's investments did well, despite the ongoing uncertainty about the fate of the Affordable Care Act and the possibility of new restrictions on drug pricing, which impacted many companies in the sector. The Strategy has long been cautious about making outsized investments in Health Care companies that can be meaningfully impacted by sudden, and frequently unforeseen, changes in the regulatory landscape. The investments that did best included **Mettler-Toledo International, Inc.**, a global manufacturer of sophisticated weighing devices, **The Cooper Companies, Inc.**, a global manufacturer of contact lenses, and **West Pharmaceutical Services, Inc.**, which makes packaging devices for many of the largest pharmaceutical and biotechnology firms.

Consumer Discretionary was another sector that helped the Strategy's performance. The sector was one of the poor performers in the Index, partly because of the poor performance of many traditional retailers. As Amazon.com, Inc. has continued to disrupt the retail universe, the large majority of retailers' stocks have suffered. The Strategy benefited from having relatively little exposure to these retailers. However, the few retail investments the Strategy did hold, including **Tractor Supply Co.** and **Advance Auto Parts, Inc.**, did not perform well. We exited both these investments during the quarter. In contrast, the Strategy's investments in the two leading online travel agencies, **The Priceline Group, Inc.** and **Expedia, Inc.**, both did well, as internet-based agencies continued to take market share from traditional travel booking channels.

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 June 30, 2017, total Firm assets under management are approximately $23.0 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.

There were few investments that detracted meaningfully from the Strategy's absolute performance. In addition to the retailers mentioned above, companies with direct or indirect exposure to energy prices, which fell during the quarter, generally suffered. These included industrial distributor **Fastenal Co.** and fuel credit card processor **FleetCor Technologies, Inc.**

Table II.
Top contributors to performance for the quarter ended June 30, 2017[1]

	Year Acquired	Percent Impact
Mettler-Toledo International, Inc.	2008	1.02%
Gartner, Inc.	2007	0.90
Guidewire Software, Inc.	2013	0.57
Zillow Group, Inc.	2015	0.50
CoStar Group, Inc.	2016	0.42

Mettler-Toledo International, Inc. is the world's largest provider of weighing instruments used in laboratory, industrial, and food retailing operations. Mettler's shares gained after the company reported its best quarterly financial results in years, highlighted by a sharp acceleration in organic revenue growth to 11%. Sales were strong across several product segments and geographies, particularly in Mettler's Product Inspection business and its China operations. We continue to believe Mettler is an exceptionally well-managed business that should be able to compound its earnings at attractive rates.

Gartner, Inc. is the leading provider of syndicated IT research. Gartner's shares gained as it reported various forward-looking financial metrics that pointed to continued acceleration in the company's revenues, earnings, and free cash flow. We expect to see positive trends in those metrics as a result of easing comparisons, improved productivity, and sales tactics that have been fine-tuned to match current macroeconomic conditions. In addition, Gartner completed its acquisition of CEB, Inc. during the quarter. We believe this merger will prove to be synergistic and accretive to earnings. In our view, Gartner's best-in-class management team will be able to accelerate growth at CEB into the double digits while also extracting significant cost savings.

Guidewire Software, Inc. is a software platform sold to property and casualty insurers. The company's shares gained after it reported solid quarterly earnings results. Guidewire enjoys near-perfect customer retention rates, a growing installed base of users, and accelerating adoption by its insurance customers. We believe that Guidewire will benefit as the insurance industry is in the early stages of a widespread replacement cycle of its core software operating systems. Furthermore, Guidewire has tripled its addressable market through new products and cloud-based delivery capabilities. The company recently announced a landmark deal to become State Farm's sole core systems provider. We believe State Farm will serve as an outstanding reference customer for other large carriers, leading to additional large sales.

Zillow Group, Inc. operates online real estate sites, including Zillow.com, which offers information on homes for sale and rent; Zillow Mortgage Marketplace, which enables home buyers to get online mortgage quotes; and StreetEasy, New York City's leading real estate site. Shares rose on strong quarterly results coupled with a robust outlook for the full year 2017. We expect Zillow to benefit from recent product launches including auction-based pricing for certain listings on its sites. As the dominant U.S.-based online real estate company, we think Zillow is well positioned to grow its share of the $8 billion real estate advertising market.

CoStar Group, Inc. is a real estate information and marketing services company. Shares rose on strong quarterly results, which demonstrated solid business trends. Revenues grew 13%, while bookings, a forward-looking metric, grew 17%. We are excited about the company's plan to discontinue its LoopNet Premium Searcher product, and to upsell its customers to its flagship CoStar information product. We believe this transition could eventually contribute an incremental $150 to $200 million of recurring revenue with almost no added cost. We also see an opportunity to optimize its Premium Lister product, which will potentially impact results favorably next year.

Table III.
Top detractors from performance for the quarter ended June 30, 2017[2]

	Year Acquired	Percent Impact
Fastenal Co.	2006	–0.21%
The Middleby Corp.	2013	–0.12
FleetCor Technologies, Inc.	2012	–0.10
Advance Auto Parts, Inc.	2016	–0.08
Nielsen Holdings plc	2011	–0.06

Fastenal Co. is one of the largest distributors of various industrial supplies. Fastenal detracted from performance following the stock's strong move over the past nine months, despite its improving sales and earnings outlook. Shares fell over concerns that continued weakness among some of its energy market customers could impact Fastenal. In addition, some investors are concerned that Amazon.com could eventually attempt to enter Fastenal's market. We reduced our position during the quarter.

The Middleby Corp. is a leading manufacturer of equipment used to cook and process food. Shares detracted from performance after the company reported negative organic growth in the first quarter. Middleby indicated that it expects growth to resume in the second half of 2017. Nevertheless, the stock is being pressured by uncertainty regarding the strength of its sales pick-up and correlation to a weak restaurant industry. We continue to own Middleby, as the company's products are a key component in revenue growth and cost cutting at its restaurant customers, and it also has a strong track record of creating value by making acquisitions.

FleetCor Technologies, Inc. provides payment processing services to vehicle fleets and fuel retailers. Although the company reported solid financial results and raised its full-year earnings guidance, shares detracted because of weaker oil prices and a report by a short seller of allegedly abusive fee practices. We believe the report contains factual inaccuracies and the negative allegations are exaggerated. We expect the negative market sentiment to abate and strong earnings growth to persist.

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.

Advance Auto Parts, Inc. is one of the largest retailers of automotive aftermarket parts. Shares fell on disappointing first quarter earnings results and negative industry sentiment. Soft consumer demand and weather drove negative same-store sales and margins compressed. In addition, concerns about increased online competition pressured the broader auto parts retail sector. We sold our position because we expect industry headwinds to persist, and we have decreased confidence in management's ability to accelerate revenue growth and improve profitability. We believe the turnaround plan will take longer than originally expected.

Nielsen Holdings plc is a global information and measurement company that helps its clients gain an understanding of consumer behavior. The decline in its share price was driven primarily by weakness in its domestic Buy segment, which compiles data about consumers' shopping patterns. The segment was weak as a result of changing consumer purchasing trends, and increased competition and cost-cutting faced by Nielsen's clients. We retain conviction that Nielsen's core Watch and Buy franchises have dominant market positions, and that the company is investing appropriately to better serve its clients.

Portfolio Structure

At June 30, 2017, Baron Mid Cap Growth Strategy held 55 positions. The Strategy's 10 largest holdings represented 42.8% of assets, and the 20 largest represented 64.0% of assets. The Strategy's largest weighting was in the Information Technology (IT) sector at 22.9% of assets. This sector includes software companies, IT consulting firms, and data processing firms. The Strategy also held 22.9% of its assets in the Health Care sector, which includes investments in life sciences companies, health care equipment and supplies companies, and health care distributors. The Strategy held 16.6% of its assets in the Financials sector, which includes investments in insurance companies, investment brokers and financial exchanges. The Strategy also had significant weightings in Industrials at 15.5% of assets and Consumer Discretionary at 12.4% of assets.

Table IV.
Top 10 holdings as of June 30, 2017[1]

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Percent of Net Assets
Gartner, Inc.	2007	$2.9	$11.2	6.6%
IDEXX Laboratories, Inc.	2006	2.5	14.2	6.3
Mettler-Toledo International, Inc.	2008	2.4	15.2	5.1
Vail Resorts, Inc.	1997	0.2	8.1	5.1
Arch Capital Group Ltd.	2003	0.9	11.5	4.1
Verisk Analytics, Inc.	2009	4.0	13.9	3.8
The Charles Schwab Corp.	1992	1.0	57.4	3.6
Guidewire Software, Inc.	2013	2.8	5.1	2.9
SBA Communications Corp.	2007	3.8	16.4	2.8
FactSet Research Systems, Inc.	2006	2.5	6.6	2.5

1 Based on the representative account.

Recent Activity

During the past quarter, the Strategy established three new positions and added to four others. The Strategy also sold four positions and reduced its holdings in seven others.

Table V.
Top net purchases for the quarter ended June 30, 2017[1]

	Quarter End Market Cap (billions)
TransUnion	$ 7.8
CDW Corporation	9.8
Expedia, Inc.	22.5
Align Technology, Inc.	12.1
BWX Technologies, Inc.	4.8

1 Based on the representative account.

TransUnion is a consumer information services company that's best known for compiling credit scores on the majority of Americans. The company provides data and analytics to businesses for marketing, lending decisions, identity verification, debt collection, and risk management. Individuals use the company's services to view their credit profiles, manage their personal information, and protect against identity theft. TransUnion has over 40 petabytes of information on over one billion consumers that it collects primarily on a contributory basis from 90,000 data sources, including financial institutions, private databases, and public records.

TransUnion began almost 50 years ago as a provider of regional credit reporting services and today is one of three consumer credit bureaus in the U.S. with operations in over 30 countries across North America, Africa, Latin America, and Asia. For many years, TransUnion was run by a family that didn't sufficiently invest in the company. In 2012, the current management team was brought in by new owners to reinvigorate growth. The company has since migrated to a new technology platform, introduced new products and services, and made several acquisitions to expand in new markets. Revenue growth has accelerated, margins have expanded, product diversification has improved, and financial leverage has meaningfully declined over the last five years.

We invested in TransUnion during the quarter because we believe the company has a long runway for growth, meaningful competitive advantages, and a strong management team. Revenue growth is being driven by new product innovation, expansion into less-penetrated vertical markets (such as health care, insurance, rental screening, and government), and a favorable environment for consumer lending activity. The company owns credit bureaus in other countries where the development of consumer credit from low levels should drive outsized growth going forward. We believe that the company's margins should continue expanding because of inherent operating leverage and efficiency gains from the new technology platform. TransUnion operates in an oligopolistic industry where access to consumer data, differentiated data sets, and government regulation are significant barriers to entry. We believe management has meaningfully improved the company over the last five years and expect a continuation of strong operational execution and capital allocation.

Table VI.
Top net sales for the quarter ended June 30, 2017[1]

Mobileye N.V.
Fastenal Co.
Tractor Supply Co.
CDK Global, Inc.
Advance Auto Parts, Inc.

[1] Based on the representative account.

We exited our position in **Mobileye N.V.** because we expected the company would soon complete its previously announced sale to Intel Corp. We reduced our position in **Fastenal Co.** because of concerns surrounding weakness among its energy market customers, coupled with concerns that Amazon.com could eventually attempt to enter the company's market. We exited our position in retailers **Tractor Supply Co.** and **Advance Auto Parts, Inc.** because of similar concerns about the impact that e-commerce competitors may have on those businesses. After the shares of **CDK Global, Inc.** reached our price objective, we exited our position in the company because we had more attractive investment ideas.

Outlook

We remain optimistic about the environment for U.S. equities. Employment and housing trends continue to improve, and there have been additional indications that the industrial economy is following suit. We think that our portfolio of 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 30 years, mid-cap growth stocks, as a category, have outperformed small-cap and large-cap growth stocks. However, mid-caps have underperformed large-cap growth stocks during the past five years. We are hopeful that this trend will reverse, presenting an attractive investment opportunity for the mid-cap growth asset class again.

Our entire Firm and our research department, in particular, are committed to justifying your ongoing confidence and support.

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.