

## DEAR INVESTOR:

### PERFORMANCE

U.S. equity indexes gained meaningfully during the quarter, erasing last December's steep losses and marking the best start to a year since 1998 (as measured by the S&P 500 Index). Markets shrugged off many of the concerns that had roiled stocks last quarter. Rather than focus on challenges to earnings growth or weakening economic data, investors cheered perceived progress on U.S.-China trade negotiations, attractive stock valuations, and indications that Federal Reserve policies would become more dovish. Growth stocks led the market higher, representing a reversal from the previous quarter, when value stocks were in favor.

Against this backdrop, Baron Mid Cap Growth Strategy gained 20.43% (net of fees), while the Russell Midcap Growth Index gained 19.62% and the S&P 500 Index gained 13.65%.

**Table I.**  
**Performance**

Annualized for periods ended March 31, 2019

	Baron Mid Cap Growth Strategy (net) <sup>1</sup>	Baron Mid Cap Growth Strategy (gross) <sup>1</sup>	Russell Midcap Growth Index <sup>1</sup>	S&P 500 Index <sup>1</sup>
Three Months <sup>2</sup>	20.43%	20.72%	19.62%	13.65%
One Year	15.24%	16.39%	11.51%	9.50%
Three Years	18.20%	19.38%	15.06%	13.51%
Five Years	12.20%	13.32%	10.89%	10.91%
Ten Years	17.57%	18.74%	17.60%	15.92%
Fifteen Years	10.36%	11.48%	9.94%	8.57%
Since Inception <sup>3</sup> (June 30, 1998)	8.57%	9.66%	8.12%	6.52%

During the quarter, outperformance of investments in Health Care, Industrials, and Real Estate and lack of exposure to the lagging Consumer

Staples sector contributed the most to relative results. Stock selection in Health Care added to relative results, driven by life sciences tools & services companies **Bio-Techne Corporation** and **Mettler-Toledo International, Inc.** Shares of Bio-Techne were up sharply after the company reported strong financial results, highlighted by 11% organic revenue growth. Mettler was the second largest contributor to absolute performance after reporting strong sales and earnings growth and providing solid guidance for 2019. Performance in the sector was also bolstered by gains from life sciences software solutions provider **Veeva Systems Inc.** and novel drug developer **Sage Therapeutics, Inc.** Industrials holdings outperformed after increasing nearly 24%, led by real estate information and marketing services company **CoStar Group, Inc.** and industrial technology company **Roper Technologies Inc.** Shares of CoStar were up after 2019 guidance beat investor expectations. Business trends remained excellent, with the company's bookings improving by approximately 15% year-over-year. Roper's shares benefited from the completed acquisition of Foundry, as well as investor appetite for quality growth industrial companies in a time of general economic uncertainty. Strength was broad-based in Real Estate, led by data center REIT **Equinix, Inc.** and commercial real estate services and investment firm **CBRE Group, Inc.** These stocks appreciated because of their robust fourth quarter financial results and attractive business prospects.

Apart from the performance drag associated with the Strategy's modest cash position, underperformance of Consumer Discretionary and Financials investments hurt relative results. Weakness in Consumer Discretionary came from ski resort operator **Vail Resorts, Inc.** and online travel agency **Booking Holdings, Inc.** Vail's shares lagged after destination visitation and revenue missed investor expectations. However, Vail reported season pass sales that increased double-digits for the year. Combined with recent acquisitions in the Pacific Northwest, Colorado, and the Northeast, we believe this increase in pass sales will drive more visitation and spending over time. Booking's stock underperformed due to weakness in Europe, which accounts for almost two-thirds of the company's room nights by our estimates. The largest position in Financials, brokerage firm **The Charles**

*For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of March 31, 2019, total Firm assets under management are approximately \$28.8 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.*

<sup>1</sup> 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.

<sup>2</sup> Not annualized.

<sup>3</sup> The Strategy has a different inception date than its underlying portfolio, which is 6/12/87.

# Baron Mid Cap Growth Strategy

**Schwab Corp.**, weighed on relative results. Schwab's shares underperformed over concerns related to the impact of a pause in interest rate hikes.

**Table II.**  
**Top contributors to performance for the quarter ended March 31, 2019<sup>1,2</sup>**

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IDEXX Laboratories, Inc.  
Mettler-Toledo International, Inc.  
Gartner, Inc.  
Verisk Analytics, Inc.  
Worldpay, Inc.

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After detracting meaningfully last quarter, **IDEXX Laboratories, Inc.**, the leading player in the market for veterinary diagnostics, was the strongest contributor to first quarter performance. The company reported financial results that were ahead of expectations on the top and bottom lines, while also increasing its earnings guidance for the year. Organic revenue growth in its core market for companion animals grew nearly 12%, while its global premium instrument installed base grew 21%, foreshadowing strong future growth in consumables. Profit margins also increased and share buybacks continued.

Shares of **Mettler-Toledo International, Inc.**, the world's largest provider of weighing instruments for use in laboratory, industrial, and food retailing applications, contributed to performance. Mettler reported strong sales and earnings growth and provided solid earnings guidance for 2019. Management commentary about the demand environment for its instruments was positive, with sales, orders, and leads looking strong. Management has not seen a slowdown in China, an important market, and it has taken steps to mitigate the impact of increased tariffs. Mettler's earnings stand to benefit if a trade pact is reached and tariffs eventually fall away. In addition, the company's Board authorized an increase in balance sheet leverage to buy back more stock.

Shares of **Gartner, Inc.**, a provider of syndicated research on the IT sector, contributed to performance. We believe forward-looking metrics in Gartner's IT research business are excellent, and we observe continued traction in the integration of its approximate \$3 billion acquisition of CEB, Inc., a provider of research on corporate best practices. In particular, Gartner has had success selling new CEB products on a seat-based revenue model. These seat-based contracts come with higher price points, better retention rates, long-term pricing power, and the ability to capture follow-on sales. This success is being partially obscured by legacy CEB enterprise contracts, although we expect this headwind to abate during 2019.

Shares of **Verisk Analytics, Inc.**, a leading data and analytics vendor, contributed to performance after the company reported solid earnings results. Verisk's core Insurance segment enjoyed steady performance, the Energy segment continued to improve, and the company initiated a dividend for the first time. Management also issued optimistic commentary about its performance outlook for 2019. We remain positive about the competitive positioning, long-term growth, margin expansion, and capital deployment prospects for the business.

**Worldpay, Inc.** provides technology solutions that enable merchants to accept electronic payments. Shares appreciated after the company reported quarterly results and 2019 guidance that exceeded investor expectations. Revenue growth accelerated to 10% in the fourth quarter on a pro forma, constant-currency basis, driven by rapid growth in e-commerce and integrated payments. In late March, the company announced its intent to be acquired by Fidelity National Information Services, Inc., driving further share price gains. We continue to own the stock as we evaluate the merits of the merger.

**Table III.**  
**Top detractors from performance for the quarter ended March 31, 2019<sup>1,2</sup>**

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ANGI Homeservices Inc.  
DexCom, Inc.  
CarMax, Inc.  
The Trade Desk, Inc.

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**ANGI Homeservices Inc.** is an online marketplace connecting home services professionals and homeowners. It is a new position initiated by the Strategy during the quarter. IAC/ InterActiveCorp, an existing Strategy holding, owns a large percentage of ANGI's shares. ANGI's share price declined modestly from our purchase price. The company announced its intention to reinvest into early-stage growth initiatives, such as offering home warranty services, which weighed on its stock price. We believe these are the correct long-term strategic decisions, and we are optimistic about the business' long-term prospects.

**DexCom, Inc.** is a medical device company focused on the diabetes monitoring market, and it is a new position initiated by the Strategy during the quarter. Its share price declined from our purchase price. Although the company reported fourth quarter results that were well above expectations, investors sold the stock ahead of the pending FDA approval of a competitive product from Abbott Laboratories. We believe that DexCom has a superior product, and we further believe that the addressable patient market is large enough for two players to generate attractive growth. We are also excited about the pending approval of DexCom's next generation product, the G7, which is under development.

We exited our position in **CarMax, Inc.**, the nation's largest used car retailer. Despite experiencing a modest decline in the first quarter, CarMax has been a profitable long-term investment for the Strategy.

**The Trade Desk** is the leading internet advertising demand-side platform. The company enables advertising agencies to purchase digital advertising through various channels, including PC, mobile, and online video, more efficiently. It is a new position initiated by the Strategy during the quarter, and its share price declined modestly from our purchase price. We remain positive on Trade Desk, given its leading technology and its estimated 10% share in the \$10 billion programmatic advertising market, which is a small and fast-growing subset of the \$1 trillion spent on global advertising annually.

<sup>1</sup> 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.

<sup>2</sup> Based on the gross performance results of the representative account.

## PORTFOLIO STRUCTURE

At March 31, 2019, Baron Mid Cap Growth Strategy held 60 positions. The Strategy's 10 largest holdings represented 38.2% of assets, and the 20 largest represented 59.5% of assets. The Strategy's largest weighting was in the IT sector at 26.8% of assets. This sector includes software companies, IT consulting firms, internet services companies, and data processing firms. The Strategy held 23.2% 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 17.6% 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 12.2% of assets and Consumer Discretionary at 8.6% of assets.

**Table IV.**  
**Top 10 holdings as of March 31, 2019<sup>1</sup>**

	Percent of Net Assets
Gartner, Inc.	5.8%
IDEXX Laboratories, Inc.	5.4
Mettler-Toledo International, Inc.	4.5
Verisk Analytics, Inc.	4.4
Vail Resorts, Inc.	3.5
Guidewire Software, Inc.	3.4
Verisign, Inc.	3.2
ANSYS, Inc.	2.8
FactSet Research Systems, Inc.	2.7
CoStar Group, Inc.	2.5

<sup>1</sup> Based on the representative account

## RECENT ACTIVITY

During the past quarter, the Strategy established three new positions and added to 40 others. The Strategy eliminated two positions and reduced its holdings in six others.

**Table V.**  
**Top net purchases for the quarter ended March 31, 2019<sup>1</sup>**

ANGI Homeservices Inc.
The Cooper Companies, Inc.
IAC/InterActiveCorp
Guidewire Software, Inc.
DexCom, Inc.

<sup>1</sup> Based on the representative account

**Sage Therapeutics, Inc.** is an investment that was established in February of 2018, and the Strategy added meaningfully to its position during the quarter. Founded in 2010, Sage is a biotechnology company dedicated to developing neuroscience drugs, with a particular focus on depression. Antidepressants are now taken by roughly one in eight adults and adolescents in the U.S., and a quarter of those have been doing so for more than 10 years. This clearly represents a huge public health issue, and Sage aims to tackle the disease both with a novel drug and with a new treatment paradigm.

Sage's strategy is to treat depression as an episodic disease and not a chronic one. This is analogous to the way a simple infection today is treated with a discrete course of antibiotics. The drug trials that Sage has conducted have proved promising. The results have demonstrated unprecedented efficacy and safety after just 14 days of treatment in Phase 3 trials. In one such trial, 45% of patients with severe depression achieved remission at day 14 that was durable up to a month after the drug was removed in the follow-on portion of the trial.

Looking ahead, Sage recently began recognizing revenues from its early product launches. The company launched an intravenous application, Zulresso, to treat postpartum depression in hospitals for the most severe post-term cases. Longer term, Sage intends to introduce its proprietary oral medications into the broader population to treat depression in all its forms, which include major depressive disorder, bipolar depression, and postpartum depression more broadly. Sage further hopes to reduce the stigma that society often assigns to those suffering from these potentially devastating mental health disorders. In addition, Sage has a diversified new product pipeline that targets other large markets, including sleep disorders, essential tremor, Parkinson's, and epilepsy.

**Table VI.**  
**Top net sales for the quarter ended March 31, 2019<sup>1</sup>**

Ultimate Software Group, Inc.
CarMax, Inc.
Concho Resources, Inc.
Westinghouse Air Brake Technologies Corporation
MAXIMUS, Inc.

<sup>1</sup> Based on the representative account

We reduced our holdings in **Ultimate Software Group, Inc.**, a provider of payroll and other human capital management software, after the company agreed to be acquired by a well-known private equity firm for approximately \$11 billion. We exited our successful long-term investment in used car retailer **CarMax, Inc.** over concerns about changing trends in the automotive manufacturing and retail markets. We also exited our successful long-term investment in oil and natural gas company **Concho Resources, Inc.** over concerns about deteriorating long-term trends in the energy market. We reduced our position in **Westinghouse Air Brake Technologies Corporation** over concerns about the financial implications of its combination with General Electric Company's locomotive division. We reduced our holdings in **MAXIMUS, Inc.**, a government consulting and outsourcing firm, over concerns about slowing revenue growth.

## OUTLOOK

Throughout the past decade's bull market, the popular press has been rife with reasons to sell equities. Nevertheless, investors that have pursued a long-term "buy and hold" strategy 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 bright. We believe that the economy remains generally robust and that the outlook for continued earnings growth from the companies in our portfolio is solid. The U.S. unemployment rate remains near historic lows, and most leading economic indicators remain positive. Inflation is muted, and we believe this

# Baron Mid Cap Growth Strategy

makes it less likely that the Federal Reserve will increase interest rates meaningfully any time soon.

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

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*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.