Baron Mid Cap Growth Strategy

BARON CAPITAL

September 30, 2018

Dear Investor:

Performance

U.S. equity indexes rose meaningfully during the quarter. Corporate earnings continued to impress, and the domestic unemployment rate reached new lows. Interest rates moved higher, as did most gauges of price inflation. Growth stocks continued to outpace value stocks, and large-cap stocks generally outperformed. Against this backdrop, the Baron Mid Cap Growth Strategy performed well on both an absolute and relative basis. The Strategy gained 8.15%, while the Russell Midcap Growth Index (the "Index") gained 7.57%, and the S&P 500 Index gained 7.71%.

Table I.
Performance
Annualized for periods ended September 30, 2018

	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]	8.15%	8.42%	7.57%	7.71%
Nine Months[2]	19.75%	20.65%	13.38%	10.56%
One Year	23.49%	24.73%	21.10%	17.91%
Three Years	19.12%	20.32%	16.65%	17.31%
Five Years	14.49%	15.64%	13.00%	13.95%
Ten Years	12.52%	13.65%	13.46%	11.97%
Fifteen Years	11.55%	12.68%	11.10%	9.65%
Since Inception[3] (June 30, 1998)	8.75%	9.84%	8.31%[4]	6.77%

During the quarter, the Strategy's investments in the Health Care and Information Technology (IT) sectors, which jointly comprise approximately half the Strategy's assets, contributed the most to relative results. Gains in Health Care were driven by the outperformance of DNA sequencing platform **Illumina, Inc.**, life sciences tools developer and manufacturer **Bio-Techne Corporation,** and veterinary diagnostics leader **IDEXX Laboratories, Inc.** Strength in IT was driven by the outperformance of syndicated research provider **Gartner, Inc.** and credit card processor **Worldpay, Inc.** The Strategy's lack of exposure to the lagging Materials sector also aided relative results.

Underperformance of the Strategy's investments in the Consumer Discretionary and Industrials sectors, coupled with higher exposure to the declining Financials and Real Estate sectors detracted the most from relative performance. Within Consumer Discretionary, underperformance of global ski resort operator **Vail Resorts, Inc.** and online gambling company **The Stars Group Inc**. hurt relative results. Vail's shares fell late in the quarter after season pass sales growth came in modestly below Street expectations; Stars Group was sold during the quarter. Weakness in Industrials was mainly due to the underperformance of water heating equipment manufacturer **A. O. Smith Corporation** and real estate information and marketing services company **CoStar Group, 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 September 30, 2018, total Firm assets under management are approximately $29.6 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 September 30, 2018

Gartner, Inc.
IDEXX Laboratories, Inc.
Illumina, Inc.
Bio-Techne Corporation
Verisk Analytics, Inc.

Shares of **Gartner, Inc.**, the largest provider of syndicated research on the IT sector, contributed to performance. The integration of its approximate $3 billion acquisition of CEB, Inc., which provides research on best practices to senior corporate executives across many industries, is proceeding ahead of schedule. We believe that Gartner has wisely increased its investment into this new business to pursue a large, incremental revenue opportunity. We believe that the company's recent results indicate continued, positive returns from this initiative, as both sales productivity and client retention rates improved at CEB. We expect this acquisition to drive accelerated revenue growth for Gartner over the medium term. Separately, we believe that key forward-looking metrics in Gartner's core IT research business continue to be solid, with research contract value growth and sales productivity both improving.

IDEXX Laboratories, Inc., the leading player in the market for veterinary diagnostics, extended its gains for the year. The company's second quarter results again exceeded Wall Street's expectations, with 12% organic revenue growth. This led management to raise its estimates for revenue and earnings growth again for the full year 2018. Placements of the company's flagship Catalyst instruments into veterinary offices continued to track at impressive rates. This is a key metric because these instrument placements result in ongoing sales of highly profitable reagents to these same customers. In addition, IDEXX's domestic reference laboratory segment continued to grow at approximately twice the rate of its largest competitor. The company's operating margins improved, and we believe there is meaningful room for continued margin expansion over the next several years.

Illumina, Inc. is a provider of next generation DNA sequencing instruments and consumables. Its shares rose after the company reported financial results that exceeded investor expectations, driven by strong growth of the high-margin consumables used in its sequencing instruments. We believe that Illumina continues to have a meaningful runway for growth, driven partly by the increased adoption of DNA sequencing in clinical applications, such as cancer diagnosis and treatment.

Bio-Techne Corporation is one of the world's leading suppliers of proteins, antibodies and test kits to the life sciences research community. Shares gained after 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. We believe that this transaction has the potential to become a meaningful growth driver for Bio-Techne.

Verisk Analytics, Inc. is a data and analytics vendor with an important presence in the insurance, financial services, and energy markets. Its shares gained on the back of impressive quarterly results, which exceeded investor expectations for revenues and profitability. Verisk's insurance segment demonstrated continued impressive growth, while the energy and financial services segments both showed nice revenue improvement. We remain positive about the company's solid competitive position and its prospects for long-term growth and margin improvement.

Table III.
Top detractors from performance for the quarter ended September 30, 2018

Zillow Group, Inc.
The Stars Group Inc.
MarketAxess Holdings Inc.
The Charles Schwab Corp.
CBRE Group, Inc.

Zillow Group, Inc. operates the leading online residential real estate information websites in the U.S., offering information on homes for sale and rent through the well-known Zillow and Trulia brands. Shares fell after the company reported a lower revenue and profitability outlook for 2018. Although we were disappointed by the company's reduced near-term guidance, we believe that Zillow remains in the early stages of penetrating a large and growing market for online real estate advertising.

The Stars Group Inc. is a company specializing in online sports wagering and poker, with particular strength in Europe and Australia. In addition, the company is in the process of acquiring Skybet, the leading online wagering platform in the United Kingdom. The company's shares fell meaningfully after reporting disappointing quarterly results, and this was likely exacerbated by investors reducing their exposure to gaming shares globally. We reassessed our long-term investment thesis, and we decided to exit our position during the quarter.

MarketAxess Holdings Inc. operates an electronic platform for trading corporate and sovereign bonds. We believe the company reported good quarterly results, highlighted by core trading volume growth that increased 17%, relative to largely flat growth in its markets. Nevertheless, the stock continued to underperform because of concerns that competitors might enter its market. We remain confident about the company's competitive position, and we continue to believe MarketAxess will be the prime beneficiary of the secular shift to electronic trading in the corporate bond market.

Shares of brokerage firm **The Charles Schwab Corp.** declined during the quarter. Several competitors reduced their fees for securities trading, and it is expected that Schwab will follow suit. Despite certain industry headwinds, we believe Schwab will continue to gain market share, expand the breadth of its product offerings, and increase its profitability.

CBRE Group, Inc. is the world's largest commercial real estate services and investment firm. The stock's underperformance was in line with the broader underperformance of the real estate sector, driven by concerns that rising

[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.

interest rates will pose a headwind to certain of CBRE's business lines. We believe CBRE's less cyclical business mix and its modest financial leverage position the company well for various economic environments, and we remain optimistic about our investment.

Portfolio Structure

At September 30, 2018, Baron Mid Cap Growth Strategy held 58 positions. The Strategy's 10 largest holdings represented 41.2% of assets, and the 20 largest represented 62.4% of assets. The Strategy's largest weighting was in the IT sector at 25.2% of assets. This sector includes software companies, IT consulting firms, internet services companies, and data processing firms. The Strategy held 24.2% 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 17.4% 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 12.1% of assets and Consumer Discretionary at 10.7% of assets.

Table IV.
Top 10 holdings as of September 30, 2018[1]

	Percent of Net Assets
IDEXX Laboratories, Inc.	6.7%
Gartner, Inc.	6.7
Vail Resorts, Inc.	4.8
Verisk Analytics, Inc.	4.1
Mettler-Toledo International, Inc.	3.9
Guidewire Software, Inc.	3.5
Illumina, Inc.	3.0
The Charles Schwab Corp.	2.9
Verisign, Inc.	2.8
ANSYS, Inc.	2.8

[1] Based on the representative account

Recent Activity

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

Table V.
Top net purchases for the quarter ended September 30, 2018[1]

IAC/InterActiveCorp
Ceridian HCM Holding Inc.
TransUnion
Teleflex Incorporated
Liberty Broadband Corporation

[1] Based on the representative account

The Strategy initiated a position in **IAC/InterActiveCorp**. Established by well-known businessman Barry Diller, IAC is a holding company with substantial stakes in two public internet companies, Match Group, Inc. and ANGI Homeservices, Inc., as well as full ownership of many private operating companies.

Match Group is the leading player in the online dating market, operating various websites that include Tinder, Hinge, and Match. An estimated 60% share of all dates originating online occur on one of the company's sites. We believe that Match's dominant market share affords the company important network effects that should enhance its ability to grow the number of users, their engagement level, and the amount they pay to Match. Tinder is the company's largest brand with approximately 50 million users. Fewer than four million of those users pay for the service, at an average rate of less than $15 per month. We believe there remains a large opportunity for Tinder to increase these key metrics, as a result of the ongoing global, secular migration to online dating coupled with new site features and pricing plans.

ANGI Homeservices was formed through the merger of IAC's HomeAdvisor business and Angie's List. The combined company is the market leader in pairing homeowners with various service providers, such as plumbers and electricians. Only a small portion (estimated at less than 5%) of this very large market (estimated at $400 billion) has migrated online. We believe there is a long runway for growth, driven by a secular migration in consumers' interest in using online searches to locate these types of service vendors. Similar to our view of Match, we believe that ANGI is well positioned to benefit from the network effects that benefit leaders in online marketplaces–growing demand on one side of this market should lead to growing willingness of providers to participate in the market.

IAC also owns and operates more than 100 internet-related companies, which collectively generate more than $1 billion in annual revenue. Its most prominent holding is Vimeo, a leading software subscription service for video creators with nearly one million users. The value of IAC's stakes in its two publicly traded holdings is worth more than the entire value of IAC, which implies that the stock market is assigning negative value to Vimeo and the many other companies that IAC operates. We believe that this unusual discount afforded us the opportunity to purchase stakes in two exciting companies, Match and ANGI, while also getting ownership stakes in IAC's other assets for less than nothing.

Table VI.
Top net sales for the quarter ended September 30, 2018[1]

IDEXX Laboratories, Inc.
Waters Corporation
The Stars Group Inc.
Willis Towers Watson Public Limited Company
Illumina, Inc.

[1] Based on the representative account

We reduced our holdings in veterinary diagnostic firm **IDEXX Laboratories, Inc.** and DNA sequencing firm **Illumina, Inc.**, two of our largest positions, after both stocks reached new highs during the quarter. We reduced our holdings in **Waters Corporation**, a leading manufacturer of liquid chromatography devices, over concerns about its long-term competitive position. We sold our position in **The Stars Group Inc.**, an online wagering company, as we grew concerned about the long-term growth trends in its markets. We reduced our holdings of insurance brokerage and consulting firm **Willis Towers Watson Public Limited Company** after the company reported modestly disappointing revenue growth.

Outlook

Despite the ongoing stock market volatility at the date of this letter, we remain optimistic about the prospects for U.S. equities. The economy remains robust, and we believe that the outlook for continued strength in corporate earnings remains solid. U.S. unemployment is quite low, most leading economic indicators remain positive, and we believe that inflation fears may be overblown. Although the market has begun to focus on the implications of rising long-term interest rates, we believe that equities can continue to perform well in this environment.

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. During the past 15-, 20- and 30-year periods, mid-cap growth stocks, as a category, have outperformed small-cap and large-cap growth stocks. However, mid-caps have underperformed both these asset classes during the past 3-year period. We are optimistic that this trend will reverse, presenting an attractive opportunity for the mid-cap growth asset class in the future.

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.