Baron Mid Cap Growth Strategy

June 30, 2018

Dear Investor:

Performance

U.S. equity indexes rose during the quarter, as investors became more comfortable with the outlook for continued strong corporate profit growth, inflation remained tame, and the prospect of a large, near-term increase in interest rates seemed more remote. This positive economic sentiment overshadowed the market's concerns about ongoing trade-related tensions. Within the mid-cap growth universe, stocks with the fastest expected near-term earnings growth and lowest leverage ratios did best, and those with the highest beta did worst. In addition, stocks with high-quality rankings outperformed stocks with low-quality rankings. Against this backdrop, Baron Mid Cap Growth Strategy performed well.

The Strategy gained 5.77% (net of fees) during the quarter. The Russell Midcap Growth Index (the "Index") gained 3.16%, and the S&P 500 Index gained 3.43%. We are pleased that the Strategy's returns have exceeded those of the Index during the past 3-, 5-, 10-, and 15-year periods, as well as since the Strategy's inception.

Table I.
Performance
Annualized for periods ended June 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]	5.77%	6.03%	3.16%	3.43%
Six Months[2]	10.73%	11.28%	5.40%	2.65%
One Year	18.05%	19.24%	18.52%	14.37%
Three Years	12.77%	13.90%	10.73%	11.93%
Five Years	14.73%	15.88%	13.37%	13.42%
Ten Years	10.77%	11.89%	10.45%	10.17%
Fifteen Years	11.31%	12.44%	11.07%	9.30%
Since Inception[3] (June 30, 1998)	8.44%	9.53%	8.02%	6.46%

During the quarter, the Information Technology (IT), Industrials, Health Care, and Consumer Discretionary sectors contributed the most to the Strategy's relative performance. Positive stock selection enhanced the Strategy's returns in each of these sectors. Results in the IT sector were driven by **Gartner, Inc.,** an IT research firm; **Verisign, Inc.,** a registrar of internet domains; **Guidewire Software, Inc.,** an applications software firm focused on property and casualty insurers; **ANSYS, Inc.** a vendor of simulation software; and **Wix.com Ltd.,** a website developer. Performance was also helped by the Strategy's lack of exposure to semiconductor equipment stocks, which declined by double-digits within the Index. Strength in the Industrials sector was mostly attributable to **TransUnion,** a data and analytics vendor, and **CoStar Group, Inc.,** a real estate information and marketing services company. Within the Health Care sector, the ongoing outperformance of **IDEXX Laboratories, Inc.,** a veterinary diagnostics firm, and **Illumina, Inc.,** the leading DNA sequencing firm, aided relative results. Consumer Discretionary holdings also performed well, led by **Vail Resorts, Inc.,** the ski mountain operator, and jewelry retailer **Tiffany & Co.**

The Financials and Real Estate sectors detracted the most from relative performance. **Arch Capital Group Ltd.,** a property and casualty and mortgage insurer, and **MarketAxess Holdings Inc.,** an electronic bond exchange, hampered relative results in Financials. Weakness in Real Estate was mainly due to **SBA Communications Corp.,** which owns cellular transmission towers.

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, 2018, total Firm assets under management are approximately $28.3 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 June 30, 2018[1,2]

	Year Acquired	Percent Impact
Vail Resorts, Inc.	1997	1.05%
IDEXX Laboratories, Inc.	2006	0.92
Gartner, Inc.	2007	0.77
TransUnion	2017	0.52
Illumina, Inc.	2012	0.45

Shares of **Vail Resorts, Inc.,** which owns and operates a global network of ski resorts, climbed after reporting a strong end to its 2017-2018 ski season. In addition, ski pass sales for its 2018-2019 season grew by nearly 20%, allaying concerns about potentially increased competition. The company also struck agreements to acquire four additional resorts that we think should help boost its sales in the East Coast and Northern Pacific markets. Vail continues to maintain a strong balance sheet and generates significant cash flow that should allow the company to make additional acquisitions, invest in its resorts, and return capital to shareholders.

IDEXX Laboratories, Inc., the leading player in the market for veterinary diagnostics, extended its gains for the year. The company's latest quarterly results again exceeded Wall Street's expectations, with 12% organic revenue growth. This led management to raise its estimates for revenue and earnings growth for the full year 2018. As was the case last quarter, placements of the company's flagship Catalyst instruments into veterinary offices continued to track at impressive rates. This is significant because these instrument placements result in ongoing sales of highly profitable reagents to these same customers. We are also excited about early sales results of IDEXX's proprietary SDMA test for kidney disease and fecal antigens into vets' offices. We believe this test will boost the company's overall organic revenue and earnings growth over time. In addition, operating margins continued to move higher, and we believe there is meaningful room for continued margin expansion over the next several years.

Shares of **Gartner, Inc.,** the largest provider of syndicated research on the IT sector, contributed to performance. The integration of its approximately $3 billion acquisition of CEB, Inc., which provides research on corporate best practices, 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 the company's recent results indicate positive early returns from this initiative, as both sales productivity and client retention rates improved at CEB. Separately, we believe key forward-looking metrics in Gartner's core IT research business continue to be solid, with contract value growth and sales productivity both improving.

TransUnion is a database and analytics provider, best known for its consumer credit bureau used to make credit-granting decisions for individuals. Its shares appreciated after the company reported strong quarterly results and raised its full-year guidance for revenue and earnings. TransUnion also announced the acquisition of Callcredit, the second largest and fastest-growing credit bureau in the U.K., which we believe should be accretive to the company's overall growth and earnings. We continue to own shares because we expect TransUnion to generate industry-leading growth while continuing to diversify into attractive information services verticals, such as health care.

Illumina, Inc. is the leading provider of next generation DNA sequencing instruments and consumables. Its shares rose after the company reported financial results that exceeded investor estimates, 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.

Table III.
Top detractors from performance for the quarter ended June 30, 2018[1,2]

	Year Acquired	Percent Impact
Arch Capital Group Ltd.	2003	–0.21%
GCI Liberty, Inc.	2017	–0.16
MarketAxess Holdings Inc.	2016	–0.14
SBA Communications Corp.	2007	–0.11
IDEX Corporation	2014	–0.07

Arch Capital Group Ltd. is a Bermuda-based specialty insurance and reinsurance company, which also has a large segment that provides mortgage insurance. The company reported solid quarterly results that exceeded investor expectations. However, the stock declined after a mortgage insurance competitor cut premium rates, leading to concerns about industry pricing pressure. Pricing trends also remained soft in the non-mortgage P&C insurance and reinsurance segments. We continued to reduce our position during the quarter.

GCI Liberty, Inc. is a holding company with substantial stakes in two cable companies, Charter Communications, Inc. and General Communications. Its shares declined after Charter reported disappointing growth metrics among its video and broadband subscribers. As a result of the decline in GCI's shares, we decided to exit our position to recognize a tax loss for our shareholders. We reinvested the proceeds of this sale into **Liberty Broadband Corporation,** a separate holding company that also owns a substantial stake in Charter Communications. Charter is the second largest cable operator in the U.S., passing 50 million U.S. homes and businesses. Across the 80% of its network in which it doesn't compete with fiber-to-the-home services, Charter has a near monopoly on high-speed broadband, for which demand is growing rapidly as Americans consume more and more streaming video over the internet. We expect Charter will continue to grow broadband revenue as a result, a near 100% gross margin business, through both subscriber growth and, eventually, latent pricing power.

MarketAxess Holdings Inc. operates the leading electronic platform for trading corporate and sovereign bonds. The company reported good first quarter results with daily trading volume up 20% – much faster than the market's 1% growth rate. Second quarter growth remained strong with daily trading volume up 15% – while the market fell 2%. Nevertheless, the stock declined because of concerns that competitors might enter the 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.

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.

SBA Communications Corp. operates wireless towers in the U.S., Canada, and Latin America. Its shares fell because of both macroeconomic pressure in Brazil, an important market, as well as uncertainty surrounding the impact of a potential merger between two key customers–T-Mobile and Sprint. While the Brazilian currency continues to weaken, wireless carriers in the country are building their networks more aggressively, offsetting the currency's negative impact on earnings. We think Brazil represents an attractive market for SBA over the longer term given the underdeveloped 3G and 4G carrier networks in the country.

IDEX Corporation manufactures mission-critical components used in various niche areas within markets that include fluid and metering technologies, health, science, fire and safety. The company reported strong quarterly results that demonstrated accelerating growth across virtually all its business units. Nevertheless, its shares declined. General macroeconomic concerns including a possible trade war and commodity inflation weighed on many companies in the Industrials sector. We are optimistic that these concerns will prove short term in nature.

Portfolio Structure

At June 30, 2018, Baron Mid Cap Growth Strategy held 58 positions. The Strategy's 10 largest holdings represented 41.4% of assets, and the 20 largest represented 62.2% of assets. The Strategy's largest weighting was in the IT sector at 25.1% of assets. This sector includes software companies, IT consulting firms, and data processing firms. The Strategy held 23.5% of its assets in the Health Care sector, which includes investments in life sciences companies and health care equipment and supplies companies. The Strategy held 17.8% of its assets in the Industrials sector, which includes investments in services businesses and machinery companies. The Strategy also had significant weightings in Financials at 13.4% of assets and Consumer Discretionary at 12.6% of assets.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Percent of Net Assets
IDEXX Laboratories, Inc.	2006	$2.5	$18.9	7.0%
Gartner, Inc.	2007	2.9	12.1	6.1
Vail Resorts, Inc.	1997	0.2	11.1	5.3
Mettler-Toledo International, Inc.	2008	2.4	14.7	4.1
Verisk Analytics, Inc.	2009	4.0	17.8	4.0
Guidewire Software, Inc.	2013	2.8	7.1	3.4
The Charles Schwab Corp.	1992	1.0	68.9	3.3
ANSYS, Inc.	2009	2.3	14.6	2.9
Illumina, Inc.	2012	5.3	41.1	2.7
Verisign, Inc.	2013	7.1	16.9	2.6

[1] Based on the representative account.

Recent Activity

During the past quarter, the Strategy established three new positions and added to six others. The Strategy eliminated two holdings and reduced its holdings in 18 others.

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

	Quarter End Market Cap (billions)
Wix.com Ltd.	$ 4.7
Liberty Broadband Corporation	13.7
Ceridian HCM Holding Inc.	4.5
The Stars Group Inc.	6.1
Sage Therapeutics, Inc.	7.3

[1] Based on the representative account.

We added to our position in **Wix.com Ltd.,** an Israeli internet company that provides an operating system that small businesses, such as restaurants or local stores, subscribe to in order to create and maintain their websites. We believe that Wix is in the early stages of penetrating a large and growing market. The company has approximately 125 million registered users, of which only 3.5 million have upgraded to a paid subscription membership. There are an estimated 400 million small- and mid-sized businesses globally that might use Wix's services.

Wix is the leading company in its market, with the best-known brand and what we believe to be the best product offering. Wix has innovated faster than its competitors, with many compelling first-to-market features and offerings targeted at various industry verticals. We also believe that Wix offers a great value proposition to its customers – an operating system that allows them to manage their websites, and many other important aspects of their businesses, for a fee of just approximately $15 per month.

We believe that several recent product introductions have the ability to expand the company's addressable market opportunity and its future growth rate. Wix Code is a new solution targeted at professional web designers. This is significant because we estimate that 80% of websites are still designed by professionals. Wix also has various initiatives to increase its customer conversion rates in international markets. And the company recently launched Wix Answers, the help-desk software that addresses a large, adjacent market with a subscription-based offering at prices that range between $10 and $200 per month.

We believe that Wix may be able to triple its base of paid subscribers over the next five years, while also increasing the average monthly revenue it receives from those subscribers. In the process, the company's free cash flow would grow substantially, given the high incremental profitability associated with new subscribers and increased pricing.

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

	Amount Sold (millions)
GCI Liberty, Inc.	$23.6
Arch Capital Group Ltd.	13.4
The Middleby Corp.	11.4
Vail Resorts, Inc.	8.0
Mettler-Toledo International, Inc.	8.0

[1] Based on the representative account.

As discussed, we sold our position in **GCI Liberty, Inc.,** recognized a tax loss, and redeployed the proceeds into **Liberty Broadband Corporation**. We trimmed our position in insurer **Arch Capital Group Ltd.** on concerns about the outcome of a changing regulatory environment for its profitable mortgage insurance unit. We exited our position in **The Middleby Corp.** over concerns about slowing growth in its core market for foodservice equipment. We trimmed our position in longtime holding **Vail Resorts, Inc.** as its shares reached new highs during the quarter. We also trimmed our position in longtime holding **Mettler-Toledo International, Inc.** given uncertainty about the impact of changing trade policies on its large Chinese business.

Outlook

We remain optimistic about the environment for U.S. equities. The global economy continues to grow in concert across nearly all geographies, which bodes well for continued strength in corporate earnings. U.S. unemployment is low, inflation remains tame, and most leading economic indicators remain positive. In addition, long-term interest rates declined from the levels they reached earlier in the quarter.

We believe that our portfolio of well-managed, competitively advantaged, fast growing companies will continue to perform well in this environment, although we cannot guarantee that they will. We also 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 5- and 10-year periods. 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.