Baron Discovery Strategy

BARON CAPITAL

June 30, 2021

Dear Investor:

Performance

This quarter marked a turning point. It represented the bridge from the COVID-19 pandemic to normalcy, if not in finality, then certainly in understanding and sentiment.

Table I.
Performance†
Annualized for periods ended June 30, 2021 – Figures in USD

	Baron Discovery Strategy (net)[1]	Baron Discovery Strategy (gross)[1]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	6.08%	6.35%	3.92%	8.55%
Six Months[2]	14.03%	14.59%	8.98%	15.25%
One Year	70.15%	71.86%	51.36%	40.79%
Three Years	28.08%	29.36%	15.94%	18.67%
Five Years	30.73%	31.96%	18.76%	17.65%
Since Inception[3] (October 31, 2013)	21.59%	22.58%	13.12%	14.64%

Bearing that in mind, we continued to invest through the pandemic in companies with what we believe to have fantastic products and services, exceptional management teams, barriers to entry, and big growth potential into lightly penetrated market opportunities. Now that the economy is normalizing, we are seeing businesses in which we were already invested accelerate their growth, and we are being presented with a myriad of new companies and ideas from which to enhance the portfolio. We estimate that between us, we have seen about 5 to 10 new companies per week in the past quarter, which at the low end means we met with about 60 management teams over 12 weeks. Whether or not we invest in these ideas, we are always wiser for having had probing conversations from which we learn about new industries and further inform our opinions on the ones we know well. In the process, we are privileged to meet with some of today's brightest entrepreneurs. In the quarter we invested in eight new companies in health care tools, synthetic biological production of materials, advertising technology, and real estate. We strive to keep our finger on the pulse of the most important new growth themes in the economy.

The net result this quarter was performance with which we were pleased. Baron Discovery Strategy was up more than 6% which was over 2% better than the Russell 2000 Growth Index. More importantly, since we are focused on the long term, the Strategy has produced annualized returns exceeding 21% since inception, which is over 8% better per year, after fees, than the Russell 2000 Growth Index.

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, 2021, total Firm assets under management are approximately $53.5 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. 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 the Firm's 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. The Strategy invests mainly in small cap growth companies.

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. Returns could be reduced, or losses incurred, due to currency fluctuations.

† The Strategy's 2Q 2021, YTD, 1-, 3-, and 5-year historical performance was impacted by gains from IPOs. There is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs will be the same.

1 The **Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth and the **S&P 500 Index** of 500 widely held large-cap U.S. companies. 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. The indexes and the Strategy include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Strategy performance; one cannot invest directly into an index.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is 9/30/2013.

Table II.
Top contributors to performance for the quarter ended June 30, 2021

	Percent Impact
Future plc	0.98%
The Beauty Health Company	0.91
Endava plc	0.76
CareDx, Inc.	0.72
Progyny, Inc.	0.65

Future plc is a special-interest publisher of digital content, magazines, and events with a brand portfolio including TechRadar, PC Gamer, and Gizmodo. Future was a top contributor in the quarter as a result of COVID-19-related tailwinds to e-commerce in Future's largest categories–tech, gaming, music, sports, home, and lifestyle–as well as continued strength in the broader advertising environment. The company recently reported half-year results during which management raised full-year expectations to be "materially ahead" of market expectations given robust organic growth alongside the strong performance of recent acquisitions such as TI Media and GoCo Group. Future also acquired the rights to operate the Marie Claire franchise in the U.S. and Canada. The acquisition follows Future's acquisition of Marie Claire U.K. in 2020 and builds on the ongoing success of the MarieClaire.co.uk brand. It strengthens Future's position in the women's lifestyle vertical in North America in line with its strategy to achieve brand vertical leadership across English-speaking markets. Within the insurance vertical, Future benefited from the U.K.'s Financial Conduct Authority's policy statement which encouraged consumers to shop around on general insurance price comparison websites (which benefits GoCo's GoCompare website). We believe Future can continue to grow both organically and through M&A, which we believe will result in continued stock appreciation from these levels.

The Beauty Health Company, formerly known as HydraFacial, is an innovative skin care and beauty health company providing consumers the benefits of a professional medical treatment with the experience of a consumer brand. Beauty Health came public via a special purpose acquisition corporation ("SPAC"). Shares outperformed during the quarter as investors became increasingly aware of the company's growth opportunities following the closing of the SPAC acquisition and strong earnings results where the company significantly increased annual revenue guidance. We continue to be attracted to Beauty Health's asset light, recurring revenue business model and see a long runway for growth as the company more than doubles its base of delivery systems both domestically and internationally while better monetizing each system with new serums and different product and category extensions.

Endava plc provides outsourced software development to business customers. Shares increased after the company reported strong quarterly results and raised full-year guidance. Following a brief slowdown last year, business has fully rebounded as clients recognize the need for greater investment in digital transformation. Management expects organic revenue growth to exceed 20% with additional growth from accretive acquisitions. We continue to be bullish on the company because we believe Endava will continue gaining share in a large global market for IT services.

CareDx, Inc. is the market leader in transplant diagnostics, with a presence in nearly all U.S. and EU centers. One of the most amazing things about CareDx's strategy is that while it is primarily focused on delivering terrific tests for the industry, it also provides best-in-class service for the transplant centers as well as for patients. For example, the company has mobile apps for patients to remind them of testing and medication schedules, and it has other software to help centers with transplant waiting list management and patient treatment tracking. In the quarter, the company continued to execute successfully on its growth strategy; it beat estimates and the shares responded. The company's flagship product is cell-free DNA-oriented testing (cf-DNA) to determine whether a transplanted kidney is being subjected to biological rejection. This is a $2 billion market, and we estimate that for 2020 CareDx did about $130 million in total kidney testing revenue, up about 72% year-over-year from $74 million in 2019. For 2021, we estimate that this will grow nearly 60% to over $200 million, which would still be just 10% of the market. In addition, CareDx has market opportunities in pre-transplant human leukocyte antigen, heart transplant testing, and liver and lung transplant testing. Further out on the horizon is a new test called AlloCell, which is a surveillance test for patients who have received engineered-cell transplants made from other peoples' cells. AlloCell will monitor the effectiveness and persistence of the transplanted cells. CareDx believes that cell therapy applications for AlloCell address an incremental $5 billion market so it would be exciting if it develops as management expects. We see many years of market-leading growth for CareDx ahead.

We purchased **Progyny, Inc.** at the company's successful IPO in October 2019. Progyny is a leading benefits management company specializing in fertility and family benefits. It provides comprehensive fertility solutions via a network of participating physicians who are among the best in the country. Its share price increased in the quarter after growing revenues by 51% and beating Street estimates on profitability. It also guided second quarter results ahead of consensus with 100% revenue growth and strong cash flow. Progyny now has 2.7 million members (nearly double the 1.4 million members it had at the end of the third quarter of 2020), and it has only scratched the surface of its total opportunity of a 90 million member target market.

Table III.
Top detractors from performance for the quarter ended June 30, 2021

	Percent Impact
Array Technologies, Inc.	–0.85%
Viant Technology Inc.	–0.78
Tripadvisor, Inc.	–0.66
Veracyte, Inc.	–0.38
ACV Auctions Inc.	–0.37

Array Technologies, Inc., a leading manufacturer of solar trackers, detracted during the quarter after management rescinded guidance due to uncertainty around rapidly rising steel costs. Our understanding at the time of the company's IPO in October 2020, was that Array fixed input costs at the same time as its sales contracts were signed, thereby eliminating commodity pricing risk. However, this quarter management noted that a lag of just a few days between these events led to significant pricing mis-matches due to the extreme volatility in steel pricing during that period. This disrupted not only Array, but the entire contracting complex around large solar projects. Contracts relating to these projects had to be renegotiated across the board, leading to multiple quarter delays in revenue recognition. Further, our due diligence has indicated that while the company has terrific products, it might be falling behind its competitors from an innovation standpoint, increasing our concerns that the company will not reach its market penetration goals. For these reasons we sold the investment in the quarter.

Viant Technology Inc. is a leading internet advertising demand-side platform, enabling advertising agencies to efficiently purchase digital advertising across PC, mobile, and online video channels. Viant detracted during the quarter following recent announcements by Apple and Google to restrict the tracking of third-party cookies on which many advertisers rely on to target potential customers. While it has been known for some time that browsers would eventually restrict cookies, the announcement created uncertainty in investors' minds on how Viant would navigate a new cookie-less environment. What we believe investors do not understand, however, is that Viant's tracking capabilities are based on household level data rather than third-party cookies. We have dug deep into the company's underlying technology with its CTO, CEO, and CFO, and we believe Viant can grow through this transition given its proprietary technology. We believe the intra-quarter stock weakness will dissipate as awareness improves around Viant's household-level tracking abilities. We have not significantly changed our near-term financial forecasts and still believe longer term that Viant will be a prime beneficiary of the secular growth in digital advertising.

Tripadvisor, Inc. is an online travel company where users can browse reviews and plan trips. Shares took a breather after last quarter's exciting announcement of the new Tripadvisor Plus subscription program, where users pay $99/year for savings and perks on hotel bookings made on the site. More recently, concerns of new COVID-19 variants delaying a recovery in travel may have also weighed on results. As we wrote in last quarter's letter, we remain bullish on the opportunity for the Tripadvisor Plus program longer term, and we believe Tripadvisor is well positioned to benefit from the pent-up consumer demand for travel coming out of COVID-19.

Veracyte, Inc. is a medical diagnostics company specializing in the characterization of thyroid, lung, breast, and urological cancers. In our opinion, Veracyte has the highest-quality (or in some cases, only) tests for these indications in the market. The company's tests help to qualify with a high degree of accuracy whether a patient with suspicious initial medical findings (from a needle aspiration for thyroid, or CT scan for lung cancer) needs to be followed up with a higher risk, expensive invasive medical procedure such as a full-tissue biopsy. Newer tests should catch cancer activity at very early stages, allowing for better outcomes. The company is also building an extensive database of complex genetic findings to better aid the accuracy of its results. Since our initial investment in Veracyte in the middle of 2019, the company has been busy enhancing its product base and extending its growth markets. It acquired an analyzer platform at the end of 2019 that will let it sell its tests as kits in the EU, which has a more fragmented lab landscape than the U.S. New test kits for the analyzer are expected to launch at the end of 2021. The company also acquired a urological testing franchise for bladder, kidney, and prostate cancers in early 2021 that adds $2 billion to its market opportunity. Finally, Veracyte recently bought a company that brings EU manufacturing capability to support the EU test kit strategy, with additional capabilities in the colorectal cancer space (another $2 billion market opportunity). The purchase was funded with a $630 million equity raise (done at market-high share prices). In total, Veracyte has positioned itself to address over $14 billion in total market opportunity, including $8.4 billion in lung, $800 million in thyroid, $900 million in breast, $2 billion in urology and $2 billion in colorectal cancer. We believe that shares were down in the quarter due to the news that Bonnie Anderson, the highly esteemed founder and CEO of Veracyte, announced that she will be stepping down as CEO but will remain as Chairman of the company. We spoke with Bonnie and the new CEO, Mark Stapley soon after the announcement. We believe that Mark is a terrific hire as he has significant industry experience, particularly in the role of building out international organizations. His pedigree includes a role as CFO of Illumina, the leading next-generation DNA sequencing systems developer. Bonnie will retain a key strategic role at the company. We believe shares will recover as Veracyte shows increased penetration into all of its market opportunities.

Shares of **ACV Auctions Inc.**, the leading digital marketplace for wholesale automotive transactions, fell during the quarter despite reporting strong first quarter 2021 earnings results. We believe the decline in the stock was related to technical pressure from an early lockup release that allowed pre-IPO investors the ability to sell shares in the open market. Despite this recent stock weakness, our long-term thesis on the company is unchanged. Our research leads us to believe ACV is well positioned to capture significant market share as the automotive auction industry transitions from physical auctions to digital auctions.

Portfolio Structure

Table IV.
Top 10 holdings as of June 30, 2021[1]

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Endava plc	2018	$51.0	2.6%
Mercury Systems, Inc.	2015	49.9	2.5
Advanced Energy Industries, Inc.	2019	46.2	2.3
Inogen, Inc.	2019	46.1	2.3
CareDx, Inc.	2018	45.7	2.3
Red Rock Resorts, Inc.	2020	42.5	2.1
The Beauty Health Company	2021	42.0	2.1
Future plc	2019	41.2	2.1
Progyny, Inc.	2019	40.6	2.0
Axonics, Inc.	2020	40.5	2.0

Our top 10 holdings represented 22.3% of the portfolio, which is a bit lower than the 25% level we have held in the past. The lower top 10 concentration is not a deliberate strategy on our part but rather the natural result of the addition of new investments across the portfolio and our judgment about the position sizes of each of these top holdings based upon risk and valuation. It is possible that in the future our top 10 positions will move back toward the 25% level we have seen in the past.

Recent Activity

Table V.
Top net purchases for the quarter ended June 30, 2021

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
JBG SMITH Properties	2021	$4.1	$33.7
DoubleVerify, Inc.	2021	6.7	28.3
Indie Semiconductor, Inc.	2021	1.4	23.7
Alkami Technology Inc.	2021	3.1	20.4
Ping Identity Corporation	2019	1.9	15.7

We initiated a new position during the second quarter in **JBG SMITH Properties**. JBG is a real estate investment trust that owns a high-quality portfolio of office, residential, and land assets concentrated in the Washington D.C. metro area. The company was formed in July 2017 via a combination of JBG Companies (a D.C. area private equity firm) and Vornado Realty Trust's D.C. properties. JBG's regional footprint is poised to benefit from rebounding job growth over the next several years, driven by a normalization of the D.C. metro economy following negative impacts from the COVID-19 pandemic. In addition, Amazon's "HQ2" development currently underway is expected to drive outsized job growth over the next decade in National Landing, Virginia, which should benefit the vast majority of JBG's portfolio. We think JBG has the potential to grow cash flow by approximately 30% over the next several years and, in time, can double the size of the company by monetizing a sizeable development pipeline and owned land bank. We have great respect for the management team, led by CEO Matt Kelly, whose interests are aligned with shareholders. We believe valuation is attractive, with the stock trading at a significant discount to its private market value and well below pre-COVID-19 levels.

DoubleVerify, Inc. is a software platform for digital media measurement and analytics. Founded in 2008, its mission is to increase the effectiveness and transparency of the digital advertising ecosystem through the metrics provided on its platform. DoubleVerify directly analyzes over five billion digital ad transactions daily, measuring whether ads are delivered in a fraud-free, brand-safe environment and are fully viewable in the intended geography. Advertisers are increasingly searching for third-party verification as they attempt to maximize their return on investment in the fast-growing digital advertising market. As such, DoubleVerify's revenue has grown at over a 50% compounded annualized rate from 2017 to 2020 and is expected to grow approximately 30% over the next few years with favorable margins. We expect future growth to be driven by strong category growth across digital advertising as well as new and existing customer growth, product innovation, international expansion, and potential M&A. DoubleVerify is the market leader in its segment boasting integration across major demand-side platforms and partnerships with major social advertising platforms (Facebook, Twitter, Pinterest, etc.). Combining all of these factors, we feel confident in underwriting DoubleVerify as a strong "Baron-type" investment: a competitively differentiated business in a secularly growing industry with a strong management team. We expect that increased demand for third-party digital advertising data analytics will fuel continued adoption of DoubleVerify's solutions across key channels, formats, devices, and geographies.

Indie Semiconductor, Inc. is a fabless designer, developer, and marketer of semiconductors for automotive applications. Indie's management team previously built a semiconductor company from the ground up, including a successful exit, which gives us high confidence in its ability to execute at Indie as well. Indie's products are used in advanced driver assistance systems, light detection and ranging systems (LiDAR, which include laser-based components for autonomous vehicle systems), and applications for connected car, user experience, and electrification. Automotive semiconductors is a great industry given that product cycles are long-lived and design wins provide strong revenue visibility. Additionally, semiconductor content in cars is expected to grow substantially in the coming decade driven by enhanced safety and user experience features as well as powertrain electrification. We believe Indie is a prime beneficiary of the massive growth in electric vehicle sales volume. Indie's key advantage is its cross-domain expertise across analog, processing, and power semiconductor applications, allowing it to offer higher levels of integration and design simplicity at a lower cost to customers. This advantage is reflected in 90% of Indie's design wins being sole sourced. While a relatively small company today, Indie already has multiple contracts with various OEMs and Tier 1 suppliers that we believe will ramp in the coming years. With a $2 billion strategic backlog of contracted business and a $2.5 billion pipeline of opportunity for which the R&D has largely been funded, Indie has good visibility into rapid revenue growth over the next three to five years.

[1] Top 10 holdings, top net purchases, and top net sales 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 diversity 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.

This quarter, we invested in **Alkami Technology Inc.**, a cloud-based digital banking platform that enables financial institutions (primarily credit unions) to onboard and engage new users, accelerate revenues, and meaningfully improve operational efficiency. The market opportunity is large with Alkami focusing on the top 2,000 of the 10,000 financial institutions in the U.S. (excluding the mega-banks). Many financial institutions use clunky, outdated legacy systems today that are not well suited to the shift to digital banking (which has accelerated during the pandemic). As a result, we are seeing financial institutions significantly increase their IT investments in these products. We believe Alkami will be a prime beneficiary of this shift as it stands out due to its highly rated user experience, leading brand with credit unions, and platform flexibility (multi-tenant, single code base platform). Alkami is well positioned to grow revenue 25% or more for the next several years driven by a combination of expanding existing customer relationships, adding new clients (heightened focus on banks in addition to credit unions), new product development, and selective acquisitions. We also believe that the company's 30% or greater long-term adjusted EBITDA margin target is achievable.

Ping Identity Corporation is a software company that provides secure user identification, mainly for large enterprises. We initially invested in Ping on its IPO in the third quarter of 2019. Ping's products address employee access as well as customer access. Examples of Ping's products include multi-factor identification (which might use mobile text verification or a biometric identifier like a fingerprint to add to a password protected identity), and single sign-on (SSO, which allows employees of a firm to log into multiple applications simultaneously). Ping secures over two billion identities globally. It is a well-run company with highly visible growth prospects, a strong balance sheet, and real free cash flow, in our view. Ping also trades at a reasonable valuation multiple, far below that of its closest competitors. In our opinion, this is because it has been growing slower than its rivals (low to mid-teens revenue growth versus 40% plus at the competitors). But with new products (recognized by leading consulting firms as industry leading) and a better focus on marketing, we surmise that growth will accelerate meaningfully. There is also a significant margin-expansion opportunity. If the expected growth and margin expansion occur, Ping's share price should substantially increase.

We also initiated smaller positions in some exciting new companies.

Zymergen Inc. is a synthetic biology company that uses microbes to create commercial materials used for products including electronics and consumer products. By using its own customized process that leverages biology, machine learning, and artificial intelligence, Zymergen can create materials never thought possible with standard chemical processes. Zymergen's microbe-based processes also avoid the use of petroleum products currently used to create most plastics, so the company is highly ESG-oriented as well. In electronics, Zymergen just launched a specialized film for touch sensor screens that is clearer and more scratch resistant than current products, and it also works with folding phone screens. The company will soon launch a similar film with higher temperature tolerance. On the consumer side, the company created a novel insect repellant, launching in a couple of years, that is expected to be safe and effective and potentially combined with sunscreen for easy UV and insect protection. Zymergen is also working on other products including drought and insect resistant plant nutrients that are environmentally safe, and environmentally friendly product packaging solutions. We are excited about the company's prospects. Since its product portfolio rollout is in the early stages, we have started with a small investment.

We made another small investment in **Olink Holding AB**, which is a health care tools company focused on the identification of proteins (proteomics). It has a proprietary way of identifying proteins that provides high specificity, sensitivity, dynamic range, precision, and scalability. Science has advanced dramatically in recent years with regard to understanding the human genome via next generation sequencing, which shows normal and abnormal portions of a person's gene sequences. It is now moving toward understanding how those genes can actively create biologically significant signals (expression of messenger RNA (mRNA) from DNA followed by the translation of mRNA into proteins) that may be a means by which disease is initiated and spread in the body. Olink's platform can help understand this process for researchers and help its customers to develop next-generation drugs to attack these processes. Olink's platform can also be incorporated into novel diagnostic tests. We are looking forward to watching accelerating progress in proteomics.

Recursion Pharmaceuticals, Inc. is a biotechnology company engaged in technology-enabled drug discovery. The company uses automated wet-lab infrastructure (actual biologic experimentation) with cell perturbations (multiple experiments done on the duplicate cells), and image capture to generate data at large scale. It also operates its own supercomputer (the "BioHive") to drive "in-silico" (virtual, software-enabled) inferences based on its data and wet-lab experiments. This combined approach has generated a strong pipeline of programs spanning early discovery to clinical trials, including a collaboration deal with Bayer. The company's use of artificial intelligence and machine learning lowers the cost of drug discovery and speeds up time to market, and we believe this paradigm is in the early innings of disrupting the entire biopharmaceutical industry. Since Recursion's program pipeline is still relatively early stage, we have started with a small investment.

Table VI.
Top net sales for the quarter ended June 30, 2021

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Emergent BioSolutions Inc.	2017	$1.9	$3.5	$15.9
Repay Holdings Corporation	2019	0.4	1.9	11.1
Medallia Inc.	2019	0.6	5.4	8.8
Esperion Therapeutics, Inc.	2017	1.0	0.6	7.0
Purple Innovation, Inc.	2020	1.0	1.8	6.8

We sold our remaining position in **Emergent BioSolutions Inc.**, a specialty biomanufacturer and service provider for commercial and government customers. Our original investment thesis was that since Emergent has for years been a trusted provider of vaccines for the government for biological agents (including small pox and anthrax), that it should be able to transition naturally to servicing commercial clients in the vaccine space. This played out well at the outset, as Emergent's manufacturing segment won contracts from many customers, including some of the larger COVID-19 vaccine manufacturers. However, the company stumbled dramatically in the delivery of COVID-19 vaccine products to an extent that surprised us. For now, we have decided to wait for evidence of operational improvement.

We also sold our position in **Repay Holdings Corporation** to allocate that capital to other fintech investments. We reduced our position in **Medallia Inc.** when the company was rumored to be up for sale and shares jumped in price.

Esperion Therapeutics, Inc. developed and currently manufactures an approved oral medication for the treatment of high low density lipids ("LDL") cholesterol. High LDL has been linked to heart disease, and it is a standard of basic medical care to lower LDL for long-term patient health. Esperion had two LDL medications approved by the FDA right before the onset of the pandemic, which was truly unfortunate timing. In our opinion the company's medication is a promising treatment for the millions of Americans who cannot take the most widely used statin medications (like Lipitor) to lower LDL due to significant side effects. We remained investors during the pandemic with the expectation that when restrictions were loosened, increased access to cardiologists and primary care physicians would help accelerate prescription volumes of Esperion's drugs. This has happened somewhat, but our research has revealed that doctors are finding it nearly impossible to get coverage approved by many insurance companies, despite the fact that the drugs are on the formularies of all of the leading health care insurers. In the meantime, the company is burning a significant amount of cash as it has hired a full sales force to market its products. We hope that the situation turns around as the medication works, is reasonably priced (in our opinion), and can help millions around the world to lower their risk of heart disease. However, for now we remain on the sidelines.

We sold our position in **Purple Innovation, Inc.** after the company lowered guidance when an employee lost her life in an industrial accident at the Grantsville, Utah mattress manufacturing plant. The company is completing an internal investigation but, in the meantime, has slowed production to implement better safety measures. While we think the company eventually will be able to work through any required changes in manufacturing processes to increase safety, we felt there was enough uncertainty to exit the position until we had more information on what happened and how future safety incidents could be addressed.

Outlook

We are closely watching policy decisions made by the federal government and by the Federal Reserve as well as commodity pricing, which might give us hints about whether the current inflationary pressures we are seeing (wages, basic materials, transportation) will persist. However, we always manage the portfolio on a micro, not a macro basis, and feel that each of our investments stands alone on its merits. New opportunities abound, and many are extremely interesting for this Strategy. Generally, we feel good about our companies' prospects, about our idea generation, and about the state of the U.S. economy.

Randy Gwirtzman & Laird Bieger
Portfolio Managers

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.

Risks: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Strategy is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Strategy's returns.

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 manager only through the end of the period stated in this report. The portfolio managers' 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.