Baron Discovery Strategy

December 31, 2020

Dear Investor:

Performance

"If we worked on the assumption that what is accepted as true really is true, then there would be little hope for advance." – Orville Wright

The American Dream is built on the concept that opportunity and innovation is ripe for the taking in our society – if only one can recognize it and dedicate oneself to the perseverance necessary to achieve their goals. While our country is imperfect in so many ways, its uniqueness is that we as a people are continuously striving to become better as individuals, as innovators, and as a societal construct. This has never been more evident than in 2020. The past year will inevitably be defined historically as the year of the COVID-19 pandemic and of the not-unrelated bubbling to the surface of so much frustration regarding the inequalities in our country. While it was a painful year for so many people, we expect that much good will come from it as we evolve toward a more perfect union.

Our brief, in particular, is to find those individuals in all industries who are driven like the Wright Brothers to move past conventional thinking so that they may create incredible innovations that advance society as a whole. Whereas the invention of air travel compressed space and time in a way never before dreamed of in the early nineteenth century, the creation of the internet and everything that rides upon it has compressed "time travel" by orders of magnitude more in the twenty-first century. And it has impacted nearly every industry from information technology to health care to consumer products.

Table I.
Performance†
Annualized for periods ended December 31, 2020

	Baron Discovery Strategy (net)[1]	Baron Discovery Strategy (gross)[1]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	25.55%	25.87%	29.61%	12.15%
One Year	66.25%	67.93%	34.63%	18.40%
Three Years	28.58%	29.89%	16.20%	14.18%
Five Years	28.80%	29.94%	16.36%	15.22%
Since Inception (October 31, 2013) (Annualized)	21.03%	21.99%	12.73%	13.46%

In the fourth quarter, the Russell 2000 Growth Index was up 29.6%. For all intents and purposes, it was a full year or more worth of performance jammed into the quarter. While Baron Discovery Strategy lagged by 4.1%, our absolute performance was certainly admirable, and, for the full year, our 66.3% absolute return outperformed by 31.6%. We believe that the stock market performed well in 2020 despite the surrounding chaos due to the accelerated advancement of technology throughout society. In many cases innovation and market adoption moved forward because of the pandemic and the manner in which people worldwide seamlessly shifted to virtual from in-person interaction. Examples are telemedicine, cybersecurity, sustainable energy, and of course, drug and vaccine development and the life sciences tools that enable that. There will be numerous other companies

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 December 31, 2020, total Firm assets under management are approximately $47.7 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.

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

1 The indexes are unmanaged. 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. 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 9/30/2013.

that will hit their stride when the pandemic runs its course and human to human interaction becomes a "thing" again. Casinos, travel, autos, restaurants, consumer transactional and experience technology, pharmaceuticals (accelerated by increased doctor visits), and elective medical procedures will be in focus. We believe many of our portfolio companies are poised to benefit from the post-COVID-19 environment.

We invest in young, innovative companies. We endeavor to make quality investments in the right way – finding great people who are smart, honest and visionary, and then partnering with them through long-term thinking with a judiciously risk-managed portfolio. While both our absolute and relative outperformance in 2020 was significant, as always, we humbly respect the vagaries of the market. Our motto is "grind daily and celebrate rarely." We had a small video toast over the holidays, and we are now fully back in "grind" mode. Looking forward to 2021, we think that the innovation journey we share with our entrepreneurs is only just beginning, and, as a result, we see many bright years ahead. We are mindful that we will not outperform the market in every period, but aim to outperform over the long term, matching our investment horizon.

Table II.
Top contributors to performance for the quarter ended December 31, 2020

	Percent Impact
Pacific Biosciences of California, Inc.	2.15%
CareDx, Inc.	1.93
TPI Composites, Inc.	1.70
Allegro MicroSystems, Inc.	1.45
PAR Technology Corporation	1.20

Pacific Biosciences of California, Inc. offers a differentiated long-read DNA sequencing platform for genetic analysis. Shares performed exceedingly well in the quarter, up about 162%. We believe there is increasing excitement about the potential for its platform as it lowers sequencing costs and has the potential to move beyond its current commercial niche. The recently appointed CEO, Christian Henry, had previously served as CFO and Chief Commercial Officer at Illumina, and we think he is well qualified to commercially execute on Pacific Biosciences' differentiated long-read platform.

CareDx, Inc. is the market leader in transplant diagnostics, with presence in nearly all U.S. and EU centers. Shares were up 91% in the fourth quarter as the company continued to successfully execute on its growth strategy. The company's flagship product is DNA oriented testing 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 $128 million in total kidney testing revenue, up about 72% year-over-year from $74 million in 2019. What is astonishing is that CareDx had only $28 million in revenues for this product in 2018. Even with the level of growth the company had in 2020, we estimate that the company was only mid-teens penetrated into the kidney opportunity at year-end. And CareDx also has market opportunities in pre-transplant human leukocyte antigen typing (a $500 million market opportunity), heart transplant testing (a $100 million market, which is likely to expand with a new total HeartCare product from the company that received favorable CMS reimbursement in November), and lung transplant (a product with $50 million to $100 million in opportunity). 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 (allogenic) to monitor the effectiveness and persistence of the transplanted cells. CareDx believes that its cell therapy applications have an incremental $5 billion market so it would be very exciting if it develops as management expects.

TPI Composites, Inc., a manufacturer of composite blades for electricity generating wind turbines and composite bodies for electric buses, did very well in the quarter, with shares rising 82.3%. The company reported record revenue that grew 23.5% against a 50% year-over-year comparable and double-digit cash flow margins for the first time in a year. Investors have been waiting for this recovery since the end of 2019, when management took down 2020 numbers due to increased manufacturing line transitions (product retooling). After the guidance reduction, we thought shares at $16 were a bargain, trading at 6.5 times 2020 cash flow and 4.7 times 2021 cash flow. They became more so after they fully bottomed in the mid-$9 range at the height of the pandemic in mid-March 2020 (trading at about 4 times and 3 times the same metrics). But, our long-term perspective held and we added on weakness. This proved profitable as shares ended the year at $52.78. At this price level, shares trade at about 12 times and 10 times our estimated 2021 and 2022 cash flow targets, and we still see nice upside. The recovery is even more remarkable given that it's been executed during the pandemic, illustrating the strength of this management team. Management also hinted in the third quarter earnings call that it plans to increase its long-term targets based on the increasing expectations for annual wind capacity installations. We like the setup particularly given some nice macro tailwinds, which include global stimulus with money earmarked for renewables, extended production tax credits, lowered wind energy production costs, and the anticipation that the Biden administration will be more friendly to renewable energy. On top of the strength in the wind industry, we believe the company will continue building out its transportation business where it supplies composite parts for passenger EV and commercial trucking applications. TPI is seeing strong early traction with both production awards and pilot programs with major OEMs, and we expect additional production contracts in the coming years.

Shares of **Allegro MicroSystems, Inc.**, a fabless designer and manufacturer of sensor integrated circuits ("ICs") and application-specific analog power ICs for automotive and industrial markets, rose after its IPO in the quarter. The company is the leading supplier of magnetic sensing ICs to the automotive end market, where they are used in internal combustion engine and electric vehicles and advanced safety applications. Its magnetic sensing ICs are used as position sensors, speed sensors, and current sensors in applications such as seatbelt detection, automated driver assist system power steering and braking, camshaft and crankshaft position detection, and electric vehicle powertrain. The company also sells its analog power products into automotive, general industrial, and data center end markets, with products focusing on motor driver ICs in high-efficiency motor applications such as data center cooling, appliances, and robotics. The data center segment, in particular, is growing very rapidly as Allegro's solutions allow one power source to power full server racks (instead of needing a power source for each server) with automated monitoring and controls. This leads to high energy efficiency which adds up at a giant data center. Shares performed well on expectations of increased near-term earnings due to a recovery in automotive end markets. The company has a large opportunity for growth given its leading product performance, in our view, as electronic content in its end markets continues growing, driven by the key mega trends of automotive electrification, improving safety standards, automation, and increasing data consumption.

Shares of **PAR Technology Corporation**, a leading provider of software, systems, and service solutions to the restaurant industry, rose during the quarter as pandemic-driven restaurant investment in technology fueled business momentum. This was evident in the company's third quarter earnings report, which showed solid bookings momentum. The company also issued equity in the quarter to bolster its balance sheet in order to pursue acquisitions to accelerate annual recurring software revenue growth. Given PAR's superior product and limited competition, we believe it is in an excellent position for long-term growth as the restaurant industry continues adopting technology, a necessity in the world after COVID-19. We also believe PAR will have several opportunities for further accretive acquisitions to add to its software stack and market opportunity. Given the strong appreciation of the stock during the year, we reduced the position in the fourth quarter.

Table III.
Top detractors from performance for the quarter ended December 31, 2020

	Percent Impact
Vital Farms, Inc.	–0.55%
Esperion Therapeutics, Inc.	–0.48
Emergent BioSolutions Inc.	–0.29
Silk Road Medical, Inc.	–0.21
TherapeuticsMD, Inc.	–0.15

Shares of Vital Farms, Inc., a producer of butter and pasture-raised eggs, fell during the quarter after reaching post-IPO highs. While the company beat Street expectations for the third quarter, investors shifted near-term focus to more immediate beneficiaries of the COVID-19 vaccine. Longer-term, we expect Vital Farms to benefit from increased consumer focus on better-for-you products and to grow its platform through category expansion and distribution gains in natural and traditional grocery stores.

Esperion Therapeutics, Inc. is a pharmaceutical company that is launching a new drug in the cardiovascular space, bempodaic acid (BA), for patients with elevated LDL cholesterol levels. Upon FOA approval in February 2020, BA and BA plus ezetimibe (a combination drug), were the first non-statin-based oral LDL lowering drugs launched in a very long time. The drug is effective – the combination version of BA) has been shown to lower LDL cholesterol by as much as 30% to 40%. The company estimates that there are nearly 18 million patients in the U.S. alone who have not achieved their LDL lowering goals, many of whom are not on statins at all (potentially due to adverse reactions). Weak performance in the fourth quarter was the same as it was in the third quarter. The company launched its drugs right into the teeth of the COVID-19 pandemic, and it was forced to pivot to virtual retailing, which no doubt hurt the initial uptake. As the pandemic recedes, we believe the company will get much better traction, and our diligence indicates that the drug is working as advertised. We maintain conviction in the company given the millions of potential patients suffering from elevated cardiovascular risk markers who cannot take a generic statin, do not want to use an injectable drug, or are otherwise in need of alternative options.

Emergent BioSolutions Inc. is a pharmaceutical company that provides vaccines and post-exposure treatments for extreme pathogens, including anthrax and smallpox, and emergency opioid overdose recovery drugs. In the third quarter of 2020, Emergent was awarded numerous contracts from drug companies (Johnson & Johnson, Novavax, Vaxart, and AstraZeneca) and the U.S. government (BARDA for Operation Warp Speed candidates), to help develop, and then ultimately provide, volume production of COVID-19 vaccines. In the fourth quarter two competitive vaccines were approved by the FDA under emergency use authorizations ("EUA"). We still believe that Emergent's COVID vaccine partners are on track for EUA approvals in the first half of 2021, and that the company will benefit for years from these and other development programs.

Silk Road Medical, Inc. designs and manufactures medical devices used to clear plaque from the carotid arteries of patients at high risk of stroke. The device is minimally invasive, and we believe that over 80% of the current procedure market, which is about $1 billion ($650 million in currently approved applications), could shift to Silk Road's device over the next few years. This has been the pattern when other forms of minimally invasive arterial surgery have entered the market. Shares performed well in the third quarter as surgical procedures have started to return to more normalized volumes following the virtual shutdown of elective procedures during the depth of the COVID-19 pandemic in the second quarter. However, shares dropped in the fourth quarter with the re-acceleration of COVID-19 cases in the winter. We continue to believe in our strategy of investing in medical technology companies that were hurt during the pandemic as we excpect that the environment will ultimately turn around for the better.

TherapeuticsMD, Inc. is a developer of hormone-based drugs for women's health. It has three FDA approved drugs, all of which are being launched. Shares were down in the fourth quarter as the COVID-19 crisis hampered the company's early launch efforts for all three drugs (similar to Esperion and other pharmaceutical companies that had the bad luck to gain product approval during the pandemic). Because the health crisis is merely delaying the product launches, we believe shares are drastically undervalued.

Portfolio Structure

Table IV.
Top 10 holdings as of December 31, 2020[1]

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
TPI Composites, Inc.	2016	$37.3	2.8%
CareDx, Inc.	2018	36.2	2.7
Kinsale Capital Group, Inc.	2016	35.0	2.7
Endava plc	2018	34.5	2.6
Floor & Decor Holdings, Inc.	2019	32.5	2.5
SiteOne Landscape Supply, Inc.	2016	29.6	2.2
Advanced Energy Industries, Inc.	2019	29.1	2.2
Mercury Systems, Inc.	2015	27.1	2.0
Allegro MicroSystems, Inc.	2020	26.7	2.0
Kratos Defense & Security Solutions, Inc.	2020	26.5	2.0

Our top ten holdings comprised 23.7% of the portfolio, at the lower end of our typical 25% to 30% range. Our largest position, **TPI Composites, Inc.**, is 2.8% of assets, which is well under our practice to limit our largest positions to 4% or lower. Our cash position of 6.7% at quarter end was within our normal mid- to high-single digit percentages of cash in the portfolio. We have found that having a small amount of liquidity provides us with great flexibility to make new investments, which is well worth the small performance drag it creates.

Recent Activity

Table V.
Top net purchases for the quarter ended December 31, 2020

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Fevertree Drinks plc	2020	$4.0	$19.2
Allegro MicroSystems, Inc.	2020	5.1	14.0
Melco International Development Limited	2020	2.9	14.0
Red Rock Resorts, Inc.	2020	2.9	13.7
Eargo, Inc.	2020	1.7	9.3

During the third quarter, we initiated a position in **Fevertree Drinks plc**, the #1 global brand of premium cocktail mixers. The company is riding the trend of premium spirits and cocktails, which are growing much faster than non-premium products. In fact, over the last five years, the company has almost doubled the growth of the rest of the premium mixer segment. Fevertree is currently being negatively impacted by COVID-19 as its bar and restaurant customers remain closed or severely capacity constrained. That being said, we believe that, post-COVID-19, the company will quickly rebound and its pristine balance sheet gives the company plenty of cushion to get through the pandemic. Longer term, we like that the business is asset-light (it uses third party bottlers to manufacture its products) which, in non-COVID-19 periods, affords it high (approximately 50%) gross margins and equally high (approximately 30%) EBITDA margins. We also believe that the fast growing U.S. market has a long runway of growth left. 40% of the spirits in the U.S. are premium vs. only 20% in the U.K, yet only 7% of U.S. mixers are premium vs. 40% in the UK. As we close that gap, the U.S. is going to eventually be the company's largest market, in our view.

We acquired shares of **Melco International Development Limited** during the quarter. Melco is an integrated resort and casino operator with high quality properties in Macau, the Philippines, and Cyprus. We believe shares are attractively priced given significant year-over-year declines in gaming volume being driven by temporary visitation and travel restrictions into Macau from mainland China and Hong Kong. As visitation restrictions are eased and the company capitalizes on significant pent-up demand for leisure travel and entertainment, of which we are already witnessing early signs, we believe shares will see meaningful appreciation based on more normalized earnings levels. The recently completed expansion project of a premier property in Macau could add additional growth as the property reaches full cash flow potential.

During the quarter we repurchased shares of prior holding **Red Rock Resorts, Inc.** The company, an operator of casinos that cater to residents in the locals Las Vegas market, reported strong third quarter results. Gaming revenue was up year-over-year despite the fact the company had 4 of its 10 casinos closed during the third quarter. Cost improvements post-COVID-19 has also led to significant margin improvement. We believe that coming out of COVID-19, the company will benefit from pent-up demand for leisure and entertainment combined with a permanently lower cost structure. As a result, we think a stronger and leaner Red Rock will show significant profit and free cash flow growth over the next few years.

Eargo, Inc. offers a next-generation hearing aid that we believe is well positioned to penetrate an initial addressable market of over $30 billion. The hearing aid market has historically seen difficulty with consumer adoption due to social stigma, cost, and accessibility. Eargo is aiming to disrupt the industry with a hearing aid that is virtually invisible, affordable, and delivered through a telecare-based, direct-to-consumer model. We believe Eargo has a strong growth story with multiple levers including new product launches, the continued diversification from cash-pay into insurance markets, and the opportunity to drive repeat purchases among a growing installed base.

Table VI.
Top net sales for the quarter ended December 31, 2020

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Pacific Biosciences of California, Inc.	2020	$1.0	$4.8	$11.7
PAR Technology Corporation	2018	0.3	1.4	8.4
Tactile Systems Technology, Inc.	2019	0.9	0.7	7.8
Vital Farms, Inc.	2020	1.4	1.0	5.5
UTZ Brands, Inc.	2020	1.0	1.3	4.6

[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.

We reduced our position in **Pacific Biosciences of California, Inc.** as the shares appreciated massively (about 162%) in the quarter. At one point, the shares had gained over 500% over our initial purchase at $4.47 in the company's secondary offering done on August 11, 2020. Due to the tremendous performance, it had become a very large position for an earlier stage company so we pared our risk. We still maintain a meaningful position, as we believe the company has excellent technology and will be on the forefront of genetic sequencing innovation for years to come.

We sold our investment in **Tactile Systems Technology, Inc.** in the quarter. Tactile's devices use pneumatic compression to manage lymphedema (swelling in the extremities). While we believe that the company will ultimately return to a reasonable growth profile, we felt that we had more promising investments in the medical device sector.

We trimmed our positions in **Vital Farms, Inc.** and **UTZ Brands, Inc.** as both companies had appreciated above their near-term price targets. We are believers in the long-term prospects of both companies, and we still retain smaller positions in both.

Outlook

While markets have moved substantially in the past three quarters, we have constantly risk-managed the portfolio as part of our process to ensure that we are matching our excitement about the business prospects of our holdings with their valuations. To the extent we sell or trim positions, we still have terrific new idea flow. With the massive amount of capital markets activity we are seeing (including IPOs, secondary offerings, and SPAC mergers), we have some amazing new opportunities on tap for 2021. Thanks again for sharing the journey with us, and we wish you peace, health, and happiness in the new year.

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.

The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. 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 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.

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