



Baron Mid Cap Growth Strategy

September 30, 2021

DEAR INVESTOR:

PERFORMANCE

The recent run in U.S. equities paused during the quarter. June and July saw market strength driven by favorable corporate earnings, robust macroeconomic data, and the FDA's full approval of Pfizer's COVID-19 vaccine. However, these gains reversed late in the quarter, as investors appeared to be focused on potential risks associated with tapering by the Federal Reserve, the impact of higher interest rates on equity earnings multiples, spiking energy prices, and political dysfunction.

Within the mid-cap universe, the Financials, Real Estate, Health Care, Information Technology ("IT"), and Energy sectors eked out gains, while Communication Services declined the most. In addition, growth stocks continued to reverse some of their recent underperformance versus value stocks, particularly in the larger-cap segments.

Against this backdrop, Baron Mid Cap Growth Strategy declined 0.14%, while the Russell Midcap Growth Index (the "Index") declined 0.76%, and the S&P 500 Index gained 0.58%. The Strategy's outperformance versus the Index was mainly due to differences in sector/sub-industry weights.

Table I.

Performance

Annualized for periods ended September 30, 2021 (Figures in USD)

	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	(0.14)%	0.10%	(0.76)%	0.58%
Nine Months ²	8.82%	9.60%	9.60%	15.92%
One Year	25.40%	26.62%	30.45%	30.00%
Three Years	18.86%	20.01%	19.14%	15.99%
Five Years	20.55%	21.74%	19.27%	16.90%
Ten Years	18.08%	19.25%	17.54%	16.63%
Since Inception (June 30, 1998) ³	10.01%	11.11%	9.65%	7.92%

Outperformance of investments in Communication Services and Industrials, higher exposure to the better performing Health Care sector, and lack of exposure to the lagging Consumer Staples sector added the most value. Favorable stock selection in Communication Services came from **ZoomInfo Technologies Inc.**, a leading go-to-market intelligence platform for sales and

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, 2021, total Firm assets under management are approximately \$54.7 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. Returns could be reduced, or losses incurred, due to currency fluctuations.

The Strategy's 3Q 2021 historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs will be the same in the future.

¹ The **Russell Midcap® Growth Index** is an unmanaged index that measures the performance of small to medium-sized companies that are classified as growth and the **S&P 500 Index** measures the performance 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. Investors cannot invest directly in an index.

² Not annualized.

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

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marketing teams. We believe that the company's recent acquisition of Chorus.ai, a conversation intelligence business, dramatically increased the data visibility and benefits that ZoomInfo can offer its clients. In addition, its organic revenues reaccelerated for a fifth consecutive quarter and management significantly raised its earnings guidance. Within Industrials, data and analytics vendor **Verisk Analytics, Inc.** added the most value after reporting solid quarterly earnings with notable strength in its Insurance segment and ongoing improvement in its Energy segment. Real estate information and marketing services company **CoStar Group, Inc.** also performed well after investors cheered the company's decision to enter the residential real estate market.

Underperformance of investments in IT, Consumer Discretionary, and Financials detracted the most from relative results. **Wix.com Ltd.** provides software that helps microbusinesses build and maintain their websites. Its stock was the largest detractor from performance after the company's quarterly results showed a modest year-over-year slowdown in new customer additions, driven primarily by the waning of pandemic-driven trends. Chinese data center operator **GDS Holdings Limited** declined alongside other Chinese technology-related companies in response to tightening regulations and unknown future government actions against businesses that may not be perceived as aligned with the government's goals. We sold GDS during the quarter to reallocate capital to higher conviction ideas. Weakness in Consumer Discretionary was largely due to share price declines in online personal styling service **Stitch Fix, Inc.** and luxury fashion e-commerce marketplace **Farfetch Limited**. Stitch Fix's shares fell in the aftermath of poorly communicated changes to its stylist employment program, while Farfetch's stock was pressured by concerns about increased regulations on luxury spending in China. Adverse stock selection in Financials, linked to the underperformance of electronic trading platform **MarketAxess Holdings Inc.**, was somewhat offset by the Strategy's higher exposure to this top performing sector.

The Strategy also benefited from tailwinds from style biases, particularly underexposure to the poor performing residual volatility and beta factors.

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

	Year Acquired	Percent Impact
Gartner, Inc.	2007	1.39%
West Pharmaceutical Services, Inc.	2014	0.45
Ceridian HCM Holding Inc.	2018	0.41
Verisk Analytics, Inc.	2009	0.38
FactSet Research Systems, Inc.	2006	0.34

Shares of **Gartner, Inc.**, a provider of syndicated research, consulting services, and industry conferences, contributed to performance after the company reported financial results that exceeded Street estimates. Revenue growth in Gartner's research business, its largest segment, reaccelerated to double-digit levels after being depressed by pandemic-driven headwinds. Research growth was led by the company's GBS segment, which benefited from its multi-year investment cycle. We expect ongoing revenue growth and renewed focus on cost control to drive margin expansion and enhanced free cash flow generation. In addition, Gartner's balance sheet is in excellent shape, allowing the company to aggressively repurchase its shares and to make accretive bolt-on acquisitions.

West Pharmaceutical Services, Inc. manufactures components and systems for the packaging and delivery of injectable drugs. Its shares rose after the company reported financial results that exceeded Street expectations in both its base business, as well as sales of its products related to COVID-19 vaccines. Based on these strong results, management raised its earnings guidance for the full year. We continue to believe West has a long runway for growth and margin expansion driven by a shift in its business toward high-value packaging components.

Shares of payroll software provider **Ceridian HCM Holding Inc.** contributed to performance. Growth of Ceridian's flagship Dayforce platform reaccelerated toward 30%, helped by continued market share gains, success in serving larger enterprises, and the ongoing employment recovery in the company's installed customer base. We are particularly excited by growing customer adoption of the company's Wallet suite. We believe this has the potential to revolutionize payroll software by enabling all employees being paid through Dayforce to request and receive their wages as they are earned, rather than on the typical two-week payment cycle.

Shares of **Verisk Analytics, Inc.**, a leading data and analytics vendor, contributed to performance. The company reported solid second quarter earnings with notable strength in its core Insurance segment and ongoing improvement in its Energy segment. While the Financial Services segment remained weak, this remains a small part of its overall business, and the company will start to overcome the contract transition headwinds for this segment after this quarter. We remain positive about the company's competitive positioning, long-term growth, margin expansion, and prospects for capital deployment.

Shares of **FactSet Research Systems, Inc.**, a leading provider of investment management tools, contributed to performance. FactSet reported strong earnings and provided encouraging forward guidance. The company's various investments in technology and content made during the past few years started to be reflected in an accelerated growth rate. We remain optimistic about our investment because of the company's large addressable market, consistent execution on both new product development and financial results, and robust free cash flow generation.

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

	Year Acquired	Percent Impact
Wix.com Ltd.	2018	-0.71%
Zillow Group, Inc.	2015	-0.66
RingCentral, Inc.	2019	-0.35
Stitch Fix, Inc.	2020	-0.33
GDS Holdings Limited	2020	-0.24

Wix.com Ltd. is the leading provider of software that helps microbusinesses build and maintain their websites. Its shares declined after the company reported quarterly results that showed some slowdown in new customer additions. This was primarily the result of difficult comparisons to prior periods, when some demand for new corporate websites was pulled forward by behavioral changes caused by the pandemic. We retain conviction in Wix's large, long-term market opportunity to enable small businesses to transition online in a post-pandemic world, and we believe that the

company's slowdown in growth was a result of broad market factors that impacted many other businesses.

Zillow Group, Inc. operates leading U.S. real estate sites, a mortgage origination marketplace, and a home-buying business. Shares were down because of concerns related to rising interest rates and the potential impact this could have on the housing market. Our research has indicated that the housing market remains robust, despite modestly higher rates, which remain low by historic standards. Even if housing demand were to soften, we believe Zillow's core offering could become more valuable, as it delivers high-quality buyer and seller leads to real estate agents. Longer term, we believe Zillow has an ample runway for growth given its well-regarded management team, compelling product offerings, and its large addressable market.

RingCentral, Inc. provides a cloud-based unified communications system that replaces businesses' legacy on-premises phone systems. Despite reporting results that showed accelerating revenue growth and increased earnings guidance, the company's shares lagged during the quarter. We believe this was attributable to investor concerns about a possible contraction in its total addressable market and increased competition from Microsoft and Zoom. We believe that RingCentral's addressable market is large enough to support multiple long-term winners and that the company can continue to rapidly innovate its platform, while sustaining pricing levels and winning significant market share.

Stitch Fix, Inc. is an online apparel retailer that uses recommendation engines and data science to make personalized clothing recommendations. Its shares fell after the company reduced the number of personal stylists it employed. Stylists were abruptly notified that they had to choose between a full-time work schedule or a severance package. Despite the optics of the announcement, we retain conviction in Stitch Fix's transition from a business model heavily reliant on personal stylists to one that utilizes a data-driven approach and proprietary algorithms.

GDS Holdings Limited is a leading data center operator focused on Tier 1 Chinese cities. Its shares fell in concert with a widespread sell-off in Chinese technology-related companies. This occurred in response to tightening regulations against businesses that may not be perceived as aligned with the Chinese government's goals. Given the uncertainty about future governmental actions, we exited our position.

PORTFOLIO STRUCTURE¹

At September 30, 2021, Baron Mid Cap Growth Strategy had 65 positions. The 10 largest holdings represented 40.3% of assets, and the 20 largest represented 61.8% of assets. The largest weighting was in the IT sector at 30.8% of assets. This sector includes software companies, IT consulting firms, internet services companies, and data processing firms. The Strategy had 26.5% 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 had 14.2% 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 10.4% of assets and Consumer Discretionary at 6.7% of assets.

Table IV.
Top 10 holdings as of September 30, 2021

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	\$2.9	\$25.4	\$455.0	7.4%
IDEXX Laboratories, Inc.	2006	2.5	52.9	418.9	6.8
Mettler-Toledo International, Inc.	2008	2.4	31.8	267.4	4.3
Vail Resorts, Inc.	1997	0.2	13.5	201.6	3.3
ANSYS, Inc.	2009	2.3	29.7	194.7	3.2
Bio-Techne Corporation	2015	4.0	19.0	193.8	3.1
Verisk Analytics, Inc.	2009	4.9	32.3	192.5	3.1
West Pharmaceutical Services, Inc.	2014	2.9	31.4	188.7	3.1
CoStar Group, Inc.	2016	5.0	34.0	185.5	3.0
Ceridian HCM Holding Inc.	2018	4.3	16.9	184.3	3.0

RECENT ACTIVITY

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
HubSpot, Inc.	\$31.8	\$20.2
Clearwater Analytics Holdings, Inc.	5.9	13.2
Warby Parker Inc.	5.9	2.7
Stitch Fix, Inc.	4.3	1.4

HubSpot, Inc. is a cloud-based software provider whose initial Marketing Hub software helped establish the Inbound Marketing space. The product was initially focused on helping small and medium businesses (those with 20 to 200 employees) determine how to get customers to discover their products and services online with targeted content. The company built upon its success in this market to expand into adjacent spaces with its Sales and Service Hubs, and it has also begun selling its products to larger customers.

The company's software products have been built largely organically. We believe this has helped make the user experience easy, sped product innovation and new releases, and driven quick expansion into adjacent areas. In addition, HubSpot has a large ecosystem of integrations with third-party data sources, which makes it easy for customers to enrich their overall sales and marketing data sets.

The company's key performance indicators ("KPIs") include its net dollar expansion rate, net new customer additions, and revenue growth. During the past year, these KPIs have been growing faster than their recent trendline. We believe that the pandemic has increased the need for businesses to have a digital front end to attract, service, and sell to customers, resulting in the market increasingly "coming to them." In addition, HubSpot's enhanced product portfolio is resonating with larger-sized customers, as the company launched Enterprise versions of their Marketing and Sales Hubs.

¹ Portfolio characteristics, sector exposures, 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.

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During the past five years, growth has been tied largely to user growth. However, with the company's continued success selling to larger customers, we believe that average subscription revenue per customer, a key measure of pricing, can soon become a more meaningful driver of revenue growth over time. In addition, the introduction of the "freemium" offering, which was launched about a year ago, has lowered the barrier for new customer adoption. This, in turn, is helping drive faster growth in the pool of customers that can be converted to paid users. HubSpot also recently announced a payments solution to make it easier for its customers to sell seamlessly online. As a result of these factors, we believe HubSpot can grow its revenues at a 30%-plus rate for several years, eventually achieving 25% to 30% free cash flow margins.

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

	Amount Sold (millions)
GDS Holdings Limited	\$38.1
IDEXX Laboratories, Inc.	23.8
Illumina, Inc.	14.0
Teleflex Incorporated	10.8
The Trade Desk	7.9

As discussed, we sold our position in **GDS Holdings Limited** because of uncertainty over future policies of the Chinese government toward privately owned businesses. We reduced our stake in successful long-term holding **IDEXX Laboratories, Inc.** to raise capital to allocate elsewhere in the Fund. We reduced our stake in **Illumina, Inc.**, the leader in DNA sequencing technology, given uncertainty about the outcome of its proposed acquisition of GRAIL, a cancer screening company, which is being challenged by governmental antitrust regulators. We reduced our stake in **Teleflex Incorporated**, a medical device manufacturer, over competitive concerns surrounding one of its product lines. We reduced our stake in **The Trade Desk**, an advertising technology company, given its elevated near-term valuation.

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: Past performance is not a guide to future performance. The value of investments and income from them may go down as well as up. Your capital is at risk. 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. 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.

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OUTLOOK

We remain a long-term investor in businesses that we believe will benefit from long-lived secular growth drivers, with sustainable competitive advantages, led by best-in-class management. We invest in stocks that we believe, based on our deep fundamental research, will double in value over a five-year period, and all new and existing holdings must meet that objective.

We believe that we have created value for our investors throughout the Strategy's history by understanding and analyzing businesses better than many others. We do not believe that we have greater insight than most others about macroeconomic, political, or public health issues, and we do not make investment decisions premised on those issues. Consistent with this approach, we do not have strong views about the near-term level of inflation or interest rates, perhaps the two issues that have been having the greatest recent impact on the stock market. Similarly, we do not have a firm view about whether growth or value stocks are likely to lead the market in the near term, but we remain convinced that attractive growth stocks are the best place to be invested for the long term.

We continue to follow our investment methodology, while working hard to identify beneficiaries of accelerating advances in technology and consumer preferences, many of which appear to have been permanently impacted by the pandemic. We believe that this approach will generate strong performance for our portfolio, regardless of the economic or political climate.

Sincerely,



Andrew Peck
Portfolio Manager