Baron Mid Cap Growth Strategy

BARON CAPITAL

December 31, 2022

Dear Investor:

Performance

U.S. equities recovered a portion of their year-to-date losses during the quarter. The market gained as investors became more optimistic that interest rate increases during 2023 may be more modest and shorter lived than the market had previously expected. This view was supported by weaker-than-anticipated inflation data released during the quarter and dovish commentary from the Federal Reserve.

This more benign view of likely interest rate increases caused most sectors in the broad market, as measured by the Russell 3000 Index, to close higher for the quarter, led by the commodity-sensitive Energy, Industrials, and Materials sectors. Consumer Staples, Financials, and Health Care also outpaced the broader market after posting double-digit gains. The growth-oriented Consumer Discretionary, Communication Services, and Information Technology (IT) sectors remained relatively out of favor, while Real Estate once again underperformed. Value stocks continued their strong run of performance in the fourth quarter to finish well ahead of growth stocks for the year. Mid-cap stocks outperformed their small- and large-cap counterparts during the quarter.

Against this backdrop, Baron Mid Cap Growth Strategy posted strong absolute and relative performance. The Strategy increased 12.13% during the quarter, outperforming the Russell Midcap Growth Index by 523 basis points, primarily due to positive stock selection and tailwinds from the Strategy's traditional style biases, particularly its underexposure to the stocks with high measures of Residual Volatility and Beta.

Table I.
Performance
Annualized for periods ended December 31, 2022

	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]	12.13%	12.40%	6.90%	7.56%
One Year	(25.90)%	(25.18)%	(26.72)%	(18.11)%
Three Years	4.19%	5.20%	3.85%	7.66%
Five Years	9.37%	10.43%	7.64%	9.42%
Ten Years	12.45%	13.57%	11.41%	12.56%
Fifteen Years	8.66%	9.76%	8.61%	8.81%
Since Inception[3] (June 30, 1998)	8.36%	9.44%	7.88%	7.08%

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, 2022, total Firm assets under management are approximately $35.4 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 Report please contact us at 1-800-99BARON. 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 Report please contact us at 1-800-99BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

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 **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. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. 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 6/12/1987.

Investments in IT, Health Care, and Financials were responsible for most of the relative gains during the quarter. Favorable stock selection in IT was driven by the Strategy's sizeable position in syndicated research provider **Gartner, Inc.**, whose shares appreciated more than 20%. Gartner's business conditions remained strong, with the company's research business compounding at double-digit levels. Several other holdings also performed well in the sector, led by data and analytics provider **Fair Isaac Corporation**, diversified technology company **Roper Technologies Inc.**, and internet infrastructure leader **Verisign, Inc.** All three companies reported solid operating results despite ongoing macroeconomic headwinds.

Strength in Health Care was partly due to sharp gains from weighing instruments provider **Mettler-Toledo International, Inc.** and veterinary diagnostics leader **IDEXX Laboratories, Inc.** Mettler reported good quarterly results because of solid performance in China and strength in its Laboratory and Industrial segments. IDEXX's financial results exceeded expectations despite ongoing headwinds from veterinary visits being adversely impacted by tight labor markets and challenging comparisons following a surge of pet adoptions during the pandemic. We are hopeful that the rate of decline in veterinary visits has stabilized, and we believe that long-term secular trends around increased pet ownership and pet care spending have been structurally accelerated. Higher exposure to this better performing sector, which was up nearly 15% in the index, contributed another 50-plus basis points to relative results.

Within Financials, higher exposure to this outperforming sector and considerable gains from specialty insurer **Arch Capital Group Ltd.** and online brokerage firm **The Charles Schwab Corp.** bolstered performance. Arch's quarterly earnings topped consensus estimates despite significant losses from Hurricane Ian, as the company benefited from favorable pricing trends in the property & casualty (P&C) insurance market. The company's recent inclusion in the S&P 500 Index also bolstered the stock, as it prompted buying from passive funds. Schwab's shares rose in response to rising interest rates, which should lead to increased profits on the company's more than $600 billion of interest-earning assets. Moreover, despite turbulent markets, the company attracted over $400 billion of net new client assets over the last 12 months.

Consumer Discretionary investments along with the lack of exposure to the strong performing Energy sector offset a portion of the above-mentioned gains. Within Consumer Discretionary, the underperformance of electric vehicle (EV) manufacturer **Rivian Automotive, Inc.** coupled with lower exposure to this better performing sector hampered relative results. Rivian's shares fell as investors fretted over the company's unit economics and how macroeconomic uncertainty is impacting the EV industry.

Table II.
Top contributors to performance for the quarter ended December 31, 2022

	Percent Impact
Gartner, Inc.	2.07%
Mettler-Toledo International, Inc.	1.69
IDEXX Laboratories, Inc.	1.40
Arch Capital Group Ltd.	0.95
Fair Isaac Corporation	0.68

Shares of **Gartner, Inc.**, which sells syndicated research, primarily about technology solutions and vendors, to corporations largely through annual subscription contracts, was the largest positive contributor. The company continued to benefit from the growing pervasiveness of technology in virtually all aspects of its corporate clients' operations. Gartner's business conditions remained strong, and the company's research segment continued to compound its revenues at double-digit levels. We expect sustained revenue growth, driven partly by price increases, and ongoing cost control efforts to drive continued margin expansion and enhanced free-cash-flow generation. The company's balance sheet remains in excellent shape, and we expect further share repurchases and the possibility of complementary, accretive acquisitions.

Mettler-Toledo International, Inc. is a leading provider of weighing instruments for use in laboratory, industrial, and food retailing applications. Mettler's shares recovered from their decline last quarter, which had been driven by the impact of a possible global recession and negative foreign movements on the company's earnings. Shares advanced on solid third quarter results highlighted by 10% local currency sales growth and 17% EPS growth despite a negative FX impact of 6%, and management provided solid initial 2023 earnings guidance. We believe that Mettler's business has historically proved resilient in the face of macroeconomic challenges, and we expect Mettler will continue to compound its earnings at mid-teens or better growth rates over the long term.

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** contributed to performance. The company's financial results exceeded expectations despite ongoing headwinds from veterinary visits being adversely impacted by tight labor markets and challenging comparisons following a surge of pet adoptions during the pandemic. There were encouraging signs that the rate of decline in veterinary visits has stabilized, and we believe that increased pet ownership and pet care spending remain long-term secular trends. IDEXX's competitive position remained outstanding, and we expect new proprietary testing and diagnostic solutions to help drive meaningful growth over time.

Arch Capital Group Ltd. is a specialty insurance company based in Bermuda. Its shares increased on the back of increasingly favorable pricing trends in its core P&C insurance market. During the quarter, the company reported earnings that exceeded expectations despite having incurred significant losses from Hurricane Ian. The stock also benefited from its inclusion in the S&P 500 Index, which prompted incremental buying from passive stock funds. We continue to have confidence in Arch's strong management team, and we expect ongoing growth in its earnings and book value per share.

Fair Isaac Corporation is a data, analytics, and software company offering various solutions to assist businesses in predicting consumer behavior. The company contributed to performance after reporting impressive quarterly earnings despite macroeconomic headwinds. Management also provided robust earnings guidance for 2023 that was well ahead of Wall Street expectations. Investors are beginning to appreciate that the company's software division has the potential to soon add meaningfully to profitability. We believe Fair Isaac will be a steady earnings compounder, which should drive solid returns for the stock over a multi-year period.

Table III.
Top detractors from performance for the quarter ended December 31, 2022

	Percent Impact
ZoomInfo Technologies Inc.	–0.50%
The Trade Desk	–0.23
Rivian Automotive, Inc.	–0.14
Fidelity National Information Services, Inc.	–0.13
Aspen Technology, Inc.	–0.12

ZoomInfo Technologies Inc. provides business intelligence software that companies use to inform their go-to-market strategy, with modules focused on areas including sales, marketing, operations, and talent. Shares detracted from performance after the company predicted weaker revenue trends, driven by meaningful macroeconomic weakness and slowing purchasing trends by its customers. We believe that ZoomInfo has the potential to be a much larger company as it grows into its ever expanding $70 billion total addressable market and potential adjacent markets such as marketing and talent acquisition software.

The Trade Desk is the leading internet advertising demand-side platform that enables agencies to efficiently purchase digital advertising across PC, mobile, and online video channels. Its shares were pressured by the increasingly challenged market for digital advertising, though its peers were even more negatively impacted. Despite the near-term headwinds in the company's end-market, we remain positive. We believe Trade Desk has superior technology and scale that should allow the company to grow its estimated 10% share in the $100 billion market for programmatic advertising, which is a growing subset of the $700 billion global advertising market.

Rivian Automotive, Inc. is an EV manufacturer producing vehicles for the consumer and corporate delivery van markets. Its shares were under pressure during the quarter. Investors remained focused on the company's execution challenges, the implied unit economics for its vehicles, and near-term headwinds for the automotive industry stemming from a weaker global economy. Despite these headwinds, we are comfortable with Rivian's liquidity position and its competitive position within the EV industry, which we believe will continue to grow at impressive rates. Rivian should also benefit from its positive product reviews, its integrated technology approach, and its industry partnerships.

Fidelity National Information Services, Inc. provides technology solutions to financial institutions and also enables merchants to accept electronic payments. Shares fell in the quarter after the company reduced its financial guidance for the fourth quarter. The company's growth slowed as banks delayed technology investments because of macroeconomic uncertainty and weaker consumer spending in Britain, a key market, reduced merchant processing growth. Wage inflation and higher supplier costs are also weighing on its margins. We believe the company is a durable growth business and the depressed valuation more than reflects near-term headwinds.

Aspen Technology, Inc. is a leader in automation software for the energy and other process industries. After performing well throughout the year, the company's shares fell in the fourth quarter as its earnings multiple compressed alongside falling oil prices. Nevertheless, organic revenue growth trends remained strong, with annual contract value growing 7.5%. We view the company's May 2022 transaction with Emerson Electric Co. as transformational. We expect Aspen to improve the growth rate, profitability, and cash flow of the acquired businesses by converting their products to recurring revenue models, while also leveraging Emerson's vast sales force to improve its own growth. We also expect Aspen to be more aggressive with M&A in the future.

Portfolio Structure[1]

At December 31, 2022, Baron Mid Cap Growth Strategy held 53 positions. The Strategy's 10 largest holdings represented 46.8% of assets, and the 20 largest represented 69.2% of assets. The Strategy's largest weighting was in the IT sector at 30.9% of assets. This sector includes software companies, IT consulting firms, internet services companies, and data processing firms. The Strategy held 25.2% of its assets in the Health Care sector, which includes investments in life sciences tools & services companies and health care equipment, technology, and supplies companies. The Strategy held 14.9% of its assets in the Industrials sector, which includes investments in research and consulting companies, industrial machinery, and aerospace companies. The Strategy also had significant weightings in Financials at 14.3% of assets and Consumer Discretionary at 6.9% of assets.

As the chart below shows, the Strategy's largest investments all have been owned for significant periods – nine of the 10 largest holdings have been owned for longer than a decade. This is consistent with our approach of investing for the *long term* in companies benefiting from secular growth trends with significant competitive advantages and best-in-class management teams.

Table IV.
Top 10 holdings as of December 31, 2022

	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	$ 26.6	$427.3	9.8%
IDEXX Laboratories, Inc.	2006	2.5	33.8	274.8	6.3
Mettler-Toledo International, Inc.	2008	2.4	32.2	261.8	6.0
CoStar Group, Inc.	2016	5.0	31.4	188.6	4.3
Verisk Analytics, Inc.	2009	4.0	27.6	167.8	3.9
FactSet Research Systems, Inc.	2006	2.5	15.3	148.7	3.4
The Charles Schwab Corp.	1992	1.0	155.4	145.8	3.4
Vail Resorts, Inc.	1997	0.2	9.6	143.9	3.3
Arch Capital Group Ltd.	2003	0.9	23.2	138.3	3.2
ANSYS, Inc.	2009	2.3	21.0	138.2	3.2

[1] Portfolio characteristics, sector exposures, top 10 and top 20 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.

Recent Activity

Table V.
Top net purchases for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
ICON Plc	$15.9	$5.0

The Strategy did not purchase any new investments for the first time in many quarters. We remain enthusiastic about the existing investments in our portfolio, many of which fell by double-digit percentages during the past year. We believe that investors have indiscriminately sold many companies whose near-term outlooks have been clouded by uncertainties and fears about the near-term economic climate. We believe this has resulted in attractive valuations across our existing portfolio of stocks, and we were not compelled to add new stocks during the period.

We did add modestly to our stake in **ICON Plc**, the second largest participant in the $50 billion contract management organization (CMO) market. The company provides outsourced drug and device development and commercialization services to pharmaceutical, biotechnology, and medical device companies. We believe that ICON is poised to benefit from a variety of positive secular growth trends, and we believe that ICON should remain relatively unimpacted by potential disruption in the broader economy. As clinical drug trials become increasingly complex and global in scope, market share among CMOs has been shifting to large-scale providers like ICON. The company offers several advantages to drug developers, particularly smaller and mid-sized biotechnology firms that lack the internal infrastructure to run the trials necessary to obtain regulatory approval for their drugs. These include the economic efficiency associated with converting previously fixed costs to variable costs, and a significant reduction in the time required to bring new drug treatments to market. ICON's large scale has also enabled the company to secure long-term strategic partnerships with multiple large pharmaceutical customers, which provides added visibility into their revenue pipeline.

Table VI.
Top net sales for the quarter ended December 31, 2022

	Amount Sold (millions)
Gartner, Inc.	$42.7
HubSpot, Inc.	17.2
West Pharmaceutical Services, Inc.	14.6
Wix.com Ltd.	12.0
ZoomInfo Technologies Inc.	9.2

The Strategy reduced its position in long-time holding **Gartner, Inc.**, a research firm focused primarily on IT, in order to manage its position size. We remain optimistic about the company's long-term prospects. We sold our stake in **HubSpot, Inc.**, a cloud-based customer relationship manager software company, given uncertainty about its near-term business trends in a more challenging sales environment.

We reduced our stake in long-time holding **West Pharmaceutical Services, Inc.**, which manufactures packaging solutions for drug companies, to manage its position size. We sold our stake in **Wix.com Ltd.**, which provides tools and software that assist in the construction of websites, over concerns about the company's long-term growth rate in the post-pandemic environment. We reduced our stake in **ZoomInfo Technologies Inc.**, which provides business intelligence software, given uncertainty about its near-term business trends in a more challenging environment for its primary customer base.

Outlook

We are encouraged by the performance of the equity markets during the past quarter, continuing through early January 2023. Despite this upward move, the consensus among Wall Street market strategists and virtually all television pundits remains bearish. The list of concerning headlines has been well known for many months–rising inflation and interest rates, slowing global economic growth, uncertainty over near-term corporate earnings, and the unknowable outcome of the war in Ukraine. We are optimistic that much, and perhaps all, of this negative sentiment has been discounted into stock prices. This may be particularly true for high-quality growth stocks with long-duration earnings streams, which are especially susceptible to changing investor views about the trajectory of interest rates.

As was the case this quarter, we believe that the Strategy is positioned to perform well during a stock market recovery. Its portfolio consists of companies that benefit from secular growth drivers, strong competitive positions, and exceptional management teams. We expect that these are the types of *businesses* that should outperform their peers during challenging economic environments. Our frequent discussions with the management teams of our investments indicate that this, in fact, has been the case. The Strategy's recent performance supports our view that these should be the types of *stocks* that investors will again embrace as pessimism subsides about the economic outlook and there is greater clarity about the pace of interest rate increases. We continue to believe that the stocks in the Strategy have the potential to double in value over a five-year period.

We believe that investors should continue to take a long-term view of their equity market holdings, which have generally compounded at attractive long-term rates. We believe that the best time to invest in mid-cap growth equities is often during times when pervasive fear and pessimism have resulted in, we believe, compelling valuations that should lead to attractive long-term returns. It is also worth noting that the primary mid-cap growth index underperformed the primary mid-cap value index by nearly 15% this past year, reducing the premium that is generally accorded to faster growing stocks.

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.

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.