



Baron Mid Cap Growth Strategy

March 31, 2022

DEAR INVESTOR:

PERFORMANCE

U.S. equities declined during the first quarter over concerns that the Federal Reserve will aggressively raise interest rates to combat rising inflation levels. Equity markets were further unnerved by the uncertain geopolitical and macroeconomic implications of the Russian invasion of Ukraine, notably the surge in commodity prices and further disruptions to global supply chains. These unsettled conditions resulted in a flight to safety among investors, which contributed to value indexes outperforming growth indexes by significant margins.

The best-performing sectors included Energy and Materials, which were bolstered by rising commodity prices, and Financials, which generally benefited from rising interest rates. Traditionally defensive sectors, like Consumer Staples and Utilities, also benefited from investor rotation into these areas. In contrast, growth-oriented sectors, including Communication Services, Consumer Discretionary, and Information Technology (IT), were the largest detractors, as investors shunned many businesses with extended near-term valuations and businesses that had disproportionately benefited from changing consumer behavior during the pandemic.

Table I.

Performance

Annualized for periods ended March 31, 2022 (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 | (14.48)% | (14.28)% | (12.58)% | (4.60)% |
| One Year | (1.31)% | (0.35)% | (0.89)% | 15.65% |
| Three Years | 14.39% | 15.50% | 14.81% | 18.92% |
| Five Years | 15.71% | 16.84% | 15.10% | 15.99% |
| Ten Years | 14.21% | 15.34% | 13.52% | 14.64% |
| Since Inception ³ (June 30, 1998) | 9.29% | 10.38% | 8.95% | 8.01% |

Against this backdrop, Baron Mid Cap Growth Strategy fell 14.48%, while the Russell Midcap Growth Index (the "Index") fell 12.58%. The S&P 500 Index, which comprises both growth- and value-oriented large-cap stocks, fell 4.60%. The Strategy faced a headwind from its limited exposure to the Energy and Consumer Staples sectors, and the negative contribution of some of its IT holdings. In addition, several of the Strategy's best-performing stocks during 2021 performed poorly during this growth-driven sell-off.

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 March 31, 2022, total Firm assets under management are approximately \$48.6 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 please contact us at 1-800-99BARON. For a GIPS-compliant report, click here.

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.

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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Outperformance of the Strategy's investments in Communication Services, Financials, and Industrials and lower exposure to the lagging Consumer Discretionary sector added the most value. Favorable stock selection in Communication Services came from marketing solutions provider **ZoomInfo Technologies Inc.**, which benefited from strong earnings and forward commentary on sales bookings, and online travel company **Tripadvisor, Inc.**, which benefited from signs that travel demand is improving as the pandemic recedes. Within Financials, higher exposure to this outperforming sector and gains from online brokerage firm **The Charles Schwab Corp.** and specialty insurance company **Arch Capital Group Ltd.** bolstered relative results. Schwab's shares gained because of the positive impact higher interest rates will have on its future earnings. Arch gained after reporting above-consensus quarterly earnings results, coupled with an 11% increase in its book value per share. Strength in Industrials was driven by data and analytics vendor **Verisk Analytics, Inc.** and diversified technology company **Roper Technologies Inc.** Verisk reported solid quarterly earnings results led by ongoing strength in its core Insurance segment. Management also stated its intention to focus on expanding its products to the insurance industry, leading to a likely divestiture of its Financial Services and Energy segments. Roper's stock held up better than the broader market after its fiscal year 2022 guidance exceeded Wall Street expectations.

Underperformance of IT investments, lack of exposure to the Energy sector, which was driven sharply higher by spiking oil prices, and greater exposure to lagging life sciences tools & services stocks within Health Care detracted the most from relative results. Within IT, application software businesses **Ceridian HCM Holding Inc.**, **ANSYS, Inc.**, and **Guidewire Software, Inc.** accounted for a portion of the relative shortfall after selling off alongside other high-growth technology stocks during the quarter. Weakness in the sector also stemmed from outsourced software development provider **EPAM Systems, Inc.** and website development platform **Wix.com Ltd.** EPAM's shares fell because many of the company's employees were based in Ukraine and Russia, while Wix's stock declined after the company experienced a slowdown in new customer additions in the aftermath of pandemic-related trends.

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

| | Percent Impact |
|-------------------------|----------------|
| Arch Capital Group Ltd. | 0.15% |
| Aspen Technology, Inc. | 0.09 |
| Teleflex Incorporated | 0.09 |
| Fair Isaac Corporation | 0.07 |
| Rollins, Inc. | 0.04 |

Arch Capital Group Ltd. is a Bermuda-based specialty insurer. Its stock increased after the company reported quarterly earnings that exceeded consensus estimates and 11% growth in book value per share. Pricing trends in the property & casualty insurance market remained favorable, and the margins for its mortgage insurance business improved substantially from last year's cyclically depressed levels as mortgage delinquencies declined. We remain optimistic that Arch's impressive management team can continue to achieve solid growth in the company's earnings and book value.

Shares of **Aspen Technology, Inc.**, a leader in process automation software, gained after the company reported a 6% acceleration in organic growth. We expect Aspen to close its transformative deal with industrial equipment manufacturer Emerson this quarter. We believe Aspen management will improve the growth, profitability, and cash flow of the acquired Emerson businesses by converting them to recurring revenue models, while leveraging Emerson's vast sales force to improve the entire company's growth rate. We also expect the company to become more aggressive with accretive acquisitions, and we believe the healthy environment for energy and other commodities should provide a supportive backdrop for sales growth.

Teleflex Incorporated is a medical device company that sells mostly single-use products to hospitals and health care providers for common diagnostic and therapeutic procedures in critical care and surgical applications. The pandemic had pressured the company's shares, as many discretionary surgical procedures were postponed, particularly in its urology business. Teleflex's shares recovered in the quarter, as the pandemic continued to subside. We continue to believe Teleflex can generate high single-digit organic revenue growth with ongoing margin expansion driven by several high-growth product lines.

Fair Isaac Corporation is a data and analytics company focused on predicting consumer behavior, best known for its algorithms used to gauge consumer credit. Its shares gained as the company reported solid earnings and management sounded optimistic regarding its outlook for the remainder of the year, driven by continued special price increases and improved growth and profitability in its software business. We believe that Fair Isaac will be a steady earnings compounder, which should drive solid returns for the stock over a multi-year period.

Rollins, Inc. is a leading provider of pest and termite control services. Shares contributed to performance as the company reported solid fourth quarter earnings and continued to grow its market share and modestly increase its pricing. We believe Rollins has a strong brand operating in an attractive and defensive end market (cockroaches will outlive us all) that should enable the company to compound its profitability for many years.

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

| | Percent Impact |
|------------------------------------|----------------|
| IDEXX Laboratories, Inc. | -1.08% |
| Mettler-Toledo International, Inc. | -1.06 |
| Ceridian HCM Holding Inc. | -0.99 |
| EPAM Systems, Inc. | -0.88 |
| ANSYS, Inc. | -0.78 |

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** fell due to broader multiple compression in high-growth businesses. We believe that IDEXX's business remains healthy and that the veterinary industry should consistently grow at a faster rate than it experienced pre-pandemic. We believe that the long-term secular trends around pet ownership and spending on pet care structurally accelerated during the pandemic. The company's competitive position remains outstanding, and we expect new proprietary diagnostic tests and sales force expansion to meaningfully contribute to growth. We also expect the company's margins to continue to improve considerably over time.

Mettler-Toledo International, Inc. is a leading provider of precision instruments and services for life sciences, food, and chemicals companies, among others. Similar to IDEXX, we believe that Mettler's shares fell chiefly because of widespread investor rotation out of growth stocks. In addition, there were concerns about the potential negative impact of foreign currency fluctuation and the possibility of a European economic slowdown, where Mettler has significant business. We continue to believe Mettler is an exceptionally well-managed business with competitive advantages and attractive long-term growth prospects.

Shares of **Ceridian HCM Holding Inc.**, a leader in global payroll software, fell as valuations for high-growth technology stocks compressed. We retain conviction in Ceridian's long-term opportunity. Growth in Ceridian's flagship Dayforce platform is reaccelerating toward 30% revenue growth, helped by continued market share gains, its ongoing ability to service larger-sized customers, and the broader recovery in employment trends. We expect Ceridian's growth to be enhanced by its Wallet suite, which allows all employees on Dayforce to request and receive their wages as soon as they are earned (not just at the end of a typical two-week pay cycle) at no cost to employer or employee. We think this feature has the potential to revolutionize the market for payroll software.

EPAM Systems, Inc. provides outsourced software development to business customers using highly skilled, generally low-cost employees across the developing world. It was founded and led by an American émigré from Minsk. The company has had great success in its niche, counting Google, UBS, and Expedia among its largest clients. During its most recent quarter, the company grew its revenues 53% (44% organically), among the best results in its history. The company has more than 50,000 employees, with a significant percentage in Ukraine and Russia. Prior to the ongoing conflict in Ukraine, EPAM had been diversifying its geographic footprint by rapidly expanding in India, Poland, and Latin America. The company has also been actively assisting employees in Ukraine and Russia who wished to relocate, and a meaningful number have done this. Although EPAM is facing significant uncertainty with a large segment of its workforce, we believe the company continues to have strong demand for its services, maintains many longstanding blue chip customer relationships, has historically demonstrated great flexibility in shifting work among geographies, and has \$1 billion-plus in cash and no debt. Its share price has corrected considerably, and we believe the long-term risk/reward currently remains favorable.

ANSYS, Inc. is a leading provider of physics-based simulation software. Despite quarterly financial results that exceeded expectations, the stock was pressured because of management guidance for slower free-cash-flow growth next year, coupled with the general rotation away from growth stocks. We believe ANSYS remains well positioned to benefit from the increasing demand for simulation software by leveraging its growing product offerings, partnerships, expanding distribution, and deep customer relationships. In addition, management continues to describe attractive expansion opportunities within its largest customers across all key geographies.

PORTFOLIO STRUCTURE¹

At March 31, 2022, Baron Mid Cap Growth Strategy held 60 issuers. The 10 largest holdings represented 42.2% of assets, and the 20 largest represented 64.9% of assets. The largest weighting was in the IT sector at 29.5% of net assets. This sector includes software companies, IT consulting firms, and internet services companies. The Strategy held 26.8% 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 held 15.6% 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 12.3% of assets and Consumer Discretionary at 6.9% of assets.

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

| | Quarter End Market Cap (billions) | Quarter End Investment Value (millions) | Percent of Net Assets |
|------------------------------------|---|--|-----------------------------|
| Gartner, Inc. | \$24.5 | \$428.7 | 8.0% |
| IDEXX Laboratories, Inc. | 46.1 | 368.5 | 6.8 |
| Mettler-Toledo International, Inc. | 31.2 | 266.6 | 5.0 |
| Verisk Analytics, Inc. | 34.6 | 204.2 | 3.8 |
| ANSYS, Inc. | 27.6 | 181.7 | 3.4 |
| Bio-Techne Corporation | 17.0 | 173.2 | 3.2 |
| West Pharmaceutical Services, Inc. | 30.5 | 166.1 | 3.1 |
| CoStar Group, Inc. | 26.3 | 162.5 | 3.0 |
| FactSet Research Systems, Inc. | 16.4 | 161.0 | 3.0 |
| Vail Resorts, Inc. | 10.6 | 157.1 | 2.9 |

RECENT ACTIVITY

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

| | Quarter End Market Cap (billions) | Amount Purchased (millions) |
|------------------------|---|-----------------------------------|
| Teleflex Incorporated | \$16.6 | \$18.0 |
| CoStar Group, Inc. | 26.3 | 16.8 |
| Fair Isaac Corporation | 12.3 | 12.0 |
| HubSpot, Inc. | 22.6 | 0.9 |

Given the widespread and, in some cases, indiscriminate sell-off in growth stocks during the quarter, we chose to increase our stakes in a few companies that we thought had been unfairly penalized by an unforgiving market environment.

Teleflex Incorporated has a large product portfolio that includes primarily single-use medical devices sold to hospitals for use in various critical care and surgical applications, such as tools to administer intravenous medications and masks to administer anesthesia. It also owns UroLift

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.

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System, a fast-growing technology used to treat enlarged prostates through a minimally invasive procedure. We believe that Teleflex's diversified portfolio of commonly used, relatively inexpensive medical devices, supplemented by fast-growing niche businesses like UroLift, should allow the company to grow its revenues over the long term at a high single-digit rate with ongoing margin expansion, while also making accretive, complementary acquisitions. The company's shares have been pressured by the reduction in various discretionary medical procedures during the pandemic, and we believe that this presented an attractive opportunity for long-term shareholders.

CoStar Group, Inc. is the leading provider of information and marketing services to the commercial real estate and apartment rental markets. During the first quarter, despite reporting strong financial results, the company's shares were down more than 50% from their high point during the previous quarter. The stock's weakness was attributed to the company's decision to invest aggressively in its emerging residential housing business. CoStar intends to use two of its recently acquired businesses, Homes.com and Homesnap, to build a compelling offering for potential home buyers and listing brokers. Management believes that this residential business could reach \$1 billion in revenues within five years and that the ultimate revenue opportunity is considerably larger. We believe that this business could eventually achieve profitability on par with its other business (over 40% EBITDA margins). When the company made a similarly large investment during its expansion into the apartments market, the market initially punished its stock. The company proved skeptics wrong, as its apartments unit achieved considerable success. We believe that today's investment into residential real estate will prove skeptics wrong again. In the event the residential business does not achieve its goals, management will likely stop investing and divert those resources to other promising opportunities, such as international expansion.

Fair Isaac Corporation is a data and analytics company focused on predicting consumer behavior. It is best known for its Scores segment, which created the FICO Score, an algorithm widely used by businesses when considering whether to grant credit to individuals. The company also has a large financial software segment that has meaningfully penalized its recent profitability because the company has been aggressively investing to make its software available in the cloud. We believe the company has an underappreciated opportunity to increase the growth and profitability of its Scores unit through better price realization. We also believe its software business is poised to report much improved profitability as it reaps the benefits of its multi-year investment cycle.

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

| | Amount Sold (millions) |
|--------------------------|------------------------|
| RingCentral, Inc. | \$33.6 |
| SBA Communications Corp. | 17.7 |
| Farfetch Limited | 14.7 |
| Clarivate Plc | 11.0 |
| Gartner, Inc. | 9.3 |

During the quarter, we sold our stake in **RingCentral, Inc.**, a cloud-based provider of communications software. We grew concerned that the company's products faced increased competition from Microsoft's Teams product, which is being bundled into other Microsoft software at little additional cost to customers. We reduced our stakes in **SBA Communications Corp.** and **Gartner, Inc.**, both successful long-term holdings, in order to appropriately manage their position sizes. We sold our stake in **Farfetch Limited**, a global luxury e-commerce platform, over concerns that its business in China, a key market for luxury goods, will be permanently impaired by changing governmental policies in that country. We reduced our stake in **Clarivate Plc**, an information services company focused on the scientific and academic markets, after the company reported particularly disappointing fourth quarter earnings results.

OUTLOOK

Throughout its history, Baron Mid Cap Growth Strategy has confronted a variety of challenging market environments, characterized by many of the same concerns that currently preoccupy investors—rising interest rates, increasing inflation, changing monetary policy, and geopolitical uncertainty. We are not aware of any investors who have been able to consistently buy at the bottom of turbulent markets or consistently sell at the top. Instead, we believe that investors have been best served by taking a long-term view of their equity holdings, which have compounded at attractive rates over time.

Given that the most pressing concern for the stock market seems to be the expected series of interest rate hikes by the Federal Reserve, it is worth noting that there have been four previous tightening cycles during the past 30 years. The average return of the S&P 500 Index one year following the Fed's first interest rate hike has been *positive* 6.5%, while the Russell Midcap Growth Index's average return was *even higher* at 15.8%.

Despite the difficult market for growth stocks, we remain confident that our investments in businesses that we believe will benefit from long-lived secular growth drivers, with sustainable competitive advantages, led by best-in-class management, will generate good long-term results. We have not changed our view that the stocks in our Strategy have the potential to double in value over a five-year period.

We have never maintained that we have differentiated insight into the impact that macroeconomic or geopolitical issues may have on the stock market, and our investment decisions are not premised on these issues. Instead, we believe that we have created value for our investors throughout the Strategy's long history by understanding and analyzing businesses better than many others. We believe that this approach will continue to generate strong long-term performance for the Strategy, regardless of volatility in the underlying economic and geopolitical climates.

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.

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