

DEAR INVESTOR:

PERFORMANCE

After falling sharply on COVID-19 fears during the first quarter, U.S. equity markets staged their largest quarterly gain since the fourth quarter of 1999. The market rally was likely driven by a confluence of factors, including accommodative Federal Reserve policies, stepped up efforts to reopen the economy, optimism about a COVID-19 treatment, renewed speculation about large government infrastructure stimulus, and various economic data (such as unemployment figures) that were not as bad as feared. Growth stocks generally outperformed, and companies that were perceived to benefit from societal changes stemming from the pandemic did especially well.

Against this backdrop, Baron Mid Cap Growth Strategy gained 28.03% (net of fees), while the Russell Midcap Growth Index (the "Index") gained 30.26%, and the S&P 500 Index gained 20.54%.

Table I.
Performance

Annualized for periods ended June 30, 2020

	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	28.03%	28.33%	30.26%	20.54%
Six Months ²	6.90%	7.41%	4.16%	(3.08)%
One Year	11.47%	12.56%	11.91%	7.51%
Three Years	16.39%	17.53%	14.76%	10.73%
Five Years	13.88%	15.01%	11.60%	10.73%
Ten Years	15.74%	16.89%	15.09%	13.99%
Fifteen Years	10.28%	11.40%	10.32%	8.83%
Since Inception ³ (June 30, 1998)	9.07%	10.16%	8.46%	6.69%

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of June 30, 2020, total Firm assets under management are approximately \$32.5 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.

The performance data quoted represents past performance. Past performance is no guarantee of future results.

¹ The indexes are unmanaged. The Russell Midcap™ Growth Index measures the performance of medium-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 6/12/87.

After meaningfully outperforming the Index during the market's precipitous decline during the first quarter of 2020, Baron Mid Cap Growth Strategy trailed the Index during the market's dramatic second quarter recovery. The Strategy's performance was negatively impacted by its relative sector weights and its cash exposure, albeit modest, in a rising market. Style biases also hampered the Strategy's relative results. Consistent with its longstanding approach, the Strategy remained underexposed to the residual volatility factor, which performed well in the rapidly rising market. The Strategy also remained overexposed to the earnings quality factor, which trailed during the market's rise.

Outperformance of the Strategy's investments in Communication Services, Health Care, and Information Technology (IT), and its lack of exposure to the lagging Consumer Staples and Materials sectors added the most value. Strength in Communication Services came from marketing solutions provider **ZoomInfo Technologies Inc.** and real estate and rental marketplace **Zillow Group, Inc.** ZoomInfo's stock price doubled following the company's successful IPO in early June, while Zillow's shares reacted positively to strong quarterly results in its core Premier Agent segment and its resumption of home purchases in its Offers segment. Several Health Care holdings outperformed in the quarter, led by health care supplies company **West Pharmaceutical Services, Inc.** and veterinary diagnostics leader **IDEXX Laboratories, Inc.** West's share price rose sharply after the company's earnings results and outlook confirmed the company is not experiencing a material disruption from the COVID-19 crisis. IDEXX was the largest absolute contributor on signs that the veterinary industry would make a strong recovery from the COVID-19 crisis. Favorable stock selection in IT, partly related to the strong performance of web software firm **Wix.com Ltd.**, was partly offset by lower exposure to this outperforming sector.

Baron Mid Cap Growth Strategy

Aside from its cash balance, the Fund's investments in Consumer Discretionary, Financials, and Industrials and its higher exposure to the underperforming Real Estate sector weighed the most on relative results. Within Consumer Discretionary, lower exposure to this high performing sector and underperformance of global hotelier **Hyatt Hotels Corp.** and ski resort operator **Vail Resorts, Inc.** hurt relative results. Both companies suffered from meaningful near-term disruption in their businesses stemming from reduced travel caused by the pandemic. Weakness in Financials was partly due to the underperformance of insurer **Arch Capital Group Ltd.** and brokerage platform **The Charles Schwab Corp.** Arch was the largest detractor stemming from concerns that an economic downturn would impair its residential mortgage insurance business. Schwab was negatively impacted by the sharp reduction in interest rates during the quarter. Most of the Strategy's Industrials holdings failed to keep pace with the broader market after meaningfully outperforming last quarter. These included research & consulting services businesses **Verisk Analytics, Inc.**, **Clarivate Plc**, and **CoStar Group, Inc.**

Table II.
Top contributors to performance for the quarter ended June 30, 2020^{1,2}

IDEXX Laboratories, Inc.
Wix.com Ltd.
MarketAxess Holdings Inc.
West Pharmaceutical Services, Inc.
Guidewire Software, Inc.

Shares of **IDEXX Laboratories, Inc.**, a veterinary diagnostic company, gained after reporting excellent quarterly results that exceeded expectations, despite the headwinds caused by the pandemic. Organic growth in IDEXX's core companion animals group finished the quarter up double digits, and the company repurchased almost \$200 million of stock in the quarter, its highest level in many years. Although visits to veterinary clinics fell approximately 30% during the peak of lockdowns, management indicated that trends "meaningfully improved" during the second quarter. To be prudent, management committed to reduce corporate expenses by \$100 million, increased its cash position, and temporarily suspended future share repurchases. We believe the results demonstrated that IDEXX is a unique, competitively advantaged business that is likely to bounce back quickly and outperform across economic cycles.

Wix.com Ltd. provides small businesses with software that enables them to build and maintain their websites. The company is a leader in its market, with more than 170 million registered users and nearly five million premium users. Wix's shares rose significantly during the quarter as its business benefited from the accelerating pace of small businesses creating and upgrading their websites, partly driven by the widespread business disruptions caused by the COVID-19 pandemic. We remain optimistic about our investment as Wix continues to expand its platform to target professional website builders and agencies in addition to its core do-it-yourself customers. We believe these efforts, along with new products being contemplated, will meaningfully expand Wix's addressable market.

MarketAxess Holdings Inc. operates the leading electronic platform for trading corporate bonds. Its shares outperformed as ongoing market volatility coupled with the company's continued market share gains drove 44% growth in credit trading volume during its most recent quarter. This figure was more than double the market's 19% growth rate. We believe that recent market disruptions have led traders increasingly to turn to MarketAxess's platform for liquidity and price improvement, further cementing the company's network effects. We believe the company will be the prime beneficiary of the ongoing secular shift to electronic trading in the corporate bond market.

West Pharmaceutical Services, Inc. has dominant market share among manufacturers that supply components and systems to pharmaceutical and biotechnology companies to package and deliver injectable drugs. Its stock increased after West reported strong quarterly financial results and issued optimistic forward guidance, in stark contrast to the weak results and/or guidance reported by many other companies due to COVID-19-related business disruptions. In addition, we believe West's significant market share and its leading manufacturing capabilities make it a likely partner for any company that eventually offers a COVID-19 vaccine. We believe this provides significant upside opportunity for this business.

Guidewire Software, Inc. provides core operating systems to property and casualty ("P&C") insurers. Its shares gained as its reported earnings and revenue exceeded most analysts' expectations. In addition, Guidewire continued to make progress in signing deals for cloud-based implementation of its software. We believe this is noteworthy because widespread adoption of its cloud-based solutions should result in significant expansion of its addressable market opportunity as well as a higher valuation for the company's shares. Guidewire retains leading market share and its win rate for new clients remains unchanged. In addition, we believe that the pandemic is likely to accelerate the pace of digital transformation in the P&C industry, which should benefit Guidewire.

Table III.
Top detractors from performance for the quarter ended June 30, 2020²

Arch Capital Group Ltd.
Guardant Health, Inc.
Alexander's, Inc.

Arch Capital Group Ltd. is a Bermuda-based specialty insurance company, with large operations in both the P&C and mortgage insurance markets. While conditions in the P&C market continued to improve, economic-related headwinds in the mortgage market caused the shares to detract. Lender forbearance and rising unemployment caused higher mortgage delinquencies. This pressured Arch's earnings because accounting standards require the company to provision for credit losses even though delinquencies may not result in cash losses. We are optimistic that the investors are overly pessimistic about the amount of cash losses that Arch will ultimately bear.

Guardant Health, Inc. is a leading player in liquid biopsy with a blood-based test for advanced cancer therapy selection. The stock trades at a lofty

¹ Top contributors, top detractors, and top 10 holdings 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 diversify 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.

² Based on the gross performance results of the representative account.

near-term valuation, and coupled with a significant sale by large investor Softbank, some short-term price weakness was not unexpected, in our view. We continue to believe Guardant is in the early stages of penetrating the market for cancer therapy selection and has significant growth opportunities in recurrence monitoring and early cancer detection.

Alexander's, Inc. is a REIT that owns commercial real estate properties in the New York City metropolitan area. Shares declined due to the COVID-19 pandemic's negative impact on Alexander's business as a portion of its retail tenants withheld rent payments during the quarter. The company has also indicated that it may lower its dividend payments for a period of time. In light of these developments, we significantly reduced our position in Alexander's.

PORTFOLIO STRUCTURE

At June 30, 2020, Baron Mid Cap Growth Strategy held 59 positions. The 10 largest holdings represented 36.8% of assets, and the 20 largest represented 61.7% of assets. The largest weighting was in the IT sector at 29.6% of assets. This sector includes software companies, IT consulting firms, internet services companies, and data processing firms. The Strategy held 24.7% 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 17.2% 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 11.4% of assets and Real Estate at 6.4% of assets.

Table IV.
Top 10 holdings as of June 30, 2020¹

IDEXX Laboratories, Inc.
Verisk Analytics, Inc.
Gartner, Inc.
ANSYS, Inc.
Mettler-Toledo International, Inc.
Guidewire Software, Inc.
CoStar Group, Inc.
SBA Communications Corp.
Verisign, Inc.
West Pharmaceutical Services, Inc.

¹ Based on the representative account

RECENT ACTIVITY

During the past quarter, the Strategy established three new positions and added to six others. The Strategy reduced its holdings in 17 positions.

Table V.
Top net purchases for the quarter ended June 30, 2020¹

ZoomInfo Technologies Inc.
Guardant Health, Inc.
Bright Horizons Family Solutions, Inc.
Zillow Group, Inc.
GDS Holdings Limited

¹ Based on the representative account

The Strategy established a meaningful position in **ZoomInfo Technologies Inc.**, which completed its IPO during the quarter. ZoomInfo operates a cloud-based information platform used primarily by sales professionals to identify and target their highest-value potential sales targets. We believe that ZoomInfo's customers find the platform effective in uncovering new sales leads, shortening their sales cycles, and increasing their win rates. The company has more than 200,000 paying users across 15,000 customer companies. We believe this represents a mere 2% penetration rate of an approximately \$24 billion global addressable market for the company's products.

ZoomInfo obtains the bulk of its data from a contributory network of user data, which the company aggregates and analyzes for its clients. We believe this approach has enabled ZoomInfo to create an unrivaled database that includes the most accurate collection of corporate emails and phone numbers spanning approximately 14 million companies and 120 million professionals. More importantly, the database also includes unique technographic data (for example, all companies with benefits plans expiring within the next six months) and advanced attributes, such as time series growth, granular department and location information, employee trends, organizational charts, news and events, hierarchy information, and funding details. In addition to employing a research team of more than 400 analysts, the company uses machine learning to score and validate its data, which it supplements with unstructured public information extracted through patented technologies.

We are optimistic that ZoomInfo has a long runway for profitable growth, driven by its large addressable market, its strong competitive position, and secular trends favoring data-driven marketing. In addition, the company has the potential to introduce new products targeting areas beyond sales, such as recruiting, market research, and investing. Its revenues are virtually all subscription-based, and it has an attractive sales model resulting in exceptionally high returns on its customer acquisition expenditures. We expect ZoomInfo should be able to continue growing its revenues at approximately 40% while also maintaining free cash flow margins of approximately 40%.

Table VI.
Top net sales for the quarter ended June 30, 2020¹

Verisk Analytics, Inc.
CBRE Group, Inc.
Willis Towers Watson Public Limited Company
Alexander's, Inc.
IDEXX Laboratories, Inc.

¹ Based on the representative account

We modestly reduced our stakes in several successful longtime holdings to raise capital to allocate elsewhere in the portfolio. These included **Verisk Analytics, Inc.**, **CBRE Group, Inc.**, **Willis Towers Watson Public Limited Company**, and **IDEXX Laboratories, Inc.** We also significantly reduced our position in New York City-focused REIT **Alexander's, Inc.** on concerns that the pandemic will have a long-lasting negative impact on the value of its retail and commercial assets.

Baron Mid Cap Growth Strategy

OUTLOOK

After the market fell double digits last quarter, and most commentators were predicting tumultuous times ahead, we wrote that we never make investments based on the belief that we can create value by understanding remarkably complex and inherently uncertain macroeconomic events better than others. The experience of the past three months has further validated that belief. Frankly, neither we nor anyone else we spoke with or read about was predicting the stock market's strongest quarter in 20 years!

Baron Mid Cap Growth Strategy continues to be a long-term investor in businesses that we believe will benefit from long-lived secular growth trends, with sustainable competitive advantages, led by exceptional management teams. We believe that we have created value for our investors throughout uncertain times by understanding and analyzing businesses better than many others.

We believe that the unprecedented social, political, and economic effects stemming from the COVID-19 pandemic, coupled with unrelenting advances in technology, will result in long-lasting benefits for certain businesses and challenges for others. We continue to adhere to our traditional investment methodology, while working hard to identify these long-term corporate beneficiaries. We are optimistic that this approach will continue to lead to strong performance for our portfolio, no matter the economic climate.

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.

The Adviser believes that there is more potential for capital appreciation in mid-sized companies, but there also may be more risk. Specific risks associated with investing in mid-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Prior to February 15, 2007, the Strategy invested primarily in small and mid-sized growth companies. Since then, the Strategy invests in mid-sized companies. 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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