

DEAR INVESTOR: PERFORMANCE

U.S. equity markets continued to move higher during the quarter. The rally was likely driven by many of the same factors that prevailed last quarter: near-record low interest rates, incremental steps toward reopening the economy, favorable news flow about potential COVID-19 treatments, and optimism about large government infrastructure stimulus programs.

Against this backdrop, Baron Mid Cap Growth Strategy gained 8.45% (net of fees), while the Russell Midcap Growth Index (the "Index") gained 9.37%, and the S&P 500 Index gained 8.93%. The Strategy trailed the Index primarily because of differences in its weightings by sector and sub-industry relative to the Index. Style biases also hampered relative results. This was driven largely by the Strategy's underexposure to stocks with high momentum and elevated volatility, which performed well during the quarter. The Strategy has often been underexposed to these types of stocks, which can lead to relative underperformance during periods when such stocks are in vogue.

Table I.
Performance
Annualized for periods ended September 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	8.45%	8.71%	9.37%	8.93%
Nine Months ²	15.92%	16.76%	13.92%	5.57%
One Year	23.77%	24.97%	23.23%	15.15%
Three Years	18.25%	19.42%	16.23%	12.28%
Five Years	17.75%	18.92%	15.53%	14.15%
Ten Years	15.57%	16.73%	14.55%	13.74%
Fifteen Years	10.91%	12.04%	10.51%	9.19%
Since Inception ³ (June 30, 1998)	9.36%	10.45%	8.79%	7.02%

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, 2020, total Firm assets under management are approximately \$38.2 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.

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.

The Strategy's Health Care and Communication Services investments and its higher exposure to the outperforming Industrials sector contributed the most to its relative results. Within Health Care, meaningfully lower exposure to lagging biotechnology stocks and outperformance of veterinary diagnostics leader **IDEXX Laboratories, Inc.** added the most value. IDEXX was the largest absolute contributor, as veterinary visits continued to recover sharply from the initial pandemic-related slowdown. Weighting instruments provider **Mettler-Toledo International, Inc.** and pharmaceutical packaging manufacturer **West Pharmaceutical Services, Inc.** also performed well after their quarterly results and guidance topped investor expectations. Strength in Communication Services was primarily due to **Zillow Group, Inc.**, which operates leading U.S. real estate sites, a mortgage marketplace, and the Zillow Offers home-buying business. Its stock did well because it posted strong second quarter results and investors grew more optimistic about the prospects for its Zillow Offers segment.

Information Technology (IT) investments, higher exposure to lagging financial exchanges & data stocks within Financials, and lower exposure to the outperforming Consumer Discretionary sector detracted the most from relative results. Weakness in IT was partly due to the underperformance of property and casualty ("P&C") insurance software vendor **Guidewire Software, Inc.** and syndicated IT research provider **Gartner, Inc.** Guidewire detracted from results, as the company's transition to the software cloud continued to cause short-term financial headwinds and slowed the cadence of new license sales. Gartner's shares underperformed because of ongoing concerns about the pandemic's impact on the company's research business and its destination events business. Higher exposure to underperforming internet services & infrastructure stocks through sizeable positions in **Verisign, Inc.**, an operator of internet domains, **Wix.com Ltd.**, a website tools firm, and **GDS Holdings Limited**, a Chinese data center operator, also weighed on relative results.

Baron Mid Cap Growth Strategy

Table II.

Top contributors to performance for the quarter ended September 30, 2020^{1,2}

IDEXX Laboratories, Inc.
Zillow Group, Inc.
Mettler-Toledo International, Inc.
West Pharmaceutical Services, Inc.
CoStar Group, Inc.

Shares of **IDEXX Laboratories, Inc.**, a veterinary diagnostic company, were the largest contributors to performance for the second consecutive quarter. The stock gained after the company again reported excellent quarterly results that exceeded expectations, despite the headwinds caused by the pandemic. Recurring revenue growth in IDEXX's core companion animals group improved to 7%, margins expanded 400 basis points, and earnings grew 24%. There were also indications that COVID-related testing will further accelerate growth in veterinary diagnostics. We believe these results continue to demonstrate that IDEXX is a unique, competitively advantaged business that is likely to outperform across economic cycles.

Zillow Group, Inc. operates leading U.S. real estate websites, a marketplace for obtaining home mortgages, and the Zillow Offers business, which buys and sells homes. Its shares gained meaningfully on strong second quarter results. These were driven by record "top-of-funnel" traffic metrics to its websites, as well as a favorable valuation comparison with Open Door, Inc., a newly public competitor to its Offers business. In our view, Zillow is well positioned to penetrate the large online real estate advertising opportunity. We believe there is further substantial upside for its Offers segment, which should expand the company's addressable market. This will include generating revenues from the sale of homes, from sales leads provided to its Premier Agents, as well as from commissions on home mortgages.

Mettler-Toledo International, Inc. is the world's largest provider of weighing instruments for use in laboratory, industrial, and food retailing applications. Shares contributed to performance after reporting second quarter results with sales and earnings, as well as reinstated 2020 guidance, ahead of investor expectations. We continue to believe Mettler is an exceptionally well-managed business with multiple levers available, including demonstrated pricing power, to compound earnings at attractive rates.

West Pharmaceutical Services, Inc. manufactures components and systems for the packaging and delivery of injectable drugs. Shares rose on strong second quarter financial results and raised 2020 guidance. Business is benefiting from strong demand for West's products and services, as the large majority of newly approved biologic drugs utilize the company's packaging. We think demand should further accelerate as COVID-19 vaccine manufacturers come to market. We continue to believe West has a promising long-term growth outlook and a secure competitive position.

Shares of real estate information and marketing services provider **CoStar Group, Inc.** contributed to performance as net new sales reaccelerated more quickly than investor forecasts. Demand for CoStar's digital marketplace businesses has grown as traditionally offline activities have increasingly shifted online during the pandemic. This growth was partially

offset by slower trends in CoStar's commercial real estate data licensing businesses. The company has over \$3.6 billion of cash on its balance sheet, which we expect to be used for market-expanding acquisitions.

Table III.

Top detractors from performance for the quarter ended September 30, 2020^{1,2}

llumina, Inc.
ZoomInfo Technologies Inc.
Guidewire Software, Inc.
Bio-Techne Corporation
Teleflex Incorporated

llumina, Inc. is the leading manufacturer of DNA sequencing systems for genetic analysis. Shares fell as lower utilization of the company's systems during COVID-19 led to disappointing second quarter financial results. Illumina also announced the acquisition of Grail, which is developing a blood test for early stage cancer detection. Investors responded negatively to the acquisition because of substantial near-term earnings dilution and concerns about competition with Illumina's customers. Although we appreciate these concerns, we believe the Grail investment offers the potential for significant long-term value creation in the rapidly growing market for early cancer screening.

ZoomInfo Technologies Inc. operates a cloud-based software platform that provides sales and marketing teams with comprehensive intelligence on approximately 14 million companies and 120 million professionals. Access to this valuable data enables its clients to shorten their sales cycles and achieve higher win rates. The company's shares declined, given a somewhat uncertain spending environment among its clients. We retain conviction in the long-term opportunity, and we believe the spending environment has since improved. We think ZoomInfo is well positioned given its unique contributory network for data collection and validation, patented data extraction technologies, and proprietary go-to-market strategy.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** detracted from performance. The transition to the company's software to the cloud has caused short-term financial headwinds and slowed the cadence of new license sales. We believe that these headwinds will abate, and we retain conviction in Guidewire's opportunity. We believe new products and cloud-based delivery could triple Guidewire's total addressable market. Over time, we think Guidewire will become the key software vendor for the global P&C insurance industry, capturing 30% to 50% of its \$15 billion to \$30 billion market and generating margins in excess of 40%.

Bio-Techne Corporation detracted from performance in the quarter. Bio-Techne is a leading provider of life sciences tools to academic labs and biopharmaceutical customers. The company's business is being negatively impacted by COVID-19 as academic lab customers are spending less time in their labs. We continue to believe Bio-Techne has a resilient business with over 80% of revenue from high-margin consumables in stable end markets (biopharmaceutical R&D, academic research, and diagnostics),

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.

where long-term growth is being driven by increased investment in life sciences.

Teleflex Incorporated sells single-use medical devices used in critical care and surgical applications. The stock declined as the resumption in health care procedures using the company's devices has been slower than investor expectations in the aftermath of the slowdown caused by COVID-19. We continue to believe Teleflex has a solid long-term outlook driven in part by the large market for its UroLift device, used to treat enlarged prostate glands.

PORTFOLIO STRUCTURE

At September 30, 2020, Baron Mid Cap Growth Strategy held 62 positions. The Strategy's 10 largest holdings represented 37.1% of assets, and the 20 largest represented 60.9% of assets. The Strategy's largest weighting was in the IT sector at 28.8% of assets. This sector includes software companies, internet services & infrastructure companies, IT consulting firms, and data processing firms. The Strategy held 25.8% 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 17.9% 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 10.5% of assets and Real Estate at 6.0% of assets.

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

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

¹ Based on representative account

RECENT ACTIVITY

During the past quarter, the Strategy established 4 new positions and added to 4 others. The Strategy eliminated 1 position and reduced its holdings in 19 others.

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

Space Exploration Technologies Corp.
GoodRx Holdings, Inc.
Pinterest, Inc.
RingCentral, Inc.
Acceleron Pharma Inc.

¹ Based on representative account

Although we rarely invest in non-public businesses, we made a relatively small investment in **Space Exploration Technologies Corp.** ("SpaceX") during the quarter because we believe it offers the potential for substantial long-term appreciation. SpaceX designs, manufactures, and launches rockets and spacecrafts. SpaceX is also building a broadband offering by rapidly deploying its new satellite constellation. Ultimately, the company hopes to enable people to live on other planets. SpaceX continues to reliably provide reusable launch capabilities and recently launched a crewed mission from U.S. soil, the first one since the 2011 retirement of the Space Shuttle. We value SpaceX using prices of recent transactions for its shares and a proprietary valuation model.

Last quarter, the Strategy initiated a position in **Guardant Health, Inc.**, which we added to this quarter. The company offers a liquid biopsy test to detect advanced stage cancer, and it is developing liquid biopsy tests for recurrence detection in cancer survivors and early detection of cancer in higher-risk individuals. We believe Guardant's liquid biopsy tests are superior to tissue biopsy because they are less invasive, do not require physical access to the tumor, are more representative of the tumor's molecular profile, enable repeat sampling, have faster turnaround times, and support real-time monitoring.

We believe that Guardant has important competitive advantages, including unique technology incorporating proprietary biochemistries and machine learning, demonstrated clinical utility, regulatory barriers, payer coverage, and commercial adoption. We believe the market opportunity for Guardant's tests could be greater than \$35 billion in the U.S. alone. This includes large markets for therapy selection in advanced cancers, recurrence detection in cancer survivors, and early-stage cancer detection among high-risk individuals.

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

IDEXX Laboratories, Inc.
Mettler-Toledo International, Inc.
Willis Towers Watson Public Limited Company
Verisign, Inc.
Verisk Analytics, Inc.

¹ Based on representative account

We modestly reduced our stakes in several successful longtime holdings to raise capital to allocate elsewhere in the Strategy. These included **IDEXX Laboratories, Inc.**, **Mettler-Toledo International, Inc.**, **Willis Towers Watson Public Limited Company**, **Verisign, Inc.**, and **Verisk Analytics, Inc.**

OUTLOOK

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 the Strategy's 30-plus years by understanding and analyzing businesses better than many others. We don't believe that we have unusual insight into the macroeconomic, political, and public health issues that the nation and the stock market have been grappling with.

Baron Mid Cap Growth Strategy

We believe that unrelenting advances in technology and changing consumer preferences and business practices 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 remain optimistic that this approach will generate 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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