Baron Mid Cap Growth Strategy

BARON CAPITAL

September 30, 2022

Dear Investor:

Performance

U.S. equities experienced a euphoric rise followed by precipitous drop during the quarter, with the Russell Midcap Growth Index appreciating more than 19% through mid-August before falling almost 17% over the remainder of the period. Initial enthusiasm about "peak inflation" that might cause the Federal Reserve to reduce its pace of interest rate hikes gave way to renewed market pessimism. Investors' worries included ongoing increases in inflation and energy prices, signs of slowing economic growth, possible negative earnings revisions, and the implications of China's "Zero COVID" policy.

Most sectors in the mid-cap growth universe closed lower during the quarter, led by Real Estate and Health Care. Real Estate was pressured by the combined effects of rising mortgage rates and the prospects of a slowing economy negatively impacting real estate values. The Health Care sector fell for multiple reasons that we believe to be transient in nature. These include labor shortages that curtailed procedure volumes in hospitals and veterinary clinics, concerns about future funding availability for the biotechnology sector, and disproportionate exposure to the weakening European economy. The Communication Services, Utilities, Consumer Staples, and Materials sectors also trailed the broader market. Energy was the best performing sector, up more than 5% in the period, bolstered by ongoing strong demand and a curtailment of supplies following Russia's invasion of Ukraine.

Against this backdrop, Baron Mid Cap Growth Strategy (the "Strategy") declined 2.04%, trailing the Russell Midcap Growth Index for reasons that included differences in sector weights (notably its large Health Care exposure and its lack of Energy investments) and headwinds from biases in the types of stocks it favors. In particular, the Strategy was hurt by its underexposure to stocks with high levels of Residual Volatility and Beta, which outperformed during the period.

Table I.
Performance
Annualized for periods ended September 30, 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]	(2.04)%	(1.80)%	(0.65)%	(4.88)%
Nine Months[2]	(33.92)%	(33.44)%	(31.45)%	(23.87)%
One Year	(30.61)%	(29.94)%	(29.50)%	(15.47)%
Three Years	2.50%	3.50%	4.26%	8.16%
Five Years	7.55%	8.60%	7.62%	9.24%
Ten Years	11.33%	12.43%	10.85%	11.70%
Since Inception[3] (June 30, 1998)	7.94%	9.01%	7.67%	6.84%

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, 2022, total Firm assets under management are approximately $36 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.

The Strategy's 3-year 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. 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 6/12/87.

Favorable stock selection in Information Technology (IT), Communication Services, and Financials added the most value during the quarter. Strength in IT was mostly due to the outperformance of syndicated research provider **Gartner, Inc.** and global payroll software leader **Ceridian HCM Holding Inc.** Gartner was the largest contributor, as its business conditions remained strong despite heightened macroeconomic uncertainty, with the company's flagship research segment compounding its revenues at double-digit levels. Ceridian gained after revenue growth in the company's Dayforce platform reaccelerated to 30%, helped by continued market share gains, a move to larger-size customers, early international traction, and growing success in cross-selling more services to existing customers. The Strategy also benefited from its lack of exposure to lagging systems software stocks. Performance in Communication Services was bolstered by marketing solutions provider **ZoomInfo Technologies Inc.**, which reported solid quarterly results and strong guidance for forward revenue growth and operating profit. In Financials, online brokerage firm **The Charles Schwab Corp.** benefited from rising interest rates, which should lead to increased profits on the company's interest earning assets.

Investments in Health Care and Industrials along with higher exposure to the lagging Real Estate sector and lack of exposure to the top performing Energy sector weighed heavily on performance. Health Care investments were responsible for much of the relative shortfall in the period, led by double-digit declines from life sciences tools developer **Bio-Techne Corporation** and pharmaceutical packaging manufacturer **West Pharmaceutical Services, Inc.** Bio-Techne faced various short-term headwinds related to laboratory labor shortages, COVID lockdowns in China, foreign currency fluctuations, and the pull forward of some sales into its prior quarter ahead of a price increase. West fell on concerns about a decline in the company's COVID-related revenue owing to lower demand for COVID vaccines and a slower shift to single-use vials and syringes. Veterinary diagnostics leader **IDEXX Laboratories, Inc.** also weighed on performance in the sector after being hurt by tight labor markets that limited capacity in veterinary clinics, coupled with challenging comparisons following a surge of pet adoptions during the pandemic. Lastly, higher exposure to this lagging sector detracted 45-plus basis points from relative performance. Weakness in Industrials was driven by **TransUnion**, a consumer credit bureau that helps businesses make credit and marketing decisions. The company was the largest detractor after its quarterly results missed consensus and management reduced guidance, marking a sudden reversal from strong momentum and raised guidance earlier in the year.

Table II.
Top contributors to performance for the quarter ended September 30, 2022

	Percent Impact
Gartner, Inc.	0.87%
CoStar Group, Inc.	0.50
Ceridian HCM Holding Inc.	0.29
The Charles Schwab Corp.	0.29
ZoomInfo Technologies Inc.	0.29

Shares of **Gartner, Inc.**, which sells syndicated research to corporations largely through annual subscription contracts, was the largest positive contributor. Business conditions remained strong, with Gartner's research segment continuing to compound 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.

Shares of real estate data and marketing platform **CoStar Group, Inc.** contributed to performance on strong financial results and news of the company's inclusion in the S&P 500 Index. We believe the company is well positioned to benefit from the continued migration of real estate marketing and advertising dollars to online channels. CoStar is investing aggressively to develop a marketing platform targeted at the residential real estate segment. This is expected to launch later in 2022 and offers the potential for significant long-term value creation, in our view. In addition, CoStar has nearly $5 billion of cash on its balance sheet, which we expect it to eventually deploy for opportunistic, value-enhancing acquisitions.

Shares of **Ceridian HCM Holding Inc.**, a leader in global payroll and human capital management software, gained in the period. Growth in Ceridian's flagship Dayforce platform reaccelerated to 30%, helped by market share gains, more sales to larger-size customers, early traction in international markets, and growing success in cross-selling additional products to existing customers. We expect Ceridian's growth rate to be enhanced by its Wallet suite, which allows employees to request and receive wages as they are earned at no cost to employer or employee. Workers will likely prefer this feature to most current payroll systems that distribute wages only weekly or bi-weekly. We also expect Ceridian to benefit from higher interest rates, which the company earns on its significant short-term cash balances.

Shares of **The Charles Schwab Corp.**, a leading online brokerage firm, rose in the quarter, buoyed by investor expectations that rising interest rates will lead to increased profitability of the company's more than $600 billion in interest earning assets. We were also encouraged by Schwab's organic growth. Despite turbulent markets, the company attracted more than $400 billion of net new client assets during the past 12 months. In addition, we expect Schwab to recognize meaningful margin expansion going forward.

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. Its shares gained following solid quarterly results and strong forward guidance for revenue growth and operating profit. We continue to believe that ZoomInfo has the potential to be much larger over time, as it grows into its ever-expanding $70 billion total addressable market. We also believe ZoomInfo is well positioned to expand further into adjacent markets, such as marketing and talent acquisition software.

Table III.
Top detractors from performance for the quarter ended September 30, 2022

	Percent Impact
TransUnion	–0.64%
Bio-Techne Corporation	–0.50
West Pharmaceutical Services, Inc.	–0.46
Veeva Systems Inc.	–0.31
Mettler-Toledo International, Inc.	–0.29

TransUnion is a consumer credit bureau that helps businesses make lending and marketing decisions. Shares fell after the company's quarterly results fell short of expectations and management reduced future guidance. This marked a sudden reversal from strong momentum and raised guidance earlier this year. The economic outlook has darkened in recent months, and

TransUnion has recently acquired several businesses, which are weighing on near-term earnings growth. We continue to own the stock because we expect TransUnion to continue gaining market share while diversifying into attractive new verticals.

Bio-Techne Corporation is a leading developer and manufacturer of reagents, instruments, and services for the life sciences research, diagnostics, and bioprocessing markets. Short-term headwinds, including COVID-related lockdowns in China, foreign currency exchange rates, and some pull forward of sales into the prior quarter ahead of a price increase, pressured shares. We view these headwinds to be temporary and continue to believe that Bio-Techne can generate strong long-term growth.

West Pharmaceutical Services, Inc. manufactures components and systems for the packaging and delivery of injectable drugs. Its shares fell on investor concerns about a decline in the company's COVID-related revenue because of a drop in vaccine demand and a slowdown in the shift to packing vaccines in single-use vials and syringes. Once its inherently volatile COVID-related revenue stabilizes, we believe West's stock will perform well, driven by healthy demand drivers in its base business that depends on a widely diversified group of primarily biologic drugs.

Veeva Systems Inc. is a cloud software platform that provides various solutions to the life sciences industry. Its shares fell because of softening demand from its small- and medium-sized customers, the negative impact of foreign currency exchange rates, and a deceleration in its marketing-related offerings. In addition, a well-communicated reduction in potential users for Veeva's CRM platform, because of sales headcount reductions among certain life sciences customers, implied a possible deceleration in growth rates. Despite these challenges, we see increasing traction of its newer products among large pharmaceutical customers that we expect to generate significant profitable growth in the coming years.

Mettler-Toledo International, Inc. is a leading provider of weighing instruments for use in laboratory, industrial, and food retailing applications. Mettler detracted from performance as the stock fell due to investor concerns about a possible global recession and the impact of foreign currency fluctuations on the company's earnings. 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.

Portfolio Structure[1]

At September 30, 2022, Baron Mid Cap Growth Strategy held 55 positions. The Strategy's 10 largest holdings represented 45.2% of assets, and the 20 largest represented 67.9% of assets. The Strategy's largest weighting was in the IT sector at 31.7% of assets. This sector includes application software companies, IT consulting firms, internet services companies, and data processing firms. The Strategy held 23.7% of its assets in the Health Care sector, which includes investments in life sciences companies, and health care equipment, technology, and supplies businesses. The Strategy held 15.3% of its assets in the Industrials sector, which largely consists of investments in research and consulting companies. The Strategy also had significant weightings in Financials at 13.7% of assets and Consumer Discretionary at 7.4% of assets.

Table IV.
Top 10 holdings as of September 30, 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	$ 21.9	$386.3	9.8%
IDEXX Laboratories, Inc.	2006	2.5	27.1	219.5	5.6
Mettler-Toledo International, Inc.	2008	2.4	24.4	196.4	5.0
CoStar Group, Inc.	2016	5.0	28.3	169.9	4.3
Verisk Analytics, Inc.	2009	4.0	26.8	162.2	4.1
FactSet Research Systems, Inc.	2006	2.5	15.2	148.3	3.8
Vail Resorts, Inc.	1997	0.2	8.7	130.1	3.3
ANSYS, Inc.	2009	2.3	19.3	126.8	3.2
The Charles Schwab Corp.	1992	1.0	136.3	125.8	3.2
Bio-Techne Corporation	2015	4.0	11.1	113.6	2.9

Recent Activity

Table V.
Top net purchases for the quarter ended September 30, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Floor & Decor Holdings, Inc.	$ 7.5	$9.9
ICON Plc	15.0	5.4
LPL Financial Holdings Inc.	17.4	4.4

We established a position in **LPL Financial Holdings Inc.** during the quarter. LPL is the largest independent broker-dealer (IBD) in the U.S. The company uses technology to help independent financial advisors run their practices more efficiently and serve their clients more effectively. We believe that LPL is a beneficiary of secular growth in the demand for financial advice, and a shift among financial advisors away from large banks (also known as wire houses) towards independent models. As the largest IBD, LPL is well placed to continue taking share in this market, as it can offer advisors high-quality technology, a range of business models, and best-in-class incentives. Additionally, LPL is a beneficiary of rising interest rates because it can earn a yield on the uninvested cash balances held in client accounts.

As Americans continue to seek financial advice, the total pool of assets that are managed by financial advisors continues to grow. Traditionally, most financial advisors worked as salaried employees at wire houses. Over time, advisors have begun to favor independent models, in which they become the owner of their own advisory practice. This model allows advisors to retain far more of the revenue they generate and greater flexibility over how to run their business.

[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.

As the largest IBD, LPL can invest more than its competitors in developing the technology that allows advisors to run their practices efficiently. Beyond technology, LPL has developed a range of different advisor models that allow the advisor to outsource as much of their practice operations as they choose, and thus provides advisors a high degree of flexibility as they make the transition to independence. LPL's scale allows it to spread these significant costs over a $1 trillion-plus asset base. Crucially this ability to manage costs also allows LPL to pay industry-leading economics to its advisors, who can earn payouts of over 90% of the revenue they generate. The combination of these benefits enables LPL to continue recruiting more assets onto its platform, which in turn reinforces these scale advantages.

Besides asset recruitment, LPL is also a beneficiary of rising asset prices, which grows its base of assets under management. LPL can also sweep the uninvested cash balances that are held in its clients' accounts and earn a yield by placing this cash with banks that are seeking deposits. As interest rates rise, LPL can earn a higher yield on this clients' cash, which contributes to earnings at a very high incremental margin.

We believe that LPL is well positioned to continue winning new advisors and asset inflows. By leveraging its scale to continue developing its advisor offerings and reinforcing its competitive position, LPL should be a share gainer in a growing market. Taking into account low teens asset growth together with the tailwind of raising interest rates, we believe LPL can grow gross profit at a low teens rate and earnings per share at a high teens rate for an extended period. The company also pays a dividend and is repurchasing shares.

Table VI.
Top net sales for the quarter ended September 30, 2022

	Amount Sold (millions)
Avalara, Inc.	$32.2
Teleflex Incorporated	16.9
Mettler-Toledo International, Inc.	15.7
Wix.com Ltd.	14.1
Bright Horizons Family Solutions, Inc.	11.1

We exited our position in **Avalara, Inc.**, a cloud software company focused on business tax solutions, after the company announced its sale to a private equity firm. We reduced our position in **Teleflex Incorporated** as the company continued to report weak results, stemming from the sluggish recovery in hospital surgery procedures and disappointing results in the company's Urolift segment, which provides a treatment for enlarged prostates. We reduced our stake in **Mettler-Toledo International, Inc.** in order to manage its position size within the portfolio. We reduced our holdings in **Wix.com Ltd.**, which provides tools used by businesses to build websites, over concerns surrounding the continued slowdown in the company's revenue growth rate. We exited our stake in **Bright Horizons Family Solutions, Inc.**, which operates childcare centers largely for corporate clients, over concerns about the company's growth rate in the post-pandemic economy.

Outlook

The stock market has remained volatile through early October, with growth stocks continuing to underperform. Most investors remain extremely bearish, as reflected in a recent Bank of America survey showing that investor sentiment is "unquestionably" the worst since the 2007/2008 Financial Crisis. The list of issues preoccupying the market is well known – rising inflation and energy prices, spiking interest rates, slowing economic growth, uncertainty over near-term corporate earnings, the Ukraine war, etc. Although macroeconomic views do not generally influence our stock selection process, we believe that these concerns have been discounted by the market, with the Russell Midcap Growth Index down more than 35% from its high last November.

The market's nearly 20% rise earlier in the third quarter on the (ultimately inaccurate) belief that interest rate hikes had peaked gives us confidence that stock prices will eventually recover, though the precise timing remains impossible to predict. We believe that Baron Mid Cap Growth 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 during challenging economic environments, and we believe these are the types of *stocks* that investors will again eagerly embrace as the overwhelming market pessimism inevitably subsides.

Given the significant decline in many of our companies' stock prices, for reasons that we believe to be largely *short term* and macroeconomic in nature, we are quite optimistic about the *long-term* return potential across the Strategy. Our frequent discussions with the management teams of our investments indicate that business conditions remain largely unimpacted by the litany of investor concerns mentioned above. This supports our conviction that the stocks in the Strategy have the potential to double in value over a five-year period.

In difficult markets, it is important to remember that few, if any, investors have proved capable of buying at the bottom of turbulent markets or consistently selling at the top. We believe that investors must 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.

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.