BARON CAPITAL

Baron Opportunistic Small Cap Growth Strategy

June 30, 2021

Dear Investor:

Performance

Baron Opportunistic Small Cap Growth Strategy gained 6.36% in the second quarter of 2021. For the first six months of the year, the Strategy is up 9.23%. In the second quarter, the Strategy outperformed the Russell 2000 Growth Index (the "Index"), which was up 3.92%. Year-to-date, the Strategy is also a bit ahead of the Index, which is up 8.98%. The S&P 500 is up 8.55% in the quarter and 15.25% year-to-date, as large-cap stocks have outperformed small-cap stocks and value has outperformed growth.

The Strategy outperformed the Index for most all periods and since inception (almost 24 years). Since inception, the Strategy is up 11.66% on an annualized basis, or 352 basis points ahead of the Index's annualized performance of 8.14%.

Table I.
Performance
Annualized for periods ended June 30, 2021

	Baron Opportunistic Small Cap Growth Strategy (net)[1]	Baron Opportunistic Small Cap Growth Strategy (gross)[1]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[2]	6.36%	6.63%	3.92%	8.55%
Six Months[2]	9.23%	9.77%	8.98%	15.25%
One Year	47.72%	49.19%	51.36%	40.79%
Three Years	20.74%	21.96%	15.94%	18.67%
Five Years	21.58%	22.80%	18.76%	17.65%
Ten Years	14.27%	15.41%	13.52%	14.84%
Fifteen Years	11.57%	12.75%	10.89%	10.73%
Since Inception[3] (December 31, 1997)	11.66%	12.95%	8.14%	8.56%

U.S. equity markets continued to act well in the second quarter in conjunction with strong macroeconomic data, supportive fiscal and monetary policy, and excellent earnings results. The economy is growing very rapidly now, as the ill effects of the pandemic have been waning, and U.S growth appears likely to stay strong. We continue to expect high single-digit GDP growth for the year. However, inflation is accelerating significantly, both in goods and wages. During the quarter, this caused consternation about whether policy is too stimulative, whether the Fed needs to change course, and whether interest rates will continue to rise, all of which muted the market's appreciation.

After ceding leadership to cyclical "recovery" stocks, secular growth stocks were back in vogue in the back half of the quarter, especially among large caps. It is our view that while value stocks are indeed having a great rebound in their earnings from depressed levels, their stock prices have risen and now they appropriately reflect the positive outlook described above.

The Strategy outperformed in the quarter primarily due to favorable stock selection. Our Information Technology ("IT") holdings had a strong quarter. **Gartner, Inc.**, our largest position, posted very strong results and the stock appreciated by about a third in the quarter. **Endava plc** and **Nuvei Technologies Corp.** were also up significantly after delivering robust earnings and rosy outlooks. **The Trade Desk** and **Guidewire Software, Inc.** were up on positive business developments and renewed interest in secular growth stocks. Our Industrials holdings, our second largest sector concentration, did well too and were up nicely when the sector was down. **Vertiv Holdings, LLC**, our third largest position, also rose over a third, as the company beat expectations and the trading multiple expanded. Other positive contributors included two relatively new holdings, **First Advantage Corporation** and **Driven Brands Holdings Inc.** Our Health Care stocks also outperformed. Long-term holdings **IDEXX Laboratories, Inc.** (which we have owned for 12 years), **DexCom, Inc.** (owned for 8 years), and **Mettler-Toledo International, Inc.** (owned for 12 years), were all strong and among

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, 2021, total Firm assets under management are approximately $53.5 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. 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 the Firm's 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. The Strategy invests mainly in small cap growth companies.

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 **Russell 2000® Growth Index** is an unmanaged index that measures the performance of small-sized U.S. companies that are classified as growth. 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 9/30/1997.

our biggest contributors. Our Consumer Discretionary stocks underperformed as shares of **Penn National Gaming, Inc.** and **DraftKings, Inc.**, two plays on online sports betting, fell from stretched peak levels. **The Cheesecake Factory, Inc.**, **Ollie's Bargain Outlet Holdings, Inc.**, and **Planet Fitness, Inc.** were down with the market rotation away from "reopening" stories. The Strategy's active sector and factor exposures didn't materially impact relative performance in the quarter.

Table II.
Top contributors to performance for the quarter ended June 30, 2021

	Percent Impact
Gartner, Inc.	1.14%
Vertiv Holdings, LLC	1.01
Endava plc	0.45
Installed Building Products, Inc.	0.37
Red Rock Resorts, Inc.	0.34

Shares of **Gartner, Inc.**, the provider of syndicated research, reported results that significantly exceeded investor expectations. We believe that this was the inflection quarter we have been waiting for. Revenues reaccelerated, led by double-digit growth in its Global Business Sales. Renewed focus on cost controls led to superior margin expansion and free cash flow conversion. With the balance sheet now in excellent shape, the company aggressively repurchased stock, which has been a favored use of capital deployment in its heyday. The company raised its estimates for EBITDA and free cash flow growth by over 30% for the year, and the shares grew in lockstep. We foresee free cash flow per share compounding at over 20% go forward and believe the stock can double over the next three or four years. The stock has already increased 10-fold since our initial purchase.

Vertiv Holdings, LLC is a leading manufacturer of critical digital infrastructure technology for data centers, communication networks, and commercial and industrial environments. Vertiv reported organic sales growth of 19.5% in the last quarter, well above expectations. Orders were up 21% and backlog 31%, which are good indicators of long-term demand for its products. Margins also were much higher than projected leading to a large earnings beat, and we think there is opportunity for continued margin expansion. The company's balance sheet is much improved, and it has an active acquisitions funnel. We believe that the company will continue to grow nicely and believe its stock still offers great promise, as it is inexpensive on an absolute basis and low relative to its peers.

Endava plc is a pure-play digitally native IT services company, offering products and strategies to help its clients with digital transformation initiatives. Endava's business is snapping back very fast from the pandemic, with organic sales growing 15% in the last quarter and projections of over 30% for the upcoming period. Endava is growing its business with both its existing clients with whom they have deep relationships and expanding its base of new clients. Endava has done well to meet elevated demand by expanding its delivery footprint through recent M&A. The company's deep domain expertise in high-growth end markets such as payments, tech, and media/telecom is providing strong tailwinds, and we believe the company can continue to grow organically over 20% per year while integrating strategic acquisitions to expand its base of operations.

Installed Building Products, Inc. installs insulation and complementary building products for the homebuilding industry and commercial construction markets. The stock was up for the quarter, but after reporting earnings its price fell because results came in below Street estimates. The business was disrupted by difficulties getting raw materials and lost production time from winter storms. However, management detailed that demand is very strong and that they expect the housing recovery to last for years. They are confident they can pass on announced price increases for insulation, which would enhance margins. They also indicated that their acquisition pipeline was extremely robust. IBP has been a great acquirer, and acquisitions are materially accretive. We are hopeful that future quarters are less noisy and think the company will be able to grow EBITDA at 20% plus per year go forward.

Red Rock Resorts, Inc. operates casinos in Las Vegas that cater to locals. As its casinos reopen, the company is reporting strong results, revenues, and especially profits. Red Rock learned a lot during the pandemic and is evolving its operations accordingly, leading to much higher margins. Money-losing amenities have been terminated, marketing budgets have been slashed, employee levels reduced, and underperforming casinos have been shuttered. For the quarter just ended, on a same store basis (compared to 2019 results), revenues grew 5% and profits grew 38%. Red Rock also announced it sold the troubled Palms casino for a big price and is soon to embark on the building of a new casino in Durango. We believe that there will be great returns from this development and that it is just the first of many, which will help the company's growth profile go forward.

Other stocks that gained over 20% in the quarter but contributed less to our overall performance were: **IDEXX Laboratories, Inc.**, **Nuvei Technologies Corp.**, **Dechra Pharmaceuticals PLC**, **Figs Inc.**, **Houlihan Lokey, Inc.**, **Driven Brands Holdings Inc.**, **First Advantage Corporation**, and **CryoPort, Inc.**

Table III.
Top detractors from performance for the quarter ended June 30, 2021

	Percent Impact
Array Technologies, Inc.	–0.67%
Penn National Gaming, Inc.	–0.57
Bright Horizons Family Solutions, Inc.	–0.28
UTZ Brands, Inc.	–0.19
DraftKings, Inc.	–0.16

Array Technologies, Inc. is a leading manufacturer of utility-scale solar trackers. Shares fell significantly when the company withdrew guidance for the year due to dramatically increased steel prices and shipping costs, which they will not be able to pass on to their customers. The increased costs are causing a delay in some projects, and lower margins on present business. The near-term issues surprised investors and came shortly after the company had done a secondary offering, so management has a credibility problem. We continue to believe that the end market will be much bigger; however, we are now less certain about Array's long-term market share and margin profile. We sold some of our position and are closely monitoring the critical variables.

Shares of **Penn National Gaming, Inc.**, a regional casino operator with a big presence in online sports betting through its Barstool Sports brand, and **DraftKings, Inc.**, a pure play online sports betting firm, both fell in the quarter. Sports betting and internet casinos are going to be an enormous business in our view. As new states have legalized this activity, play has exceeded

expectations, which lends credence to the enormity of the opportunity. This quarter, both Penn and DraftKings showed some modest decline in market share. As both stocks were at all-time highs with high embedded expectations of future earnings, they were vulnerable to retracements. We continue to believe the long-term game plan and estimates remain on track.

Shares of **Bright Horizons Family Solutions, Inc.**, the leading provider of high-quality corporate sponsored childcare and other family support programs, experienced a pullback this quarter on uncertainties related to the pace of re-enrollment post-pandemic. Also, there is concern of a potential decline in demand should more flexible work-from-home arrangements result in less utilization of corporate-based capacity. The federal government also floated the idea of providing new early childcare benefits. We are not stressed about those issues and believe that Bright Horizons will successfully adapt to any market changes. We believe Bright Horizons' position as market leader and trusted service provider is better now than ever, after playing a critical and successful role during the pandemic, and that new opportunities will result from its entrenched position. The stock is expensive on near-term numbers, but we believe it will grow into its valuation.

UTZ Brands, Inc. is a salty-snack company founded in 1921, with well-known brands such as Utz, Zapps, and Golden Flake, which went public via a SPAC in August 2020. The company had great results in 2020, somewhat helped by so many people staying at home, and the stock performed well. In the first quarter of 2021, UTZ reported slower growth and some cost pressures. We remain positive on UTZ's ability to accelerate revenue growth through innovation and enhanced marketing, and its opportunity to grow, both organically through the introduction of new products and by acquisition, which will allow it to incorporate other brands in its route system. We sold some of our position in the period as the stock traded at an elevated valuation on near-term earnings but continue to see good upside in the future.

There were no other stocks that declined over 20% in the quarter.

Portfolio Structure & Recent Activity

As of June 30, 2021, the Strategy had $5.5 billion under management. The top 10 holdings made up 28.3% of the Strategy's net assets, in line with prior levels. We held 79 stocks and warrants in 2 others at quarter end.

Table IV.
Top 10 holdings as of June 30, 2021[1]

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$242.2	4.5%
Installed Building Products, Inc.	2017	192.7	3.6
Vertiv Holdings, LLC	2020	191.1	3.5
ASGN Incorporated	2012	150.2	2.8
Guidewire Software, Inc.	2012	138.1	2.6
SiteOne Landscape Supply, Inc.	2016	135.4	2.5
Floor & Decor Holdings, Inc.	2017	134.8	2.5
ICON Plc	2013	124.0	2.3
Clarivate Plc	2019	110.1	2.0
Aspen Technology, Inc.	2015	110.0	2.0

The Strategy is heavily invested in four sectors: IT (26.0% of net assets), Industrials (24.8%), Health Care (16.3%), and Consumer Discretionary (14.6%). Compared to the Russell 2000 Growth Index we are overweight in IT and Industrials, underweight in Health Care, and market weight in Consumer Discretionary.

IT has been our largest sector concentration for some time. We have many investments in application software companies that are leaders in their niches and provide critical backbone services sold on a subscription basis. We also have significant investments in IT consulting and data processing (often referred to as Fintech companies). We have increased our investments in these latter two sub-industries over the last few years. As always, our Industrials are primarily secular growth companies not cyclicals or also-rans. We own stocks of leaders in human resources, aerospace, building products, and electrical components. Our Consumer Discretionary holdings are not typical retailers or products companies, but rather niche casino operators, specialty retailers, leisure, and education providers. We are underweight in Health Care mainly because we do not own biotechnology stocks at all and own very few pharmaceuticals stocks, as neither meet our desire to invest in established leaders.

We are long-term investors. The average turnover of our assets is about 15%, as measured by a three-year average. That means our average holding period is about 7 years. We have held about 17% of the Strategy's assets for over 10 years, and another 25% between 5 to 10 years. The reason we own stocks for such a long time is that we have had great success doing so. For the stocks we own for over 10 years, the annualized returns are 25% a year. For those between 5 and 10 years, our returns are 26% annualized. Hopefully, we will have such success with many of our newer investments.

[1] Portfolio characteristics, sector exposures, top 10 holdings, market cap of new purchases, 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.

Because we hold stocks for many years, our winners have appreciated multiple fold (we hold 9 stocks in which we have made more than 10 times our initial investment and another 7 in which we have made more than 5 times), the market cap of our Strategy is higher than that of many of our peers. Our approach is to trim big winners as their market caps rise and buy small-cap stocks with the proceeds. Our shareholders have benefited greatly from this approach. Of our 10 largest market cap holdings, we own on average 26.3% of our original position. All our new purchases are squarely in the small-cap category, with the weighted average market cap of new positions year-to-date being $1.9 billion.

Switching subjects, we are often asked questions about the state of the special purpose acquisition companies ("SPACs") market and what the Strategy is doing in this sphere. As we mentioned in our last quarterly, we continue to see SPACs as a viable and enduring conduit for companies to come public. However, right now, there are too many SPACs chasing private businesses and too little capital to fund the private investments in public entities ("PIPEs") that are needed to close the deals. This is leading to some of the private companies going public this way to trade poorly after their mergers are closed. There aren't enough institutional investors familiar with the new equities to buy the shares from the original SPAC IPO investors. We are adjusting our approach to these new realities and making fewer and/or smaller commitments to PIPEs and looking to make larger investments in the equities post-merger. We continue to be excited about the new investments we are making in this channel and believe we are buying into great businesses and management teams at great valuations, which we would hope will lead to strong long-term returns.

Table V.
Top net purchases for the quarter ended June 30, 2021

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Janus International Group, Inc.	2021	$1.9	$30.0
First Advantage Corporation	2021	3.0	26.4
Landcadia Holdings III, Inc.	2021	0.8	21.3
Hydrofarm Holdings Group, Inc.	2020	2.4	20.3
Empower Ltd.	2021	0.6	15.1

During the quarter, we made seven new investments and increased our holdings in nine existing positions.

All these new investments were in companies coming public, five of which are merging into SPACs and two through traditional IPOs. These companies are in many sectors, but share the common characteristics of being leading niche companies with great growth opportunities, strong management teams in our view, and a reasonable valuation.

We initiated a new position in **Janus International Group, Inc.** when the company came public by merging with SPAC Juniper Industrial Holdings. Janus is the leading global manufacturer and supplier of turn-key self-storage solutions, including steel roll-up doors, hallway systems, relocatable storage units, and door automation technologies. Janus has over 50% market share, a full suite of value-add products, and a nationwide manufacturing and installation network to serve the industry's need for new capacity and massive renovation (over 60% of installed base is over 20 years old). Janus's dominant market position and entrenched customer base lead to high barriers to entry, lucrative opportunities to cross-sell ancillary products and services, and an attractive financial model with around 23% average revenue growth since 2010, over 25% EBITDA margins, and strong free cash flow stemming from its asset-light model. Management aspires to double revenues over the next several years, driven by capturing its share of new self-storage construction, increasing penetration of ancillary self-storage offerings (renovation, external storage), accelerating growth in several international markets, and gaining share in a nascent commercial business. Janus is the first to market with a self-storage smart lock solution called Noke Smart Entry. We believe this is the future for the self-storage industry, and Janus has a unique ability to drive penetration. This is estimated to be a $1 billion potential revenue opportunity in time.

We believe organic growth will be supplemented by acquisitions, as the company has a long history of finding attractive assets, and recently added Board members with extensive M&A experience at Honeywell. The company has a near-term pipeline of $500 million incremental revenue (40 targets) compared to $550 million revenue last fiscal year. We think the stock could reach the low $20s over the next several years, driven by 10% organic growth, continued M&A supported by a strong balance sheet and free cash flow, upside penetration of proprietary Noke technology, and sustaining its current valuation multiple, which we think has upside.

We participated in the **First Advantage Corporation** IPO during the quarter. First Advantage is a leading global provider of comprehensive background screening solutions that give employers and housing providers access to actionable information that results in faster, more accurate people decisions. The company offers a wide array of services including criminal background checks, drug screening, extended workforce screening, education verification, work verification, resident screening, driver compliance, and continuous monitoring.

The market for background screening is both large ($13 billion opportunity with $6 billion current market spending and $7 billion of potential white space) and growing (the market is estimated to grow at a 6% CAGR). Even as one of the industry leaders, First Advantage's market share remains relatively low at approximately 9%. The industry is increasingly favoring scale, which should enable First Advantage to gain incremental market share moving forward. Relative to its smaller regional players (75% of the market), First Advantage has global reach, a vertically integrated sales force with sub-industry expertise targeting the fastest growing end markets, strong customer relationships (the top 100 customers have a 12-year average tenure), 65-plus HCM integrations, and deep technology and new product investment. First Advantage is well positioned to achieve consistent high single- to low double-digit organic revenue growth driven by a combination of underlying base growth, up and cross-selling, and new customer additions. The company has an attractive margin profile (high 20% potentially increasing to low 30% adjusted EBITDA margins over time) and strong free cash flow generation. Acquisitions are expected to be the primary use of free cash flow and should be accretive, supplementing organic growth. We believe that First Advantage will be a steady earnings compounder, which should drive solid returns for the stock over a multi-year period.

Table VI.
Top net sales for the quarter ended June 30, 2021

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
IDEXX Laboratories, Inc.	2008	$2.0	$53.9	$39.7
UTZ Brands, Inc.	2020	1.0	3.0	22.6
SBA Communications Corp.	2004	0.2	34.8	20.8
Penn National Gaming, Inc.	2020	2.4	12.0	17.5
Waste Connections, Inc.	2009	0.4	31.3	17.5

Our sales this quarter were primarily to reduce our position size in some of our larger market caps holdings or trim positions because near-term valuations seemed extended.

The stocks with larger market caps that we trimmed were all big winners. Sales this quarter were in: **IDEXX Laboratories, Inc.** (owned for over 12 years), **SBA Communications Corp.** (17 years), **Waste Connections, Inc.** (12 years), and **Mettler-Toledo International, Inc.** (12 years). All the sales were made as the stocks were trading around their highs. We believe each still can perform well from here, so merit holding go forward, but it is our approach to reduce these holdings into strength and recycle that capital into new small-cap investments.

We reduced our position in **UTZ Brands, Inc.**, **Penn National Gaming, Inc.**, **Wix.com Ltd.**, and **Floor & Decor Holdings, Inc.** as those stocks rose and were near-term expensive. We sometimes tactically trade around our positions: sell some when they spike and look to buy them when they are lower, most often when the market falls.

We sold our entire position in **Fox Factory Holding Corp.**, a stock that was a terrific investment. It traded up to a price that we thought discounted many years of expected growth.

Outlook

As we are writing this, the market is back at all-time highs. The economy is very strong as exemplified by the June employment report. Though inflation has picked up, it seems "transitory" for the most part.

Monetary policy remains supportive and though some government stimulus programs are winding down, we expect other fiscal stimulus to follow. All of this is a great backdrop for the stock market.

Recently, interest rates have declined, primarily reflecting concerns that the economy will cool off faster than anticipated, because of the increase in COVID-19 cases from the new virulent Delta variant or just that it has run its course.

Our view, which does not come from a crystal ball, and which we offer just to give you a sense of where our heads are at, is that the economy will be super strong this year but revert to prior growth rates next year, that inflation will pick up, that monetary policy will be less accommodative, and interest rates will rise in conjunction with these factors. We expect earnings overall to be very strong this year for most all companies, and then for secular growers to outperform more cyclical companies in the future. We'll see.

We believe our stocks trade at reasonable multiples, all considering. We are not concerned that a rise in rates will result in materially lower multiples for growth stocks. We foresee continued strong growth for our holdings, based on how each is positioned and the growth initiatives they have in place, and we expect their stocks to perform in line with the growth in their businesses.

Thanks to assistant portfolio manager David Goldsmith for yeoman's work in helping manage the portfolio. Thanks to the fabulous analyst team at Baron, who have done a wonderful job finding and following the special businesses in which we invest.

Cliff Greenberg
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: 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.

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 manager only through the end of the period stated in this report. The portfolio managers' 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.