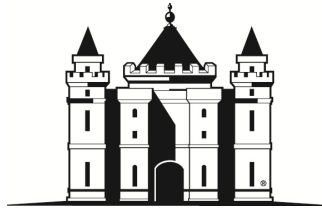


Part 2A of Form ADV: *Firm Brochure*

February 28, 2014



**BAMCO, Inc.**

767 Fifth Avenue, 49<sup>th</sup> Floor  
New York, NY 10153  
(212) 583-2100

This brochure provides information about the qualifications and business practices of BAMCO, Inc. ("BAMCO"). If you have any questions about the contents of this brochure, please contact us at (212) 583-2100. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about BAMCO also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

BAMCO is an investment adviser registered with the SEC. Registration does not imply a certain level of skill or training.

## **Material Changes**

This brochure is an amendment of the Form ADV Part 2. The Adviser discloses an additional investment strategy and removes the strategies it no longer offers. There are no other material changes. The previous update was dated December 12, 2013.

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## Advisory Business

BAMCO provides advisory services to investment companies and other pooled investment vehicles. BAMCO manages principally long-only investment strategies for capital appreciation with production of income incidental to that objective.

BAMCO provides investment advisory services to two families of registered investment companies, the Baron Investment Funds Trust and the Baron Select Funds (the "Baron Funds®"). BAMCO also provides advisory and sub-advisory services to registered investment companies for which a party other than BAMCO serves as the primary investment adviser, foreign investment companies, and other pooled investment vehicles. BAMCO does not provide investment advisory services to individuals.

BAMCO is a New York corporation and wholly-owned subsidiary of Baron Capital Group, Inc. ("BCG"). BAMCO has two affiliates, Baron Capital Management, Inc. ("BCM") and Baron Capital, Inc. ("BCI"). BAMCO and BCM are investment advisers registered with the SEC. BCI is a limited purpose broker dealer registered with the SEC and a member of the Financial Industry Regulatory Authority ("FINRA"). None of the entities mentioned above is publicly traded. Ronald Baron, Chairman, CEO and CIO of BAMCO, is the principal owner of BCG.

BAMCO's services are tailored to the investment objectives of the particular investment company or other pooled investment vehicle clients. Prospective pooled investment vehicle clients indicate their investment objective during the request for proposal process, while negotiating an investment advisory agreement, or are indicated in their offering documents. Clients may impose restrictions on investing in certain securities or types of securities. BAMCO regularly communicates with its clients to understand their needs.

BAMCO has been providing investment advisory services since 1987. As of February 28, 2014 BAMCO managed 21 accounts, all on a discretionary basis, totaling \$24.241 billion.

## Fees and Compensation

Fees for the Baron Funds are based on a percentage of daily average net assets under management. For all but one of the Baron Funds, these fees are 1% per year of the investment company's average daily net asset value. The other mutual fund charges a fee 0.9% per year on the first \$1 billion of assets, 0.85% per year for assets between \$1 billion and \$2 billion, and 0.80% per year for assets over \$2 billion. Fees are payable monthly at the end of each month investment advisory services are provided. Daily net asset values are determined as of the close of the New York Stock Exchange (the "Exchange") on each day the Exchange is open. Shareholders of the Baron Funds may also incur a distribution fee (only for the Retail Share class) and other mutual fund expenses. Specific fees are disclosed in the prospectuses for the Baron Funds. BAMCO has an agreement to waive expenses for certain Baron mutual funds when they exceed certain thresholds.

For other accounts where BAMCO is the adviser or sub-adviser, the fees range from .40% to .85% per year based on average daily net assets. Fees are payable monthly, after the end of each month

investment advisory services are provided. When an account is terminated, the fee is determined on the basis of the average daily net asset value of the account for the number of days BAMCO has provided investment advisory services in the month in which the account is terminated, including the date of termination. Sub-advised clients may select whether fees are deducted from their assets or billed on a monthly basis. Sub-advised clients may incur other fees, including distribution, mutual fund, or custodial fees. The fee arrangements for such sub-advised clients are described in their prospectuses and other offering documents.

Advisory fees may be subject to breakpoints as negotiated by each client. BAMCO reserves the right, in its sole discretion, to negotiate and charge different advisory fees for different accounts. Advisory fees may vary due to the inception date of a client's account, the initial or potential size of the account, and the entirety of the client's or any of its affiliates' relationship with BAMCO or BCM. BAMCO's clients do not pay advisory fees in advance.

BAMCO's clients pay brokerage commissions to the executing broker-dealer pursuant to the Adviser's commission schedule that typically ranges from \$0.04 per share to less than \$0.01 per share for stocks traded on exchanges in the U.S., depending on the price per share of the security and the services provided. Additional information about brokerage and transaction costs can be found under "Brokerage Practices" below.

## **Performance-Based Fees and Side-By-Side Management**

BAMCO charges a performance-based fee for one sub-advised account. This account is team-managed by senior research analysts supervised by Mr. Baron. BAMCO has trade allocation and portfolio performance dispersion review procedures in place to ensure that all BAMCO accounts are traded equitably.

## **Types of Clients**

BAMCO provides investment advice to registered investment companies and other pooled investment vehicles. The investment companies for which BAMCO acts as an investment adviser may impose account minimums.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

All portfolio managers and research analysts are focused on fundamental analysis of businesses. Our primary objective is to understand the key drivers of growth and profitability of each company in which we invest. We perform exhaustive proprietary research to evaluate opportunities and to validate our investment theses.

- We evaluate:
  - Business opportunities and growth prospects

- Business models
- Unique products or services
- Appropriate uses of capital
- Long-lasting multi-year growth
- Barriers to replication
- Regulatory environment
- We evaluate management's:
  - Character
  - Vision
  - Competence
  - Business practices
  - Management style
  - Ownership
  - Track Record
- We conduct a thorough financial analysis by creating:
  - Comprehensive, proprietary, industry-specific models
  - Five-year projections
  - Capital structure
  - Valuations (Quantitative and Qualitative)

Our analysts test the validity of their investment theses by investigating companies from all perspectives through numerous interviews and site visits that continue through the life of an investment. We interview industry experts and participants, other management teams, consultants, other shareholders, board members, competitors, vendors and service providers, and customers to determine if the information gained from these parties is consistent with management's statements and our projections.

We estimate the future intrinsic value of a business and determine if the qualitative characteristics of the business are transferable into sustainable financial performance.

BAMCO employs 10 portfolio managers who are responsible for managing assets in more than 10 investment strategies

An account managed by BAMCO is not a balanced investment plan. BAMCO's investment strategy is to invest in growth businesses for capital appreciation potential. Each portfolio manager's ability to choose appropriate investments for an account has a significant impact on our ability to achieve an account's investment objective.

All accounts invest primarily in common stocks and other equity securities. Over time, common stocks and other equity securities have shown greater growth than other types of securities. In the short-term, however, stock prices may fluctuate widely in response to company, market, economic or other news. If an account has a higher percentage of its total assets invested in a particular region, sector, or

industry, changes affecting that region, sector or industry may have a significant impact on the performance of the account.

Set forth below are descriptions of BAMCO's primary investment strategies. These descriptions of specific strategies and investments should not be deemed to limit BAMCO's investment activities. BAMCO may engage in any investment strategy and make any investment, including any not described in this Brochure, that BAMCO considers appropriate, subject to each client's agreement with BAMCO, or for any fund which BAMCO advises to the extent consistent with such fund's offering documents. Fund offering documents contain additional specific information about investments and risks and should be read prior to making an investment. There can be no assurance that the investment objectives of any client will be achieved. Investing in securities involves risk of loss that clients should be prepared to bear.

#### *Small-Cap Growth*

The Strategy invests in small-sized U.S. companies with significant growth potential. We purchase stocks with market capitalizations below \$3 billion and may hold investments as they become larger. Diversified. Specific risks associated with investing in securities of smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. This strategy is only offered through investments in the mutual fund.

#### *Small to Mid-Cap Growth*

The Strategy invests mainly in small and mid-sized U.S. companies with significant growth opportunities. Diversified. Specific risks associated with investing in securities of smaller and medium-sized companies include that the securities may be thinly traded and more difficult to sell during market downturns.

#### *Mid-Cap Growth*

The Strategy invests mainly in mid-sized U.S. companies that have matured beyond their start-up phase and have significant secular growth opportunities. Diversified. Specific risks associated with investing in securities of medium-sized companies include that the securities may be thinly traded and more difficult to sell during market downturns.

#### *Large-Cap Growth*

The Strategy invests mainly in large-sized U.S. companies with significant growth potential and competitive advantages. Diversified. Specific risks associated with investing in securities of large companies include that they are subject to price fluctuations in the stock market.

#### *All-Cap Growth*

The Strategy invests mainly in U.S. companies of all sizes with significant growth potential and secular growth opportunities. Diversified. Specific risks associated with investing in companies of all sizes, including small and medium-sized companies, the securities of which may be thinly traded and more difficult to sell during market downturns, and they are subject to price fluctuations in the stock market.

#### *International Growth*

The Strategy invests mainly in non-U.S. companies with significant growth potential. Investments may be made across all market capitalizations. The Strategy invests principally in companies in developed countries and may invest up to 30% in companies of developing countries. We identify global trends and

themes we believe will create growth opportunities, and stock selection is based on these themes and bottom-up research. Diversified. Specific risks associated with investing in non-U.S. companies include that they may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, imposition of exchange controls, expropriation, limited disclosure and illiquid markets. This may result in greater share price volatility.

#### *Emerging Markets Growth*

The Strategy invests mainly in companies Domiciled, headquartered, and whose primary business activities and principal trading markets are in developing countries. We identify global trends and themes we believe will create growth opportunities, and stock selection is based on these themes and bottom-up research. Diversified. In addition to being subject to the risks of foreign investing generally, specific risks associated with investments in developing countries include lack of established legal, political, business and social frameworks to support securities markets, including delays in settling portfolio securities transactions, currency and capital controls, greater sensitivity to interest rate changes, pervasiveness of corruption and crime, currency exchange rate volatility and inflation, deflation or currency devaluation.

#### *Real Estate*

The Strategy invests broadly in real estate businesses with significant growth potential. It maintains exposure across many industries and all capitalization ranges. Non-diversified. In addition to general market conditions, the value will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues, and economic conditions. Specific risks associated with the real estate industry include increased volatility of return and exposure to greater loss in any given period.

#### *High Growth*

The Strategy invests primarily in high-growth mid-sized businesses benefiting from innovation through development of pioneering, transformative or technologically advanced products and services. Diversified. Specific risks associated with companies propelled by innovation, including technology advances and new business models, are that they present the risk of rapid change and product obsolescence, and their success may be difficult to predict for the long term.

#### *Focused Growth*

This is a focused Strategy that invests mainly in small and mid-sized U.S. companies with significant growth potential. The Strategy's top 10 holdings are expected to comprise a significant percentage of the portfolio. Non-diversified. Specific risks associated with a non-diversified strategy include increased volatility of returns with exposure to greater potential loss in any given period. Securities of smaller and medium-sized companies may be thinly traded and more difficult to sell during market downturns. This strategy is only offered through investments in the mutual fund.

#### *Energy and Resources*

The Strategy invests mainly in U.S. energy and resource companies of any market capitalization and may invest up to 25% in non-U.S. securities. Non-diversified. Specific risks associated with a non-diversified strategy include increased volatility of returns with exposure to greater potential loss in any given period. Energy industries can be significantly affected by fluctuations in energy prices and supply and demand of



energy fuels, and resources industries can be affected by adverse global geo-economic and political events.

#### *Global Advantage Growth*

The Strategy invests mainly in growth companies of all sizes located throughout the world. Diversified. Specific risks associated with investing in growth companies include that the stocks can react differently to issuer, political, market and economic developments than the market as a whole. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell.

#### *Focused Select*

This is a focused Strategy that invests in small and mid-sized U.S. companies with significant growth potential. The Strategy's top 10 holdings are expected to comprise a significant percentage of the portfolio. Non-diversified. Specific risks associated with a non-diversified strategy include increased volatility of returns with exposure to greater potential loss in any given period. Securities of smaller and medium-sized companies may be thinly traded and more difficult to sell during market downturns.

#### *All-Cap Focused Growth*

The Strategy invests in growth companies of all sizes and with a minimum expected return of 100% within four years. Capital appreciation over the long term. Diversified. Specific risks associated with a non-diversified strategy include increased volatility of returns with exposure to greater potential loss in any given period. Securities of smaller and medium-sized companies may be thinly traded and more difficult to sell during market downturns.

#### *Focused Aggressive Growth*

This is a focused Strategy that invests mainly in U.S. companies of any size with significant growth potential. The Strategy's top 10 holdings are expected to comprise a significant percentage of the Strategy. It also uses leverage. Non-diversified. Specific risks associated with a non-diversified strategy include increased volatility of returns with exposure to greater potential loss in any given period.

#### *Discovery*

The Strategy invests in small-sized U.S. companies with significant growth potential. We purchase stocks with market capitalizations below \$1.5 billion. Diversified. Specific risks associated with investing in securities of smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns.

#### *Focused High Growth*

The Strategy invests primarily in U.S. businesses of any market capitalization which benefit from innovation and advances in technology. The Strategy's top 10 holdings are expected to comprise a significant percentage of the portfolio. Non-diversified. Specific risks associated with companies propelled by innovation, including technology advances and new business models, are that they present the risk of rapid change and product obsolescence, and their success may be difficult to predict for the long term.

Additionally, a non-diversified strategy has increased volatility of returns with exposure to greater potential loss in any given period.

## **Disciplinary Information**

BAMCO has no disciplinary history to report.

## **Other Financial Industry Activities and Affiliations**

BAMCO is wholly owned by BCG, as described in more detail within the section of this brochure entitled "Advisory Business." BCG also wholly owns BCI, a limited purpose broker-dealer. The sole function of BCI is to serve as the distributor of the Baron Funds. BCI does not engage in the execution of securities transactions for BAMCO or any other entity. Certain employees of BAMCO, including certain of its management persons, are licensed registered representatives of BCI for the purpose of offering and selling the Baron Funds.

BCG also wholly owns BCM, an SEC-registered investment adviser. BAMCO and BCM share investment research and jointly develop investment advice. BAMCO and BCM may aggregate brokerage orders together as described in more detail in the section of this brochure entitled "Brokerage Practices."

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

BAMCO's Code of Ethics (the "Code") establishes standards of conduct and reinforces fiduciary principles that govern the actions of BAMCO and its employees. It is designed to ensure that BAMCO treats all of its accounts fairly. It prohibits employees from engaging in certain types of securities transactions that are deemed to create potential conflicts of interest between BAMCO and its investment advisory clients and establishes reporting requirements and enforcement procedures.

The Code sets forth three guiding principles: (1) The interests of clients must be placed first at all times, (2) All personal securities transactions must be conducted consistent with this Code and in such a manner as to avoid any actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility, and (3) Persons subject to the Code should not take inappropriate advantage of their positions.

Employees are prohibited from buying individual equities but are allowed to sell positions they already hold with prior written approval. In addition, prior written approval is required for the purchase or sale of municipal bonds and ETFs, and the sale of any Baron managed mutual funds. Prior written approval is not required for security transactions in managed accounts where the employee has no discretion over the account and does not instruct the party that has discretion, and where the employee is purchasing or selling U.S. government bonds or open-end mutual funds ("Exempt Transactions"), other than the Baron managed mutual funds. Employees must also have copies of their trade confirmations and account statements sent to BAMCO. The Code further provides that if any transaction in a security,

except Exempt Transactions, on behalf of a BAMCO client occurs within seven days of an employee's transaction in that security, the client must receive the better price or the equivalent thereof. Employees are also required to certify annually compliance with the Code and certify quarterly transactions reports and initial and annual holdings reports. These reports are reviewed by the Legal and Compliance Departments for compliance with the Code. The Code also contains provisions relating to giving, receiving and reporting of gifts and business entertainment and outside business activities, such as serving on the board of directors of a publicly-traded company as well as pay to play in regards to donations for public officials or elections. A copy of the Code is available upon request. It is also available on the Baron Funds website at [www.BaronFunds.com](http://www.BaronFunds.com).

BAMCO, BCM, and Mr. Baron own historic positions in certain equity securities in which they may also have invested on behalf of their clients or in which they intend to invest on behalf of their clients in the future. They have not added to any positions or established new positions since 2004.

## **Brokerage Practices**

BAMCO generally has discretion to direct the execution of trades for its clients' accounts. Pursuant to its discretionary authority, BAMCO determines which securities are bought and sold for the account, the amount of each purchase and sale, the broker-dealers to be used, and the commission rates to be paid. BAMCO's authority may be subject to conditions imposed by the client, such as client-imposed restrictions on transactions in certain securities or types of securities and the use of specific broker-dealers.

BAMCO's primary objective when selecting broker-dealers for client transactions is to obtain the best combination of price and execution under the circumstances ("best execution".) Broker-dealers are also chosen for trade expertise, liquidity, and research. Additional factors are: BAMCO's knowledge of negotiated commission rates currently available and other current transactions costs; the nature of the security being traded, the size and type of the transaction, and the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality, including trade anonymity; the broker-dealer's execution, clearance and settlement capabilities, including its flexibility in completing step-out transactions; BAMCO's knowledge of the financial stability and operational capability of the broker-dealer selected; the broker-dealer's willingness to commit its own capital to complete the transaction; access provided by the broker-dealer to limited investment opportunities, such as initial public offerings; rebates of commissions by a broker-dealer to a client or to a third party to pay a client's expenses; whether executing the trade through an electronic algorithmic platform can provide a better combination of net price and execution; and BAMCO's knowledge of actual or apparent operational problems of any broker-dealer considered.

## **Research Products and Brokerage Services Received by BAMCO**

To the extent more than one broker-dealer is capable of providing best execution, based on the factors listed above, BAMCO may take into account whether the broker-dealer provides BAMCO or its affiliate with research and the value of such research. BAMCO may compensate a broker-dealer for

providing certain brokerage and research services by paying commissions that may be more than would have been paid to another broker-dealer for execution only. Commissions paid on these trades are known as “soft dollars.” Research is generated by BAMCO and BCM, but supplemental research may be obtained from other broker-dealers, if consistent with a client’s policies, by paying higher commissions, even though the particular client may not be the beneficiary of such services. Such supplemental research may be the broker-dealer’s proprietary research or third party research obtained through commission sharing arrangements with the broker-dealers and independent research providers. Research and information may be used by BAMCO or BCM in serving other discretionary clients of BAMCO or BCM. When BAMCO directs commission business to these brokerage firms, BAMCO receives a benefit because it does not have to produce or pay for the research, which we believe would be otherwise unavailable to BAMCO. BAMCO’s selection of broker-dealers to execute trades in exchange for research, which could possibly reduce BAMCO’s cost of paying for research directly, presents a potential conflict of interest. BAMCO may have an incentive to select or recommend a broker-dealer based on its interest in receiving research, rather than clients’ interests in receiving the lowest possible commission. In order to monitor these conflicts, BAMCO’s Trade Execution Review Committee reviews trade execution analysis reports prepared by an independent third party on a quarterly basis.

The form of research provided by these broker-dealers is most often access to management of companies with which the broker-dealers have relationships and access to conferences and seminars that provide substantive content relating to issuers and industries. In addition, BAMCO and BCM receive research reports (including reports that are specific to issuers, industries and/or geographic regions); investment ideas; access to the broker-dealer’s traders and analysts; subscriptions to financial publications and research compilations that are not targeted to a wide, public audience; access to groups of professionals with expertise in particular industries and/or subject matter areas; and reports of macroeconomic developments.

BAMCO does not seek to allocate soft dollar benefits among client accounts proportionally to the commissions paid. As permitted under Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”), brokerage and research services provided by broker-dealers may be used by BAMCO in servicing other accounts it manages and not all of the research services it uses will necessarily be used in connection with any one account. It is BAMCO’s policy that all research or brokerage services obtained from broker-dealers in connection with transactions be consistent with Section 28(e) of the Exchange Act.

BAMCO performs periodic reviews to determine that the commissions paid on soft dollars are reasonable in relation to the value of the brokerage and research services provided. At least twice a year, BAMCO reviews its research needs and creates a target soft dollar commissions report based on these reviews. This target commission report is reviewed by the Director of Research and the Chief Compliance Officer.

## Trade Processing and Allocation

Securities considered for investment in a client account or group of client accounts may also be appropriate for one or more other client accounts. If the purchase or sale of a security is considered at or

about the same time for more than one client, BAMCO will seek to allocate transactions in the security among such clients in a manner considered by BAMCO to be fair, equitable, and consistent with allocation procedures adopted by BAMCO. BAMCO believes that the aggregation of trades generally results in lower commissions, more advantageous prices and/or more efficient execution of transactions. BAMCO may purchase or sell a block of a security and allocate the shares or proceeds among its clients and/or BCM's clients. Block purchases or sales will result in an average price that may be higher or lower than if orders were entered for each account individually. Clients that are allocated part of the block will receive an average price per share but may not receive an average commission per share.

BAMCO and BCM have adopted joint trading procedures for aggregated orders that require that: (a) the aggregation be consistent with the duty to seek the best execution and with the terms of the advisory agreements of the clients for which the trades are being aggregated; (b) no advisory client be favored over any other advisory client, with each client participating in an aggregated order also participating in the average share price for all of BAMCO's and BCM's transactions in a security with a single broker-dealer on a given business day; (c) the clients participating in the aggregated orders be placed in the order management system, which constitutes a written allocation statement; (d) partially filled orders generally be allocated on a pro rata basis and any allocation done other than pursuant to the previously written allocation statement be approved by the President and COO and receive fair and equitable treatment; and (e) the procedures be reviewed annually.

From time to time, BAMCO may decide not to aggregate small orders with its larger orders or with BCM in order to reduce multiple ticket charges for small orders. If, at a later time, additional clients seek to purchase or sell the same security, BAMCO will close the existing order and place a new order in its order management system, and the clients participating in the new order will receive the average price at which the new order is executed.

BAMCO may direct the trading of certain securities between certain customer accounts ("cross trades"). BAMCO does not receive a fee or other remuneration for such transactions. Where appropriate and permitted by law, BAMCO or any person controlling, controlled by or under common control with BAMCO may act as investment adviser for the party or parties on both sides of a cross transaction.

BAMCO allocates new issue offerings in conjunction with its affiliate, BCM, based on an assessment of all of the following factors: (a) investment objectives and guidelines of the managed account; (b) money flows in and out of each account; (c) cash position in the account; (d) consideration of the diversification needs of each account; (e) estimated size of the likely allocation; (f) if the transaction is a secondary offering, the size of a client's existing position; and (g) if the transaction is an Initial Public Offering, whether the client is eligible to participate. Portfolio positions may be sold to raise cash for the purchase of a new issue if the portfolio manager believes it is in the best interests of clients to do so.

## **Directed Brokerage**

Upon the request of a client, BAMCO may also direct commissions to broker-dealers that may furnish other services to the client. Clients that direct their trades through particular broker-dealers will

not be aggregated with other client orders or included in the average price per share for trades. Directed trades may be at prices higher or lower than the average price per share of aggregated orders.

Although any benefits derived from directed brokerage will inure to the benefit of the client directing the brokerage, clients should understand that directing brokerage for execution limits or removes BAMCO's discretion to select broker-dealers to execute client transactions. While BAMCO exercises its best judgment in determining whether clients that have directed brokerage should execute portfolio transactions simultaneously with, prior to, or after transactions executed with broker-dealers selected by BAMCO, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the aggregated order. Under these circumstances, even if the client has not waived BAMCO's duty to seek best execution, the direction by a client of a particular broker-dealer to execute transactions may result in higher commissions, greater spreads or less favorable prices than might be the case if BAMCO could negotiate commission rates or spreads freely, or select executing broker-dealers based on its judgment regarding best execution.

In certain cases, depending on the nature of the direction, BAMCO may instead use "step-outs" to allow such clients to participate in aggregated trades. "Step-outs" allow BAMCO to instruct the broker-dealer that executes a transaction to allocate, or "step-out" a portion of such transaction to another broker-dealer. The broker-dealers to which the executing broker has "stepped out" would then settle and complete the designated portion of the transaction, and the executing broker-dealer would settle and complete the remaining portion of the transaction. Each broker-dealer would receive a commission or brokerage fee with respect to the portion of the transaction that it settles and completes.

Clients directing BAMCO to use a specific broker-dealer should satisfy themselves that the broker-dealer they have selected is providing adequate price and execution. The client should evaluate the fee charged by the directed broker, the amount of portfolio activity in their account, the value of custodial and other services provided under the arrangement, and other factors, to determine whether the fee is justified.

## **Review of Accounts**

Portfolio managers are responsible for reviewing client accounts and continually assessing the securities held by clients. The Baron Funds are reviewed by the relevant BAMCO portfolio manager and reconciled daily by BAMCO's accountants and the custodian. Accounts that BAMCO manages as a sub-adviser are reviewed by the respective portfolio managers daily, with cash positions reconciled daily and complete account reconciliations done monthly by BAMCO's accountants. In addition, BAMCO's traders continually review the portfolios of each investment advisory account. Oversight of client investment activity is also conducted by compliance personnel through a range of different methods, including, automated pre-trade and post-trade testing and manual reviews. Additional reviews may be performed periodically by relevant professionals including client service personnel, risk analytics personnel or senior management, depending on account needs and market conditions. Reviews may be undertaken because of changes in market conditions, security positions, or changes in objectives, at a client's request, or as part of a regularly scheduled review.

Periodic reports are provided to clients in BAMCO's standard format unless the client requests other information. A standard report includes BAMCO's market outlook, performance, a summary of portfolio activity, sector breakdowns, portfolio appraisal, and transaction detail. BAMCO may also provide similar information to clients through in-person meetings and conference calls. More frequent reports can be provided upon request.

## **Client Referrals and Other Compensation**

BAMCO does not receive economic benefits for providing investment advice or other advisory services to its clients from parties other than its clients. As explained in "Brokerage Practices" above, BAMCO may receive certain research or brokerage services in connection with the execution of securities transactions for client accounts.

BAMCO may compensate solicitors for client referrals pursuant to agreements that comply with the relevant provisions of the Investment Advisers Act. BAMCO's clients may retain investment consultants to assist with the selection of investment managers, but such investment consultants are compensated by the clients, not BAMCO.

## **Custody**

BAMCO does not maintain, and will not accept, custody of client funds or securities, and will take such actions as are necessary to avoid being deemed to have custody of client funds or securities. Unaffiliated third parties serve as custodians for the Baron Funds and the other accounts where BAMCO acts as a sub-adviser.

## **Investment Discretion**

As explained in "Brokerage Practices" above, BAMCO has full discretion and authority to determine the securities bought or sold, the amount of such securities, the broker-dealer to be used, the commission rate paid, and the prices at which the securities are to be bought or sold. BAMCO requires that each client enter into a written agreement with BAMCO granting it discretionary authority. A client may, with BAMCO's consent, impose limited restrictions on investments in certain securities or types of securities in its account. In addition, investment companies and other pooled investments managed by BAMCO are subject to the policies and restrictions stated in their respective offering documents.

## **Voting Client Securities**

BAMCO is generally granted full investment discretion to vote proxies, although clients that have granted BAMCO full discretion may direct their vote on particular matters by contacting BAMCO. Clients may also retain proxy voting authority for themselves.

BAMCO will vote client proxies as part of its fiduciary duty and its authority to manage, acquire and dispose of account assets. When voting proxies for client accounts, BAMCO's primary objective is to make voting decisions solely in the best interests of clients for which it manages assets. In certain situations, a client or its fiduciary may provide BAMCO with a statement of proxy voting policy. In these situations, BAMCO seeks to comply with such policy to the extent it would not be inconsistent with applicable regulation or its fiduciary responsibility.

Where the cost of voting a proxy, in the opinion of BAMCO, would exceed the expected benefits to the client, BAMCO may decide not to vote a particular proxy. This may be particularly true in the case of non-U.S. securities. While the proxy voting process is well established in the United States and other developed markets, voting proxies of non-U.S. companies located in certain jurisdictions, particularly in developing countries, may have a detrimental effect on BAMCO's ability to trade in such securities during the proxy period. In those cases, BAMCO may conduct a cost-benefit analysis in determining whether to vote its clients' shares at a non-U.S. company's meeting, and if it is determined that the cost associated with exercising its vote outweighs the benefit to its clients, BAMCO may decide not to vote.

It is the policy of BAMCO in voting proxies to consider and vote each proposal with the objective of maximizing long-term investment returns for its clients. To ensure consistency in voting proxies on behalf of its clients, BAMCO utilizes its Proxy Voting Policy and Procedures (the "Proxy Policy").

BAMCO's policies and procedures are intended to address any potential material conflicts of interest on the part of BAMCO or its affiliates that are likely to arise in connection with the voting of client proxies. In voting client proxies, BAMCO will avoid material conflicts of interests between it and its affiliates on the one hand and its clients on the other. BAMCO recognizes that it may have a material conflict of interest in voting a client proxy where it or its affiliate (i) manages assets for a company whose management is soliciting proxies; (ii) manages money for an employee group that is the proponent of a proxy proposal; (iii) has a personal relationship with participants in a proxy solicitation or a director or candidate for director; or (iv) otherwise has a personal interest in the outcome in a particular matter before shareholders. Notwithstanding the above categories, BAMCO understands that the determination of whether a "material conflict" exists depends on all of the facts and circumstances of the particular situation.

If a portfolio manager wishes to vote a proxy with respect to a matter in a manner other than that set forth in BAMCO's Proxy Policy, the Legal Department reviews the matter to determine whether a material conflict exists. If a material conflict is found to exist, the Legal Department will either: (i) recommend that the President and COO vote the matter in the manner originally prescribed by the Proxy Policy; or (ii) obtain the informed written consent of the affected client (or clients). If a portfolio manager wishes to vote a proxy not covered by the Proxy Policy that involves a material conflict of interest, BAMCO will seek the informed written consent of the affected client (or clients). If obtaining such consent from any client is impracticable or undesirable, BAMCO will vote the client's proxy in accordance with the published recommendation of an independent third party.

Clients may obtain a copy of BAMCO's Proxy Policy or information on how proxies were voted on securities held in the client's account by contacting BAMCO's Client Services department. BAMCO's



Proxy Policy is also available at [www.BaronFunds.com](http://www.BaronFunds.com). The Baron Funds' most current proxy voting record, Form N-PX, is available at [www.BaronFunds.com](http://www.BaronFunds.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).

## **Financial Information**

BAMCO does not require or solicit prepayment of investment advisory fees from its clients. BAMCO is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has BAMCO been the subject of a bankruptcy petition at any time during the past 10 years.