JUNE 30, 2023

Baron Technology Fund

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		Institutional Shares: BTECX
PORTFOLIO MANAGER	PORTFOLIO MANAGER	R6 Shares: BTEUX

DEAR BARON TECHNOLOGY FUND SHAREHOLDER:

PERFORMANCE

During the second quarter, Baron Technology Fund® (the Fund) climbed 16.72% (Institutional Shares), outperforming the MSCI ACWI Information Technology Index, which rose 13.68%. The Fund also meaningfully outperformed the broader S&P 500 Index, which gained 8.74%. For the year-to-date period, the Fund is up 42.91%, ahead of both indexes, which returned 36.90% and 16.89%, respectively.

Table I.
Performance
Annualized for periods ended June 30, 2023

	Baron Technology Fund Retail Shares[1,2]	Baron Technology Fund Institutional Shares[1,2]	MSCI ACWI Information Technology Index[1]	S&P 500 Index[1]
Three Months[3]	16.64%	16.72%	13.68%	8.74%
Six Months[3]	42.45%	42.91%	36.90%	16.89%
One Year	27.95%	28.59%	34.28%	19.59%
Since Inception (December 31, 2021)	(14.40)%	(14.11)%	(3.80)%	(2.87)%

REVIEW & OUTLOOK

U.S. equities rallied for a second consecutive quarter, supported by easing inflation, a first-time pause in the Federal Reserve's prolonged interest rate hike campaign, Congress' successful avoidance of the debt ceiling cliff, earnings optimism, and economic releases bolstering the *soft-landing* narrative. One notable aspect of the ongoing recovery has been narrow market leadership. Several large technology companies have accounted for most of the recent gains in the major market indexes, driven by excitement surrounding their potential ability to gain from widespread artificial intelligence (AI) adoption. The Fund remains exposed to AI and other industry trends driving the performance of these technology leaders.

Outperformance across the technology landscape remained narrow. Our stock selection, reflecting powerful secular themes including AI, semiconductors, software, cloud computing, and electric vehicles (EVs), continued to generate the lion's share of our gains in the period. Leading the way (in contribution order) were individual investments in **NVIDIA Corporation** (up 52%), **Amazon.com, Inc.** (up 26%), **Microsoft Corporation** (up 18%), **Meta Platforms, Inc.** (up 35%), and **Tesla, Inc.** (up 26%).

According to Morgan Stanley's latest CIO survey for the second quarter, overall technology spending is expected to increase by 2.7% in 2023. This shows continued growth, albeit at a slightly slower pace than the 3.1% increase last year and the 4.1% pre-pandemic average, due in part to wider economic challenges. We believe this slowdown in the Information Technology (IT) sector is reaching its nadir and anticipate a resurgence of growth in the second half of 2023 and into 2024. This bounce-back will be fueled by increased demand for AI technologies. Indeed, the survey underscores the rising influence of AI on IT spending priorities, with an increased number of companies exploring and testing these technologies (52% in the second quarter, compared to 43% in the first quarter).

Performance listed in the above table is net of annual operating expenses. The gross annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2022 was 6.86% and 6.42%, but the net annual expense ratio was 1.20% and 0.95% (net of the Adviser's fee waivers), respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original. The Adviser reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2033, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month-end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The **MSCI ACWI Information Technology Index Net (USD)** includes large- and mid-cap securities across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. All securities in the index are classified in the Information Technology sector as per the Global Industry Classification Standard (GICS®). MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The **MSCI ACWI Information Technology Index Net (USD)** and the Fund include reinvestment of dividends, net of foreign withholding taxes, while the **S&P 500 Index** includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Not annualized.

To further underscore AI's rising importance and growth potential, in a second report, *AI – Golden Age of Technology* dated July 6, 2023, Morgan Stanley projected that the "AI technology TAM [total addressable market]" for just the semiconductor, hardware, and networking industry segments would nearly triple from $90 billion today to $275 billion by 2027. They expect this expansion to be spearheaded by AI semiconductors, with the TAM for that segment alone "tripling" over the next three years from $43 billion to $125 billion, "significantly outgrowing the overall AI market." This forecast aligns with our substantial investments across the semiconductor industry, including leading AI technology suppliers such as NVIDIA, **Advanced Micro Devices, Inc.**, **Taiwan Semiconductor Manufacturing Company Limited**, **Marvell Technology, Inc.**, and **Lam Research Corporation**.

Even with the rapid advances thus far, we are still in the early stages of AI technologies and their adoption. As we look to the future, we are diligently working to identify the primary beneficiaries of Generative AI. Our current perspective is that the long-term winners will not only continue to make significant AI investments in hardware and software but will also possess the advantages of scale and extensive distribution. Such companies can construct more scalable (and arguably superior) products due to their larger data assets and distribute them to vast audiences, further strengthening their competitive edge. For example, Microsoft's Office Copilot and Tesla's self-driving technology demonstrate the power of large-scale AI deployments.

Amid the well-deserved excitement for AI, it's equally crucial to uphold a level-headed viewpoint. As we embark on this new era of an AI-driven investment cycle, it's imperative to appreciate that AI's potential reach is well beyond the traditional borders of the IT sector. It promises tangible benefits to many industries, positioning AI as a more resilient and auspicious field for long-term future growth.

We have written many times that the best investments of the last half century are those companies that expanded *faster for longer* than consensus initially predicted. We have demonstrated how the market repeatedly underestimated growth for top companies in new and innovative technology verticals. The market misjudged the long-term growth that would be achieved by such disruptive and revolutionary developments as Microsoft's Windows operating system, Google's internet search engine, Amazon's e-commerce platform, Apple's iPhone, and Tesla's EVs. These companies always looked expensive when valued based on then-current Street estimates; but they weren't. They yielded great returns not because they were awarded premium multiples but because they crushed expectations, delivering loftier revenues, earnings, and cash flow than most investors thought they would. We believe the same thing will drive returns for the innovators across many layers of the AI stack, from semiconductors to applications. To be sure, barely six months after the launch of ChatGPT made Generative AI a household term, NVIDIA stunned the market by projecting next quarter sales more than 50% higher than Street expectations (see discussion below). Please visit our Firm's website to watch our Baron Thought Leadership Forum video presentation on AI (and other topics) and/or read our Baron Insight: Investing in AI.

We continue to run a high conviction portfolio with an emphasis on the secular trends cited above. Among others, during the second quarter we initiated or added to the following positions:

Digital Media: **Meta Platforms, Inc.** and **Tencent Holdings Limited**

E-commerce/Cloud Computing: **Amazon.com, Inc.**

Semiconductors: **NVIDIA Corporation**, **Marvell Technology, Inc.**, **Advanced Micro Devices, Inc.**, **Lam Research Corporation**, and **indie Semiconductor, Inc.**

EVs/Autonomous Driving: **Rivian Automotive, Inc.**, **Tesla, Inc.**, and **Mobileye Global Inc.**

Software: **ZoomInfo Technologies Inc.**, **Microsoft Corporation**, **CrowdStrike Holdings, Inc.**, and **Cloudflare, Inc.**

We remain steadfast in our belief that exposure to the broader technology sector should be a material part of an investor's portfolio for the long term. Technology has the power to reshape industries, disrupt business models, and create opportunities for substantial wealth creation.

Table II.
Top contributors to performance for the quarter ended June 30, 2023

	Percent Impact
NVIDIA Corporation	3.20%
Amazon.com, Inc.	2.50
Microsoft Corporation	2.11
Meta Platforms, Inc.	1.45
Tesla, Inc.	1.19

NVIDIA Corporation is a leading semiconductor company that sells chips and software for accelerated computing and gaming. Shares continued their strong trajectory during the quarter, nearly tripling year-to-date, after NVIDIA reported a meaningful acceleration in demand for its data center chips, which drove a material beat in forward quarterly guidance with revenues expected to increase from $7.2 billion to approximately $11 billion sequentially. My colleagues and I, as well as our buy-side peers, have never witnessed a beat of this magnitude. This unprecedented acceleration is driven by growing demand for accelerated computing chips fueled by the rise in Generative AI. According to NVIDIA CEO Jensen Huang (during the company's May 5 earnings call):

> *"[W]e're seeing incredible orders to retool the world's data centers….[Y]ou're seeing the beginning of call it a 10-year transition to basically recycle or reclaim the world's data centers and build [them] out as accelerated computing….[T]he world has a $1 trillion of data center installed…[but] you can't reasonably scale out data centers with general-purpose computing….[A]ccelerated computing is the path forward and now it's got a killer app and it's got generative AI….[O]ver the next four or five, 10 years, most of that $1 trillion…will be largely generative AI….Over the next decade, most of the world's data centers will be accelerated."*

We agree the world now finds itself at the tipping point of a new computing era with NVIDIA at its epicenter. AI enables human-computer interaction through natural language, with a key benefit being better utilization of data for decision making. We remain shareholders as we believe NVIDIA's end-to-end AI platform, and the ecosystem it has cultivated over the last 15 years, will benefit the company for years to come.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were up in the quarter due to improving macroeconomic fundamentals. In particular, the company expects growth in its cloud business, Amazon Web Services, its biggest growth driver, to reaccelerate later in 2023. We also believe Amazon is well positioned in the short-to-medium term to meaningfully improve core North American retail profitability to pre-pandemic levels, as it leverages its new regionalized fulfillment network and its fast-growing, margin-accretive advertising business. Longer term, Amazon has substantially more room to grow in e-commerce, where it has less than 15% penetration in its total addressable market. Amazon remains a clear leader in the vast and growing cloud infrastructure market, with large opportunities in application software, including enabling Generative AI workloads.

Microsoft Corporation is a software company traditionally known for its Windows and Office products. Over the last five years, it has built a $60 billion-plus cloud business, including its infrastructure-as-a-service Azure business, Office 365, and Dynamics 365 (Microsoft's customer relationship management offering). Shares increased on financial results that exceeded consensus expectations with Azure beating guidance for the second time in four quarters coming in one point ahead of forecasts at 31% constant-currency growth. Forward quarterly guidance for Azure landed a full two points ahead of expectations (26% to 27% constant-currency growth), with the company highlighting "stable trends" from January persisting through April. In the Q&A section of the call, the CEO noted that the company was seeing a good balance of new workloads and ongoing optimizations, with the CFO following up that "at some point, workloads just can't be optimized much further, and when you start to anniversary that, you do see that it gets a little bit easier in terms of comps year-over-year. And so, you even see that a little bit in our guidance, some of that impact." Microsoft is executing at a high level, navigating a challenging macro backdrop while aggressively investing in long-term growth. The company's proven ability to innovate is only getting stronger with continued enhancements across the portfolio including business analytics, cybersecurity, and, more recently, AI, with the launch of Azure OpenAI services and Copilots across its application portfolio.

Table III.
Top detractors from performance for the quarter ended June 30, 2023

	Percent Impact
Endava plc	–0.91%
Ceridian HCM Holding Inc.	–0.42
SiTime Corporation	–0.34
indie Semiconductor, Inc.	–0.29
Tencent Holdings Limited	–0.16

Endava plc provides outsourced software development for business customers. Shares fell due to a pullback in customer demand in March following multiple bank failures. Management reduced financial guidance for the second quarter to reflect greater macroeconomic uncertainty and lower revenues from private equity-backed companies, which represent about 20% of its business. Based on higher conviction in other ideas in the portfolio, we exited our position.

Shares of **Ceridian HCM Holding Inc.**, a leader in global payroll and human capital management (HCM) software, fell on investor concerns that an economic downturn would dampen revenue growth. While Ceridian has some direct exposure to employment levels, it is benefiting from powerful secular trends around the modernization of HCM software and increasing adoption of SaaS. We believe Ceridian can continue to grow revenue at or above 20% annually, driven by continued market share gains, a move upmarket to larger enterprises, international traction, and success in cross-selling to existing customers. We believe revenue growth will be amplified by consistent and durable margin expansion. We expect EBITDA margins to reach 30% over the next two years and approach 40% over time, helped by consistent gross margin expansion, operating expense leverage following a significant investment cycle, and efficiency gains from AI. We think that the combination of revenue growth and margin expansion will lead to compelling free-cash-flow growth well in excess of peers, which should help drive robust stock performance over time.

SiTime Corporation is a fabless semiconductor company that designs and sells micro machines known as metro-electro-mechanical systems, or MEMS, as timing solutions across various industries including consumer, communications, data center, automotive, and industrial. Shares fell during the quarter as the company reported worse-than-expected results and forward guidance. Weaker demand is prolonging the recovery from an inventory correction in its key end markets. Given the potential range of outcomes regarding the timing and potential recovery of volumes from its largest customers, we chose to exit the position.

Portfolio Structure

We invest in companies of any market capitalization that we believe will deliver durable growth from the development, advancement, and/or use of technology. We invest principally in U.S. securities but may invest up to 35% in non-U.S. securities.

At the end of second quarter, the largest market cap holding in the Fund was $3.1 trillion and the smallest was $112 million. The median market cap of the Fund was $47.3 billion and the weighted average market cap was $713.5 billion.

We had $5.6 million in assets under management. We had investments in 38 unique companies. Our top 10 positions accounted for 54.0% of net assets.

Table IV.
Top 10 holdings as of June 30, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Microsoft Corporation	$2,532.1	$538.4	9.7%
Amazon.com, Inc.	1,337.5	534.2	9.6
NVIDIA Corporation	1,044.9	450.5	8.1
Tesla, Inc.	829.7	333.8	6.0
Meta Platforms, Inc.	735.5	314.8	5.7
Advanced Micro Devices, Inc.	183.4	194.8	3.5
ServiceNow, Inc.	114.5	182.1	3.3
Taiwan Semiconductor Manufacturing Company Limited	479.6	167.7	3.0
Marvell Technology, Inc.	51.4	149.8	2.7
ASML Holding N.V.	291.7	142.1	2.6

Table V.
Fund investments in GICS industries as of June 30, 2023

	Percent of Net Assets
Semiconductors & Semiconductor Equipment	27.1%
Software	26.0
Broadline Retail	9.6
Interactive Media & Services	9.4
Automobiles	7.2
Financial Services	3.6
IT Services	3.2
Technology Hardware Storage & Peripherals	2.3
Professional Services	2.2
Real Estate Management & Development	2.1
Electronic Equipment Instruments & Components	1.3
Hotels Restaurants & Leisure	1.3
Media	1.1
Automobile Components	0.9
Cash and Cash Equivalents	2.9
Total	100.0%*

* *Individual weights may not sum to the displayed total due to rounding.*

Recent Activity

Table VI.
Top net purchases for the quarter ended June 30, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (thousands)
Meta Platforms, Inc.	$ 735.5	$135.3
Amazon.com, Inc.	1,337.5	70.3
ZoomInfo Technologies Inc.	10.2	61.4
Rivian Automotive, Inc.	15.6	59.0
Tencent Holdings Limited	407.8	55.9

We added to our position in **Meta Platforms, Inc.**, the world's largest social network, in the quarter. Meta continues to benefit from improving Instagram Reels adoption and other new advertising products, the company's pioneering work in Generative AI, and broader improvement in the digital advertising market. Meta guided to a reacceleration in revenue growth, implying a bottom in the digital advertising market. Our independent industry checks support this read. Longer term, we believe Meta will utilize its leadership in mobile advertising, massive user base, innovative culture, leading Generative AI research and potential distribution, and technological scale to perform well, with further monetization opportunities ahead.

We also added to our position in **Amazon.com, Inc.** during the period. As we discussed previously, we believe that AI-related workloads will drive incremental demand for all cloud infrastructure providers going forward. As such, we expect growth in Amazon Web Services, the company's biggest growth driver, to accelerate later in 2023 and into 2024. We also believe Amazon is well positioned in the short-to-medium term to meaningfully improve core North American retail profitability to pre-pandemic levels, as it leverages its new regionalized fulfillment network, and continues to benefit from its fast growing, margin-accretive advertising business. Longer term, Amazon has substantially more room to grow in e-commerce, where it has less than 15% penetration in its total addressable market. Amazon also remains the clear leader in the vast and growing cloud infrastructure market, with large opportunities in application software, including enabling generative AI workloads.

ZoomInfo Technologies Inc. provides go-to-market business intelligence software. We took advantage of continued weakness in ZoomInfo's shares to rebuild our position at attractive prices following tax-loss sales earlier in the year. ZoomInfo is a highly profitable and cash-generative business with the most comprehensive platform of software and data to improve the go-to-market efforts of its customers, not to mention new products in the marketing and talent-acquisition verticals. When the macro headwinds abate, we believe ZoomInfo's growth will accelerate as it continues to penetrate its $70 billion-plus total addressable market.

Rivian Automotive, Inc. is a U.S.-based EV manufacturer. As Baron Funds shareholders know, we do deep, tireless, and steady research across the EV space. Based on our work, we concluded that Rivian was hitting a turning point in its execution, particularly ramping its vehicle production, rolling out engineering innovations (such as the Enduro motor and lithium-iron-phosphate battery pack) and lowering costs-of-goods-sold per vehicle; and it was trading at a valuation that offered attractive long-term returns. Rivian recently reported second quarter production and delivery figures that beat Street expectations and confirmed that it remained on track to hit its 50,000 annual production target.

Tencent Holdings Limited is the leading Chinese internet player in gaming, online video, social networking (WeChat), and has fast-growing businesses in payments, advertising, and cloud. We took advantage of currently depressed share prices to re-initiate a position in Tencent (our only current investment in China) with a longer-term view that Tencent has outsized exposure to AI in several ways, including: (1) plans to build a Generational AI shopping companion for consumers; (2) cost and engagement benefits in their gaming business, which is almost half the Chinese market for online gaming; (3) fintech risk-algorithm improvements; and (4) ad targeting and personalized ad improvements. We remain optimistic about Tencent's long-term opportunity.

Table VII.
Top net sales for the quarter ended June 30, 2023

	Market Cap When Sold (billions)	Net Amount Sold (thousands)
Endava plc	$ 2.8	$88.9
Snowflake Inc.	48.9	69.2
SiTime Corporation	1.9	22.3
Meituan Inc.	107.7	18.8
S4 Capital plc	0.9	13.4

We exited our position in **Endava plc** in the quarter, as stated earlier.

We sold **Snowflake Inc.**, a leading data management software vendor, and used the proceeds to fund purchases of other software names like ZoomInfo, Microsoft, and CrowdStrike.

We exited our position in **SiTime Corporation** in the quarter, as stated earlier.

We exited our position in **Meituan Inc.** in the quarter, and chose to allocate the capital to Tencent, where we see better long-term appreciation potential.

We exited a small position in **S4 Capital plc** to realize tax losses in the position. We may revisit the position for repurchase at a later time.

To conclude, despite the current uncertain macroeconomic environment, we remain confident in and committed to the strategy of the Fund: durable growth based on powerful, long-term, innovation-driven secular growth trends across the broader technology space.

Sincerely,

Michael A. Lippert
Portfolio Manager

Ashim Mehra
Portfolio Manager

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Risks: In addition to general market conditions, technology companies, including internet-related and information technology companies, as well as companies propelled by new technologies, may present the risk of rapid change and product obsolescence, and their successes may be difficult to predict for the long term. Technology companies may also be adversely affected by changes in governmental policies, competitive pressures and changing demand. 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. The Fund is non-diversified, which means it may have a greater percentage of its assets in a single issuer than a diversified fund. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

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