DEAR BARON DURABLE ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

Welcome to the Baron Durable Advantage Fund!

Our goal is to invest in large-cap companies with, in our view, strong and durable competitive advantages, a long history of successful capital allocation, high returns on invested capital, and high free cash flow generation, a significant portion of which is regularly returned to shareholders in the form of dividends or share repurchases.

Baron Durable Advantage Fund (the "Fund") is off to a good start. In the first quarter of its existence, the Fund returned 1.3% compared to a *loss* of 0.8% for the S&P 500 Index, the Fund's benchmark. Stock selection contributed about half of the relative outperformance, with the other half coming from an overweighting in Information Technology and underweightings in Energy, Consumer Staples, and Telecommunication Services. Our higher conviction, larger holdings, such as **Mastercard**, **S&P Global**, **Moody's**, **CME Group**, and **Microsoft** made the largest contributions to overall returns, although smaller investments in **Booking Holdings** (formerly known as Priceline), **ASML**, **KEYENCE**, and **Estee Lauder** also left a positive mark. All in all, we had eight double-digit gainers against three double-digit decliners, and 21 contributors against 17 detractors.

ALEX UMANSKY
PORTFOLIO MANAGER

Retail Shares: BDAFX
Institutional Shares: BDAIX
R6 Shares: BDAUX

Table I.
Performance
For period ended March 31, 2018

	Baron Durable Advantage Fund Retail Shares[1,2]	Baron Durable Advantage Fund Institutional Shares[1,2]	S&P 500 Index[1]
Three Months and Since Inception (December 29, 2017)[3]	1.30%	1.30%	(0.76)%

While evaluating investment opportunities for Baron Fifth Avenue Growth Fund, we identified many high quality businesses that clearly fit with the Baron Funds' fundamental investment philosophy, but did not quite meet Baron Fifth Avenue Growth Fund's high hurdle rate for growth and return potential. Companies like Microsoft, UnitedHealth Group, BlackRock, Home Depot–businesses that have been around for decades and are still going strong because of their durable competitive advantages, proven ability to allocate capital at high rates of return, and excellent free cash flow generation. Frequently, they are the leaders of industries that are highly penetrated, and, in many cases, consolidated. As a result, these companies can no longer reinvest all of the excess cash flow they generate at their customary high rates of return and so, they prudently choose to return what they do not reinvest back to shareholders in the form of dividends and share buybacks. We consider these companies to be high quality compounders.

Table II.
Top contributors to performance for the quarter ended March 31, 2018

	Quarter End Market Cap (billions)	Percent Impact
Mastercard Incorporated	$184.2	0.66%
S&P Global Inc.	47.6	0.56
Moody's Corporation	30.8	0.36
CME Group, Inc.	55.1	0.34
Microsoft Corporation	702.8	0.32

Performance listed in the table above is net of annual operating expenses. Annual estimated expense ratio for the Retail and Institutional Shares is 1.86% and 1.61%, respectively, but the net annual estimated expense ratio is 0.95% and 0.70% (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 cost. The Adviser has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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 index is unmanaged. The S&P 500 Index measures the performance of 500 widely held large cap U.S. companies. The index and the Fund are with dividends, which positively impact the performance results.
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.

Mastercard Incorporated is a leading global payment network. The stock rose 15% during the quarter due to reporting better-than-expected financial results, posting impressive 20% revenue growth, growing earnings per share 33%. Management raised guidance for the 2018 to 2020 period, which now calls for 13% to 14% revenue growth and mid-20% EPS growth. We believe Mastercard is a prime beneficiary of global consumer spending growth and the secular shift from cash to electronic payments, with some of the strongest and most durable competitive advantages we have seen anywhere.

S&P Global Inc. is the largest credit rating agency in the world. The company also provides benchmarks, analytics, and data to the financial and commodities markets. The shares appreciated 13%, after reporting better-than-expected results in the most recent quarter, with 14% revenue growth and 45% earnings per share growth. Management introduced 2018 guidance that exceeded expectations, calling for mid single-digit revenue growth and 23% to 25% earnings per share growth. S&P Global is the largest holding in the Fund based on our belief that the company benefits from numerous secular growth trends, such as bond issuance, passive investing, demand for data and analytics, etc..., and operates in attractive oligopoly markets where it enjoys meaningful competitive advantages and pricing power.

Moody's Corporation is the second largest credit rating agency in the world. Similar to S&P Global, the company provides research, professional services, and risk management software for financial institutions. The stock rose 10% after reporting better-than-expected results in the most recent quarter, with 24% revenue growth and 20% EPS growth. Management introduced 2018 guidance that exceeded expectations, calling for low double-digit revenue growth and 26% to 29% EPS growth. Moody's is one of the larger holdings in the Fund based on our belief that the company benefits from numerous secular growth trends, such as bond issuance, passive investing, demand for data and analytics, etc..., and operates in attractive oligopoly markets where it enjoys meaningful competitive advantages and pricing power.

CME Group, Inc. is the world's largest and most diversified derivatives marketplace. The shares appreciated 12%, as greater market volatility drove 30% growth in trading volumes for the first three months of the year. The company reported better-than-expected results in the most recent quarter and announced a significant reduction in its effective tax rate. We believe CME will continue to benefit from higher volatility, interest rate normalization, and greater adoption of exchange-traded futures.

Microsoft Corporation is a software company focused on providing cloud infrastructure, services, and productivity software, such as Office 365 and Infrastructure as a Service (IaaS) and Platform as a Service (PaaS) capabilities through its Azure and cognitive services offerings. Shares of Microsoft rose 7% in the first quarter, as the company continued to accelerate cloud growth, with commercial cloud revenues increasing more than 50% year-over-year, driven by enterprise investments in digital transformations and cloud. Our conviction in Microsoft is rooted in its leadership position in hybrid cloud and AI, as well as in the breadth of its cloud offerings.

Table III.
Top detractors from performance for the quarter ended March 31, 2018

	Quarter End Market Cap (billions)	Percent Impact
Naspers Limited	$107.4	–0.56%
Biogen, Inc.	57.9	–0.28
Equinix, Inc.	33.1	–0.24
Home Depot, Inc.	206.3	–0.21
AbbVie Inc.	150.2	–0.20

Based in Cape Town, South Africa, **Naspers Limited** is a $110 billion conglomerate with holdings in internet services, television, and digital media, as well as other technology assets. Chinese internet powerhouse, *Tencent Holdings*, in which Naspers holds a 32% ownership stake, is the crown jewel of these holdings. Among the company's other impressive investments are a sizable stake in India's e-commerce leader Flipkart, 29% holding in Russian publicly traded internet company Mail.ru, as well as 140 additional internet assets to which Mr. Market is currently assigning no value as Naspers is trading at a 40% discount to its stake in the publicly traded Tencent. The stock declined 15% during the quarter as Tencent announced a new multi-year investment cycle and, concurrently, Naspers reduced its stake in Tencent from 34% to 32%, raising over $10 billion in the process but putting more pressure on Tencent's stock, which in turn, put pressure on Naspers' own shares. We are optimistic about Tencent's opportunities, but, moreover, we believe that Naspers can win in many different ways, and the presence of unusually large positive optionality is what gives us conviction in this investment.

Biogen, Inc. is a leading global biotechnology company, which focuses on discovering, developing, manufacturing, and delivering therapies for neurological, autoimmune, and hematologic disorders. Best known for its mature Multiple Sclerosis franchise (Tecfidera, Tysabri, Avonex, Plegridy), it has a new growth driver in Spinraza for spinal muscle atrophy and a promising pipeline focused on neurologic disorders like Alzheimer's disease. Shares declined 17% this quarter as the company announced there would be no interim clinical look into their Phase 3 Alzheimer's trial, which disappointed investors looking for an early peak into this massive commercial market opportunity. Longer term, we think the base business will continue to generate $3 billion to $4 billion in free cash flow, making the shares inexpensive and giving it arguably the highest potential positive optionality of any large-cap biotech, given its lead in Alzheimer's drug development.

Shares of **Equinix, Inc.** were down 7% during the first quarter. We think the culprit was full year 2018 guidance offered during the company's earnings conference call, which was below expectations, primarily due to reinvestment into the business. Equinix is a global operator of network-dense, carrier-neutral colocation data centers. We like this company due to our belief in its long demand runway behind cloud adoption and IT outsourcing, unique position as one of the only operators that can offer a global platform, and continued execution on strategic M&A transactions to enhance its moat.

Home Depot, Inc. is the largest home improvement retailer in the U.S. The stock was down 6% during the first quarter largely because the company issued full-year 2018 guidance that fell modestly below expectations. We believe that Home Depot is a truly differentiated, best-in-class retailer. It is more vertically integrated (with an in-house design team), it is more innovative (create better product solutions), and it offers lower price points (significantly, in some instances) without sacrificing quality or aesthetics.

We expect consistent low single-digit comps plus EBIT margin expansion to result in double-digit earnings growth, with high free cash flow conversion used to buy back stock and pay out an attractive dividend.

AbbVie Inc. is a biopharmaceutical company focused on treating conditions, such as chronic autoimmune diseases in rheumatology, gastroenterology and dermatology; oncology, including blood cancers and virology, including Hepatitis C and human immunodeficiency virus. AbbVie is best known for marketing multi-blockbuster drug Humira. The shares ended the first quarter down 3% after running up 20% earlier in the quarter, due to a setback in the development of ROVA-T, a novel drug for treating last line small cell lung cancer patients. We like AbbVie's promising pipeline, and with a 10% free cash flow yield and a 4.1% dividend yield, we are content to wait and see how it plays out.

Portfolio Structure

We expect the Baron Durable Advantage Fund to be comprised of 30 to 50 investments with position sizes ranging from 1% to 5% at the time of initiation. The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level (rather than benchmark weights and compositions) having the highest roles in determining the size of each individual investment. Sector weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view." Top 10 holdings were 41.5% of the Fund, and top 20 holdings represented 68.8%.

Table IV.
Top 10 holdings as of March 31, 2018

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
S&P Global Inc.	$ 47.6	$148.1	5.0%
Microsoft Corporation	702.8	145.8	4.9
Mastercard Incorporated	184.2	139.8	4.7
Moody's Corporation	30.8	118.4	4.0
UnitedHealth Group Incorporated	207.1	117.3	4.0
Alphabet Inc.	719.1	115.6	3.9
Electronic Arts Inc.	37.2	115.5	3.9
Apple, Inc.	851.3	113.1	3.8
TE Connectivity Ltd.	35.1	108.3	3.7
BlackRock Inc.	87.9	106.2	3.6

Recent Activity

The Baron Durable Advantage Fund was launched on December 29, 2017, and was fully invested on January 2, 2018. During the quarter, we invested in 38 companies. We had no sales during the quarter.

Outlook

Paul Samuelson, the first American to win a Nobel Prize in Economics, famously said that "we have only one sample of the past," meaning that far more things could have happened than did happen. While "pattern recognition" is one of the most commonly used tools in the craft of capital allocation, there is only so much we can learn from studying history. We think it is equally important to realize that we will get only one sample of the future! The pattern that we will experience is just one of the infinitely many possible ones, and it will NOT be the one that we "expect" statistically. It will be something different, possibly very different. So, we understand investors' interest in our "outlook" but will usually be reluctant to offer one. Since we do not have a "crystal ball," even when one will be presented, it will likely prove to be of limited value.

Our goal is to invest in large-cap companies with, in our view, strong and durable competitive advantages, proven track records of successful capital allocation, high returns on invested capital, and high free cash flow generation, a significant portion of which is regularly returned to shareholders in the form of dividends or share repurchases. We hope to maximize long-term returns without taking significant risks of permanent loss of capital. We are optimistic about the prospects of the companies in which we are invested and will always continue to search for new ideas and opportunities.

Sincerely,

Alex Umansky
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contains this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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

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