DEAR BARON DURABLE ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

We had a good quarter and a good year.

Baron Durable Advantage Fund (the "Fund") appreciated 10.3% (Institutional Shares) during the quarter, compared to the 9.1% return of the S&P 500 Index, the Fund's benchmark. For the full year, the Fund gained 41.1% compared to the 31.5% gain for the S&P 500 Index.

ALEX UMANSKY

PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended December 31, 2019

	Baron Durable Advantage Fund Retail Shares[1,2]	Baron Durable Advantage Fund Institutional Shares[1,2]	S&P 500 Index[1]
Three Months[3]	10.28%	10.32%	9.07%
One Year	40.78%	41.13%	31.49%
Since Inception (December 29, 2017)	14.13%	14.39%	12.13%

This was a big year for U.S. Equity investors. A rising tides lifting all boats environment contributed to broad-based strength in our portfolio companies throughout the year. **Apple**, **Moody's**, **Mastercard**, **Microsoft**, **S&P Global**, **IHS Markit**, and **Danaher** each contributed over 200 basis points ("bps") to the Fund's absolute returns. **LVMH**, **Accenture**, **ASML**, **Charter Communications**, and **Equinix**, contributed over 150bps each. 18 of our holdings gained over 40% during the year with 12 of them rising more than 50%. **AbbVie**, down 15% before we sold it in the first quarter was the only detractor to speak of. Relative to the S&P 500 Index, we generated 845bps of outperformance from stock selection with an additional 119bps coming from the effect of sector allocation where an overweight in Information Technology and underweights in Energy, Consumer Discretionary, and Utilities contributed positively to relative returns.

This year we made a pivot with respect to the portfolio construction process that we think contributed positively to the Fund's strong returns. When we launched this Fund at the end of 2017, we were hoping that it would end up in the Core category for peer comparison purposes. After all, Baron Funds already has a Large-Cap Growth fund, so it made little business sense to launch another one. The majority of the funds in the Core category are a blend of traditional growth and value stocks. Many of them high growth and deep value, none of which were appealing to us, in terms of what we had in mind for this Fund. Consistent with the rest of the Firm, we were only interested in competitively advantaged, well-managed businesses, that are still growing, but they are at later stages of their growth life cycles and no longer have the ability to reinvest excess free cash flows at high rates of return. As a result, these companies are returning a significant portion of their cash flows to shareholders in the form of either dividends or share repurchases. These are high-quality businesses with durable competitive advantages, but their growth rates did not meet the high hurdle rate for growth and long-term return potential of Baron Fifth Avenue Growth Fund. In hindsight, we made a few compromises constructing the Baron Durable Advantage Fund in an effort to "fit" it into the Core category. We bypassed some higher-quality businesses whose short-term multiples looked high and settled on some lower-quality ones whose current Free Cash Flow Yield and discount to intrinsic value seemed particularly large. Of course, in stock markets, as with most things in life, you usually get what you pay for. High-quality businesses with durable competitive advantages compound their intrinsic values more consistently and at higher rates than the average quality businesses and hence, are rarely sold at significant discounts. A shoutout goes to our CIO, Ron Baron, who saw the fallacy in this thinking from the very beginning and thought investing into even a single company for the purpose of fitting into "some box" was "the most ridiculous thing ever!" Ron – you were right!

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail and Institutional Shares as of September 30, 2019 was 6.22% and 4.91%, respectively, but the net annual expense ratio was 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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, 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 mo www.BaronFunds.com or call 1-800-99BARON.

[1] The index is unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. 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.

Baron Durable Advantage Fund

Table II.
Top contributors to performance for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Percent Impact
Apple, Inc.	$1,304.8	1.23%
UnitedHealth Group Incorporated	278.5	1.19
Moody's Corporation	44.8	0.75
Microsoft Corporation	1,203.1	0.69
Adobe Inc.	159.7	0.64

Apple, Inc. designs and markets the iPhone, iPad, and MacBook. Apple also offers software services, including subscription offerings such as Apple TV+, Apple Arcade, Apple Music, and iCloud. Shares were up 32% during the fourth quarter and closed 2019 up 89%, contributing 293bps to our annual performance (our #1 contributor in 2019). Apple shares appreciated after the company guided to revenues and margins that exceeded expectations due to a successful product launch of the new iPhone as well as a host of new services. Our conviction in Apple is rooted in the company's leading brand; the breadth of its ecosystem, which creates sustainable and hard-to-replicate network effects; its ability to earn high returns on invested capital; and its significant cash generation.

Shares of **UnitedHealth Group Incorporated,** a $200 billion revenue diversified health and well-being company, serving 134 million individuals in all 50 states and more than 125 countries, rebounded in the fourth quarter with shares up 36% as concerns about Medicare for All receded. The late December news that Congress passed a permanent repeal of the health insurance fee beginning 1/21/2021 alleviated an earnings headwind and provided a lift for all managed care stocks including UnitedHealth. We think UnitedHealth's uniquely diversified and complementary set of skills, services, and expertise would allow it to deliver higher-quality health care to its members and customers at a lower cost, which are essential capabilities for successful health care enterprises. We view it as a core holding allowing us to participate in the strong secular growth of health care and remain constructive on the continued solid growth prospects for this excellently managed, innovative health care company.

Moody's Corporation is the second largest credit rating agency, providing research, professional services, and risk management software for financial institutions. Shares appreciated 16% during the fourth quarter ending the year up 71% as our second highest contributor to the Fund with 283bps of contribution. The strong performance was driven by better-than-expected debt issuance activity (issuance was up 10% year-over-year), along with a positive outlook due to low interest rates and tight credit spreads. The company reported better-than-expected quarterly results while raising full-year guidance (revenues grew 15% and guidance was raised to high single-digit 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 bonds taking share in the credit pie, growth in passive investing, and demand for data and analytics. Moody's operates in attractive oligopoly markets where it enjoys meaningful competitive advantages and pricing power.

Microsoft Corporation is a software mega cap focusing on cloud software through Azure–its Infrastructure and Platform-as-a-Service offering and its Software-as-a-Service offerings–Office 365, Dynamics 365, Teams, and more. Shares of Microsoft were up 14% in the quarter, continuing the momentum from earlier in the year with the stock closing 2019 up 58%, contributing 273bps to our annual results. Shares rose in the quarter as the business continued to perform well, growing its cloud segment by over 35% year-over-year with expanding margins. Microsoft's ability to transition its business from selling its Windows operating system to renting servers and software in the cloud, enabled it to accelerate revenue growth into the double-digits (at a scale of over $115 billion in revenues) and is a great case study for digital transformation, in our view. From a company that was focused on defending its mature Windows business, Microsoft transformed to a company that supports open source, interoperates with competing operating systems (i.e., Linux), and is one of the top two or three best-positioned companies to benefit from the significant opportunity in cloud computing (with cloud still representing only about 5% of the $3.7 trillion global Information Technology market). We believe that Microsoft's competitive advantages are strong and durable as it benefits from the long reach of its sales channel, its differentiated hybrid cloud offering, and its large installed base of enterprise customers.

Adobe Inc. is a leading software company targeting two main markets: Digital Media and Digital Experience. Adobe offers its creative and document cloud solutions for the digital media market and its marketing, advertising, and analytics cloud solutions for the digital experience market. Shares of Adobe were up 19% in the quarter after the company provided robust 2020 guidance that calls for strong double-digit growth accompanied by best-in-class margins. Adobe's robust growth is driven by some of the strongest technological shifts of our generation, including digitization of content, the growing adoption of online advertising, the transition to mobile, and the widespread adoption of video. Adobe's access to data with trillions of data points in marketing, web analytics coming from millions of users, and the artificial intelligence capabilities it adds on top create a significant moat around its business. We believe that the opportunity ahead of Adobe is large and expanding with a TAM estimated at over $100 billion, and we view Adobe as the best positioned company to attack that TAM as it benefits from its leadership position.

Table III.
Top detractors from performance for the quarter ended December 31, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Constellation Brands, Inc.	$ 36.3	–0.42%
CME Group, Inc.	71.9	–0.09
Booking Holdings, Inc.	80.1	–0.04
Texas Instruments Incorporated	119.9	–0.03
HEICO Corporation	13.4	–0.01

Constellation Brands, Inc. is the third largest producer of beer in the U.S. (including brands such as Corona and Grupo Modelo) and the world's leading premium wine company. Shares of Constellation Brands declined 8% during the fourth quarter (although they still closed the year up 20%) due to increasing investor concerns over growth and profitability at Canopy, in which Constellation owns a 40% stake, slower market share gains for its Corona brand, and the growth of the hard seltzer category to which Constellation has not had exposure. We continue to hold the shares as the company's best-in-class portfolio of Mexican imports remains among the fastest growing in the industry, aided by favorable demographic trends and overall trade-ups from domestics, meaningful innovation (e.g., line extensions such as Corona Especial & Premier and Corona in cans), and distribution gains. We also believe that recent divestitures of its low-end wine business as well as its underperforming beer business (Ballast Point) leave the remaining operations in better shape for continued future share gains.

CME Group, Inc. is the world's largest and most diversified derivatives marketplace. Its exchanges support trading of futures and options across a variety of asset classes including interest rates, equity indexes, energy, agricultural commodities, currencies, and metals. Placid market conditions and tough year-over-year comparisons caused a 19% decline in average daily trading volume, a sharp turnaround from the 32% volume growth in the third quarter. This, combined with the mixed volume outlook given the Federal Reserve's expected pause on interest rate changes, led to a 3% decline in CME's shares during the fourth quarter. We continue to believe that CME operates a strong business with a wide structural moat driven by the network effects between buyers and sellers on its marketplaces (the value of a marketplace is a function of its liquidity, which rises with the number of participants), its capital-light requirements, and its experienced management team that allocates capital well. We continue to own the stock as we believe CME would benefit from higher volatility and an increasing adoption of exchange-traded futures.

Booking Holdings, Inc. is the leading online travel agency operating sites including Booking.com, Priceline.com, RentalCars.com, and Agoda.com. Shares of Booking were down 3% for the period held based on lower-than-expected fourth quarter financial guidance driven by rate pressures, escalating competition, and search headwinds imposed by the Google algorithm changes. We have therefore decided to exit our small position and reallocate capital to higher conviction ideas.

Texas Instruments Incorporated ("TI"), the semiconductor bellwether, is a leader in analog and embedded processing. TI sells tens of thousands of products to 100,000 customers across industrial, automotive, personal electronics, communications, and enterprise end markets. Shares of TI were flat in the fourth quarter as the downturn in analog semis continued, driven by the uncertain macro environment. Despite the cyclicality of the industry and the current downturn, we believe TI will outperform across the cycle as it benefits from focusing on the best semi end markets (industrial and auto), which offer longevity, diversity, and content expansion opportunities; and because it is led by a management team of great operators and capital allocators.

HEICO Corporation is an aerospace & defense company offering alternative aerospace aftermarket parts as well as system sub-components for Aerospace & Defense. HEICO is a new holding for the Fund, and the stock was considered a detractor only because we bought it towards the end of the quarter with shares trading down 1% afterwards. A more detailed description of why we bought HEICO follows below under the "Recent Activity" section.

Portfolio Structure

The Fund's portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level (rather than benchmark weights) 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."

The top 10 positions represented 43.5% of the Fund, the top 20 were 71.3%, and we exited the quarter with 35 investments. Information Technology and Health Care represent our biggest exposures and make up 55.0% of the Fund. Financials, Communication Services, Consumer Staples, Industrials, and Real Estate make up another 37.2% of the Fund with the remaining 3.4% made up of Consumer Discretionary (LVMH) as well as Sherwin-Williams, which is considered a Materials business. We also held cash of 4.4% and no Energy or Utilities investments.

The Fund's turnover in 2019 was 16.6% compared to turnover of 8.4% in 2018.

Table IV.
Top 10 holdings as of December 31, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Mastercard Incorporated	$ 301.2	$429.4	4.8%
S&P Global Inc.	66.7	415.3	4.7
Microsoft Corporation	1,203.1	414.1	4.6
Accenture plc	133.9	410.6	4.6
Adobe Inc.	159.7	394.1	4.4
Moody's Corporation	44.8	392.9	4.4
IHS Markit Ltd.	30.2	392.0	4.4
Apple, Inc.	1,304.8	371.8	4.2
Danaher Corporation	110.2	336.7	3.8
UnitedHealth Group Incorporated	278.5	319.3	3.6

Recent Activity

We initiated 3 new investments during the quarter: **Merck**, **HEICO**, and **Envista Holdings**. Envista is a recent dental-focused spin-off from Danaher Corporation, which remains a top 10 position in the Fund. We also took advantage of flows into the Fund and added to 17 existing holdings. We exited **Electronic Arts**, **Booking Holdings**, **Fastenal**, and **Illinois Tool Works** as these were smaller positions that never graduated to core holdings, and we decided to reallocate capital to higher conviction names.

Table V.
Top net purchases for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
The Walt Disney Company	$260.7	$159.7
Merck & Co., Inc.	231.6	156.2
Adobe Inc.	159.7	134.2
Accenture plc	133.9	111.7
HEICO Corporation	13.4	108.7

During the fourth quarter, we continued building our position in **The Walt Disney Company** as the company reported impressive early figures for the adoption of its streaming service, Disney+, with 10 million subscribers signed during its first day. For comparison, HBO Now reached 10 million subscribers in nearly three years (See our last letter for more on our view of Walt Disney).

We also initiated a position in **Merck & Co., Inc.**, a leading global pharmaceutical company. Merck's most important drug is Keytruda, an anti-PD-1 (programmed death receptor-1) therapy, which is used to treat a variety of cancers. We believe Keytruda is still in the early innings of development with multiple ongoing clinical trials in adjuvant (after surgery) and neoadjuvant (before surgery) settings, combination therapies, and earlier lines of therapy. We also think Keytruda has substantial room to grow outside the U.S. Beyond Keytruda, we view Merck's vaccines business as an important growth driver thanks to the high barriers to entry and limited generic competition due to its complex manufacturing process. We believe Gardasil, a vaccine to help prevent diseases caused by the human papillomavirus (HPV), has substantial growth runway driven by expansion into new geographies, adoption by younger patients, an increasing propensity to recommend HPV vaccinations for males, and the increased awareness that Gardasil can prevent cancers linked to HPV infections beyond just cervical cancer. We also think Merck has an attractive animal health franchise, benefiting from favorable secular trends including more pet ownership, increased spending on pets, and increased focus on food safety. Finally, we think Merck has a pipeline of new drugs with strong growth potential, including a vaccines pipeline, MK-8591 for the treatment and prevention of HIV, and Gefapixant for chronic cough and potentially other disease indications. At the company's recent investor day, management outlined its expectation to generate strong revenue growth every year over the next five years combined with meaningful operating margin expansion and increased returns on invested capital. Management also expects the business to generate significant free cash flow, which can be deployed for business development and share repurchases. We think Merck trades at a reasonable valuation for a business with these characteristics.

As mentioned above, we also initiated an investment in **HEICO Corporation**, a Florida-based aerospace & defense company which operates in two segments:

- Flight Support Group ("FSG") – manufactures, distributes, and repairs/replaces FAA-approved aircraft parts.
- Electronic Technologies Group ("ETG") – makes system sub-components for Aerospace & Defense.

HEICO offers a compelling value proposition to airlines by selling FAA-approved aircraft parts at a significantly lower cost (up to 40% below comparable OEM parts). Over the long term, we expect HEICO's aerospace business (FSG) to benefit from several secular tailwinds. First, revenue passenger miles have grown at 5.5% annually for the last 30 years, yet 80% of global citizens have never flown. Second, the commercial aftermarket is growing due to past aircraft deliveries that are now aging into prime aftermarket maintenance years. Lastly, we believe HEICO should gain market share as it currently supplies only 2% of the market for replacement parts. The 737 MAX grounding is also a near-term boost to the aftermarket.

We also believe HEICO will grow its defense business (ETG) as substantial budget increases in recent years flow through to outlays in future years, and with the increasingly uncertain geopolitical environment serving as a tailwind.

In our view, HEICO's innovative and entrepreneurial culture, highly engineered vertically integrated manufacturing, and market leadership creates a strong and durable moat and keeps competitors largely at bay. HEICO's shareholder friendly management team (which own 11% of the shares) and the culture they have built over the last 30 years (decentralized management style in which acquired subsidiaries continue to be run by former owner-operators and who maintain 20% stakes in their businesses) make HEICO the acquirer of choice for A&D entrepreneurs, enabling the company to further accelerate growth through value-creating acquisitions.

Table VI.
Top net sales for the quarter ended December 31, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
Electronic Arts Inc.	$29.8	$119.1
Booking Holdings, Inc.	79.7	85.4
Fastenal Co.	20.4	68.9
Illinois Tool Works Inc.	56.0	60.1
BlackRock Inc.	78.1	42.4

During the fourth quarter, we exited our **Electronic Arts Inc.**, **Booking Holdings, Inc.**, **Fastenal Co.**, and **Illinois Tool Works Inc.** positions. As mentioned above, these were all smaller positions and we decided to reallocate capital to higher-conviction names with greater upside. We sold Electronic Arts since, in our view, the gaming industry has become more hit-driven (as illustrated by the success of *Fortnite*), while the tailwinds from the transition to digital sales have slowed. As mentioned above, we exited Booking Holdings due to the increasing rate pressures, escalating competition, as well as greater search headwinds imposed by the Google algorithm changes. We also exited our stub positions in Fastenal and Illinois Tool Works, both of whom are levered to the cyclical manufacturing sector.

Outlook

While the Fund had a great year with a 41.1% gain, we continue to focus on the long term (and encourage our investors to do the same and measure our performance over multi-year periods and full market cycles). It is our belief that investing in great businesses at attractive valuations will enable us to earn excess risk-adjusted returns for our shareholders over the long term. We do so by investing in businesses with 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.

In 2019, the intrinsic value of the businesses we hold in our portfolio continued compounding at a nice clip with expanding competitive moats. For example, **Mastercard** guided for low-teens revenue growth and high-teens EPS growth for the next three years driven by market volume growth of 8% to 10%, market share gains, higher pricing, favorable mix shifts, and new higher-growth services. **S&P Global** guided to mid-single-digit revenue growth with approximately 10% EPS growth and reiterated its low double-digit EPS growth target for the medium term. **Microsoft** continues to defy gravity with its $45 billion cloud business growing around 40% and its expanding margins as global IT spending continues to shift to the cloud.

While we don't believe the intrinsic values of our investments expanded by 41% during 2019, we also didn't believe they shrunk by 14% in the fourth quarter of 2018 or by 7% in 2018, making the Fund's 14% annualized return since inception a reasonable proxy for the growth in the intrinsic value of our holdings. As we turn to our outlook, while market prices will oscillate around intrinsic values and will often go up more than intrinsic values when the market is optimistic (2019) and down more when it is pessimistic (2018), over the long term we believe that stock prices will follow intrinsic values. As we look at our Fund today, we believe our holdings can continue to compound intrinsic value by double-digits for years to come, driven by their sustainable competitive advantages, the resulting high returns on invested capital, and best-in-class management teams.

We are optimistic about the prospects of the companies in which we are invested and will 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 contain 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.

Risks: 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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