Dear Baron Durable Advantage Fund Shareholder:

Performance

Baron Durable Advantage Fund (the "Fund") returned -13.8% (Institutional Shares) during the quarter, essentially in line with the -13.5% return for the S&P 500 Index, the Fund's benchmark. For 2018, the Fund was down 7.3% compared to a 4.4% decline for the S&P 500 Index.

Table I.
Performance
For periods ended December 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[3]	(13.85)%	(13.83)%	(13.52)%
One Year and Since Inception (December 29, 2017)	(7.48)%	(7.28)%	(4.38)%

The Fund did not perform nearly as well as we had expected during the period of heightened volatility. We have been avoiding the high-flying, super high-growth, high-multiple investments (such as Amazon, Netflix, Facebook or Alibaba) and expected the Fund to outperform during a period of multiple contraction. Unfortunately, our stock selection was poor enough over this period of time, to prevent that from happening. We anticipated weakness in our Industrials holdings given the trade tensions with China and the resultant trade tariffs, but were surprised by the violent reactions investors had to stocks in Consumer Staples (**Constellation Brands** down 25%) and Communication Services (**Activision Blizzard** and **Electronic Arts** down 44% and 35%, respectively). Even **Apple**, with its below market multiple AND almost a quarter of its market cap in cash, declined 30% during the quarter. But even more than the magnitude of the losses, it was lack of winners that contributed to disappointing overall results.

We lost approximately 200 basis points ("bps") of relative performance in Communication Services and another 90 bps in Consumer Staples mostly as a result of stock selection. This was partially offset by not owning Energy stocks that continued their decline during the quarter (~70 bps benefit) and owning the right stocks in Financials (~70 bps benefit), namely **CME Group**, which was up 12% in the quarter. Good stock selection also drove outperformance in Health Care, Industrials, and Information Technology ("IT") (~110 bps combined) thanks to defensive holdings such as **Danaher**, **UnitedHealthcare**, and **Microsoft** all of which declined less than the benchmark. Not owning Utilities stocks hurt relative results by 43 bps.

ALEX UMANSKY
PORTFOLIO MANAGER

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

All in all, it was a rough first year out of the box. We entered the quarter a few hundred basis points behind as super high-growth stocks such as Amazon, Netflix, NVIDIA, etc., that we deem to be unsuitable for this Fund, did well, and then we failed to catch up or gain ground when the market went the other way. Poor stock selection was the main culprit, which was compounded by mistakes in position sizing. To put it differently, we did not own enough of our winners and had too many (and owned too much) of our losers. The only good thing is that we believe that for the most part, we did not suffer any permanent loss of capital.

We continue adding ideas to our list of high-quality businesses with wide moats and strong management teams, who are not only proven operators but also talented capital allocators. We believe that buying these businesses at a fair price and holding them for the long term will prove to be lucrative, as these businesses earn high returns on capital in their core operations while returning excess capital for us to deploy elsewhere. We don't spend any time trying to predict market volatility and instead try to use it to our advantage. As Warren Buffett's teacher, Benjamin Graham, famously said: "In the short run, the market is a voting machine…but in the long run, it is a weighing machine." We take advantage of the "voting" by buying great businesses when we believe their quoted prices are below our conservative estimates of

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, 2018 was 7.45% and 5.71%, 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 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.

intrinsic value, and then we patiently wait for the "weighing machine" dynamics to kick in.

Table II.

Top contributors to performance for the quarter ended December 31, 2018

	Quarter End Market Cap (billions)	Percent Impact
CME Group, Inc.	$67.3	0.36%

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. CME shares rose 12.0% during the fourth quarter benefiting from increased derivative trading volumes due to market volatility and a greater demand for hedging (over 80% of CME's revenues are tied to trading volumes). The increase in volumes also benefits CME's bottom line as most of its costs are fixed, resulting in extremely high margins on incremental volume. CME is an example of a business we like–it has a wide structural moat enabled 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), it is capital light, and has an experienced management team that allocates capital well. We believe CME will continue to benefit from higher volatility, interest rate normalization, and greater adoption of exchange-traded futures.

Table III.

Top detractors from performance for the quarter ended December 31, 2018

	Quarter End Market Cap (billions)	Percent Impact
Apple, Inc.	$748.5	–1.30%
Activision Blizzard, Inc.	35.5	–1.27
Electronic Arts Inc.	23.8	–1.19
Constellation Brands, Inc.	30.6	–0.76
Mastercard Incorporated	194.8	–0.70

Apple, Inc. is the largest consumer electronics company in the world with iconic products such as iPhone, iPad, Apple Watch, and Macs, and the world's most valuable brand (recently selected by Forbes for the 8th straight year). Apple is a platform company with rapidly growing, recurring revenue services businesses that benefit from network effects. The company's shares declined 29.9% during the quarter as iPhone sales came in below expectations driven by the weakening Chinese demand and increased competition from local players. Even though Apple is facing some near-term headwinds, the value of its brand name and the strength of its ecosystem should enable it to sustain its positioning in the long term. To quote Warren Buffett, a brand name is as valuable as the company's ability to have pricing power, and we believe Apple has proven its ability to raise prices over time. We believe Apple to be a good example of a company with durable competitive advantages and expect to be investors in the stock for years to come.

Activision Blizzard, Inc. is a global leader in digital interactive entertainment. The company develops, markets, publishes, and distributes video games on consoles, PCs, and mobile. Key game franchises include Call of Duty, Destiny, World of Warcraft, Overwatch, and Candy Crush. Shares of Activision declined 43.9% in the fourth quarter as uncertainty regarding the launch slate for 2019 and the broad negative sentiment around the video game sector intensified. While many investors might consider uncertainty synonymous with risk, we believe that risk is the probability of permanent loss of capital, and so the increased near-term uncertainty hasn't lead us to change our views on Activision. Our conviction is rooted in Activision's long track record of success with games that have grown to become franchises over the years (such as Call of Duty) driving revenue growth and margin expansion. Activision should also benefit over time from industry tailwinds including the shift to digital (leading to higher margins), in-game monetization, mobile gaming, advertising, eSports, and international expansion.

Electronic Arts, Inc. ("EA") is a global leader in digital interactive entertainment. The company develops, markets, publishes, and distributes games, content, and services consumers can use on a variety of platforms, such as game consoles, PCs, mobile phones, and tablets. Shares of EA declined 34.5% in the fourth quarter following the company's quarterly earnings report showing a deceleration in Live Services growth. Shares of EA were also hurt by the negativity surrounding the entire video game sector and the uncertainty around 2019's release slate. We retain long-term conviction in EA as it should continue benefiting from the shift to digital distribution, growth of in-game monetization (at very high incremental margins), mobile gaming, advertising, and eSports.

Constellation Brands, Inc. produces and markets alcoholic beverages across North America, Europe, and Australia. The company has one of the fastest growing alcohol brand portfolios, the result of savvy bets on Mexican import beer brands such as Corona and Grupo Modelo. Shares of Constellation declined 25.1% in the fourth quarter following the quarterly earnings miss by Canopy Growth, a cannabis company that Constellation invested in earlier last year, and mounting global trade concerns. Nevertheless, Constellation's core business had a strong quarter with double-digit revenue growth and record operating margins (over 41%), which we believe the company can sustain. Our conviction is driven by Constellation's strong positioning in the beverage sector, benefiting from several positive secular trends in the alcohol industry, including premiumization/trade-ups to better beer and imports, growth of the Hispanic population, and increased consumption across all three alcohol categories (beer, wine, and spirits).

Mastercard Incorporated is a leading global commerce payment solutions network. The stock underperformed in the fourth quarter, declining 15.1% even though the company reported solid quarterly results beating estimates on top and bottom lines with 15% revenue growth and 33% growth in EPS driven by continued share gains internationally, which represent 2/3 of revenues. We believe Mastercard is a great example of a business with an extremely wide moat with high barriers to entry, operating in a stable duopoly with Visa. We think Mastercard should benefit from global consumer spending growth and the secular shift from cash to electronic payments for years to come.

Portfolio Structure

We expect the Fund to consist 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 sector composition) 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." The Fund's top 10 holdings represented 42.4% of the Fund, the top 20 holdings represented 68.1%, and we exited the fourth quarter with 37 investments.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
UnitedHealth Group Incorporated	$239.7	$182.6	5.2%
Microsoft Corporation	785.0	179.7	5.1
Mastercard Incorporated	194.8	164.5	4.7
Alphabet Inc.	723.2	152.2	4.3
CME Group, Inc.	67.3	144.9	4.1
S&P Global Inc.	42.6	140.4	4.0
Danaher Corporation	72.3	139.9	4.0
Apple, Inc.	748.5	138.2	3.9
Moody's Corporation	26.8	134.9	3.8
BlackRock Inc.	62.3	117.1	3.3

Recent Activity

We initiated new positions in **IHS Markit Ltd.** and **AstraZeneca PLC**, and we eliminated **Naspers Limited** during the quarter. We also added to 12 existing investments, while not reducing any.

Table V.
Top net purchases for the quarter ended December 31, 2018

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
IHS Markit Ltd.	$ 18.9	$87.8
AstraZeneca PLC	96.2	52.0
Danaher Corporation	72.3	31.8
Apple, Inc.	748.5	21.2
TE Connectivity Ltd.	25.9	16.9

IHS Markit ("INFO") provides critical information, analytics, and domain expertise across a variety of industries, including automotive, energy, and financial services. Customers use this insight to improve efficiency and make more informed decisions. The company employs more than 5,000 analysts, data scientists, financial experts, and industry specialists to generate proprietary content. INFO has a diverse customer base of over 50,000 businesses and governments, including 80% of the Fortune Global 500 and 70% of the Fortune U.S. 1000. The company was formed through the 2016 merger of IHS (founded in 1959) and Markit (founded in 2003).

The automotive business provides vehicle production and sales forecasts, marketing tools for car makers and dealers, and vehicle history reports for the used car market. The energy business provides technical and financial data for more than 23,000 oil and gas assets around the world as well as benchmark pricing for refined products. The financial services business provides pricing and reference data, indexes, valuation, and trading services, trade processing, enterprise software, and managed services. The company owns a number of well-known brands, including CARFAX, CERAWeek, the Purchasing Managers Index (PMI) series, and the iBoxx indices.

INFO has an attractive financial profile with significant recurring revenue (84% of total revenue), expanding margins, high cash generation, and capital flexibility. Many of the company's offerings are core to customers' business operations, resulting in high retention rates and long-term customer relationships. Low capital requirements lead to significant free cash flow that's being used for acquisitions, debt repayment, and share repurchases.

We believe the company is well positioned to achieve management's long-term targets of 5% to 7% organic revenue growth, 100 basis points of annual EBITDA margin expansion, and double-digit EPS growth. Organic growth is coming from new customers and selling more products and services to existing customers. Margins should expand across all four segments by leveraging fixed overhead, reallocating resources to lower cost areas, and using technology to improve efficiency. Management expects to reduce financial leverage below three times debt/EBITDA later this year, and then resume share repurchases. We also expect INFO to supplement growth by continuing to make accretive acquisitions of information services companies.

AstraZeneca is a global biopharmaceutical company focusing on pipeline-driven transformation around three main therapy areas: oncology; cardiovascular and metabolic diseases; and respiratory illnesses. We think AstraZeneca's focused strategy could potentially produce a best-in-class growth profile. The company is a leader in economically attractive markets, particularly oncology, and has an opportunity to participate in emerging transformative markets, such as Alzheimer's. After a trough in revenue and earnings caused by patent expiration of its blockbuster drugs in 2016, AstraZeneca has experienced strong growth. We forecast 2018 to 2022 revenue and EPS compound annual growth rates of 7% and 15%, respectively.

We added to our investments in **Danaher Corporation** and **TE Connectivity Ltd.** as we put some of the Fund's inflows to work. We also added to our position in **Apple, Inc.** as we took advantage of the stock's correction.

Table VI.
Top net sales for the quarter ended December 31, 2018

	Market Cap When Sold (billions)	Amount Sold (thousands)
Naspers Limited	$84.0	$85.3

We eliminated Naspers during the quarter after becoming less comfortable with the risk profile of this investment in the context of this Fund. While we believe the outsized potential reward makes it an attractive investment for some of our other Funds, we decided to move on and redeploy capital.

Baron Durable Advantage Fund

Outlook

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 have invested and have a full pipeline of new ideas we are actively working on to add to the portfolio during the coming quarters.

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.

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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