Dear Baron Durable Advantage Fund Shareholder:

Performance

Baron Durable Advantage Fund (the "Fund") returned 14.83% (Institutional Shares) during the quarter, outperforming the 13.65% return of the S&P 500 Index, the Fund's benchmark.

Table I.
Performance
Annualized for periods ended March 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]	14.75%	14.83%	13.65%
One Year	4.81%	5.10%	9.50%
Since Inception (December 29, 2017)	4.91%	5.14%	6.87%

ALEX UMANSKY

PORTFOLIO MANAGER

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

The year is off to a good start with the market climbing significantly during the quarter, erasing essentially all of its losses from the fourth quarter of last year. The gains were broad based from Information Technology ("IT") to Financials, Health Care, and Communication Services as the market rebounded on hopes for a trade-war resolution and following the *'Fed-Pivot'* on interest rates – talking back its autopilot approach and being data-sensitive and accommodative for longer if necessary. The Fund outperformed in the quarter despite not investing in some of the highest growers in the S&P 500 Index, stocks of companies such as Facebook and Netflix, which were up 27% and 33%, respectively. Our goal is to find great businesses with sustainable competitive advantages and entrenched leadership positions in their markets; companies that earn high returns on invested capital, but which are unable to reinvest all of their excess free cash flow back into the business; and companies that are thus returning a large portion of it back to shareholders in the form of dividends or share buybacks. We believe that owning a portfolio of businesses with these characteristics will enable us to outperform the S&P 500 Index over the long term, while minimizing the risk and the inherent volatility that comes with investing in growth companies.

We had over 200 basis points of relative outperformance in the quarter due to positive stock selection. Nine of our investments were up more than 25% in the quarter (**Mastercard**, **Moody's**, **Danaher**, **Electronic Arts**, **LVMH**, **Equinix**, **Mettler-Toledo**, **A.O. Smith** and **Estee Lauder**), and another seven gained between 20% and 25%. Partially offsetting those gains, we lost 83 basis points due to allocation effect, primarily cash. Our cash holdings are not the result of a macro or market call as we do not attempt to predict short-term market movements, but rather the result of working through various new ideas for which we would like to have some dry powder to act as we patiently wait for their prices to fall below our appropriately conservative estimates of their intrinsic values.

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 reimburses certain Baron Fund expenses pursuant to a contract with an 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 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.

BARON FUNDS 1987

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

	Quarter End Market Cap (billions)	Percent Impact
Mastercard Incorporated	$241.6	1.18%
Moody's Corporation	34.2	1.15
Danaher Corporation	94.5	1.11
S&P Global Inc.	51.8	0.98
Microsoft Corporation	904.9	0.82

Mastercard Incorporated is a leading global commerce payment solutions network. The stock outperformed in the first quarter, with shares rising 25% and more than erasing the stock's 15% decline in the fourth quarter. The company reported 15% revenue growth and 37% EPS growth driven by continued international share gains. The company's international business represents two-thirds of revenues. The management team also provided mid-term guidance for low-teens revenues growth and high-teens EPS growth, which we believe is achievable. Mastercard is an example of a great business with an extremely wide moat and high barriers to entry, operating in a stable duopoly with Visa. We expect Mastercard to benefit from the continued growth in global consumer spending as well as the secular shift from cash to electronic payments for years to come.

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 30% during the quarter as the market recovered its fourth quarter declines. This led to a rebound in investor confidence, driving more robust expectations for the issuance market. Moreover, the company provided better-than-expected guidance for its Analytics segment calling for double-digit growth and margin expansion driven by strength in the Enterprise Risk Solutions sub-segment. 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.

Danaher Corporation is a leading manufacturer in the life sciences, diagnostics, dental, and environmental markets. Shares of Danaher were up 28% in the first quarter following news the company was acquiring GE's biopharma business for $20 billion. This acquisition solidifies Danaher's positioning in bioprocessing and is EPS accretive in year *one*. We believe that Danaher's strong market positioning and its significant consumable exposure (enabling pricing power) along with its corporate philosophy (the Danaher Business System – DBS) will help it drive continuous improvement, resulting in superior long-term operating and financial performance. We believe Danaher's executives are terrific operators and great capital allocators.

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. Not too different from Moody's solid quarterly performance, S&P Global's stock was up 24% during the quarter as investor sentiment improved and as the company showed solid cost control (driving 270 basis points of operating margin improvement) amid a difficult issuance market. We continue to believe that S&P Global benefits from numerous secular growth trends (bond issuance, passive investing, and demand for data and analytics), and it operates in attractive markets where it enjoys meaningful and durable competitive advantages.

Microsoft Corporation is a software mega cap focusing on cloud software through its Infrastructure and Platform-as-a-Service offering, Azure, and its Software-as-a-Service offerings, Office 365, Dynamics 365, Teams, and more. Shares of Microsoft were up 17% in the first quarter as the business continued to perform well, growing its cloud business 48% year-over-year with expanding margins, while its overall commercial bookings grew 22% (this metric includes the mature, slower growing businesses). Microsoft's ability to accelerate its top-line growth to double digits at its scale (>$115 billion in revenues) is a good case study for business transformation in our view. From a company that was a '*closed-garden*' 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 (Amazon and Google are the other two). We believe that Microsoft continues to have a wide moat around its business based on the long reach of its sales channel, its hybrid cloud offering, and its large installed base of enterprise customers.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
CME Group, Inc.	$ 58.9	–0.50%
AbbVie Inc.	116.1	–0.31

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 declined 12% during the first quarter as reduced volatility caused derivative trading volumes to decline (and over 80% of CME's revenues are tied to trading volumes). 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 believe CME will continue to benefit from interest rate normalization and greater adoption of exchange-traded futures while providing a natural hedge against market volatility.

AbbVie Inc. is a multi-national pharmaceutical company that is perhaps best known for the commercialization of Humira, the best-selling biological drug in the industry's history. Shares of AbbVie declined 15% in the first quarter due to continued investor concerns around the Humira patent cliff, the various legal battles related to the cliff, and uncertainty regarding AbbVie's future pipeline. Given our view that the future pipeline will not be able to fill the enormous $18 billion hole left by Humira's genericization, we are no longer invested in AbbVie.

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 purchase. 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 43.7% of the Fund, the top 20 holdings represented 73.0%, and we exited the first quarter with 33 investments.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Microsoft Corporation	$904.9	$208.6	5.2%
Mastercard Incorporated	241.6	205.3	5.1
Danaher Corporation	94.5	186.8	4.7
Moody's Corporation	34.2	184.7	4.6
UnitedHealth Group Incorporated	237.3	181.2	4.5
S&P Global Inc.	51.8	173.9	4.3
Alphabet Inc.	816.8	172.5	4.3
Apple, Inc.	895.7	166.4	4.1
LVMH Moet Hennessy Louis Vuitton SE	185.8	140.3	3.5
Accenture plc	112.4	137.5	3.4

RECENT ACTIVITY

We eliminated four investments during the quarter: **Activision Blizzard, Inc.**, **AbbVie Inc.**, **Biogen, Inc.**, and **Elanco Animal Health Incorporated**. We also decreased our holdings in **Illinois Tool Works Inc.** and added to 12 existing positions.

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

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
IHS Markit Ltd.	$ 21.7	$44.6
Constellation Brands, Inc.	33.2	37.7
Accenture plc	112.4	29.7
AstraZeneca PLC	102.5	24.1
Texas Instruments Incorporated	99.6	19.8

We continued to add to **IHS Markit Ltd.** during the first quarter after first buying it during the fourth quarter of 2018 making IHS Markit our 11th largest holding at 3.4% of net assets. We believe that its solid competitive positioning in providing data and analytics that are core to its customers' businesses will enable it to grow and expand margins for many years. We also increased our recently initiated position in **AstraZeneca PLC** (now 2.0%), based on its top-tier growth profile driven by the oncology franchise of Tagrisso, Lynparza, and Imfinzi. We expect continued outperformance as AstraZeneca comes out of its trough earnings and grows by 15% to 20% CAGR over the next three to five years, while expanding operating margins into the mid-30% range.

One of our other top purchases in the quarter was **Constellation Brands, Inc.**, 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. After quarter end, the company announced the sale of its 30 lower-end wine brands (retailing at $11 or below) for $1.7 billion to E&J Gallo Winery, which we believe should improve the company's positioning in the premium category, driving its growth and margin profile higher. We also increased our position in **Accenture plc**, one of the world's leading consulting and technology services companies as we believe Accenture should continue growing market share by focusing on digital, cloud, and security-related services as enterprises look to digitally transform. Lastly, we increased our **Texas Instruments Incorporated** position taking advantage of the lower semiconductor multiples during the current cyclical downturn to buy more shares in what we consider to be a solid business with entrenched competitive moats at prices that we believe are below its intrinsic value per share.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
Activision Blizzard, Inc.	$ 35.9	$71.2
AbbVie Inc.	116.1	58.7
Biogen, Inc.	63.1	44.1
Illinois Tool Works Inc.	46.9	20.0
Elanco Animal Health Incorporated	11.1	0.4

We sold video game leader **Activision Blizzard, Inc.** as shares continued to tread water during the first quarter following continued uncertainty regarding the launch slate for 2019 and as the company guided for EPS well below estimates. The surprising success of Electronic Arts' recent *Apex Legends* along with the continued popularity of *Fortnite* (resulting in a more "hit-driven" industry) and the slowing benefits from the transition to digital distribution also contributed to our decision.

We also sold **AbbVie Inc.**, a pharmaceutical company known for Humira. As we mentioned above, given our view that the future pipeline will not be able to offset the $18 billion headwind left by Humira's genericization following the patent's expiration, we decided to sell our holdings.

Another position we eliminated during the quarter was **Biogen, Inc.**, the large-cap biotechnology firm. Biogen underperformed this quarter after it announced that it was discontinuing development of aducanumab, Biogen's lead asset in Alzheimer's disease. This was a major failure for the company and given pending IPR legal issues for another important MS asset Tecfidera and a dearth of near-term meaningful catalysts, we decided to exit the position.

We also eliminated our **Elanco Animal Health Incorporated** position and trimmed **Illinois Tool Works Inc.**, the global industrial manufacturer, in order to reallocate capital to investments that we believe have a more favorable risk-reward profile.

Baron Durable Advantage Fund

Outlook

The first quarter of 2019 reversed the losses of the previous quarter for most of the indexes and investors. Did the intrinsic values of the competitively advantaged businesses in this Fund decline almost 14% last quarter and increase almost 15% the next? Probably not, but nonetheless, to quote Oaktree Capital Co-Founder Howard Marks, "Investment markets follow a pendulum-like swing: between euphoria and depression, between celebrating positive developments and obsessing over negatives, and thus between overpriced and underpriced." We believe these swings create opportunities for long-term investors who focus on finding great businesses, buying them below intrinsic value, and holding them through market volatility and uncertainty.

We do not attempt to predict when the next recession will occur or if the market will be up or down over the next 3, 6, or 12 months. We do know however, that over the last 40 years or so, the stock market has outperformed bonds approximately 73% of the time based on monthly rolling 5-year returns, and while history doesn't repeat itself, it often rhymes.

Our goal is to invest in large-cap companies 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. 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.

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.

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