Dear Baron Fifth Avenue Growth Fund Shareholder:

Performance

It was a nice, quiet, almost boring quarter. The markets continued to do well, building on last quarter's gains, and we did even better. Baron Fifth Avenue Growth Fund (the "Fund") gained 6.6% (Institutional Shares), against 4.6% and 4.3% returns for the Russell 1000 Growth Index and the S&P 500 Index, respectively, the Fund's benchmarks. Year-to-date, the benchmark indexes are sporting impressive returns of 21.5% for the Russell 1000 Growth and 18.5% for the S&P 500, while the Fund has returned 26.5%. The market environment has clearly remained favorable to the way in which we invest.

ALEX UMANSKY

PORTFOLIO MANAGER

Retail Shares: BFTHX
Institutional Shares: BFTIX
R6 Shares: BFTUX

Table I.
Performance
Annualized for periods ended June 30, 2019

	Baron Fifth Avenue Growth Fund Retail Shares[1,2]	Baron Fifth Avenue Growth Fund Institutional Shares[1,2,3]	Russell 1000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	6.55%	6.61%	4.64%	4.30%
Six Months[4]	26.41%	26.53%	21.49%	18.54%
One Year	11.17%	11.43%	11.56%	10.42%
Three Years	22.82%	23.12%	18.07%	14.19%
Five Years	14.22%	14.52%	13.39%	10.71%
Ten Years	16.01%	16.31%	16.28%	14.70%
Since Inception (April 30, 2004)	9.49%	9.68%	10.01%	8.89%

According to performance attribution analysis, all of the excess return in the quarter (as well as year-to-date) was attributable to strong stock selection, which is typically the case, in good times and bad. The portfolio had 16 double-digit or better gainers against 4 double-digit decliners, and 25 of our investments overall gained in value during the second quarter. **Veeva Systems**, **Illumina**, **Amazon**, **Mastercard**, **PagSeguro Digital**, **CME Group**, **Facebook**, and **Visa** were our top eight contributors (all long-term holdings) adding over 50 basis points each to absolute returns. Year-to-date, 12 investments have contributed over 100 basis points each, which we think is pretty remarkable, and they are the main reason why the Fund has done so well. On the other side of the ledger, **Alibaba**, **Alphabet**, and **Intuitive Surgical** (also all long-term holdings) declined by high single-digits and were the three largest detractors, though none cost us more than 43 basis points in the quarter or year-to-date, which is another reason why the Fund has done so well.

According to Morningstar, for the period ended June 30, 2019, the Fund is ranked in the top 8% for its year-to-date return, top 4% for its 3-year return, top 10% for its 5-year return, and top 18% for its 10-year return.

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 1.09% and 0.82%, but the net annual expense ratio was 1.00% and 0.75% (net of the Adviser's fee waivers, restated to reflect current fee waivers). *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 month end, visit www.BaronFunds.com or call 1-800-99BARON.*

1 The indexes are unmanaged. The Russell 1000® Growth Index measures the performance of large-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

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 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

Baron Fifth Avenue Growth Fund

The Fund has been awarded a 5-star Morningstar rating for its 3-year risk-adjusted performance, and a 4-star rating for its 5-year, 10-year, and overall risk-adjusted performance.*

Since we completed the restructuring of the Fund at the end of calendar year 2011, it has returned 237.6% cumulatively, outperforming the Russell 1000 Growth Index by 31.0%, the S&P 500 Index by 63.9%, and the Morningstar Large Growth Category average by an impressive 62.9%. Strongly favorable compares, in our view.**

The news item probably most relevant to our investments to have surfaced over the last three months was the disclosure of increased antitrust and regulatory scrutiny of "Big Tech Companies." Shares of Amazon, Facebook, Alphabet, and Apple (this last one is not owned in this Fund, but is owned in other Baron Funds) were all down on the news that the FTC or DOJ would be taking an extensive look at their business practices to determine whether they have violated any current rules or laws and whether regulatory action, including breaking these companies up, was needed.

Being big isn't bad. Being bad is bad, and we don't believe any of these companies are actually "bad." Needless to say, intense regulatory scrutiny is not good for business. We'd much prefer top executives focus on practically anything else. But, beyond the obvious distractions and continued headline risk, we don't see significant business risk here.

1. For starters, this would take years – potentially a decade or more. The regulators would need ***to prove*** that the target company has: a) gained and maintained a monopoly through unlawful practices; or b) had past mergers which resulted in substantially reduced competition. We think this would be increasingly difficult to prove given these companies operate in multiple markets with significant services overlap. Unlike Europe, where regulators have a mandate to protect small businesses, U.S. regulators focus on consumer welfare. It is hard to argue that lower prices (Amazon) or better products (Apple, Google, and Facebook) are hurting consumers. The likelihood of any regulation coming before the 2020 election cycle is very small, in our view.

2. Recent history has not been kind to the trust busters. The DOJ lost its last few cases (American Express, AT&T/Time Warner Cable), and, in fact, the most recent success (if one can call it that) was the antitrust case against Microsoft, which took over 10 years to resolve. The DOJ formally opened the investigation in August of 1993 and the lawsuit was settled in June of 2004. While investors' initial reaction resulted in about a 20% drop in Microsoft's stock price, the stock appreciated around 900% (roughly a 23% compound annual return) over the 10+ years of wrangling with the DOJ.

3. While we believe an antitrust mandated breakup is unlikely, we don't think it would be necessarily bad for these stocks. Specific company analysis varies, but we believe the sum of the parts for Amazon, Alphabet, and Facebook, are likely to be worth considerably more than the whole.

Bottom line, increased regulatory scrutiny is not good for business, but it has become an inevitable part of the cost of doing business, and we think these companies are well equipped to manage it. When we evaluate the range of expected outcomes (as we do with all our investments), the overwhelming majority of them are still positive and hence, our expected long-term value creation opportunity for these companies remains largely unchanged.

A lot has been written recently about "growth" stocks decimating the performance of "value" stocks over the last decade. Some believe that "value investing" is dead. Others say that it will come back with a vengeance, and that reversion to mean will cause meaningful underperformance in growth stocks any day now. Naturally, we have no clue. But, we think the entire debate is framed poorly.

All sensible investing – is value-based investing. Benjamin Graham famously said that investing means buying companies, or assets below their intrinsic values, and that everything else was just speculation. We apply the key principles of classical value investing to the high-quality businesses that we believe are in the early stages of the growth part of their lifecycles. We also spend a considerable amount of time analyzing disruptive change to understand where it will support and sustain companies' competitive advantages and where it will likely cause them to be left behind. But leaving that aside for a moment, a distinction needs to be drawn between investing in a *high-quality business* trading at a discount to its intrinsic value and investing in *any-quality business*, trading for less than it is worth. It is critical for long-term investors to invest only in high-quality companies because they enable compounding (once described by Albert Einstein as the eighth wonder of the world – "*He who understands it, earns it; he who doesn't, pays it....*" High-quality businesses compound in value over time, while mediocre businesses do not and so, must be bought below their intrinsic value and churned quickly as their stock prices approach their fair value (which does not grow over time). High-quality businesses have competitive advantages and if they are sustainable, the company will likely grow faster and for longer periods of time. When the opportunity is particularly large and the

* Morningstar calculates the **Morningstar US Fund Large Growth Category** average using the Morningstar Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of 6/30/2019, the Category consisted of 1,400, 1,383, 1,235, 1,100, and 812 share classes for the year-to-date, 1-, 3-, 5-, and 10-year periods. Morningstar ranked **Baron Fifth Avenue Growth Fund Institutional** Share Class in the 8th, 35th, 4th, 10th, and 18th percentiles, respectively.

As of 6/30/2019, the Morningstar US Fund Large Growth Category consisted of 1,235, 1,100, 812, and 1,235 share classes for the 3-year, 5-year, 10-year, and overall periods, respectively. Morningstar has awarded **Baron Fifth Avenue Growth Fund Institutional** Share Class 5 stars, 4 stars, 4 stars, and 4 stars for its 3-year, 5-year, 10-year, and overall performance, respectively

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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** Mr. Umansky became the portfolio manager of the Fund on November 1, 2011. Since that date, the Fund has returned 227.27% cumulatively, which compares to 205.58% for the Russell 1000 Growth Index and 175.85% for the S&P 500 Index, outperforming the Morningstar US Fund Large Growth Category average by 58.65% over the 7+ year period. As of 6/30/2019, the annualized returns of the Morningstar US Fund Large Growth Category average were 10.02%, 16.97%, 11.33%, and 14.71% for the 1-, 3-, 5, and 10-year periods.

company is innovative and benefits from the disruptive change, it will frequently forego short-term profits for the benefit of larger market share and future financial rewards. As a result, many of these companies are harder to analyze and a lot of the work must go into understanding the company's strategy, the sustainability of its competitive advantages, and the duration of its growth. Getting to know the management team, learning the culture that they instill, the importance that THEY place on quality – quality of their products, quality of their people, quality of their decision making – is part of our "secret sauce" that we think may not be easy to duplicate. The good news is that the majority of investors are too preoccupied with whether the Fed will cut interest rates by 50 basis points or by 25 basis points; whether XYZ Corp. will grow earnings 20% or 18% the next quarter, and whether value will finally come back and start outperforming growth, so no one is really trying to either. And that's just fine by us.

Table II.
Top contributors to performance for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Percent Impact
Veeva Systems Inc.	$ 23.9	1.27%
Illumina, Inc.	54.1	0.88
Amazon.com, Inc.	932.3	0.80
Mastercard Incorporated	270.2	0.69
PagSeguro Digital Ltd.	12.8	0.62

Veeva Systems Inc. is the leading provider of cloud-based solutions, focused primarily on the life sciences industry, offering customer relationship management, content, collaboration, and data management solutions. Shares of Veeva were up 28% in the second quarter continuing the strong performance year-to-date after the company beat expectations on both revenue growth and profitability. Veeva's innovative culture and significant market share in Life Sciences CRM continue to drive growth in its more mature commercial business as Veeva continued to cross-sell add-on products to existing customers successfully. With Vault crossing 50% of revenues for the first time, we expect growth to accelerate with even more leverage going forward. The ongoing evolution of the Veeva platform, its ability to deliver significant value to its customers, and the company's impressive growth and margin profile make Veeva a unique long-term investment opportunity, in our view.

Illumina, Inc. is the leading provider of next generation DNA sequencing instruments and consumables. The stock was up 19% during the quarter due to increased investor confidence in the company's ability to meet its 2019 financial targets. While we expect short-term performance to continue to be lumpy, we believe that Illumina has a unique position in the market being the "arms dealer" to everyone who is doing cutting-edge genomics research. As we meet many of these companies who come through our offices every week, they each take a different approach on solving these leading-edge genomic challenges, but almost all of them have one thing in common–*they use Illumina's sequencers*.

Illumina has pre-announced a shortfall in its second quarter results in early July, so it may appear in the "Top detractors" section of this letter next quarter. But in case it doesn't, we'd like to highlight two quotes from the company's CEO in a recent conference call with investors: "In the coming years, we expect sequencing to become ubiquitous in research, and medicine. The insights we will gain from sequencing not just thousands, but millions of species and not just a million human genomes, but hundreds of millions, will lay the foundation for a world in which nearly all diseases will be better understood and the lives of patients much improved."

"Our customers are generating sequencing data at an unprecedented rate and scale. In 2018, over 100 petabytes of data were generated across our systems, a record for sequencing data generated in a single year. For reference, this is approximately 25 times the size of the entire Netflix catalogue."

We initiated an investment in Illumina in late 2011 when its market cap was approximately $4 billion. At the time, we called it a "must own" stock. Today, its market cap exceeds $54 billion, but our conviction remains unchanged. With less than 1% of human beings sequenced thus far (less than 2 million), and more than 99% of the genetic variants not deciphered yet, we envision Illumina to be a much larger company in the future than it is today.

Amazon.com, Inc.'s shares were up 6% in the quarter (in line with the Fund, though still better than our benchmarks) driven by improving company margins as profitability continues to rise due to increasing mix of higher margin cloud revenues. Amazon Web Services (AWS) had another strong quarter, growing revenues 41% year-over-year, passing a run rate of $30 billion for the first time, with operating margins holding at close to 30%. We think AWS is still at a relatively early growth stage, with cloud penetration of about 5% out of the $3.7 trillion global spend on Information Technology (according to Gartner). Amazon again showcased the depth of the moat it has built around its retail business during the quarter, announcing free 1-day shipping for its prime subscribers, raising the bar yet again for its competitors. Amazon continues to be our highest conviction investment.

Mastercard Incorporated is a leading global payment network. Shares appreciated 13% after the company reported solid quarterly results that exceeded investor expectations. The ongoing shift to electronic/digital payments drove 12% purchase volume growth, 13% revenue growth, and 24% EPS growth on a constant-currency basis. Mastercard is an example of a business we like a lot. It has a wide moat, high barriers to entry and the opportunity to keep growing for many years as it benefits from the continued growth in global consumer spending as well as the secular shift from cash to electronic payments (with cash still used in over 80% of global transactions).

PagSeguro Digital Ltd. is a Brazilian payment processor, focused on facilitating small and micro merchants in Brazil to accept different forms of credit, debit, and digital currency transactions. For most of its merchant customers, PagSeguro's simple product offering–an internet-enabled payment device along with a mobile wallet–allows the merchant to instantly accept credit transactions without the need for a bank account. Shares of PagSeguro rose 31% during the quarter due to the company's consistently strong financial performance and reduced competitive concerns in Brazil's micro-merchant customer segment. We believe that PagSeguro's platform, increasingly recognized brand, and rapidly improving penetration, have the potential to dramatically lower transaction costs for these small merchants. Over time, we expect PagSeguro to gain significant market share from the bank-controlled incumbent payment processors who continue to underserve this growing merchant community.

Table III.
Top detractors from performance for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Percent Impact
Alibaba Group Holding Limited	$441.2	–0.43%
Alphabet Inc.	751.0	–0.41
Intuitive Surgical, Inc.	60.6	–0.35
StoneCo Ltd.	8.2	–0.33
Ctrip.com International, Ltd.	20.4	–0.29

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Financial, which operates Alipay, the largest digital payment provider in China with over 1 billion active users. Shares of Alibaba were down 7% in the quarter as continued U.S.-China trade tensions and concerns about the slowing Chinese economy weighed on the stock. In the meantime, Alibaba's core businesses remain very profitable and continued to grow rapidly, with tailwinds from strong mobile and advertising revenue growth. We believe that Alibaba has the most comprehensive ecosystem of commerce platforms, logistics, and payments infrastructures that support the digital transformation of the retail sector. Alibaba's long-term opportunity remains open-ended, as the company continues to benefit from rising e-commerce penetration (about 20% of total retail sales now) and widening the moat around its platforms (700 million monthly active users) while increasing the value proposition to its customers and growing its addressable market.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet declined 8% in the quarter following a deceleration in Google Sites revenue growth (as digital advertising has passed the 50% penetration mark) and a challenged sentiment amid increased regulatory scrutiny. Nonetheless, we remain optimistic about Alphabet's opportunity set as the company continues to benefit from growth in mobile and online video advertising in its core assets of search, YouTube, and the Google ad network. We also believe that significant positive optionality exists in Alphabet's meaningful long-term investments in Artificial Intelligence, autonomous driving (Waymo), and life sciences (Verily, Calico).

Intuitive Surgical, Inc. manufactures and sells the da Vinci robotic surgical system, which is used for minimally invasive surgery. The stock was down 8% during the quarter largely due to the company's first quarter financial results falling short of investor expectations. Intuitive sold more of its systems under operating leases, which resulted in less revenue being recognized upfront. We actually think this could be a positive development longer term, as it creates a more recurring revenue base, while potentially expanding the addressable market, reducing the upfront costs required to purchase and install the system. With fewer than 5% of surgical procedures performed with the da Vinci robots, we continue to believe Intuitive Surgical has a long runway for growth and expect the company to do well as procedure volumes continue to increase.

StoneCo Ltd. is a Brazilian payment processor that serves the under-banked medium-sized business customer. Shares of Stone declined 27% during the quarter due to concerns over the deteriorating competitive environment after one of its legacy competitors, Cielo, announced a round of dramatic price reductions for its banking customers (trying to incent them to stay within their ecosystem). While we continue to monitor the competitive environment closely, we believe that Stone's superior offering and high customer satisfaction will drive continued market share gains for the company. We remain excited about Stone's opportunity to enable credit, debit, and other forms of electronic payments in a large portion of the Brazilian economy that is significantly underserved by the traditional banking sector.

Ctrip.com International, Ltd. is the dominant online travel service provider in China. Shares declined 16% this quarter driven by slower growth in China outbound travel largely due to continued trade tensions. While we have no idea how long this dynamic will go on, we do think that the Chinese tourism industry is rapidly approaching an inflection point. Outbound travel penetration is now approaching 8% (compared to 15% in Japan and 33% in South Korea) and with rising disposable incomes and a 300 million strong middle class (growing to 850 million by 2030) Chinese travelers represent the largest and fastest-growing segment of travelers anywhere in the world. In our view, Ctrip remains the best-positioned company to capitalize on this trend, with added optionality from the company's growing international business.

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 54.8% of the Fund, the top 20 were 80.9%, and we exited the quarter with 36 investments. Information Technology, Consumer Discretionary, Health Care, Communication Services, and Financials made up 96.1% of the portfolio. The remaining 3.9% was made up of Equinix, Inc., which is a REIT classified under Real Estate; and Lyft, Inc., classified in Industrials, as well as cash.

Table IV.
Top 10 holdings as of June 30, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$932.3	$39.4	12.7%
Mastercard Incorporated	270.2	17.7	5.7
Illumina, Inc.	54.1	16.5	5.3
Veeva Systems Inc.	23.9	16.3	5.3
Alibaba Group Holding Limited	441.2	15.7	5.1
Visa, Inc.	346.4	14.8	4.8
Alphabet Inc.	751.0	13.2	4.3
Facebook, Inc.	551.0	12.5	4.0
Worldpay, Inc.	38.1	11.8	3.8
Intuitive Surgical, Inc.	60.6	11.8	3.8

Recent Activity

During the June quarter, we initiated 4 new investments and added to 10 existing positions. We eliminated a stub position, which we received as a stock distribution from an existing holding, and trimmed two others. We exited the quarter with 36 holdings, which include shares of Red Hat, Inc. and Worldpay, Inc. whose acquisitions are expected to close in the second half of the year.

Table V.
Top net purchases for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Twilio Inc.	$ 18.3	$4.6
StoneCo Ltd.	8.2	4.3
Illumina, Inc.	54.1	1.9
Adyen B.V.	22.8	1.6
Facebook, Inc.	551.0	0.6

We initiated a medium-size position in **Twilio, Inc.**, a communications-platform-as-a-service leader, offering a set of Application Programming Interfaces (APIs) that help developers embed communications into their software. APIs are essentially access points triggering actions performed by another software. For example, a text message or a call to or from a Lyft driver is enabled by Twilio's infrastructure. Twilio provides an attractive value proposition to both software developers and customers, reducing the marginal cost of integrating communications into their software, while increasing, by orders of magnitude, the speed with which it can be done. A few lines of code calling Twilio's APIs instead of a year spent buying hardware, negotiating with telcos across the world and writing code (that is not core to the organization). Twilio checks many of the boxes we look for in an investment:

- **Disrupts a large market**–the $1.5 trillion global communications market
- Offers a **compelling value proposition** to developers who vote with their feet–with Twilio now having 5 million developers active on its platform
- Benefits from the **secular tailwinds** of digital transformation, leading enterprises to increasingly embed communications into their software as they are trying to communicate better with their customers
- Showcases **best-in-class unit economics**: 4% annual churn, $3 of incremental ARR (annual recurring revenue) for every $1 of Sales & Marketing spend, customer lifetime value to customer acquisition cost ratio of greater than 40 times, and a net-dollar-expansion rate for existing customers of 140%, resulting in organic revenue growth of 65% (at a $900 million ARR scale) while being profitable
- Has an **innovative go-to-market strategy** (hybrid bottom-up developer led and top-down enterprise) enabling it to grow fast while only spending around 25% of revenues on sales & marketing (while most SaaS companies at this stage along the growth curve spend more than 50%)
- Enjoys **strong competitive positioning** with its closest competitor (Nexmo) being less than a third the size, and growing 30% slower
- Finally, Twilio is led by a **visionary co-founder/CEO** – Jeff Lawson, who founded Twilio in 2008 and who in his past was also one of the earlier employees in AWS as well as a co-founder of StubHub

To summarize, we believe that Twilio is a unique company, with meaningful and sustainable competitive advantages, in the early stages of penetration (only about 3% of the 5 million developers on the platform are paying customers today) with a strong and attractive economic business model. The last sentence in Jeff Lawson's annual shareholder letter summarizes the opportunity quite well: *"On our mission to fuel the future of communications, it is still Day One."* Pattern recognition alert: where have we seen this before…?

We also initiated an investment in **StoneCo Ltd.** While our timing with this purchase was terrible (Stone declined 27% during the period held in the quarter due to increasing concerns over competitive pressures), we do not believe this is a permanent loss of capital. We remain optimistic that Stone's comprehensive and highly functional offering is the best in the market, and that high customer satisfaction will drive continued market share gains for the company. We think Stone has a large opportunity to enable credit, debit, and other electronic payment mechanisms in a large portion of the Brazilian economy that is significantly underserved by the traditional banking sector.

Staying with the theme of poorly timed purchases, we added to our holdings in **Illumina, Inc.** As discussed earlier in this letter, Illumina pre-announced an earnings and revenue shortfall soon after the end of the second quarter causing the stock to give back most of its 19% quarterly gain. Illumina has been one of the most successful investments for this Fund over the last seven and a half years, though its performance path was not a straight line. With less than 1% of human beings sequenced thus far (less than 2 million), and more than 99% of the genetic variants not deciphered yet, we believe Illumina's opportunity to be a much larger company in the future remains intact.

We continued to build out our investment in **Adyen B.V.**, a digital payments solution provider, enabling merchants to accept electronic payments via different methods including credit cards, debit cards, bank transfers, and more. As described in more detail in our last letter, Adyen benefits from the growth of e-commerce and has demonstrated consistent market share gains, driven by its global presence, advanced technology capabilities, and the ability to achieve higher authorization/closure rates for merchants (authorization rates represent the percentage of approved transactions).

Table VI.
Top net sales for the quarter ended June 30, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Amazon.com, Inc.	$932.3	$1.4
Red Hat, Inc.	33.4	1.0
MultiChoice Group Limited	3.7	0.3

We resumed trimming our oversized position in **Amazon.com, Inc.** and continued to use shares of **Red Hat, Inc.** as a source of cash to fund new investments. IBM's all cash acquisition of Red Hat has closed in early July. After taking a few months to complete our analysis, we exited the stub position in **MultiChoice Group Limited**, a Pay-TV provider in South Africa, which we received as part of a spin-off from our Naspers holding during the previous quarter.

Outlook

With the Fund up over 26% in the first half of the year, on top of a small gain last year, on top of a 41% rise the year before, this has undeniably been a favorable environment for the way in which we invest. But even over this exceptionally strong 30-month period, it was anything but a straight line. We believe that market volatility is an inseparable part of our journey. Rather than focus on managing that volatility, we instead guard against over-diversification. We choose to manage risk at the company specific level by trying to invest only in unique companies with sustainable competitive advantages and a proven ability to reinvest capital at high rates of returns for extended periods of time.

Every day we live and invest in a world full of uncertainty. Well-known conditions and widely-anticipated events, such as Federal Reserve rate changes (up and down), ongoing trade disputes, a partial government shutdown, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day, and seem to drive them up or down the next. We often find it difficult to know why market participants do what they do over the short term. The constant challenges we face are real and serious, with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of *taking* risk, managing the

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uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create. We are confident that our process is the right one, and we believe that it will enable us to make good investment decisions over time.

Our goal remains to maximize long-term returns without taking significant risks of permanent loss of capital. We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment 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. There is no guarantee that these objectives will be met.

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