Dear Baron Fifth Avenue Growth Fund Shareholder:

Performance

It was a rough fourth quarter for U.S. equity investors. The decline was broad-based causing indexes to turn negative for the year and in the process, wiping out most of our gains. Baron Fifth Avenue Growth Fund (the "Fund") declined 16.9% (Institutional Shares) in the December quarter compared to declines of 15.9% and 13.5% for the Russell 1000 Growth and the S&P 500 Indexes, respectively, the Fund's benchmarks. For the year, the Fund generated a profit of 1.4% compared to a loss of 1.5% and a loss of 4.4% for the respective benchmarks (and a loss of 72.2% for Bitcoin–just because some of you want to know).

Table I.
Performance†
Annualized for periods ended December 31, 2018

	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]	(16.99)%	(16.92)%	(15.89)%	(13.52)%
One Year	1.10%	1.39%	(1.51)%	(4.38)%
Three Years	11.67%	11.98%	11.15%	9.26%
Five Years	9.86%	10.15%	10.40%	8.49%
Ten Years	13.98%	14.26%	15.29%	13.12%
Since Inception (April 30, 2004)	8.09%	8.27%	8.91%	7.94%

The market was slowly but persistently grinding lower until December 6, when the S&P 500's 50-day moving average crossed its 200-day moving average on the way down (apparently known as "the death cross") sending the universal SELL signal to every technical algo-trading machine, man, woman and child, and the market went into a significant sell-off phase. **Red Hat**, **CME Group**, **Tesla**, and a new addition, **RingCentral**, were the only holdings to have appreciated during the quarter, while **Amazon**, **Activision Blizzard**, **Apple**, **Alibaba**, and **Illumina** were our largest detractors.

It was a more balanced picture in 2018 overall. While there were plenty of losers, we also had many sizable winners, with eight investments contributing over 50 basis points to the overall returns, and that's after the fourth quarter carnage. **Red Hat**, **Illumina**, **CME Group**, **Veeva**, **Intuitive Surgical**, and **Wix.com** all appreciated over 30%, while **Amazon** and **Mastercard**, gained over 25%, and **Visa**, **Vertex Pharmaceuticals**, and **Monsanto** posted double-digit gains of their own. All in all, we had 19 investments that contributed positively to performance, which is what allowed us to eke out a small gain on the year.

ALEX UMANSKY

PORTFOLIO MANAGER

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

So, seven full years after we completed the restructuring of the Fund at the end of calendar 2011, our report card reads as follows: the Fund has returned 166.8% cumulatively, outperforming the Russell 1000 Growth Index by 14.4%, the S&P 500 Index by 35.9% and the Morningstar Large Growth Category Average by 39.7%. A reasonably good outcome, in our view.*

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 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.*

† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

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.

* Mr. Umansky became the portfolio manager of the Fund on November 1, 2011. Since that date, the Fund has returned 158.65% cumulatively, which compares to 151.53% for the Russell 1000 Growth Index and 132.71% for the S&P 500 Index, outperforming the Morningstar US Fund Large Growth Category Average by 36.6% over the 7+ year period.

BARON FUNDS 1987

The long anticipated and frequently predicted market weakness is finally here. Is it just a sell-off, a dip, a pullback, a correction, a shallow, garden variety Bear Market or something worse? Something more painful and enduring…

Predictably, we do not know. Though we haven't had a down year in a while, it's actually not uncommon. According to Cornerstone Macro (CM), in its 91-year history, the S&P 500 Index has declined 30 times, or 32.97%. In its 122-year history, the Dow Jones Industrial Average was down 42 years, or 34.43% of the time, while the Russell 2000 Index declined 32.50% and the NASDAQ Composite experienced a down year 27.66% of the time. In addition to this one, there were 10 other times when the S&P 500 declined 20%+ from its all-time high with a median decline of 34.79%. Perhaps more interesting, CM points out, is that the average is heavily skewed by the epic bear markets of 1929 to 1932 (86.2% decline during the Great Depression), 1973 to 1974 (48.2% decline), 2000 to 2002 (49.2% decline), and 2007 to 2009 (56.8% decline). Removing these four periods from the sample would leave us with an average decline in the mid-to-high-20's. We are not fans of selective data removal, but we do understand the historical framework here. Of course, history may, or may not repeat itself.

In the meantime, the U.S. government shutdown is in its second month and domestic political uncertainty remains high. Trade tensions, hard BREXIT, and rising interest rates continue to pose risks to investors. We continue to believe it is the latter that will have the largest impact on the short-to-intermediate direction of stocks. We actually agree with President Trump that the Fed should stop raising rates. There is way too much uncertainty right now about the economic growth for the Fed to remain on autopilot and we think Chairman Powell's remarks walking back that comment and stressing that the Fed is NOT on a pre-determined path and will be vigilant and patient if needed, is the primary reason why the markets are off to a good start in early 2019.

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

	Quarter End Market Cap (billions)	Percent Impact
Red Hat, Inc.	$31.0	0.58%
CME Group, Inc.	67.3	0.33
Tesla, Inc.	57.2	0.20
RingCentral, Inc.	6.6	0.04

Red Hat, Inc. is the leading provider of open-source software, building and commercializing enterprise-ready distributions of open-source architectures. Shares of Red Hat increased 29% during the quarter following IBM's announcement of its intention to acquire the company. The deal's price of $190 per share represented a premium of approximately 62% to the closing price of $117 on the day before the announcement. We have been shareholders of Red Hat since 2011 and our thesis all along has been that Red Hat would benefit from the secular adoption trends behind open-source software after creating the industry in the early 1990s. In all honesty, we would have loved for Red Hat to stay independent a bit longer, and for us to continue compounding our investment in the company as open-source adoption grows. Admittedly though, after investing in Red Hat shares at an average cost of just over $50, we are also satisfied with our total cumulative return of over 350% to date.

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% in the quarter benefiting from increased derivative trading volumes due to rising 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.
- It 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.

Tesla, Inc. designs, manufactures and sells fully electric vehicles, solar products and energy storage solutions. Shares appreciated 26% during the fourth quarter. The company reported third quarter results that significantly exceeded investor expectations, generating over $800 million of free cash flow with gross margins above 25%. This quarter increases our confidence that Tesla can fund growth going forward solely with internally generated cash flow, reducing the capital cycle risk. We remain excited about the opportunity for Tesla to expand Model 3 availability into new markets, including new production facilities in China, accelerating deliveries to both China and Europe, while continuing to gain share in the U.S.

RingCentral, Inc. is a leader in unified communications as a service, enabling phone calls, video conferences, team collaboration, and a contact center in the cloud. Shares of RingCentral increased 1% during the quarter as the company reported robust earnings results, with 34% revenue growth, exceeding Street expectations, while free cash flow growth also surprised to the upside. Strong quarterly results underlined the continued acceleration in the adoption rate of its solutions. We believe RingCentral is very early in its penetration cycle, and the company has a significant opportunity ahead, as organizations who are still using on-premises-based systems transition to the cloud, representing an addressable market of over $100 billion.

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

	Quarter End Market Cap (billions)	Percent Impact
Amazon.com, Inc.	$734.4	–4.24%
Activision Blizzard, Inc.	35.5	–1.79
Apple, Inc.	748.5	–0.87
Alibaba Group Holding Limited	355.3	–0.80
Illumina, Inc.	44.7	–0.77

Amazon.com, Inc. shares were down 25% in the quarter driven by the broader market decline, year-end profit taking and a general assault on high-multiple companies. In the meantime, Amazon continues to benefit from its flywheel strategy, where more participation from Prime members drives greater loyalty and purchasing on Amazon.com. Paid Prime membership has exceeded 100 million households globally with over 2 billion products ordered with one-day delivery or faster. While e-commerce is growing significantly faster than overall retail, Amazon continues to increase its total addressable market at an unprecedented pace. For instance, Solimo, Amazon's health care-related private label products are growing 70% *month-over-month*, while the company has applied for prescription filling licenses in 17 states. Then there was this "Festive Season Sale" in India where apparently 1 million Xiaomi devices were sold on Amazon in one day! In the next several years, Amazon will continue to build out its advertising business with the potential to reach $30 billion in revenues over the next few years. As the largest online retailer, Amazon can tap into the $1 trillion+ global advertising market, over a third of which is trade promotions, where brands spend to promote their products. Advertising is not only a large revenue opportunity, but it has the ability to substantially improve Amazon's core margins going forward. In the meantime, AWS remains the runaway leader in the vast, and still rapidly growing, cloud infrastructure market by a wide margin. This is a market that we believe is in the very early innings that will grow to be many multiples of its current size driven by the secular trend of digitization. Startups adopt AWS to reduce time to market and utilize a best-in-class platform as a service offerings. Enterprises adopt AWS as they try to accelerate their innovation clock cycle and avoid being disrupted. Amazon remains one of our highest conviction investment ideas, and we think a good bet to become the most valuable company on earth sometime in the future.

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 44% in the fourth quarter as uncertainty regarding the launch slate for 2019, some management turnover, and the broad negative sentiment around the video game sector intensified. There is also continued concern that the popularity of Fortnite (a new video game from a different publisher) will impact near-term performance. We think 2019 may prove to be a transition year and hence have muted short-term expectations, despite the undemanding valuation. Longer term, we believe that Activision has the opportunity to significantly grow revenues, continue to expand margins, and effectively allocate capital for years to come. We believe the company has an excellent management team and stands to be a major beneficiary from a number of tailwinds benefiting the video game industry, including the shift to higher-margin digital revenue, mobile gaming, in-game advertising, eSports, and international expansion.

Apple, Inc. is the world's largest consumer electronics company with iconic products such as iPhone, iPad, Apple Watch, and Macs and arguably, the world's most valuable brand. Apple is a platform company with rapidly growing, recurring revenue services businesses that benefit from network effects. The company's shares declined 30% during the quarter as iPhone sales came in below expectations driven by the weakening Chinese demand and increased competition from local players in China. Despite our concerns about Apple's long-term growth opportunities in a mature smartphone market, we retained the ever-shrinking position in the stock largely due to belief that it will perform considerably better in times of stress due to undemanding valuation. Clearly, that has been proven not to be the case. While many of Apple's virtues are immediately apparent, its fit in this high growth "big idea" portfolio, is less obvious every day. Held in Baron Fifth Avenue Growth Fund since the first quarter of 2005, Apple is likely to be replaced by another investment in 2019. Partly due to Apple's growth limitations and partly due to a market correction that should enable us to find more compelling long-term opportunities.

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China, operating the shopping platforms Taobao and Tmall. Alibaba also holds 33% of Ant Financial, whose brand, Alipay, is the largest third-party online payment provider in China. Shares of Alibaba declined 17% during the quarter due to a macro-driven slowdown weighing on consumer spending, and trade war driven uncertainties, prompting the company to reduce annual guidance. Additionally, Alibaba decided to postpone the monetization of incremental inventory from new recommendation feeds in order to help merchants who are being pressured due to the macro environment. This is a good example of the management's long-term approach, willing to forgo short-term gains for the benefit of its customers. China's GDP growth is increasingly driven by domestic consumption, which last year rose to 62% of GDP growth from 35% in 2003. China's e-commerce is now 20% of total retail, one of the highest penetration rates anywhere, still growing 28% (one of the fastest growth rates anywhere) with over 70% of Gross Merchandise Value coming from mobile. Short-term concerns notwithstanding, Alibaba continues to be one of our highest conviction investments.

Illumina, Inc. is the leading provider of next generation DNA sequencing instruments and consumables. The stock declined 18% during the quarter due to increased market volatility, profit taking, and general rotation away from higher-multiple growth stocks. Here is how we think about this: less than 0.025% of humans (fewer than 2 million) have been sequenced. Less than 0.01% of species have been sequenced and more than 99% of the variants discovered in the genome have not been deciphered yet. We initiated an investment in Illumina in the fourth quarter of 2011, when its market capitalization was under $4 billion, because we thought it could become a platform company with meaningful competitive advantages and network effects in a market that one day could be very, very large. One of the risks at the time was that we were early. Seven years later, Illumina's market capitalization is approaching $45 billion (yep, 12 times) and that risk is now one of the opportunities. We are no longer early–rather, we think we are at the very beginning. AI-based bioinformatics tools and continued cost declines should power clinical adoption of next-generation DNA sequencing in applications such as cancer diagnosis and treatment for years to come, which we think bodes well for Illumina's prospects.

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 55.0% of the Fund, the top 20 were 82.8%, and we exited the quarter with 31 investments.

Information Technology, Consumer Discretionary, Health Care, Communication Services, and Financials made up 94.7% of the portfolio. The remaining 5.3% was made up of a position in Equinix, which is a REIT and is classified under Real Estate, as well as cash.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$734.4	$37.6	15.3%
Alibaba Group Holding Limited	355.3	12.7	5.2
Mastercard Incorporated	194.8	12.6	5.1
Alphabet Inc.	723.2	12.4	5.1
Visa, Inc.	290.8	11.0	4.5
Illumina, Inc.	44.7	10.8	4.4
CME Group, Inc.	67.3	10.2	4.2
Intuitive Surgical, Inc.	54.7	10.0	4.1
Veeva Systems Inc.	13.0	9.0	3.7
Activision Blizzard, Inc.	35.5	8.2	3.4

Recent Activity

During the quarter, we initiated an investment in **RingCentral, Inc.** and added to eight existing positions, mostly on market weakness. We eliminated the two stub positions in **Elanco Animal Health Incorporated**, and in **Meituan Dianping**, which we described in the last quarterly letter, and reduced exposure to three others. Our turnover in 2018 was 10.1%, on the low end of our 10% to 20% expected range.

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
RingCentral, Inc.	$ 6.6	$2.5
Worldpay, Inc.	23.9	2.5
Activision Blizzard, Inc.	35.5	1.3
Veeva Systems Inc.	13.0	1.2
Wix.com Ltd.	4.4	0.6

We initiated a small position in **RingCentral, Inc.** a software as a service (SaaS) company focused on the unified communications as a service (UCaaS) market. RingCentral's software provides a unified solution across multiple locations and devices and allows for communication across multiple channels, including voice, video, messaging (collaboration) and online meetings. RingCentral is disrupting a large category of 300 million to 400 million knowledge workers, representing an addressable market of over $100 billion. It is the fastest growing UCaaS player while also being almost two times larger than its closest competitor thanks to its high quality of service (controlling a larger percentage of the path a communications packet passes during its route), its differentiated strategy (offering an open platform, integrating best-of-breed partners instead of owning the entire stack) and robust execution (met or beaten expectations every quarter since its 2013 IPO). We believe RingCentral will continue showing accelerating growth rates driven by best-in-class unit economics with customer lifetime value representing over 10 times the customer acquisition cost. We also believe that RingCentral's co-founder CEO, Vlad Shmunis, is a savvy industry leader who is not afraid to invest in the business in the near term, penalizing margins in the short term, in order to grow the company's intrinsic value for the benefit of long-term shareholders. RingCentral is a beneficiary of the early stages of an industry migration to the cloud and it is the leader in that industry with a multi-year opportunity for growth. We define "best-in-class" businesses as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital, and lower leverage, that are leaders in their respective markets. Note that this statement represents our opinion and is not based on a third-party ranking.

We added to our investment in **Worldpay, Inc.** after gaining more conviction in the strategic rationale and financial merits of the combination of the U.S.-based Vantiv and the U.K.-based Worldpay. The combination created a leader in payments processing technology and solutions with a product suite spanning integrated point-of-sale and virtual terminals, credit and debit card payments, mobile wallets, ATM services, accounting integration and treasury services, and others. The combined scale makes the company one of the obvious beneficiaries of the growth in e-commerce.

Veeva Systems Inc. is the leading provider of cloud-based solutions targeted at the life sciences industry. Veeva offers customer relationship management, content, collaboration, and data management solutions tailored mostly to the life sciences industry. Most recently, Veeva reported another set of excellent financial results. Management noted traction with newer solutions, while the more penetrated, commercial cloud products continued to show healthy growth rates. Though management is investing in the new products' growth within life sciences and in new verticals, Veeva continues to deliver on profitability, delivering over 27% of subscription revenue growth last year while maintaining EBITDA margins and year-over-year growth of over 30%. With Vault now serving as the growth engine for the company, we expect that the growing product line will create additional, multi-year growth opportunities for the company and believe it can be a significantly larger company by capturing significant share over time, in new sub-segments within and beyond life sciences.

Wix.com Ltd. is a leading provider of an operating system to help micro businesses build and maintain their websites and operate their businesses better. Wix has over 135 million registered users and nearly 4 million premium users. This large installed customer base enables Wix to continue to build scale and introduce additional functionality that the company can cross-sell at near zero marginal cost, increasingly becoming the operating platform of choice for small businesses. Wix has continued to innovate, introducing Wix Code, a platform solution that significantly increases the flexibility of website design for customers, while outsourcing the back-end necessities, such as security, latency, etc..., to Wix. This results in strong cohort economics, creating a predictable and profitable business model (acquire a cohort once, get increasing subscriptions thereafter), with high incremental profit margins. We think there is an attractive opportunity in Wix shares as the company continues to innovate and convert an increasing number of businesses to premium subscribers.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Expedia Group, Inc.	$ 16.8	$3.4
Dropbox, Inc.	8.3	1.4
Facebook, Inc.	377.3	1.0
Meituan Dianping	30.8	0.5
Elanco Animal Health Incorporated	11.6	0.0

We eliminated **Expedia Group, Inc.**, **Dropbox, Inc.**, **Meituan Dianping**, and **Elanco Animal Health Incorporated**, four of the smallest positions in the Fund. We also reduced the size of our investment in **Facebook, Inc.**

Outlook

We continue to be surprised by how many professional investors equate volatility and risk. While they believe that companies they own generally will significantly increase their earnings and cash flows well into the future, they are worried about a market pullback and believe they have the responsibility and the ability to manage that. For the most part, that simply means they sell. The assumption here is that selling reduces the risk; the risk of future losses that is, and of course, it does…if one gets the timing right. But what about the risk of selling too early, or worse, selling too late? What about the risk of selling and never buying the right companies back? So, it seems that the risk of future losses declines at the expense of future gains. And that's short-term market risk at the expense of long-term fundamental gains. While some people always seem to be getting these pullbacks right, few that we know of, can get it right consistently. We can state with virtually 100% certainty that a recession will come! We just don't know when.

Well-known conditions and widely-anticipated events, such as Federal Reserve rate hikes, ongoing trade disputes, a partial government shut down, and the unpredictable behavior of the U.S. president, were shrugged off by the financial markets one day and driving markets down the next. We find it hard to know why market participants do what they do over the short term.

Every day we live and invest in a world full of uncertainty. 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 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 focus on identifying and investing in what we believe are unique companies with sustainable competitive advantages that have the ability to compound capital at high rates of return for extended periods of time. 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 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. There is no guarantee that these objectives will be met.

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