

## DEAR BARON GLOBAL ADVANTAGE FUND SHAREHOLDER:

## PERFORMANCE

The Baron Global Advantage Fund (the "Fund") had another good quarter. Shares appreciated 5.6% (Institutional Shares) in the quarter, exceeding its benchmarks, the MSCI ACWI Growth Index and the MSCI ACWI Index, by 3.3% and 5.1%, respectively. Year-to-date, the Fund is up 12.9%, outpacing the MSCI ACWI Growth Index and the MSCI ACWI Index by 9.9% and 13.3%, respectively, during that period.

**Table I.**  
**Performance†**  
**Annualized for periods ended June 30, 2018**

|                                     | Baron<br>Global<br>Advantage<br>Fund<br>Retail<br>Shares <sup>1,2</sup> | Baron<br>Global<br>Advantage<br>Fund<br>Institutional<br>Shares <sup>1,2</sup> | MSCI<br>ACWI<br>Growth<br>Index <sup>1</sup> | MSCI<br>ACWI<br>Index <sup>1</sup> |
|-------------------------------------|---|--|--|------------------------------------|
| Three Months <sup>3</sup>           | 5.55%   | 5.58%  | 2.26%  | 0.53%                              |
| Six Months <sup>3</sup>             | 12.74%  | 12.85%   | 2.95%  | (0.43)%                            |
| One Year                            | 33.58%  | 33.92%   | 16.06%                                       | 10.73%                             |
| Three Years                         | 15.71%  | 15.93%   | 10.22%                                       | 8.19%                              |
| Five Years                          | 16.92%  | 17.14%   | 11.55%                                       | 9.41%                              |
| Since Inception<br>(April 30, 2012) | 14.68%  | 14.91%   | 10.84%                                       | 9.46%                              |

Similarly to the first quarter, this was a solid, all-around effort. Roughly 70% of the relative outperformance came from stock selection, with 34 of the portfolio's holdings increasing in value. Digging deeper, 21 of the 34 investments rose double digits (in percentage terms), 15 were up over 20%, six of those were up over 30%, and three were up 50% or more. **Amazon**,



ALEX UMANSKY

PORTFOLIO MANAGER

Retail Shares: BGAFX  
Institutional Shares: BGAIX  
R6 Shares: BGLUX

**Yext**, **Constellation Software**, **Facebook**, and **AxoGen** all contributed over 50 basis points to absolute returns, with **Kotak Mahindra Bank**, **Mellanox**, **Gemphire Therapeutics**, and **Take-Two Interactive Software** contributing over 40 basis points each. On the other side of the ledger, our recent forays into Latin America appear to have been poorly timed, as Argentinian stock exchange **Bolsas y Mercados Argentinos**, and Brazilian payment processing company **PagSeguro Digital** saw significant declines in their share prices, which were further exacerbated by weaknesses in the Peso and the Real.

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2017 was 1.95% and 1.59%, respectively, but the net annual expense ratio is 1.15% and 0.90% (restated to reflect management fee reduction from 1.00% to 0.85% and current 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](http://www.BaronFunds.com) or call 1-800-99BARON.*

† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings. 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.

<sup>1</sup> The indexes are unmanaged. The MSCI ACWI indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes reflected in US dollars. The MSCI ACWI Growth Index Net USD measures the equity market performance of large and mid cap growth securities across developed and emerging markets. The MSCI ACWI Index Net USD measures the equity market performance of large and mid cap securities across developed and emerging markets. The indexes and the Baron Global Advantage Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

<sup>2</sup> 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.

<sup>3</sup> Not annualized.

\* Morningstar calculates the **Morningstar US Fund World Large Stock 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 6/30/2018, the category consisted of 923, 872, 721, 596 and 506 share classes for the year-to-date, 1-, 3-, 5-year and since inception (4/30/2012) periods. Morningstar ranked **Baron Global Advantage Fund Institutional** Share Class in the 1<sup>st</sup>, 1<sup>st</sup>, 1<sup>st</sup>, 1<sup>st</sup> and 3<sup>rd</sup> percentiles, respectively.

As of 6/30/2018, the category consisted of 721, 596 and 721 share classes for the 3-year, 5-year and overall periods, respectively. Morningstar has awarded **Baron Global Advantage Fund Institutional** Share Class 5 stars, 5 stars, and 5 stars for its 3-year, 5-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.



# Baron Global Advantage Fund

The Fund continues to benefit from what clearly has been a favorable environment for the way in which we invest. By this, we don't mean growth over value or large cap over small cap or this sector over that sector. We tend to do well when investors focus on business fundamentals and are willing to estimate a company's intrinsic value by looking at the long-term probabilities, which is what we do at all times. We tend to do less well in environments where these calculations are discarded in favor of the here and now, which usually happens during times of extreme uncertainty.

According to Morningstar\*, for the period ended June 30, 2018, the Baron Global Advantage Fund ranked in the top 1% for all World Large Stock Funds for its year-to-date, 1-year, 3-year, and 5-year performance. The Fund has been awarded a 5-star Morningstar rating for its 3-year, 5-year, and overall performance.

Since its inception on April 30, 2012, the Baron Global Advantage Fund has returned 135.6% (Institutional Shares) cumulatively, compared to 88.7% for the MSCI ACWI Growth Index and 74.6% for the MSCI ACWI Index. Over that same time period, the Fund has outperformed the Morningstar World Large Stock Category Average by 62.5% cumulatively.

Over the last five years, the Fund has outperformed the MSCI ACWI Growth Index by 5.6% per year, the MSCI ACWI Index by 7.7% per year, and its Morningstar category peers by 7.9% per year.

We exited the second quarter with almost 13% of the Fund invested in China, which compares to less than 4% for the Fund's indexes. We have just over 8% invested in India, over 6% invested in South Africa, 3.4% in Argentina, 2.2% in Brazil and 1.4% in Taiwan, for a total exposure to emerging markets ("EM") of just over 34%.

Emerging markets has been a tough place to invest lately, with the macro narrative overshadowing strong earnings reports from most of our EM companies. Cross-border trade is increasingly more important to the global economy rising from 12% of global GDP in the 1960s to almost 30% in 2017. It is self-evident that heightened trade tensions are bad for everyone and emerging markets' economies, which are perceived as more fragile, bear the brunt of the investor concerns and increased volatility. Although much of the tension has been in the form of tough talk, especially with regard to China, (vs. action, of which there has been relatively little), the markets hate uncertainty, and this tension, if nothing else, is generating uncertainty.

Over in Brazil and Argentina, the long-expected credit tightening, coupled with a rise in oil prices, resulted in political/financial crises that again, generated uncertainty that spooked investors in these markets.

We don't particularly like what is going on and have no particular insight on how this will play out. Our admittedly simple view is that this is a short-term challenge, which will be overcome in time (as all short-term challenges have in the past). We think common sense and rational behavior will prevail when all's said and done, because the alternative is too unpalatable to all. We believe that this too shall pass, and investors will once again focus on fundamentals and long-term probabilities for businesses in emerging markets, which is (as we said above but think is worth repeating) how we always invest and when we tend to do best.

Paul Samuelson, the first American to win a Nobel Prize in Economics, famously said that "we have only one sample of the past," meaning that far more things could have happened than did happen. While "pattern recognition" is one of the most commonly used tools in the craft of capital allocation, there is only so much we can learn from studying history. We think it is equally important to realize that we will get only one sample of

the future! The pattern that we will experience is just one of the infinitely many possible ones, and it will NOT be the one that we "expect" statistically. It will be something different, possibly very different. What matters isn't the best possible outcome or the worst possible outcome or even the single most likely outcome. What matters is the range of outcomes and their respective probabilities and consequences. This is how we think about all our investments.

There have been a lot of crises, corrections, and challenges over the last 20 years. In the U.S. alone, we've had the bursting of the internet bubble, followed by 9/11 and global wars on terror (not to mention a painful economic recession), bursting of the real estate bubble and a corresponding financial crisis, which shook our markets to the core, and a few history-defining elections, which currently make us question who we really are. And that's just us. It seems Europe has been in a perpetual crisis. First the debt crisis brought on by PIGS (Portugal, Ireland, Greece, and Spain), Russia invading Ukraine and annexing Crimea, refugee crisis, Brexit, nationalists and separatists gaining popularity in Spain and Italy, and so on. Latin America? As in Brazil, Argentina (let alone Venezuela) – we don't even think we need to go there. Asian currency crises, China's hard-landing (remember those ghost towns?), instability on the Korean peninsula, and so on...

While all of this is going on, Alibaba went public in September of 2014 with an IPO price of \$68 per share and was trading around \$210 in late June of this year. Also trading around \$210 per share is Facebook, which IPO'd in May of 2012 at \$38. Over the last 20 years, Housing Development Finance Corporation of India rose from approximately 20 rupees per share to 1,966 rupees per share. And then, of course, there is Amazon, which listed its shares on Nasdaq in 1997 and whose market value recently exceeded \$900 billion for a tidy return of just over... 123,000%.

**Table II.**  
**Top contributors to performance for the quarter ended June 30, 2018**

|                              | Quarter End<br>Market Cap<br>(billions) | Percent<br>Impact |
|------------------------------|---|-------------------|
| Amazon.com, Inc.             | \$824.8                                 | 0.82%             |
| Yext, Inc.                   | 1.9                                     | 0.59              |
| Constellation Software, Inc. | 16.4                                    | 0.58              |
| Facebook, Inc.               | 562.7                                   | 0.56              |
| AxoGen, Inc.                 | 1.9                                     | 0.51              |

Shares of **Amazon.com, Inc.** rose 17% during the quarter. Amazon continues to benefit from its flywheel strategy, where more participation from Prime members drives greater loyalty and purchasing on Amazon.com in a prime example (pun intended) of the benefits of the network effect. Paid Prime membership has exceeded 100 million households globally. While penetration of e-commerce is rising, Amazon continues to increase its total addressable market at an unprecedented pace. Health care spending in the U.S. is over \$3 trillion annually, with \$450 billion spent on prescription drugs and another \$200 billion spent on medical devices. We think Amazon's opportunity here could be significant over time. In the meantime, AWS remains the runaway leader in the vast, and still rapidly growing, cloud infrastructure market by a wide margin.

**Yext, Inc.** is the leader in digital information and knowledge management for businesses. Through its cloud-based software offering, the company is attempting to become the digital knowledge platform which allows businesses to manage all their digital information. Shares rose 53% on strong financial results and an improving outlook. We believe Yext is in the



very early innings of growth and enjoys a large and open market opportunity with an attractive, high-visibility, recurring revenue business model. Most of Yext's senior management are veterans of Salesforce.com, a company we have admired for years and in which other Baron Funds are invested. We believe there is an opportunity for this team to build another world class business and are excited to see what they will do over the next few years.

Shares of **Constellation Software, Inc.** appreciated 14% in the quarter following an upbeat investor day, which we attended in Toronto. Constellation Software is a diversified owner of high-quality vertical market software businesses. We like Constellation Software's capital allocation discipline, and recently we've been impressed with its higher pace of acquisitions following last year's decision to increase the full- and part-time acquisition team. We believe that capital investment can triple over the medium term if Constellation Software can successfully encourage its 200-odd subsidiary units to acquire in-vertical. Considering the attractive return profile of acquiring niche vertical-market software, we believe this will lead to significant cash flow growth for shareholders.

Shares of **Facebook, Inc.**, the world's largest social network, appreciated 21% on better-than-expected first quarter results, rebounding from concerns related to data leaks to Cambridge Analytica and other third parties. The company is the only "must have" advertising platform in social networking for brands, and the largest beneficiary of continued, healthy consumer engagement. It utilizes its leadership position in mobile to provide global advertisers targeted marketing capabilities at scale, which we believe will be unaffected by recent privacy concerns and regulatory risks.

**AxoGen, Inc.** is a leading developer of surgical solutions for peripheral nerve damage and nerve repair, including Avance Nerve Graft and AxoGuard Nerve Connector. The stock rose 38% after the company raised cash in a secondary offering, possibly due to new shareholders gaining an appreciation for the investment merits and building positions, as well as outperformance of small-cap growth companies in the medical device sector. We continue to believe AxoGen has a unique product portfolio offering and an expanding market opportunity in nerve repair applications.

**Table III.**  
**Top detractors from performance for the quarter ended June 30, 2018**

|  | Quarter End<br>Market Cap or<br>Market Cap<br>When Sold<br>(billions) | Percent<br>Impact |
|--|---|-------------------|
| Bolsas y Mercados Argentinos S.A.                  | \$ 0.9  | −0.69%            |
| PagSeguro Digital Ltd.                             | 9.1   | −0.65             |
| FANUC Corp.  | 41.2  | −0.37             |
| Cloudera, Inc.                                     | 2.3   | −0.29             |
| Taiwan Semiconductor Manufacturing<br>Company Ltd. | 189.6   | −0.27             |

**Bolsas y Mercados Argentinos S.A.** (BYMA) is Argentina's only vertical integrated stock exchange and sole custodian for equity securities. Shares of BYMA declined 39%, largely due to the deterioration in the country's macroeconomic conditions and a significant devaluation of the local currency, which outweighed strong bottom-up trends reported by the company in its most recent quarter. We remain excited about BYMA's long-term growth prospects because the country's capital markets are underdeveloped, there is an improved regulatory framework for listings, and there are still unexploited revenue opportunities for the company.

**PagSeguro Digital Ltd.** is a Brazilian payment processor, focused on facilitating small and micro merchants in Brazil to accept forms of credit, debit, and digital currency transactions. For a majority 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 of a bank account. The shares declined 26% after the company unexpectedly announced a secondary offering. We believe that PagSeguro's platform, advertised widely across the country because of the media relationships of a strong corporate parent, has 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.

Shares of **FANUC Corp.** declined 22% for the period held. The global machine tool industry has begun to experience early signs of cyclical weakness. Growing global trade tensions have also weighed on the stock given its significant presence in both the U.S. and China. This was a small, introductory position in the Fund, and given the short-term uncertainty and a large list of new ideas, we decided to step to the sidelines and redeploy capital.

**Cloudera, Inc.** provides enterprise data management solutions for machine learning and advanced analytics, leveraging the Hadoop architecture through its hybrid open-source software model that combines the benefits of the open source community with proprietary value-added enterprise software. Cloudera's shares declined 28% for the period held after management announced a sales reorganization and provided annual guidance that was significantly below expectations. These announcements reduced our confidence in the company's long-term competitive advantage over other big data and Hadoop distribution players. Ongoing sales adjustments and potential slower growth, specifically within Cloudera's largest accounts, has increased the likelihood of significant execution risk. As a smaller holding, we decided the prudent course of action was to exit our position and redeploy resources to higher conviction investments.

**Taiwan Semiconductor Manufacturing Company Ltd.** is the leading designer and manufacturer of integrated circuits and wafer semiconductor devices in the world. Shares were down 14% during the quarter due to concerns over slowing smartphone growth, uncertainties around the broader technology CapEx cycle, and cryptocurrency mining outlooks. We own the stock due to its clear technology leadership, proven execution track record, and promising new growth drivers in high performance computing and IoT related applications.

## PORTFOLIO STRUCTURE

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level having the most significant roles in determining the size of each individual investment. Sector or country 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 41.7% of the Fund, and the top 20 were 66.0%. 99.1% of the Fund's assets are invested in stocks in the Information Technology, Consumer Discretionary, Financials, and Health Care sectors, as classified by GICS, with over half of the assets invested in companies that are domiciled outside of the U.S.



# Baron Global Advantage Fund

**Table IV.**  
Top 10 holdings as of June 30, 2018

|   | Quarter End<br>Market Cap<br>(billions) | Quarter End<br>Investment<br>Value<br>(millions) | Percent of<br>Net Assets |
|---|---|--|--------------------------|
| Naspers Limited                                 | \$111.7                                 | \$5.5  | 6.4%                     |
| Amazon.com, Inc.                                | 824.8                                   | 4.3  | 4.9                      |
| Facebook, Inc.                                  | 562.7                                   | 4.2  | 4.8                      |
| Alibaba Group Holding Limited                   | 475.2                                   | 3.9  | 4.5                      |
| Alphabet Inc.                                   | 779.2                                   | 3.7  | 4.3                      |
| Constellation Software, Inc.                    | 16.4                                    | 3.3  | 3.8                      |
| EPAM Systems, Inc.                              | 6.6                                     | 3.0  | 3.4                      |
| Housing Development Finance Corporation Limited | 46.8                                    | 2.9  | 3.4                      |
| Activision Blizzard, Inc.                       | 58.1                                    | 2.8  | 3.2                      |
| Mellanox Technologies Ltd.                      | 4.5                                     | 2.6  | 3.0                      |

## EXPOSURE BY COUNTRY

**Table V.**  
Percentage of securities by country as of June 30, 2018

|               | Percent of<br>Net Assets |
|---------------|--------------------------|
| United States | 48.1%                    |
| China         | 12.8                     |
| India         | 8.1                      |
| South Africa  | 6.3                      |
| Israel        | 5.0                      |
| Netherlands   | 5.0                      |
| Canada        | 3.8                      |
| Argentina     | 3.4                      |
| Japan         | 2.4                      |
| Brazil        | 2.2                      |
| Taiwan        | 1.4                      |
| Australia     | 0.6                      |

## RECENT ACTIVITY

During the quarter, we initiated five new investments (though only The Stars Group was over 1% of the Fund) and added to 25 existing positions, as we put the Fund's inflows to work. We also closed out five investments, none of which were able to graduate into "core" holdings. We exited the June quarter with 45 holdings, unchanged from the prior period.

**Table VI.**  
Top net purchases for the quarter ended June 30, 2018

|                        | Quarter End<br>Market Cap<br>(billions) | Amount<br>Purchased<br>(millions) |
|------------------------|---|-----------------------------------|
| Facebook, Inc.         | \$562.7                                 | \$2.1                             |
| The Stars Group Inc.   | 6.1                                     | 1.3                               |
| Veeva Systems Inc.     | 11.0                                    | 1.2                               |
| PagSeguro Digital Ltd. | 9.1                                     | 0.9                               |
| Illumina, Inc.         | 41.1                                    | 0.8                               |

We let the size of our position in **Facebook, Inc.**, the world's largest social network, get diluted in the first quarter to the point where it was no longer a top 10 holding. It seemed like a prudent thing to do in the face of the

Cambridge Analytica debacle and the following cross-continent, public apology tour (which we frankly thought was well executed) by the company's management. Though Facebook is hardly out of the woods and we fully expect more negative headlines about potential data breaches, this only underlines how unique and important the company's offering has become. Social Media ad engagements are rising (3 times that of 18 months ago, according to Mary Meeker's most recent internet report). Personal AND collective data provide for better consumer experiences, improve engagement and drive growth and... lead to privacy concerns and regulatory scrutiny. Bad actors and unintended consequences will never go away, but they will be managed. In the meantime, "product discovery" on Facebook and especially Instagram are starting to rise significantly with data driven personalization/recommendations just starting to show up. We expect to see another leg of growth when that starts to scale...

**The Stars Group Inc.** is a leading provider of technology-based products and services in the global gaming and interactive entertainment industries. It owns gaming and related consumer businesses and brands, including PokerStars, Full Tilt, BetStarts, and StarsDraft. Online gaming is a \$42 billion industry globally, and is expected to grow to \$57 billion by 2022. The company is already the leader in online poker globally, with over 60% market share and recently purchased Skybet, the fastest growing sports betting company in the U.K., the largest sports betting market in the world. The combined company's competitive advantages going forward will stem from: 1) its ability to cross-sell products by having leading sports betting, casino, and online poker capabilities cost effectively; 2) its leadership position on technology with regard to mobile and social gaming; and 3) Skybet's unique relationship with Sky Television in Europe with deep integration into Sky programming. We believe that investors underappreciate the capabilities of the combined companies and Skybet's mobile leadership. We believe the combined company can grow at a high rate for several years and is poised to be the global leader in online wagering. As the U.S. market opens up to online wagering, we expect The Stars Group to be well positioned for market entry through strategic partnerships.

**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 >27% of subscription revenue growth last year while maintaining EBITDA margins and year-over-year growth of >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 subsegments within and beyond life sciences.

**PagSeguro Digital Ltd.** is a Brazilian payment processor, focused on facilitating small and micro merchants in Brazil to accept forms of credit, debit, and digital currency transactions. For a majority 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 of a bank account. We believe that PagSeguro's platform, advertised widely across the country given the media relationships of a strong corporate parent, has 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.

**Illumina, Inc.** is the leading provider of next generation DNA sequencing instruments and consumables. Illumina has been a core investment in this Fund since its inception. We continue to believe Illumina will benefit from increased adoption of DNA sequencing in clinical applications, such as cancer diagnosis and treatment. We are also excited about the positive optionality that exists from Illumina's spin outs Helix and Grail.

**Table VII.**  
**Top net sales for the quarter ended June 30, 2018**

|                           | Market Cap<br>When Sold<br>(billions) | Amount<br>Sold<br>(millions) |
|---------------------------|---------------------------------------|------------------------------|
| Cboe Global Markets, Inc. | \$11.7                                | \$1.1                        |
| FANUC Corp.               | 41.2                                  | 0.9                          |
| Dropbox, Inc.             | 13.1                                  | 0.8                          |
| AnaptysBio, Inc.          | 2.0                                   | 0.5                          |
| Cloudera, Inc.            | 2.3                                   | 0.5                          |

After increasing our holdings in **CBOE Global Markets, Inc.** in the prior quarter, we decided to eliminate our investment as shifting market conditions led to a decline in VIX trading activity leaving the growth trajectory uncertain and causing us to lose conviction in the original investment thesis for CBOE.

**FANUC Corp.** is a world leader in design and development of CNC systems, lasers, robot systems, and nano-bots. The global machine tool industry has begun to experience early signs of cyclical weakness. Growing global trade tensions have also weighed on the stock given its significant presence in both the U.S. and China. This was a small, introductory position in the Fund, and given the short-term uncertainty and a large list of new ideas, we decided to step to the sidelines and redeploy capital.

**Dropbox, Inc.** is a leading storage provider enabling customers to access and collaborate on their most important information anytime from any device. The company has an installed base of 500 million users and has ample room to grow paid subscribers and convert them to higher value customers by developing innovative collaboration products. We sold our position in Dropbox when shares spiked on some unsubstantiated rumors and we took the opportunity to bank profits and move on to other ideas.

**AnaptysBio, Inc.** is a biotech company with a novel antibody discovery platform that allows the company to modulate previously untreatable immunological proteins that have compelling biological rationale as causative bad actors in their underlying disease pathology. Leading this foray is ANABO20, targeting a IL-33 in atopic dermatitis, peanut allergy, and asthma. Recent events have led to stock underperformance given an ambiguous trial result in treatment of anaphylaxis caused by peanut allergies and the company's more hesitant messaging regarding top-line asthma data this fall. We chose to take the losses and step to the sidelines. We are watching this company closely and may return to it sometime in the future.

**Cloudera, Inc.** provides enterprise data management solutions for machine learning and advanced analytics, leveraging the Hadoop architecture through its hybrid open-source software model that combines the benefits

of the open source community with proprietary value-added enterprise software. Cloudera's shares declined 28% for the period held after management announced a sales reorganization and provided annual guidance that was significantly below expectations. These announcements reduced our confidence in the company's long-term competitive advantage over other big data and Hadoop distribution players. Ongoing sales adjustments and potential slower growth, specifically within Cloudera's largest accounts, has increased the likelihood of significant execution risk. As a smaller holding, we decided the prudent course of action was to exit our position and redeploy resources to higher conviction investments.

## OUTLOOK

Last year proved to be especially rewarding for global growth investors and many of our companies have performed exceedingly well, with the Fund's shares appreciating almost 50%. With another strong six months in the books, it has undeniably been a favorable environment for the way in which we invest. While we observe a noticeable pick up in volatility, and are repeatedly told by talking heads that, with each passing day, a pullback or a correction becomes more likely, we continue to do what we do, and see favorable fundamentals for most of our investments. Valuations, though no longer cheap, remain reasonable in our view, especially when compared to available alternatives. Moreover, the earnings outlook for 2018 remains optimistic. More relevant to our portfolio, e-commerce growth and spending on digital transformations are continuing to accelerate, with spending on cloud computing growing over 60%, and even faster than that in Asia. The digitization phenomenon that we believe will dominate corporate spending for years to come is starting to reach inflection points in many new areas where not only media and retail, but health care, transportation, and consumer banking are in the midst of full blown disruptions. We believe this should continue to favor many of the companies in which we are invested.

Every day we live and invest in a world full of uncertainty. Fed policy, potential trade wars, the health of EM economies, energy prices, global politics, terrorism – these are all serious challenges 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 believe that our process is the right one and 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



# Baron Global Advantage Fund

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*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](http://www.BaronFunds.com). Please read them carefully before investing.*

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