Dear Baron Health Care Fund Shareholder:

Performance

In the quarter ended December 31, 2019, Baron Health Care Fund (the "Fund") increased 17.99% (Institutional Shares), compared with the 14.93% gain for the Russell 3000 Health Care Index (the "Benchmark") and the 9.07% gain for the S&P 500 Index. For the full year 2019, the Fund increased 35.57% (Institutional Shares) compared with the 22.11% gain for the Benchmark and the 31.49% gain for the S&P 500 Index.

NEAL KAUFMAN
PORTFOLIO MANAGER

Retail Shares: BHCFX
Institutional Shares: BHCHX
R6 Shares: BHCUX

Table I.
Performance
For periods ended December 31, 2019

	Baron Health Care Fund Retail Shares[1,2]	Baron Health Care Fund Institutional Shares[1,2]	Russell 3000 Health Care Index[1]	S&P 500 Index[1]
Three Months[3]	17.87%	17.99%	14.93%	9.07%
One Year	35.23%	35.57%	22.11%	31.49%
Since Inception (April 30, 2018)[3]	16.29%	16.62%	15.98%	14.98%

The fourth quarter saw significant gains for both the Fund and the Health Care sector. Investor fears about Medicare for All subsided as the Presidential candidates advocating a single payor system either scaled back their proposals or fell in the polls. The threat of onerous drug pricing legislation lifted as any such legislation lacked the necessary political support. M&A activity in the biotechnology sub-industry accelerated with several transactions announced at substantial premiums to where the stocks were trading, including **Merck & Co., Inc.**'s proposed acquisition of **ArQule, Inc.**, a holding in the Fund, for over a 100% premium versus the prior day's closing price. In December, Congress unexpectedly passed legislation eliminating the medical device tax, the health insurance tax, and the Cadillac tax, which will boost earnings for the companies that were subject to those taxes, including many companies held in the Fund.

Relative to the Benchmark, the Fund outperformed in the fourth quarter and significantly outperformed for the full year. There were several factors that contributed to the Fund's outperformance in 2019. First, stock selection was a key contributor to the Fund's outperformance, as many of the Fund's positions had substantial gains, including **argenx SE** (up almost 67%), **Insulet Corp.** (up over 116%), **Arrowhead Pharmaceuticals, Inc.** (up 413%), **Bio-Techne Corporation** (up 52%), and **DexCom, Inc.** (up 85%). Second, the Fund avoided areas of the sector with fundamental business issues (high debt levels, opioid liability, pricing pressure, etc.), such as certain large-cap pharmaceuticals, large-cap biotechnology stocks, drug distributors, and generic drug companies. Third, to some degree, after a very challenging fourth quarter of 2018 when growth stocks declined and large-cap pharmaceuticals held firm, there was some reversion effect in 2019, and many of our holdings that declined at the end of 2018 recovered in 2019.

Our strategy is to identify competitively advantaged growth companies that we can own for years. Similar to the other Baron Funds, we remain focused on finding businesses that we believe have open-ended secular growth opportunities, durable competitive advantages, and strong management teams. We conduct independent research and take a long-term perspective. We are particularly focused on businesses that solve problems in health care, whether by reducing costs, enhancing efficiency, and/or improving patient outcomes.

We continue to think the Health Care sector will offer attractive investment opportunities over the next decade and beyond. Health Care is one of the largest and most complex sectors in the U.S. economy, accounting for approximately 18% of GDP and encompassing a diverse array of sub-industries. Health Care is also a dynamic industry undergoing changes driven by legislation, regulation, and advances in science and technology. We think navigating these changes requires investment experience and sector expertise, which makes the Health Care sector particularly well suited for active management.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2018 was 4.94% and 4.06%, respectively, but the net annual expense ratio was 1.10% and 0.85% (net of the Adviser's fee waivers), respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract 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 index performance is not Fund performance; one cannot invest directly into an index. The Russell 3000® Health Care Index is an unmanaged index representative of companies involved in medical services or health care in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies as determined by total market capitalization. The S&P 500 Index measures the performance 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 redemptions of Fund shares.

3 Not annualized.

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

	Percent Impact
UnitedHealth Group Incorporated	2.15%
argenx SE	1.46
Vertex Pharmaceuticals Incorporated	1.23
Humana Inc.	1.10
Arrowhead Pharmaceuticals, Inc.	1.07

Shares of **UnitedHealth Group Incorporated**, the U.S.'s leading health care franchise, contributed to performance. Shares appreciated as concerns about Medicare for All receded. The late December news that Congress passed a permanent repeal of the health insurance fee also provided a lift for all managed care stocks. We remain positive on the continued solid growth prospects for this excellently managed, innovative health care company.

argenx SE is a Dutch biotechnology company dedicated to developing biologics to treat immunological disorders and cancer. The stock outperformed because of investor enthusiasm about the company's pipeline of new treatments for patients with autoimmune diseases and cancer. We believe that argenx's FcRn platform is one of the most valuable assets in the biotechnology development space, and we retain conviction.

Vertex Pharmaceuticals Incorporated, a leader in the development of drugs for cystic fibrosis, contributed to performance. The company received an early FDA approval for its "triple medication" in cystic fibrosis and gained wins in the tough European commercial markets where drug reimbursements are cumbersome. We expect continued strong performance based on strong revenue and earnings growth for years to come.

Humana Inc. is a leading diversified health and wellness company offering a broad portfolio of medical insurance and managed care products and services. Shares rebounded as investor concerns around Medicare for All receded. The late December news that Congress passed a permanent repeal of the health insurance fee provided a lift for all managed care stocks but especially Humana, which has the greatest exposure to the fee given its heavy Medicare Advantage (MA) presence. We remain positive on this leading player in the robust MA market.

Arrowhead Pharmaceuticals, Inc. is a developer of RNA interference (RNAi) drugs. The recent share price increase was likely driven by Novartis' $9.7 billion acquisition of The Medicines Company that validates RNAi modalities in the cardiometabolic space. We remain invested in Arrowhead due to its steady progress in developing assets to treat hepatitis B, alpha one anti trypsin, and cardiometabolic syndrome as well as its ability to expand the modality of RNAi beyond the liver into other areas of the body.

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

	Percent Impact
Sage Therapeutics, Inc.	–0.62%
Dicerna Pharmaceuticals, Inc.	–0.07
Shanghai Henlius Biotech, Inc.	–0.07
Alcon Inc.	–0.07
PTC Therapeutics	–0.01

Sage Therapeutics, Inc. is a biopharmaceutical company focused on developing novel drugs for central nervous system disorders. Shares fell after the company reported a setback in developing a drug to treat major depressive disorder that called into question the magnitude of treatment effects. Simultaneously, a competitor released more compelling data in the same indication. We remain invested in Sage given the unmet need in treating depression disorders but have this investment under review pending updates from the FDA.

Dicerna Pharmaceuticals, Inc. is a biotechnology company focused on developing RNAi medicines for diseases involving the liver. The stock corrected since our initial purchase in the quarter after having soared in the prior three months. As long-term investors, we are not concerned given multiple positive announcements in recent months with Roche, Novo Nordisk, and Alexion Pharmaceuticals. We retain conviction in Dicerna and RNAi as a platform.

Shanghai Henlius Biotech, Inc. is a Chinese biotechnology company focused on manufacturing and commercializing biologic/biosimilar drugs in the U.S., European, and Chinese markets. Shares detracted largely due to liquidity constraints, given the stock's highly illiquid nature in a newly formed Hong Kong Biotechnology stock exchange that is not mature like the Nasdaq. We believe the company is at the very early innings of its investment lifecycle as China is just developing as a health care market.

Alcon Inc., a leading global medical device opthamology company, specializes in surgical equipment, disposables, and implants. It also has a vision care business that sells contact lenses and eye care products. Recently spun out from Novartis, Alcon reported an in-line third quarter, but shares weakened on lower fiscal 2019 margin guidance and indications that incremental spending programs could be a margin headwind through fiscal 2021. Longer term, we remain positive on the name due to its growing market and opportunity to invest more in its business as a standalone company.

PTC Therapeutics is a biotechnology company developing a platform technology related to modulation of the splicing of RNA transcripts for the treatment of orphan diseases. The shares detracted slightly for the period held. We remain investors as lead asset Risdiplam is substantially de-risked given clinical data and should garner multi-billion dollar sales in the spinal muscle atrophy market. Follow on indications are plentiful and we are most excited about the possibility of this drug category to provide therapeutic benefit for Huntington's disease.

Portfolio Structure

We build the portfolio from the bottom up, one stock at a time, using the Baron investment approach. We do not try to mimic an index, and we expect the Fund to look very different from its Benchmark. The Fund may invest in stocks of any market capitalization and may hold both domestic and international stocks. As of December 31, 2019, the Fund held 50 positions. This compares with 530 positions in the Benchmark. International stocks represented 13.8% of the Fund's net assets. The Fund's 10 largest holdings represented 43.7% of net assets and the 20 largest holdings represented 67.2% of net assets. Compared with the Benchmark, the Fund was overweight in life sciences tools & services and health care equipment, and underweight in pharmaceuticals, health care services, and health care distributors. The Fund includes a mix of stocks ranging from large, stable growth companies to small, pre-commercial biotechnology companies. The market cap range of the investments in the Fund was $277 million to $279 billion with a weighted average market cap of $69.5 billion. This compared with the Benchmark's weighted average market cap of $125.3 billion.

We continue to invest in the following themes:

- <u>**Genomics:**</u> We have an investment in **Illumina, Inc.**, the market leader in DNA sequencing technology. As the cost and time to sequence a human genome have declined to less than $1,000 in under a day, the applications for DNA sequencing are expanding, most notably in cancer diagnosis and treatment, as well as in rare and undiagnosed genetic diseases, non-invasive pre-natal testing, population genomics, and consumer genomics. We have investments in companies using Illumina's DNA sequencing technology and other genomic technology for diagnostics and research applications, including: **Guardant Health, Inc.**, which offers a blood test for cancer therapy selection and is developing blood tests for cancer recurrence monitoring and early detection of cancer; **Adaptive Biotechnologies Corporation**, which offers ClonoSeq for detection and monitoring of minimal residual disease in certain blood cancers and is developing early disease detection tests and other products based on its immune system sequencing platform; and **10X Genomics, Inc.**, whose technology enables life sciences researchers to conduct high throughput single cell analysis using Illumina sequencers.

- **Innovative New Drugs:** We have investments in companies developing innovative new drugs. **argenx SE** is using its unique antibody engineering platform based on the Llama immune system to develop drugs for severe autoimmune diseases and cancer. **Vertex Pharmaceuticals Incorporated**, the leader in the treatment of cystic fibrosis, is launching new drugs that will expand the number of patients with cystic fibrosis who can be treated and has a promising new product pipeline for other diseases. **Arrowhead Pharmaceuticals, Inc**. is developing drugs that silence disease-causing genes and has a rich pipeline of drug targets for rare diseases, cardiometabolic disease, cancer, and hepatitis B.

- **Minimally Invasive Surgery:** Less invasive surgery is less traumatic for the patient, enabling a faster recovery and in many cases resulting in cost savings to the system. We have investments in: **Intuitive Surgical, Inc.**, the pioneer in robotic surgery; **Edwards Lifesciences Corp.**, a leader in transcatheter heart valve replacement; **Abbott Laboratories**, a leader in transcatheter mitral valve repair; **Teleflex Incorporated**, which offers a new minimally invasive treatment for benign prostatic hyperplasia (BPH), also known as enlarged prostate; and **Silk Road Medical, Inc.**, a newly public company that offers an innovative minimally invasive approach for the treatment of carotid artery disease.

- **Diabetes Management:** Approximately 30 million Americans have diabetes and another 84 million have prediabetes. Diabetes was the seventh leading cause of death in the U.S. in 2015, and according to the American Diabetes Association, the direct medical costs and indirect expenditures attributable to diabetes in the U.S. were an estimated $327 billion in 2017. Worldwide, the prevalence of diabetes is staggering: over 400 million people globally have diabetes and the International Diabetes Federation estimates that by 2045, this number could reach 629 million people. We have investments in innovative medical technology companies that help patients better manage their diabetes: **DexCom, Inc.**, which offers a continuous glucose monitoring system that eliminates the need for fingersticks; **Insulet Corp.**, which offers a unique tubeless, disposable insulin pump; and **Abbott Laboratories**, which sells the FreeStyle Libre flash glucose monitoring system.

- **Tools Providers to Life Sciences Companies:** We believe companies that provide products and services to life sciences companies are attractive because they can benefit from the growth in life sciences without the risk inherent in drug development. Our investments in life sciences tools providers include **Thermo Fisher Scientific Inc.**, **Bio-Techne Corporation**, and **Mettler-Toledo International, Inc.**

- **Integration between Payors and Providers:** Efforts to control health care costs are driving a shift towards value-based health care, which rewards health care providers for the quality of care they provide rather than the quantity of care. As a result, the lines between health care payors and providers are blurring as providers assume more insurance risk and payors acquire providers to control health care costs. We have investments in **UnitedHealth Group Incorporated**, a leading managed care organization that is the largest employer of physicians in the U.S., and **Humana Inc.**, a leading managed care organization that is the largest hospice operator in the U.S. We believe both of these companies are well-positioned to potentially benefit from enrollment growth in Medicare Advantage, the value-based Medicare program that is growing more rapidly than traditional Medicare because of its more attractive value proposition to enrollees.

- **Animal Health:** We believe the animal health industry is attractive based on the trends toward greater pet ownership, increased spending on pets, increased consumption of animal protein, and increased focus on food safety. Compared with drug development for humans, the animal health industry is characterized by lower regulatory barriers, shorter and less costly R&D, less generic competition, and lower third-party reimbursement risks. We have investments in **Dechra Pharmaceuticals PLC** and **Zoetis Inc.**, both of which develop and sell medicines for pets and food producing animals; and **IDEXX Laboratories, Inc.**, the leading provider of diagnostic instruments and assays used for pet care in veterinarian offices.

Table IV.

Top 10 holdings as of December 31, 2019

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
UnitedHealth Group Incorporated	2018	$227.2	$278.5	$1,047.7	6.8%
Abbott Laboratories	2018	124.6	153.6	833.5	5.4
Merck & Co., Inc.	2019	213.4	231.6	819.6	5.3
AstraZeneca PLC	2018	90.0	130.8	756.6	4.9
Vertex Pharmaceuticals Incorporated	2018	39.0	56.3	629.5	4.1
Thermo Fisher Scientific Inc.	2019	117.4	130.3	601.0	3.9
argenx SE	2018	2.8	6.9	569.4	3.7
Zimmer Biomet Holdings, Inc.	2019	27.6	30.8	538.8	3.5
Humana Inc.	2019	35.0	48.5	494.8	3.2
Edwards Lifesciences Corp.	2018	26.8	48.7	446.5	2.9

Table V.

Fund investments in GICS sub-industries as of December 31, 2019

	Percent of Net Assets
Health Care Equipment	26.9%
Biotechnology	20.7
Life Sciences Tools & Services	15.3
Pharmaceuticals	12.5
Managed Health Care	12.0
Health Care Supplies	4.0
Specialized REITs	2.1
Health Care Facilities	2.0
Health Care Technology	0.8
Cash and Cash Equivalents	3.7
	100.0%

Baron Health Care Fund

Recent Activity

Table VI.
Top net purchases for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Abbott Laboratories	$153.6	$219.8
Biohaven Pharmaceutical Holding Company Ltd.	2.8	199.1
Illumina, Inc.	48.8	185.4
Silk Road Medical, Inc.	1.2	176.6
Zimmer Biomet Holdings, Inc.	30.8	160.6

In the fourth quarter, we initiated a position in **Biohaven Pharmaceutical Holding Company Ltd.**, a biotechnology company focused on treating neurological conditions. The company's lead asset, rimegepant, is an oral version of a new class of migraine drugs called CGRP inhibitors that address limitations of older medications, and we think it could help treat the 30 million to 40 million U.S. patients suffering from migraines. The company expects approval and launch of rimegepant in 2020, and we expect the drug to achieve blockbuster sales. We think consensus underestimates the importance of oral administration in a large primary care market and we think investor concerns about securing insurance coverage are too short-term focused. The company's drug development pipeline also includes drugs for Spinocerebellar Ataxia, Amyotrophic Lateral Sclerosis, Alzheimer's Disease, Obsessive Compulsive Disorder, and anxiety and depression, providing the company with upside optionality.

We added to our position in **Abbott Laboratories**, a large-cap diversified medical device company, due to our belief that the company has good growth prospects driven by its Libre glucose monitoring system and its transcatheter mitral valve business. We added to our position in **Zimmer Biomet Holdings, Inc.**, a leading manufacturer of hip and knee implants for joint reconstruction, because we believe organic growth will improve due to new product launches, such as the Rosa robotic system. We added to our position in **Silk Road Medical, Inc.**, a small-cap medical device company, due to our belief that the company has a long runway for growth driven by its unique approach to treating carotid artery disease less invasively. We added to our position in **Illumina, Inc.**, a leading provider of DNA sequencing technology, because we think the company's growth will accelerate in 2020 and beyond driven by new product launches and continued adoption of its DNA sequencing technology for expanding clinical applications.

Table VII.
Top net sales for the quarter ended December 31, 2019

	Amount Sold (thousands)
Veeva Systems Inc.	$136.7
Sage Therapeutics, Inc.	100.6
Arrowhead Pharmaceuticals, Inc.	85.8
Alcon Inc.	67.8
NextCure, Inc.	67.1

We reduced our position in **Sage Therapeutics, Inc.** ahead of the Phase 3 Mountain study read-out in order to manage risk. We reduced our positions in **Arrowhead Pharmaceuticals, Inc.** and **NextCure, Inc.** in order to manage the position sizes after the stocks rose. We sold our position in **Veeva Systems Inc.** and reduced our position in **Alcon Inc.** due to valuation.

Outlook

We start the year 2020 with continued optimism for the Health Care sector. Although periodic fears related to the upcoming Presidential election and potential for structural health care reform could resurface, we think the risks of a transformational change to the system are very low. On the positive side, the regulatory and funding environment remains favorable. Advances in science and medical technology are leading to innovative new drugs and products with the potential to cure previously untreatable diseases.

We are optimistic about the growth prospects for our holdings. We believe the companies in which we invest are unique, competitively advantaged, and well-managed growth companies. Thank you for investing in Baron Health Care Fund. I remain an investor in the Fund, alongside you.

Sincerely,

Neal Kaufman

Neal Kaufman
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: In addition to general market conditions, the value of the Fund will be affected by investments in health care companies which are subject to a number of risks, including the adverse impact of legislative actions and government regulations. The Fund is non-diversified, which means it may have a greater percentage of its assets in a single issuer than a diversified fund. The Fund invests in small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Health Care Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

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