DEAR BARON HEALTH CARE FUND SHAREHOLDER:

PERFORMANCE

In the quarter ended September 30, 2019, Baron Health Care Fund (the "Fund") declined 6.01% (Institutional Shares), compared with the 3.61% decline for the Russell 3000 Health Care Index (the "Benchmark") and the 1.70% gain for the S&P 500 Index. Year-to-date, the Fund was up 14.90% (Institutional Shares) compared with the 6.25% gain for the Benchmark and the 20.55% gain for the S&P 500 Index.

Table I.
Performance
For periods ended September 30, 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]	(6.11)%	(6.01)%	(3.61)%	1.70%
Nine Months[3]	14.72%	14.90%	6.25%	20.55%
One Year	(5.87)%	(5.60)%	(5.15)%	4.25%
Since Inception (April 30, 2018)	6.34%	6.62%	7.92%	10.85%

NEAL KAUFMAN

PORTFOLIO MANAGER

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

This was a challenging quarter for the Health Care sector and the Fund. The sector underperformed the broader equity market due in large part to rising polling numbers for Democratic candidates who support Medicare for All, a single payor system without commercial health insurance companies. Health Care has underperformed all year because of uncertainty related to potential health care policy changes, but the third quarter saw weakness particularly among health care companies whose business models would be threatened by a single payor system, such as commercial insurance companies. Before a single payor system could become a reality, though, a Democratic candidate who supports this idea would have to win the Democratic nomination, win the general election, and Democrats who support a single payor system would have to win a majority in the Senate and pass legislation. It is also not clear that any such candidate, if he or she were to win the nomination or the general election, would prioritize Medicare for All, and it is possible he or she would modify his or her policy position along the way. Many moderate Democrats have indicated that they do not support a single payor system, and many polls show the general population does not support Medicare for All. We still think the probability of a transformational shift to a single payor system with no private health insurance companies is very low and we are managing the portfolio with this expectation. At the same time, we recognize the probability of this outcome is not zero and, therefore, we are managing this risk accordingly.

The other issue that impacted the Fund's absolute performance during the quarter was the rotation from growth to value stocks. This shift disproportionately impacted small- to mid-cap biotechnology stocks, many of which are growth stocks without current earnings and whose valuations are driven by estimates of future cash flows (in many cases years into the future). As a result, two of our biotechnology holdings, **argenx SE** and **Sage Therapeutics, Inc.**, were the top detractors from performance in the quarter. As we explain below, we continue to have conviction in both stocks.

Our strategy is to identify competitively advantaged growth companies. In contrast, the Benchmark has a significant weighting in certain large-cap pharmaceuticals, large-cap biotechnology stocks, drug distributors, and generic drug companies, many of which trade at low earnings multiples because they have fundamental business issues (high debt levels, opioid liability, pricing pressure, etc.) and/or generate very low growth. We do not shift our strategy when there is a rotation in the market. Instead, we remain focused on finding businesses that we believe have open-ended secular growth opportunities, durable competitive advantages, and strong management teams. We are particularly focused on businesses that solve problems in health care, whether by reducing costs, enhancing efficiency, and/or improving patient outcomes.

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.

BARON FUNDS 1987

Baron Health Care Fund

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, growing faster than 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.

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

	Percent Impact
Insulet Corp.	0.80%
AstraZeneca PLC	0.32
Edwards Lifesciences Corp.	0.29
Alexandria Real Estate Equities, Inc.	0.18
West Pharmaceutical Services, Inc.	0.10

Insulet Corp. sells the OmniPod tubeless insulin pump for people with insulin-dependent diabetes. Shares increased after the company reported financial results that significantly beat Street forecasts, driven by increased adoption of the company's new OmniPod Dash insulin pump. We continue to believe Insulet has a long runway for growth.

AstraZeneca PLC is a U.K.-based international pharmaceutical company with a portfolio of products for a range of major disease areas. Recent strong performance was driven by several positive clinical trial updates during the quarter that reaffirm AstraZeneca's ability to drive industry-leading growth for large-cap pharmaceutical stocks. We expect continued strong performance as AstraZeneca emerges from its earnings trough and see growth of 15% to 20% per year over the next three-to-five years.

Shares of **Edwards Lifesciences Corp.** contributed to performance in the quarter. Edwards is a leading manufacturer of transcatheter and surgical heart valves. The company reported strong transcatheter valve sales driven by clinical trial results presented at a medical conference that demonstrated that transcatheter aortic valve replacement was superior to surgical valve replacement in low risk patients. We continue to believe Edwards has a long runway for growth.

Alexandria Real Estate Equities, Inc. is a leading owner and operator of life sciences real estate. Shares rose on excellent second quarter results and full-year guidance raise. Business fundamentals remain attractive across Alexandria's real estate footprint. We remain excited about our investment because of Alexandria's unique operating platform and outsized growth prospects.

Shares of **West Pharmaceutical Services, Inc.** contributed to performance in the quarter. West manufactures components and systems for the packaging and delivery of injectable drugs. The company reported financial results that exceeded Street forecasts, driven by double-digit growth in high-value products, and raised sales and earnings guidance for the year. We believe West has a competitively advantaged business that can grow 6% to 8% organically per year on the top line and mid-teens on the bottom line driven by volume, price, and product mix shift.

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

	Percent Impact
argenx SE	–0.86%
Sage Therapeutics, Inc.	–0.81
UnitedHealth Group Incorporated	–0.68
ViewRay Incorporated	–0.65
Silk Road Medical, Inc.	–0.51

argenx SE is a Dutch biotechnology company dedicated to developing biologics to treat immunological disorders and cancer. Weak performance in the quarter was due to a lack of catalyst flows and some reversion to the mean as growth stocks traded down. We believe that argenx's FcRn platform is one of the most valuable assets in the biotechnology development space, and we retain conviction.

Sage Therapeutics, Inc. is a biopharmaceutical company focused on developing novel drugs for central nervous system disorders. Shares fell after an update on the company's efforts in bipolar depression that were mostly neutral. We retain conviction in Sage for its base business as well as expansion into disease indications such as Parkinson's and tremor.

Shares of **UnitedHealth Group Incorporated**, the U.S.'s leading health care franchise, were weak in the third quarter, along with those of other managed care companies, on concerns about single payer risk. We believe private insurance will remain a major part of the U.S. health care system. We think UnitedHealth will see strong growth and profitability driven by positive demographic trends and its ability to manage health care costs by leveraging its size and scale, making industry-leading technology investments, expanding its expertise in population health, and growing its portfolio of providers.

ViewRay Incorporated manufactures medical capital equipment that uses MRI imagery to guide cancer radiation treatment in real time. We believe ViewRay's technology, including software to automatically stop radiation when the tumor is out of field, is game changing and that the company can capture meaningful share in what could be a $2.5 billion market. This was a tough quarter as ViewRay lowered full-year guidance by five units, causing a $30 million shortfall that could meaningfully affect funding needs a year out. We decided to sell the stock because of concerns about the company's future financing needs.

Shares of **Silk Road Medical, Inc.**, a newly public medical device company offering a novel approach to the treatment of carotid artery disease, detracted from performance. The stock declined from record high levels due to high near-term valuation and a market sell-off in high-growth companies. We continue to believe Silk Road has a long runway for growth. The company has strong competitive advantages including strong clinical data, a unique FDA label, reimbursement, and patents, and we believe its approach will become the preferred treatment for carotid artery 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 the Benchmark. The Fund may invest in stocks of any market capitalization and may hold both domestic and international stocks. As of September 30, 2019, the Fund held 45 positions. This compares with 518 positions in the Benchmark. International stocks represented 15.1% of the Fund's net assets. The Fund's 10 largest holdings represented 42.1% of net assets and the 20 largest holdings represented 67.3% of net assets. Compared with the Benchmark, the Fund was overweight in life sciences tools & services and health care supplies, and underweight in pharmaceuticals. 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 $701 million to $216 billion with a weighted average market cap of $59.1 billion. This compared with the Benchmark's weighted average market cap of $109.7 billion.

We continue to invest in the following themes:

- **Genomics:** 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 prenatal 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; **Veracyte, Inc.**, which offers genomic diagnostic tests for thyroid cancer, lung cancer, and idiopathic pulmonary fibrosis; **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.**, a newly public company 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. **Sage Therapeutics, Inc.** is developing novel medications for depression, which have the potential to offer a faster onset of action (days vs. months) and a change in the treatment paradigm from chronic to acute. **argenx SE** is using its unique antibody engineering platform based on the immune system of llamas 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.

- **Minimally Invasive Surgery:** Less invasive surgery is less traumatic for the patient, enabling a faster recovery, and in many cases results 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, also known as enlarged prostate; and **Silk Road Medical, Inc.**, a newly public company that offers a new 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**, **Mettler-Toledo International, Inc.**, **ICON plc**, and **Iqvia Holdings Inc.**, among others.

- **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. Both 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. Further, 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**, which develops and sells 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 September 30, 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	$205.9	$644.1	5.5%
Merck & Co., Inc.	2019	213.4	215.5	623.9	5.4
AstraZeneca PLC	2018	90.0	116.9	609.5	5.2
Abbott Laboratories	2018	124.6	147.9	585.4	5.0
Vertex Pharmaceuticals Incorporated	2018	39.0	43.5	470.1	4.0
argenx SE	2018	2.8	4.3	438.4	3.8
Thermo Fisher Scientific Inc.	2019	117.4	116.6	422.3	3.6
Edwards Lifesciences Corp.	2018	26.8	45.7	420.9	3.6
Intuitive Surgical, Inc.	2018	49.9	62.2	356.9	3.1
Zimmer Biomet Holdings, Inc.	2019	27.6	28.2	343.2	2.9

Table V.
Fund investments in GICS sub-industries as of September 30, 2019

	Percent of Net Assets
Health Care Equipment	26.5%
Biotechnology	18.3
Life Sciences Tools & Services	13.7
Pharmaceuticals	12.1
Managed Health Care	9.3
Health Care Supplies	5.2
Specialized REITs	2.6
Health Care Facilities	2.2
Health Care Technology	1.6
Cash and Cash Equivalents	8.5
	100.0%

Recent Activity

Table VI.
Top net purchases for the quarter ended September 30, 2019

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Thermo Fisher Scientific Inc.	$116.6	$420.2
Zimmer Biomet Holdings, Inc.	28.2	336.6
Merck & Co., Inc.	215.5	301.9
AstraZeneca PLC	116.9	238.6
Edwards Lifesciences Corp.	45.7	196.0

We initiated a position in **Thermo Fisher Scientific Inc.**, a leading life sciences tools company. Thermo Fisher provides analytical instruments, laboratory equipment, software, services, consumables, and reagents for life sciences research, manufacturing, analysis, discovery, and diagnostics. Thermo Fisher serves a $160 billion addressable market growing 3% to 5% annually. Growth drivers for these end markets include favorable demographics (aging populations with chronic conditions, rising standards of living in emerging markets, scientific advances, and increasing regulations). We think Thermo Fisher is a well-managed company with industry-leading scale, customer reach, and capabilities. A successful M&A strategy has led to acquisitions of attractive growth assets, including the recent acquisition of Brammer Bio, a leading manufacturer of gene and cell therapies, a therapeutic category that is in the early stages of potentially explosive growth. Thermo Fisher has been generating above market growth driven by share gains and a portfolio with greater exposure to faster growth areas. Going forward, management expects the business to grow 5% to 7% per year organically on the top line and 13% to 15% per year on the bottom line while deploying its significant free cash flow on M&A, share buybacks, dividends, and expanding returns on invested capital. We think the stock is reasonably valued with good long-term upside.

We initiated a position in **Zimmer Biomet Holdings, Inc.**, a leading manufacturer of hip and knee implants. Zimmer is the global leader in the $12 billion hip and knee implant market, a market growing in the low single-digits driven by the aging population, obesity, and more active lifestyles. The orthopedic implant market is an oligopoly dominated by four large companies with long-standing relationships with physicians who train with and use their products. Share shift is difficult and new entrants have not been successful capturing share. Zimmer is in turnaround mode after a period of underperformance. Zimmer suffered manufacturing issues, integration challenges post-merger with Biomet, and even market share losses. New CEO Bryan Hanson took over in December 2017. Other senior management changes followed. Since then, management has invested in manufacturing, supply chain, sales/marketing/distribution, and R&D. Zimmer is in the early stages of launching new products, including a robotic platform called Rosa. We think organic growth is set to improve in the near term. In the medium term, we think management has the opportunity through M&A and divestitures to shift the company's product mix to faster growing markets. As management executes this strategy, we think the stock's valuation discount to its peers will narrow.

We added to our positions in **Merck & Co., Inc.** and **AstraZeneca PLC**, both of which are leading global pharmaceutical companies. We continue to think these companies have good growth prospects and are trading at reasonable valuations. We added to our position in **Edwards Lifesciences Corp.**, a leading manufacturer of transcatheter heart valves, due to its potential for strong sales growth driven by FDA approval of the company's transcatheter aortic valve replacement device for low risk patients and a robust new product pipeline.

Table VII.
Top net sales for the quarter ended September 30, 2019

	Amount Sold (thousands)
DexCom, Inc.	$324.9
CareDx, Inc.	302.1
IDEXX Laboratories, Inc.	262.6
Covetrus, Inc.	198.4
Insulet Corp.	140.7

We reduced our positions in **DexCom, Inc.** and **Insulet Corp.** in order to manage position sizes after both stocks rose. We reduced our position in **IDEXX Laboratories, Inc**. due to valuation. We sold our position in **CareDx, Inc.** because of valuation. We sold our position in **Covetrus, Inc.** due to concerns about the legacy Henry Schein distribution business.

Outlook

The equity market began the fourth quarter with stocks moving lower in response to weak manufacturing data. There is also greater political uncertainty with the Democrats in the House beginning an impeachment inquiry and candidates who support a single payor system rising in the polls. Although health care stocks are likely to continue to be volatile, we think the long-term outlook for the Health Care sector is positive. The regulatory and funding environment remains favorable. We are seeing amazing advances in science and medical technology, many of which would have been considered science fiction only a few years ago. Cures to previously untreatable diseases appear to be within reach.

We are optimistic about the growth prospects for our holdings. We believe the companies in which the Fund invests 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
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.