Dear Baron Health Care Fund Shareholder:

Performance

In the quarter ended December 31, 2018, Baron Health Care Fund (the "Fund") declined 17.84% (Institutional Shares), compared with the 10.73% decline for the Russell 3000 Health Care Index (the "Benchmark") and the 13.52% decline for the S&P 500 Index. Since inception (4/30/2018), the Fund has declined 4.70% (Institutional Shares) compared with the 4.85% gain for the Benchmark and the 4.02% decline 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, 2018

	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]	(17.95)%	(17.84)%	(10.73)%	(13.52)%
Since Inception (April 30, 2018)[3]	(4.90)%	(4.70)%	4.85%	(4.02)%

The fourth quarter was a difficult one for the stock market. Investors became increasingly concerned about the economic impact of the trade war with China and slowing global growth. The market took a turn for the worse after the December meeting of the Federal Reserve, when it appeared the Fed would continue to raise interest rates in 2019 in the face of a slowing economy. Stock markets had one of the worst Decembers since the 1930s, with the S&P 500 Index down 9.0% in December, erasing 2018's gains and ending the year down 4.4%. Health Care fared better, with the Benchmark down less than the S&P 500 Index in the quarter due to relatively strong performance of large-cap pharmaceuticals stocks. Small- and mid-cap biotechnology stocks fared worse. The XBI, which is a small-midcap biotechnology ETF, was down over 12% in December and more than 25% in the fourth quarter, ending the year down over 15%.

The Fund underperformed in the fourth quarter due in part to its underweight position in large-cap pharmaceuticals stocks and in part due to weak performance of several holdings. The Fund is significantly underweight large-cap pharmaceuticals stocks relative to the Benchmark because we believe many of these stocks do not meet our investment objectives. We note that four stocks – Johnson & Johnson, Pfizer Inc., Merck & Co., Inc., and Eli Lilly and Company – represent close to 24% of the Benchmark and two of these stocks – Eli Lilly and Merck – were each up over 8% in the quarter, providing significant support for the Benchmark. However, while this did cost us over 235 basis points, we can't blame the Fund's underperformance entirely on the underweight position in large-cap pharmaceuticals stocks. Several of our stocks had steep declines, in many cases for reasons that we consider to be non-fundamental. We discuss why these stocks detracted from performance and why we retain conviction below.

We continue to think the Health Care sector offers attractive investment opportunities now and will continue to do so 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 significant changes driven by legislation, regulation, and market forces.

The Fund's investment approach is consistent with the Baron investment philosophy. We take a long-term perspective, conduct independent research and analysis, and look for 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 estimated expense ratio for the Retail Shares and Institutional Shares is 1.96% and 1.71%, respectively, but the net annual expense ratio is 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 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.

1 The indexes are unmanaged. 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

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

	Percent Impact
argenx SE	0.89%
Guardant Health, Inc.	0.32
Zai Lab Limited	0.08
Abbott Laboratories	0.06
The Cooper Companies, Inc.	0.05

argenx SE is a Dutch biotechnology company focused on developing antibodies to treat patients with cancer and severe autoimmune diseases. Recent positive performance comes from resolution of some confusion regarding a bleeding safety concern. This was amplified by a large licensing deal from Johnson & Johnson for argenx's asset to treat acute mylegenous leukemia. We believe argenx's antibody platform is one of the most valuable assets in the biotechnology development space.

Guardant Health, Inc. contributed to performance in the quarter. Guardant offers liquid biopsy tests for advanced stage cancer and is developing liquid biopsy tests for recurrence detection in cancer survivors and early detection of cancer in higher risk individuals. The company went public in early October, and the stock's strong post-IPO performance reflects investor excitement about its leading position in an attractive, large new market. We think Guardant has strong growth prospects.

Zai Lab Limited is a China-based biotechnology company focused on becoming a large player in the newly emerging Chinese health care system. Recent positive performance is attributed to China's quick regulatory acceptance of lead asset Zejula, whose Chinese rights are in-licensed from Tesaro, a company that was also acquired by GlaxoSmithKline for a hefty premium in the quarter. We expect continued strong performance as Zai becomes one of the go-to biotechnology companies in China to commercialize western medications.

Abbott Laboratories contributed to performance in the quarter. Abbott is a large-cap medical device company and a new addition to the Fund this quarter. The stock performed well since the Fund purchased it because of a solid fundamental outlook driven by the company's product pipeline in transcatheter mitral valves and diabetes, among other areas. We think the company is well positioned for top and bottom line growth.

The Cooper Companies, Inc. is a global medical device company specializing in contact lenses. Shares rose during the period held on reports of 10% organic growth for its CooperVision segment, led by 50% growth in SiH dailies. This was the strongest sales performance in two years as the company continues to gain share in the $8.5 billion global contact lens market. CooperSurgical also grew nicely, led by its Paraguard IUD product. We expect healthy multi-year growth for the contact lens market and Cooper, driven by trade-up to dailies and geographic expansion.

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

	Percent Impact
Align Technology, Inc.	–1.06%
Sage Therapeutics, Inc.	–1.04
Bio-Techne Corporation	–0.99
Neurocrine Biosciences, Inc.	–0.95
Aerie Pharmaceuticals, Inc.	–0.94

Shares of **Align Technology, Inc.**, maker of Invisalign clear aligners for straightening teeth, fell on concerns about new competition and pricing. Pricing was negatively impacted by a poorly designed sales promotion, which has since been pulled, and we think the quarter will mark the pricing trough. We remain positive on Align given the shift away from wires and brackets, vastly underpenetrated global market, and brand recognition. Continuing product innovation and expert marketing should keep Align in a dominant market position.

Sage Therapeutics, Inc. is developing novel drugs for central nervous system disorders with the lead indications focused on depression. Shares fell on mixed recent developments. While the FDA gave Sage's product Zulressa a favorable review, the agency also requested an additional three months to approve the drug, given the need to formalize its risk evaluation mitigation strategy. We expect strong performance in 2019 as data from Sage's second asset matures.

Bio-Techne Corporation is a leading developer and manufacturer of high-quality purified proteins that are sold to biomedical researchers and clinical research laboratories. Shares detracted in the quarter after management removed $30 million of revenue contribution from Exosome Diagnostics from fiscal year 2019 guidance because of timing of revenue recognition. We retain conviction. The company reported solid quarterly financial results highlighted by 10% organic revenue growth, and management still expects Exosome to contribute $150 million revenue in fiscal year 2023.

Neurocrine Biosciences, Inc. is a developer of neurology and endocrinology assets. Recent weak performance can be attributed to the failed readout from lead asset Ingrezza in its second indication, Tourette's syndrome. We expect the stock will bounce back as Ingrezza and Orlissa gain traction in their commercial markets of Tardive Dyskinesia and Uterine Fibroids/ Endometriosis and the company realizes +$10/share EPS off of a base of breakeven.

Aerie Pharmaceuticals, Inc. is commercializing the eye drop Rhopressa for the treatment of glaucoma. Recent share weakness can be attributed to prescription trends that make it difficult to gauge the ultimate potential of Aerie's glaucoma franchise. Given the novel mechanism of the action and the large unmet need in this disease, we retain conviction in the market's ultimate potential and await updates through 2019.

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 different from the Benchmark. The Fund may invest in stocks of any market capitalization and may hold both domestic and international stocks. As of December 31, 2018, the Fund held 43 positions. This compares with 500 positions in the Benchmark. International stocks represented 14.2% of the Fund's net assets. The Fund's 10 largest holdings represented 41.1% of net assets and the 20 largest holdings represented 65.1% of net assets. Compared with the Benchmark, the Fund was overweight in health care equipment and life sciences tools & services, 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 $228 million to $240 billion with a weighted average market cap of $46.2 billion. This compared with the Benchmark's weighted average market cap of $118.5 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 pre-natal testing, population genomics, and consumer genomics. As the applications for DNA sequencing expand, we believe Illumina will benefit because its sequencers will be utilized more often, generating the potential for high-margin consumable revenue for the company. We also have an investment in **Guardant Health, Inc.**, which offers liquid biopsy tests for cancer therapy selection and is developing liquid biopsy tests for cancer recurrence monitoring and early detection of cancer.

- **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**'s lead molecule has the potential to treat a long list of severe autoimmune diseases caused by pathogenic auto-antibodies. **Vertex Pharmaceuticals Incorporated**, the leader in the treatment of cystic fibrosis, has shown promising data for its "triple therapy," a cocktail of three drugs combined into one pill that would address an expanded group of patients with the disease, 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. We have investments in: **Intuitive Surgical, Inc.**, the pioneer in robotic surgery; **Edwards Lifesciences Corp.**, a leader in transcatheter heart valve replacement; and **Teleflex Incorporated**, which offers a new minimally invasive treatment for benign prostatic hyperplasia (BPH), also known as enlarged prostate.

- **Tools Providers to Life Sciences Companies:** We believe companies that provide products and services to biotechnology and pharmaceutical companies are attractive because they can benefit from the growth in those areas without the risk inherent in drug development. We have multiple investments in companies that supply equipment, analytical instruments, consumables, services, and software to research and commercial laboratories or that play a role in drug and food production as testers of quality, including **Bio-Techne Corporation**, **Eurofins Scientific SE**, and **Mettler-Toledo International, 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 of these companies are well positioned to potentially benefit from enrollment growth in Medicare Advantage, the value-based Medicare program which is growing more rapidly than traditional Medicare because of the 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 December 31, 2018

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (thousands)	Percent of Net Assets
UnitedHealth Group Incorporated	2018	$227.2	$239.7	$544.1	6.8%
argenx SE	2018	2.8	3.5	367.2	4.6
Teleflex Incorporated	2018	12.2	11.9	358.0	4.5
AstraZeneca PLC	2018	90.0	96.2	323.4	4.0
Vertex Pharmaceuticals Incorporated	2018	39.0	42.3	310.7	3.9
Humana Inc.	2018	40.6	39.3	310.3	3.9
Abbott Laboratories	2018	124.6	127.0	291.0	3.6
Intuitive Surgical, Inc.	2018	49.9	54.7	267.2	3.3
Bio-Techne Corporation	2018	5.7	5.5	266.0	3.3
Boston Scientific Corporation	2018	49.8	48.9	258.5	3.2

Table V.
Fund investments in GICS sub-industries as of December 31, 2018

	Percent of Net Assets
Health Care Equipment	31.0%
Biotechnology	16.2
Life Sciences Tools & Services	13.1
Managed Health Care	10.9
Pharmaceuticals	7.1
Health Care Supplies	4.1
Health Care Facilities	3.1
Specialized REITs	1.9
Health Care Technology	1.5
Health Care Services	1.0
Cash and Cash Equivalents	10.1
	100.0%

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Abbott Laboratories	$127.0	$286.8
Boston Scientific Corporation	48.9	268.8
IDEXX Laboratories, Inc.	16.0	192.6
Humana Inc.	39.3	169.7
Alexandria Real Estate Equities, Inc.	12.4	163.5

Abbott Laboratories is a global manufacturer and provider of diversified health care products and medical devices and equipment in the areas of nutritionals, diagnostics, vascular intervention, diabetes, coronary, endovascular, and structural heart. We believe Abbott has three strong growth drivers for its business. In diabetes, Abbott sells the Freestyle Libre, a wearable, low cost glucose monitoring device which helps people with diabetes monitor their blood glucose levels. The Freestyle Libre has been generating explosive growth over the past two years and we think the platform has a long runway. In structural heart, we think sales of Abbott's MitraClip transcatheter mitral repair device will accelerate after the positive results of a clinical trial called COAPT, which studied Abbott's MitraClip transcatheter mitral valve repair device in patients with secondary mitral valve regurgitation. The COAPT trial showed the device significantly reduced hospitalizations and mortality compared with medical therapy alone. We think this trial is a game changer for the treatment of secondary mitral valve regurgitation and significantly boosts the prospects for Abbott's device and the field of transcatheter mitral valve repair/replacement. Finally, Abbott is launching a new diagnostics platform called Alinity, which offers a smaller footprint, faster cycle time, greater automation and ease of use, and lower service costs.

Boston Scientific Corporation is a global medical device company that sells products in a broad range of interventional medical specialties. Management has shifted the company's portfolio into higher-growth markets, such as structural heart, peripheral interventions, endoscopy, and urology; and by 2021 expects the company's business to be serving markets generating 6% to 7% growth. In 2019 and 2020, management targets 7% to 10% operational revenue growth or 6% to 9% organic revenue growth with 50 to 100 basis points of operating margin expansion and double-digit earnings growth.

IDEXX Laboratories, Inc. dominates the veterinary diagnostics category, with best-in-class products, superior execution, and an outstanding management team, in our view. The company cements its competitive position through its R&D spend, which is five times more than all of its competitors combined. We expect the company to drive sustained double-digit organic growth, driven by productivity benefits from moving direct in the U.S., the company's persistent innovation pipeline, and returns on intensive investments in international markets. We believe that growth could exceed targeted levels due to a broader industry push around compliance and wellness plans, which both are diagnostic-intensive. Additionally, we view the potential to license IDEXX's SDMA (a test for early detection of chronic kidney disease) test for use in humans as an upside option. We expect faster top-line growth to lead to accelerated margin expansion, creating a virtuous cycle that should help sustain annual earnings growth around 20%.

Humana Inc. is one of the U.S.'s largest health insurers, offering a broad portfolio of managed care products and services to employer groups, government sponsored programs, and individuals. As the second largest provider and biggest pure play in the Medicare Advantage ("MA") market, we believe Humana should experience above market growth driven by the aging of the population and the popularity of these plans which currently cover about 35% of the eligible population. The Centers for Medicare and Medicaid Services projects this could grow to 50% over the next five to six years. Humana is also a leading player in the shift towards value-based care which rewards providers who deliver better health care outcomes at lower costs. Over 60% of its MA members are under this reimbursement model. The company's expertise in managing high cost, high risk patients in integrated care models positions the company to go after state-based Medicaid programs, another fertile growth area.

Alexandria Real Estate Equities, Inc. is the largest REIT focused on owning, operating, developing, redeveloping, and acquiring office buildings for the life science industry. Alexandria was the first REIT to identify and pursue the laboratory niche, which gave them first mover advantage in core life science cluster locations, including Greater Boston, the San Francisco Bay Area, San Diego, New York City, Seattle, suburban Washington, D.C., and Research Triangle Park. Tenants span the life science industry, including academic and medical institutions, multi-national pharmaceutical companies, public and private biotechnology entities, U.S. government agencies, medical device companies, industrial biotechnology companies, venture capital firms, and life science product and service companies. We believe the company's competitive advantages include irreplaceable locations near research institutions, strong relationships with health care tenants, expertise in building life sciences real estate, dominant market share positions, national footprint, and tenant credit underwriting expertise. We believe Alexandria's business fundamentals are strong with unprecedented and growing demand, limited supply, increasing rents, and manageable lease expirations. Management, for whom we have great respect, has a five-year growth plan to double revenues through organic growth and accretive development. We think the stock trades at a reasonable valuation and has scarcity value as the only pure play life sciences REIT.

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

	Amount Sold (thousands)
Agilent Technologies, Inc.	$151.9
Ra Medical Systems, Inc.	64.9
Myovant Sciences Ltd.	64.8
Aerie Pharmaceuticals, Inc.	60.5
AnaptysBio, Inc.	53.5

We sold our position in **Agilent Technologies, Inc.** and in **Ra Medical Systems, Inc.** after further due diligence lowered our conviction level in the theses. We sold our position in **Myovant Sciences Ltd.** and **AnaptysBio, Inc.** and reduced our position in **Aerie Pharmaceuticals, Inc.** to lower our early stage biotechnology exposure.

Outlook

I just returned from the J.P. Morgan Health Care Conference in San Francisco, the largest health care conference of the year. My key takeaways from the Conference are:

- In general, business fundamentals in the sector remain solid. Many companies, including several holdings in the Fund, pre-announced revenue and/or earnings that met or beat investor expectations. Many life sciences tools and medical technology companies commented that end-market trends remain favorable, including in China where these companies are seeing strong growth.
- Innovation is alive and well, and the regulatory and funding environment remains favorable. We came away enthusiastic about the new product pipelines of many of our companies. Sage Therapeutics, Inc. announced positive clinical trial results for the oral version of its drug for postpartum depression. The number of new drugs approved by the FDA reached an all-time high in 2018. Biotechnology companies raised $81 billion in 2018, the third highest level since 1996. We expect bipartisan support for NIH funding to continue. NIH funding for fiscal year 2019 increased 5.4%, following similar increases in fiscal years 2016 to 2018, which is positive for life sciences tools & services companies whose customers receive research funding from the NIH.
- Recent M&A activity in the biotechnology space could mark the start of a trend. Since the start of the new year, two deals were announced: (1) Bristol-Myers Squibb Company announced an agreement to acquire Celgene Corporation for an equity value of $74 billion; and (2) Eli Lilly and Company announced an agreement to acquire Loxo Oncology, Inc. at a 68% premium in a transaction valued at roughly $8 billion.

Despite the recent market volatility, our outlook on the Health Care sector is positive and we are optimistic about the growth prospects for our holdings. We believe the companies in which the Fund invests are unique, competitively advantaged, well-managed growth companies. Thank you for investing in Baron Health Care Fund. I am an investor in the Fund, alongside you.

Sincerely,

Neal Kaufman
Portfolio Manager