DEAR BARON HEALTH CARE FUND SHAREHOLDER:

PERFORMANCE

In the quarter ended September 30, 2018, Baron Health Care Fund (the "Fund") advanced 10.58% (Institutional Shares), compared with the 13.61% gain for the Russell 3000 Health Care Index (the "Benchmark") and the 7.71% gain for the S&P 500 Index. Since inception (4/30/2018), the Fund has advanced 16.00% (Institutional Shares) compared with the 17.45% gain for the Benchmark and the 10.98% gain for the S&P 500.

Table I.
Performance
For periods ended September 30, 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]	10.59%	10.58%	13.61%	7.71%
Since Inception (April 30, 2018)[3]	15.90%	16.00%	17.45%	10.98%

NEAL KAUFMAN

PORTFOLIO MANAGER

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

Welcome to Baron Health Care Fund! We launched the Fund on April 30, 2018 because we 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. Advances in science and medical technology are occurring at a rapid pace. 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. Some of the key secular growth trends we are currently investing in include:

- **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. We are closely tracking companies that are developing liquid biopsy tests for cancer therapy selection, cancer recurrence monitoring, and early detection of cancer. We believe DNA sequencing is on the verge of becoming a foundational part of patients' health records. 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.
- **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. **Adaptimmune Therapeutics plc** is developing T-cell therapies which utilize the body's own immune system to find and destroy cancer cells in solid tumors.

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 1987

- **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 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**, **Mettler-Toledo International, Inc.**, and **Agilent Technologies, 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 which is also the largest employer of physicians in the U.S., and **Humana Inc.**, a leading managed care organization which is also the largest hospice operator in the U.S. Both of these companies are also well positioned to 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. We discuss UnitedHealth Group in more depth below.
- **Animal Health:** We believe the animal health industry is attractive based on the trends toward greater pet ownership, increased spend 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 reimbursement since customers in animal health pay out of pocket compared with third-party payors in human health. 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.

Health Care was the best performing sector in the S&P 500 Index in the September quarter as health care companies benefited from strong demand for their products and services, and investors sought safety in more defensive areas of the market. Within the Health Care sector, the best performing sub-industries were life sciences tools & services, health care facilities, and pharmaceuticals. The Fund benefited from overall sector appreciation, outperforming the S&P 500 in the quarter, but not as much as the Benchmark. The rally in large-cap pharmaceuticals detracted from the Fund's relative performance because of the Fund's lower exposure to this area. We believe large-cap pharmaceutical outperformance in the third quarter was driven by a defensive rotation; earnings results that were at or above expectations; mean reversion after a period of underperformance; and relatively low multiples. At quarter end, we owned one large-cap pharmaceutical stock, **AstraZeneca PLC,** which we believe is well positioned for future growth given a strong new product pipeline and low exposure to blockbusters losing patent protection. The Fund's relative performance was also hindered by share price declines from several smaller-cap pharmaceutical and biotechnology holdings in which we continue to have a high level of conviction, including **Sage Therapeutics, Inc.**, **argenx SE**, **Dechra Pharmaceuticals PLC**, and **Intersect ENT, Inc**. We discuss why these stocks detracted from performance and why we retain conviction below.

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

	Percent Impact
CareDx, Inc.	1.24%
Bio-Techne Corporation	1.15
Illumina, Inc.	1.10
Medtronic Public Limited Company	0.74
Neurocrine Biosciences, Inc.	0.69

CareDx, Inc. is the leader in transplant diagnostics, with a presence in nearly all U.S. and EU transplant centers. Shares rose sharply on impressive sales of AlloSure, a new kidney transplant test that launched last year, and fading investor concerns about a potential competitive product coming to the market. We believe CareDx has many competitive advantages, including substantial clinical data, reimbursement from insurers, and a long-term reputation in its end markets. AlloSure addresses a large market opportunity of over $2 billion and has higher margins than CareDx's other tests.

Shares of **Bio-Techne Corporation,** a developer and manufacturer of life sciences tools, contributed to performance. The company reported strong quarterly results highlighted by 9% organic revenue growth. In addition, Bio-Techne recently acquired Exosome Diagnostics, which has a non-invasive liquid biopsy test to help physicians determine whether a prostate biopsy is necessary in patients with ambiguous screening results. The transaction has the potential to become a meaningful growth driver for the company, in our view.

Illumina, Inc. is the leading provider of next generation DNA sequencing instruments and consumables. The stock rose after the company reported financial results that exceeded Street expectations, driven by strong growth of sequencing consumables. We believe Illumina will continue to benefit from increased adoption of DNA sequencing in clinical applications, such as cancer diagnosis and treatment.

Medtronic Public Limited Company is a large diversified medical technology company. Shares rose after the company reported organic sales growth that beat Street expectations, driven by a strong uptick in its diabetes business and in emerging markets, among other areas. Management also raised organic growth guidance. We believe Medtronic's valuation discount versus peers will narrow as the company executes its business plan, creating attractive investment returns for shareholders.

Neurocrine Biosciences, Inc. develops treatments for neurological and endocrine-related diseases. Strong performance in the quarter is attributable to the successful launch of its drug Ingrezza as a treatment for a side effect of neuroleptic drugs and approval of its drug for endometriosis. We expect continued strong performance as these products gain traction in their markets and we get more data from the use of Ingrezza for Tourette's Syndrome.

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

	Percent Impact
Gemphire Therapeutics Inc.	–0.89%
Sage Therapeutics, Inc.	–0.38
Dechra Pharmaceuticals PLC	–0.28
argenx SE	–0.26
Intersect ENT, Inc.	–0.25

Gemphire Therapeutics Inc. is a clinical-stage biopharmaceutical company developing treatments for cardiometabolic disorders. Shares decreased sharply on safety issues uncovered during a product trial for pediatric liver disease. Due to our concerns about the company's liquidity and rising clinical uncertainties, we decided to exit our position.

Sage Therapeutics, Inc. develops novel drugs for central nervous system disorders. Recent developments have been wildly positive given clinical trial results of lead assets in postpartum depression and major depression, but now the company is in a quiet period for news flow and it has relinquished some gains. Sage has announced expansion into disease indications like Parkinson's and tremor, and we expect the stock to appreciate as the company researches and brings new drugs to market.

Despite reporting strong quarterly results, shares of U.K.-based animal pharmaceutical company **Dechra Pharmaceuticals PLC** declined after some one-off minor adjustments caused fiscal year 2019 consensus numbers to move down modestly. We believe investors overreacted to management commentary on the ongoing consolidation in the veterinary practice industry and efforts by distributors to sell competing products on their own.

argenx SE is a Netherlands-based biotechnology company developing innovative antibody therapies for cancer and auto-immune diseases. The stock price fell after management mishandled an adverse event in a recent clinical trial that we believe is immaterial. We expect safety data due in December should help ease investor concerns and believe argenx's antibody platform is one of the most valuable assets in the biotechnology development space.

Intersect ENT, Inc. sells a drug coated stent-like device implanted in sinuses of patients immediately following surgery. The company recently won approval for another device called SINUVA for patients with recurring severe sinus symptoms following surgery. Shares fell on lowered guidance for 2018 SINUVA sales due to reimbursement difficulties prior to the approval of a J-Code. We expect the code will be in effect by January 2019. We estimate an addressable market for this product of more than $1 billion, and expect sales will accelerate after reimbursement approval is obtained.

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 cap and may hold both domestic and international stocks. As of September 30, 2018, the Fund held 43 positions. This compares with 491 positions in the Benchmark. International stocks represented 15.5% of the Fund's net assets. The Fund's 10 largest holdings represented 39.9% of net assets and the 20 largest holdings represented 65.3% of net assets. Compared with the Benchmark, the Fund had overweight positions in life sciences tools & services, health care equipment, and biotechnology, and underweight positions in pharmaceuticals, health care services, and managed health care. 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 $220 million to $256 billion with a weighted average market cap of $42.9 billion. This compared with the Benchmark's weighted average market cap of $117.1 billion.

Table IV.
Top 10 holdings as of September 30, 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	$256.1	$448.5	6.8%
Teleflex Incorporated	2018	12.2	12.2	268.0	4.0
Medtronic Public Limited Company	2018	115.0	132.8	267.8	4.0
argenx SE	2018	2.8	2.7	265.8	4.0
Vertex Pharmaceuticals Incorporated	2018	39.0	49.3	257.1	3.9
Sage Therapeutics, Inc.	2018	6.7	6.6	255.2	3.9
AstraZeneca PLC	2018	90.0	100.3	238.3	3.6
Illumina, Inc.	2018	35.4	54.0	223.9	3.4
Bio-Techne Corporation	2018	5.7	7.7	208.8	3.2
Intuitive Surgical, Inc.	2018	49.9	65.3	207.2	3.1

Table V.
Fund investments in GICS sub-industries as of September 30, 2018

	Percent of Net Assets
Health Care Equipment	26.3%
Biotechnology	23.5
Life Sciences Tools & Services	16.0
Pharmaceuticals	10.9
Managed Health Care	10.2
Health Care Supplies	3.3
Health Care Facilities	2.6
Health Care Technology	1.7
Cash and Cash Equivalents	5.5
	100.0%

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
UnitedHealth Group Incorporated	$256.1	$193.7
HCA Healthcare, Inc.	48.1	162.3
Dechra Pharmaceuticals PLC	2.9	152.5
LivaNova PLC	6.0	139.2
ICON plc	8.4	130.3

UnitedHealth Group Incorporated is the nation's leading health care franchise. We view UnitedHealth as a core holding that allows us to participate in the strong secular growth of health care. We believe UnitedHealth has a uniquely diversified portfolio and complimentary set of skills, services, and expertise which will allow it to deliver higher quality health care at lower cost to its members and customers. UnitedHealth operates under four divisions: the United Healthcare division is the nation's largest insurer, twice the size of its next largest competitor. Optum Insight offers IT services and analytics. Optum RX is the nation's 3rd largest pharmacy benefit manager. Optum Health is a provider of population health management and owner of services providers including physician groups, outpatient surgery centers, and urgent care facilities. UnitedHealth's size, scale, differentiated offerings and leadership positions are unmatched, and we expect the company to take market share and deliver industry leading growth and profitability. Notable growth drivers include its Medicare and Medicaid books of business and international expansion. The company's significant free cash flow has been used to fund provider acquisitions and $3 billion in annual technology investments that serve to reinforce the company's competitive moat.

HCA Healthcare, Inc. is the nation's leading operator of acute care hospitals. We believe HCA is gaining market share after a period of capital investment. HCA's volume trends have been strong and are accelerating driven in part by low unemployment. HCA has a strong presence in markets growing faster than the national average with secular tailwinds, such as Texas and Florida. We think HCA has margin expansion opportunities from fixed cost leverage and integration of acquired assets.

Dechra Pharmaceuticals PLC develops, manufactures, and distributes specialty veterinary medicines for both pet and food producing animals in the EU and North America. As discussed above, we believe the animal health industry is attractive. We believe Dechra has an attractive product portfolio that is relatively insulated from competition and can continue to generate above market growth bolstered by geographic expansion, its new product pipeline, and acquisitions. We believe recent concerns about consolidation among vet distributors and the distributors' marketing their own products are overblown.

LivaNova PLC is a medical device company that sells cardiac surgery products and neuromodulation-based medical devices for the treatment of epilepsy and depression. We believe the company's existing business can generate mid-to-high single-digit revenue growth with margin expansion. In addition, we believe the company has several pipeline product opportunities that could accelerate the company's revenue growth, including the opportunity to receive Medicare reimbursement for its vagus nerve stimulation therapy for treatment-resistant depression. The company is also developing a transcatheter mitral valve replacement product that has the potential to be a leader in a large new market.

ICON plc is a leading global contract research organization ("CRO") based in Dublin, Ireland. Pharmaceutical companies are outsourcing more of their clinical trial work and market share is shifting toward the larger, global CROs such as ICON. We believe ICON has differentiated itself through technology, providing proprietary data and analytics solutions that address inefficiencies in clinical trials. We think ICON should be able to grow revenue in the high single-to-low double-digits, achieve margin expansion through continued operating leverage, and generate solid cash flow. ICON is net cash positive with the strongest balance sheet among its CRO peers, which gives the company the flexibility to make acquisitions or repurchase its own stock.

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

	Amount Sold (thousands)
Waters Corporation	$96.2
Gemphire Therapeutics Inc.	33.3

We sold our position in **Waters Corporation** due to concerns about market share losses and to make room for other ideas. We sold our position in **Gemphire Therapeutics Inc.** due to concerns about the company's liquidity and rising clinical uncertainties.

Outlook

The recent rise in interest rates has created increased volatility in the stock market. Despite this volatility, we are optimistic about the outlook for the Health Care sector. We believe the pace of innovation in drug development and medical technology is extremely high. The regulatory and funding environment for biotechnology and life sciences companies remains highly favorable. The number of novel drugs approved by the FDA reached a 21-year high in 2017 and continues at a high level in 2018. Biotechnology companies raised $66 billion through the end of the September quarter, which is on track to be the second highest level since 1996. This is positive for the biotechnology sector in general as well as for the companies that serve them, such as CROs and life sciences tools & services companies. Furthermore, Congress is expected to approve a $2 billion or 5.4% increase to NIH funding for fiscal year 2019, following similar increases in fiscal years 2016 to 2018. This is positive for life sciences tools & services companies whose customers receive research funding from the NIH.

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. We are relentlessly working to identify good investment ideas that we believe will generate attractive returns. I am 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.