DEAR BARON HEALTH CARE FUND SHAREHOLDER:

PERFORMANCE

In the quarter ended June 30, 2019, Baron Health Care Fund (the "Fund") advanced 6.30% (Institutional Shares), compared with the 1.43% gain for the Russell 3000 Health Care Index (the "Benchmark") and the 4.30% gain for the S&P 500 Index. Year to date, the Fund is up 22.25% (Institutional Shares) compared with the 10.23% gain for the Benchmark and the 18.54% gain for the S&P 500 Index. Since inception (4/30/2018), the Fund has increased 13.99% (Institutional Shares) compared with the 13.21% increase for the Benchmark and the 11.69% increase for the S&P 500 Index.

Table I.
Performance
For periods ended June 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]	6.31%	6.30%	1.43%	4.30%
Six Months[3]	22.19%	22.25%	10.23%	18.54%
One Year	10.88%	11.06%	11.80%	10.42%
Since Inception (April 30, 2018)[3]	13.73%	13.99%	13.21%	11.69%

NEAL KAUFMAN
PORTFOLIO MANAGER

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

The Health Care sector continued to underperform the broader equity markets because of investor concerns about the upcoming Presidential election and the increased political rhetoric about proposed structural changes to the health care system. We continue to believe expansion of Medicare coverage could ultimately happen, but we think a transformational shift to a single payor system with no private health insurance companies is highly unlikely.

During the quarter, the Fund outperformed both the Benchmark and the S&P 500 Index. The Fund's investments in diabetes device companies **DexCom, Inc.** and **Insulet Corp.** contributed the most to performance, driven by reduced investor concerns about competitive threats to DexCom, and strong financial results from Insulet. Other outperformers included **Silk Road Medical, Inc.**, a newly-public company that offers a new approach for the treatment of carotid artery disease; **IDEXX Laboratories, Inc.**, the leader in veterinary diagnostics; and **argenx SE**, which is developing novel drugs for severe autoimmune diseases.

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 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 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 June 30, 2019

	Percent Impact
DexCom, Inc.	1.03%
Insulet Corp.	0.73
Silk Road Medical, Inc.	0.69
IDEXX Laboratories, Inc.	0.67
argenx SE	0.62

DexCom, Inc. sells a continuous glucose monitoring device for people with diabetes. The stock rose after Abbott's Libre 2.0 unexpectedly did not receive FDA approval following the American Diabetes Association annual meeting. There were also questions about whether Libre 2.0's performance metrics had improved enough to catch up with DexCom's accuracy. We continue to believe DexCom has a long runway for growth despite the potential for increased competition from Libre 2.0.

Shares of **Insulet Corp.**, a seller of the OmniPod insulin pump for people with diabetes who require insulin, contributed to performance in the quarter. The stock rose due to above-consensus first quarter financial results, and investors turned their attention to the potential positive impact of new product launches, including DASH in 2019 and Horizon in late 2020. We continue to believe Insulet is well positioned to generate strong long-term growth.

Silk Road Medical, Inc. contributed to performance during the period held in the quarter. Silk Road is a newly-public company offering a novel approach to the treatment of carotid artery disease. Shares appreciated because of the potential for this approach to become the standard of care. We think the company has a long runway for growth, as clinical data has shown that its treatment offers the advantages of a minimally invasive solution with lower stroke risk than existing alternatives.

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** contributed to performance after reporting robust financial results. In the core companion animal business, competitive trends are outstanding, highlighted by instrument installed base growth of 21%, domestic lab growth more than twice that of competitor VCA, and improving sales productivity. We think new proprietary innovations and field sales force expansion should be meaningful contributors to growth. Margins are moving significantly higher, and we believe that margins can approach 30% over the next several years.

argenx SE is a Dutch biotechnology company dedicated to developing biologics to treat immunological disorders and cancer. Strong performance in the quarter was generally attributable to the high quality of argenx's assets that led to greater investor appreciation of the business and incremental updates on early pipeline assets at the company's Research & Development day. We expect continued positive performance given the high quality of argenx's pipeline combined with its strong cash position.

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

	Percent Impact
Covetrus, Inc.	–0.53%
InflaRx N.V.	–0.44
Intersect ENT, Inc.	–0.40
Acceleron Pharma Inc.	–0.34
Intuitive Surgical, Inc.	–0.33

Covetrus, Inc., is a newly-formed global animal health technology and services company comprised of Vet's First Choice and Henry Schein Animal Health. Shares declined in the quarter as investors reacted to first quarter revenue and EBITDA misses of 3% and 15%, respectively, and a modest guidance reset with general concerns over near-term softness in the legacy Henry Schein Animal Health business. We remain bullish on the longer-term opportunity for this unique company to become a leading veterinary health platform.

InflaRx N.V. is a German biotechnology company developing a drug to treat patients with hidradenitis suppurativa, a painful skin disease. This past quarter saw an unequivocal failure of InflaRx's asset in Phase 2 trials that called into question the thesis for future investments in the development of its treatment for this disease. We exited this position.

Intersect ENT, Inc. produces drug coated, bioabsorbable stents to help sinus sufferers with recurrent problems after sinus surgery. Shares detracted due to struggles with the launch of its SINUVA product which targets usage in doctors' offices. Our due diligence indicated the product would be well received by patients, but Intersect has had trouble dealing with a reimbursement pathway. We believe this is manageable, but given the timing of the CEO's departure following a weak sales quarter for SINUVA, we decided to exit our position.

Acceleron Pharma Inc. is a biopharmaceutical company developing a set of assets for hematological, respiratory, and muscle disorders. Shares fell in the quarter. As we expect most of 2019 to serve as a period of incubation for the company without any major results until possibly late in the year, we are not surprised that Acceleron has fallen out of favor given the lack of news. We expect investor interest to pick up as catalysts approach.

Shares of **Intuitive Surgical, Inc.**, a manufacturer of surgical robotic products, most notably the da Vinci robotic surgical system, detracted from performance. The stock declined due to first quarter financial results falling short of investor expectations, which was partially attributable to Intuitive selling more of its systems under operating leases, resulting in less upfront revenue recognition. We continue to believe Intuitive Surgical has a long runway for growth.

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 June 30, 2019, the Fund held 44 positions. This compares with 502 positions in the Benchmark. International stocks represented 13.6% of the Fund's net assets. The Fund's 10 largest holdings represented 42.7% of net assets and the 20 largest holdings represented 68.2% of net assets. Compared with the Benchmark, the Fund was overweight in life sciences tools & services and health care supplies, and underweight in pharmaceuticals and health care services. 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 $854 million to $232 billion, with a weighted average market cap of $48.1 billion. This is well below the Benchmark's weighted average market cap of $116.6 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. We have investments in companies using Illumina's DNA sequencing technology and other genomic technology for diagnostics applications, including: **Guardant Health, Inc.**, which offers a non-invasive blood test for cancer therapy selection and is developing non-invasive blood tests for cancer recurrence monitoring and early detection of cancer; **CareDx, Inc.**, which offers a non-invasive blood test for kidney transplant surveillance; **Veracyte**, **Inc.**, which offers genomic diagnostic tests for thyroid cancer, lung cancer, and idiopathic pulmonary fibrosis; and **Adaptive Biotechnologies Corporation**, a newly public company that 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.

- 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; **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.**, which 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 which 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 biotechnology and pharmaceutical companies are attractive because they can benefit from the growth in those areas without the risk inherent in drug development. Our investments in the life sciences tools providers include **Bio-Techne Corporation**, **Mettler-Toledo International, Inc.**, **ICON plc**, **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 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; **IDEXX Laboratories, Inc.**, the leading provider of diagnostic instruments and assays used for pet care in veterinarian offices; and **Covetrus, Inc**., a newly-formed company resulting from the merger of Henry Schein's Animal Health Business, a leading distributor of products to veterinarians, with Vets First Choice, a technology platform used by veterinarians.

Baron Health Care Fund

Table IV.
Top 10 holdings as of June 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	$231.9	$794.0	6.9%
argenx SE	2018	2.8	5.3	597.8	5.2
Abbott Laboratories	2018	124.6	148.4	554.7	4.8
DexCom, Inc.	2018	8.3	13.6	520.7	4.5
Sage Therapeutics, Inc.	2018	6.7	9.4	492.9	4.3
Bio-Techne Corporation	2018	5.7	7.9	442.4	3.8
Vertex Pharmaceuticals Incorporated	2018	39.0	47.0	398.9	3.5
Humana Inc.	2019	35.0	35.8	384.7	3.3
Insulet Corp.	2018	5.0	7.1	371.5	3.2
CareDx, Inc.	2018	0.5	1.5	363.0	3.2

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

	Percent of Net Assets
Health Care Equipment	26.2%
Biotechnology	19.5
Life Sciences Tools & Services	17.8
Managed Health Care	11.2
Pharmaceuticals	8.4
Health Care Supplies	5.8
Health Care Facilities	2.3
Health Care Distributors	2.0
Specialized REITs	1.7
Health Care Technology	1.4
Cash and Cash Equivalents	3.7
	100.0%

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Merck & Co., Inc.	$215.9	$318.7
Alcon Inc.	30.3	267.5
Humana Inc.	35.8	249.4
UnitedHealth Group Incorporated	231.9	192.0
Veracyte, Inc.	1.4	169.8

We initiated a position in **Merck & Co., Inc.**, a leading global pharmaceutical company. Merck's most important drug is Keytruda, an anti-PD-1 (programmed death receptor-1) therapy, which is used to treat a variety of cancers. We believe Keytruda is still in the early innings of development with multiple ongoing clinical trials in adjuvant (after surgery) and neoadjuvant (before surgery) settings, combination therapies, and earlier lines of therapy. We also think Keytruda has substantial room to grow outside the U.S. Beyond Keytruda, we think Merck's vaccines business is a key growth driver and an attractive business because of high barriers to entry and limited threats from generic competition due to manufacturing complexity. We believe Gardasil, a vaccine to help prevent certain diseases caused by the human papillomavirus (HPV), has potential to grow for many years driven by expansion into new geographies and younger patients, recommendations to make HPV vaccinations gender neutral, and increased awareness that Gardasil can prevent cancers linked to HPV infections beyond just cervical cancer. We also think Merck has an attractive animal health business, which should benefit from the favorable secular trends we described in the section above for the animal health industry. Finally, we think Merck has a pipeline of new drugs with strong growth potential, including a vaccines pipeline, MK-8591 for treatment and prevention of HIV, and Gefapixant for chronic cough and potentially other disease indications. At the company's recent investor day, management outlined its expectation to generate strong revenue growth every year over the next five years combined with meaningful operating margin expansion and increased returns on invested capital. Management also expects the business to generate significant free cash flow, which can be deployed for business development and share repurchases. We think Merck trades at a reasonable valuation for a business with these characteristics.

We initiated a position in **Alcon Inc**., the leading global medical device ophthalmology company. Alcon was recently spun off from Novartis AG. Alcon has a surgical business that sells equipment, disposables, and implants used in a variety of ophthalmologic surgical procedures and a vision care business that sells contact lenses and over-the-counter eye care products. We think the ophthalmic device market is a secular growth market based on an aging population with growing eye care needs, emerging market growth, and rising prevalence of myopia driven by increased screen time and mobile device use. In addition, Alcon's end markets are less impacted by third-party reimbursement pressures given that customers purchase key products with out-of-pocket spending. We think that, as a stand-alone public company, Alcon can invest more in its business and generate faster revenue growth and more margin expansion than it did under Novartis' ownership. In the near term, Alcon has two important new products in the pipeline: PanOptix, a trifocal intraocular lens for cataract surgery, and Precision1, a daily silicone hydrogel contact lens for the mass market. We think these products should drive revenue growth acceleration over the next few years. Alcon management is committed to delivering significant margin expansion from 2018 to 2023, driven by sales growth acceleration, favorable product mix, manufacturing efficiencies, and cost improvement. Finally, we think Alcon has the balance sheet capacity to make acquisitions to drive growth.

We initiated a position in **Veracyte, Inc.**, a genomics diagnostics company. Veracyte offers three genomic diagnostic tests: Afirma for thyroid cancer, Percepta for lung cancer, and the Envisia for interstitial lung disease. Veracyte's tests can help patients avoid unnecessary, expensive, invasive biopsy procedures. Afirma is a well-established test and we expect continued market penetration. Percepta and Envisia are in the early stages of commercialization, and we expect these tests to add to revenue over time. Veracyte also has a partnership with Johnson & Johnson to develop a novel non-invasive nasal swab diagnostic test for early detection of lung cancer, which, if successful, could become a meaningful revenue driver.

We added to our positions in **UnitedHealth Group Incorporated** and **Humana Inc**. We believe the stocks are selling at attractive valuations because of investor fears about political proposals to eliminate private health insurance. We continue to believe single payor Medicare for All proposals are highly unlikely to become law and that a more likely scenario is an expansion of Medicare. We think both UnitedHealth and Humana would be well positioned to benefit from the expansion of Medicare.

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

	Amount Sold (thousands)
Ligand Pharmaceuticals Incorporated	$167.6
Intersect ENT, Inc.	161.1
Eurofins Scientific SE	140.1
Boston Scientific Corporation	124.0
Abcam plc	120.0

We sold our position in **Intersect ENT**, **Inc**. due to the CEO's departure and disappointing financial results. We sold **Eurofins Scientific SE** to make room for other ideas. We sold our position in **Boston Scientific Corporation** to manage the Fund's weighting in medical device companies. We sold our position in **Abcam plc** due to valuation. We reduced our position in **Ligand Pharmaceuticals Incorporated** to manage the Fund's weighting in biotechnology stocks.

Outlook

We continue to believe health care reform will be incremental rather than revolutionary and our outlook on the sector remains positive.

In general, business fundamentals are solid. The regulatory and funding environment remains favorable. The number of new drugs approved by the FDA reached an all-time high in 2018. The IPO market is healthy. NIH funding for fiscal year 2019 increased 5.4%, following similar increases in fiscal years 2016 to 2018, and we expect bipartisan support for NIH funding to continue.

M&A activity in the sector continued in the second quarter. Notable transactions included Pfizer's announced acquisition of Array BioPharma, a developer of small molecule drugs for cancer, for $11.4 billion; AbbVie's announced acquisition of Allergan, the maker of Botox, for $63 billion; Thermo Fisher Scientific's acquisition of privately-held Brammer Bio, a leader in viral vector manufacturing, for $1.7 billion; Catalent's acquisition of privately-held Paragon Bioservices, a leader in viral vector manufacturing, for $1.2 billion; and UnitedHealth's agreement to acquire privately-held Equian, a provider of payment integrity services, for $3.2 billion. With the exception of AbbVie's proposed acquisition of Allergan, we think the other transactions were innovation and growth oriented and driven by efforts to grow new product pipelines, a trend we think bodes well for the companies in our portfolio.

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

Neal Kaufman
Portfolio Manager