Dear Baron Opportunity Fund Shareholder:

Performance

Baron Opportunity Fund (the "Fund") rebounded with strong outperformance in the fourth quarter after a soft third quarter. The Fund advanced 14.26% (Institutional Shares), outperforming both the Russell 3000 Growth Index, which increased 10.67%, and the S&P 500 Index, which rose 9.07%. For the full year 2019, the Fund rose 40.60%, ahead of both indexes, which increased 35.85% and 31.49%, respectively.

Table I.
Performance
Annualized for periods ended December 31, 2019

	Baron Opportunity Fund Retail Shares[1,2]	Baron Opportunity Fund Institutional Shares[1,2,3]	Russell 3000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	14.16%	14.26%	10.67%	9.07%
One Year	40.29%	40.60%	35.85%	31.49%
Three Years	28.66%	28.99%	19.89%	15.27%
Five Years	15.45%	15.75%	14.23%	11.70%
Ten Years	14.02%	14.32%	15.05%	13.56%
Fifteen Years	10.88%	11.09%	10.38%	9.00%
Since Inception (February 29, 2000)	7.62%	7.77%	5.18%	6.49%

MICHAEL A. LIPPERT

PORTFOLIO MANAGER

Retail Shares: BIOPX
Institutional Shares: BIOIX
R6 Shares: BIOUX

Review & Outlook

The Fund had a strong fourth quarter, rebounding – ahead of the market – to finish the year. The market backdrop of the third quarter was framed by the rise of risks: the U.S.-China trade war, Brexit uncertainty, an inverted yield curve, fears of a domestic and global economic slowdown, to name a few. In the fourth quarter, concerns about many of these risks reversed or faded. Perhaps most importantly, the market perceived progress in trade talks with China, seizing on media reports and government official comments regarding the prospects of a Phase 1 trade deal, now expected to be signed on January 15. These developments led to rejuvenated investor sentiment, a recovery in multiples, a rise in the overall market, and a stemming of sector rotations away from the growthier areas of the market, such as the industry verticals we emphasize.

The Fund had robust gains in the quarter, with particular strength across many of our Software-as-a-Service ("SaaS") names that were weak last quarter, excellent performance from our biotechnology investments, and electric vehicle pioneer Tesla reaching all-time highs. To highlight several of our SaaS names, none of which made it into our "Top Contributors" for the quarter, but all of which were meaningful contributors: **Trade Desk**, the leading digital programmatic advertising platform, returned 39%; **Ceridian HCM**, a leading provider of payroll and human capital management applications, rose 37%; **RingCentral**, the leader in unified communications-as-a-service, gained 34%; **Splunk**, a leading provider of real-time operational intelligence software, climbed 27%; and **Adobe**, a leading provider of digital content creation and digital experience, marketing, and advertising platforms, expanded 19%. For our biotechnology investments, **Arrowhead Pharmaceuticals**, **argenx** and **Acceleron Pharma**, all of which are addressed later in the letter, rose 131%, 41%, and 35%, respectively, while **Vertex Pharmaceuticals**, a global biotechnology company with four approved medicines that treat the underlying cause of cystic fibrosis, gained 29%. Lastly, **Tesla**, whose stock accelerated like a performance Model S, soared 74%.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2019 was 1.34% and 1.09%, 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 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® Index measures the performance of the broad segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000® Growth Index measures the performance of those companies classified as growth among the largest 3,000 U.S. companies and the S&P 500 Index 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 redemption of Fund shares.

3 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

BARON FUNDS® 1987

Baron Opportunity Fund

I believe the Fund's recent and longer-term performance is due to our consistent focus on secular innovation trends and sustainable growth. For the period ended December 31, 2019, Morningstar ranked Baron Opportunity Fund Institutional Shares in the top 3% for its 1-year return, top 2% for its 3-year return, and top 5% for its 5-year return.[5]

The bedrock of the Fund has always been that active investing based on secular, innovation-driven themes – rather than adherence to benchmarks and how they size up the investment universe – will drive superior investment returns over the long term. Our thematic investing approach captures open-ended growth opportunities resulting from disruptive innovation, seismic structural shifts across industries, and indisputable long-term trends. We manage an all-cap portfolio, which spans market capitalizations and geographies to identify businesses that are the leaders, facilitators, and beneficiaries of innovation. The broad benchmarks and indexes we are compared against reflect past successes. We emphasize the disruptive trends that will drive future growth and leadership.

I don't intend to make many predictions about 2020. As the past has taught us, predicting the future – whether politics, the economy, interest rates, or stock prices – is near impossible. Even Nostradamus has a poor track record. That's why we, at Baron, have long followed Ron's game plan – research-driven, long-term investing – that doesn't call for predictions. We remain focused on businesses and industries driven by long-term secular growth trends and durable competitive advantages. Our research and company reports confirm that the growth prospects and competitive differentiation for our investments remain excellent – in fact, as strong as ever, in our view. While we stand prepared for continued solid but modest economic growth, low interest rates, and political and geopolitical volatility, we believe that most economic and market factors will have little to no impact on the operating fundamentals for the industries and businesses we favor, given their powerful and sustainable secular and structural growth drivers. We thus have confidence that our portfolio should be in a relatively strong position to weather and thrive in a variety of economic, market, and political environments. Finally, although market leadership will inevitably cycle, our conviction remains that sustainable/secular[6] growth matters and will be the predominant foundation of longer-term market leadership for both individual businesses and industry groups. Our reasoning is quite straightforward: (1) stock returns are driven by growth in earnings, free cash flow, and dividends, and (2) sustainable (as opposed to cyclical or one-time) expansion of a company's earnings or cash flow power can only be driven by profitable top-line growth.

In the January 11, 2020 Barron's annual roundtable discussion, we noted with interest that Henry Ellenbogen, CIO and managing partner of Durable Capital Partners, explained that "[t]he narrowing of the market" – which we read as referring to both the number of public companies and the breadth of market leadership – "in not just driven by the dominance of tech companies, but also by investors' belief that a smaller part of the market has a positive terminal value because of the secular changes we talked about." Perhaps more eloquently than we have written, this notion captures the key underpinning of our strategy and our focus on disruptive innovation and generational structural shifts across industries and society. In our first quarter 2018 letter, we observed that "there a fewer firms … growing double-digits and many barely growing at all … [t]here is a significant divide between the structural/secular winners and the legacy/cyclical also-rans."

Below is a partial list of the secular megatrends we focus on. These secular themes will be the key drivers of revenue, earnings, and cash flow growth – and stock performance – for the companies in which we are invested:

- Cloud computing
- Software-as-a-Service (SaaS)
- "Big Data" and "Artificial Intelligence"
- Mobile
- Digital media
- Targeted, people-based digital advertising
- e-commerce
- Genetics
- Minimally invasive surgical procedures
- Cybersecurity
- Electric-drive vehicles/autonomous driving
- Electronic payments

By investing in businesses capitalizing on these potent trends, we have been able to build portfolios that have revenue growth rates that are multiples of the general economy, as reflected in broad market indexes. Below we compare the revenue growth rates of our portfolio and three indexes for the trailing four quarters for which we have reliable data:

Comparison of Revenue Growth (based on quarter-end holdings)

	Actual Q3 2019	Actual Q2 2019	Actual Q1 2019	Actual Q4 2018
Baron Opportunity Fund	19.3%	19.4%	17.3%	21.8%
S&P 500 Index	4.6%	5.6%	6.8%	6.3%
Russell 3000 Index	4.7%	5.6%	6.7%	6.4%
Russell 3000 Growth Index	8.2%	8.4%	8.6%	8.4%

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

	Percent Impact
Tesla, Inc.	2.26%
Arrowhead Pharmaceuticals, Inc.	1.17
Microsoft Corporation	1.01
argenx SE	0.92
Trainline Plc	0.73

5 Morningstar calculates the **Morningstar US Fund Large Growth Category** average using the Morningstar Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of 12/31/2019, the **Category** consisted of 1,360, 1,218, 1,086, and 811 share classes for the 1-year, 3-year, 5-year, and 10-year periods. Morningstar ranked **Baron Opportunity Fund Institutional** Share Class in the 3rd, 2nd, 5th, and 30th percentiles, respectively. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

6 Secular refers to companies whose growth persists regardless of the economy and is less affected by short-term trends. It also relates to trends that are not cyclical or seasonal but sustain for a relatively long period.

Tesla, Inc. designs, manufactures, and sells fully electric vehicles, solar products, and energy storage solutions. Tesla reported unexpectedly strong third quarter results, increasing investor confidence and spurring stock appreciation. Tesla noted strong demand trends, market share growth, as well as improved gross margins, cost controls, and cash generation, leading to increased revenue and free cash flow. 2020 has started out with a bang, continuing Tesla's momentum. Tesla reported record and better-than-expected fourth quarter deliveries, with 112,000 total vehicles (the Street was looking for about 105,000), and 92,500 Model 3's. Moreover, Tesla's China Gigafactory project is moving ahead of schedule, with initial sales to Chinese customers already in motion. Lastly, investors are anticipating that the new Model Y will yield increased volumes and market share, and positively impact the company's earnings and cash flow. (Ishay Levin)

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

Microsoft Corporation is a software mega-cap that has crossed the chasm from the client-server and PC era to today's world of digital transformation and cloud. The Microsoft of today is a cloud leader through its Azure, Office 365, Dynamics 365, and Teams offerings, among others. Shares increased on continued solid operating performance, with growth in its cloud segment of more than 35% year-over-year and expanding margins. Microsoft's successful transition from relying on one-time sales of Windows operating system to cloud-based subscription services has enabled it to accelerate revenue growth into the double-digits (at a scale of more than $115 billion in revenues), making it a prime example of successful digital transformation and the courage to disrupt oneself. (Guy Tartakovsky)

argenx SE is a Dutch biotechnology company dedicated to developing biologics to treat immunological disorders and cancer. Investor enthusiasm about the company's pipeline of new treatments for patients with autoimmune diseases and cancer drove share price gains. We believe that argenx's FcRn platform is one of the most valuable assets in the biotechnology development space, and we retain full conviction. (Josh Riegelhaupt)

Trainline Plc provides digital tickets, journey planning, and booking solutions for rail and bus travel, primarily in the U.K. and expanding throughout Europe. Shares appreciated on solid financial results, which saw strong ticket volumes driven by increased app and e-ticket adoption in the U.K., healthy international customer growth, and the launch of new ancillary revenue streams. We continue to see substantial opportunity ahead for continued revenue and profit growth, driven by international expansion, increased penetration of e-ticketing, and take rate expansion. (Ashim Mehra)

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

	Percent Impact
Sage Therapeutics, Inc.	-0.58%
Arco Platform Limited	-0.15
PagSeguro Digital Ltd.	-0.14
Yext, Inc.	-0.12
Twilio Inc.	-0.11

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

Arco Platform Limited is a Brazilian technology company providing educational content and software solutions to private K-12 schools. The company has grown rapidly and currently serves more than 1,000 schools. Despite reporting successful bookings for 2020, shares declined during the fourth quarter on profit taking after the stock doubled in 2019. We maintain conviction in Arco as it is in the early stages of disrupting a legacy industry with a modern learning platform, enabling better results for students and schools. (Guy Tartakovsky)

PagSeguro Digital Ltd. is a financial technology company in Brazil, providing payment solutions and banking services. Shares declined after PagSeguro announced a secondary offer by its controlling shareholder to sell 5% of the company. Earnings results for the third quarter suggested the company is absorbing some margin pressure as it invests to support the rollout of new products. We retain conviction given PagSeguro's focus on the underserved micro-merchant segment, unique marketing advantages (owned by one of the largest online media properties in Brazil), and revenue opportunities from its financial ecosystem. (Jose Barria)

Yext, Inc. is the leading provider of software that enables companies to control and manage their information shown by public online listings on search engines, social media, industry-specific sites, and digital assistants. Shares declined in the quarter due to disappointing financial guidance driven by sales execution challenges, as the company began the launch of an exciting new product, Yext Answers, which we believe will significantly expand the company's addressable market opportunity. We continue to believe that Yext is in the early innings of growth and enjoys a wide-open market opportunity with a high-visibility, recurring revenue model. (Ashim Mehra)

Twilio Inc. is a leading Communications-Platform-as-a-Service ("CPaaS") company offering a set of application programming interfaces that help developers embed communications into their software through its cloud platform. Shares declined during the quarter in conjunction with a market correction in high-growth software. We retain conviction as Twilio benefits from digital transformation trends that are leading enterprises to increasingly embed communications into their software, creating a potential multi-billion dollar market for the company. (Guy Tartakovsky)

Portfolio Structure

The Fund invests in secular growth and innovative businesses across all market capitalizations. As of the end of the fourth quarter, the largest market cap holding in the Fund was $1.2 trillion and the smallest was $1.7 billion.

The median market cap of the Fund was $14.5 billion.

The Fund had $438.4 million of assets under management. The Fund endured a flurry of outflows in October. We believe most of these withdrawals were related to a letter writer who had recommended the Fund to his readers 19 months earlier now advising them to sell the Fund, describing the call as a "success story" and saying "we're smiling as we move on." Flows stabilized after this flurry and have been positive to start 2020, as of this writing.

The Fund had investments in 63 securities. The Fund's top 10 positions accounted for 39.4% of the total investments.

Table IV.
Top 10 holdings as of December 31, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Total Investments
Microsoft Corporation	$1,203.1	$32.0	7.3%
Amazon.com, Inc.	916.2	27.7	6.3
Alphabet Inc.	922.9	20.7	4.7
Tesla, Inc.	75.4	18.9	4.3
Guidewire Software, Inc.	9.1	17.2	3.9
Gartner, Inc.	13.8	14.1	3.2
Trainline Plc	3.2	11.1	2.5
argenx SE	6.9	10.9	2.5
CoStar Group, Inc.	21.9	10.4	2.4
Mastercard Incorporated	301.2	9.9	2.3

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Future plc	$ 1.9	$2.5
Alibaba Group Holding Limited	569.0	1.6
Zoom Video Communications, Inc.	18.8	1.5
Acceleron Pharma Inc.	2.8	1.1
XP Inc.	21.3	1.1

Future plc is a U.K.-based online publisher of special-interest digital content, magazines, and events, with a portfolio of diverse brands and titles including TechRadar and PC Gamer. We invested in this high-quality publishing asset given its impressive management team, robust organic engagement growth, high incremental margins, disciplined cost management, and proprietary yield management system, which optimizes advertisements across its properties. Importantly, Future engages in an active M&A strategy to complement its healthy organic growth, most recently acquiring TI Media, one of the leading publishers in Europe that we believe will diversify the company's vertical coverage and be accretive to Future's earnings going forward. Longer term, we see potential for Future to enter the $150 billion business-to-business market ("B2B") as a provider of lead generation, business data and intelligence, and intent and price comparison, especially on the back of its acquisition of the B2B publisher NewBay last year.

Alibaba Group Holding Limited is the largest retailer, e-commerce, and cloud computing company in China, as well as a leader in local services, logistics, streaming entertainment, electronic payments, and other businesses. Alibaba, in our view, is the preeminent Chinese platform company, whose connections with millions of users and the user data it collects enables it to cross and upsell services to its users, and constantly, iteratively and intelligently expand and improve its products and services. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Financial, which operates Alipay, the largest third-party online payment provider in China. Weakness in Alibaba shares were, in our view, associated with the U.S.-China trade war provided us with what we concluded was an attractive opportunity to add to our existing position in Alibaba, as its domestic business continues to benefit from traction in less developed regions, cost discipline, and an aggressive reinvestment strategy. We believe Alibaba's core business remains extremely profitable and continues to grow rapidly.

We initiated a position in **Zoom Video Communications, Inc.** as part of its IPO in April 2019 and added to our holdings as hyper-growth and recent-IPO SaaS names continued to be weak during the quarter. Zoom provides a video-first communications platform in the cloud. It connects people through video, voice, chat and content sharing, and enables video calls for thousands of people simultaneously. Zoom is disrupting the $100 billion unified communications market with its scalable and globally distributed video-first offering. Zoom competes against legacy players (Cisco, Avaya, etc.) – who sell on-premise, hardware-based phone and video systems – by offering a software-only, cloud-based solution that is easy-to-use, is high-quality, and can run on commodity hardware. Zoom's business model enjoys solid unit economics, with best-in-class sales and marketing efficiency, such that for every $1 it invests it gets $1.50 in recurring revenues (with very low churn), resulting in customer lifetime value to customer acquisition cost ratio of about 13 times, according to our estimates. Moreover, existing customers are expanding their usage over time at best-in-class rates with net-dollar-retention of over 130% (calculated as the increase in total annual recurring revenue for customer accounts in place at the end of the period as compared to the year-ago period). This efficiency is partly enabled by its freemium offering and partly due to its viral, bottom-up adoption by customers. With its best-in-class unit economics and large addressable market, Zoom offers a unique combination of hyper-growth and profitability at scale.

Acceleron Pharma Inc. is a biopharmaceutical company developing a set of assets for hematological and respiratory diseases. Shares were volatile intra-quarter given a complex data set read out for lead asset Luspatercept in the disease myelofibrosis. While we considered the results to be generally encouraging, the market didn't, and the shares fell. After some thoughtful debate, we bought additional shares on weakness and were relatively quickly rewarded with shares trading above their pre-fall price shortly thereafter. We retain solid conviction in Acceleron, as the business has a solid foundation for treating anemia with lead drug Luspatercept that is currently FDA approved and starting its commercial life.

We participated in the IPO of **XP Inc.**, a retail and institutional investment platform in Brazil. XP is a disruptor in an industry ripe for disruption. The Brazilian market for investments is highly concentrated, dominated by a handful of banks who charge high fees, offer a narrow spectrum of products and have poor customer service. XP has built a business model to attack this market and is taking market share through a broader product offering, better customer experience and satisfaction, and increasing brand awareness. We believe the sharp decline in interest rates in Brazil over the last year will accelerate the transfer of household and institutional assets from historically safe, fixed-income products to more sophisticated investment alternatives. We further believe that XP will continue to capture a disproportionally higher share of this growth due to its differentiated competitive advantages.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Guidewire Software, Inc.	$ 9.1	$5.9
Veracyte, Inc.	1.3	5.2
Arrowhead Pharmaceuticals, Inc.	6.3	4.2
Alphabet Inc.	922.9	4.2
Gartner, Inc.	13.8	3.4

We trimmed small percentages of our **Guidewire Software, Inc.**, **Alphabet Inc.**, and **Gartner, Inc.** positions to fund outflows during the quarter, as described above, and to maintain these investments at appropriate weightings within the portfolio. We retain high conviction in each of these investments. All three finished the year as top six positions in the portfolio. Guidewire and Gartner remained among our most significant overweights versus our primary index, the Russell 3000 Growth Index.

We trimmed **Arrowhead Pharmaceuticals, Inc.** after the stock had a significant advance – the stock more than doubled during the quarter, as described above.

We sold **Veracyte, Inc.** on fundamental concerns and to harvest tax losses to offset gains incurred during fiscal year 2019.

To conclude, I believe wholeheartedly in the strategy of the Fund: growth based on powerful, long-term, innovation-driven secular growth trends. In the highly uncertain world we live in, we believe non-cyclical, sustainable, and resilient growth should be part of investors' portfolios.

Sincerely,

Michael A. Lippert
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain 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: The Adviser believes that there is more potential for capital appreciation in securities of high growth businesses benefiting from innovation through development of pioneering, transformative or technologically advanced products or services, but there also is more risk. Companies propelled by innovation, including technological advances and new business models, may present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. Securities issued by small and medium sized companies may be thinly traded and may be more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. The Fund may not achieve its objectives. 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 managers 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.

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