DEAR BARON OPPORTUNITY FUND SHAREHOLDER:

PERFORMANCE

Along with the market, Baron Opportunity Fund (the "Fund") pulled back in the fourth quarter, falling 16.47% (Institutional Shares). The Fund was effectively in line with the Russell 3000 Growth Index, which declined 16.33%, but behind the S&P 500 Index, which fell 13.52%. The Fund concluded 2018 yielding solid returns, up 8.35%, markedly ahead of both indexes, which lost 2.12% and 4.38%, respectively. As of this writing, the Fund has rebounded – a bit ahead of the market – to start the new year.

Table I.
Performance†
Annualized for periods ended December 31, 2018

	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]	(16.58)%	(16.47)%	(16.33)%	(13.52)%
One Year	8.05%	8.35%	(2.12)%	(4.38)%
Three Years	13.05%	13.36%	10.85%	9.26%
Five Years	7.53%	7.82%	9.99%	8.49%
Ten Years	15.65%	15.95%	15.15%	13.12%
Fifteen Years	10.07%	10.26%	8.63%	7.77%
Since Inception (February 29, 2000)	6.12%	6.26%	3.76%	5.30%

MICHAEL A. LIPPERT
PORTFOLIO MANAGER

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

REVIEW & OUTLOOK

The Fund delivered solid relative and absolute performance in 2018, but retreated with the market during the fourth quarter. I believe the Fund's performance for the year was driven by our consistent focus on secular innovation trends and sustainable growth.

For the last several months, the market has experienced a substantial increase in volatility. The market pulled back sharply in October, bounced around in November and early December and then abruptly declined as the year came to a close. The year-end move was provoked, in my view, by the mid-December Federal Reserve meeting, where the Fed again raised rates and Chairman Powell, in his public remarks, spooked the market into fearing the Fed would raise rates too far and shrink its balance sheet too fast, stifling economic growth and tightening financial conditions. The market teetered the first few days of the year, but after Chairman Powell (and other Fed members) publicly clarified that the Fed was not on "autopilot" and would be patient and guided by economic data, the market inflected up and has continued to gradually extend its rebound as I write this letter.

In my view, the current market, economic and political setting remains uncertain. Economic growth and employment metrics have been solid, but certain leading indicators, such as the housing market, have betrayed weakness. Our government is trapped in the longest "shutdown" in our Nation's history. It is pretty much impossible to predict how Brexit or trade negotiations with China will end up. And economists and market strategists continue the bull/bear debates on: (i) an economic "soft landing" vs. a recession; and (ii) a bear market vs. a mid-cycle correction within a long-term bull market.

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, 2018 was 1.37% and 1.11%, 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.

† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

1 The indexes are unmanaged. 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

I don't know how these issues will evolve or end up, but our bottom-up, long-term investment approach at Baron does not require us to. The Fund's strategy remains consistent and focused. We are all in on secular growth – or, as a recent Morgan Stanley software note put it, "In Secular Growth We Trust." The bedrock thesis of the Fund has always been that secular and sustainable growth is the best place to invest over the long term and in uncertain market and economic environments.

Amid the uncertainty acknowledged above, our research and company reports confirm that the growth prospects and secular trends for our investments remain excellent – in fact, as strong as ever, in our view. We believe the economic and market factors and unknowns should have little to no impact on the fundamentals for the industries and business we favor, given their powerful and sustainable secular and structural growth drivers. We 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. While market leadership will inevitably cycle, our conviction remains that sustainable/secular growth matters and will be the predominant foundation of longer-term market leadership for both individual businesses and industry groups. Finally, with the pullback from summer highs, valuations for the themes and industries we emphasize are reasonable and attractive.

We continue with our approach of reacting to market dynamics by making modest tactical adjustments to our portfolio. Our aim is to iteratively improve portfolio quality – which I define as companies that are clear leaders in well-established secular themes; moving at a steady pace along the business maturity curve, measured by scale, customer adoption, market share or market capitalization; and material free cash flow generators – and increasing portfolio diversification. We have trimmed or allowed inflows to dilute some of our better performing and/or larger positions where we believed valuations were becoming extended (see, for example, top net sales below). And we have increased our weightings and added new positions where we thought valuations were particularly attractive, or a business's prospects were misunderstood or overlooked by the Street.

Here is a partial list of the secular megatrends we relentlessly focus on:

- 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 consistently deliver revenue growth rates at 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 2018	Actual Q2 2018	Actual Q1 2018	Actual Q4 2017
Baron Opportunity Fund	27.4%	30.1%	31.0%	29.1%
S&P 500 Index	10.5%	11.4%	9.7%	9.9%
Russell 3000 Index	10.5%	11.6%	9.9%	9.5%
Russell 3000 Growth Index	12.0%	12.8%	11.2%	10.6%

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

	Percent Impact
Tesla, Inc.	0.56%
argenx SE	0.46
Mellanox Technologies Ltd.	0.42
Benefitfocus, Inc.	0.23
Guardant Health, Inc.	0.17

Tesla, Inc. is the world's first pure play diversified sustainable-energy company, manufacturing fully-electric automobiles, solar roof products and energy storage solutions. Tesla's shares outperformed during the quarter on third quarter results that exceeded investor expectations, including solid earnings, strong gross and operating margins and meaningful cash generation, which eased investor fears of liquidity risks and the need to raise equity capital. Tesla management expressed confidence that it will be able to drive its growth aspirations with internally-generated cash flow. Tesla is expanding Model 3 activity in new markets, including acceleration of production facilities in China and deliveries to China and Europe as soon as early 2019. (Ishay Levin)

argenx SE is a Dutch biotechnology company focused on developing antibodies to treat patients with cancer and severe autoimmune diseases. The shares performed well during the quarter. We believe this was in response to the positive resolution of some confusion regarding a bleeding safety concern. In addition, the company announced a large licensing deal with Johnson & Johnson for argenx's asset to treat acute mylegenous leukemia. We continue to believe argenx's antibody platform is one of the most valuable assets in the biotechnology development space. (Josh Riegelhaupt)

Mellanox Technologies Ltd. is one of the leading global suppliers of high-performance switch systems, adapters, cables, and software supporting high-speed InfiniBand and Ethernet networking technologies. Mellanox's shares were up in the quarter following the company's strong quarterly results, which exceeded its guidance on top line and margins, in addition to rumors around a potential takeout deal. We believe Mellanox is an attractive long-term investment due to its technological leadership in high-speed interconnects, which are becoming increasingly relevant in a world of big data and artificial intelligence. (Guy Tartakovsky)

Shares of benefits software vendor **Benefitfocus, Inc.** contributed to performance, driven by accelerating revenue growth and improving margins and free cash flow conversion. Benefitfocus has delivered consistent improvement in bookings, margins, and cash flow in recent quarters. We believe the recent outreach to brokers and carriers is a positive development. We expect the company's BenefitsPlace offering to contribute meaningfully to results in 2019, and accelerate thereafter. The company's ecosystem is expanding, highlighted by an improving partnership with SAP. (Neal Rosenberg)

Guardant Health, Inc. is a genetic testing pioneer that 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 possesses differentiated technology and data and has significant growth prospects. (Neal Kaufman)

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

	Percent Impact
Amazon.com, Inc.	-1.64%
Guidewire Software, Inc.	-0.98
Gartner, Inc.	-0.94
Apple, Inc.	-0.75
Electronic Arts Inc.	-0.74

Shares of **Amazon.com, Inc.** pulled back sharply during the fourth quarter, although it produced solid returns for the full calendar year. Shares fell on softer-than-expected revenue growth in the third quarter, but the company remains one of our highest conviction investment ideas. While penetration of e-commerce is rising rapidly, Amazon continues to grow its total addressable market at an unprecedented pace. For example, we believe Amazon's advertising business has the potential to generate $30 billion in the next four years and substantially improve Amazon's core margins. In the meantime, AWS remains the runaway leader in the vast, and still rapidly growing, cloud infrastructure market. Amazon continues to benefit from its flywheel strategy, where more participation from Prime members drives greater loyalty and purchasing on Amazon.com. Paid Prime membership has exceeded 100 million households globally. We continue to think Amazon is a good bet to become the most valuable company on earth sometime soon. (Ashim Mehra)

Shares of P&C insurance software vendor **Guidewire Software, Inc.** detracted from performance in concert with a broad sell-off of technology stocks. Guidewire has emerged as the leading vendor of core software systems vendors to the P&C industry. The company remains early in its core system replacement cycle, and has tripled its addressable market through new products and cloud delivery. Over time, we believe Guidewire will be the key software vendor for the global P&C insurance industry, capturing 30% to 50% of its $15 billion to $30 billion total addressable market and generating margins above 40%. (Neal Rosenberg)

Shares of **Gartner, Inc.**, a provider of syndicated technology and business research, detracted from performance as technology stocks sold off. The integration of CEB into Gartner's Global Business Sales division is proceeding well, and the company increased its investment to pursue this large opportunity. We expect this acquisition to drive faster revenue growth over the medium term. We also believe that key forward-looking metrics in Gartner's traditional IT research business are solid. We observe signs of traction in the acquired CEB business with good uptake of seat-based model sales, particularly to new customers. Gartner's management team continues to believe the company is on track for double-digit growth in revenues, earnings and cash flow for years to come. (Neal Rosenberg)

Apple, Inc., known worldwide for its iconic iPhone, was a detractor during the quarter. During its last quarterly earnings call, Apple surprised investors with an announcement that it would no longer report unit sales for its hardware products, including the iPhone, something it has been doing for well over a decade, including when the iPod itself was first launched. Apple also expressed concerns with its China business because of escalating trade war tensions. We sold our Apple position for a small gain in the wake of the earnings call. (Alexander Mahylis)

Electronic Arts Inc. is a leading U.S. video game publisher. The stock underperformed in the quarter after the company reported underwhelming earnings driven by a deceleration in Live Services growth. More broadly, sentiment in the entire video game sector is negative at the moment. While this near-term environment is unfortunate, we retain long-term conviction due to industry tailwinds that should benefit the company going forward, including the shift to digital, in-game monetization, mobile gaming, advertising, and eSports. (Adam Lieb)

Portfolio Structure

The Fund invests in secular growth, innovative businesses across all market capitalizations. As of the end of the fourth quarter, the largest market cap holding in the Fund was $785.0 billion and the smallest was $306 million.

The median market cap of the Fund was $11.7 billion. The Fund had $372.3 million of assets under management. The Fund had investments in 58 securities. The Fund's top 10 positions accounted for 40.7% of the portfolio.

Table IV.
Top 10 holdings as of December 31, 2018

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$734.4	$22.5	6.0%
Microsoft Corporation	785.0	21.1	5.7
Alphabet Inc.	723.2	20.0	5.4
Guidewire Software, Inc.	6.5	19.5	5.2
Gartner, Inc.	11.6	17.4	4.7
Tesla, Inc.	57.2	14.0	3.8
CoStar Group, Inc.	12.3	10.3	2.8
argenx SE	3.5	9.4	2.5
Mellanox Technologies Ltd.	4.9	9.0	2.4
Wix.com Ltd.	4.4	8.3	2.2

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
IAC/InterActiveCorp	$15.3	$5.4
Take-Two Interactive Software, Inc.	11.7	4.3
NVIDIA Corporation	81.4	3.5
Opera Limited	0.6	3.2
Arrowhead Pharmaceuticals, Inc.	1.1	2.5

We initiated a position in **IAC/InterActiveCorp**, a holding company chaired by media mogul Barry Diller that consists of several internet marketplace assets, including majority equity stakes in publicly-traded companies Match Group, Inc. and ANGI Homeservices Inc., as well as such wholly owned subsidiaries as Vimeo and DotDash. IAC trades at a meaningful discount to the underlying asset value of the listed subsidiaries alone, which implies we are getting the rest of the assets for free. Match and ANGI Homeservices are the dominant internet marketplaces in their respective niches – online dating and home services/repairs – which are both in the early stages of secular offline-to-online conversion. As a result, we expect IAC to experience rapid, high-margin growth over the intermediate term as both marketplaces should lend themselves to winner-take-most economics. High free cash flow conversion will also allow IAC to continue consolidating assets within its respective niches or add assets in adjacent verticals. We note that IAC's management team have historically been good stewards of capital and created significant equity value through M&A.

We initiated a position during the period in **Take-Two Interactive Software, Inc.**, a leading video game publisher. Despite continuing to report solid earnings and even raising fiscal year 2019 guidance on its fiscal second quarter in November, the stock traded off towards year end due largely to the broader market sell-off. Longer term, we believe that Take-Two is well positioned for success based on a number of factors: its uniquely strong intellectual property portfolio (key game franchises include Grand Theft Auto, Red Dead Redemption and NBA 2K); margin expansion potential driven by the industry wide shift to digital (digital downloads, in-game revenue and future streaming services); the opportunity to have a more regular release slate; increased mobile gaming penetration; eSports; a strong balance sheet; and an experienced and proven management team.

We added to our position in **NVIDIA Corporation**, the graphics processor and artificial intelligence ("AI") chip giant, on stock weakness during the quarter. NVIDIA's shares have underperformed recently driven by a slowdown in its gaming segment driven solely by the crypto-currency boom and bust, which has spooked more short-term oriented investors concerned by the length of the one-to-two quarter trough, which we believe not only unknowable but immaterial. We believe the current price represents a significant discount to our estimate of NVIDIA's intrinsic value and envision a bright long-term future for NVIDIA. Long known for its leading positioning in PC graphics with a market share topping 75% (its graphics cards are mainly used for high-end PC gaming), NVIDIA has taken advantage of and built upon its technological lead in graphics to design chips that power AI. With the demand for compute growing rapidly (driven by big-data, AI and digital transformations), while 'free' performance boosts from Moore's Law are coming to an end, NVIDIA's accelerated computing platform is becoming increasingly important. As Founder/CEO Jensen Huang told us in a recent meeting, "We are the only solution for data center acceleration that one can reasonably deploy." This positioning has created material opportunities for the company across several large and growing end markets including data centers (and cloud computing), high-performance computing, autonomous driving and robotics. Moreover, NVIDIA enjoys a wide moat around its business, reinforced by the ecosystem it has built over the last decade.

We initiated a small position in **Opera Limited**, a leading browser and news feed company in several emerging markets. We believe the business is poised to grow due to the expansion of its user base and improvements in the monetization of its news feed. Its news feed has over 100 million monthly active users globally, which we expect to double in the next three years. On top of this, we believe the company's advertising monetization should see solid expansion over the same time frame. Given Opera's low-cost base of engineers in Poland and China, we expect growth in advertising revenue to fall to the bottom line at high incremental margins, driving meaningful profit growth for the next several years.

We also initiated a small position in **Arrowhead Pharmaceuticals, Inc.,** a biotechnology company focused on the development of RNA interference drugs across a broad range of therapeutic indications. Drugs are in various stages of Phase 1 and 2 development for diseases like alpha-one antitrypsin, dyslipidemia, cystic fibrosis, hypertriglyceridemia, renal cell carcinoma and hepatitis B. The latter recently generated positive returns when Arrowhead announced that it had entered into a $3.7 billion licensing deal with J&J subsidiary Janssen to co-develop hepatitis B cures. We continue to expect value inflections as the assets in Arrowhead's portfolio mature.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Apple, Inc.	$839.8	$16.1
LiveRamp Holdings, Inc.	2.6	6.0
Facebook, Inc.	401.9	5.7
Tencent Holdings Limited	315.8	4.8
Booking Holdings, Inc.	90.0	4.5

We sold **Apple, Inc.** (as described above) and **Facebook, Inc.**, **Tencent Holdings Limited** and **Booking Holdings, Inc.** because of fundamental concerns and to fund investments in positions where we possessed more conviction.

We reduced our holding in **LiveRamp Holdings, Inc.** on valuation and position-sizing considerations as the stock rose during the year, but remain confident of the long-term growth opportunity for the company and retain a meaningful position.

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

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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.

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