DEAR BARON DURABLE ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

Despite giving back some of our outperformance during this quarter, Baron Durable Advantage Fund (the "Fund") had a good year, in our view. The Fund returned 7.6% (Institutional Shares) for the quarter and 20.3% for the year, which compares to gains of 12.2% and 18.4%, respectively, for the S&P 500 Index (the "Index"), the Fund's benchmark. Since its inception three years ago, the Fund generated an annualized return of 16.3% net of fees and expenses, which compares favorably to an annualized return of 14.2% (including dividends) for the Index.

Table I.
Performance
Annualized for periods ended December 31, 2020

	Baron Durable Advantage Fund Retail Shares[1,2]	Baron Durable Advantage Fund Institutional Shares[1,2]	S&P 500 Index[1]
Three Months[3]	7.60%	7.62%	12.15%
One Year	20.11%	20.32%	18.40%
Three Years and Since Inception (December 29, 2017)	16.09%	16.34%	14.18%

Before we dive into performance attribution, we think it is worth reminding our shareholders what the main goals and objectives of this Fund are.

We seek to invest in large-cap companies with durable competitive advantages that are in the later stages of their growth life cycles. Frequently, these companies are the leaders of industries that are highly penetrated and consolidated. While we believe these businesses to be high-quality compounders, most of them no longer have the ability to reinvest excess free cash flow that they generate at their customary high rates of return, and so they prudently choose to return it back to their shareholders in the form of dividends or share buybacks. We apply rigorous valuation discipline and focus on companies with high current free cash flow yield. That means that Tesla, Peloton, Zoom Video, and other super-fast-growing companies like these, are not candidates for investment in this portfolio regardless of whether they get included in the S&P 500 Index or not. This is a strategy focused on hitting consistent singles and doubles and opposed to home runs and strike outs. That also means that we may struggle to keep up during periods of time when the market is particularly enamored with home runs.

ALEX UMANSKY
PORTFOLIO MANAGER

Retail Shares: BDAFX
Institutional Shares: BDAIX
R6 Shares: BDAUX

In that context, we thought our 7.6% gain in the fourth quarter was satisfactory even though it failed to keep up with the Index's 12.2% return. We built a good lead over the first two quarters of the year during a period of heightened uncertainty, and though we gave a good chunk of it back over the last six months, the Fund still came out 192bps ahead of its benchmark in what was an incredibly challenging year. To look at the year from a different perspective, the Fund outperformed by 221bps until the market bottom on March 23, and then was holding on for dear life, gradually giving most of it back during the subsequent run up.

As is typically the case, the Fund's 2020 outperformance was driven by stock selection, which contributed 585bps to relative returns, while the effect of sector allocation (excluding cash and fees) contributed another 89bps. Stock selection was strongest in Financials, Health Care, and Real Estate, but was somewhat offset by poor performance in Information Technology ("IT") (largely due to the Fund not owning Apple (which was up 82%) for most of the year). Another headwind was our underweight in Consumer Discretionary where Amazon was up more than 76%. We have explained in previous letters why we did not believe either company was a good fit for the Fund. Returns were helped by lack of exposure to Energy and Utilities and an overweight in IT, while our cash position hurt overall returns.

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail and Institutional Shares as of September 30, 2020 was 2.80% and 2.40%, respectively, but the net annual expense ratio was 0.95% and 0.70% (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, 2031, 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 **S&P 500 Index** measures the performance of 500 widely held large cap U.S. companies. The index and the Fund are with dividends, which positively impact the performance results. The index is unmanaged. The index performance is not Fund performance; one cannot invest directly into an index.

[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] Not annualized.

Baron Durable Advantage Fund

We had a large number of significant winners this year, though predictably no real home runs, as we exclude early-stage, as well as high-multiple, momentum-driven companies that ended up dominating performance tables in 2020. Still, 25 of our investments were up at least 20% each, with about half of these in the 20% to 30% range. **HEICO Corporation**, **Agilent Technologies**, **Costco, Texas Instruments**, and **Charter Communications** were all up over 30%. **Mettler-Toledo**, **BlackRock**, **MSCI**, **Thermo Fisher Scientific**, **Danaher**, and **Microsoft** were all up over 40%. **Fair Isaac**, **ASML**, and our largest relative contributor **Adobe**, were up over 50% each. Importantly, we did not have many losers. Only eight of our holdings declined in value in 2020, with **Disney** the only significant loser, largely due to poor timing on our part in executing the exit.

Table II.
Top contributors to performance for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Percent Impact
Alphabet Inc.	$1,185.3	0.78%
MSCI, Inc.	37.0	0.73
Accenture plc	172.9	0.55
HEICO Corporation	16.7	0.52
IHS Markit Ltd.	35.6	0.48

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet were up 18.6% in the quarter, ending 2020 up 30.0% due to a continued recovery in ad spending, strong cloud revenue growth, and improved cost controls. We maintain high conviction in Alphabet's merits as it continues to benefit from growth in mobile and online video advertising, which accrues to its core assets of search, YouTube, and the Google ad network. We are further encouraged by Alphabet's investments in AI, autonomous driving (Waymo), and life sciences (Verily, Calico), which are yet to be fully appreciated (and valued) by market participants, adding a layer of optionality to the story.

Shares of **MSCI, Inc.**, a leading provider of investment decision support tools, increased 25.3% during the fourth quarter, ending 2020 up 49.4%. The company reported solid third quarter earnings despite the challenging COVID-19 backdrop, and management is continuing to proactively manage its cost base. MSCI's asset-based fee revenue also benefited due to strong underlying market conditions and inflows. We retain long-term conviction in MSCI as the company owns strong, "all weather" franchises and remains well positioned to benefit from a number of prominent tailwinds in the investment industry such as the continuing development of emerging markets, passive investing, and the adoption of ESG.

Accenture plc provides consulting and technology services to corporate clients around the world. Shares increased 16.0% during the fourth quarter and ended 2020 up 26.3%, as client spending recovered from the pandemic faster than analyst forecasts with 25% bookings growth in the most recent quarter. Revenues were up 4% and earnings up 8%, beating consensus expectations and leading management to raise full-year guidance. We believe Accenture is well equipped to help its clients adapt to the changing economic environment and will continue gaining share in a large global market as it helps customers digitally transform.

HEICO Corporation offers alternative aerospace aftermarket parts as well as system sub-components for the aerospace & defense industry. Shares increased 32.0% during the fourth quarter, closing 2020 up 30.9%, on market optimism around COVID-19 vaccines driving a return to normal travel levels over time, which, in turn, would benefit HEICO's commercial aerospace business. We continue to hold HEICO shares due to its durable competitive advantages that are rooted in its innovative culture and highly engineered, vertically integrated manufacturing approach, which enables it to sell FAA-approved aircraft parts at significantly lower prices than comparable OEMs. Historically, challenging environments have helped HEICO gain market share as customers look to it to help them save costs, and we believe this time will be no different. With only 2% current market share, we believe HEICO's runway for growth remains long.

IHS Markit Ltd. provides critical information, analytics, and expertise across the financial services, natural resources, and transportation markets. The stock increased 14.7% during the fourth quarter, finishing 2020 up 20.3% as news of effective vaccines for COVID-19 drove greater optimism for improvement in the company's end-markets. Shares also benefited from the announced acquisition of the company by S&P Global. We continue to hold the stock due to IHS Markit's steady growth, strong competitive advantages, and expected value creation from the pending acquisition.

Table III.
Top detractors from performance for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Percent Impact
S&P Global Inc.	$ 79.1	–0.42%
AstraZeneca PLC	131.2	–0.36
Fidelity National Information Services, Inc.	87.8	–0.17
Equinix, Inc.	63.6	–0.16

S&P Global Inc. provides credit ratings, indexes, data, and analytics to the financial and commodities markets. Shares of S&P Global declined 8.6% in the fourth quarter but ended 2020 up 21.7%, despite the company reporting strong financial results. This was due to a mixed response by investors to the announced merger with IHS Markit (perhaps due to the size and complexity of the combined company) and as bond issuances were expected to slow down in the fourth quarter and 2021 on tough comparisons after near-zero interest rates and stimulus measures from the Federal Reserve drove a strong corporate bond issuance market for most of 2020. We continue to own the stock due to S&P Global's long runway for growth as it benefits from the secular trends of increasing bond issuance, growth in passive investing, and demand for data and analytics, while enjoying meaningful and durable competitive advantages that, in our view, are only strengthening following the merger with IHS Markit.

AstraZeneca PLC is a multi-national pharmaceutical company developing drugs across multiple therapeutic areas such as oncology and respiratory diseases. Shares were impacted by news of AstraZeneca's joint development with Oxford University of a viral-based COVID-19 vaccine. Given a mixed data set due to an unforeseen error in dosing that occurred in the Brazilian market, the vaccine timelines slipped, driving shares down 8.8% during the fourth quarter (and ending 2020 up 3.3%). Our investment thesis on AstraZeneca is not dependent on COVID-19 however, but rather its best-in-class large-cap growth profile, and we retain conviction.

Fidelity National Information Services, Inc. provides software to financial institutions and enables merchants to accept electronic payments. The stock underperformed in the fourth quarter and was down 4.3% (though ended 2020 up 1.9%) due to revenue headwinds from the COVID-19 pandemic as declines in travel and spending activity led to lower transaction volumes. Management believes these headwinds are temporary and expects growth to accelerate next year. We continue to own the stock because we expect earnings growth to quickly return to a mid-teens rate.

After strong performance earlier in the year, **Equinix, Inc.** was a detractor during the quarter with its stock down 5.7% (it still ended 2020 up 24.5%) due to market rotation into "laggards" and a slight backup in interest rates that impacted companies with elevated valuations. Equinix is a global operator of network-dense, carrier-neutral colocation data centers. We retain conviction due to a long demand runway behind cloud adoption and IT outsourcing, its unique position as one of the only operators that can offer a global platform, and continued execution on strategic M&A transactions to enhance its moat.

Portfolio Structure

The Fund's portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level (rather than benchmark composition and weights) determining the size of each individual investment. Sector weights tend to be an outcome of the stock selection process and are not meant to indicate a positive or a negative "view."

As of December 31, 2020, our top 10 positions represented 47.6% of the Fund, the top 20 were 77.8%, and we exited 2020 with 34 investments. IT and Health Care, our biggest sectors, represented 55.0% of the Fund. Financials, Communication Services, Consumer Staples, Industrials, and Real Estate represented another 42.5% of the Fund. Cash and Ecolab Inc., which is classified under Materials, were the remaining 2.5%.

The Fund's turnover in 2020 was 14.4% compared to the 13.1% average turnover ratio since inception.

Table IV.
Top 10 holdings as of December 31, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Microsoft Corporation	$1,681.6	$1,273.4	7.4%
Alphabet Inc.	1,185.3	1,107.2	6.4
Adobe Inc.	239.9	820.2	4.8
Moody's Corporation	54.5	796.4	4.6
Danaher Corporation	157.8	779.9	4.5
Thermo Fisher Scientific Inc.	184.6	773.2	4.5
Facebook, Inc.	778.0	760.5	4.4
S&P Global Inc.	79.1	649.9	3.8
Accenture plc	172.9	633.2	3.7
UnitedHealth Group Incorporated	332.7	601.1	3.5

Recent Activity

During the fourth quarter, we added to 21 existing investments as we put the Fund's inflows to work. We focused on our highest conviction ideas such as **Alphabet** and **Microsoft**, which led to a modest increase in the Fund's concentration, with the top 10 holdings rising to 48% of the Fund, while the top 20 are now 78% (vs. 46% and 74%, respectively, at the end of last quarter). We initiated a new position in **Intuit**, the leading provider of individual tax prep and small business accounting software, as we believe that the critical nature of QuickBooks in the day-to-day operation of small businesses, creates stickiness in the customer base, while providing growth opportunities over time as the company expands its platform.

Table V.
Top net purchases for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Alphabet Inc.	$1,185.3	$451.3
Microsoft Corporation	1,681.6	381.5
Intuit Inc.	99.8	273.6
BlackRock Inc.	110.7	270.9
Constellation Brands, Inc.	42.5	195.2

We initiated a medium-sized position in **Intuit Inc.**, the leading provider of accounting and payroll solutions for small businesses as well as the leading vendor of tax software for consumers and tax professionals. Intuit products include tax filing (TurboTax), accounting software for SMBs (QuickBooks), Payroll (QuickBooks Payroll), budgeting (Mint), and more. TurboTax is the leader in the DIY individual tax business, but with just 28% market share of total U.S. returns, the company has a long runway for growth. Similarly, despite being the leader in its space, QuickBooks is used by only 8 million small businesses (and those self-employed), out of nearly 50 million in the U.S (and an additional 30 million in core markets outside the U.S.). Equally important, the critical nature of Intuit's products (source of truth for small businesses) creates stickiness and offers the opportunity for Intuit to build a platform and an ecosystem around itself over time (adding more and more solutions such as: payments, payroll, capital, time tracking, and more).

As Intuit expands the platform, its customers benefit from getting an integrated offering that solves more and more of their needs. At the same time, Intuit benefits from high incremental margins by cross-selling (since the customer acquisition cost was already paid), with lower churn rates and expanding customer lifetime values. Furthermore, the recent Credit Karma acquisition expands Intuit's consumer scale substantially (with Credit Karma's over 100 million customers), adding cross-selling optionality along with a significant data asset (Credit Karma has over 2,500 data points per member) that can help Intuit offer better personalized financial products to its customers over time.

Intuit checks all the boxes we look for in an investment. It has durable competitive moats, an attractive business model with recurring revenues, high margins and limited capital requirements, a long runway for growth, and a great management team that in our view can execute on the vision over the long term.

Baron Durable Advantage Fund

Our largest add in the quarter was **Alphabet Inc.**, the parent company of Google. Alphabet reported strong financial results showing a rapid recovery in advertising spending from the troughs of the pandemic, while also disclosing that Google Cloud Platform ("GCP") is now a $13.5 billion run rate business (while growing in the mid-40s). We believe that GCP has become (and especially since Thomas Kurian took the lead of that business in 2019) a fiercer competitor in the public cloud market, as the company increased its investment in go-to-market direct and through partnerships, while refocusing the product vertically (making it more attractive to large enterprise customers).

Alphabet has also recently made strategic changes to its commerce offering, opening the platform to third parties like Shopify and enabling merchants to list products for free, which we believe increases the likelihood for success in this business. Lastly, Alphabet recently decided to start breaking out profitability by segment, which could, in our view, reduce the relative discount investors apply to Alphabet's various earlier-stage businesses (such as GCP). Despite those positive trends, the stock is trading at only a 25% premium to the average S&P 500 company, the lowest relative multiple in nearly four years. This is namely because of the recent regulatory news flow, which we wrote about in the past–in short, we believe the concerns are overblown, and even if regulators decide to break big-tech up (and can get the courts' approval, which would take years), 1+1 will be greater than 2, in our view.

Table VI.
Top net sales for the quarter ended December 31, 2020

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
ASML Holding N.V.	$205.5	$255.1
Equinix, Inc.	63.6	118.4

We sold our investment in **ASML Holding N.V.** following the significant rise in the price of the stock. Shares of ASML rose 66% over our ownership period in 2020, which followed a 93% gain 2019. With the valuation at historically high levels, we decided it was no longer a good fit for this Fund. We reduced our investment in **Equinix, Inc.** essentially for the same reason.

Outlook

Year 2020 was unlike any other. If one had to guess where the market would trade during a global pandemic with millions of jobs lost globally, entire cities and countries shut down for extended periods of time, a highly polarized election culminating with a shocking riot on Capitol Hill, few would guess record highs. And yet, despite the extreme uncertainty and a significantly wider range of possible outcomes throughout the year, markets kept rallying.

This was especially true for the high-growth segment of the market, which outperformed significantly. That benefited Baron Funds' lineup with most of our strategies achieving returns that were substantially higher than the 20% generated by Baron Durable Advantage. High-growth companies enjoy especially high multiples during the periods of monetary stimulus and with interest rates near zero, the discounted value of their future cash flows is higher. The companies that we target for this Fund tend to be more mature, and hence, have a lower percentage of their intrinsic values derived from terminal cash flows. Nevertheless, our businesses have also accrued benefits from this accommodating environment, and we believe that most have experienced considerable increases in their intrinsic values making the 20% return in their stocks – a reasonable outcome.

Our goal is to invest in large-cap companies with, in our view, strong and durable competitive advantages, proven track records of successful capital allocation, high returns on invested capital, and high free cash flow generation, a significant portion of which is regularly returned back to shareholders in the form of dividends or share repurchases. It is our belief that investing in great businesses at attractive valuations will enable us to earn excess risk-adjusted returns for our shareholders over the long term. We are optimistic about the prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities.

Sincerely,

Alex Umansky
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 Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. 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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