DEAR BARON DURABLE ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

After two years of strong absolute and relative returns, Baron Durable Advantage Fund (the "Fund") gained 3.0% (Institutional Shares) during the first quarter, which trailed the 6.2% gain for the S&P 500 Index (the "Index"), the Fund's benchmark.

Table I.
Performance
Annualized for periods ended March 31, 2021

	Baron Durable Advantage Fund Retail Shares[1,2]	Baron Durable Advantage Fund Institutional Shares[1,2]	S&P 500 Index[1]
Three Months[3]	2.89%	3.00%	6.17%
One Year	47.16%	47.45%	56.35%
Three Years	16.69%	16.98%	16.78%
Since Inception (December 29, 2017)	15.77%	16.04%	15.12%

ALEX UMANSKY
PORTFOLIO MANAGER

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

The first quarter was characterized by a pronounced rotation from growth into value and a corresponding "trade" away from the beneficiaries of work-from-home ("WFH") into the beneficiaries of the economy reopening. Though we do not consider the Fund particularly "growthy" nor did we hunt or invest specifically into WFH stocks, the resulting environment was clearly unfavorable to the kinds of stocks that we tend to favor. From that perspective, we are not too unhappy with the results.

From a performance attribution standpoint, most of the shortfall was due to stock selection with our holdings in Financials, Real Estate, Information Technology ("IT"), and Industrials not keeping up with the Index's returns in those sectors. In terms of sector allocation, our lack of exposure to some of the best performing sectors also hurt our results: Energy–the sector was up 30.9% and we had no exposure, Industrials–the sector was up 11.4% and we were 3.8% underweight. At the same time, our 5.7% overweight to the 2nd worst performing sector, IT, did not help either.

At the company-specific level, it was an uneventful quarter. Winners outnumbered losers 3 to 2, and while none of our decliners were down more than 7.2%, we did not have enough meaningful winners to keep up with the Index. **Alphabet**, our largest investment, gained 17.5% during the quarter, but is also a sizable weight in the Index, and **Texas Instruments**, up 15.5%, and **CME Group,** up 11.1% were our only other double-digit gainers. All in all, that resulted in a 3.0% gain for the Fund.

More broadly, we think our recent struggles in keeping up with the market's relentless march higher can be attributed to two factors:

- During the latter half of 2020, the market was led higher by rapidly growing, digital enablers, which tend to be businesses in the earlier stages of their growth life cycles, and hence not a good fit for this strategy (think of Tesla, Zoom Video, and Twilio). In this Fund, we focus on companies with durable competitive moats in the later stages of their growth life cycles.

- During the last few quarters, there has been a perceptible change in market leadership with value indexes of all market capitalizations outperforming their growth counterparts. At the same time, as vaccinations have started to take hold the "reopening trade" has picked up steam. Index returns have been driven by energy, banks, airlines, cruise lines and hotel businesses–areas that we typically do not invest in, since we do not believe those types of businesses have durable competitive moats that will guard against disruption, which is a

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 include reinvestment of dividends, net of withholding taxes, which positively impact the performance results.. The index is unmanaged. 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.

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necessary component in enabling intrinsic values to compound while earning high rates of return on invested capital over extended periods of time.

We believe it would be beneficial for shareholders to know that we are not looking to outperform every quarter or every year. In fact, we are not "looking to outperform" at all. Instead, we focus on executing our investment process. We know that it works, and if we execute it well, it will enable us to make good investment decisions over longer periods of time. If we focus on taking only good "shots" and avoid taking bad ones, the winning (or outperforming) will take care of itself. The main goal of this strategy is to compound investment returns with a maniacal focus on minimizing (or avoiding if at all possible) permanent loss of capital, which means we are intentionally taking lower risk "shots." We believe that investing in market leaders with sustainable competitive advantages at attractive prices, that present a margin of safety relative to our estimate of their intrinsic values, will enable us to outperform the Index over time, while taking on less risk. We are okay with not keeping up during periods of time when the market goes straight up, or when the Index is led by companies which do not fit our strategy. We expect to do better than the Index over full-market cycles, although of course there can be no assurance that we will achieve our goals.

Table II.
Top contributors to performance for the quarter ended March 31, 2021

	Quarter End Market Cap (billions)	Percent Impact
Alphabet Inc.	$1,392.6	1.28%
Facebook, Inc.	838.7	0.54
Microsoft Corporation	1,778.2	0.49
S&P Global Inc.	85.0	0.25
Texas Instruments Incorporated	174.4	0.24

Alphabet Inc. is the parent company of Google, the world's largest search engine and online advertising company. Shares rose 17.5% in the quarter on strong fourth quarter results that saw continued recovery in ad spending and accelerating cloud revenue growth, which was up 47% year-over-year with a backlog that nearly tripled. We remain excited about 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. Alphabet's investments in AI, autonomous driving (Waymo), and life sciences (Verily, Calico) add additional layers of optionality to the story. (Ashim Mehra)

Facebook, Inc. is the world's largest social network with 2.6 billion daily active users across Facebook, Instagram, Messenger, and WhatsApp. Shares of Facebook were up 7.6% during the first quarter on robust fourth quarter results driven by strong ad pricing growth and tailwinds to newer shopping and payments products from rapidly increasing e-commerce penetration. In our view, Facebook continues to utilize its leadership in mobile to provide global advertisers targeted marketing capabilities at scale, with substantial monetization opportunities across its various assets including WhatsApp, video tools including Watch and IG TV, and community-based marketplace, shopping, jobs, and dating features. (Ashim Mehra)

Microsoft Corporation is a software mega cap that has successfully pivoted from the client server and PC era to today's world of digital transformation and cloud. Microsoft is a cloud leader through its Azure, Office 365, Dynamics 365, and Teams offerings, among others. Shares were up 6.0% during the quarter as Microsoft reported an acceleration in its business with revenues growing 15% year-over-year and commercial cloud revenues growing 32%, driven by a robust demand for digital transformation. We also believe that Microsoft's competitive advantages are strong and durable as it benefits from the long reach of its sales channel, its broad product set, differentiated hybrid cloud offering, and its large installed base of enterprise customers. (Guy Tartakovsky)

S&P Global Inc. provides credit ratings, indices, data, and analytics to the financial and commodities markets. Shares outperformed and were up 7.6% during the quarter, after the company reported strong financial results and 2021 guidance that exceeded expectations with revenues up 8% in the fourth quarter, driven by strong performance in the ratings business. Bond issuance is expected to moderate after two years of exceptional growth, but management still expects revenue to grow mid-single digits in 2021. Also, shareholders overwhelmingly voted to approve the merger with IHS Markit. 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. (Josh Saltman)

Semiconductor bellwether **Texas Instruments Incorporated** ("TI") is a leader in analog and embedded processing, selling to over 100,000 customers across industrial, automotive, personal electronics, communications, and enterprise end-markets. Shares appreciated 15.5% during the first quarter as part of the broader upcycle in the semiconductor industry driven by demand bounce back and supply constraints and thanks to TI management's long-term ownership mindset, which drove them to not cut on production during the depths of the cycle, even though peers had, enabling TI to outperform during the recovery. We believe TI will continue to outperform over the long term as it is focused on the best end-markets (industrial and auto), markets that are characterized by longevity of design wins and diversity of demand, and as it is led by a management team of skilled and experienced operators who are also excellent capital allocators. (Guy Tartakovsky)

Table III.
Top detractors from performance for the quarter ended March 31, 2021

	Quarter End Market Cap (billions)	Percent Impact
Adobe Inc.	$227.9	–0.30%
MSCI, Inc.	34.7	–0.21
Charter Communications, Inc.	134.7	–0.15
Visa, Inc.	467.8	–0.12
Fair Isaac Corporation	14.2	–0.12

Adobe Inc. is a leading software company that offers creative and document cloud solutions for the digital media market and marketing, advertising, and analytics cloud solutions for the digital experience market. Despite reporting great financial results, with revenue acceleration and record margins, while also raising its outlook for the rest of the year, shares corrected 5.2% during the quarter (after being up over 50% in 2020) due to a broader market rotation into "reopening" stocks. We continue to hold shares since we believe Adobe's robust growth profile is sustainable as it is driven by some of the strongest technological shifts of our time (which have only accelerated due to COVID-19), including digitization, increasing demand for personalized customer experiences, and the widespread adoption of video. (Guy Tartakovsky)

Shares of **MSCI, Inc.**, a leading provider of investment decision support tools, detracted from performance after declining 6.1% during the quarter. The stock pulled back as part of the broader market rotation that saw steady compounders (especially ones with solid 2020 performance, and MSCI was up 49% in 2020) temporarily fall out of favor. There was no materially negative company-specific news with MSCI reporting solid fourth quarter earnings with revenues up 9% and adjusted EBITDA up 16% year-over-year. 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. (Adam Lieb)

Charter Communications, Inc., the second largest cable operator in the U.S., detracted in the quarter after its share price declined 6.7%. Charter reported slightly slower user growth in the fourth quarter than the Street expected, as outsized pandemic-related increases in prior quarters pulled forward some growth that would otherwise have come later in the year. We remain investors, as we believe Charter has several years of user growth ahead of it, followed by substantial pricing power across the majority of its network where its broadband business has no effective competition. (Eric Guzman)

Visa, Inc. is a leading global payment network. Earnings have been impacted by the sharp drop in high-margin cross-border travel, but the company reported solid quarterly financial results that exceeded expectations with improving volume trends. However, shares underperformed later in the quarter (closing the quarter down 3.9%) after the Department of Justice opened an investigation into Visa's U.S. debit routing practices. We don't expect this investigation will have a material financial impact. Despite the near-term headwinds from the impact of COVID-19, we believe that Visa is a great business, operating in a duopoly with Mastercard, with significant long-term opportunity to grow its intrinsic value as cash transactions that still represent the majority of global transaction volume, move to card/digital. (Josh Saltman)

Shares of **Fair Isaac Corporation** ("FICO"), a data and analytics company focused on predicting consumer behavior, detracted from performance after declining 5.2% during the quarter. The company reported solid first fiscal quarter of 2021 earnings with 5% revenue growth and 36% operating margins, although there was some accounting noise around the transition of its software business to term licenses, which are recorded on a ratable basis (and thus present a headwind to revenues in the near term). The stock was also impacted by the rise in interest rates (potentially reducing mortgage volumes) and rumors around a government-run credit bureau. We retain conviction and believe that FICO will be a steady earnings compounder, as it continues optimizing pricing in its scores segment, and as it transitions its software business to the cloud. These dynamics should drive solid returns for the stock over a multi-year period, in our view. (Adam Lieb)

Portfolio Structure

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

As of March 31, 2021, our top 10 positions represented 51.1% of the Fund, the top 20 were 79.0%, and we exited the quarter with 34 investments. IT and Financials, our biggest sectors, represented 53.7% of the Fund. Communication Services, Health Care, Consumer Staples, Industrials, and Real Estate represented another 44.9% of the Fund. Cash and our Ecolab Inc. investment, which is classified under Materials, were the remaining 1.4%.

Table IV.
Top 10 holdings as of March 31, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Alphabet Inc.	$1,392.6	$1,834.9	8.6%
Microsoft Corporation	1,778.2	1,784.8	8.4
Facebook, Inc.	838.7	1,447.9	6.8
Visa, Inc.	467.8	939.0	4.4
Mastercard Incorporated	353.7	893.0	4.2
Adobe Inc.	227.9	879.4	4.1
Moody's Corporation	55.9	847.8	4.0
Danaher Corporation	160.5	790.3	3.7
Thermo Fisher Scientific Inc.	179.7	757.6	3.6
S&P Global Inc.	85.0	697.6	3.3

Recent Activity

During the first quarter, we initiated a new position in **Arch Capital Group**, a leading specialty insurance and reinsurance company with a great track record of underwriting discipline and capital stewardship. We also took advantage of flows into the Fund and added to 17 existing holdings. We also sold our position in **AstraZeneca** and trimmed our **Charter Communications** holding and reallocated to higher conviction investments.

Table V.
Top net purchases for the quarter ended March 31, 2021

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Facebook, Inc.	$ 838.7	$568.8
Visa, Inc.	467.8	538.1
Alphabet Inc.	1,392.6	495.1
CME Group, Inc.	73.3	445.7
Microsoft Corporation	1,778.2	422.2

During the first quarter, we initiated a position in **Arch Capital Group Ltd.** Arch is an insurance and reinsurance company with a full range of property and casualty ("P&C") lines, focused on specialty insurance (such as Directors & Officers insurance), which require significant underwriting expertise. Approximately 40% of written premiums are from the insurance segment, one-third are from the reinsurance segment and the rest from mortgage insurance, although the mix varies depending on prevailing conditions in each market. Arch is known for its underwriting expertise and discipline as well as its long-term ownership mindset. They are focused on underwriting profitability rather than premium growth or market share, which is unique in the industry. Hence, during soft markets, when insurance rates are low, management has demonstrated a willingness to return capital to shareholders in order to maintain an above-average ROE, while during hard markets (such as the one we're currently in), Arch has been expending aggressively (while its peers are cutting down, as underwriting losses they didn't expect, start to rise), enabling them to increase market share. Remarkably, the company has never posted an annual underwriting loss (including 2008/9 and 2020). With ROEs expected to range between 10%

and 15% across all three lines of business going forward, and the discipline management has exhibited over the years, we believe that Arch should compound its book value per share at similar rates, driving solid long-term stock price appreciation.

Additionally, we put our inflows to work and added to 17 existing holdings that are high conviction investments trading below our estimate of their intrinsic values. This enabled us to further concentrate the portfolio in the highest conviction ideas, such that the weight of our top 10 positions increased from 47.6% at the end of 2020 to 51.1% at the end of the first quarter, with our top 20 holdings rising from 77.8% of the Fund to 79.0%. Our biggest addition in the quarter was **Facebook, Inc.**, the world's largest social network with 2.6 billion daily active users (across its family of products including Facebook, Instagram, WhatsApp, and Messenger). Facebook continues to benefit from its leading position in providing global advertisers targeted marketing capabilities at scale. This core business should help Facebook sustain solid growth rates at high incremental margins (since the cost of an additional ad is close to zero for Facebook). Additionally, we believe Facebook has substantial future monetization optionality across its various assets including: Instagram, WhatsApp, video tools such as Watch and IG TV, as well as its growing e-commerce solution suite.

Table VI.
Top net sales for the quarter ended March 31, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
AstraZeneca PLC	$131.4	$598.7
Charter Communications, Inc.	134.7	40.7

We exited our position in **AstraZeneca PLC**, a multi-national pharmaceutical company focused on development and commercialization of drugs in the oncology, respiratory, cardiometabolic and inflammation areas. Despite AstraZeneca's solid growth profile, it has suffered what we perceive to be irreparable reputational damage from its COVID-19 vaccine efforts that will likely take years to repair. Moreover, we were unsure about the recent transformational $39 billion acquisition of Alexion, which was done despite AstraZeneca's organic growth runway and have therefore decided to move on. We also slightly trimmed our **Charter Communications, Inc.** position and reallocated to higher conviction ideas.

Outlook

To the uninitiated, the markets' continued march higher may appear to be "more of the same." However, the recent changes in market leadership have been unfavorable to the kinds of businesses that we tend to prefer. We are not that concerned with the much talked about "reopening" trade, though it presents obvious headwinds. The more important development, in our view, is the steady rise in interest rates. The yield on the 10-year U.S. Treasury bond moved from around 0.7% six months ago to 1.7% by the end of March. Why is this important? Well, besides offering a bit of an alternative to savers for the first time in a long time, higher interest rates make fast growing companies more expensive since their future earnings must be discounted back at higher rates. While this dynamic is a headwind to all equities, our companies tend to be later in their growth lifecycles and so would be less impacted (since a higher percentage of their free cash flow is generated sooner than for faster growing businesses). Having said that, we think some perspective here is in order. Jerome Powell, the Chairman of the Federal Reserve, in his most recent comments said that the Fed intends to keep short-term interest rates low until *at least* 2023. And as the saying goes, "do not fight the Fed," especially when the Federal government is helping with the fiscal stimulus. This should help support equities.

In any case, we think rotations, pull backs, and corrections are generally necessary and healthy, and they often create attractive opportunities for long-term investors like ourselves. We continue to focus on the quality of our decisions, and on taking what we believe are high percentage shots. Our goal continues to be, to generate 100bps to 200bps of alpha per year, over the Index and peers, net of all fees and expenses, over a three-to-five-year cycle, while minimizing risk, which we define as the probability of a permanent loss of capital. Of course, there can be no assurance that we will achieve our goals.

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve rate changes, ongoing trade disputes, government shutdowns, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day and seem to drive them up or down the next. We often find it difficult to know why the market participants do what they do over the short term. The constant challenges we face are real and serious, with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create. We are confident that our process is the right one, and we believe that it will enable us to make good investment decisions over time.

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

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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.

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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Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition.

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