DEAR BARON DURABLE ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

Baron Durable Advantage Fund (the "Fund") gained 8.9% (Institutional Shares) during the third quarter, which was in line with the 8.9% gain for the S&P 500 Index (the "Index"), the Fund's benchmark. Year-to-date, the Fund is up 11.8%, which compares favorably to the 5.6% return for its benchmark.

Table I.
Performance
Annualized for periods ended September 30, 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]	8.86%	8.88%	8.93%
Nine Months[3]	11.62%	11.80%	5.57%
One Year	23.10%	23.34%	15.15%
Since Inception (December 29, 2017)	14.58%	14.84%	10.84%

ALEX UMANSKY
PORTFOLIO MANAGER

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

This quarter was largely a continuation of trends that we saw in the prior three months. So far, 2020 can be broken into three distinct segments: the continued momentum from last year with markets rising until the peak of February 19; the massive sell-off that followed until the bottom on March 23; and an unprecedented rally and market recovery from then until now. When examined in that framework and compared to our benchmark, the Fund outperformed the S&P 500 Index by 297bps in the first stage; by 22bps in the down stage; and by 401bps in the third stage. Including dividends, the S&P 500 Index is now up 5.6% for the year, while the Fund is up 11.8% outperforming by 623bps. That's pretty good.

During the quarter, positive stock selection, particularly in Health Care, Communication Services, Financials, Real Estate, and Consumer Staples contributed 117bps to relative returns, which was offset by the effects of sector allocation and cash in an up market, resulting in essentially a wash. Relative performance also suffered from not owning Amazon and Apple, two of the largest names in the Index that continued to outperform. We have explained in prior letters why we believe neither stock is a good fit for this Fund. All in all, it was a solid three months of consistent performance across the portfolio *with no detractors during the quarter*. Fourteen of our holdings were up double-digits with seven (**Danaher**, **Thermo Fisher**, **Facebook**, **Adobe**, **Charter Communications**, **Mastercard**, and **S&P Global)** contributing at least 50 basis points each. Year-to-date, 13 of our investments are up at least 20% each, with 7 of them up 30% or more, including: **Adobe**, **Danaher**, **Fair Isaac**, **Thermo Fisher**, **Microsoft**, **S&P Global**, and **Equinix.**

What is interesting though is that the success we're having this year is not because of decisions we've made over the last three, six, or nine months, but rather the result of good decisions made some time ago. As a matter of fact, 9 of the top 10 contributors to returns this year, were companies we bought in previous years: **Microsoft**, **Danaher**, **S&P Global**, **Moody's**, and **Equinix** have been held from the day the Fund launched; **Adobe** and **Thermo Fisher** since 2019. A similar picture emerges when we look at the list of the top 10 contributors in 2019 (9 out of the top 10 were companies we held since the inception of the Fund in January 2018).

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, 2019 was 6.22% and 4.91%, 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 index is unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. 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.
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.

The takeaway here is that it takes time before we know the outcome of past decisions. Another, more subtle, takeaway is that *positive outcomes do not necessarily equate to good decisions and vice versa–bad outcomes are not necessarily the result of bad decisions*. The human brain is conditioned to see causality (if you study for the exam, you get good grades… actions and consequences). The problem is that sometimes it makes us look for causality where there is none, and to mistake good outcomes with good decisions and to confuse causality with correlation. Every time the stock market goes up or down, the newspapers the next day will explain why it has done so, always based on the outcome. A famous Mankoff quote sums it up well:

"*On Wall Street today, news of lower interest rates sent the stock market up, but then the expectations that these rates would be inflationary sent the markets down, until the realization that lower rates might stimulate the sluggish economy pushed the markets up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates.*"

We work hard *not to* judge the *quality* of our investment decisions based on the outcome. A good outcome can be the result of a good decision, but also the result of a bad decision that caught a lucky break. Investing in a company that has a 20% probability of doubling and a 50% probability of going to 0 is not a good decision, but its stock price could in fact double (20% of the time), so the outcome may turn out to be favorable. Though these hypothetical numbers do not apply to Apple, we decided to exit its stock earlier this year after enjoying the 89% jump in its share price in 2019, even though its revenues and EBITDA declined. Now, Apple is up another 59% year-to-date, so the outcome from that decision to sell, or at least its timing, has clearly been unfavorable. But it will take some time for us to know whether the actual decision will prove to be one as well.

We surmise, the inadequate causal relationship between decisions and outcomes, makes it hard for many investors to analyze and learn from their past mistakes or successes. How do we know what has been a mistake or what has been a success if the outcome *could be* a direct result of our decision making process, but could also be a result of some "*random walk*" scenario that plays out in the market every day driven by a basic probabilistic distribution?

We think there is only one way to tell–time. Over a long period of time, the law of large numbers suggests that the probabilities we see in a large sample will resemble more the real distribution, as the sample size grows. Said differently, **after making many investment decisions over long periods of time, the quality of those decisions becomes more apparent and can be studied, analyzed, and improved upon**. This is also the reason why we believe the quality of investment managers should be measured over many years and why we encourage our investors not to assign too much weight to short-term returns and always evaluate us over full-market cycles.

Table II.
Top contributors to performance for the quarter ended September 30, 2020

	Quarter End Market Cap (billions)	Percent Impact
Danaher Corporation	$152.8	0.99%
Thermo Fisher Scientific Inc.	174.7	0.83
Facebook, Inc.	746.1	0.61
Adobe Inc.	235.3	0.61
Charter Communications, Inc.	147.7	0.52

Danaher Corporation sells a broad range of products to life sciences, diagnostics, and environmental & applied end markets. The stock was up 22% during the third quarter on an increase in sales of diagnostics and other products related to COVID-19, while growth in the core business was also better than expected with overall organic growth of over 3.5%, which compares to a 7% decline expected by analysts. We continue to hold the stock as we view Danaher as a stable growth business with a top-class management team that is focused on continued operational improvement and believe they have the ability to generate above-average earnings growth for years to come.

Thermo Fisher Scientific Inc. is the world's leading supplier of life sciences tools to biopharmaceutical companies, hospitals, clinical diagnostic labs, and other customers. Shares rose 22% during the third quarter on financial results that exceeded investor expectations, driven in part by tailwinds from COVID-19-related products and services, with over 11% organic revenue growth, while the base business also outperformed expectations. We continue to believe Thermo Fisher is well positioned to generate attractive long-term revenue and earnings growth as it benefits from secular tailwinds in life sciences (aging populations with chronic conditions, rising standards of living in emerging markets, and scientific advances) without the risk inherent in drug development.

Facebook, Inc. is the world's largest social network with 2.5 billion daily active users across Facebook, Instagram, Messenger, and WhatsApp. Facebook shares rose 15% in the third quarter after the company reported second quarter results above expectations, driven by its exposure to performance advertising, which proved to be more resilient than anticipated. In our view, Facebook continues to benefit from its leading position in providing global advertisers targeted marketing capabilities at scale. We believe Facebook also has substantial future monetization opportunities across its various assets including: Instagram, WhatsApp, video tools such as Watch and IG TV, as well as its community-based marketplace, shopping, jobs, and dating features. Moreover, Facebook's growing e-commerce offering as well as its recent investment in Reliance Jio (India's leading digital commerce player) provide significant future optionality.

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. Shares appreciated 13% during the third quarter with accelerating digitization trends benefiting its creative and document cloud segments. 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.

Shares of **Charter Communications, Inc.**, the U.S.' second largest cable operator, rose 22% during the quarter. The company reported a substantial second quarter beat across all metrics, particularly net subscriber additions. The business benefited from increased demand for its broadband service as a result of continued working-from-home trends. We believe that Charter's superior infrastructure for high-speed internet access and strong competitive positioning, will enable it to benefit from years of significant free cash flow growth as it gains market share.

Table III.
Top detractors from performance for the quarter ended September 30, 2020

	Quarter End Market Cap (billions)	Percent Impact
None		

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."

Our top 10 positions represented 46.3% of the Fund, the top 20 were 73.7%, and we exited the quarter with 34 investments. Information Technology and Health Care, our biggest sectors, represented 52.6% of the Fund. Financials, Communication Services, Industrials, Real Estate, and Consumer Staples represented another 38.9% of the Fund. Cash and our Ecolab Inc. investment, which is classified under Materials, were the remaining 8.5%.

Table IV.
Top 10 holdings as of September 30, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Microsoft Corporation	$1,591.7	$844.5	5.8%
Adobe Inc.	235.3	729.8	5.0
Danaher Corporation	152.8	723.5	5.0
S&P Global Inc.	86.9	711.8	4.9
Moody's Corporation	54.4	697.1	4.8
AstraZeneca PLC	143.8	652.7	4.5
Facebook, Inc.	746.1	641.9	4.4
Thermo Fisher Scientific Inc.	174.7	617.7	4.3
Accenture plc	144.0	547.8	3.8
Alphabet Inc.	998.3	546.7	3.8

RECENT ACTIVITY

During the third quarter, we took advantage of flows into the Fund and added to 18 existing holdings. We didn't buy any new names this quarter, and we sold our position in **Brookfield Asset Management** due to our concerns regarding the potential implications of COVID-19 on commercial real estate.

Table V.
Top net purchases for the quarter ended September 30, 2020

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Microsoft Corporation	$1,591.7	$148.0
Alphabet Inc.	998.3	111.9
Fair Isaac Corporation	12.3	82.8
Moody's Corporation	54.4	70.4
MSCI, Inc.	29.8	70.1

As mentioned above, we put our inflows to use, adding to our highest conviction ideas. We added to **Microsoft Corporation** since we believe it would benefit from an acceleration in digital transformations and cloud migrations as a result of COVID-19. We also added to **Alphabet Inc.**, as we believe that Google will benefit from its growing cloud offering, while the increased focus and strategic changes it made in its commerce offering (such as enabling merchants to list products for free, or opening the platform to third parties like Shopify), will prove beneficial, increasing the probability of success in commerce, in our view. We also continued building our **Fair Isaac Corporation** position after initiating it last quarter. Our other purchases were to exercise non-dilution.

Table VI.
Top net sales for the quarter ended September 30, 2020

	Market Cap When Sold (billions)	Amount Sold (thousands)
Brookfield Asset Management, Inc.	$53.2	$84.6

As mentioned above, we decided to exit our position in **Brookfield Asset Management, Inc.**, one of the largest owners of commercial real estate in the U.S., since in the range of possible scenarios, we thought there are several outcomes in which it could come under pressure due to prolonged work-from-home dynamics as a result of COVID-19.

OUTLOOK

The first nine months of 2020 have continued to present a good investing environment for the style and the way that we invest. Despite reasonably broad market strength exhibited recently, we believe the short term remains highly uncertain with an unusually wide range of possible outcomes. The government is printing money at a level we have never seen before, solving for liquidity but not necessarily addressing or solving for solvency. A number of important questions remain unanswered: When will we get a vaccine? Will it work and will it give us sustainable immunity? The outcome of unusually charged U.S. elections (peaceful and orderly transition of power, implications on health care, regulations, tax policy, etc.)? When and how will the trade war with China end? Inflation or deflation?

On the other hand, a prolonged low interest rate environment, historically unprecedented amounts of global coordinated stimulus, and accelerating digital transformation are affecting every segment of the economy and increasing the secular growth drivers of the many companies in which we are invested.

Every day we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve rate changes (up and down), 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.

Baron Durable Advantage Fund

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 do so by investing in businesses with 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 to shareholders in the form of dividends or share repurchases. We hope to maximize long-term returns without taking significant risks of permanent loss of capital. We are optimistic about the prospects of the companies in which we are invested while continuing to search for new ideas and 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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