Dear Baron Durable Advantage Fund Shareholder:

Performance

Baron Durable Advantage Fund (the "Fund") gained 2.1% (Institutional Shares) during the third quarter, outperforming the 0.6% gain for the S&P 500 Index ("SPX"), the Fund's benchmark. For the year-to-date period, the Fund outperformed its benchmark by 3.1%.

Table I.
Performance
Annualized for periods ended September 30, 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]	2.03%	2.12%	0.58%
Nine Months[3]	18.74%	19.00%	15.92%
One Year	27.77%	28.07%	30.00%
Three Years	20.04%	20.31%	15.99%
Since Inception (December 29, 2017)	17.96%	18.23%	15.66%

ALEX UMANSKY
PORTFOLIO MANAGER

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

This was a nice, quiet, relatively uneventful quarter for the Fund. The broader market was flattish, and we were marginally better. On the year, the market is continuing to grind higher, now up 15.9%, and we are managing not only to keep up, but to keep adding value, now up 19.0% year-to-date.

From an attribution perspective, stock selection was responsible for the larger part of the Fund's outperformance relative to the SPX. Our best sector by a wide margin was Health Care with 106bps of outperformance, followed by Industrials and Communication Services, which contributed 39bps and 23bps to our relative results, respectively. Looking under the hood within Health Care, our outperformance was driven entirely by stock selection which contributed 109bps to relative outperformance. Our core holdings **Danaher** and **Thermo Fisher Scientific**, as well as a newcomer **Stevanato Group** accounted for most of the strength in the sector. Stock selection in Financials, Information Technology ("IT"), and Consumer Discretionary detracted from relative returns.

Examining the broader portfolio, roughly half of our investments were up during the quarter and half of them were down. But we had seven double-digit gainers against three double-digit decliners and that as much as anything accounted for our ability to outperform over the last three months. **Danaher**, **Alphabet**, **Monolithic Power Systems**, **MSCI**, **Thermo Fisher Scientific**, **Stevanato Group**, **Intuit**, **Microsoft**, and **Costco** each contributed 25bps or more to absolute returns, while **Fair Isaac** was our only 25bp detractor.

Two of the most important questions we must answer prior to making an investment are "What is the source of the company's competitive advantage?" followed by "Why is it sustainable?" Similarly, more and more often we find our investors posing the same two questions to us. The importance of having an edge in our business is fairly obvious. If we expect to generate excess risk-adjusted returns over a benchmark and do it over the long term, there must be something unique and differentiated and *repeatable* about the way we do it. There must be some sort of an *edge* otherwise, the expectation for excess returns would be entirely irrational.

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, 2032, 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 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.

Baron Durable Advantage Fund

We can think of five sources of competitive advantage in the business of investing: informational, analytical, behavioral, time arbitrage, and structural. An informational edge is typically referred to or interpreted as having access to information that other market participants do not have. An analytical edge is the ability to analyze the same information everyone has, only in a differentiated way – build better models, conduct better due diligence, and perform more rigorous valuation work. A behavioral edge is harder to explain, and even harder to execute, but to us, it means creating an environment most conducive to better decision-making, while overcoming behavioral biases. A time arbitrage edge refers to long-term ownership mindset and longer-term thinking, while a structural edge can be seen in the strength of the manager's platform, as well as the mandate's flexibility and the size of the opportunity set.

The informational edge has largely been arbitraged away over time. Since the introduction of fair disclosure regulations and the widespread adoption of mobile internet all interested parties can access all legally available information at the same time. Still, there is an advantage in knowing what questions to ask, what information to consider and to ignore, and how to properly weigh it. We think we may have a slight edge in that. Similarly, the analytical edge is becoming increasingly more difficult to harvest. While we hire the very best people we can, so does the competition. This is the most competitive arena in the world! The stock market is a complex adaptive system that is constantly learning and becoming smarter from the collective inputs. If we have an analytical edge, it is once again, likely to be slight. Time arbitrage, behavioral, and structural edges are where we believe we really set ourselves apart.

"Buy, sell, repeat! No room for 'hold' in whipsawing markets"[1] urged the headline of a 2020 Reuters article. In years past, information was delayed, and trading was costly. Investors would typically call their investment advisor if they were concerned about the market and wanted to sell a stock, and the advisor would at least get an opportunity to explain what is going on, and a shot at advocating patience. Now trading is free (not only commission-wise but bid-ask spread-wise as well) and Schwab's robo-adviser is not going to "talk" anyone out of taking action. At the same time, you have high-frequency and algorithmic trading vacuuming up every ounce of inefficiency that is being created by Robinhood's daily "warriors." Even before ML and AI, computers and algorithms could recognize patterns much faster than human beings. In the short term, human logic and intuition can't possibly compete with the speed or size of capital being deployed by the algos. But computers do not know how to assess a business' uniqueness and competitive advantage. They do not know how to value culture or price ingenuity. We do. These factors may not impact the day-to-day price of a stock, but they will determine whether a company will likely be a successful investment. While most market participants are focused on trying to figure out whether consensus expectations are too high or too low for the next quarter or two, we are focused on answering entirely different questions– How big can the business be at maturity? How sustainable are its competitive advantages? How critical are the problems they solve for customers, and could they solve more problems over time? How much value does every dollar that is reinvested back into the business generate? Is management building the right culture? The average holding period for a U.S. stock in 2020 was 5.5 months. The Fund's turnover in 2020 was 14.4%, which translates to a holding period of almost 7 years! Our long-term ownership mindset and longer-term thinking is a significant edge in our view.

Over many years, we have developed an investment process focused on minimizing behavioral biases. Confirmation bias is when investors start with a view and then go look for data that fits and confirms that view rather than vice-versa. Recency bias is assigning more weight in decision-making to the most recent news and events. Groupthink is often a dangerous pitfall when there is a breakdown in diversity. We work to minimize those biases by practicing probabilistic thinking – making investment decisions against a range of possible outcomes and their respective probabilities and consequences. Seeking disconfirming evidence and differing points of view are *core* to our research approach and due diligence process. For instance, rather than simply interviewing partners and customers of our companies, we focus much of our due diligence on partners and customers of their *competitors*. Requiring conviction in the *duration of growth* enables us to assign a more appropriate weight to recent developments and assess them against our long-term thesis. It also helps us to be patient if the stock price goes against us. Most of these investment blind spots, once identified and internalized, are no longer blind spots. But we take it a step further. We deliberately focus on creating an environment that is most conducive to good, balanced decision-making with an emphasis on separating our emotions from facts to enable objective investment decision-making. We buy only when we gain conviction in the duration of growth, with a presence of a margin of safety relative to our estimate of intrinsic value. We sell when our original thesis is no longer valid, when we judge the shares to be meaningfully overvalued, or if we believe we have made a mistake. This all seems simple enough, but it takes years of practice and is by no means easy. Knowledge alone is not enough. It takes time and perseverance to learn how to translate knowledge into behavior. We believe our behavioral edge is quite meaningful.

Finally, Baron Capital's platform gives us a meaningful structural advantage. Over its nearly 40-year history, the Firm has built a culture, an organizational structure, and a reputation as a *high-quality, long-term investor*. We are solely focused on investing in unique, competitively advantaged businesses for the long term. The incentives for *ALL* of our investment professionals are driven by success in long-term investment outcomes. The vertical structure of our research team enables us to accumulate deep industry expertise, better identify disruptive change dynamics, and build pattern recognition over time. Our collaborative culture promotes diversity of opinions and enables us to make better decisions, while continuously learning from one another.

When we add it all up, we think there is reason to continue to be optimistic about what lies ahead.

Table II.
Top contributors to performance for the quarter ended September 30, 2021

	Quarter End Market Cap (billions)	Percent Impact
Danaher Corporation	$ 217.3	0.58%
Alphabet Inc.	1,779.8	0.52
Monolithic Power Systems, Inc.	22.3	0.49
MSCI, Inc.	50.2	0.40
Thermo Fisher Scientific Inc.	224.8	0.35

[1] https://www.reuters.com/article/us-health-coronavirus-short-termism-anal/buy-sell-repeat-no-room-for-hold-in-whipsawing-markets-idUSKBN24Z0XZ

Danaher Corporation is a leading manufacturer in the life sciences, diagnostics, and environmental markets. Shares increased 13.6% on strong quarterly financial results and an analyst day at which the company provided a long-term financial outlook consisting of mid-single-digit core revenue growth, 50bps to 75bps of annual operating margin expansion, and double-digit earnings per share growth. We continue to hold the stock since we view Danaher as a stable growth business with a top-class management team that is focused on continued operational improvement and believe they could generate above-average earnings growth for years to come.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet were up 6.5% in the quarter driven by further acceleration in ad spending, strong cloud revenue growth, and continued cost controls (operating margins reached 31%). 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. We are further encouraged by Alphabet's investments in AI, autonomous driving (Waymo), and life sciences (Verily, Calico).

Monolithic Power Systems, Inc. is a fabless high-performance analog power semiconductor company. Reports of another beat and raise quarter due to continued market share gains and broad-based demand strength across end markets, led to positive momentum in the shares, which were up 29.8%. Monolithic remains in the relative early stages of a multi-year growth inflection driven by share and content gains from design wins with new customers in new applications. As it has just a small share of each of its diversified markets and is moving into more content-rich applications, we believe the company has a long runway for continued industry outperformance.

Shares of **MSCI, Inc.**, a leading provider of investment decision support tools, contributed to performance after rising 14.4% during the quarter. The company reported strong second quarter earnings results and management continued to express optimism regarding the economic and market backdrop moving forward. MSCI also enhanced its private markets capabilities with the acquisition of Real Capital Analytics. 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.

Thermo Fisher Scientific Inc. sells analytical instruments, laboratory equipment, software, services, consumables, and reagents for life sciences research, manufacturing, analysis, discovery, and diagnostics. Shares gained 13.4% on encouraging long-term financial goals provided at the company's investor day. Management is targeting 7% to 9% core organic revenue growth and mid-teens earnings per share and free cash flow growth through 2025. We continue to believe Thermo Fisher is well positioned for the long term 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.

Table III.
Top detractors from performance for the quarter ended September 30, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Fair Isaac Corporation	$ 11.3	–0.25%
Mastercard Incorporated	343.1	–0.23
Constellation Brands, Inc.	40.5	–0.23
Visa, Inc.	489.4	–0.19
Fidelity National Information Services, Inc.	76.2	–0.18

Shares of **Fair Isaac Corporation**, a data and analytics company focused on predicting consumer behavior, declined 20.9% during the quarter. Fair Isaac reported solid earnings, but the stock pulled back following some press reports about one client abandoning the company's FICO Score. Management has been clear that they do not see any systemic issues and pricing power in FICO Score remains. While we somewhat reduced our position to account for the wider range of possible outcomes, we believe that in the more likely scenarios, Fair Isaac will be a steady earnings compounder, benefiting from continued optimization of pricing in its Score segment, and from the transition of its software business to the cloud.

Mastercard Incorporated is a leading global payment network. The company reported good quarterly financial results that exceeded expectations with improving volume trends. However, shares underperformed and were down 4.6% due to concerns that COVID-19 variants could delay the recovery in high-margin cross-border travel. Additionally, some investors are worried about competitive threats from buy-now-pay-later services, emerging closed-loop networks, open banking platforms, and regional payment networks. We believe these fears are overblown and that Mastercard's dominant competitive position and growth opportunities remain intact.

Constellation Brands, Inc. is a leading producer and marketer of imported beer and premium wine and spirits. Shares declined 9.6% during the quarter due to rising costs, slower growth in beer volume, and supply chain challenges. While the company is not immune to cost pressures, we believe it is better positioned than peers to manage these headwinds. Longer term, we see sustained high single-digits beer revenue growth supported by continued brand momentum, distribution expansion, innovation, and favorable demographics.

Visa, Inc. is a leading global payment network. The company reported good quarterly financial results that exceeded expectations with improving volume trends. However, shares underperformed and were down 4.6% due to concerns that COVID-19 variants could delay the recovery in high-margin cross-border travel. Additionally, some investors are worried about competitive threats from buy-now-pay-later services, emerging closed-loop networks, open banking platforms, and regional payment networks. We believe these fears are overblown and that Visa's dominant competitive position and growth opportunities remain intact.

Fidelity National Information Services, Inc. provides software to financial institutions and enables merchants to accept electronic payments. The company reported solid quarterly financial results that exceeded expectations and raised annual guidance for revenue and earnings. However, the stock underperformed and was down 13.5% due to concerns that Fidelity National's "legacy" technology is losing market share to newer competitors with more "modern" technology. We decided to sell our position as we saw more favorable risk/reward profiles in other opportunities.

Baron Durable Advantage Fund

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 September 30, 2021, our top 10 positions represented 48.2% of the Fund, the top 20 were 76.7%, and we exited the quarter with 34 investments. IT, our largest sector, represented 36.0% of the Fund. Health Care, Financials and Communication Services were 20.0%, 16.0%, and 12.6%, respectively (48.6% together), while Industrials, Consumer Staples, and Real Estate, represented another 12.4% of the Fund. Cash and our Ecolab investment, which is classified under Materials, were the remaining 3.0%.

Table IV.
Top 10 holdings as of September 30, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$2,118.6	$3.7	8.9%
Alphabet Inc.	1,779.8	3.1	7.4
Facebook, Inc.	956.9	2.1	5.1
Danaher Corporation	217.3	1.8	4.3
UnitedHealth Group Incorporated	368.4	1.7	4.2
Adobe Inc.	273.9	1.7	4.1
Visa, Inc.	489.4	1.7	4.0
IHS Markit Ltd.	46.5	1.4	3.5
Mastercard Incorporated	343.1	1.4	3.4
Accenture plc	203.2	1.4	3.3

Recent Activity

During the third quarter, we initiated one new investment, buying a medium sized position in **Stevanato Group**, a leading provider of drug containment products. We also took advantage of flows into the Fund, adding to 29 existing holdings. Finally, we trimmed **Fair Isaac** and sold out of three others–**Fidelity National**, **Charter Communications**, and **Alibaba**.

Table V.
Top net purchases for the quarter ended September 30, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Microsoft Corporation	$2,118.6	$1.4
UnitedHealth Group Incorporated	368.4	1.0
IHS Markit Ltd.	46.5	0.7
BlackRock Inc.	128.5	0.7
Alphabet Inc.	1,779.8	0.6

During the quarter, we initiated a new position in Stevanato Group, a company based in Italy with a 70-year history. Stevanato is a leading provider of drug containment products, such as vials and syringes, among other products and services. The company serves many of the world's largest pharmaceutical and biotechnology companies. The company's products are included in regulatory filings for the drugs they contain, which results in high switching costs and provides recurring revenue for the life of the drug. We believe Stevanato has a stable growth business that should benefit from product mix shifts towards higher-value, higher-priced, higher-margin products such as EZ Fill (ready-to-fill products provided to customers after they have been washed, sterilized, and depryogenated), Alba (a material that reduces silicon oil particle leaks and delamination), and Nexa (a material that provides high mechanical resistance). We think the business can grow sales by high single-digit rates to low double-digit rates with EBITDA margins expanding to the high 20% range over time.

We also utilized our inflows, continuing to add to some of our highest conviction holdings such as **Microsoft Corporation** and **Alphabet Inc.** We believe that both companies will benefit from accelerated digitization trends, while their competitive moats continue to widen over time.

Table VI.
Top net sales for the quarter ended September 30, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Fidelity National Information Services, Inc.	$ 76.2	$0.5
Charter Communications, Inc.	165.3	0.4
Alibaba Group Holding Limited	519.9	0.3
Fair Isaac Corporation	11.3	0.1

As mentioned above, we trimmed our **Fair Isaac Corporation** position and sold out of our **Fidelity National Information Services, Inc.** position as a result of a widening range of outcomes and since we saw a more favorable risk-reward profile elsewhere (such as in Microsoft, UnitedHealth Group, and Alphabet).

We also sold our **Charter Communications, Inc.** position, which we have owned since April 2018. Our original thesis has been rooted in three primary tenets:

- While consensus was worried about the decline in TV, we thought it would have little impact on cash flows as broadband had nearly 100% margins and was growing.
- Broadband growth was underpinned by the accelerating adoption of video streaming.
- Charter had a near-monopoly positioning in broadband thanks to its limited geographical overlap with fiber.

Our thesis has played out over the last three years with the growth in broadband penetration supporting continued expansion in free-cash-flow even as TV declined. Today, we believe that the consensus is now more aligned with our view. At the same time, competition has begun to intensify and the runway for growth in broadband has been reduced. As a result, we have decided to exit our position.

We also realized that we made a mistake buying **Alibaba Group Holding Limited** last quarter. While the stock remains undervalued, the recent regulatory developments have made investing in China increasingly challenging. This is mostly due to a widening range of possible outcomes and an increase in the risk profile. As a result, we decided to cut our losses and exit our position.

Outlook

The October release of the inflation numbers for September showed that CPI remains above 5% (5.4% actually), and as the economy continues to improve with unemployment now again below 5%, the expectations for the beginning of Fed tapering have risen. This drove a reversal in the U.S. 10-year Treasury yield – which after hitting a low of 1.2% in July is now hovering around 1.6%.

While higher interest rates tend to be a net negative for equities all else being equal, barring a significant move higher in rates, other variables tend to come into play. The market is a complex, multi-variable adaptive system that is receiving many different inputs every day. Looking at the market's behavior during the previous tapering cycle in 2013 to 2014, while there was a short-term sell-off (stocks sold off 5%) following Bernanke's May 2013 congressional appearance in which he disclosed that the Fed was considering tapering, the S&P 500 Index was up 16% in the following six months and continued rising while the Fed tapered throughout 2014.

While we have neither the expertise to judge, nor a view on whether the recent inflationary burst is transitory, we believe that the types of businesses we hold in the Fund will perform just fine under either scenario. If inflation persists, the inherent pricing power of our holdings will help them offset rising costs. Our holdings are not highly levered and have stable growth profiles, so we also think higher interest rates should be less of a headwind for them.

In any case, the market will do what it will do. We think rotations, pullbacks, and corrections are generally necessary and healthy, and they often create attractive opportunities for long-term investors like ourselves. With U.S. 10-year Treasuries yielding below 2% and inflation running around 5% (or higher), real interest rates continue to be *well below 0%,* which is a great backdrop for businesses that are able to reinvest excess cash flow at high rates of a return. In other words, the types of businesses that we tend to favor. We continue to focus on the quality of our decisions, and on taking what we believe are high percentage shots.

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 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

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.

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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