Dear Baron Durable Advantage Fund Shareholder:

Performance

Baron Durable Advantage Fund (the "Fund") declined 5.0% (Institutional Shares) during the third quarter, roughly in line with the 4.9% decline for the S&P 500 Index (the "Index"), the Fund's benchmark. Year-to-date, the Fund has declined by 28.2% compared to a 23.9% decline for the Index.

Table I.
Performance
Annualized for periods ended September 30, 2022

	Baron Durable Advantage Fund Retail Shares[1,2]	Baron Durable Advantage Fund Institutional Shares[1,2]	S&P 500 Index[1]
Three Months[3]	(5.11)%	(5.00)%	(4.88)%
Nine Months[3]	(28.31)%	(28.15)%	(23.87)%
One Year	(20.43)%	(20.20)%	(15.47)%
Three Years	7.76%	8.02%	8.16%
Since Inception (December 29, 2017)	8.57%	8.84%	8.27%

ALEX UMANSKY
PORTFOLIO MANAGER

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

After the worst first half performance in over 50 years, the markets staged a rally in July with the S&P 500 Index rising 9%. The Fund performed well gaining 11% during the month. However, it did not last long with the markets giving back all gains and more, ending the quarter down 5%. We thought we may have, or could have, turned the corner, but the historically aggressive pace of interest rate hikes amid global financial tightening, combined with continued adverse geopolitical events in Europe and U.S./China tensions were simply too much for the markets to overcome.

We did not glean much insight from performance attribution analysis, which is not entirely unexpected from an in-line quarter. Our investments in Health Care, Industrials, and Consumer Staples contributed to relative returns while holdings in Financials, Consumer Discretionary, and Information Technology (IT) detracted. Not investing in Real Estate, Materials, and Utilities helped but was more than offset by not having any investments in Energy, one of only two sectors in the Index (Consumer Discretionary, the other) to show positive returns for the third quarter. Stock selection was strong in Health Care and Industrials and contributed modestly in the Consumer Staples and Consumer Discretionary sectors. Stock selection was poor in Financials and IT and was a modest detractor in Communication Services.

At the sub-industry level within Health Care, we mostly benefited from strong stock selection in life sciences tools & services, where our holdings (**Danaher**, **Agilent**, **Mettler-Toledo**, and **Thermo Fisher Scientific**) outperformed, declining only 2.3% as a group compared to a 5.4% decline for the sub-industry in the Index. **HEICO**, the leading aftermarket aircraft parts manufacturer and our single position within aerospace & defense (Industrials), rose 8.8%. The company benefited from the continued recovery in commercial air travel, significantly outperforming the 8.9% decline of the sub-industry within the Index. At the other end of the spectrum, not owning some of the best performing sub-industries in the Index – automobile manufacturers (up 16.0%), apparel retail (up 14.1%), and investment banking & brokerage (up 6.3%) detracted from relative returns.

Switching to contribution, or absolute rather than relative returns, we had no material contributors to speak of. **HEICO**, **Amazon**, **MSCI**, **Danaher**, **Texas Instruments**, **Intuit**, and **Agilent** were all up during the quarter but contributed a total of just 50bps *combined*. The most useful action we took during the quarter turned out to be a partial sale of **Adobe** shortly before the company announced a potentially thesis changing $22 billion acquisition of Figma. Investors were understandably concerned, and the stock declined over 25%. Adding to position sizes of most of the names

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, 2021 was 1.91% and 1.48%, 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, 2033, 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.

mentioned above contributed on the margin but was more than offset by poor timing of initiating investments in **Blackstone** and **NVIDIA**. **Microsoft** and **Alphabet**, the two largest holdings in the Fund when the quarter began, were the two largest detractors, costing 64bps and 57bps in performance, respectively, while **CME Group**, **S&P Global**, **Meta**, **Mastercard**, **Visa**, and **Brookfield Asset Management** were the other notable detractors. All in all, down 5% in the quarter obviously isn't good, but given everything else going on in the world, it was not surprising. *Most importantly, we continue to have a high degree of confidence that these declines are unlikely to result in permanent losses of capital!*

We had hoped to experience less volatility in the Durable Advantage strategy. **Our goal is to outperform the Index by a few hundred basis points, net of all fees and expenses, over full-market cycles while minimizing risk, which we think of, as the probability of permanent loss of capital**. We do not equate risk with market volatility or even stock price declines/fluctuations of our specific holdings. We do not believe that volatility in and of itself is value destructive for long-term investors and do not think that long-only investors have the tools (or the skill set) to mitigate it consistently or effectively. We normally hold between 30 and 40 investments and unlike typical large-cap mutual funds benchmarked against the Index, we do not invest in a mix of value and growth stocks prioritizing diversification, but instead look for what we believe to be the highest-quality names with the most *durable* competitive moats *and* growth. And so, while we expect this Fund to experience less volatility than most other funds we offer, we do not necessarily expect it to be less volatile than the Index. We are often asked how this Fund compares to our other large-cap strategy, Baron Fifth Avenue Growth Fund, a disruptive change, *Big Idea* strategy. Simply put, Baron Durable Advantage Fund invests in more stable companies with proven track records of earning high returns on invested capital but in later stages of their growth life cycles. All of these businesses return excess free cash back to shareholders in the form of dividends or share buybacks because they can no longer reinvest it at the high rates to which they were accustomed. Companies owned in this strategy have significantly higher *current* free cash flow yields (as opposed to *expected future* free cash flow yield) than we target in Baron Fifth Avenue Growth Fund, which ought to make this strategy less volatile. The numbers bear this out as Baron Durable Advantage Fund is down significantly less in 2022 than our other *Big Idea*, high-growth strategies.

Table II.
Top contributors to performance for the quarter ended September 30, 2022

	Quarter End Market Cap (billions)	Percent Impact
HEICO Corporation	$ 17.3	0.19%
Amazon.com, Inc.	1,151.2	0.11
MSCI, Inc.	34.0	0.08
Danaher Corporation	187.9	0.05
Texas Instruments Incorporated	141.4	0.04

HEICO Corporation is an aerospace, defense, and electronics company, offering alternative aerospace aftermarket parts as well as sub-system components for aerospace & defense. Shares increased 9% in the third quarter on the announcement of HEICO's largest acquisition to date: Exxelia, a French electronic component maker, for €453 million. HEICO has proven its ability to execute on acquisitions at a high level, complementing its solid organic growth with accretive deals over the years, and we believe this to be no exception. In addition, HEICO reported strong earnings results with revenue growth of 21% year-over-year and EBITDA growth of 23%, driven by the recovery in commercial aerospace. We remain shareholders, as we have confidence in HEICO's ability to compound cash flow over time driven by its ability to gain market share in the commercial aftermarket industry while the company's innovative and entrepreneurial culture, highly engineered, vertically integrated manufacturing, and market leadership creates strong and durable moats and keeps competitors largely at bay.

Amazon.com, Inc. is the world's largest e-commerce retailer and cloud services provider. Shares of Amazon increased 6% in the quarter after the company reported strong results with 7% year-over-year revenue growth driven by 33% growth in Amazon Web Services (AWS), Amazon's leading cloud computing service, while guiding for an acceleration in third quarter revenue growth, which is expected to be between 13% and 17% year-over-year. Amazon's share of e-commerce is roughly 40%, far ahead of competition, yet domestic e-commerce accounted for only 14.5% of total retail sales (according to U.S. Census Bureau data for the second quarter of 2022), implying durable growth opportunities ahead. Internationally, the opportunity remains large as Amazon still has less than a 2% market share of international retail spending. Its advertising share is also only 3% and growing, underpinned by the structural closed-loop systems it enables (merchants know exactly whether their ad dollars resulted in a purchase since they are all done on the Amazon platform), which enables accurate targeting and measurement. Lastly, AWS has a good runway for growth as the industry still represents only 9.5% out of the $4.3 trillion of global IT spending according to Gartner. Areas such as logistics and health care present additional optionality.

Shares of **MSCI, Inc.**, a leading provider of investment decision support tools, increased 3% during the third quarter. Despite the negative impact of broad market weakness, which has hurt MSCI's asset-based fee revenue in particular, the company reported solid earnings results with 11% year-over-year revenue growth and 60% adjusted EBITDA margins, and the underlying business continues to perform well. We retain long-term conviction as MSCI 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, the rise in passive investing, and the adoption of ESG.

Danaher Corporation is a leading manufacturer of products sold in the life sciences and diagnostics markets. Shares rose 2% during the quarter after Danaher announced plans to separate its Environmental & Applied Solutions business segment. Following the spin-off, we think Danaher will have an even more attractive business model consisting of 80% recurring revenue, high single-digit organic revenue growth, 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 can generate above-average earnings growth for years to come.

Shares of **Texas Instruments Incorporated**, the leading global analog semiconductor company, rose 1% during the quarter after the company reported strong financial results with revenue growth of 14% year-over-year, operating profit growth of 23%, and operating margins of 52%. While the level of uncertainty over near-term revenue and free-cash-flow trends has risen due to a potential macro slowdown and supply-chain normalization, Texas Instruments has a long history of growing free-cash-flow-per-share over full-market cycles to drive shareholder value. We remain investors and believe that Texas Instruments will benefit from the growth in semiconductor content across a broadening set of end-markets and applications. In addition, we believe that the company will be able to sustain its competitive advantages for the long term, underpinned by its manufacturing technology and process, its broad product portfolio, the reach of its go-to-market organization, and the diversity and longevity of its products.

Table III.
Top detractors from performance for the quarter ended September 30, 2022

	Quarter End Market Cap (billions)	Percent Impact
Microsoft Corporation	$1,736.9	–0.64%
Alphabet Inc.	1,251.0	–0.57
CME Group, Inc.	63.7	–0.46
S&P Global Inc.	101.8	–0.36
Meta Platforms, Inc.	364.6	–0.36

Microsoft Corporation is a leading global provider of software solutions. Despite posting solid quarterly results with year-over-year revenue growth of 12%, operating margins of 39.5%, and guiding for further double-digit revenue and operating income growth, shares declined 9% during the quarter along with the broader software group as investors continue digesting the impact of higher interest rates. We retain our conviction that Microsoft is well positioned to take share across its business segments and generate durable top-line growth with strong margins and free cash flow as companies across all industries look to digitally transform, taking advantage of the continuously expanding solution set Microsoft has to offer.

Alphabet Inc. is the parent company of Google, the world's largest search engine and online advertising company. Shares of Alphabet were down 12% in the third quarter driven by continued concerns about a slowing economy that would lead to a weaker demand for digital advertising. Despite short-term headwinds, we remain investors as Alphabet continues to benefit from long-term secular growth in mobile and online video advertising, accruing to its core assets of Search, YouTube, and the Google ad network. We remain encouraged by Alphabet's investments in Cloud, AI, and Autonomous Driving (through its Waymo subsidiary).

CME Group, Inc. operates the world's largest and most diversified derivatives marketplace. Shares fell 13% during the quarter (despite reporting strong average daily trading volume growth of 26% year-over-year) due to concerns that EPS growth will slow in 2023 as the rate hike cycle comes to an end. We continue to own the stock due to CME's strong competitive moats, its product breadth and liquidity depth, its durable growth characteristics driven by the secular shift from uncleared over-the-counter trading to exchange-traded futures, and tailwinds from the rising rate environment.

Shares of rating agency and data provider **S&P Global Inc.** fell 9% during the third quarter due to continued weak debt issuance activity and headwinds to the Indices business from equity market declines. Credit markets were exceptionally soft during the quarter with non-financial corporate bond issuance down 36% for investment grade and down 84% for high yield, reflecting greater investor risk aversion, rising interest rates, and a drop-off in M&A activity. We believe this ratings weakness is temporary and diversification benefits from the acquisition of IHS Markit should support earnings growth next year. Over the long term, the company should continue benefiting 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.

Shares of **Meta Platforms, Inc.**, the world's largest social network, were down 16% during the quarter primarily due to broader digital advertising weakness and continued difficulties with advertising effectiveness as a result of Apple's enhanced privacy features implemented in late 2021. We believe Meta will successfully resolve its short-term advertising technology issues by increasing AI adoption and by driving greater in-App user engagement with businesses, enabling it to grow its understanding of people's interests based on first-party data. Longer term, we believe Meta will utilize its leadership in mobile advertising, massive user base, and technological scale to provide global advertisers targeted marketing capabilities at scale, with additional monetization opportunities ahead in newer areas such as Reels (Meta's competing solution to TikTok) and e-commerce.

Portfolio Structure

The 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."

While many market participants try to manage increased market volatility by diversifying across more holdings, we tend to do the opposite and gravitate towards our highest conviction ideas. Accordingly, the weight of our top 10 and top 20 positions has increased this year, representing 53.0% and 85.1%, respectively, of the Fund as of September 30, 2022. This compares to 46.3% and 77.3%, respectively, at the end of 2021.

Similarly, we have reduced the number of names in the portfolio, exiting the quarter with 28 investments compared to 33 as of the end of 2021. IT and Financials, our biggest sectors, represented 57.7% of the Fund. Health Care, Communication Services, Consumer Discretionary, Consumer Staples, and Industrials represented another 40.2% of the Fund.

Table IV.
Top 10 holdings as of September 30, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$1,736.9	$2.8	7.9%
Amazon.com, Inc.	1,151.2	2.5	7.1
Alphabet Inc.	1,251.0	1.8	5.3
UnitedHealth Group Incorporated	472.4	1.8	5.2
Arch Capital Group Ltd.	16.8	1.7	4.9
Danaher Corporation	187.9	1.7	4.8
Thermo Fisher Scientific Inc.	198.7	1.6	4.7
Accenture plc	171.1	1.6	4.6
S&P Global Inc.	101.8	1.5	4.3
Mastercard Incorporated	274.8	1.5	4.2

Recent Activity

During the third quarter, we initiated 2 new investments: the leading artificial intelligence semiconductor company, **NVIDIA**, and the alternative asset manager, **Blackstone**. We also put our inflows to work, adding to 15 existing positions. Lastly, we reduced our **Adobe** position while also slightly reducing our **Alphabet** position even though it remains a top 3 holding in the portfolio as we retain conviction in the company's long-term prospects.

Table V.

Top net purchases for the quarter ended September 30, 2022

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
NVIDIA Corporation	$ 302.3	$678.2
Blackstone Inc.	100.3	550.2
Amazon.com, Inc.	1,151.2	492.9
Brookfield Asset Management Inc.	63.8	234.7
Monolithic Power Systems, Inc.	17.0	214.2

During the third quarter, we took advantage of **NVIDIA Corporation**'s stock sell-off to initiate a new position in this fabless semiconductor mega cap that is a global leader in gaming cards and accelerated computing hardware and software. While we have owned NVIDIA shares in our *Big Idea* strategies for some time, the company's data center business has now become proven enough, driven by the growing pervasiveness of AI workloads (from recommendation engines to large language models), enabling us to buy shares for this strategy as well, at a valuation we deem to be attractive for long-term investors.

Jensen Huang founded the company in 1993 to focus on graphics. Over the years, NVIDIA has become the leader in gaming cards for PCs and over the last decade, has become one of the key enablers for several large secular trends, including AI, autonomous driving, gaming, and robotics. The main innovation behind NVIDIA's success was the realization that its graphic cards' parallel processing capabilities, which are core to gaming computations – parallel rendering, are also the main computations required for AI workloads, which at their core are large matrix multiplications, while the existing CPU architecture is not a good fit as it is built around sequential computations. With that realization, NVIDIA has invested in an integrated hardware and software stack (called CUDA) to make its gaming architecture relevant for these new use cases. Today, it is powering most of AI training and inference across hyperscalers and enterprises. It has over 75% gaming market share (desktops and notebooks), it is one of a few key players in the autonomous driving space, and it is expanding into robotics, AI at the edge, health care industrial AI, and more. With demand for computing power doubling every one to two years, and Moore's Law slowing down, there is more need for computing than ever. At the same time, *near-free* supply growth (that was possible thanks to Moore's Law) has slowed dramatically. NVIDIA's accelerated architecture, with parallel computing at scale, answers that need.

The sell-off in NVIDIA's stock was driven by a near-term inventory correction in gaming as a result of a COVID-related pull forward in demand as well as the shift in Ethereum from proof-of-work to proof-of-stake. Additionally, investors are concerned over the potential slowdown in data center revenues as a result of a weaker macroeconomic environment as well as the recently announced limitations on semiconductor shipments to China. Despite the near-term uncertainty, we believe that NVIDIA's end-to-end AI platform and its leading market share in gaming, data centers, and autonomous machines, along with the size of these markets, would enable the company to benefit from durable growth for years to come and therefore view this as a good entry point for long-term investors such as ourselves.

We also took advantage of a pullback in stocks to acquire shares of **Blackstone Inc.**, though as mentioned above, our timing could have been better**.** Blackstone is the largest alternative asset manager in the world with nearly $1 trillion of assets under management (AUM) and $700 billion of fee-earning capital. More importantly, 40% of Blackstone's AUM is perpetual in nature and 90% of revenue is tied to capital that is perpetual or long term in nature. We have long admired Blackstone due to its strong brand, premier global franchise, loyal investor base, nearly 40-year superior investment track record, and talented executive team anchored by CEO Steve Schwarzman and President Jon Gray.

The company has been at the forefront of new product innovation, and we believe that Blackstone will continue to be the winner against an appealing industry backdrop with durable growth characteristics, underpinned by: i) a large and growing addressable market in alternative investments of $10 trillion today vs. $250 trillion for stocks and bonds; ii) institutions continuing to allocate increasing amounts of capital to alternatives (due to historical lower volatility and higher returns); and iii) the opportunity in the retail/high net worth channel that is less than 5% penetrated (versus approximately 30% for institutions).

We believe that Blackstone's brand, global scale, and deep relationships with investors built over the firm's 40-year history will also enable it to gain market share as limited partners continue to consolidate relationships with investment managers and are increasingly seeking a *one-stop-shop* for their investment needs (e.g., private equity, infrastructure, credit, opportunistic vs. core plus returns), which Blackstone is able to meet. As evidence, during a challenging overall market and fundraising environment, Blackstone was able to raise $90 billion in the second quarter of 2022 alone, including a $30 billion real estate private equity fund.

The attractive industry characteristics are paired with compelling company-level fundamentals and superior business quality traits. Blackstone is asset-light and has a limited need for capital, it also has no corporate-level net debt and generates strong free cash flow with high profit margins, which allows it to return nearly 100% of its cash flows through dividends and share repurchases to shareholders. Today, these cash flows support a growing 6% dividend yield. In addition, as mentioned above, the resiliency of Blackstone's earnings and cash flows is underpinned by its perpetual and long-term capital base, leading to highly predictable earnings growth. We see a strong alignment of interests with management, which owns 40% of Blackstone's shares.

We also put our inflows to work by continuing to build positions in our recent purchases, **Amazon.com, Inc.** and **Brookfield Asset Management Inc.** and by taking advantage of the market volatility in order to add to several existing holdings, including the leading power semiconductors company, **Monolithic Power Systems, Inc.**, the leading provider of accounting and business management software for small businesses, **Intuit Inc.**, the leading futures marketplace, **CME Group, Inc.**, and the leading consulting and technology services company, **Accenture plc**.

Table VI.
Top net sales for the quarter ended September 30, 2022

	Quarter End Market Cap (billions)	Amount Sold (thousands)
Adobe Inc.	$ 127.9	$247.4
Alphabet Inc.	1,251.0	133.9

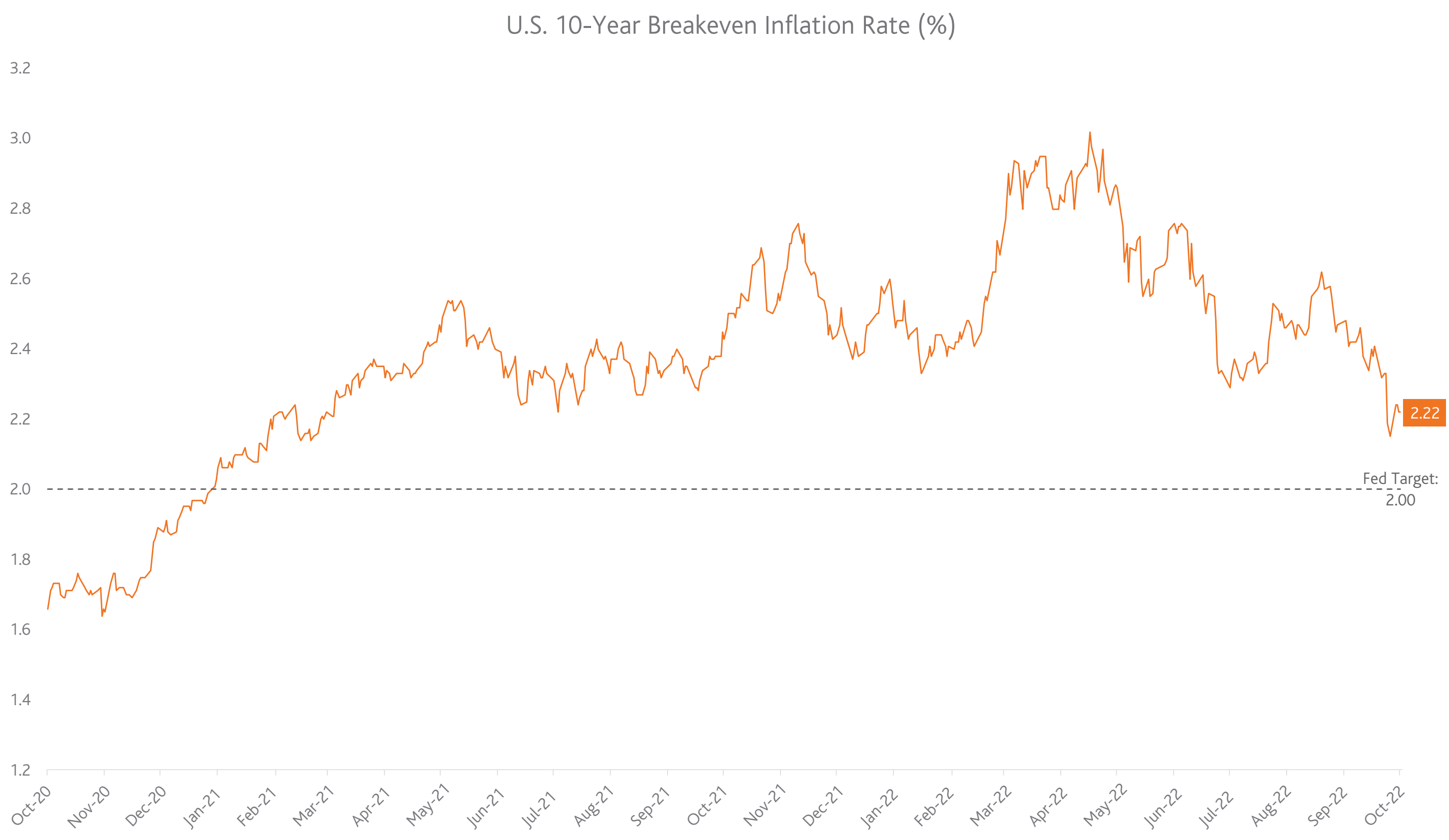
As mentioned earlier, we reduced the size of our investment in **Adobe Inc.**, as well as trimmed our position in **Alphabet Inc.** and reallocated to new ideas as well as to other names in which we saw a more favorable risk/reward as a result of the market volatility.

Outlook

As we are writing this letter, the following headline is flashing across CNBC as the market is selling off: *"September job gains affirm that the Fed has a long way to go in inflation fight"*

The September non-farm payroll report showed a surprising drop in the unemployment rate from 3.7% to 3.5%. Good, right? Well, not so fast. Interest rates are all the market cares about these days and a stronger job market implies that despite the Fed's best efforts, demand is not cooling off as fast as they would like, suggesting continued upward pressure on inflation. Good news is bad and bad news is good.

Longer-term data however continues to move in the right direction as relates to inflation: As of this writing, the 10-year inflation breakeven rate is now at its lowest level since early 2021 prior to the Fed's hike cycle – implying that in the long term, the market is betting that inflation will revert to 2.22% or only 22bps above the Fed's long-term 2% goal.



Source: FactSet.

While some investors remain preoccupied with forecasting whether the Fed hikes by 75bps or 50bps, whether we have a hard landing or a soft one, and whether inflation has peaked, we realize that we can't add value there, and therefore remain focused on doing what we do best – spending our time thinking about existing names and searching for new ideas. For existing names, we continuously test that our thesis remains correct, looking for disconfirming evidence, speaking with customers and customers of competitors, and meeting with management teams of our companies and of public and private competitors. We spend the rest of our time searching for new ideas. We look for the best, most competitively advantaged companies, with a proven ability to earn high rates of return on invested capital. We look for companies that solve critical problems for their customers, which creates stickiness and resiliency during times of stress. We also find it imperative for the company to be on the right side of the disruptive change axis, such that its competitive advantages can be sustained for the long term without the risk of being disrupted by newcomers.

While challenging macroeconomic conditions are a headwind to most businesses, our investments tend to be more resilient and hence will likely be impacted less (though we don't expect them to come out completely unscathed). Many of them operate in stable and attractive industries, are capital light, have limited financial leverage, and offer critical products to their customers, which results in strong retention rates. During times of stress, customers tend to consolidate their spending with their best vendors who then gain market share and emerge stronger on the other side. This is how Satya Nadella, **Microsoft**'s CEO, described the company's resilient positioning in an uncertain macro environment during the company's latest earnings conference call:

*"We do have every layer of the tech stack, right, whether it's infra, data, hybrid work, security, even Power Platform. In each one of these, we do have this best-of-suite value, which includes best-of category products. And that is **leading to share gains**… coming out of this macroeconomic crisis, the **public cloud will be even a bigger winner** because it does act as that deflationary force."*

Another of our larger holdings, **Accenture**, discussed the resiliency of digital transformation even during times of stress:

*"While industries and markets are being affected differently (by macro), there are two common themes: all strategies lead to technology, particularly cloud, data, AI, and security, which are fundamental to a strong digital core… Companies are also seeking to execute **compressed transformations**… These mean bold programs on accelerated timeframes, often spanning multiple parts of the enterprise at the same time… We continued to take significant market share, growing more than two times the market."*

And this is how Marc Casper, **Thermo Fisher Scientific**'s CEO, described the company's resiliency if macro was to slow down, during the company's latest earnings call:

"This company is incredibly well-positioned to navigate whatever the world throws at us, right, and the industry in and of itself is attractive. It's less sensitive economically than many. We are very well-positioned within it, and we have tremendous momentum… we've taken a number of actions over the last few years to strengthen our position in the end markets we serve, and today, relative to the recession and the great financial crisis, we have less industrial exposure. As a reminder, about 30% of our revenue going into the last recession was industrial. Today, it's about 13%. And pharma and biotech is much larger and that has been the least economically sensitive of the end markets, and that represents just under 60% of our revenue.

"And when I think about our mix, we're more servicing consumables oriented than we were then. Then it was 65% of our revenue. Today, it's 82% of our revenue. So the company is performing well. Our end markets are good, and we will manage through whatever the world throws at us."

Data is supportive of this resiliency. Looking broadly across our portfolio, 2022 expectations come down by less than 0.5% in the third quarter for our weighted average holdings. Consensus EPS estimates for 18 of our holdings, or 59% of net assets, increased during the third quarter. Time will tell if growth slows down further, but we retain confidence that even in that case, our businesses will come out stronger when the economy recovers.

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 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 the Funds' 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 equity securities, which are subject to price fluctuations in the stock market. In addition, because the Fund invests primarily in large-cap company securities, it may underperform other funds during periods when the Fund's securities are out of favor. 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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