Dear Baron Durable Advantage Fund Shareholder:

Performance

Baron Durable Advantage Fund (the "Fund") gained 4.7% (Institutional Shares) in the fourth quarter, compared to the 7.6% gain for the S&P 500 Index (the "Benchmark"). For calendar year 2022, the Fund declined 24.8%, compared to the 18.1% decline for the Benchmark.

Table I.
Performance
Annualized for periods ended December 31, 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]	4.64%	4.65%	7.56%
One Year	(24.99)%	(24.81)%	(18.11)%
Three Years	5.89%	6.14%	7.66%
Five Years and Since Inception (December 29, 2017)	9.11%	9.37%	9.42%

ALEX UMANSKY
PORTFOLIO MANAGER

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

It was a challenging year for investors. After three consecutive years with returns in the 20% to 30% range for the Benchmark (and 20% to 40% for the Fund), the Fed engineered the fastest interest rate tightening cycle in over 40 years, the war in Ukraine and the persistent inflation were too much for the markets to overcome in 2022. Despite some recovery in the fourth quarter, the Benchmark closed the year down 18%, its worst performance since the Global Financial Crisis in 2008. Even bonds sold off in 2022 with U.S. investment grade bonds (as measured by the LQD ETF) down a similar 18%. According to BlackRock, the last time both stocks and bonds were down during a calendar year was 1969 (1931 before then), which tells you what an unusual year it was. And while down 18% is hardly appealing, there were worse places to be in 2022, as growth stocks were pummeled with the Russell 1000 Pure Growth Index down 37%, the technology-heavy NASDAQ Composite down 33%, and Bitcoin down a whopping 65%. There were few good places to invest with the exception of Energy or more specifically oil and gas, with the NYSE Arca Oil Index (XOI) up 52% and the Energy GICS sector of the Benchmark up an impressive 66%.

We were vocal in highlighting a favorable investing environment as a major tailwind to the Fund's absolute and relative returns over the prior three years. We think it is fair to point out the dramatic reversal in 2022. To put it in context, 2022 saw the most dramatic underperformance of growth compared to value since the bursting of the dot com bubble, with the Russell 1000 Pure Growth Index underperforming the Russell 1000 Pure Value Index by 29% (the underperformance was in excess of 30% then). This Fund is designed to perform well and to generate alpha over the full market cycle. However, the way it is structured, we expect the majority of our outperformance to come during the "benign" or "steady" parts of the market cycle – think of them as one standard deviation away on either side of the bell curve. It is unlikely to deliver compelling results during the market's extreme tilts in either direction. The reason is simple: the S&P 500 Index, as well as the majority of conventional core strategies employ a barbell approach of holding a mix of value and growth stocks while we choose to focus only on the highest-quality businesses with undemanding valuations in the middle instead. We want to own businesses where our research gives us confidence that competitive advantages are sustainable and the prospects for durable growth remain strong, while minimizing the risk of a permanent loss of capital inherently present at the tail ends of the value and growth spectrum. We believe collecting and owning 30 to 40 of these unique, high-quality companies, with a healthy margin of safety, which we think of as a discount to our estimate of their intrinsic values, will enable us to outperform the Benchmark over full-market cycles. With this

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, 2022 was 1.49% and 1.10%, 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.

BARON FUNDS 1987

perspective in mind, the 24.8% decline was somewhat disappointing, but not entirely surprising to us. More importantly, we do not believe this drawdown is likely to result in a permanent loss of capital.

From a performance attribution standpoint, stock selection was responsible for 261bps of our 291bps of underperformance in the fourth quarter, and while positive stock selection in Information Technology (IT) added 111bps to our relative results, this was more than offset by poor stock selection everywhere else. Not owning any Energy stocks (which was the best sector in the Benchmark) or enough Industrials also cost us 124bps, though it was offset by our underweight in Consumer Discretionary, the worst sector in the Benchmark during the fourth quarter and our overweight in Financials, one of the better sectors. From a stock-specific perspective, we were hurt by the sell-off in **Amazon**, **Alphabet**, and **Meta**, costing us 200bps in absolute results, on the back of growing concerns over a slowdown in the economy leading to headwinds in cloud computing and advertising spending. We take the long-term view on these businesses and while economic turbulence and a possible recession may cause a short-term slowdown, we do not believe the declines in their stocks will result in a permanent loss of capital.

From a full-year perspective, stock selection was responsible for 496bps out of our 670bps of overall underperformance. While positive stock selection in IT added 153bps to our relative results, it was more than offset by negative stock selection in other sectors. Not owning Energy stocks and Utilities, the two best sectors in the Benchmark in 2022 (up 65.7% and 1.5%, respectively), cost us 258bps, while not owning enough Industrials and owning too much IT also detracted from our relative returns. It was somewhat offset by our overweight in Financials, which was down only 10.5% on the year, and an underweight in Consumer Discretionary, which was the second worst sector in the Benchmark in 2022. From a sub-industry perspective, within Consumer Staples, which was our second worst performing sector (Energy was the worst as we did not own any), we were hurt by being in three of the four worst performing sub-industries. Similarly, within Health Care, not having investments in pharmaceuticals (which ended the year up 8.5%) and owning way too much life sciences tools & services companies detracted from relative performance, as this sub-industry ended the year down 22.9% in the Benchmark, and even though our stock selection contributed 58bps to our relative returns, it was overpowered by the overweight.

Looking under the hood at the contribution of individual investments, only three of our holdings contributed positively for the year, generating 222bps of absolute return combined. **Arch** was up 41%, **UnitedHealth** gained 7%, and **NVIDIA** was up 14% from the time that we bought it. Unfortunately, with 21 holdings detracting at least 50bps each from the absolute returns, we simply did not have enough winners to keep up with the Benchmark. To make matters worse, many of our biggest losers were our largest positions. Alphabet, Meta, **Microsoft**, and Amazon were all down between 28% and 64% for the year, costing us over 200bps each. There were nine other investments that detracted at least 75bps each. Overall, 22 of our holdings declined at least 20% each in 2022. Interestingly, those stocks that declined at least 20% this year were also up nearly 40% on average in 2021. While they didn't become 40% "better" in 2021, or their intrinsic values (IVs) likely did not rise by 40% in 2021, they also did not become 31% "worse" in 2022 (their average stock price decline). More importantly, while the volatility of the returns this year has been higher than we had hoped, we have a lot of confidence that the stock price declines were more the result of souring investor psychology than permanent declines in intrinsic values, and hence will unlikely result in a permanent loss of capital.

A lot has been written about the rising interest rates and the resultant regime change in the market. We think it is equally important to understand how this regime change caused a rapid shift in investor psychology and brought us back to the value vs. growth debate. Historically, value stocks have outperformed growth stocks. Of course, over the last 15 years, growth stocks have outperformed value stocks by a large margin (4.4% annually, on average as measured by Russell 1000 Growth Index vs. Russell 1000 Value Index), and so, the obvious question now is will the revenge of the value stocks go further and last longer? As we explained in the past, identifying or categorizing businesses as simply low-multiple (i.e., value) or high-multiple (i.e., growth) never resonated with us. Instead, we have always tried to categorize or separate businesses based on their *quality*.

We define high-quality businesses as companies that have a clear opportunity to compound their IV over long periods of time. These companies benefit from durable growth characteristics and sustainable competitive advantages, while lower-quality businesses do not. Investing in lower-quality businesses that do not have a clear path to higher IVs over time requires getting the entry **and** the exit points right and, in our view, contradicts our long-term ownership philosophy. Buy-and-hold discipline has time working on its side, but it does not work for lower-quality businesses which often prove to be the proverbial melting ice cubes.

Stock prices have always traded and fluctuated around IVs at an amplitude that depends on the prevalent psychology in the market. When investors feel good about the world, they are willing to underwrite longer-term prospects, and prices tend to rise above IVs. However, during times of uncertainty and stress, time horizons shrink, reducing investor appetite for long-duration assets and prices fall below IVs. In our view, this dynamic may have been behind the significant outperformance of value over growth in 2022.

Over the long term, we believe that stock prices will reflect the success of the businesses, or said differently, they (and we) would do well if the businesses themselves do well. We remain confident that the businesses we own in this Fund will do very well over the long term. And now… they can be owned for approximately 26% less.

Table II.
Top contributors to performance for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
Arch Capital Group Ltd.	$ 23.2	1.66%
Mastercard Incorporated	334.3	0.86
Visa, Inc.	442.2	0.68
Mettler-Toledo International, Inc.	32.2	0.47
S&P Global Inc.	109.1	0.43

Arch Capital Group Ltd. is a specialty insurance company based in Bermuda. Shares increased 37.9% in the fourth quarter as favorable pricing trends in the property & casualty insurance market continued. During the quarter, the company reported earnings that beat consensus estimates despite significant losses from Hurricane Ian. The stock also benefited from inclusion in the S&P 500 Index, which prompted buying from passive funds. We continue to own the stock due to Arch's strong management team, underwriting expertise and discipline, long-term ownership mindset, and focus on underwriting profitability rather than premium growth or market share, which in our view, will support solid and sustainable growth in earnings and book value per share for years to come.

Shares of global payment network **Mastercard Incorporated** outperformed, rising 22.4% in the quarter after the company reported strong quarterly results of 15% revenue growth and 13% EPS growth despite significant headwinds from currency movements and its suspension of operations in Russia. Payment volume grew 21% in local currency (excluding Russia), as consumer spending remained resilient and international travel continued to recover as border restrictions were lifted. Major foreign currencies strengthened toward the end of the quarter, which should also support near-term growth. We continue to own the stock due to Mastercard's long runway for growth and significant competitive advantages, operating in a duopoly with Visa.

Shares of global payment network **Visa, Inc.** rose 17.1% during the fourth quarter after reporting strong quarterly results of 19% growth in revenue and EPS despite currency headwinds and its suspension of operations in Russia. Payment volume grew 16% in local currency (excluding Russia and China), with notable strength in cross-border volumes as international travel continued rebounding after the pandemic. Management also provided encouraging guidance of high single-digit revenue growth for the next fiscal year. We continue to own the stock due to Visa's long runway for growth underpinned by the continued migration from cash to card/digital and its significant competitive advantages, operating in a duopoly with Mastercard.

Mettler-Toledo International, Inc. is the leading provider of weighing instruments for laboratory and industrial applications. Shares rose 33.3% in the fourth quarter on solid third quarter results, highlighted by 10% local currency sales growth and 17% EPS growth despite a negative FX impact of 6%. Management provided solid initial 2023 guidance, calling for 5% local currency sales growth and EPS of $42.00 to $42.40, roughly in line with Street estimates. 2023 guidance reflects 8% to 9% expected EPS growth. We continue to hold the stock and believe the company will continue benefiting from its brand recognition, pricing power, broad offering, and diversified customer base, enabling it to enjoy durable growth for years into the future.

Shares of rating agency and data provider **S&P Global Inc.** increased 10.1% during the quarter as investors looked past weak debt issuance activity and anticipated a potential issuance rebound in 2023. Equity markets rose during the quarter, offering some reprieve to asset-based revenue headwinds. The company also hosted an Investor Day during which management provided medium-term financial guidance of 7% to 9% annual revenue growth and low to mid-teens annual EPS growth. We continue to own the stock due to the company's durable growth characteristics that are underpinned by the secular trends of increasing bond issuance, growth in passive investing, and demand for data and analytics, while also benefiting from significant competitive advantages.

Table III.
Top detractors from performance for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
Amazon.com, Inc.	$ 856.9	–1.62%
Alphabet Inc.	1,145.2	–0.28
Brookfield Asset Management Ltd.	47.0	–0.15
Blackstone Inc.	88.9	–0.12
Meta Platforms, Inc.	315.6	–0.11

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were down 25.5% in the quarter, as the company guided to relative weakness in margins and a slowdown in Amazon Web Services (AWS) as a result of the weakening economy. Despite the increased near-term uncertainty and the potential macro headwinds, Amazon remains one of our largest holdings due to its durable competitive advantages holding a leadership position in multiple trillion-dollar markets that exhibit durable growth characteristics. According to the U.S. Census Bureau, domestic e-commerce was only 14.8% of retail as of the third quarter of 2022[1]. Internationally, the opportunity is even earlier as Amazon has still less than 5% market share of international retail spending. Its advertising share is roughly 5% and growing, underpinned by its structural closed loop, which enables accurate targeting and measurement. Lastly, AWS remains the leading cloud provider, while cloud computing still represents only 11% of the $4.4 trillion spending on global IT products and services according to Gartner in 2022[2]. Areas such as logistics and health care present additional optionality.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet were down 7.7% during the quarter, with broader weakness in digital advertising demand impacting Search, YouTube, and overall margins. Despite macro-driven near-term headwinds, we retain conviction in Alphabet, as it is a high-quality compounder, benefiting from secular growth in mobile and online video advertising accruing to its core assets of Search, YouTube, and the Google ad network. Though smaller in size, we are also encouraged by Google's investments in Cloud, AI, and Autonomous Driving (through its Waymo subsidiary).

Brookfield Asset Management Ltd. is an asset-light alternative manager that was recently spun out of Brookfield Corporation. The company invests in real estate, infrastructure, renewable power, private equity, and credit assets globally and has more than $750 billion assets under management (AUM) and $400 billion of fee-earning capital. The stock declined 20.9% for the period held during the fourth quarter as investors sold the "stub" security after its spin-off was completed. We retain conviction given the company's diversified asset base, sustainable cash flows, strong asset management platform, and ability to deploy capital globally.

Blackstone Inc. is the world's largest alternative asset manager with nearly $1 trillion of AUM. Shares declined 10.7% during the fourth quarter largely due to negative press and investor concerns surrounding Blackstone's decision to limit redemptions from its BREIT flagship retail fund vehicle. We retain conviction in Blackstone due to its strong brand, unmatched fundraising capabilities, proven long-term performance, and durable fee stream underpinned by long-term and perpetual capital.

Shares of **Meta Platforms, Inc.**, the world's largest social network, declined 11.8% during the fourth quarter primarily due to investor concerns about rising expenses in a difficult macroeconomic environment. We believe Meta has taken steps to increase cost discipline including layoffs and reduction of its data center and office footprint. Meanwhile, engagement remains healthy. With its newer Reels offering, it has gained market share against rival TikTok. Longer term, we believe Meta will utilize its leadership in mobile advertising, massive user base, and technological scale to continue providing global advertisers targeted marketing capabilities at scale, with further monetization opportunities ahead in under monetized areas such as Messaging and Reels.

1 https://www.census.gov/retail/ecommerce.html
2 https://www.gartner.com/en/newsroom/press-releases/2022-10-31-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-600-billion-in-2023
https://www.gartner.com/en/newsroom/press-releases/2022-10-19-gartner-forecasts-worldwide-it-spending-to-grow-5-percent-in-2023

Baron Durable Advantage Fund

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."

As of December 31, 2022, our top 10 positions represented 49.9% of the Fund, the top 20 were 82.6%, and we exited 2022 with 29 investments (this compares to 46.3%, 77.3%, and 33 investments as of the end of 2021, respectively). As of year-end, IT and Financials, our biggest sectors, represented 60.4% of the Fund. Health Care, Communication Services, Consumer Discretionary, Consumer Staples, and Industrials represented another 36.1% of the Fund. Cash was the remaining 3.6%.

Table IV.
Top 10 holdings as of December 31, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$1,787.7	$4.2	8.3%
Meta Platforms, Inc.	315.6	2.5	5.0
Arch Capital Group Ltd.	23.2	2.5	4.9
Visa, Inc.	442.2	2.5	4.9
UnitedHealth Group Incorporated	495.4	2.4	4.8
Amazon.com, Inc.	856.9	2.4	4.8
Accenture plc	175.9	2.4	4.7
Danaher Corporation	193.2	2.1	4.2
Mastercard Incorporated	334.3	2.1	4.1
Intuit Inc.	109.3	2.1	4.1

Recent Activity

During the fourth quarter, we took advantage of flows into the Fund to add to 25 existing holdings, with the largest additions flowing into **Meta**, making it the 2nd largest holding in the Fund, **Microsoft**, which continues to be the largest position in the Fund, and our newer holding, **NVIDIA**, as we continued scaling into our position.

Table V.
Top net purchases for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Meta Platforms, Inc.	$ 315.6	$1.7
Microsoft Corporation	1,787.7	1.4
NVIDIA Corporation	359.5	1.1
Visa, Inc.	442.2	0.8
Accenture plc	175.9	0.8

Our largest addition in the quarter was to **Meta Platforms, Inc.** Foreign currency movements and the weakening macro environment have impacted Meta's revenue growth rates in the near term (revenues declined 4% year-over-year in the most recently reported third quarter). Investors continue to be focused on the company's growing expenses and CAPEX, which have a double-whammy impact on margins and free-cash-flow. This hyper-focus on the near term (driving the stock down 25% the day after earnings) overlooks the company's long-term prospects, in our view. First, Meta has 2.9 billion daily active users and growing (up 4% year-over-year). Second, Meta is already seeing significant user engagement for its Reels product, reaching 140 billion daily views across Facebook and Instagram, a 50% increase over the last 6 months, and as importantly, it has been incremental to time spent on the platform. Third, Reels is rapidly scaling its monetization, hitting a $3 billion revenue run-rate during the third quarter, up from $1 billion in the second quarter, and, based on rumored numbers for TikTok in 2022, likely already holds a market share of 15% to 25% from a standing start in 2021. Fourth, while the company continues growing its expenses, we are encouraged by the recent cost cutting announcements and believe that continued investment in AI-infrastructure will pay off, as the company works to regain the lost signal from Apple's IDFA and ATT changes. Lastly, the sell-off in the shares resulted in a deeply undervalued stock for those investors willing to look out a few years, with its next-12-months earnings yield climbing above 9% during the quarter. This yield also compares to around 6% for the S&P 500 Index.

Another large addition in the fourth quarter was to **NVIDIA Corporation**. While near-term concerns over the correction in gaming and a potential slowdown in the data center business remain, the longer-term picture continues to be bright for NVIDIA. During the company's latest earnings call, NVIDIA announced an agreement with Microsoft and Oracle that will enable it to sell together with the cloud providers, getting a revenue share for the usage of their GPUs by end customers in exchange for providing access to NVIDIA's Enterprise Software stack – this strategic announcement should both reduce hurdles for AI adoption in vertical industries as well as drive incremental usage-based, high-margin revenues for NVIDIA. Additionally, the biggest recent news in the field of AI has been the release of ChatGPT, which is OpenAI's AI-powered chatbot that enables answering complex questions, writing essays in a way that is many times indistinguishable from humans, generating marketing content, and even generating programming code. ChatGPT reached 1 million users a mere 5 days after it was released (a month ago). ChatGPT used NVIDIA GPUs to train the models and runs on NVDIA GPUs (in the Microsoft Azure cloud) to inference queries. We continue to 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 have therefore continued scaling up the position in the portfolio.

We also took advantage of inflows into the Fund to continue increasing our higher-conviction positions, adding to **Microsoft Corporation**, **Visa, Inc.**, and **Accenture plc**, among others.

While most market participants remain pre-occupied with the near-term, trying to understand whether a company will beat or miss quarterly earnings expectations, we remain focused on the long term – understanding whether growth drivers are sustainable, whether disruptive forces are creating tailwinds or headwinds, and whether our companies' competitive advantages will persist. While many investors try to increase diversification in times of higher volatility, we do the opposite. We increase our investments in our highest conviction ideas. Over-diversification has been alpha-destructive, especially in one of the more efficient segments of the market, such as large caps. This will enable us, in our view, to tilt the portfolio towards the ideas in which we see the most attractive risk/reward profile for the long term.

Table VI.
Top net sales for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Amount Sold (millions)
None		

The Fund had no sales during the fourth quarter.

Outlook

This is the time of the year when our inboxes get filled with emails from different strategists, analysts, and various market experts regarding their outlooks for next year. The following is a random sampling of quotes from some of their predictions for 2023:

- *A Hard Landing is Coming in Late 2023 … And It's Not Priced In!*
- *Valuations to remain under pressure in 1H23 as fundamentals trough and consensus cut numbers further.*
- *Expect software to outperform in 2H23, driven by focus shifting to reacceleration at some point in '24 on easier comps and compressed multiples.*
- *We project a U.S. recession is likely to start around the beginning of 2023 and last through mid-year.*
- *We see a sustained deterioration in earnings, which is associated with the worst bear markets across history.*
- *Earnings revisions will push stocks lower in the first quarter, before seeing the S&P 500 Index rally back to current levels by year end.*

It would seem that the majority of "expert" forecasts range from pretty bad to really bad. Be that as it may, the quote that resonated the most with us is attributed to John Kenneth Galbraith:

"There are two kinds of forecasters: those who don't know, and those who don't know they don't know."

Unfortunately for us, the volume of requests for near-term predictions seems to be inversely correlated with our performance and so we've been getting a lot of these lately. The problem is that we have a lot more conviction in trying to predict the next 5 and 10 years (we are quite optimistic) than we do in trying to predict the next 3 to 6 months. This has always been the case, and the current level of market uncertainty has little to do with that.

So instead of trying (and likely failing) to provide a useful outlook, we offer several observations instead for the reasons behind our long-term optimism:

- The businesses we own are resilient. While it is likely that most companies will be impacted by a slowing economy, our businesses have favorable characteristics that make them more resilient in a downturn – they operate in stable and attractive industries, they have lower levels of leverage while also having high operating and free-cash-flow margins, many are capital-light, and most sell critical products or services to their customers, which makes them hard to replace (think of MSCI, whose products are deeply embedded in their clients' workflows, enabling the company to sustain retention rates in the mid-90 percentages, despite the declines in the markets).
- Terminal growth rates are as important as discount rates in calculating terminal value – were inflation to stay higher for longer, companies with pricing power will see an increase in their terminal growth rates. Many of our companies have those capabilities. They are leaders in their industries and critical to their customers (Visa and Mastercard are great examples, as their revenues are directly tied to the payments volume going through their platforms, therefore inflationary pressures are directly passed on).
- Market share is likely to be higher for many of our companies coming out of the slowdown – leading businesses tend to expand their lead over competitors during times of stress as customers consolidate spending on their best, most important vendors. Several recent examples of this are reflected in management commentary[3]:
  - **HEICO** (a leading aftermarket aircraft part manufacturer):
    *"we're doing really well… our PMA sales are at an all-time record. And if you look, flights across the world are still down, whatever, 20%… But HEICO PMA sales are at an all-time record. So, I think that we've got plenty of power behind us… And I think that's **a result of picking up market share** and frankly treating the customers right. And they know that we've treated them right for 30 years and we don't take advantage of them… they've rewarded us with that market share. So it wasn't stuff that we did short term that made it happen. It was stuff that we did long term and they trust us. So I think we're really very much in a virtuous cycle which is permitting this".*
  - **Monolithic Power Systems** (a leading analog semiconductors supplier):
    *"In conclusion, even though business conditions are softening, **our market share gains continue to expand** reflecting high customer engagement and our ability to secure design wins. We can now focus on growing our long-term business".*
  - **Danaher** (a leading manufacturer of products for life sciences and diagnostics markets):
    *"Our positive momentum continued in Q3 with 10% core revenue growth and solid earnings and cash flow performance… these well-rounded results were driven by our team's outstanding execution through a challenging operating environment… We believe our ability to deliver meaningful innovation and reliably serve customers has contributed to **market share gains in many of our businesses**."*
- Valuation is more attractive – the weighted average multiple of our portfolio is down 26% year over year.

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.

[3] Commentary provided during quarterly conference calls.

Baron Durable Advantage Fund

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.

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** explains common variation in stock returns due to different stock sensitivities to market or systematic risk that cannot be explained by the US Country factor. Positive exposure indicates high beta stock. Negative exposure indicates low beta stock. **Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

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