

DEAR BARON FINTECH FUND SHAREHOLDER:

PERFORMANCE

In the quarter ended June 30, 2020, Baron FinTech Fund (the "Fund") advanced 32.00% (Institutional Shares) compared with a 20.54% gain for the S&P 500 Index (the "Benchmark") and a 37.94% gain for the FactSet Global FinTech Index. Year-to-date and since inception (December 31, 2019), the Fund increased 15.50% (Institutional Shares) compared with a 3.08% loss for the Benchmark and a 0.18% gain for the FactSet Global FinTech Index.

Table I.
Performance
For period ended June 30, 2020

	Baron FinTech Fund Retail Shares ^{1,2}	Baron FinTech Fund Institutional Shares ^{1,2}	S&P 500 Index ¹	FactSet Global FinTech Index ¹
Three Months ³	31.89%	32.00%	20.54%	37.94%
Six Months and Since Inception (December 31, 2019) ³	15.40%	15.50%	(3.08)%	0.18%

Following a sharp decline in the first quarter with the onset of the COVID-19 pandemic, equity markets strongly rebounded this quarter. The market rally was supported by an accommodative Federal Reserve, stepped up reopening efforts, reported progress on the development of a vaccine, and expectations for an economic recovery next year.

During the quarter, the Fund meaningfully outperformed the Benchmark by 11.46% due to favorable stock selection and, to a lesser extent, relative sector weights. The Fund's investments in Information Technology and Financials contributed the most to relative results. Almost every position delivered positive performance during the quarter.

Six of the Fund's seven investment themes outperformed the Benchmark, including E-commerce, Digitally-Enabled Financials, Digital IT Services, Information Services, Electronic Payments, and Enterprise Software, while Capital Markets slightly underperformed. Strength in E-commerce was driven by the Fund's two largest holdings, **PayPal Holdings, Inc.** and **Adyen N.V.**, as the COVID-19 pandemic forced stores to close and consumers to increasingly shift to online purchases. Specialty insurer **Kinsale Capital Group, Inc.** drove performance in Digitally-Enabled Financials after reporting excellent quarterly results with 47% premium growth and strong margins. Conditions in the specialty insurance market remain favorable as



JOSH SALTMAN

PORTFOLIO MANAGER

Retail Shares: BFINX
Institutional Shares: BFIIX
R6 Shares: BFIUX

competitors reduce capacity and increase premium rates after years of underpricing risk. The Fund's Digital IT Services holdings outperformed in the quarter, led by **Endava plc** and **EPAM Systems, Inc.** Despite the pandemic causing some temporary project delays, both companies expect increasing demand for digital transformation, which should drive sustained growth over time. Within Information Services, the rating agencies **S&P Global Inc.** and **Moody's Corporation** benefited as falling interest rates and stimulus measures from the Federal Reserve drove strong corporate bond issuance. Several Electronic Payments holdings outperformed, including **Repay Holdings Corporation**, which benefited from resilient payment volumes and accelerating demand for electronic payment capabilities. Other holdings that appreciated more than 50% during the quarter but contributed less to Fund performance due to smaller position sizes included **Bill.com Holdings, Inc.**, **ZoomInfo Technologies Inc.**, **i3 Verticals, Inc.**, **Shift4 Payments, Inc.**, **Ceridian HCM Holding Inc.**, and **MarketAxess Holdings Inc.**

Capital Markets holdings slightly underperformed the Benchmark led by **CME Group, Inc.**, the Fund's sole declining position this quarter, as volatility moderated from unusually high levels in the first quarter.

Almost as important as what we own is what we don't own. During the quarter, German payments company Wirecard AG filed for insolvency and

Performance listed in the above table is net of annual operating expenses. Annual estimated expense ratio for the Retail Shares and Institutional Shares is 1.87% and 1.62%, respectively, but the net annual estimated expense ratio is 1.20% and 0.95% (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, 2030, 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 indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. S&P 500 Index measures the performance of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. The FactSet Global FinTech Index™ is an unmanaged and equal-weighted index that measures the equity market performance of companies engaged in Financial Technologies, primarily in the areas of software and consulting, data, and analytics, digital payment processing, money transfer, and payment transactional-related hardware across 30 developed and emerging markets.
² The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemptions of Fund shares.
³ Not annualized.



Baron FinTech Fund

its share price collapsed after revealing that almost 2 billion euros of cash on its balance sheet had gone missing. Before this revelation, Wirecard had grown rapidly into one of Europe's largest fintech companies by processing online payments for businesses around the world. We had been monitoring Wirecard for years and long admired the company's over 30% reported growth rates. As part of our research process, we met with senior management in our office to learn more about the company's competitive differentiation and growth prospects. However, we never invested in the stock due to concerns about the company's strategy, earnings quality, and industry reputation. Conducting independent research, sticking to our disciplined process, and investing only in exceptional and trustworthy managers kept us away from Wirecard. This is one of many examples where we believe active investment management can add significant value.

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

	Percent Impact
PayPal Holdings, Inc.	3.56%
Adyen N.V.	2.84
Repay Holdings Corporation	1.89
S&P Global Inc.	1.78
Endava plc	1.76

PayPal Holdings, Inc. enables digital payments for consumers and merchants worldwide. Shares rose sharply on investor expectations of increased online purchasing by consumers due to the COVID-19 pandemic. E-commerce growth has remained elevated even after stay-at-home orders have eased, suggesting that shopping behaviors may have permanently changed. Accelerating revenue and user growth in April likely persisted for the rest of the quarter, suggesting upside to management's outlook. We continue to own the stock because we believe PayPal is a prime beneficiary of the secular growth of e-commerce.

Adyen N.V. provides technology that enables merchants to accept electronic payments. Shares appreciated on strong quarterly reports of 34% revenue growth and news of significant investments in headcount and marketing campaigns to sustain its high growth rate. Investors also expect COVID-19 disruptions to have relatively less impact on the stock due to Adyen's customer base of mostly online merchants. We believe Adyen will be a prime beneficiary of the secular growth of e-commerce over the long term.

Shares of payment processor **Repay Holdings Corporation** increased on strong quarterly results with 20% organic gross profit growth and 53% EBITDA growth. Demand for digital payments is accelerating due to the COVID-19 pandemic, and the company's payment volumes have been resilient due to the recurring nature of loan repayments. During the quarter, the company raised capital to support growth and was added to the Russell 2000 Index. We continue to own the stock because Repay benefits from increasing adoption of electronic payments and should generate additional growth through M&A.

S&P Global Inc. provides credit ratings, indexes, data, and analytics to the financial and commodities markets. Shares increased as falling interest rates and stimulus measures from the Federal Reserve drove strong corporate bond issuance. Non-financial investment grade issuance hit a quarterly record by a wide margin after more than doubling, while high yield issuance was also meaningfully higher. Equity market appreciation provided a boost

to the Indices segment as well. We continue to own the stock due to S&P Global's long runway for growth and significant competitive advantages.

Endava plc provides outsourced software development to business customers. Shares increased after the company reported strong quarterly financial results with 26% revenue growth and 37% earnings per share growth. The pandemic is causing some project delays; however, most projects are continuing as planned and client demand for Endava's digital transformation capabilities remains strong. We believe Endava will continue gaining share in a large global market for IT services.

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

	Percent Impact
CME Group, Inc.	-0.03%

CME Group, Inc. is the world's largest and most diversified derivatives marketplace. Shares detracted in the second quarter due to a significant decline in trading volume as less severe market volatility and a growing expectation that interest rates will remain low for an extended period reduced the need to hedge with CME's futures and options. We continue to hold the stock because we believe CME should benefit from episodic volatility spikes and increasing adoption of exchange-traded futures.

PORTFOLIO STRUCTURE

The Fund invests in fintech companies across all market capitalizations and geographies. Fintech companies include: (i) technology companies providing software or services that facilitate financial transactions and (ii) financial services companies using technology in a significant way. The quality of the ideas and level of conviction determine the position size of each investment. We do not try to mimic an index, and we expect the Fund to look very different from the Benchmark.

As of June 30, 2020, the Fund held 35 positions. International stocks represented 14.7% of the Fund's net assets. The Fund's 10 largest holdings represented 47.6% of net assets, and the 20 largest holdings represented 77.5% of net assets. The market capitalization range of the investments in the Fund was \$830 million to \$579 billion with a weighted average market capitalization of \$96.4 billion.

We segment the Fund holdings into seven investment themes. Some companies have characteristics that span more than one theme, but we classify each company by a single theme that we believe is most representative.

- Electronic Payments:** We have several investments that benefit from the secular shift to electronic payments. The world is increasingly going cashless, but \$17 trillion of consumer payments each year are still made with cash or check, so we believe there is a long runway for growth. **Visa, Inc.** and **Mastercard Incorporated** operate the leading global networks that facilitate electronic payments for consumers, merchants, and banks. We own several merchant acquirers and processors that provide technology that enables merchants to accept electronic payments, including **Repay Holdings Corporation**, **Global Payments Inc.**, **Shift4 Payments, Inc.**, and **Bill.com Holdings, Inc.**
- E-commerce:** We have several investments that benefit from the secular growth of e-commerce. Online sales are growing much faster

than in-store retail sales, but e-commerce penetration is still low at only around 15% of total retail sales in the U.S. As payment processors for mostly online merchants, **PayPal Holdings, Inc.** and **Adyen N.V.** benefit from the rapid growth of e-commerce around the world. These companies overlap with the Electronic Payments theme but are primarily driven by e-commerce spending, which is why they are categorized here. **Alibaba Group Holding Limited** operates the largest online shopping platforms in China and owns a stake in Ant Financial, China's dominant payments platform.

3. **Enterprise Software:** We have several investments in software companies that help businesses manage their financial processes and operations. **Fidelity National Information Services, Inc.** and **Jack Henry & Associates, Inc.** provide core processing software that enable banks to manage account and transaction data. **Intuit Inc.** provides accounting and payroll solutions for small businesses as well as tax software for consumers and tax professionals. **Guidewire Software, Inc.** is a leading provider of core systems software to the global P&C insurance industry.
4. **Information Services:** Financial institutions increasingly rely on information and insights to improve loan pricing, insurance underwriting, marketing efficiency, and investment returns. We have several investments in companies that provide critical data to help financial institutions optimize performance and fulfill regulatory requirements. These companies typically have proprietary data and analytical tools that become part of users' daily workflows, leading to high customer retention, recurring revenue, and pricing power. Rating agencies **S&P Global Inc.** and **Moody's Corporation** provide credit ratings that are deeply embedded into the financial ecosystem. **TransUnion** provides the data and **Fair Isaac Corporation** provides the rating methodology used by lenders and other businesses for consumer credit decisions. The insurance industry relies on **Verisk Analytics, Inc.** for underwriting data, and the commercial real estate industry relies on **CoStar Group, Inc.** for property data.
5. **Digital IT Services:** Many banks, insurers, and other businesses have decades-old technology that is difficult to maintain and improve. Disruption from new tech-enabled entrants is forcing incumbents to either upgrade their legacy systems or risk losing customers. **EPAM Systems, Inc.**, **Endava plc**, and **Accenture plc** provide consulting and outsourced software development for business customers to help them modernize their systems and navigate complex digital transformations.
6. **Capital Markets:** Investing decisions and trade execution increasingly rely on digital solutions to improve efficiency and reduce costs. **MarketAxess Holdings Inc.** and **Tradeweb Markets Inc.** operate the leading electronic trading platforms for fixed income markets and benefit from the secular shift from voice-based trading to electronic trading. **CME Group, Inc.** is the world's largest and most diversified derivatives marketplace whose electronic exchanges are used by traders around the world to manage risk.
7. **Digitally-Enabled Financials:** Certain financial institutions are using technology in particularly innovative ways to better serve their customers and operate more efficiently. **Kinsale Capital Group, Inc.** is a specialty insurance company that uses a proprietary technology platform that enables faster customer turnaround times and creates a meaningful cost advantage over the competition.

As of June 30, 2020, Information Services represented 28.6% of net assets, Electronic Payments represented 19.8%, E-commerce represented 14.2%, Enterprise Software represented 13.1%, Digital IT Services represented 11.8%, Capital Markets represented 5.3%, and Digitally-Enabled Financials represented 2.3%.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
PayPal Holdings, Inc.	2020	\$130.0	\$204.6	\$618.5	5.8%
Adyen N.V.	2020	24.9	44.2	582.2	5.4
Visa, Inc.	2020	376.2	375.4	554.4	5.2
Mastercard Incorporated	2020	306.1	296.8	553.0	5.1
Fidelity National Information Services, Inc.	2020	86.0	82.8	523.0	4.9
S&P Global Inc.	2020	67.9	79.4	487.6	4.5
EPAM Systems, Inc.	2020	11.9	14.0	478.8	4.5
Endava plc	2020	2.6	2.6	478.2	4.4
MSCI, Inc.	2020	22.5	27.9	434.0	4.0
Moody's Corporation	2020	45.6	51.5	412.1	3.8

Table V.
Fund investments in GICS sub-industries as of June 30, 2020

	Percent of Net Assets
Data Processing & Outsourced Services	37.2%
Financial Exchanges & Data	16.9
IT Consulting & Other Services	11.8
Application Software	10.4
Research & Consulting Services	10.2
Internet & Direct Marketing Retail	3.0
Interactive Media & Services	2.5
Property & Casualty Insurance	2.3
Investment Banking & Brokerage	0.8
Cash and Cash Equivalents	4.9
	100.0%

RECENT ACTIVITY

Table VI.
Top net purchases for the quarter ended June 30, 2020

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
ZoomInfo Technologies Inc.	\$ 19.9	\$157.4
Intuit Inc.	77.2	148.0
Alibaba Group Holding Limited	578.7	121.1
Accenture plc	136.8	88.3
Shift4 Payments, Inc.	1.6	87.2

Baron FinTech Fund

We established two new positions, **ZoomInfo Technologies Inc.** and **Shift4 Payments, Inc.**, both of which are founder-led businesses that went public during the quarter. We added to several other positions with the largest contributions to **Intuit Inc.**, **Alibaba Group Holding Limited**, and **Accenture plc**.

The Fund initiated a position in ZoomInfo, which completed its IPO during the quarter. ZoomInfo provides information on organizations and professionals that is used primarily by sales professionals to identify and target sales prospects. The company's cloud-based platform helps customers uncover new sales leads, shorten sales cycles, and increase win rates. ZoomInfo has over 200,000 paying users across more than 15,000 customer companies. We believe this represents only a 2% share of a \$24 billion global addressable market.

ZoomInfo employs a research team of over 400 analysts and leverages machine learning to continuously collect and verify data from millions of public and proprietary sources. Much of this data comes from a contributory network that captures contact data from ZoomInfo users, which is fed back into the database to increase the quality and breadth of the data for all users. We believe this approach has enabled ZoomInfo to create the most accurate and comprehensive database of corporate emails and phone numbers spanning 14 million companies and over 120 million professionals.

We believe the company has a long runway for growth due to its large addressable market, strong competitive position, and secular trends favoring data-driven marketing. In addition, the company has the potential to introduce new products targeting areas beyond sales, such as recruiting, market research, and investing. Its revenues are virtually all subscription-based, and it has an attractive sales model resulting in exceptionally high returns on its customer acquisition costs. We expect the company to continue growing revenues at approximately 40% while maintaining free cash flow margins of approximately 40%.

The Fund also initiated a position in Shift4, which completed its IPO this quarter. Shift4 provides payment processing and technology solutions that enable merchants to accept card-based payments. The company serves over 200,000 merchants of all sizes, including all the major ski resorts in the U.S. and half of the hotels on the Vegas Strip. Shift4's payment processing services are integrated with the business management software that merchants use to run their operations. The company markets and sells its solutions through partnerships with over 7,000 independent software vendors and value-added resellers. CEO Jared Isaacman founded the company in 1999 when he was only 16 years old.

Like most payment processing companies, Shift4 benefits from the ongoing shift from cash to electronic payments and enjoys a mostly recurring revenue business model with healthy margins and low capital intensity. The company has an idiosyncratic growth opportunity to migrate its gateway-only merchants (which collectively represent almost 90% of total payment volume) to a full end-to-end payments offering, resulting in a 400% gross profit increase and higher retention. Shift4 participates in the growth of its existing merchant base and should add new merchants through its diversified network of software partners. The company also has a successful

track record of M&A, which we believe will continue, particularly given its modest financial leverage profile after the IPO.

While the COVID-19 pandemic will slow the business this year, Shift4 management targets 12% to 15% revenue growth and EBITDA margin expansion to 40% plus over the long term. We are encouraged by founder/CEO Jared Isaacman's long tenure and his vote of confidence in the business through his personal investment of \$100 million in the IPO.

Table VII.
Top net sales for the quarter ended June 30, 2020

	Amount Sold (thousands)
Grid Dynamics Holdings, Inc.	\$98.5
Mastercard Incorporated	38.6
Houlihan Lokey, Inc.	11.3

We exited a small position in **Grid Dynamics Holdings, Inc.** due to concerns about the company's exposure to retailers, which have been hit hard by the COVID-19 pandemic. We modestly trimmed **Mastercard Incorporated** and **Houlihan Lokey, Inc.** following recent share price strength to raise capital to allocate elsewhere in the Fund.

OUTLOOK

The economic outlook remains as cloudy as ever. The COVID-19 health crisis continues with daily cases and deaths rising nationwide. While down from the April peak, the national unemployment rate remains troublingly high at 11%. U.S. elections later this year could have significant impacts on tax policy, fiscal spending, and regulatory priorities.

While being mindful of the economic environment, we focus on understanding the prospects for individual businesses rather than the broader economy. Effects from the pandemic and economic downturn will likely help certain companies and harm others. Our independent research is focused on identifying fintech companies with long runways for growth, sustainable competitive advantages, exceptional management teams, and attractive valuations. We believe the fintech universe is a fruitful area to find such companies, and we are optimistic that our approach will lead to strong performance for our portfolio.

Thank you for investing in Baron FinTech Fund. We are diligently working to identify good investment ideas that we expect will generate attractive returns. I am an investor in the Fund, alongside you.

Sincerely,

Josh Saltman
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contains 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: In addition to general market conditions, the value of the Fund will be affected by investments in fin tech companies which are subject to a number of risks, including the adverse impact of legislative actions and government regulations. The Fund is non-diversified, which means it may have a greater percentage of its assets in a single issuer than a diversified fund. The Fund invests in small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. 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 manager 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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