

DEAR BARON FINTECH FUND SHAREHOLDER:

PERFORMANCE

In the quarter ended September 30, 2020, Baron FinTech Fund (the "Fund") advanced 12.12% (Institutional Shares) compared with an 8.93% gain for the S&P 500 Index (the "Benchmark") and a 10.87% gain for the FactSet Global FinTech Index. Year-to-date and since inception (December 31, 2019), the Fund increased 29.50% (Institutional Shares) compared with a 5.57% gain for the Benchmark and an 11.07% gain for the FactSet Global FinTech Index.

Table I.  
Performance  
For periods ended September 30, 2020

	Baron FinTech Fund Retail Shares <sup>1,2</sup>	Baron FinTech Fund Institutional Shares <sup>1,2</sup>	S&P 500 Index <sup>1</sup>	FactSet Global FinTech Index <sup>1</sup>
Three Months <sup>3</sup>	12.04%	12.12%	8.93%	10.87%
Nine Months and Since Inception (December 31, 2019) <sup>3</sup>	29.30%	29.50%	5.57%	11.07%

The Fund outperformed the Benchmark by 3.19% during the quarter due to favorable stock selection and relative sector and sub-industry weights. The Fund's investments in Information Technology (IT) and Financials contributed the most to relative results. All seven of the Fund's investment themes had positive returns during the quarter, with relative outperformance from E-commerce, Tech-Enabled Financials, and Digital IT Services.

E-commerce continues to be a major theme for the Fund and was the top contributor to relative performance. Widespread store closures and social distancing caused consumers to shift more of their spending online. The U.S. Department of Commerce reported a 44% increase in e-commerce sales in the second quarter compared to a 9% drop in store-based sales. The penetration of e-commerce as a percentage of retail sales outpaced prior estimates by three-to-five years. This rapid change in consumer behavior



JOSH SALTMAN

PORTFOLIO MANAGER

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

helped our investments in **Adyen N.V.**, **Alibaba Group Holding Limited**, and **PayPal Holdings, Inc.** Even in regions that have relaxed some of their social distancing measures and where consumers are returning to more normal activities, e-commerce penetration is still much higher than its pre-pandemic levels. As consumers become accustomed to the convenience of online shopping and as merchants build the necessary infrastructure to sell online, we believe strong growth in e-commerce sales will persist.

Strength in Tech-Enabled Financials came from specialty insurer **Kinsale Capital Group, Inc.**, whose shares were up after reporting excellent quarterly results with 41% premium growth and 48% earnings growth. Insurance market conditions remained favorable as competitors reduced capacity and increased premium rates after years of underpricing risk. Management expects positive trends to persist and does not anticipate any material impact to growth or profitability related to the pandemic.

*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, 2031, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit [www.BaronFunds.com](http://www.BaronFunds.com) or call 1-800-99BARON.*

The Fund's 3-month historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

<sup>1</sup> 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.  
<sup>2</sup> 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.  
<sup>3</sup> Not annualized.



# Baron FinTech Fund

Digital IT Services companies **Endava plc** and **EPAM Systems, Inc.** also performed well after reporting solid quarterly results, highlighted by revenue and earnings growth in the mid- to high-teens. The COVID-19 pandemic caused a slowdown in growth for both companies as smaller customers pulled back on spending, but activity has since stabilized and is now improving. Customer demand has been far more resilient than feared as companies recognize the need to further invest in digital transformation initiatives to remain competitive. Endava and EPAM have both ramped up hiring to meet this rebounding demand.

The Fund's investments in initial public offerings also meaningfully contributed to performance. **Duck Creek Technologies, Inc.**, **Nuvei Technologies Corp.**, and **BigCommerce Holdings, Inc.** significantly outperformed and collectively contributed 2.65% to this quarter's performance. Our other IPO investments, **nCino Inc.** and **Rocket Companies, Inc.**, also appreciated but were smaller positions and less meaningful to overall performance.

Investments in Capital Markets, Information Services, and Electronic Payments underperformed in the quarter. Performance in Capital Markets was hindered by modest share price declines from electronic trading platforms **MarketAxess Holdings Inc.** and **Tradeweb Markets Inc.** as market volatility waned. Weakness in Information Services was driven by marketing solutions provider **ZoomInfo Technologies Inc.** due to an uncertain client spending environment. Within Electronic Payments, **Network International Holdings Ltd.** detracted from performance as the pandemic caused a rapid drop in tourism and consumer spending in its Middle Eastern markets.

Our strategy is to identify competitively advantaged growth companies that we can own for years. We focus on businesses with long runways for growth, sustainable competitive advantages, strong management teams, and reasonable valuations. We conduct independent, fundamental research and take a long-term perspective.

We believe the FinTech sector will offer attractive investment opportunities over the next decade and beyond. FinTech refers to the intersection of financial services and technology, where a tremendous amount of innovation is taking place. This includes both technology companies providing software or services to facilitate financial transactions and financial services companies using technology in a significant way to better serve their customers. FinTech companies serve large addressable markets with the financial sector representing 20% of the U.S. economy and spending more on technology than any other industry. FinTech companies benefit from numerous secular growth trends (e.g., electronic payments, e-commerce, big data), many of which are underpinned by the digitization of the global economy.

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

	Percent Impact
Duck Creek Technologies, Inc.	1.47%
Endava plc	1.43
Adyen N.V.	1.43
EPAM Systems, Inc.	1.22
Alibaba Group Holding Limited	1.07

**Duck Creek Technologies, Inc.** is a leading provider of core systems software for the property & casualty ("P&C") insurance industry. P&C insurance carriers are in the early stages of upgrading core systems to cloud-based solutions, resulting in a long runway for growth in a \$15 billion global market. Duck Creek was the first insurance software company to shift its product architecture and go-to-market efforts to the cloud, presenting an opportunity for the company to leverage its first-mover advantage to gain market share. The stock outperformed after the company went public in August and appreciated significantly on its first day of trading.

**Endava plc** provides outsourced software development to business customers. Shares increased after the company reported good quarterly financial results with 18% revenue growth and 15% EPS growth. The pandemic caused a slowdown in growth as smaller customers pulled back, but demand has since rebounded and new bookings were strong. Management is confident that revenue growth will soon accelerate back to over 20%. We remain invested because we believe Endava will continue gaining share in a large global market for IT services.

Shares of Dutch digital payment company **Adyen N.V.** increased after reporting 27% revenue growth in the first half of the year and significant investments in headcount and marketing to sustain its high growth rate. Adyen has been less impacted by pandemic-related store closures and a slowdown in consumer spending than other payment companies. We believe Adyen will be a prime beneficiary of the secular growth of e-commerce over the long term.

**EPAM Systems, Inc.** provides outsourced software development to business customers. Shares appreciated after the company reported good quarterly financial results with 15% revenue growth and 14% EPS growth. The COVID-19 pandemic caused a slowdown in growth as smaller customers pulled back, but demand has stabilized and is now improving. The company is ramping up hiring to meet this rebounding demand. We remain investors due to EPAM's long runway for growth and strong execution.

**Alibaba Group Holding Limited** is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of soon-to-be publicly traded Ant Financial, which operates Alipay, China's largest online payment provider. Shares of Alibaba were up on a sustained recovery in e-commerce driven by an increase in purchase frequency and order size. We believe Alibaba should benefit from a highly profitable core business, rapid growth in the cloud business, and an inflection in the Cainiao logistics and New Retail segments.

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

	Percent Impact
ZoomInfo Technologies Inc.	-0.47%
Network International Holdings Ltd.	-0.25
Jack Henry & Associates, Inc.	-0.25
Guidewire Software, Inc.	-0.19
Repay Holdings Corporation	-0.13

**ZoomInfo Technologies Inc.** operates a cloud-based B2B platform that provides sales and marketing teams with comprehensive intelligence on 14 million companies and 120 million professionals, enabling shorter sales cycles and higher win rates. Shares were down due to uncertainty about client spending, but we believe the demand environment is now improving. We think ZoomInfo is well positioned given its unique contributory network for data collection and validation, patented data extraction technologies, and proprietary go-to-market strategy.

**Network International Holdings Ltd.** is a leading payment processor in the Middle East and Africa. Weakness in the share price was driven by first half financial results that were negatively impacted by the pandemic. Revenue fell 12% and EBITDA fell 31% due to a drop in tourism and consumer spending. The company also announced an acquisition that received a mixed reaction from investors and required an equity raise. We remain invested because we believe the pandemic's impact on performance is temporary and the company should benefit from increasing adoption of electronic payments.

**Jack Henry & Associates, Inc.** is a leading provider of technology solutions for community banks and credit unions. The company booked record sales in the most recent quarter with seven competitive core takeaways and nine deals to move existing in-house customers to a private cloud environment. However, the stock fell as the pandemic delayed some project implementations and deconversion fees were guided lower. We believe these issues are temporary and that Jack Henry will continue gaining share as financial institutions invest more in technology.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** detracted from performance. The company's transition to the cloud has caused short-term financial headwinds and slowed the cadence of new license sales. We retain conviction. We believe new products and cloud delivery will triple Guidewire's total addressable market. Over time, we think Guidewire will become the key software vendor for the global P&C insurance industry, capturing 30% to 50% of its \$15 billion to \$30 billion market and generating margins above 40%.

Payment processor **Repay Holdings Corporation** detracted from performance. The stock took a breather after strong performance last quarter and the sale of shares by a pre-IPO investor. We retain conviction. The company reported robust quarterly results, with 63% growth in card payment volume and 21% growth in gross profit on an organic basis. The loan repayment business remained resilient, and demand is growing for electronic payment capabilities. In addition to benefiting from increasing adoption of electronic payments, Repay should generate additional growth through M&A.

## PORTFOLIO STRUCTURE

The Fund invests in FinTech companies across all market capitalizations and geographies. 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 September 30, 2020, the Fund held 40 positions. International stocks represented 18.2% of the Fund's net assets. The Fund's 10 largest holdings represented 44.6% of net assets, and the 20 largest holdings represented 74.0% of net assets. The market capitalization range of the investments in the Fund was \$457 million to \$795 billion with a weighted average market capitalization of \$107 billion.

We segment the Fund's 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.

1. **Electronic Payments:** The world is increasingly going cashless, but \$17 trillion of consumer payments each year are still made with cash or check, which we believe creates a long runway for growth in electronic payments. **Visa, Inc.** and **Mastercard Incorporated** operate the leading global networks that facilitate electronic payments for consumers, merchants, and banks. We own several companies that enable merchants to accept electronic payments, including **Square,**

**Inc., Repay Holdings Corporation, Global Payments Inc., Shift4 Payments, Inc., and Bill.com Holdings, Inc.**

2. **E-commerce:** We have several investments that benefit from the secular growth of e-commerce. Online sales are growing much faster than offline 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., Adyen N.V., and Nuvei Technologies Corp.** benefit from the rapid growth of e-commerce around the world. **Alibaba Group Holding Limited** operates the largest online shopping platforms in China and owns a stake in Ant Financial, China's dominant payments and consumer finance 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., Jack Henry & Associates, Inc., and nCino Inc.** provide software that enables 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. and Duck Creek Technologies, Inc.** are leading providers 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, resulting in high client 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 businesses 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. **Tech-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 an insurance company and **Rocket Companies, Inc.** is a mortgage company, and each use proprietary technology to enable faster customer turnaround times and create meaningful cost advantages over the competition.

# Baron FinTech Fund

As of September 30, 2020, Information Services represented 25.8% of net assets, Electronic Payments represented 19.1%, E-commerce represented 16.6%, Enterprise Software represented 15.5%, Digital IT Services represented 12.2%, Capital Markets represented 4.7%, and Tech-Enabled Financials represented 2.8%.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Endava plc	2020	\$ 2.6	\$ 3.5	\$770.43	5.3%
PayPal Holdings, Inc.	2020	130.0	231.2	748.71	5.1
Adyen N.V.	2020	24.9	56.0	737.92	5.1
Mastercard Incorporated	2020	306.1	338.5	656.05	4.5
S&P Global Inc.	2020	67.9	86.9	649.08	4.5
EPAM Systems, Inc.	2020	11.9	18.1	627.16	4.3
Visa, Inc.	2020	376.2	440.5	609.91	4.2
Intuit Inc.	2020	69.3	85.4	580.65	4.0
Fidelity National Information Services, Inc.	2020	86.0	91.2	571.17	3.9
MSCI, Inc.	2020	22.5	29.8	535.17	3.7

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

	Percent of Net Assets
Data Processing & Outsourced Services	37.5%
Financial Exchanges & Data	15.4
Application Software	13.7
IT Consulting & Other Services	12.2
Research & Consulting Services	9.2
Internet & Direct Marketing Retail	3.6
Property & Casualty Insurance	2.1
Interactive Media & Services	1.6
Unclassified	0.8
Investment Banking & Brokerage	0.8
Thrifts & Mortgage Finance	0.7
Cash and Cash Equivalents	2.4
	100.0%

## RECENT ACTIVITY

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

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Square, Inc.	\$72.1	\$482.0
Nuvei Technologies Corp.	5.5	319.3
Duck Creek Technologies, Inc.	5.9	189.1
Guidewire Software, Inc.	8.7	169.2
Intuit Inc.	85.4	160.8

This was a relatively busy quarter with seven new positions, five of which came from initial public offerings. IPOs are a major source of new investment ideas for us, but the timing of new offerings is episodic. We believe our reputation as knowledgeable, long-term investors provides us with privileged access to new company offerings and serves as a major competitive advantage.

We initiated a new position in **Square, Inc.**, a provider of commerce solutions for merchants and financial services for consumers. The company enables sellers to accept card payments and provides other software solutions to help them run their businesses. In addition, Cash App is a digital service that provides an easy way for consumers to send, spend, and invest money. We have long admired the company's product innovation and rapid growth (50% CAGR in gross profit over the last five years). In the early days of the pandemic, we were concerned about the stock given Square's exposure to in-store payments at small businesses. However, Square continues to demonstrate its technology differentiation through share gains at the physical point of sale. The company is helping sellers adapt to the current environment by making it easier for them to develop an online presence, with e-commerce now representing a quarter of the business. Cash App has emerged as the leading digital challenger to traditional banks with 30 million active customers. Through its P2P payment network, we believe Cash App has the lowest customer acquisition cost of any of the challenger banks and is adding more services to drive higher user engagement and monetization. With an admired brand, culture of innovation, and under 3% penetration of an over \$160 billion revenue opportunity, we believe Square has a long runway for growth.

We invested in **Nuvei Technologies Corp.** when it went public in September. Nuvei is a Canadian-based payment processor that serves online merchants around the world. Through a single integration, Nuvei makes it simple for merchants and partners to accept payments in 200 markets, 150 currencies, and 450 payment methods. The company serves over 50,000 mostly mid-sized merchants totaling \$35 billion of payment volume. Nuvei differentiates itself through its expertise in highly regulated verticals and by providing a comprehensive payment solution across countries and commerce channels that removes the need for multiple vendors. Most of Nuvei's business comes from e-commerce, which is the fastest growing and most lucrative area of payment processing. Global online purchase volume is expected to grow 13% annually and exceed \$6 trillion by 2024. We expect Nuvei to grow faster than the e-commerce market by increasing wallet share with existing customers, cross-selling new products, winning new customers, and expanding its geographic footprint. The company should benefit from the ongoing legalization of online gaming and sports betting worldwide due to its first-mover advantage in these complex verticals. Nuvei has a successful track record of M&A that we expect will continue now that leverage has been significantly reduced following the company's

IPO. Founder-CEO Phil Fayer is growth oriented and has significant skin in the game with his 27% ownership stake. We expect the company will meet or exceed management's financial targets of high-teens revenue growth and over 40% EBITDA margins.

Other new positions include **Duck Creek Technologies, Inc.**, **FinTech Acquisition Corp. III**, **Rocket Companies, Inc.**, **nCino Inc.**, and **BigCommerce Holdings, Inc.**

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

	Amount Sold (thousands)
BigCommerce Holdings, Inc.	\$46.3
i3 Verticals, Inc.	16.9
FleetCor Technologies, Inc.	10.3
Kinsale Capital Group, Inc.	4.0
Fidelity National Information Services, Inc.	3.0

We sold **BigCommerce Holdings, Inc.** after an unusually short holding period as the share price rose well beyond our estimate of fair value. We exited a small position in **i3 Verticals, Inc.** to fund our purchase of another small-cap payments company that competes in similar market segments but has better growth prospects. We trimmed **FleetCor Technologies, Inc.**, **Kinsale Capital Group, Inc.**, and **Fidelity National Information Services, Inc.** to raise capital to allocate elsewhere in the Fund.

## OUTLOOK

The COVID-19 pandemic has significantly impacted our way of life and the companies in which we invest. Some privileged companies actually benefited from lockdowns and social distancing, such as e-commerce and video conferencing companies. Most companies experienced a slowdown in sales that will likely prove temporary once the pandemic passes. And some unfortunate companies were permanently impaired or bankrupted. To survive and thrive over the long term, companies must continue to invest in technology to operate more efficiently, reach customers through digital channels, and analyze data to better understand customer needs. We believe

this continuous need for technology investment should benefit the Fund's FinTech holdings.

Many of the companies in which the Fund invests have been making significant investments in their businesses during the pandemic. **Adyen N.V.** accelerated its hiring pace and increased employee headcount by 23% in the first half of the year. **PayPal Holdings, Inc.** will invest an incremental \$300 million in marketing and promotions over the rest of the year to accelerate its growth initiatives. Despite a pause in some customer projects and a drop in its utilization rate, **Endava plc** kept hiring during the pandemic so that it's now well-positioned to serve rebounding demand. **TransUnion** continues to make progress on Project Rise, its multi-year technology investment to streamline processes, increase automation, and adopt a hybrid public-private cloud approach globally. **S&P Global Inc.** is migrating customers to a new platform and investing in new products in its Market Intelligence segment. These investments incur upfront costs that pressure margins today but should lead to higher earnings over time. As long-term shareholders, we enthusiastically support management teams like these that make high-return investments in their businesses to drive faster growth and improve their competitive advantages.

We are a few weeks away from the U.S. elections. We don't expect the election results to have a material impact on the Fund's performance. We can envision potential positives and negatives from the various outcomes relating to corporate tax rates, fiscal stimulus spending, and federal regulations. However, we don't think the Fund's holdings will be disproportionately affected under any election scenario.

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](http://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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