Dear Baron Health Care Fund Shareholder:

Performance

In the quarter ended December 31, 2020, Baron Health Care Fund (the "Fund") advanced 17.09% (Institutional Shares), compared with the 10.08% gain for the Russell 3000 Health Care Index (the "Benchmark") and the 12.15% gain for the S&P 500 Index. For the full-year 2020, the Fund increased 47.72% (Institutional Shares) compared with the 19.34% increase for the Benchmark and the 18.40% gain for the S&P 500 Index. Since inception (April 30, 2018), the Fund increased 27.43% (Institutional Shares) on an annualized basis compared with the 17.23% gain for the Benchmark and the 16.25% gain for the S&P 500 Index.

Table I.
Performance
For periods ended December 31, 2020

	Baron Health Care Fund Retail Shares[1,2]	Baron Health Care Fund Institutional Shares[1,2]	Russell 3000 Health Care Index[1]	S&P 500 Index[1]
Three Months[3]	17.01%	17.09%	10.08%	12.15%
One Year	47.40%	47.72%	19.34%	18.40%
Since Inception (April 30, 2018)	27.10%	27.43%	17.23%	16.25%

The Fund meaningfully outperformed the Russell 3000 Health Care Index by 701 basis points during the quarter, primarily due to favorable stock selection. The Fund also benefited from exposure to smaller-cap stocks, which significantly outperformed their larger-cap counterparts in the sharp market advance during the quarter. Investments in life sciences tools & services, biotechnology, and health care technology contributed the most to relative performance. Stock selection in life sciences tools & services accounted for nearly two-thirds of the Fund's outperformance, driven by long-read DNA sequencing systems provider **Pacific Biosciences of California, Inc.** The company was the top contributor due to increasing excitement about the potential for its platform as it lowers sequencing costs and seeks to move beyond its current commercial niche. **Seer, Inc.**, which develops innovative solutions that act as a gateway to the proteome (the collection of proteins in a sample), also performed well after the company's December IPO was well received by investors. Higher exposure to life sciences tools & services stocks, which were up nearly 15% in the index, also added value.

NEAL KAUFMAN
PORTFOLIO MANAGER

Retail Shares: BHCFX
Institutional Shares: BHCHX
R6 Shares: BHCUX

Strength in biotechnology came from **Arrowhead Pharmaceuticals, Inc.**, a developer of RNAi therapeutics for a long list of diseases, and **BridgeBio Pharma, Inc.**, which operates a novel decentralized model of drug development focused on genetic medicine. The companies were among the three largest contributors to absolute performance after their stock prices each appreciated 79% in the period. Performance in the sub-industry was also bolstered by Chinese biotechnology company **Zai Lab Limited**, which is bringing a portfolio of in-licensed therapies from Western biopharmaceutical companies to the newly opened and fast-growing health care market in China. Zai's shares continued to move higher as investors believe the company is well positioned to become a leader in the delivery of drugs to the Chinese health care market.

The Fund's largest position in health care technology, **Schrodinger, Inc.**, added the most value. Schrodinger's shares rebounded following the announcement of a multi-year, multi-target agreement with Bristol-Myers Squibb Company. We believe the deal provides highly favorable economics and further validates the company's physics-based computational platform for drug discovery.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2019 was 2.80% and 2.39%, respectively, but the net annual expense ratio was 1.10% and 0.85% (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 or call 1-800-99BARON.

1 The **Russell 3000® Health Care Index** is an unmanaged index representative of companies involved in medical services or health care in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies as determined by total market capitalization. The **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. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group. The indexes are unmanaged. The 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 redemptions of Fund shares.

3 Not annualized.

Baron Health Care Fund

Cash exposure in a sharp up market and underperformance of investments in managed health care and pharmaceuticals detracted the most from relative results. Weakness in managed health care was related to the underperformance of for-profit health insurance company **Humana Inc.** The company's shares were flat for the quarter due to the overhang of health care policy uncertainty as investors waited for the outcome of the Georgia Senate runoff which determined the final balance of power in the Senate. Negative stock selection in pharmaceuticals, coming from **AstraZeneca PLC** and **Sanofi**, was mostly offset by the Fund's meaningfully lower exposure to this lagging sub-industry. AstraZeneca was the second largest detractor given a setback in the company's vaccine timeline, while Sanofi's shares pulled back as the company's turnaround story is still in process.

Our strategy is to identify competitively advantaged growth companies that we can own for years. Similar to the other Baron Funds, we remain focused on finding businesses that we believe have open-ended secular growth opportunities, durable competitive advantages, and strong management teams. We conduct independent research and take a long-term perspective. We are particularly focused on businesses that solve problems in health care, whether by reducing costs, enhancing efficiency and/or improving patient outcomes.

We continue to think the Health Care sector will offer attractive investment opportunities over the next decade and beyond. Health Care is one of the largest and most complex sectors in the U.S. economy, accounting for approximately 18% of GDP and encompassing a diverse array of sub-industries. Health Care is also a dynamic industry undergoing changes driven by legislation, regulation, and advances in science and technology. We think navigating these changes requires investment experience and sector expertise, which makes the Health Care sector particularly well suited for active management.

Table II.
Top contributors to performance for the quarter ended December 31, 2020

	Percent Impact
Pacific Biosciences of California, Inc.	4.43%
Arrowhead Pharmaceuticals, Inc.	1.77
BridgeBio Pharma, Inc.	1.26
Schrodinger, Inc.	1.18
UnitedHealth Group Incorporated	0.95

Pacific Biosciences of California, Inc. provides long-read DNA sequencing systems to help scientists conduct genetic analysis. Shares performed well for the quarter. We believe there is increasing excitement about the potential for its platform as it lowers sequencing costs and seeks to move beyond its current commercial niche. Recently appointed CEO Christian Henry previously served as CFO and Chief Commercial Officer at Illumina, Inc., and we think he is well-qualified to commercially execute on Pacific Biosciences' differentiated long-read platform.

Arrowhead Pharmaceuticals, Inc. is a biotechnology company developing RNAi therapeutics for a long list of diseases. Shares rose given a multitude of upcoming data readouts, a large financial deal with Takeda, and the prospect of increasing RNAi applications from just the liver to other tissue types (i.e., other diseases). We retain high conviction in Arrowhead and expect it to become a large multinational pharmaceutical company over time.

BridgeBio Pharma, Inc. is a diversified biotechnology company running a novel decentralized model of drug development focused on genetic medicine. During the period held, shares increased on news that GlaxoSmithKline had floated a $4.6 billion takeover offer for Eidos Therapeutics, of which BridgeBio owns 60%. We retain conviction in BridgeBio based on four upcoming critical data readouts that we think will help drive share performance.

Schrodinger, Inc. offers a suite of software solutions for drug design and is concomitantly developing drugs on its own. As one of the best performing stocks of 2020's IPO class, Schrodinger has offered continual alpha as the broader investment community develops increased awareness of the uniqueness of its business, which has been accelerated by the COVID-19 environment. Competitor data sets providing promising clinical read-throughs to some of Schrodinger's assets also helped drive positive share performance.

UnitedHealth Group Incorporated is the largest insurer in the U.S. and a leading provider of health care, IT/analytics, and pharmacy benefit services. Shares rose on continued strong financial results. In-line and likely conservative 2021 guidance that incorporates a return to more normalized, pre-pandemic utilization levels was well received by investors as was the company's reiteration of its long-term targets of 6%-9% top-line and 13%-16% EPS growth. We view UnitedHealth as a core holding that allows us to participate in the strong secular growth of the health care industry.

Table III.
Top detractors from performance for the quarter ended December 31, 2020

	Percent Impact
Vertex Pharmaceuticals Incorporated	–0.36%
AstraZeneca PLC	–0.27
DexCom, Inc.	–0.23
Moderna, Inc.	–0.17
Silk Road Medical, Inc.	–0.16

Vertex Pharmaceutical Incorporated is a pharmaceutical company best known for its commercial products targeting cystic fibrosis. Share weakness in the quarter was due to the negative initial readout of a pipeline asset targeting alpha one antitrypsin disease, an inherited disorder that increases the chance of lung and liver disease. Given Vertex's best-in-class growth profile and cash flow and upcoming catalyst flow, we retain long-term conviction in the name.

AstraZeneca PLC is a multinational pharmaceutical company developing drugs across multiple therapeutic areas such as oncology and respiratory diseases. Shares were impacted by news of AstraZeneca's joint development with Oxford University of a viral-based COVID-19 vaccine. Given a mixed data set due to an unforeseen error in dosing that occurred in the Brazilian market, the vaccine timelines slipped, hurting share performance. Our investment thesis on AstraZeneca is not dependent on COVID-19 but rather its best-in-class large-cap growth profile, and we retain conviction.

DexCom, Inc. sells a continuous glucose monitoring device for people with diabetes. The stock fell due to concerns about competition from Abbott Laboratories, which received regulatory approval to market its third generation Libre device in Europe. We continue to have conviction in DexCom based on the company's large addressable under-penetrated market and new product pipeline.

Moderna, Inc. is a leader in the emerging field of mRNA-based vaccines and therapeutics. Shares pulled back from highs on likely profit taking, but we are looking past short-term fluctuations to focus on long-term potential. The pandemic has been a strong proof point of Moderna's platform, with a COVID-19 vaccine coming to market in less than a year versus traditional vaccines that can take a decade. With this success under its belt, we think Moderna has potential to disrupt the entire biopharma space, from infectious disease vaccines to oncology and rare disease treatment.

Silk Road Medical, Inc. offers a new approach for treatment of carotid artery disease. After a strong third quarter, shares detracted from performance on likely profit taking. We continue to believe Silk Road has an opportunity to change the standard of care for treatment of carotid artery disease with its innovative medical technology.

Portfolio Structure

We build the portfolio from the bottom up, one stock at a time, using the Baron investment approach. We do not try to mimic an index, and we expect the Fund to look very different from the Benchmark. As of December 31, 2020, the Fund's active share was 71.6%. The Fund may invest in stocks of any market capitalization and may hold both domestic and international stocks. As of December 31, 2020, the Fund held 54 positions. This compares with 612 positions in the Benchmark. International stocks represented 14.0% of the Fund's net assets. The Fund's 10 largest holdings represented 38.1% of net assets. Compared with the Benchmark, the Fund was overweight in life sciences tools & services, biotechnology, and health care technology, and underweight in pharmaceuticals and health care equipment. The Fund includes a mix of stocks ranging from large, stable growth companies to small, pre-commercial biotechnology companies. The market cap range of the investments in the Fund was $1.5 billion to $333 billion with a weighted average market cap of $67.8 billion. This compared with the Benchmark's weighted average market cap of $132.0 billion.

We discuss below some examples of investment themes that we are investing in. We do not intend this list to be exhaustive. We own stocks in the portfolio that do not fit neatly into the themes below. We evaluate each stock on its own merits.

- Genomics: We have an investment in **Illumina, Inc.**, the market leader in DNA sequencing technology. With Illumina sequencers, scientists can sequence a human genome for less than $1,000 in less than one day. As a result, the applications for DNA sequencing are rapidly expanding. DNA sequencing is being used in cancer diagnosis and treatment, diagnosis of rare genetic diseases, non-invasive pre-natal testing, population genomics, and consumer genomics. Illumina announced the acquisition of Grail, a company developing a blood test for early cancer detection using DNA sequencing. We also have investments in other genomics companies, including: **Guardant Health, Inc.**, which offers a blood test for cancer therapy selection and is developing blood tests for cancer recurrence monitoring and early detection of cancer; **Adaptive Biotechnologies Corporation**, which offers ClonoSeq for detection and monitoring of minimal residual disease in blood cancers and is developing early disease detection tests and other products based on its immune system sequencing platform; **10X Genomics, Inc.**, whose technology enables life sciences researchers to conduct high throughput single cell and spatial genomic analysis using Illumina sequencers; and **Pacific Biosciences of California, Inc.**, which offers a differentiated long-read sequencing platform for genetic analysis.
- Innovative New Drugs: We have investments in companies developing innovative new drugs. **argenx SE** is using its unique antibody engineering platform based on the Llama immune system to develop drugs for severe autoimmune diseases and cancer. **Acceleron Pharma Inc.** is developing a novel new drug for pulmonary arterial hypertension which showed promising results in a Phase 2 clinical trial. **Arrowhead Pharmaceuticals, Inc**. is developing drugs that silence disease-causing genes and has a rich pipeline of drug targets for rare diseases, cardiometabolic disease, cancer and hepatitis B. **BridgeBio Pharma, Inc.** is developing a portfolio of breakthrough medicines for genetic diseases and cancers with genetic drivers.
- Technology-Enabled Drug Development: We have investments in companies that use technology to help speed drug development and make it more efficient. **Schrodinger, Inc.** offers a physics-based computational platform for drug discovery, enabling scientists to discover high-quality, novel molecules more rapidly, at lower cost and with a higher likelihood of success compared with traditional drug discovery methods. **Veeva Systems Inc.** provides cloud-based software for the life sciences industry that helps clients bring drugs to market faster and more efficiently. **Certara, Inc.** offers biosimulation software which biopharmaceutical companies use to predict how medicines behave in the human body. **AbCellera Biologics Inc.** has a full-stack, artificial intelligence-powered drug discovery platform that searches and analyzes the database of natural immune systems to find antibodies that can be developed as drugs.
- Minimally Invasive Surgery: Less invasive surgery is less traumatic for the patient, enabling a faster recovery and in many cases resulting in cost savings to the system. We have investments in: **Intuitive Surgical, Inc.**, the pioneer in robotic surgery; **Edwards Lifesciences Corp.**, a leader in transcatheter heart valve replacement; **Abbott Laboratories**, a leader in transcatheter mitral valve repair; **Teleflex Incorporated**, which offers a new minimally invasive treatment for benign prostatic hyperplasia, also known as enlarged prostate; and **Silk Road Medical, Inc.**, which offers a new minimally invasive approach for the treatment of carotid artery disease.
- Diabetes Management: Approximately 34 million Americans have diabetes and another 88 million have prediabetes. Diabetes was the seventh leading cause of death in the U.S. in 2017, and according to the American Diabetes Association, the direct medical costs and indirect expenditures attributable to diabetes in the U.S. were an estimated $327 billion in 2017. Worldwide, the prevalence of diabetes is staggering: over 400 million people globally have diabetes and the International Diabetes Federation estimates that by 2045, this number could reach 629 million people. We have investments in innovative medical technology companies which help patients better manage their diabetes: **DexCom, Inc.** offers a continuous glucose monitoring system which eliminates the need for fingersticks; **Insulet Corp.** offers a unique tubeless, disposable insulin pump; and **Abbott Laboratories** sells the FreeStyle Libre flash glucose monitoring system.
- Tools Providers to Life Sciences Companies: We believe several companies that provide products and services to life sciences companies are attractive because they can benefit from the growth in life sciences without the risk inherent in drug development. Our investments in the life sciences tools providers include **Thermo Fisher Scientific Inc.**, **Bio-Techne Corporation**, **West Pharmaceutical Services, Inc.**, and **Mettler-Toledo International, Inc.**, among others.

- **Medicare Advantage:** Every day, approximately 10,000 people in this country turn 65 and become eligible for Medicare. Individuals have a choice between enrolling in traditional fee-for-service Medicare ("Original Medicare") or a Medicare Advantage plan managed by a private sector health insurer. Medicare Advantage is growing rapidly because of its more attractive value proposition to Medicare beneficiaries. Medicare Advantage plans cover all the services that Original Medicare covers plus additional benefits such as vision, hearing, dental, and wellness (gym memberships). Some Medicare Advantage plans also cover transportation to doctor visits, over-the-counter drugs, adult-day care services, and assistance for daily living. Medicare Advantage plans also have annual out-of-pocket spend limits, which provides financial protection against the cost of catastrophic illness or accident. The Center for Medicare and Medicaid Services estimates that Medicare Advantage penetration will rise from 36% of all Medicare beneficiaries in 2020 to 50% in 2025. There is strong bipartisan political support for Medicare Advantage. We have investments in **UnitedHealth Group Incorporated** and **Humana Inc.**, two leading managed care organizations that we believe are well-positioned to benefit from enrollment growth in Medicare Advantage.
- **Animal Health:** We believe the animal health industry is attractive based on the trends toward greater pet ownership, increased spending on pets, increased consumption of animal protein, and increased focus on food safety. Further, compared with drug development for humans, the animal health industry is characterized by lower regulatory barriers, shorter and less costly R&D, less generic competition, and lower third-party reimbursement risks. We have investments in **Dechra Pharmaceuticals PLC** and **Zoetis Inc.**, both of which develop and sell medicines for pets and food producing animals; and **IDEXX Laboratories, Inc.**, the leading provider of diagnostic instruments and assays used for pet care in veterinarian offices.

Table IV.
Top 10 holdings as of December 31, 2020

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
UnitedHealth Group Incorporated	2018	$227.4	$332.7	$5.4	7.7%
Humana Inc.	2019	35.0	54.3	3.7	5.2
Acceleron Pharma Inc.	2018	1.6	7.7	2.6	3.7
Abbott Laboratories	2018	124.6	194.1	2.5	3.5
Thermo Fisher Scientific Inc.	2019	117.6	184.6	2.5	3.5
Vertex Pharmaceuticals Incorporated	2018	39.0	61.5	2.3	3.2
Pacific Biosciences of California, Inc.	2020	1.0	4.8	2.2	3.2
Arrowhead Pharmaceuticals, Inc.	2018	1.6	7.9	2.1	2.9
BridgeBio Pharma, Inc.	2020	4.8	8.7	1.8	2.6
argenx SE	2018	2.8	13.9	1.8	2.6

Table V.
Fund investments in GICS sub-industries as of December 31, 2020

	Percent of Net Assets
Biotechnology	25.5%
Health Care Equipment	19.2
Life Sciences Tools & Services	16.3
Managed Health Care	12.9
Pharmaceuticals	7.2
Health Care Technology	5.3
Specialized Reits	2.0
Health Care Services	1.2
Health Care Supplies	0.7
Cash and Cash Equivalents	9.7
	100.0%

Recent Activity

During the December 2020 quarter, we established 10 new positions and exited 4 positions. Below we discuss some of our top net purchases and sales.

Table VI.
Top net purchases for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Amount Purchased (millions)
UnitedHealth Group Incorporated	$332.7	$2.8
Humana Inc.	54.3	2.4
Vertex Pharmaceuticals Incorporated	61.5	1.4
Genmab A/S	26.7	1.3
Thermo Fisher Scientific Inc.	184.6	1.3

We initiated a position in **Genmab A/S**, a Denmark-based biotechnology company focused on the development and commercialization of differentiated antibody therapeutics for the treatment of cancer. Genmab proved its initial success with the drug Darzalex for multiple myeloma (partnered with Johnson & Johnson), a drug which has changed the treatment paradigm for multiple myeloma. Management anticipates recurring revenues from Darzalex and other existing products will grow 2.5 times over the next five years. Plus, Genmab has an expanding pipeline of highly sophisticated antibodies targeting both solid tumors and blood tumors with potential to drive even stronger revenue growth. We are excited about the Genmab investment as we view the company's proprietary technology and novel pipeline as best-in-class within the biotechnology industry.

Although outside of the top five purchases, we are excited about new addition BridgeBio Pharma, Inc., a biotechnology company developing a portfolio of breakthrough medicines for genetic diseases and cancers with genetic drivers. BridgeBio operates with a decentralized corporate structure in which each program is housed in its own subsidiary. Management believes this enables a team of experts who are economically incentivized at the program level to make key operational decisions, thereby making the development process more efficient. In addition, by focusing on drugs that target well-characterized genetic diseases at their source, the company increases its probability of success compared with other therapeutic categories. As evidence of the platform's ability to deliver, there are four late-stage trials and a small commercial opportunity expected to readout or launch in 2021, just six years after the company's founding. We expect the number of key value-creating pipeline candidates to keep increasing every year.

We added to **UnitedHealth Group Incorporated,** the nation's largest health care company with over $250 billion in estimated 2021 revenues. United has two divisions: UnitedHealthcare, a health benefits and insurance provider with a leading position in commercial, Medicare and Medicaid markets; and Optum, a technology-enabled health services business. Optum, a fast-growing and attractive health care business in its own right, has three segments: OptumHealth focuses on health care delivery, such as through its ambulatory care services business and over 50,000 affiliated or employed physicians; OptumInsight offers data, analytics, research, consulting, technology and managed services to help improve the quality of care and drive greater efficiency in the health care system; OptumRx provides a diversified array of pharmacy care services. The UnitedHealthcare division benefits from the expertise and services of the Optum division, utilizing Optum's capabilities to help coordinate and provide patient care, analyze cost trends, and lower overall health care costs. This creates a significant competitive advantage for the UnitedHealthcare division. United also uses new technology to improve health care. For example, in 2020 United launched Level2, a program that combines DexCom's continuous glucose monitoring technology with customized personal support to help improve the health of people living with Type 2 diabetes. Level2 has helped some people stabilize their blood sugar levels and even achieve Type 2 diabetes remission. Another element of the investment thesis is that United generates exceptionally strong free cash flow and has a solid balance sheet, which provides opportunity to create shareholder value through M&A and share repurchases. With multiple avenues to grow, United should be able to meet its long-term financial goal of generating mid-teens annual earnings growth over the next decade.

We added to **Humana Inc.**, the second largest Medicare Advantage player after UnitedHealth Group. As discussed earlier, we believe Medicare Advantage is an attractive market with enrollment growing in the high single digits driven by the aging population and a growing preference among seniors for the enhanced benefits offered by Medicare Advantage providers. With over 70% of its earnings coming from its Medicare Advantage business, Humana is the closest to a pure play Medicare Advantage business among the large managed care companies and should benefit from these secular tailwinds. Humana also has differentiated expertise in managing high-cost, high-risk patients and is well positioned to benefit from the ongoing shift to value-based care, the health care delivery model which rewards hospitals and physicians for better outcomes. We think Humana should be able to meet its long-term financial goal of generating low to mid-teens annual earnings growth over the long term.

We added to **Vertex Pharmaceuticals Incorporated** after the stock fell in reaction to the company's discontinuation of a clinical program for one of its pipeline drugs because of safety concerns. We believe the sell-off provided an opportunity to buy the stock at an attractive valuation. We believe the company is being valued based on the core cystic fibrosis franchise alone with little to no value reflected for the pipeline, which we think has potential to create additional value.

We added to **Thermo Fisher Scientific Inc.**, the leading global life sciences tools provider. Thermo is a "picks and shovels" company which offers a broad array of products and services (such as instruments, reagents, consumables, and manufacturing and other services) to pharmaceutical and biotechnology companies, hospitals and clinical diagnostic labs, universities, research institutions and government agencies, as well as environmental, industrial quality and process control settings. Thermo has benefited from sales of products and services related to COVID-19, such as diagnostic testing, personal protective equipment and pharmaceutical services, which we think demonstrates the company's broad capabilities and critical role in the life sciences industry. Although some of this revenue will taper off as the pandemic subsides, we think Thermo will continue to benefit from long-term secular tailwinds, including increased investments in life sciences, diagnostics, vaccine/therapeutics and health care broadly. We think Thermo should be able to generate at least mid-to-high single-digit annual organic revenue growth well into the future driven by positive end-market trends and market share gains. We also expect Thermo to continue to use its strong free cash flow and balance sheet to create shareholder value through M&A and share repurchases.

Table VII.
Top net sales for the quarter ended December 31, 2020

	Amount Sold (millions)
Roche Holding AG	$1.2
Pacific Biosciences of California, Inc.	1.1
Neurocrine Biosciences, Inc.	0.4
HealthEquity, Inc.	0.2
Applied Therapeutics, Inc.	0.1

We reduced our position in **Pacific Biosciences of California, Inc.** based on the stock's higher valuation after the stock appreciated significantly in a short period of time. We continue to believe new markets will become available for Pacific Biosciences as the cost of sequencing with its platform comes down, providing significant room for future growth.

We sold **Roche Holding AG** because of concerns about the impact of biosimilars on the company's revenues. We sold **Neurocrine Biosciences, Inc.** due to concerns about a slowdown in sales of its key product. We sold **HealthEquity, Inc.** to recognize a tax loss. We sold **Applied Therapeutics, Inc.** to reduce risk as we await more clinical data to support the investment thesis.

Outlook

We believe we are at the beginning of a transformational era for health care, marked by rapid advances in science and medical technology and new treatments and cures to diseases. What we just witnessed in 2020 with the development of safe and effective vaccines for COVID-19 is nothing short of amazing. In less than one year, **Moderna, Inc.** and **BioNTech SE** (in partnership with Pfizer Inc.) each took the genetic sequence of a novel coronavirus, developed a vaccine for human use, completed Phase 1, Phase 2, and a 30,000 participant Phase 3 placebo-controlled clinical trial, received FDA authorization, and commercially launched a novel vaccine. This contrasts with the traditional way of developing a vaccine, which in the past has taken up to 10 years. Going forward, we believe messenger RNA has now been validated as a fast, safe, and effective new technology, with potential to be applied more broadly in other modalities beyond prophylactic vaccines. There are many other examples of disruptive innovation across the Health Care sector, from early-stage cancer screening tests using simple blood draws to medicines that cure rare genetic diseases. In short, we think the long-term outlook for the Health Care sector is excellent.

In the near term, the outlook is also positive. In 2020, the FDA approved the second highest number of new drugs in history with 53 new drug approvals. Biotechnology funding in 2020 was up 76% year-over-year to $88.1 billion, beating prior records by a large margin. Medical device companies and health care services companies, which experienced a negative impact on procedure volumes during the pandemic, are likely to see a return to more normalized procedure volumes and revenue growth as the pandemic subsides. Capital markets activity is robust, with a flood of new and exciting companies coming public, some of which are in emerging areas, such as synthetic biology.

On the health care policy side, with the Presidential and Congressional elections finally over, there is potential for some changes, but we expect incremental changes, rather than radical changes. We believe the Biden administration will focus on strengthening the Affordable Care Act and expansion of Medicare and Medicaid, which would be positive for many companies in the sector. We also think the Biden administration will increase support for scientific research (an area where there is bipartisan support), adopt a more favorable immigration policy (many in the science and engineering workforce are foreign-born nationals), provide more support for higher education, and normalize trade relations with China, all of which we think will benefit the sector. On the other hand, there is potential for modestly higher corporate taxes, legislative or executive action on controlling drug prices, and introduction of a public option in health insurance markets, issues we are monitoring closely.

We remain optimistic about the long-term growth prospects for our holdings. We believe the companies in which the Fund invests are unique, competitively advantaged, well-managed growth companies. We continue to work hard to identify new ideas that meet our investment criteria.

I would like to thank my colleague Josh Riegelhaupt, Assistant Portfolio Manager of Baron Health Care Fund, for his invaluable contributions to the Fund.

Thank you for investing in Baron Health Care Fund. I remain an investor in the Fund, alongside you.

Sincerely,

Neal Kaufman
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 health care 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.

Active Share a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Health Care Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

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