DEAR BARON HEALTH CARE FUND SHAREHOLDER:

PERFORMANCE

In the quarter ended June 30, 2021, Baron Health Care Fund (the "Fund") advanced 11.43% (Institutional Shares), compared with the 8.16% gain for the Russell 3000 Health Care Index (the "Benchmark") and the 8.55% gain for the S&P 500 Index. Year-to-date, the Fund increased 12.08% compared with the 10.47% increase for the Benchmark and the 15.25% gain for the S&P 500 Index. Since inception (April 30, 2018), the Fund increased 27.14% on an annualized basis compared with the 17.98% gain for the Benchmark and the 18.73% gain for the S&P 500 Index.

Table I.
Performance
For periods ended June 30, 2021

	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]	11.35%	11.43%	8.16%	8.55%
Six Months[3]	11.95%	12.08%	10.47%	15.25%
One Year	46.14%	46.51%	29.49%	40.79%
Three Years	26.51%	26.81%	17.75%	18.67%
Since Inception (April 30, 2018)	26.82%	27.14%	17.98%	18.73%

During the quarter, the Fund outperformed the Benchmark by 327 basis points due to stock selection and, to a lesser extent, differences in sub-industry exposures.

Outperformance of investments in biotechnology, pharmaceuticals, health care supplies, and health care equipment added the most value. Favorable stock selection in biotechnology accounted for most of the outperformance in the quarter, driven by triple-digit gains from **BioNTech SE** and **Recursion Pharmaceuticals, Inc.** BioNTech was the largest contributor driven by additional strong clinical data on its COVID-19 vaccine and comparatively weaker data from competitors, while Recursion's shares were up sharply

NEAL KAUFMAN

PORTFOLIO MANAGER

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

after the company's IPO was well received by investors. Several other holdings also performed well in the sub-industry, such as **Zai Lab Limited**, **Arrowhead Pharmaceuticals, Inc.**, **Beam Therapeutics Inc.**, **Genmab A/S**, and **Denali Therapeutics Inc.** Within pharmaceuticals, outperformance of **Dechra Pharmaceuticals PLC** and meaningfully lower exposure to this lagging sub-industry bolstered relative results. Shares of veterinary pharmaceutical specialist Dechra increased on management's issuance of above-consensus revenue and earnings guidance for its fiscal year ended in June due to strong market fundamentals and lower selling, general, and administrative expenses as a result of the pandemic. Strength in health care supplies came from **West Pharmaceutical Services, Inc.**, a leading provider of components and systems for the packaging and delivery of injectable drugs. West's stock price was up after reporting excellent first quarter financial results. The company grew organically at a rate of 31%, and

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, 2020 was 1.73% and 1.45%, 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. 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 and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are 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 redemptions of Fund shares.

3 Not annualized.

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management materially raised revenue and earnings guidance. In addition to benefiting from increased sales of products used in COVID-19 vaccine packaging, West's core business performed exceptionally well, driven by customer demand for its high-value packaging products. The Fund's health care equipment holdings outperformed after appreciating double-digits as a group, with intravascular lithotripsy medical device manufacturer **ShockWave Medical, Inc**. and pressure sensing guidewire manufacturer **Opsens Inc.** leading the way. ShockWave's stock price rose after management increased sales guidance for 2021 based on the strong commercial launch of its device for severely calcified coronary artery disease. Opsens shares were up in anticipation of first-in-human data for the company's guidewire for transcatheter aortic valve replacement that can both deliver the valve and provide continuous pressure measurement, thereby enabling cardiologists to position and reposition the valve during the procedure.

Cash exposure in an up market and investments in life sciences tools & services detracted the most from relative performance. Stock-specific weakness in life sciences tools & services, owing largely to share price declines from precision oncology company **Guardant Health, Inc.** and long-read DNA sequencing systems provider **Pacific Biosciences of California, Inc.**, was somewhat offset by higher exposure to this top performing sub-industry.

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 June 30, 2021

	Percent Impact
BioNTech SE	0.82%
Bio-Techne Corporation	0.70
Moderna, Inc.	0.68
Dechra Pharmaceuticals PLC	0.64
Edwards Lifesciences Corp.	0.60

BioNTech SE is a leader in the emerging field of mRNA drugs, with additional programs in engineered cell therapies, antibodies, and immunomodulators. Shares performed well for the quarter as the COVID-19 vaccine rollout progressed, and we believe the pandemic has been a strong proof point of the speed and efficacy of the mRNA platform. Beyond vaccines, we think BioNTech has potential to disrupt the biopharmaceutical space with a pipeline spanning oncology, infectious diseases, and rare diseases.

Bio-Techne Corporation is a leading provider of high-quality purified proteins and protein analysis and other life sciences tools for biomedical researchers and clinical research laboratories. Bio-Techne contributed to performance in the quarter on strong financial results, highlighted by 22% organic revenue growth, 40% adjusted operating margin, and earnings per share ahead of Street estimates. We continue to believe Bio-Techne has an attractive core life sciences reagents business with multiple additional growth drivers.

Moderna, Inc. is a leader in the emerging field of mRNA-based vaccines and therapeutics. Shares performed well for the quarter. Moderna's platform continued to gain recognition as its COVID-19 vaccine rolled out. With this success under its belt, we think Moderna has the potential to disrupt the entire biopharmaceutical space from infectious disease vaccines to oncology and rare disease treatment.

U.K.-based **Dechra Pharmaceuticals PLC** manufactures and distributes companion animal pharmaceuticals. Shares increased on management's issuance of a positive trading update, which called for above-consensus revenue and earnings for its fiscal year ended in June due to strong market fundamentals and lower selling, general, and administrative expenses as a result of the pandemic. We remain bullish on the animal health vertical in general and Dechra in particular.

Edwards Lifesciences Corp. is a leading manufacturer of heart valves used in replacement surgery. The company contributed on strong first quarter financial results driven by robust sales of its transcatheter aortic valve replacement ("TAVR"). We believe Edwards can continue to generate attractive growth in its TAVR business driven by expanding indications, greater disease awareness, and new technologies, and we think the emerging transcatheter mitral valve and tricuspid therapies business will add to growth in the coming years.

Table III.
Top detractors from performance for the quarter ended June 30, 2021

	Percent Impact
BridgeBio Pharma, Inc.	–0.34%
Acceleron Pharma Inc.	–0.26
Guardant Health, Inc.	–0.24
Inari Medical, Inc.	–0.21
Abbott Laboratories	–0.15

BridgeBio Pharma, Inc. is a biotechnology company developing drugs that address a host of genetic disorders. Shares fell in the quarter given concerns around increasing competition. While we expect positive results from BridgeBio's Phase 3 trial for its lead program for TTR amyloidosis, a disease in which toxic proteins build up in the heart and nerves, updates from Alnylam's competing drug, Vitrusiran, and more recently, Intellia's gene editing platform, pressured the stock. We retain conviction in BridgeBio given its pipeline and diversified business model.

Acceleron Pharma Inc. is a biotechnology company focused on therapeutics for rare blood and lung disorders. Shares fell slightly as the company had limited impactful news flow during the quarter. Importantly, Acceleron issued positive updates on clinical trial data packages that highlighted the strength of its drug Luspatercept in the treatment of Beta Thalessemia (the BEYOND trial). More recently, the company highlighted its development strategies during a deep dive R&D day. Acceleron remains a top pick, and we have not changed our conviction.

Guardant Health, Inc. offers liquid biopsy tests for advanced stage cancer and recurrence monitoring and is developing a test for early cancer detection. Shares fell during the quarter as high-growth companies with high valuations sold off. We maintain conviction for the long term as we believe Guardant is a unique growth company that has the potential to transform cancer care.

Inari Medical, Inc. offers catheter-based devices to remove clots from venous thromboembolism ("VTE"), the third most common vascular condition in the U.S. after heart attacks and strokes, and which can be fatal if left untreated. Shares declined during the quarter as high-growth companies with high valuations sold off. We maintain conviction, as the VTE treatment space is still in the very early days of converting to device-based interventions, and we believe Inari is well positioned to benefit.

Abbott Laboratories detracted from performance in the quarter. Abbott is a diversified large-cap med-tech company. Abbott lowered revenue and earnings guidance due to sales of COVID-19 testing products that missed Street estimates. As vaccination rates have increased, demand for COVID-19 testing has declined. Despite the near-term impact on Abbott's revenue and earnings, we continue to think Abbott's long-term growth outlook remains attractive due to multiple growth drivers including Abbott's diabetes and structural heart businesses.

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. We loosely group the portfolio into three categories of stocks: earnings compounders, high-growth companies, and biotechnology companies. We define earnings compounders as companies that we believe can compound earnings at double-digit rates over the long term. We define high-growth stocks as companies we expect to generate mid-teens or better revenue growth and which may not be profitable today but which we believe can be highly profitable in the future. We expect the portfolio to have a mix of earnings compounders, high-growth, and biotechnology companies. We typically aim to have roughly 50% of the portfolio in earnings compounders with the balance divided between biotechnology and high-growth companies but our allocations among these three categories can change depending upon our view of the opportunity set and the market environment.

As of June 30, 2021, the Fund's active share was 73.3%. The Fund may invest in stocks of any market capitalization and may hold both domestic and international stocks. As of June 30, 2021, the Fund held 52 positions. This compares with 607 positions in the Benchmark. International stocks represented 20.5% of the Fund's net assets. The Fund's 10 largest holdings represented 37.6% of net assets. Compared with the Benchmark, the Fund was overweight in life sciences tools & services and biotechnology, and underweight in pharmaceuticals and health care equipment and services. The market cap range of the investments in the Fund was $196 million to $378 billion with a weighted average market cap of $62.2 billion. This compared with the Benchmark's weighted average market cap of $140.1 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:** The cost of sequencing DNA has fallen substantially since the sequencing of the first human genome. Today, the human genome can be sequenced for roughly $600 in less than one day, and the cost continues to decline. 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 COVID-19 surveillance. Our investments in genomics include DNA sequencing market leader **Illumina, Inc.**, and genomics applications companies **Guardant Health, Inc.** and **10X Genomics, Inc.** Guardant offers blood tests for cancer therapy selection and cancer recurrence monitoring, and is developing a blood test for early detection of colon cancer. 10X Genomics enables life sciences researchers to conduct high throughput single-cell analysis and spatial interrogation, and is building out an in situ platform that would enable sequencing directly in a tissue sample. We are also investing in emerging proteomics companies such as **Olink Holding AB** and **Seer, Inc.** Whereas genomics involves the reading of DNA, which is a static indicator of health status, proteomics involves the analysis of proteins, which is a dynamic indicator of cellular function. We believe proteomics has the potential to add a critical layer of information in high-value applications like drug discovery and clinical diagnostics.

- **Genetic Medicine:** The field of genetic medicine – therapies derived by modifying the genetic code in a cell – has reached an inflection point. Several cell and gene therapies have been approved and commercialized, and various companies are working on gene editing approaches with promising early clinical trial results. Some genetic medicines have the potential to cure diseases with a single treatment. **Beam Therapeutics Inc.** has a proprietary base editing technology which can edit a single base in the genome without making a double-stranded break in the DNA, resulting in a more precise edit compared to other gene editing methods. **BridgeBio Pharma, Inc.** is developing a portfolio of breakthrough medicines for genetic diseases and cancers with genetic drivers. **Moderna, Inc.** and **BioNTech SE**, whose mRNA COVID-19 vaccines have proven to be safe and highly effective, have robust pipelines to expand their mRNA platforms into other vaccines such as flu as well as other modalities and therapeutic areas. **Arrowhead Pharmaceuticals, Inc.** and **Dicerna Pharmaceuticals, Inc.** use RNA interference (RNAi) technology to "silence" the genes that cause diseases.

- **Synthetic Biology:** The field of synthetic biology, which involves designing DNA and programming cells to make products, is growing rapidly and has potential to transform multiple industries. We have an investment in **Zymergen Inc.**, which has a platform that aims to use biology to create better products faster, cheaper, and more sustainably than traditional chemistry. Zymergen's first products are electronic films for smartphones and insect repellent and the company has new products in development in electronics, consumer care and agriculture with potential to expand into other industries. We also own **Twist Bioscience Corporation**, which has a proprietary platform to manufacture synthetic DNA by writing DNA on a silicon chip.

- **Technology-Enabled Drug Discovery and Development**: We have investments in companies that use technology to help speed drug discovery and 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. **Recursion Pharmaceuticals, Inc.** is using large scale cell imaging and data science to discover novel drugs at a faster pace and broader scale. **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.

- **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 companies that provide products and services to life sciences companies can benefit from the growth in life sciences without the risk inherent in drug development. Our investments in life sciences "picks and shovels" companies include **Thermo Fisher Scientific Inc.**, **Bio-Techne Corporation**, **West Pharmaceutical Services, Inc.**, **MaxCyte, 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 cover 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 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 June 30, 2021

	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	$377.9	$10.4	6.0%
ICON Plc	2018	8.0	10.9	8.9	5.2
Bio-Techne Corporation	2018	5.7	17.5	7.1	4.1
Acceleron Pharma Inc.	2018	1.6	7.6	6.8	3.9
Humana Inc.	2019	35.0	57.1	6.4	3.7
argenx SE	2018	2.8	15.4	6.4	3.7
Thermo Fisher Scientific Inc.	2019	117.6	198.3	5.7	3.3
Edwards Lifesciences Corp.	2018	26.8	64.4	4.7	2.7
Mettler-Toledo International, Inc.	2018	14.3	32.2	4.3	2.5
Dechra Pharmaceuticals PLC	2018	3.9	6.5	4.3	2.5

Table V.
Fund investments in GICS sub-industries as of June 30, 2021

	Percent of Net Assets
Biotechnology	22.7%
Life Sciences Tools & Services	21.5
Health Care Equipment	20.8
Managed Health Care	11.0
Pharmaceuticals	6.7
Health Care Supplies	3.1
Health Care Technology	2.2
Specialized REITs	1.8
Health Care Services	1.0
Commodity Chemicals	0.9
Cash and Cash Equivalents	8.3
	100.0%

Recent Activity

Table VI.
Top net purchases for the quarter ended June 30, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
ICON Plc	$ 10.9	$3.4
Acceleron Pharma Inc.	7.6	3.0
Eli Lilly and Company	220.1	2.8
argenx SE	15.4	2.2
Insulet Corp.	18.2	1.9

During the June quarter, we established five new positions and exited eight positions. Below we discuss some of our top net purchases and sales.

We added to our position in **ICON Plc**, a leading contract research organization ("CRO") which provides outsourced drug and device development and commercialization services to pharmaceutical, biotechnology, medical device, and government and public health organizations. We continue to believe the merger with **PRA Health Sciences, Inc.** will be a good, accretive transaction for ICON. The CRO sector is experiencing healthy growth driven by record levels of biotechnology funding, solid biopharmaceutical R&D spend, and continued outsourcing of clinical development. Long term, management targets high single-digit revenue growth and mid-teens earnings growth. We continue to see significant upside in the stock price over a multi-year period.

We added to our position in **Acceleron Pharma Inc.** which is developing a novel new drug for pulmonary arterial hypertension ("PAH"). PAH is caused by the progressive structural remodeling of the pulmonary arteries, which eventually results in right heart failure and death. Acceleron's drug Sotatercept acts by rebalancing signaling, thereby reversing the vascular remodeling seen in PAH. This would be the first PAH drug with the potential to reverse the disease. Sotatercept demonstrated promising results in a Phase 2 study and Phase 3 development is underway. Acceleron is also pursuing development of the drug in additional pulmonary hypertension indications that would add to the addressable patient population. If trial results are positive, we think the drug has the potential to be a blockbuster. In the near term, Acceleron receives royalties from Bristol-Myers Squibb on commercial sales of a drug for serious and chronic anemias, which provides current cash flow to support further development of Acceleron's pipeline.

We started a position in **Eli Lilly and Company**, a large-cap pharmaceutical company. We think Lilly has a healthy base business with limited near-term patent expirations, a strong pipeline, and potential for significant margin expansion, which should translate to high single-digit revenue growth and mid-teens earnings growth over the next five years. Lilly's pipeline includes donanemab, a potential blockbuster drug which the company is developing for Alzheimer's disease and which recently received Breakthrough Therapy Designation by the FDA.

We added to our position in **argenx SE**, a Netherlands-based biotechnology company with a platform for antibody discovery. The company's lead drug, efgartigimod, reduces levels of autoantibodies that cause autoimmune diseases. The company has completed a Phase 3 clinical trial of efgartigimod for myasthenia gravis and expects to commercialize the drug upon receipt of FDA approval. argenx is also studying the drug in multiple other autoimmune diseases. We think efgartigimod has multi-billion-dollar sales potential. argenx also has a pipeline of other drug candidates derived from its prolific collaborations with academic scientists, the goal of which is to turn scientific breakthroughs into development candidates using the company's antibody engineering expertise.

We added to our position in **Insulet Corp.**, which sells the OmniPod insulin pump for people with diabetes who require insulin. We think the OmniPod pump has advantages over durable pumps, including a better form factor without tubing, easier patient access through the pharmacy channel (vs. the DME channel), a superior pay-as-you-go model (no upfront cost vs. upfront 4-year contracts), and broader reimbursement in the Type 2 diabetes population. The company expects to receive FDA approval of the OmniPod 5 soon, which will be the first and only wearable, tubeless automated insulin delivery device. The wearable OmniPod 5 will communicate with the DexCom continuous glucose monitoring system, it will have an adaptive algorithm built in, and an app will allow users to control the system from a smartphone. We think the OmniPod 5 will catalyze adoption in the large and underpenetrated global market for patients with diabetes who require insulin.

We initiated a position in **Twist Bioscience Corporation**, a provider of synthetic DNA. The company's proprietary semiconductor-based platform has driven its position as the low-cost provider of DNA for a variety of high-growth applications. These include the attractive areas of synthetic biology, liquid biopsy, and antibody discovery. Of note, the antibody business has the potential to become a source of high-margin royalty streams in the future. As further optionality, we believe Twist has a shot at disrupting the entire digital data storage industry with DNA-based storage.

Table VII.
Top net sales for the quarter ended June 30, 2021

	Amount Sold (millions)
BridgeBio Pharma, Inc.	$2.0
Abbott Laboratories	1.9
HCA Healthcare, Inc.	1.9
PTC Therapeutics	1.2
Vertex Pharmaceuticals Incorporated	1.2

We reduced our position in **BridgeBio Pharma, Inc.** to manage risk ahead of clinical data. We reduced our position in **Abbott Laboratories** and sold our position in **HCA Healthcare, Inc.** due to valuation. We sold our positions in **PTC Therapeutics** and **Vertex Pharmaceuticals Incorporated** due to lower conviction in their pipelines.

Outlook

The FDA's decision to approve Biogen's Alzheimer's drug Aduhelm under the Accelerated Approval pathway was a controversial and significant event for the Health Care sector this quarter. Aduhelm is the first novel therapy approved for Alzheimer's disease since 2003. The FDA found that Aduhelm's reduction of amyloid plaque was expected to lead to a reduction in the clinical decline associated with Alzehimer's disease even though the clinical trials did not show that the drug slowed cognitive decline. The approval was based on a surrogate endpoint, in this case the reduction of amyloid plaque in the brain. The FDA's acceptance of a surrogate endpoint for approval has implications for other therapeutics companies, such as **Eli Lilly and Company** which is also developing an Alzheimer's drug targeting amyloid plaque, as well as **Denali Therapeutics Inc.** which is pursuing biomarker-driven development of drugs for neurodegenerative diseases. Aduhelm's approval has other ripple effects across the sector. For example, companies that provide bioprocessing services like **Thermo Fisher Scientific Inc.** could see increased demand for their services to meet the expected demand for the drug. Since most Alzheimer's patients are over 65 and given the high cost and anticipated strong demand for the drug, Medicare managed care companies like **Humana Inc.** could see added costs and earnings headwinds, though we note that it is likely that Medicare will cover the cost of the drug until the cost can be priced into their plans for calendar year 2023.

Another significant event for the sector during the quarter was the first ever clinical data supporting the safety and efficacy of in vivo CRISPR genome editing in humans. The data was from a Phase 1 clinical study of Intellia Therapeutics' in vivo genome editing candidate, which is being developed as a single-dose treatment for transthyretin amyloidosis. The drug is the first CRISPR/Cas9-based therapy candidate to be administered systemically, via intravenous infusion, for precision editing of a gene in a target tissue in humans. While still early and in a limited number of patients, the data is promising and indicates the potential for gene editing to cure diseases. We think the news bodes well for **Beam Therapeutics Inc.**, a next generation gene editing company which we own in the Fund.

The outlook for the Health Care sector is positive. Near term, the regulatory and funding environment is highly favorable. Long term, Health Care is in the beginning of a transformational period marked by rapid innovation and advances in science. We think this is a unique and exciting time to be an investor in Health Care.

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.

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