Dear Baron Health Care Fund Shareholder:

Performance

In the quarter ended December 31, 2021, Baron Health Care Fund (the "Fund") advanced 2.05% (Institutional Shares), compared with the 7.17% gain for the Russell 3000 Health Care Index (the "Benchmark") and the 11.03% gain for the S&P 500 Index. For the full year 2021, the Fund increased 15.72% compared with the 18.60% increase for the Benchmark and the 28.71% gain for the S&P 500 Index. Since inception (April 30, 2018), the Fund increased 24.12% on an annualized basis compared with the 17.60% gain for the Benchmark and the 19.52% gain for the S&P 500 Index.

Table I.
Performance
For periods ended December 31, 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]	2.02%	2.05%	7.17%	11.03%
One Year	15.46%	15.72%	18.60%	28.71%
Three Years	32.03%	32.34%	20.01%	26.07%
Since Inception (April 30, 2018)	23.81%	24.12%	17.60%	19.52%

In the fourth quarter, the Fund trailed the Benchmark by 512 basis points due to stock selection, differences in sub-industry weights, and cash exposure in an up market. The Fund was also hurt by its bias towards small- and mid-cap stocks, which sold off in the latter half of the quarter as investors rotated into large caps during a period of heightened volatility.

Lower exposure to lagging health care equipment stocks and double-digit gains from **Inari Medical, Inc.** and **Edwards Lifesciences Corp.** added the most value. Shares of venous thromboembolism treatment platform company Inari Medical rose due to the company's better-than-expected third quarter sales results driven by continued strong demand for the company's mechanical thrombectomy devices for pulmonary embolism and deep vein thrombosis. Shares of leading heart valve manufacturer Edwards Lifesciences were up after management provided strong initial guidance for calendar year 2022 and a robust long-term market opportunity during the company's annual analyst day.

NEAL KAUFMAN
PORTFOLIO MANAGER

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

Apart from cash, underperformance of investments in life sciences tools & services, health care technology, and health care supplies along with lower exposure to the top-performing pharmaceuticals and managed health care sub-industries detracted the most from relative results. Weakness in life sciences tools & services was driven by non-invasive prenatal testing provider **Natera, Inc.**, liquid biopsy testing leader **Guardant Health, Inc.**, and cell-engineering platform **MaxCyte, Inc.**, all of whose shares sold off alongside other companies in the broader genomics space. Within health care technology, higher exposure to this underperforming sub-industry and sharp declines of **Schrodinger, Inc.** and **GoodRx Holdings, Inc.** hampered relative results. Shares of Schrodinger declined after third quarter earnings fell short of Street expectations, mostly due to the timing of milestone and royalty payments in the company's drug discovery segment but also due to investor disappointment with the software revenue growth rate. Shares of GoodRx, which operates the leading consumer-focused digital health care platform in the U.S., fell as the latest surge in COVID-19 cases limited earnings visibility by pushing out the rebound in the prescription business.

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, 2032, 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 include reinvestment of dividends, net of withholding taxes, 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. 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 FUNDS® 1987

Health care commercial intelligence provider **Definitive Healthcare Corp.** also weighed on performance with the stock selling off alongside other high-growth technology stocks. Adverse stock selection in health care supplies was largely due to double-digit declines from direct-to-consumer health care apparel brand **Figs Inc.** and medical device and aesthetics company **Establishment Labs Holdings Inc.** Figs shares fell after the CFO unexpectedly announced his intent to retire before year end, while Establishment Labs was hurt by the potential impact of COVID-related shutdowns on elective procedures.

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, 2021

	Percent Impact
UnitedHealth Group Incorporated	1.58%
ICON Plc	0.92
Thermo Fisher Scientific Inc.	0.71
Eli Lilly and Company	0.62
Zoetis Inc.	0.62

UnitedHealth Group Incorporated is a leading diversified health and well-being company serving 134 million individuals in all 50 states and more than 125 countries. The company operates across four segments: United Healthcare, Optum Health, OptumInsight, and OptumRX. Shares rose on solid third quarter results and strong 2022 guidance, with expected mid-teens earnings growth driven by the shift to value-based comprehensive care delivery, expanded health benefits, health technology and financial services offerings, and pharmacy services.

Shares of **ICON Plc**, a leading global contract research organization providing drug development support to the biopharmaceutical industry, rose after reporting solid results post the company's merger with PRA Health Sciences. There was no evidence of post-merger disruptions in the form of increased client or employee attrition, and both revenue and cost synergies set out at the time of the merger appear achievable if not beatable. Robust biopharmaceutical funding continues to drive demand, and ICON's added breadth and depth post-merger ensures its seat at the RFP table.

Thermo Fisher Scientific Inc. is the world's largest life sciences tools company. The stock increased after the company reported strong quarterly results, highlighted by 10% base business organic revenue growth, and raised 2021 and 2022 revenue and EPS guidance. We believe Thermo Fisher is positioned for high single-digit organic growth driven by its exposure to attractive, growing end markets and proven ability to gain market share.

Eli Lilly and Company is a global large-cap pharmaceutical company with a diverse offering of health care solutions primarily focused on therapeutics. Stock performance has been strong mostly due to consistent growth and the constant drumbeat surrounding the Alzheimer's therapeutic market, of which Eli Lilly has one of the three potential winning blockbuster candidates in Donanemab. We retain conviction in Eli Lilly, as we expect continued strong operational execution and no substantive Alzheimer's updates until the second half of 2022.

Shares of **Zoetis Inc.**, the global leader in companion and farm animal health medicines and vaccines, rose on an across-the-board third quarter beat. Strength in its companion animal division continued, driven by dermatology, parasiticides and its recently launched monoclonal osteoarthritic treatments. Its livestock division declined modestly year-over-year as higher pork prices and generic competition in U.S. cattle offset growth in fish products. Raised 2021 guidance and initial 2022 commentary suggest another strong year to come.

Table III.
Top detractors from performance for the quarter ended December 31, 2021

	Percent Impact
Natera, Inc.	–0.87%
Zai Lab Limited	–0.45
Schrodinger, Inc.	–0.45
Figs Inc.	–0.37
GoodRx Holdings, Inc.	–0.36

Natera, Inc. is a leader in the provision of non-invasive prenatal testing. Natera has also applied its proprietary blood testing technology for organ transplant rejection testing and cancer detection. Shares fell in the quarter as the broader genomics space sold off. We continue to have conviction that Natera is in the early innings of changing the standard of care for cancer recurrence monitoring.

Zai Lab Limited is a Chinese biotechnology company dedicated to bringing western medicines to greater China and transitioning to a fully integrated company with internal drug development capabilities. Shares declined due to concerns related to investing in China given government actions to curb profitability. We exited our position.

Schrodinger, Inc. is dedicated to the use of physics-based computer modeling for drug discovery. Performance in the quarter was adversely affected by the company's financial guidance. Given an incredibly strong 2020, many investors expected a similarly strong 2021 and 2022 transition. Although robust, with 2021 guidance of roughly 15% growth, Schrodinger guided poorly. We retain conviction given the diversification offered by the combination of a software business, a software in exchange for equity business, and Schrodinger's own internal pipeline of five drug assets.

Figs Inc. detracted in the quarter due to a combination of a sell-off in growth stocks, the surprise retirement of CFO Jeff Lawrence, and management expectations that expenses will temporarily increase as a result of the use of more expensive air freight to transport goods to meet strong demand. Despite the near-term volatility associated with high-multiple stocks and supply-chain challenges, we remain bullish on the long-term opportunity to disrupt the health care apparel market and see a long runway of profitable growth ahead.

GoodRx Holdings, Inc. operates the largest online health care platform in the U.S., providing users free access to drug pricing information and pharmacy discounts. Shares fell as the Omicron variant pushed out the expected rebound in the prescription business, investment spending pressured margins, and Amazon's entry into the discount drug space continued to act as an overhang. In addition, investors started to reassess valuations of high-multiple stocks given the outlook for higher interest rates. We remain investors but are reassessing our position.

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; companies that may not be profitable today but that 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 December 31, 2021, 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, 2021, the Fund held 59 positions. This compares with 646 positions in the Benchmark. International stocks represented 22.0% of the Fund's net assets. The Fund's 10 largest holdings represented 41.1% of net assets. Compared with the Benchmark, the Fund was overweight in life sciences tools & services and health care technology; and underweight in pharmaceuticals, biotechnology, health care equipment, managed health care, and health care services. The market cap range of the investments in the Fund was $0.3 billion to $473.0 billion with a weighted average market cap of $95.7 billion. This compared with the Benchmark's weighted average market cap of $175.5 billion.

We continue to invest in multiple secular growth themes in Health Care, such as genomics/genetic testing/genetic medicine, technology-enabled drug development/discovery, minimally invasive surgery, diabetes devices, "picks and shovels" life sciences tools providers, value-based health care, Medicare Advantage, home health care, and animal health, among others. To be clear, this list is not exhaustive: we own stocks in the portfolio that do not fit neatly into these themes and there are other themes not mentioned here that are in the portfolio. We evaluate each stock on its own merits.

Table IV.
Top 10 holdings as of December 31, 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	$472.9	$17.8	7.0%
ICON Plc	2018	8.0	25.2	13.7	5.4
Thermo Fisher Scientific Inc.	2019	117.6	262.9	12.1	4.7
Bio-Techne Corporation	2018	5.7	20.3	12.0	4.7
Natera, Inc.	2021	10.2	8.8	10.7	4.2
Eli Lilly and Company	2021	187.4	264.2	10.1	3.9
argenx SE	2018	2.8	18.0	8.5	3.3
Zoetis Inc.	2019	55.9	115.5	7.0	2.8
Dechra Pharmaceuticals PLC	2018	3.9	7.8	7.0	2.8
Edwards Lifesciences Corp.	2018	26.8	80.9	5.9	2.3

Table V.
Fund investments in GICS sub-industries as of December 31, 2021

	Percent of Net Assets
Life Sciences Tools & Services	27.2%
Health Care Equipment	14.6
Pharmaceuticals	13.1
Biotechnology	12.0
Managed Health Care	9.0
Health Care Technology	3.7
Health Care Supplies	2.5
Health Care Distributors	2.0
Specialized REITs	2.0
Health Care Services	1.1
Health Care Facilities	1.0
Specialty Stores	1.0
Semiconductor Equipment	0.6
Cash and Cash Equivalents	10.2
Total	100.0%

Recent Activity

During the fourth quarter, we established 14 new positions and exited 6 positions. Below we discuss some of our top net purchases and sales.

Table VI.
Top net purchases for the quarter ended December 31, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
AstraZeneca PLC	$180.5	$6.0
McKesson Corporation	38.0	4.8
Ascendis Pharma A/S	7.7	3.2
Eli Lilly and Company	264.2	3.2
UnitedHealth Group Incorporated	472.9	2.9

We purchased **AstraZeneca PLC**, a large-cap biopharmaceutical company headquartered in Cambridge, England. We think AstraZeneca is well-positioned to deliver industry-leading revenue and earnings growth driven by its base business of already approved products with minimal near-term patent expirations plus a solid late-stage pipeline. One exciting product is Enhertu, a cancer drug developed in partnership with Daiichi Sankyo initially for HER2-positive metastatic breast cancer. In September at the European Society for Medical Oncology Congress, AstraZeneca reported groundbreaking results from a Phase 3 trial of Enhertu in the 2nd line treatment of HER2-positive metastatic breast cancer, setting up the drug to become standard of care. The results were what Josh Riegelhaupt called "Standing Ovation" data based on the progression-free survival separation vs. the comparator drug and the fact that the survival data were better than first line standard of care implying that once Enhertu's data in first line is presented it will become standard of care for all of these patients. Enhertu is also being studied in other cancers.

We purchased **McKesson Corporation**, a leading distributor of pharmaceuticals and medical supplies. McKesson delivers 40 million prescriptions per year and is the market leader in U.S. medical-surgical alternate site distribution serving over 50% of U.S. physicians. McKesson's competitive advantages include its scale, quality, and diversity of product and service offerings. Management has streamlined the portfolio through the exit of its Change Healthcare business and the exit of its European region businesses and management is focused on two key growth areas where the company is well positioned for growth: oncology and biopharmaceutical services. In addition, we think McKesson will benefit from higher profit margins on the large pipeline of generic drugs and biosimilars over the coming years. We also like the free cash flow characteristics of the business and management's use of free cash flow to enhance shareholder returns. Since fiscal year 2019, the company has reduced the share count by 24% through share repurchases while reducing debt. The stock trades at a low valuation because of historical issues with generic price deflation, opioid litigation and the perceived threat of Amazon. We believe as these issues fade, the stock will re-rate and trade at a higher multiple of earnings if management can deliver on its 12% to 14% long-term EPS growth objective.

We purchased **Ascendis Pharma A/S**, a biopharmaceutical company headquartered in Copenhagen, Denmark. The company has a platform technology called TransCon which can extend the duration of a drug's action in the body. The company is applying its TransCon technology to drug candidates in endocrinology and oncology. The most advanced drug candidate, TransCon Growth Hormone, recently received FDA approval for pediatric growth hormone deficiency and launched in mid-October in the U.S. with the brand name Skytrofa. Skytrofa is the first FDA approved once weekly product for pediatric growth hormone deficiency. Ascendis is also developing TransCon PTH, a hormone replacement therapy for hypoparathyroidism. In the U.S., Europe, Japan, South Korea, and China the estimated prevalence of chronic hypoparathyroidism is 400,000 people, representing a significant market opportunity. A third endocrinology pipeline drug is TransCon CNP, a potential new once weekly growth treatment option for achondroplasia. Ascendis also has two early-stage oncology product candidates.

We added to our position in **Eli Lilly and Company**, a large-cap pharmaceutical company. We continue to 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 solid revenue and earnings growth over many years.

We also added to our position in **UnitedHealth Group Incorporated**, a leading managed health care company with 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. We continue to believe UnitedHealth is a competitively advantaged business that will benefit from the shift to value-based health care, the growth of Medicare Advantage, and the use of technology-enabled services to improve the quality and lower the cost of health care. We continue to believe UnitedHealth should be able to meet its long-term financial goal of generating mid-teens annual earnings growth over the next decade.

Table VII.
Top net sales for the quarter ended December 31, 2021

	Amount Sold (millions)
Acceleron Pharma Inc.	$9.5
GoodRx Holdings, Inc.	3.2
Denali Therapeutics Inc.	1.3
Insulet Corp.	1.2
Zai Lab Limited	1.0

Our largest sales in the quarter included **Acceleron Pharma Inc.**, which was acquired by Merck. We reduced our position in **GoodRx Holdings, Inc.** due to uncertainty about the impact of a potential regulatory change. We reduced our position in **Insulet Corp.** due to valuation and took tax losses in **Denali Therapeutics Inc.** and **Zai Lab Limited** after the stocks experienced steep declines.

Outlook

The fourth quarter was a difficult one for growth stocks and for the Fund. Investors flocked to large-cap index constituents due to concerns about inflation, interest rates, supply chain disruption, and another COVID wave, pushing up a small number of large-cap stocks perceived as cheap and safe, while growth stocks were sold in tight correlation regardless of their different fundamental outlooks. While the S&P 500 Index ended the year up over 28%, some areas of health care saw large declines. For example, small- and mid-cap biotechnology stocks, as represented by the SPDR S&P Biotech ETF (XBI), ended 2021 down over 20%.

As we enter 2022, macroeconomic issues continue to dominate the headlines and create stock market volatility. The list includes tighter monetary policy, high inflation, the rapid spread of the Omicron variant, uncertainty about whether the Build Back Better Act will pass, and rising tensions with China, Russia, and Iran. Although we take such issues into consideration, we do not invest by trying to predict the outcome or direction of macroeconomic events. Instead, we focus on identifying high-quality, competitively advantaged growth companies with great management teams.

Our outlook for Health Care remains bullish. We continue to believe we are in the beginning of a transformational period in Health Care with major advances in science, medicine, and technology. Funding for scientific research remains robust, regulatory approvals of novel drugs continue at high levels, and the secular trends we are investing in are intact. We believe our portfolio holdings are well positioned for growth over the long term.

As always, 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.

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.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).