BARON FUNDS 1987

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INVESTOR

Baron Opportunity Fund

Investing in Sustainable Secular Trends in Innovation

Baron Opportunity Fund invests in businesses benefiting from secular innovation trends and sustainable growth. We target our investments toward how the world is changing: the generational, disruptive, and tectonic shifts that impact how we live and work.

We believe innovation is about the intelligent transformation of ideas or inventions into goods or services, and can be found across a range of industries, not just in technology or the internet, as is often assumed. Health Care company **Illumina, Inc.** is one example. The stock price of this leader in next-generation DNA sequencing platforms has increased by 1,006% in the almost nine years we have held it, a compound annual growth rate (CAGR) of 30.8%. More recent purchases include biotechnology company **argenx SE**, which has increased by 988% in the three and a half years we have held it, and **CrowdStrike, Inc.**, which has grown by 650% since we added it to the portfolio two years ago.

We also believe innovation can drive profitable growth in any company, regardless of size. For instance, the Fund holds **Amazon.com, Inc.**, which has a CAGR of 43.0% since our 2014 investment. We also own **Netflix, Inc.** (40.2% CAGR since 2013 purchase), **Microsoft Corporation** (40.6% CAGR since 2017 purchase), and **Alibaba Group Holding Limited** (22.9% CAGR since 2015 purchase). All of these are large, well known companies, but we believe they are still in the process of building competitive strengths that will translate into increasing market share and profitable growth.

Of course, we do not expect these kinds of results with every stock we invest in, but we believe these returns demonstrate the power of identifying, researching, and investing in secular innovative growth trends.

As seen in the table below, our approach has produced consistently strong, long-term results over the 21 years since the Fund's launch. The Fund, which has been managed since inception by Mike Lippert, has achieved these impressive results without excessive risk. For the three-year period ended June 30, 2021, the Fund has annualized alpha of 11.44% with beta of 1.03, upside capture of 120.31%, and downside capture of 84.53%.

Michael A Lippert
Portfolio Manager

Baron Opportunity Fund Performance
As of 6/30/21 (annualized)*

	1-Year	3-Year	5-Year	10-Year	Since Inception**
Baron Opportunity Fund	61.18%	38.62%	35.19%	19.39%	11.01%
Russell 3000 Growth Index	42.99%	24.47%	23.31%	17.54%	7.01%
S&P 500 Index	40.79%	18.67%	17.65%	14.84%	7.57%
Morningstar Large Growth Category Average	41.70%	22.56%	21.98%	15.99%	NA

* Institutional Shares. For Retail and R6 Shares, visit www.BaronFunds.com

**February 29, 2000

Performance listed in the above table is net of annual operating expenses. Annual expense ratio as of September 30, 2020 was 1.08%. 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 reimbursed 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.

Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

The Fund's 3-, 5-, and 10-year historical performance was impacted by gains from IPOs, and there is no guarantee that these results can berepeated or that the Fund's level of participation in IPOs will be the same in the future.

According to **Morningstar**, the Fund ranks in the 2nd percentile for its 1- and 3-year, 3rd percentile for its 5-year, and 7th percentile for its 10-year performance among its large-cap growth peers. With a 5-star **Morningstar** rating for its overall, 3-, and 5-year and a 4-star rating for its 10 year performance, we believe Baron Opportunity Fund is a smart choice for the long-term investor.

Emphasis on Durable Secular Trends

We believe durable secular trends will be the predominant underpinning of market leadership over the long term for both individual businesses and industries. As long-term investors, we focus on these trends and not on short-term events and business/market cycles. We believe our emphasis on secular trends, backed by extensive due diligence, is a key differentiator and has driven our long-term outperformance. We also believe many of these trends are still in their early stages. We are seeing a growing divide in growth and market share between the structural/secular winners and the legacy/cyclical businesses.

The leaders of the secular trends we are focused on are finding better, more efficient, less costly ways to deliver goods and services. They are leveraging advances in technology – or developing technologies themselves – to disrupt their industries. They are creating platforms to build competitive advantages and take market share.

These trends include:

- cloud computing
- software as a service (SaaS)
- “big data” and artificial intelligence (AI)
- mobile
- digital media
- targeted, people-based digital advertising
- e-commerce
- genetics
- minimally invasive surgical procedures
- cybersecurity
- electric vehicles/autonomous driving
- electronic payments

Within each theme, we take a fundamental, bottom-up approach based on extensive, company-specific research to select stocks. By investing in companies capitalizing on one or, in many cases, a multitude of themes, we have built a portfolio that has consistently delivered revenue growth rates ahead of the average, as reflected in broad market indexes. Below, we compare the revenue growth rates of our portfolio against three indexes for the trailing four quarters for which we have reliable data.

Comparison of Revenue Growth (based on quarter-end holdings)

	Actual Q1 2021	Actual Q4 2020	Actual Q3 2020	Actual Q2 2020
Baron Opportunity Fund	38.5%	30.6%	24.7%	18.5%
S&P 500 Index	12.6%	2.8%	–1.2%	–9.3%
Russell 3000 Index	12.3%	2.6%	–1.6%	–10.5%
Russell 3000 Growth Index	16.5%	9.1%	4.0%	–6.3%

Source: BAMCO and FactSet

An investor cannot invest directly into an index.

Following are some examples of our integrated thematic and bottom-up investment approach.

Multi-Thematic Platform Companies

Several of the Fund’s largest investments are in companies that have built a platform that others can use to connect their businesses, sell products and services, market, and co-create value. Many of these companies are operating across several connected themes, leveraging economies of scale, network effect, and barriers to entry to build formidable competitive advantages and dominate their market(s). While many platform companies are classified as IT or internet stocks, we have investments in platform companies in other sectors as well.

Baron Opportunity Fund Institutional Share Class is in the Morningstar Large Growth Category. Morningstar calculates the Morningstar Large Growth Category average performance and rankings using its Fractional Weighting methodology. The Category is not weighted and represents the straight average of annualized returns of each of the funds in the Large Growth Category. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of 6/30/2021, the category consisted of 1239, 1138, 1024, and 761 funds for the 1-, 3-, 5-, and 10-year time periods. Morningstar ranked Baron Opportunity Fund in the 2nd, 2nd, 3rd, and 7th percentile for the 1-, 3-, 5-, and 10-year periods, respectively.

For the period ended 6/30/2021 Baron Opportunity Fund was awarded a 5-star Morningstar Rating for the overall, 3-, and 5-year and a 4-star rating for its 10-year performance, respectively. The Morningstar overall, 3-year, 5-year, and 10-year rating is based on risk adjusted returns with 1138, 1138, 1024, and 761 funds, respectively, in the category.

The **Morningstar Rating**™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Baron Opportunity Fund
Top 10 Holdings as of June 30, 2021

Holding	Sector	% of Net Assets
Microsoft Corporation	Information Technology	8.2%
Alphabet Inc.	Communication Services	6.1%
Amazon.com, Inc.	Consumer Discretionary	5.1%
Tesla, Inc.	Consumer Discretionary	2.8%
RingCentral, Inc.	Information Technology	2.6%
NVIDIA Corporation	Information Technology	2.5%
ZoomInfo Technologies Inc.	Communication Services	2.5%
Arrowhead Pharmaceuticals, Inc.	Health Care	2.6%
Tripadvisor, Inc.	Communication Services	2.4%
Visa, Inc.	Information Technology	2.1%
Total		**36.8%**

Amazon.com, Inc., the Fund's third-largest holding, has built an online/digital service platform enabled by massively scalable IT and an unparalleled logistics infrastructure. This infrastructure has allowed Amazon to dominate online retail and public cloud service, and compete as a leading streaming service provider and digital content seller as well as a major provider of fulfillment services to third-party retailers.

The company continues to grow at a precipitous rate. Its "flywheel effect" (a term coined by founder Jeff Bezos) of increasing participation from Prime members driving further activity on Amazon.com is showing no signs of letting up. It continues to invest in new business opportunities, such as e-finance, apparel, and international expansion.

While e-commerce penetration is rising rapidly and Amazon continues to grow its addressable market by entering new verticals, we view Amazon Web Services (AWS), the company's cloud services provider, as the more material driver of growth given AWS's leadership in the vast and growing cloud infrastructure market and potential to compete in application software. We think Amazon's relentless focus on innovation will lay the groundwork for years of future growth.

Microsoft Corporation is a software mega-cap company that has crossed the chasm from the client-server and PC era to today's world of digital transformation and cloud. Microsoft, which is currently the Fund's largest holding, has successfully pivoted its business to the cloud with its leading Azure infrastructure and Platform-as-a-Service offerings and by porting its dominant Office suite of desktop solutions to the cloud, with its Software-as-a-Service products Microsoft 365, Office 365, and Teams. Microsoft's ability to accelerate revenue growth to double-digit levels at its scale is a case study in successful business transformation. The company now supports open source and inter-operates with competing systems, positioning it as a leader in cloud computing alongside Amazon.

Equinix, Inc., a specialized REIT that is the leading provider of Internet Business Exchanges, is a platform company that operates in the business-to-business space. Early on, Equinix employed its scale and "network neutral" policy, which allows customers to connect with one another, to attract large telecom networks. Once Equinix established its leading market position, other telecoms, major enterprises, and e-commerce and cloud computing companies felt compelled to join the Equinix "ecosystem" to easily and efficiently access these networks. Equinix has made strategic acquisitions to expand its global footprint and improve its technical expertise in migrating customers from legacy data center infrastructure to a hybrid one in which Equinix acts as the intermediary between the enterprise IT shop and the cloud. We believe Equinix will continue to benefit from growth in internet traffic, IT outsourcing, cloud computing, and mobile, as well as the globalization of financial markets.

Software as a Service

We are increasingly becoming a society that leases, rather than buys, goods and services. Fewer millennials are owning cars, opting for ride sharing instead. Demand for single-family rentals – once a small portion of the housing market – has been explosive, again led by millennials, who came of age during the housing bubble collapse. CDs and DVDs have become virtually obsolete as people turn to streaming services such as Netflix and Spotify to listen to music or podcasts or watch TV shows or movies. Even clothing is for rent through monthly online subscription services such as Rent the Runway.

The leasing economy is also impacting how businesses operate. We believe software as a service (SaaS), companies in particular are benefiting from this shift. SaaS providers license centrally hosted software on a subscription basis to customers who access the software over a network, rather than buying it, which allows them to outsource support costs. Since the software is centralized, the SaaS provider can continuously enhance it and instantly upgrade all of its customers. SaaS providers are also able to leverage the collective knowledge they gather from their customers to provide value-added services.

Within SaaS, we focus on companies that offer industry-specific, mission-critical technologies. To succeed, these companies must have tremendous expertise in their industry, understand their customers' businesses, and provide highly tailored solutions. Because of their subscription-based structure and the key role they play in the different aspects of running a business, these SaaS platforms become a critical part of the end users' day-to-day workflow, creating a sticky business model with high levels of recurring revenue and visibility.

For example, **Guidewire Software, Inc.,** develops software for the property & casualty insurance industry, to handle underwriting, claims, and billing processes and manage insurance data. Guidewire's relationships with insurers motivates customers to anonymously share key data, which Guidewire uses to create AI-enhanced (another theme) applications and game-changing analytics.

CoStar Group, Inc.'s founder Andrew Florence's vision was to become the "single source of truth" for the $50 billion commercial real estate industry. The company has leveraged its proprietary database that includes details on rentals and properties for sale, tenants, comparable sales, and industry news to become the outsourced research department for many of the largest real estate brokerage firms. We believe the company, whose stock has climbed more than 4,600% during the period we have held it, will continue to leverage its unique data set to penetrate its existing markets and create novel products that address other real estate workflows.

Minimally Invasive Surgery

Minimally invasive surgical procedures are becoming an increasingly popular alternative to traditional surgery, as they are typically less traumatic for the patient, allowing for a faster recovery. We own **Edwards Lifesciences Corp.** and **Intuitive Surgical, Inc.** Edwards is the market leader in transcatheter valve replacement, an alternative to traditional aortic valve replacement, which requires open heart surgery. We think transcatheter valve replacement will become the dominant procedure for aortic valve disease, and ultimately, other heart valve diseases. Intuitive is the leading provider of robotic-assisted surgery. The penetration rate of robotic surgery is still quite low relative to the total number of surgeries. Intuitive is developing a catheter-based robotic system for lung cancer diagnosis and treatment.

Conclusion

The pandemic proved to be a strong accelerant for many of the themes in which we invest – e-commerce; electronic payments; digital entertainment, media, and advertising; digital workflows; cloud computing; cybersecurity; and genomics – as they proved critical to allowing businesses and people to carry on with life and work. We think companies benefiting from this acceleration of digital trends should continue to see strong growth as these trends play out. We also think business for other companies should bounce back vibrantly post-pandemic driven by pent-up demand.

What do we expect for the rest of 2021 and beyond? Consensus expectations appear to be that mass vaccination will be successful and we will emerge into a post-COVID-19 world hopefully by the end of summer.

On the other hand, these things may not come to pass. We think the immediate future is almost impossible to predict with any accuracy. However, we do not have to answer the unanswerable to deliver strong long-term investment returns. Rather, we are focusing our research, analysis, and investment decisions, as we always do, on what we can know and what matters. This means identifying the powerful, durable secular growth trends that we believe will drive economic growth regardless of short-term economic cycles or stock market gyrations and the companies that are leading or riding those trends and possess sustainable competitive advantages, profitable business models, and long-term-oriented managers. We establish and monitor short- and long-term price targets for all of our holdings and target companies, utilizing our own internal projections of revenues, earnings, and free cash flow, and what we believe are appropriate multiples, and we buy or add to these companies at stock prices where we believe we can deliver substantial returns.

We believe wholeheartedly in our strategy: growth based on powerful, long-term, innovation-driven secular growth trends. In the highly uncertain world we live in – both during this crisis and in the "new normal" when it ends – we believe non-cyclical, sustainable, and resilient growth should be part of investors' portfolios.

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.

Risk: The Adviser believes that there is more potential for capital appreciation in securities of high growth businesses benefiting from innovation through development of pioneering, transformative or technologically advanced products or services, but there also is more risk. Companies propelled by innovation, including technological advances and new business models, may present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. Securities issued by small and medium sized companies may be thinly traded and may be more difficult to sell during market downturns. The Fund may not achieve its objectives.

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 managers 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.

Portfolio holdings as a percentage of total investments as of 6/30/2021 for securities mentioned are as follows: **Illumina, Inc.** – 0.8%; **argenx SE** – 2.1%; **CrowdStrike, Inc.** – 1.0%; **Amazon.com, Inc.** – 5.1%; **Netflix, Inc.** – 0.8%; **Microsoft Corporation** – 8.2%; **Alibaba Group Holding Limited** – 1.5%; **Equinix, Inc.** – 0.7%; **Guidewire Software, Inc.** – 1.6%; **CoStar Group, Inc.** – 1.6%; **Edwards Lifesciences Corp.** – 0.8%; **Intuitive Surgical, Inc.** – 1.2%.

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta

Beta measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition.

Upside Capture explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

Downside Capture measures how well a fund performs in time periods where the benchmark's returns are less than zero.

Baron Sales & Relationship Management

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We offer 17 mutual funds in retail, institutional, and R6 share classes, collective investment trusts, separately managed accounts, sub-advisory services, UCITS, and other offshore vehicles.

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BARON OPPORTUNISTIC SMALL CAP GROWTH STRATEGY
BARON SMALL TO MID CAP GROWTH STRATEGY
BARON FOCUSED GROWTH STRATEGY
BARON MID CAP GROWTH STRATEGY
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BARON FIFTH AVENUE GROWTH FUND
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