

# Baron Funds®

December 31, 2019

## Quarterly Report

**"Don't...Stop...Thinking About Tomorrow". Fleetwood Mac. 28<sup>th</sup> Annual Baron Investment Conference. October 25<sup>th</sup>, 2019. Metropolitan Opera House, NYC.**

Christine McVie of Fleetwood Mac wrote those iconic lyrics. Fleetwood Mac is one of the most successful rock bands of all time and another Rock 'n Roll Hall of Fame inductee to appear as the surprise entertainment at a Baron Funds' Conference.

The perspective of those lyrics is remarkably consistent with our optimistic investment outlook...and is on point with the "What's Next?" theme of the 2019 Baron Conference.

Again, more than 5,000 Baron Funds' shareholders, Baron institutional clients, service providers to our Firm, and executives of businesses in which Baron has invested attended our annual meeting. As has been the case for the past 14 years, the 2019 Baron Conference was held at the Metropolitan Opera House at Lincoln Center in New York City. Since demand to attend has continued to grow, we now occupy several venues on the Lincoln Center Campus for "breakouts" and lunch, including David Geffen Hall, David Koch Theatre, and Alice Tully Hall.

Baron focuses on the future. Our view that the future will be better than the past drives our investment process. When choosing businesses in which to invest, we rely on exhaustive, proprietary, primary research conducted by our talented team of analysts and portfolio managers. We seek to answer the question "What's Next?" by focusing on what we think matters most...long-term growth opportunities...durable competitive advantages...and management values.

Those are lessons I learned even before I began my career as a professional investor. In fact, I believe my foundational concepts about investments were really formed from 1966 to 1969. That was during my 3.5 years as a U.S. Patent Office examiner by day...and as a George Washington University Law School scholarship student by night.

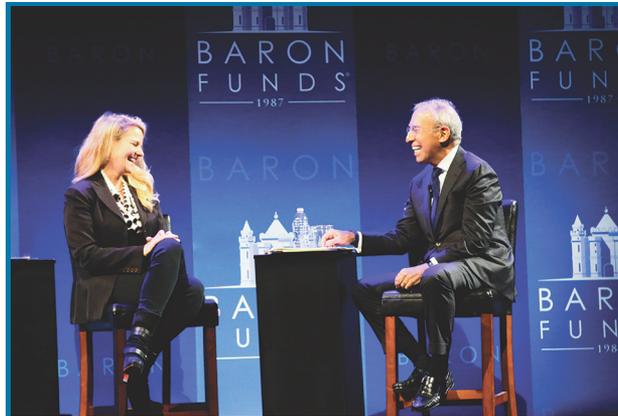
### "Competitive Advantages"

In the Patent Office, I learned to evaluate big ideas...and learned that unique, non-obvious

inventions with issued patents provided barriers that protected businesses against predators. As investors, we are trying to find barriers to competition, "moats," whether they are patents or anything else. We believe "moats" enable businesses to become sustainably profitable.

### "Question Everything"

In law school, I learned to be skeptical, methodical, open minded, and to "question everything." The objective of our "question



"The face you make when you've just been told you're going to be the first portfolio manager in space!" Ron interviews Gwynn Shotwell, President and COO of SpaceX at the 28<sup>th</sup> Annual Baron Investment Conference.

everything" stratagem is not just to attempt to understand a business, but to continue to question and probe...and probe some more...until we are certain that is the case.

Dean Dan Huttenlocker of the MIT Schwarzman School of Computing visited me for breakfast in early January. He told me that he learns a lot about people from their questions. In fact, Dan said that he actually learns more about someone from the questions they ask him than from their answers to questions he asks!

"You are an extremely inquisitive person," he told me. "The level of detail in which you are interested is something that as a teacher I don't often see. As a teacher I am always interested in how do people know if they understand something. Your style is to try to build a deep level of understanding. If something *seems sensible* to most, they *think* they understand. You're different. You keep questioning and probing to test your understanding until you are

satisfied that you get it. We try to get MIT students to do that." I told Dan that it was so interesting for me to speak with him...and "questioning, which leads to understanding is exactly how we train our analysts to think."

### "Summer of '69"

I moved from Washington, D.C. to New York City in the Summer of 1969. After several unpleasant months as one of the faceless unemployed during a tough recession, I persuaded Tony Tabell to hire me as an analyst at stock brokerage firm Janney Montgomery Scott...my first job on Wall Street. To most, 1969 probably seemed like the worst of times to begin a career on Wall Street. My parents were especially upset when I left law school with one semester to go and changed my career path from law to finance.

1969 marked the end to one of the most turbulent decades in America's history. Although the theme of Baron's 2019 Annual Conference was "What's Next?", in 1969 many were concerned there wouldn't even be a "next!" And yet...chaotic, disruptive times have always been the best times to invest! We believe now like 1969 is such a time. This was the principal message of my Baron Conference speech last fall. In general, few individuals

I know are as optimistic about America, its institutions, and our adherence to the Rule of Law as I am. In fact, I have never been more optimistic about the long-term opportunities for our nation as I am now.

### "Conference Day"

For two hours beginning at 6 a.m. on October 25, 2019, before our conference began, Becky Quick, co-anchor of CNBC's *Squawk Box*, interviewed me and then she and I spoke with several CEOs of businesses in which Baron has invested. Then, Baron shareholders heard from Robyn Denholm, Tesla's Chairwoman; Rachel Stern, VP and General Counsel of FactSet Research Systems; Bruce Flatt, CEO of Brookfield Asset Management; and Gwynne Shotwell, President and COO of Elon Musk's Space Exploration Technologies



# Letter from Ron

Corporation (SpaceX). All spoke candidly and answered questions, no holds barred. We thought it was a fitting tribute to women that, for the 100th anniversary of Women's Suffrage, women's right to vote, three of our four executive speakers were female business leaders...and three of our four entertainment acts featured female singers and a ballet dancer!!!

The companies these executives represent are all important holdings of Baron Funds and most have appreciated significantly since our purchases...and, we think, will continue to grow substantially. The executives' presentations were streamed live and can still be viewed on our website, [www.baronfunds.com](http://www.baronfunds.com). Just click on the 2019 Baron Investment Conference link.

Before lunch, we raffled two 2020 Tesla Model 3s to two lucky Baron Funds' shareholders. The first person whose name we randomly called was in the restroom when her name was announced and wasn't able to respond when her name was called. We felt badly about that...so we made an exception to our rule this year and gave away two Tesla Model 3s!!!

One more thing. Tesla wants to be sure you know that the two Tesla Model 3 prizes given were paid for by our privately owned investment management company, Baron Capital Group, not by Tesla. We also want you to know that the "door prize" gifts to our shareholders, the lunchtime and end of day entertainment, and all other expenses incurred for our annual meeting were once again paid for by us, by our

privately owned management company, not by you or Baron Funds.

Our special end of day entertainment draws Baron shareholders from virtually every state...as well as from other countries. We think, though, that the conversations with Baron executives and leaders of businesses in which Baron Funds invests keep our shareholders coming back...even though our entertainment is not exactly "chopped liver" ...as they say...

This year was no exception. During lunch, Baron Funds' shareholders were entertained in three Lincoln Center Campus venues. In David Geffen Hall, we reunited two of the funniest names in comedy (one name actually... "Steve"). Stephen Colbert and Steve Carell, "The Daily Show" correspondent alums, entertained with nonpolitical humor. In David Koch Theater, we switched things up and featured an incredible dance performance by sensational ballet dancer Misty Copeland and her amazing ensemble. Finally, in Alice Tully Hall, shareholders were dazzled by R&B icon and five-time Grammy award winner Mariah Carey.

After lunch, our afternoon at The Met was very cool as well...as seven-time Tony Award nominated actress and singer Kelli O'Hara opened our afternoon program with Leonard Cohen's "Hallelujah" followed by Irving Berlin's "God Bless America," our traditional opening for the Conference's afternoon session.

A Baron portfolio manager panel moderated by Amy Chasen, Baron's Director of Research,

followed. Linda Martinson, our Firm's President and COO, followed the panel with her own inimitable take on our "What's Next?" theme that is reprinted in this report. My speech, which highlighted "What's Next?", was next and is also reprinted following this "Letter from Ron." You can watch my presentation as well as Linda's and our portfolio manager panel at [www.baronfunds.com](http://www.baronfunds.com). We are pretty sure you will not find them boring. Finally, at 2:45 p.m., the time came for some rock 'n roll! Fleetwood Mac with Stevie Nicks, a musical act known, like we are, for "Going Their Own Way," left our audience cheering. By the way, I think Fleetwood Mac and Stevie enjoyed playing for our enthusiastic crowd as much as we enjoyed hearing them.

If you didn't have a chance to join us at our 28th annual conference, we hope you will visit us next fall at our 29th on October 30, 2020. Registration begins on August 10, 2020. Thank you for joining us as fellow shareholders in Baron Funds. We will continue to work hard to justify your confidence in us.

Respectfully,



Ronald Baron  
CEO and Chief Investment Officer  
January 9, 2020

*You should consider the investment objectives, risks, charges, and expenses of the Baron Funds carefully before investing. The prospectus and summary prospectus contain this and other information about Baron Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting [www.BaronFunds.com](http://www.BaronFunds.com). Please read it carefully before investing.*

**Risks:** All investments are subject to risk and may lose value.

Portfolio holdings as a percentage of net assets as of December 31, 2019 for securities mentioned are as follows: **Tesla, Inc.**—Baron Opportunity Fund (4.3%), Baron Partners Fund (13.3%\*), Baron Focused Growth Fund (14.3%); **FactSet Research Systems, Inc.**—Baron Asset Fund (2.3%), Baron Growth Fund (4.6%), Baron Partners Fund (6.0%\*), Baron Focused Growth Fund (7.7%); **Brookfield Asset Management, Inc.**—Baron Partners Fund (1.7%\*), Baron Real Estate Fund (4.4%); **Space Exploration Technologies Corp.**—Baron Partners Fund (4.1%\*), Baron Focused Growth Fund (4.2%).

\*% of Long Positions.

Portfolio holdings may change over time.

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

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



2019 Baron Investment Conference: Left Center Image, Ron and Becky Quick, CNBC's Squawk Box Co-Anchor. Right Center Image, Michael Baron, Co-Portfolio Manager, Baron Partners Fund and Asst. Portfolio Manager, Baron WealthBuilder Fund. Clockwise from upper left: The hilariously talented Daily Show alumni Stephen Colbert and Steve Carell remind Baron shareholders why they're two of the funniest name in comedy (see what we did there?). Andrew Peck, Portfolio Manager, Baron Asset Fund and Cliff Greenberg, Portfolio Manager, Baron Small Cap Fund. Kelli O'Hara sings God Bless America at the 2019 Baron Investment Conference. Ron with Robyn Denholm, Chairman, Tesla, Inc. Stevie Nicks dazzle shareholders at the 2019 Baron Investment Conference. Amy Chasen, Director of Research, Baron Capital, Inc., Jeff Kolitch, Portfolio Manager of Baron Real Estate Fund and Baron Real Estate Income Fund, and Michael Lippert, Portfolio Manager of Baron Opportunity Fund. Neil Finn of Fleetwood Mac rocks the stage at the 2019 Baron Investment Conference.

2019 Baron Investment Conference: Center Image, 5-time Grammy award winner and R&B icon, Mariah Carey carries the day with her spectacular lunchtime performance at the 2019 Baron Investment Conference. Clockwise from upper left: Sensational dancer Misty Copeland in her element at Lincoln Center, home to the American Ballet Theater, delights Baron shareholders at the 2019 Baron conference. Ishay Levin, Research Analyst, Baron Capital, Inc., Gwynne Shotwell, President and Chief Operating Officer, Space Exploration Technologies Corp. and Ron. Bruce Flatt, Chief Executive Officer, Brookfield Asset Management, Inc. Ron and Linda Martinson, Chairman, President & COO, Baron Funds. Ron with Rachel Stern, Head of Strategic Resources and General Counsel, FactSet Research Systems, Inc. Alex Umansky, Portfolio Manager of Baron Fifth Avenue Growth Fund, Baron Global Advantage Fund and Baron Durable Advantage Fund, Randolph Gwirtzman, Co-Portfolio Manager of Baron Discovery Fund, Laird Bieger, Co-Portfolio Manager of Baron Discovery Fund, Andrew Peck, Portfolio Manager, Baron Asset Fund, Cliff Greenberg, Portfolio Manager, Baron Small Cap Fund and Amy Chasen, Director of Research, Baron Capital, Inc. Jeff Kolitch, Portfolio Manager of Baron Real Estate Fund and Baron Real Estate Income Fund, David Baron, Co-Portfolio Manager, Baron Focused Growth Fund, David Kirshenbaum, Research Analyst, Baron Capital, Inc. and George Taras, Research Analyst, Baron Capital, Inc. Record attendance, over 5000, at the 2019 Baron Investment Conference.



"WHAT'S NEXT?"



Please stand.

We need to get some blood flowing.

We've been sitting for quite awhile.

We hope this has been a good day for you. I know it's been a good day for this year's two winners of brand new Tesla Model 3s. Congratulations.

We want to thank everyone for joining us today.

OK. Please be seated.

Before I speak about "What's Next?"

I'd like to take a moment to talk about "What Was."

100 years ago...

in 1919...Congress passed the 19th Amendment and women in America were granted the right to vote.

When my wife Judy was a child, one of her favorite books was "Doctor Dan and Nurse Nan." Judy told her dad, an immigrant taxi driver/construction worker/butcher, that she wanted to be like Nurse Nan. Her dad told Judy she wasn't aiming high enough. "Why not be like Doctor Dan?"

Judy was an exceptional student; attended Bronx High School of Science for the academically gifted; finished college on scholarship in three years; and became a systems analyst for Chase Bank.

On occasion, Judy still mentions the "Doctor Dan/Nurse Nan" books.

I am pretty sure she has never given up her dream of wanting to be like Doctor Dan...

I understand how difficult it has been for women in America to achieve their dreams.

I am especially proud of the large number of women in leadership positions at Baron...including Linda, Susan, Peggy, Jane and Claudia who have worked with me for years...

Women still have not been accorded fundamental rights in many countries,

but we are making progress in the United States. Women are now 57% of our workforce and 56% of our college students. We assume it is likely before long we will have a female President younger than 70... whether it is Nikki Haley...

Kamala Harris...

or someone we haven't heard much about yet...

like New Jersey freshman Congresswoman "Mikie" Sherrill,

a former Navy helicopter pilot and federal prosecutor.

When Ruth Bader Ginsburg, one of three female Supreme Court Justices, was asked when there would be enough women on the Supreme Court, she paused for a moment and then answered, "When there are nine."

I remain optimistic that America is on the path to equality for all. Hopefully sooner rather than later...

**COLD OPEN. O.K. "Let's get it started...."**

Before I managed mutual funds,

I sold Fuller Brushes!!!

I graduated from Bucknell in 1965.

I had applied to medical school but wasn't accepted.

My choices then were to either join US Army combat forces in the jungles of Vietnam...

**SLIDE / AUDIO: Apocalypse Now**



...or accept a \$1,600 per year PhD biochemistry fellowship at Georgetown Medical School...

live in a basement in Rock Creek Park...

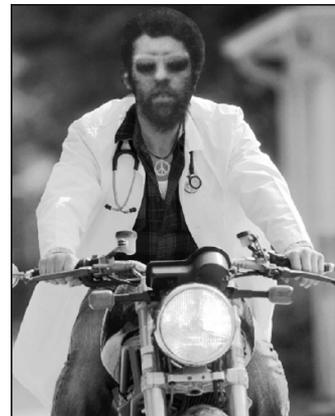
and reapply to Medical School the following year.

...I chose the fellowship...

in part because I could wear a white lab coat when riding my motorcycle which made me look like a very cool doctor...

or like Jack Nicholson in "One Flew Over the Cuckoos Nest."

**SLIDE: Law Student/Patent Examiner Ron. 1969.**



I was definitely not a member of what Tom Brokaw called "The Greatest Generation."

To earn spending money, I worked as a waiter on weekends in Georgetown's "1789" restaurant...

until I saw a **Fuller Brush** "help wanted" ad that *changed my life*. On my second day selling Fuller Brushes door to door...just like women who sold Avon products...

and Mary Kay cosmetics...

a well dressed young man answered his door. He had a wife who was cooking dinner and their apartment had *windows* and real furniture...!

"Why aren't you in Vietnam?" I asked. When he described his work as a United States Patent Examiner by day and law student by night...

I was fascinated. When he told me you needed a science background...that he earned \$11,000 per year...and his job was a "critical skills" draft exempt position...

I was all in.

**SLIDE. Picture of Einstein in Patent Office.**



...just like that Patent Examiner in 1909 in Bern, Switzerland...

The U.S. Patent Office was where I learned to evaluate ideas...and gained foundational training as an investor.

While I didn't publish papers on relativity...

I understood patented inventions were barriers, "moats," that protected businesses...

...sort of like our government believes alligators and poison snakes in moats could protect our southern border...

SLIDE: Alligators and poison snakes at the border



In law school,

I was taught to be skeptical...methodical...open minded...and to "question everything." It was soon obvious to me that the most talented and well prepared lawyers almost always won their cases...

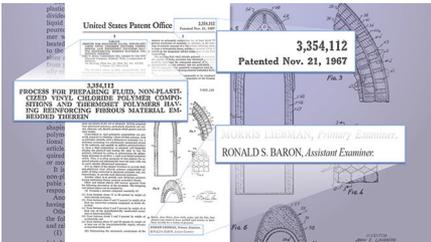
regardless of the facts...

which ultimately made me bet on people...which is what I teach our analysts and portfolio managers.

Oh, I almost forgot.

I had a role in the 1969 Apollo 11 moon landing!!!! I granted the patents for the coatings on the Apollo nose cone that enabled it to withstand high heat and safely return to Earth. Hard to believe I wasn't in that movie...

SLIDE: Name of patent. Methacrylic vinyl chloride resin compositions and method of production thereof.



As a chemistry guy, I understood it was not obvious that if vinyl chloride was added to a methacrylic resin coating, flammability would decrease...

Which brings me to our theme for our 2019 Conference...

"What's Next?" I'm going to talk about three topics today...

1. PERSPECTIVE. That's our OUTLOOK. Bullish.

2. PROCESS. How do we identify opportunities? Research.

3. PROMISE.

Baron Funds' Future.

I. PERSPECTIVE. OUTLOOK: Bullish.



Last weekend, Judy asked me to walk with her to get a pedicure...and take a break from working on this speech! When we reached the nail salon, I thought a woman sitting nearby was staring at me. When I said "Hi," she answered, "Hi, I'm Louise. I'm a financial advisor and a Baron Funds' shareholder. I'll see you at your meeting next week." When I asked what she would like me to discuss, she answered without hesitation. "My clients have done very well during the eleven year bull market but are now fearful.

With so much distressing news, what should I tell my clients?

That's what I want to hear." I promised I would address her concerns.

So, first, Louise...

I know it's difficult to take advantage of opportunities amid turmoil...and, it is always easy to find reasons not to invest. But, Louise, chaotic times have always been the best time to invest! NOW is such a time...

The times were chaotic in 1969 when

I began my career on Wall Street.

That was at the end of one of the most turbulent decades in America's history.

...race riots...

...Student protests against the war in Vietnam...

...cities burning....

...the National Guard in the streets of state capitols to enforce curfews and curtail violence!!!!...

...the assassinations of President Kennedy...Dr. Martin Luther King, Jr....and Senator Robert F. Kennedy...



AUDIO CLIP: Dion. "Has anybody here seen my old friend Bobby?" "Abraham, Martin and John."

Who could have foreseen that the young people covered in mud at Woodstock were Baby Boomers who would propel our economy's growth for the next 50 years?

SLIDE: Woodstock 1969



When Senator Robert F. Kennedy campaigned for President in 1968, America's GDP was \$850 billion. It is now \$21.3 trillion! 25 times higher! The Dow Jones Industrial Average was then 1000. It is now 26,000! 26 times higher! If you had invested then, you would have created financial security for your family... All you needed was faith in America!!!



We think our economy and stock market could again increase 25 times during the next 50 years... That's 6.5% per year.....the same growth rate experienced during the last 50 years!!!! That means Dow Jones 650,000 and U.S. GDP \$500 trillion in 2069!!!! That's what we mean by compounding...of course, in 2069 I'll be 126 years old. So, if you want to send congrats, please email me at Baronfunds.com! They will know where I am...

Due to technology...low interest rates...and "capital-light" business models...America's GDP

could grow even *faster* in coming decades... Regardless, stock valuations are almost identical to those in 1969...16.6X earnings!!!! They were 16.5X in 1969!!!



SLIDE: Knowledge is increasing at the fastest rate ever.

Until 1900, human knowledge doubled every century. After WWII, every 25 years. Medical knowledge now doubles every 18 months! Humankind knowledge will soon double every 12 hours! There were 100,000 patent applications in 1966 when I was an examiner. There will be 650,000 in 2019. Exponential growth is "what's next?"

One more thing. 75 million Boomers shaped our economy for 50 years. The 80 million Millennials' interest in climate change...gun safety...education...

and healthcare...will shape our society for the next fifty years. **Generational change** will produce exceptional investment opportunity.

I want to thank the executives from Tesla...Factset...Brookfield Asset Management...and SpaceX who spoke this morning.

Their businesses are *inventing* the future.



Were it not for **Tesla** and Elon Musk, electric cars and battery storage would not exist. **SpaceX** rocket reusability will reduce launch costs significantly and broadband from its satellites

could provide capital needed to reach Mars. **Factset** offers an open platform for data and analytics to institutions and financial advisors. Its new effort to provide information about privately owned businesses could generate significant revenue. **Brookfield Asset Management** is one of the largest real estate developers and asset managers with opportunities provided by its long term horizon and scale. "We have the same perspective as you do," Bruce Flatt recently told me, an important advantage in his business and ours.

**II. PROCESS.** Research companies and Identify Opportunities.

(A). We invest in **Competitively Advantaged, Growth** companies...and in the **People** who manage them...for the **Long Term**. Since few managers have the same time horizon...or care about the metrics we study...Baron has materially **outperformed** markets and most competitors.

(B). We invest in businesses. We do not trade stocks.

We invest in businesses. We do not trade stocks. In a recent interview, Blackrock's head of alternative strategies said investors need to behave more like owners, not renters. This means you have to be a long term investor and not someone who buys and sells.

**He said it, not me!**

Baron Funds often holds investments for 10...15...or 20 years...or even longer...our shareholders benefit from "compounding" which offers potential strong returns over extended periods.

Our perspective allows us to purchase stocks at attractive prices while a business is investing for growth.

As of December 31, 2019, 98.8% of Baron assets have outperformed their benchmark indices. 62.7% of Baron assets are in the top 4% of competitive mutual funds.

Bill Gates believes, "Most people overestimate what they can accomplish in the next year and underestimate what they can do in the next ten." Like Gates, we invest with a horizon of ten years. At least.

SLIDE: Bill Gates



(C). We study businesses, not unpredictable "macro" events like Presidential elections... trade wars...energy prices...Brexit... interest rates...the next recession...or quarterly earnings.

We think news is interesting... we just don't make investment decisions based on it.

(D). While *earnings* affect stock prices in the short term... we believe *revenue growth* is the more important metric. Reported earnings are whatever accountants say they are.

You can't make up sales.

(E) We study companies, not stock prices. Stock prices don't tell you whether a business will be successful. They just tell you the stock price.

(F) When we research businesses, we "question everything." *We question what is not obvious to most and observe what few see.* Ken Moelis spoke at our meeting last year and told me he thought I was the *most curious person* he had ever met. I hope he meant inquisitive...not odd. We are interested in executives' character...and *want to invest with individuals who shake your hand and keep their word.*

This is to avoid investing with individuals who might choose to boost their businesses' short-term profits but could place their businesses in jeopardy.

One hundred-year-old Bayer acquired Monsanto even though Bayer's CEO had ample warning that Monsanto's Roundup weed killer could cause cancer. This created tens of billions of legal liability.

While "vaping" with e-cigarettes is legal, we did not invest in Juul, a leading producer. This was since nicotine used in its products is addictive and Juul courted young consumers with fruit flavors.

Such products are now being linked to deaths.

Enormous amounts of opioids were sold to small-town pharmacies by distributors.

This was in violation of their obligation to "know their customers."

Even the Godfather had limits on businesses in which he would invest.



CLIP: Don Corleone & Narcotics

There are lots of ways to make money. We choose not to invest in businesses whose executives operate in ethical gray areas.

Or make us offers that we can't refuse.

### III. PROMISE. Baron Funds/Baron Capital.

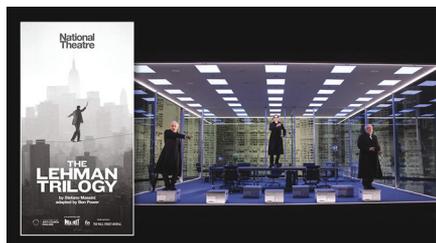
We invest in people and in the Future...

I am often asked..."How did you do it?" How did your business become a financially strong institution from its start in 1982 in a small, one room office with three individuals?

And why have the three of you...Linda, Susan and you — and so many of your firm's growing staff of 166 employees chosen to spend virtually their entire careers at Baron?

Hiring and retaining exceptional employees is one of our objectives. We believe the longer people work together, the more our clients benefit. Baron's employee turnover is low because our co-workers are treated fairly and with respect and are committed to putting Baron Funds' shareholders' interests above their own...

We are investing in our people to build a family business that will serve clients for generations.



If you haven't seen the *Lehman Trilogy*, I recommend you do so when it returns to Broadway from London. My big takeaway? The further you get from family ownership/management, the more likely executives will take excessive risks to maximize profits in the short term so their executive compensation can be greater.

Baron and its employees interests are aligned with our clients.

My family is the largest investor in Baron mutual funds and almost all our employees also have significant investments in Baron mutual funds.

We believe institutions and individuals invest with Baron because its long term performance has been outstanding. They also have confidence in the integrity of the individuals who work at Baron.

My experience as an investor has taught me that reputation and character are ultimately your most important and most fragile assets. Roy Furman, one of my very good friends, is the Vice Chairman of Jefferies, a large financial institution. Every year Roy welcomes Jefferies' freshman class of employees. He tells them that Reputation is their most valuable asset.

"Everyone is watching everything you do every single day of your life," he says. "You need to be careful not only of how you conduct yourself, but of the people with whom you are friendly. Show me who your friends are and I will tell you who you are."

We agree.

Which is why Baron has recently become a signatory to the United Nations Principles for Responsible Investing (UNPRI).

This means we evaluate not just a company's financials, but its efforts to maintain environmental, sustainable and governance best practices.

Linda has been an ardent proponent of ESG for five years. She recently asked me if I realized "it is going to cost us a boat load of money?"

"I thought we were already compliant," I answered. "But, you're right. I agree with you. We weren't doing enough. UNPRI will make us better investors....it's the right thing to do."

That leads me to one of the questions I get the most:

"Why are you still working? .....You obviously don't need to."

I tell my wife when she asks why I am continuing to "work so hard"...those are her words not mine... that "I am not a lineman" who climbs telephone poles like Glenn Campbell sang about.

What I do is meet every day with Baron employees, who are much younger than I am, really smart, hardworking and ethical ...and business executives who are changing our world.

It doesn't feel like work...and...it keeps me young and in touch with our firm's next generation...which includes my sons David and Michael...



.... and the generation after that



Which is just another reason I am so focused on the future!

In many ways, I still feel like that young patent examiner in 1969 whose job it was to identify big ideas that create opportunities.

[SLIDE: Analyst Ron with Best Friend Big Mac. 1975.](#)



Our bullish perspective drives our investment process.

In general few individuals I meet are as optimistic as I am...about America, its institutions and the rule of law. In fact, I have never been more optimistic about long-term opportunities. There's nowhere else I would rather my family and I live than in this **City of Refugees** in this **Nation of Immigrants**.



In good times and in bad, in times of chaos or in those rare moments of calm, there is only one question to keep top of mind: "What's next?"

We'll now take your questions...

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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 Fund expenses for Baron Opportunity Fund, Baron Fifth Avenue Growth Fund, Baron Focused Growth Fund, Baron International Growth Fund, Baron Real Estate Fund, Baron Emerging Markets Fund, Baron Global Advantage Fund, Baron Discovery Fund, Baron Durable Advantage Fund, Baron Real Estate Income Fund, Baron WealthBuilder Fund, and Baron Health Care Fund (pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term) and all Funds' 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 above. For performance information current to the most recent month end, visit www.BaronFunds.com/performance or call 1-800-99BARON.

Baron Funds (Institutional Shares) and Benchmark Performance 12/31/2019

Fund	Primary Benchmark	Annualized Return Since Fund Inception	Annualized Benchmark Return Since Fund Inception	Inception Date	Average Annualized Returns				Annual Expense Ratio	Net Assets
					1-Year	3-Year	5-Year	10-Year		
<b>SMALL CAP</b>										
Baron Growth Fund	Russell 2000 Growth Index	13.46%	8.13%	12/31/1994	40.50%	20.31%	12.18%	14.28%	1.04% <sup>(3)</sup>	\$7.27 billion
Baron Small Cap Fund	Russell 2000 Growth Index	10.33%	6.35%	9/30/1997	34.87%	16.87%	10.83%	13.02%	1.05% <sup>(3)</sup>	\$4.08 billion
Baron Discovery Fund†	Russell 2000 Growth Index	15.00%	9.72%	9/30/2013	26.85%	20.14%	12.53%	N/A	1.10% <sup>(3)</sup>	\$598.80 million
<b>SMALL/MID CAP</b>										
Baron Focused Growth Fund <sup>(1)</sup>	Russell 2500 Growth Index	11.49%	8.27%	5/31/1996	30.33%	19.75%	11.16%	12.20%	1.09% <sup>(4)</sup>	\$262.39 million
<b>MID CAP</b>										
Baron Asset Fund	Russell Midcap Growth Index	11.88%	10.35% <sup>(2)</sup>	6/12/1987	37.96%	20.45%	13.27%	14.59%	1.05% <sup>(3)</sup>	\$4.60 billion
<b>LARGE CAP</b>										
Baron Fifth Avenue Growth Fund	Russell 1000 Growth Index	9.77%	10.49%	4/30/2004	34.25%	24.26%	14.98%	14.50%	0.80%/0.75% <sup>(3)(6)</sup>	\$330.16 million
Baron Durable Advantage Fund	S&P 500 Index	14.39%	12.13%	12/29/2017	41.13%	N/A	N/A	N/A	4.91%/0.70% <sup>(3)(7)</sup>	\$8.93 million
<b>ALL CAP</b>										
Baron Partners Fund <sup>(1)</sup>	Russell Midcap Growth Index	13.39%	10.05%	1/31/1992	45.38%	23.51%	13.90%	16.40%	1.77% <sup>(4)(5)</sup>	\$2.73 billion
Baron Opportunity Fund	Russell 3000 Growth Index	7.77%	5.18%	2/29/2000	40.60%	28.99%	15.75%	14.32%	1.09% <sup>(3)</sup>	\$438.40 million
<b>INTERNATIONAL</b>										
Baron Emerging Markets Fund	MSCI EM Index	4.92%	2.11%	12/31/2010	18.86%	10.86%	4.77%	N/A	1.10% <sup>(4)</sup>	\$5.32 billion
Baron Global Advantage Fund†	MSCI ACWI Index	15.03%	9.54%	4/30/2012	45.45%	28.05%	15.42%	N/A	1.18%/0.90% <sup>(4)(8)</sup>	\$394.17 million
Baron International Growth Fund	MSCI ACWI ex USA Index	11.19%	7.85%	12/31/2008	29.39%	13.52%	8.51%	8.29%	1.07%/0.95% <sup>(4)(9)</sup>	\$323.26 million
<b>SPECIALTY</b>										
Baron Real Estate Fund	MSCI USA IMI Extended Real Estate Index	14.25%	12.54%	12/31/2009	44.44%	13.96%	6.80%	14.25%	1.06% <sup>(4)</sup>	\$620.31 million
Baron Real Estate Income Fund	MSCI US REIT Index	10.22%	8.21%	12/29/2017	36.54%	N/A	N/A	N/A	7.18%/0.80% <sup>(4)(10)</sup>	\$4.52 million
Baron Health Care Fund	Russell 3000 Health Care Index	16.62%	15.98%	4/30/2018	35.57%	N/A	N/A	N/A	4.06%/0.85% <sup>(4)(11)</sup>	\$15.38 million
<b>FUND OF FUNDS</b>										
Baron WealthBuilder Fund	S&P 500 Index	13.04%	12.13%	12/29/2017	36.49%	N/A	N/A	N/A	1.61%/1.17% <sup>(4)(12)</sup>	\$121.05 million

<sup>(1)</sup> Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee.

<sup>(2)</sup> For the period June 30, 1987 to December 31, 2019.

<sup>(3)</sup> As of 9/30/2019.

<sup>(4)</sup> As of 12/31/2018.

<sup>(5)</sup> Comprised of operating expenses of 1.06% and interest expenses of 0.71%.

<sup>(6)</sup> Annual expense ratio was 0.80%, but the net annual expense ratio was 0.75% (net of Adviser's fee waivers).

<sup>(7)</sup> Annual expense ratio was 4.91%, but the net annual expense ratio was 0.70% (net of Adviser's fee waivers).

<sup>(8)</sup> Annual expense ratio was 1.18%, but the net annual expense ratio was 0.90% (net of Adviser's fee waivers).

<sup>(9)</sup> Annual expense ratio was 1.07%, but the net annual expense ratio was 0.95% (net of Adviser's fee waivers).

<sup>(10)</sup> Annual expense ratio was 7.18%, but the net annual expense ratio was 0.80% (net of Adviser's fee waivers).

<sup>(11)</sup> Annual expense ratio was 4.06%, but the net annual expense ratio was 0.85% (net of Adviser's fee waivers).

<sup>(12)</sup> Annual expense ratio was 1.61%, but the net annual expense ratio was 1.17% (includes acquired fund fees and expenses, net of the Adviser's fee waivers).

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

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