Letter from Ron

Baron Funds®

March 31, 2022

Quarterly Report

"You can't innovate a candle to create a lightbulb." Director of Manufacturing. Tesla plant. Austin, Texas. November 2021.

On November 12, 2021, three Baron Funds' analysts and I spent the morning visiting the massive 10.5 million square foot, brand new **Tesla, Inc.** car factory in Austin, Texas. Our tour guide was the plant manager, a 41-year old PhD in mechanical engineering who had formerly been a Ford Motor Company senior executive on the Ford F-150 program. The Ford F-150 pickup truck is the most popular truck ever built and produces more than 100% of Ford's annual profits.

The Tesla plant was pretty amazing. How big is a 10.5 million square feet factory? I am not sure whether the Tesla Austin plant could fit three Pentagons or five Pentagons under roof. But that plant is definitely supersized and the largest facility I have ever visited. That factory was then scheduled to open several months after our visit...which it has this month.

While we were touring the factory, I asked why we should believe that others with seemingly substantial capital resources and cash flow couldn't innovate to make an even better car...or truck...than Tesla? That was when the executive told us that, "you can't innovate a candle to make a lightbulb. You can innovate to make a better candle. But, you can't continuously improve a candle to make a lightbulb. You need to start all over." Elon clearly believes in First Principles (i.e., tearing everything down and starting again from scratch with no preconceptions). The manager explained to us that Tesla and Elon are all about the culture of innovation.

When we asked for examples of an innovative Tesla manufacturing process that would be difficult for others to replicate, he showed us how the front of a Tesla car was now being cast as one part. Elon likes to say that "the best part is no part." Casting reduced the number of parts in this section of the Model Y car's front end from 171 to two! The Model Y now requires 1,600 fewer welds and 30% fewer expensive robots. The manufacturing process then became faster and less expensive, producing a higher quality, more consistent end product with less scrap. Why can't others copy this process? "Because it is expensive to institute and entails risk of execution that another company's

Ron Baron. CEO and Portfolio Manager.
Ron "on the road again." Doing his analyst thing "kicking the tires" at Rivian's electric van, truck, and SUV factory. Normal, Illinois. April 19, 2022.
Baron analysts not shown in picture because they were test-driving the R1T on the track behind the factory: Ishay Levin, David Baron, Michael Baron, Mike Lippert, Ashim Mehra, Andrew Peck, and Guy Tartakovsky.

Board might find objectionable. Further, union work rules could prevent or delay new tasks that are required. And, finally, there are no casting machines available. Elon bought all the casting equipment that will be produced for the next three years."

Herbert Dies, Volkswagen's CEO, recently remarked that it takes Volkswagen 30 hours to manufacture a car. "It takes Elon less than 10 hours." Dies is "hopeful that VW will be able to ultimately produce a car in 20 hours." In the meantime, Tesla continues to make progress reducing costs, improving quality, and cutting manufacturing times. The Tesla plant in Austin has 500 stations in its assembly line. The car stops at each station for 45 seconds. The plant manager told us that Elon asked why the production line couldn't move faster between stations than he could walk. The friction of air resistance was then measured. "Question Everything" was the theme of the 2017 Annual Baron Investment Conference. Elon takes this to another level. When I recently asked a Tesla executive with whom I regularly speak, "How does Elon do that?" "How have you achieved such outstanding performance results?" was the reply. "Elon does it by questioning everything. Just like you do."

Intel's capital spending process is guided by a process they appropriately named "copy exactly." This means that they attempt to "copy exactly" what they have already built and attempt to improve tried and true processes iteratively. Similarly, Toyota's "kaizen" manufacturing philosophy is based on improving manufacturing by using "just in time" processes to eliminate waste and reduce inventory carrying costs. Clearly neither company contemplates disruptive change that will *dramatically* lower costs and improve quality.

Ford is another example of typical industrial manufacturing business executive mindsets. The April 18, 2022, *Bloomberg Businessweek* cover story features Ford CEO Jim Farley behind the wheel of an electrified Ford *F-150 Lightning*. The article is titled, "Hey Elon, THIS is a truck." I thought the article was terrific. One idea especially stood out to me. Since the F-150 is such a popular vehicle, it *"argued for a gradual approach to electrification. Essentially the company retrofitted an existing F-150 with an electric powertrain rather than develop an entirely new truck."* No all-in financial and operation bet by this company on electrification. Such bets on disruptive manufacturing plants, processes, and vehicle design enable Tesla to earn more than 30% gross margins and very high returns on capital, which are both increasing compared to low teens margins and low and declining returns on capital for most other internal combustion engine (ICE) OEMs! Tesla's cars not only cost less to build and sell, but they have characteristics that we regard as superior to its ICE competitors. This reminded me of an Einstein remark all those years ago, that "We cannot solve our problems with the same thinking we used when we created them."

David, a good friend who happens to be one of the great hedge fund traders, called me in March 2022. "How does Tesla obtain nickel and lithium

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for its car batteries? Are the prices Tesla pays spot or at fixed prices under long-term contracts?" He was obviously trying to determine if Tesla's earnings for its next quarter would beat or miss analyst expectations. After describing how Tesla is working hard to obtain raw materials in large quantities at attractive prices over the long term, I gave my friend the following advice. "David, you are missing the point. Tesla is now producing a little more than 310,000 cars per quarter. In three years, they will be producing more than one million cars per quarter, and in 10 years, more than five million cars per quarter. Your focus on whether they make a little more or a little less in a quarter due to higher costs or supply-chain disruptions will make you miss a giant opportunity. In a few years no one is going to remember whether margins and deliveries were a little higher or lower and costs were a little higher or lower in the quarter."

After spending the morning in Austin, we flew to Boca Chica, Texas to visit the **Space Exploration Technologies Corp.** (SpaceX) Starbase that afternoon. Starbase is the company's rocket assembly, fuel depot, maintenance, launch pad and landing site for its fully reusable Starship launch system. The site, which looks like a Star Wars movie set, supports testing, flight preparation, landing, and refurbishment for SpaceX's "RRR" Starship spacecraft and Super Heavy rockets. "RRR" means rapidly reusable rockets. Baron Funds is a significant investor in SpaceX. SpaceX is a separate privately owned Elon Musk business. It is not part of Tesla. I will write about our afternoon at Starbase in my next "Letter from Ron." I will tease that the entire day was a hoot.

"Baron invests in people not just buildings." Ron Baron. 1982-2022.

Michael Baron's father-in-law David Brand lives in Virginia Beach. David attended an election rally in the fall of 2021 to learn more about Glenn Youngkin, who at the time was campaigning to become Virginia's next Governor. Soon after David arrived, he was surprised that Glenn's "advance man" knew him. "I understand we have a relationship in common," Glenn began when he met David. "I know Michael and Ron Baron very well. Several years ago, when I was Carlyle's CEO, Baron Funds was an important Carlyle shareholder. For a few years following Carlyle's initial public offering in 2012, our business and its stock price didn't achieve the results we had expected. When I visited Michael and Ron to apologize for Carlyle's performance, Ron's reaction was unexpected. 'Don't worry, Glenn. This will work out. It's just a blip. In a few years, you will see that Baron made a very good decision investing in Carlyle, which was actually a very easy decision. We were just investing in you and David (Rubenstein).'" David Rubenstein was one of **The Carlyle Group Inc.**'s three founding partners. Glenn then told David Brand, "I will never forget how much I appreciated Michael's and Ron's support. It seemed like they were the only investors who appreciated an accurate appraisal of our business and focused on long-term opportunity instead of short-term headwinds."

Following his election as Virginia's Governor, Glenn returned to Virginia Beach last fall to thank his hometown voters. David participated in that event. When Glenn arrived to speak, he hopped out of a large, black, state-owned SUV with a spinning red light on the roof. He was now surrounded by security. When he spotted David in the crowd, he shouted out, "I wonder what Michael and Ron would say if they could see me now?"

By the way, we were right about both Carlyle's people and its prospects. Carlyle has been an attractive investment for Baron Funds. Since we first invested in Carlyle in 2012 during that company's initial public offering, Carlyle's share price appreciation plus dividends have achieved an annualized rate of return for its shareholders of 16.8% as of year end. The stock market, as measured by the S&P 500 Index, had an annualized rate of return of 15.9% during the same period.

Glenn, like most CEOs of businesses in which Baron has invested, regard Baron as a long-term *partner* in their businesses. We work hard to build trust and maintain our reputation as a long-term investor so that executives will think about us in that light. We do not want to be considered as a trader seeking short-term profits by front running favorable quarterly earnings or selling before quarterly earnings that may be somewhat below Wall Street analysts' expectations. Our reputation enables us to develop perspective regarding management talent and their decisions as well as understanding businesses' competitive advantages. We also nearly always encourage executives to invest in their businesses to grow faster if they perceive attractive opportunities...even if that penalizes profits and share prices in the short term.

Just like we invested in the executives of Carlyle, we invested in Dick's Sporting Goods CEO, Ed Stack, who also considered us as his partner…just as Carlyle's Glenn Youngkin and David Rubenstein did…

Michael Baron graduated from Duke University in 2003 and received his MBA from the University of Pennsylvania's Wharton Business School in 2010. He started working at our privately owned, family investment advisory business, Baron Capital, as a financial analyst, after his college graduation and returned after he received his MBA in 2010. David Baron likewise followed nearly the same career path as his brother after graduating from Emory in 2002 and receiving his MBA from Columbia Business School in 2009. Three years ago, both Michael and David added portfolio management roles to their responsibilities as members of our Firm's 40-person research analyst/portfolio manager team...as well as their roles on our executive committee.

Dick's Sporting Goods, Inc. was the first stock Michael recommended to us shortly after he joined Baron Capital in 2003. Dick's share price has since increased about nine-fold. Unfortunately, we sold our investment in Dick's about six years ago and, although it was a successful investment, we did not realize the full benefit of Michael's recommendation. We sold too soon because I was concerned that competition from internet retailers would have a permanent negative impact on Dick's stores' profitability. I was wrong. Dick's stock price so far has about doubled after we sold...and its prospects have brightened!

We sold even though we considered Ed Stack, Dick's Chairman and CEO, a terrific retailer, a great entrepreneur and a special person. Ed had built Dick's from three bait and tackle stores his dad started into a uniquely positioned, nationwide chain of 730 sporting goods stores. In fact, Dick's is now the largest nationwide sporting goods chain. Ed had purchased the three bait and tackle stores, the foundation of Dick's business, from his dad. Ed's mother loaned him the money to buy his dad's stores! I'm not exactly sure what that signifies. But it may have something to do with Carl Icahn's proclamation that "everything I have is for sale except my children...and *maybe* my wife."

Ed and his newly appointed CEO Lauren Hobart visited us last month. Ed asked for the meeting to introduce us to Lauren, as well as to discuss the prospects for Dick's new, large format stores with attached outdoor, student athletic fields. Lauren then described how well its new format stores were doing in two smaller communities. We also spoke about the successes of Dick's omni-channel retailing efforts and how desirable Dick's stores have become to shopping centers trying to lure shoppers to return to their malls.

"I was always struck by your reference to 'we' when we visited Baron and were facing a vexing issue," Ed began. "It was always, 'How are *we* going to deal with this?' You were our partner, and you didn't expect us to work hard just to make you and your investors as much as possible by focusing on maximizing current profitability. You always encouraged us instead to invest in our business to make it substantially larger and more profitable over the long term…even if that meant sacrificing profit growth in the short term."

"I have known you since 1979 and have finally figured out how you choose businesses in which to invest. You meet lots of executives, you find individuals you think are really smart, work hard, you consider talented, and, most importantly, whom you trust…and then you find a way to invest in them." Tom Pritzker. Chairman. Hyatt Hotels Corp. 2021.

David Baron is responsible for our Firm's significant and very profitable long-term investments in well-managed and competitively advantaged travel and leisure businesses. Among them are **Hyatt Hotels Corp.**, **Vail Resorts, Inc.**, **Choice Hotels International, Inc.**, **Red Rock Resorts, Inc.**, **Marriott Vacations Worldwide Corp.**, and **Penn National Gaming, Inc.** We believe these businesses all have significant barriers to competition...and exceptional managers who take unusual care of their structural advantages.

Tom Pritzker is the Chairman and largest investor in hotelier Hyatt. We have been friendly since our first meeting in a coffee shop at The Hyatt Regency at Chicago's O'Hare Airport in the late 1970's with his dad, Jay. Jay Pritzker was one of the first business executives to mentor me at the start of my analyst career. Tom is just like Jay. A terrific executive who is surrounded by others, like Mark Hoplamazian, who are also incredibly talented. Finally, whatever Tom says he will do, he will do. Always. A handshake, not a contract, is all that is required. And, he always has great stories...which David Baron and I just love.

Postscript 1. "*You never stop taking notes on your Microsoft Surface computer. If you want to make sure your sons are wealthy, let them publish your notes on your death. You are right in the middle of so many important trends. It would be so interesting to read about your opinions real time." Tom Pritzker. "Thanks for the compliment, Tom. While what I learn is interesting to me, I'm not sure anyone else, except my family and those with whom I work, would find these notes interesting." January 2022.*

Postscript 2. *Reacting to our decisions not to invest in Theranos' Elizabeth Holmes who was recently convicted of fraud and will likely to go to prison… movie producer Harvey Weinstein who is now in prison for sex crimes… ponzi schemer Bernie Madoff who was tried for fraud and died in prison…and, last but not least, WeWork's Adam Neuman whom I read recently had been assessed as "a potential billionaire or fraudster"….Anita Nagler, Independent Director of our family-owned investment management company, Baron Capital Group, told me that I "have a great b.s. detector." Anita was the former head of enforcement at the SEC in Chicago.*

Postscript 3. *My wife Judy and I recently watched the popular Netflix drama, "Inventing Anna." This tale about a make-believe oligarch heiress Anna Delvey was advertised as "a true story except for the parts that are made up." On more than a few occasions, I have felt we met such people…and fortunately due to the intense research we perform on our investments and their executives, we chose not to invest with them. I have written in previous "Letters from Ron" about our meetings with Elizabeth Holmes (September 2017)…Harvey Weinstein (September 2017)…and Bernie Madoff (December 2008). When I decided to write about this topic, I found those letters. Since I thought you could find those discussions of interest as illustrative of our investment process, we have attached those paragraphs as addenda to this letter.*

"You bought a Tesla car?!!! Mike, I told you to buy Tesla's stock, not the car!" Ron Baron. Palm Beach, Florida. Conversation with doorman. December 2021.

In 2018, the doorman in our Florida apartment building told me he had been investing in Bitcoin. Curious, I asked how he was doing. "Great, Ron. I purchased Bitcoins at $14 to $600 each more than eight years ago. They are now selling for more than $20,000!" "Wow, that is fantastic Mike. I don't know very much about crypto currencies, but I do know that your Bitcoin profits could be life changing for you and your family. If I were you, I would sell your Bitcoin and buy Tesla." Several months later the price of Bitcoin fell to $13,000. When I next saw Mike, he told me he had taken my advice, sold his Bitcoins and had purchased a red Model 3 Tesla!!! His wife loves their Tesla so much, he went on, that Mike hardly has an opportunity to drive it! "Mike, I'm really glad you and your wife like your Tesla Model 3, but I told you to buy Tesla stock, not the car!!!"

There is a postscript to this story. When we saw Mike recently, I asked how he was doing with his investments. "Fantastic, Ron. I am now investing in Bitcoin, again.. and Ether, too." My wife Judy responded, "Gee, Mike, maybe you could help Ronnie. He has never really understood how to invest in Bitcoin." "I can do better than that, Mrs. Baron. There is a website that tells you all you need to know about crypto. All Ron needs to do is go there and he can trade Bitcoin just like me..."

The moral of this tale? Make investment decisions based upon your own work, careful study and fundamental research or observations, not on what others recommend or how they are investing for themselves. Regardless of whether the "others" you are copying are Elon Musk...Warren Buffet...Ron Baron...or your doorman.

We will continue to provide you with information about Baron Funds that we would like to have if our roles were reversed. Thank you for your confidence in joining us as investors in Baron Funds.

Respectfully,

Ronald Baron
CEO and Portfolio Manager
March 31, 2022

P.S. One more thing. The first quarter of 2022 has been a difficult one for many mutual funds. Especially for funds like Baron mutual funds which have significant investments in rapidly growing technology businesses. We believe current market volatility and lower stock prices are principally a consequence of persistent above normal inflation. This inflation is causing the United States Federal Reserve Bank to increase interest rates and reduce their holdings of government debt. Those actions hurt stock prices in the short term but in the past have substantially reduced inflation. Generally speaking, inflation historically has increased significantly above trend around wars, pandemics and economic recessions. Soon after inflation ebbs, interest rates have typically fallen and stock prices have increased materially. We expect that to again be the case. In the meantime, the businesses in which we have invested have continued to grow substantially. This is although their stock prices in most instances have declined.

Seven Baron Funds have a 5-Star Morningstar Overall Rating™; seven Baron Funds have a 4-Star Rating; one has a 3-Star Rating; and one has a 2-Star Rating. Three are unrated because they do not have a 3-year track record yet. As of 3/31/2022, 15 of 17 Baron Funds, representing 98.5% of Baron Funds' assets under management have outperformed their respective passive benchmarks since their inceptions[1]. That is highly unusual. Further, Baron Growth Fund is ranked number 1 of 53 Mid-Cap Growth funds since inception in 1994, Baron Small Cap Fund is ranked number 12 of 89 Small Growth funds since inception in 1998, Baron Real Estate Fund is ranked number 1 of 127 U.S. Real Estate funds since inception in 2009, Baron Wealth Builder Fund is ranked number 1 of 165 Allocation Equity–85%+ funds since inception in 2017.[2]

In addition, Baron Partners Fund is ranked number 1 out of 2,166 equity mutual funds since its conversion to a mutual fund from a partnership in 2003.[3] Baron Focused Growth Fund is ranked number 1 out of 3,436 equity mutual funds since conversion from a partnership in 2008.[4]

Baron Capital's AUM on March 31, 2022 approximates $48.6 billion. We have earned more than $44 *billion* realized and unrealized gains since 1992 when our firm had approximately $100 *million* assets under management.

Addendum 1. Ron's conversations with Harvey Weinstein. August 2009. Letter from Ron. September 30, 2017.

"…we didn't invest with Harvey Weinstein in The Weinstein Company…

Reading about Harvey Weinstein during the last week reminded me of two high profile investments that we chose NOT to make. The Weinstein Company was one, Theranos was the other. First, The Weinstein Company. In August 2009, Harvey Weinstein and his brother Robert visited us to discuss Baron Funds making a modest investment in privately owned The Weinstein Company. This was shortly after the brothers had sold their interest in Miramax to Disney. After nearly a day and a half meeting with the Weinsteins, we were convinced that Harvey was an enormously talented producer. Further, when we questioned Harvey closely about governance issues involving the characterization of expenses as business or personal (for which he had been criticized), he promised that that would never again be an issue. When the Weinsteins left our office, we were intrigued enough by Harvey's ability to produce successful movies and television programs to continue our diligence. During the next two days, we spoke to several media executives who knew Harvey well. All warned us about the governance issues about which we had expressed concerns and recounted, in graphic detail, allegations that the press has been widely reporting eight years later. When I called Harvey in August 2009 following our diligence to tell him we had decided not to invest with him, he screamed at me admonishing us for wasting his time. I don't remember whether he hung up on me or I on him, but I do remember an incredibly unpleasant conversation."

Addendum 2. Ron's conversations with Theranos' Founder Elizabeth Holmes. May 2011. Letter from Ron. September 30, 2017.

"…we didn't invest with Elizabeth Holmes in Theranos, either…

The second high profile investment we avoided was Theranos. One of my best friends from high school, who now lives in Palo Alto, suggested we research Theranos after he read about that company and its high profile CEO and founder, Elizabeth Holmes. In 2011, Elizabeth was the youngest female billionaire on Forbes' list of the 400 wealthiest Americans. Theranos' business premise was to disrupt blood testing labs by pricking your finger at a local Walgreens' pharmacy and using the internet to transmit markers in your blood to a remote Theranos machine for analysis. We contemplated making a $25 million investment in that privately held $6 billion company. However, since we believed Theranos' business opportunity was sizeable, and if Theranos were to become a publicly owned business we could make a much larger investment, we felt a significant diligence effort was justified. We studied Theranos for 10 months, visited the company in Palo Alto, had its executives visit us several times in New York, spoke to one of its clients, and tried to understand Theranos' technology. Regardless, we could not get comfortable with numerous issues, including no FDA filings and data that didn't seem to prove their case, and we chose not to invest. When I informed Elizabeth during her last visit to our office that we could not invest, she, like Harvey Weinstein, began to yell at me until I left our conference room. When I was writing this "Letter from Ron," I showed Pat Patalino, our Firm's General Counsel, an e-mail sent in June 2011 by Sunny Balwani, then Theranos' COO, to Randy Gwirtzman, then a senior Baron analyst and now a co-manager of Baron Discovery Fund. That letter criticized Baron research and our failure to understand Theranos' value proposition/valuation. Susan Robbins, one of our health care analysts, termed this "breathtaking chutzpah." ("Chutzpah" is Jewish for "what incredible nerve.")

Pat told me that soon after our decision not to invest, Sunny and Elizabeth called him on his cell phone while he was waiting for a commuter train in White Plains. "They spent the first 10 minutes scolding me for wasting their time." They then told Pat they provided us with unprecedented access and were "particularly upset about Andrew's skepticism and his unwillingness to accept what they were telling us at face value. It was not pleasant." The postscript to this story is that the Wall Street Journal and The New York Times in 2015 published a series of articles questioning whether or not Theranos' technology worked; the FDA investigated the company and suspended Elizabeth from any involvement with Theranos for three years; Sunny resigned; and the value of Theranos' business has fallen from more than $6 billion to $800 million! Finally, Jennifer Lawrence will star as Elizabeth Holmes in Bad Blood a movie about Theranos…which there is no way I will miss. One more thing. Andrew Peck, the "Andrew" Pat referred to above, is the portfolio manager of Baron Asset Fund; a graduate of Yale College, Stanford Business School, and Stanford Law School, with high honors from each; a senior executive at our Firm for 20 years; and one of the brightest individuals I know."

Addendum 3. Ron's conversations with Bernie Madoff. Early 2000. Letter from Ron. December 31, 2008.

"Baron Funds has never invested either directly or indirectly with Bernie Madoff or Bernard L. Madoff Investment Securities LLC. As a result, we have not been affected by that individual's alleged criminal activity. I did, however, have a meeting with Mr. Madoff several years ago to try to understand his investment strategy. This was in order to learn if there was something about it that could help us. I thought you might find the following story about that meeting of interest. I have used literary license to quote from conversations that took place nearly nine years ago as I recall them.

Baron Funds has been a shareholder in investment firm Charles Schwab, since 1992. The chief executive of Schwab's market-making business with whom I had long ago become friendly called me in early 2000. "I'm leaving Schwab," he began, "but, I'm not going to retire. I'm going to consult for the market-making operation of a good friend since high school, Bernie Madoff." "I've been hearing for years about how successful and consistent Madoff's investment returns have been," I replied. "He manages money for people I know. Could you introduce me? I'd love to learn about what he does." "Of course," my friend answered. "I don't know very much about the investment side of Bernie's business, but I'm sure he would enjoy meeting you. I'll arrange for him to come over for lunch."

Soon afterwards Madoff visited and outlined the history of his firm and his investment strategy. Although he did not show me any documentation of that strategy, a flaw was quickly apparent to me. His strategy would work best in advancing markets but returns if the market was flat could be problematic and if markets fell, could be negative. "How can you make money in all markets? And how do you make virtually identical returns month after month whether stocks are rising, flat, or falling?" Madoff then described how the order flow of his market-making business gave him a competitive advantage that enabled his computers to guess the short-term direction of markets and "leg into" stock or option positions. I didn't understand how initially unhedged positions could produce consistent monthly returns, we don't have computers able to predict the direction of markets, and we don't have order flow to help computers make those predictions, so I didn't think there was anything we learned about his strategy that could be useful to us.

Because this individual was prominent, highly regarded, successful, and rich, most assumed as did Tevye in Fiddler, that "when you're rich, they think you really know." At Baron Funds, we pride ourselves on "investing in people, not just buildings." Although we think we've been right about people a lot more than we've been wrong, despite a lifetime spent judging individuals, we still don't always get it right. Although we could not understand Madoff's investment strategy and did not invest with him, he seemed to be a pleasant and knowledgeable man, and I clearly misjudged him as a person.

Perhaps the most important lesson we think you can learn from Madoff's alleged Ponzi "investment" scam is the importance of diversification. Owning a portfolio of investments and of not having all your eggs in one basket should be your goal."

Addendum 4. Baron Capital was founded on March 16, 1982. Many of our 173 employees are long tenured and have been sharing "Happy 40th!!!" emails to share our culture with our younger, newer associates. All made me smile. David Kaplan's made me laugh.

"I was fortunate to have traveled quite a bit with Ron, visiting prospects and clients. One of our first business trips was to Pittsburgh. I think it was 1994 and I remember it was a very sunny day. We had a full day of meetings and as we were rushing from one meeting to the next, Ron spotted a pretzel vendor. 'Want a pretzel?' Ron asked. Without waiting for my reply he made a bee line to the pretzel guy. Ordering two pretzels, Ron started drilling the guy with questions. 'How many pretzels do you sell a day? Why this spot and not down the street? Do you sell more at different times of the day?' Ron must have asked him six or seven questions in a about two minutes. The pretzel guy could barely finish responding before Ron hit him with his next question. I'm sure the guy was glad when I told Ron we need to get going so we wouldn't be late to our next meeting. The pretzel was good.

"After our morning meetings were finished, we had time for lunch. 'Do you like Italian?' Ron asked me. 'Sure' I said and with that, Ron turned to two, maybe homeless, people sitting on a nearby bench and asked, 'What's the best Italian restaurant near here?' They pointed us to a nearby restaurant. 'Obviously they know,' Ron explained. 'That is probably where they are given the best leftover food every evening.' The lunch was good.

"It's been an amazing adventure. Thanks for letting me be a part of it, Ron."

[1] Excess returns and rankings were calculated using the Retail Share Class of our U.S. mutual funds with at least one year of history. The Retail Share Class is the highest cost and oldest share class. AUM reflects assets in all share classes of our U.S. mutual funds. Since Baron WealthBuilder Fund is a fund of funds investing exclusively in other Baron Funds, its AUM is not included in the above calculations.

[2] The Morningstar Large Growth Category consisted of 1,236, 1,025, and 765 share classes for the 1-, 5-, and 10-year periods. Morningstar ranked Baron Partners Fund in the 1st, 1st, 1st, and 1st percentiles for the 1-, 5-, 10-year, and since conversion periods, respectively. The Fund converted into a mutual Fund on 4/30/2003, and the category consisted of 405 share classes.

The Morningstar Small Growth Category consisted of 614, 521, and 391 share classes for the 1-, 5-, and 10-year periods. Morningstar ranked Baron Small Cap Fund in the 35th, 38th, 42nd, and 14th percentiles for the 1-, 5-, 10-year, and since inception periods, respectively. The Fund launched 9/30/1997, and the category consisted of 89 share classes.

The Morningstar Mid-Cap Growth Category consisted of 592, 503, and 386 share classes for the 1-, 5-, and 10-year periods. Morningstar ranked Baron Growth Fund in the 20th, 23rd, 20th, and 1st percentiles for the 1-, 5-, 10-year, and since inception periods, respectively. The Fund launched 12/31/1994, and the category consisted of 53 share classes. Morningstar ranked Baron Focused Growth Fund in the 3rd, 1st, 1st, and 1st percentiles for the 1-, 5-, 10-year, and since conversion periods, respectively. The Fund converted into a mutual Fund on 6/30/2008, and the category consisted of 311 share classes.

The Morningstar Real Estate Category consisted of 255, 205, and 149 share classes for the 1-, 5-, and 10-year time periods. Morningstar ranked Baron Real Estate Fund in the 96th, 1st, 1st, and 1st percentiles for the 1-, 5-, 10-year, and since inception periods, respectively. The Fund launched 12/31/2009, and the category consisted of 127 share classes.

The Morningstar Allocation—85%+ Equity Category consisted of 188 share classes for the 1-year period. Morningstar ranked Baron WealthBuilder Fund in the 96th and 2nd percentiles for the 1-year and since inception periods, respectively. The Fund launched 12/29/2017, and the category consisted of 165 share classes.

Morningstar calculates the Morningstar Category average performance and rankings using its Fractional Weighting methodology. 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.

[3] This is a hypothetical ranking created by Baron Capital using Morningstar data and is as of 3/31/2022. There were 2,166 share classes in these nine Morningstar Categories for the period from 4/30/2003 to 3/31/2022.

[4] This is a hypothetical ranking created by Baron Capital using Morningstar data and is as of 3/31/2022. There were 3,436 share classes in these nine Morningstar Categories for the period from 6/30/2008 to 3/31/2022.

Note, the peer group used for these analyses includes all U.S. equity share classes in Morningstar Direct domiciled in the U.S., including obsolete funds, index funds, and ETFs. The individual Morningstar Categories used for this analysis are the Morningstar Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Small Blend, Small Growth, and Small Value Categories.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Baron Funds (Institutional Shares) and Benchmark Performance 3/31/2022

Fund	Primary Benchmark	Annualized Return Since Fund Inception	Annualized Benchmark Return Since Fund Inception	Inception Date	Average Annualized Returns 1-Year	3-Year	5-Year	10-Year	Annual Expense Ratio	Net Assets
SMALL CAP										
Baron Growth Fund	Russell 2000 Growth Index	13.64%	8.19%	12/31/1994	3.17%	16.96%	16.93%	14.35%	1.03%[3]	$8.21 billion
Baron Small Cap Fund	Russell 2000 Growth Index	10.76%	6.57%	9/30/1997	-4.87%	14.59%	15.10%	12.92%	1.03%[3]	$4.60 billion
Baron Discovery Fund†	Russell 2000 Growth Index	15.86%	9.48%	9/30/2013	-18.31%	15.62%	17.76%	N/A	1.05%[3]	$1.54 billion
SMALL/MID CAP										
Baron Focused Growth Fund[1]	Russell 2500 Growth Index	14.32%	8.60%	5/31/1996	9.47%	41.57%	31.02%	19.00%	1.05%[4]	$796.61 million
MID CAP										
Baron Asset Fund†	Russell Midcap Growth Index	11.92%	10.57%[2]	6/12/1987	-1.34%	14.26%	15.60%	14.14%	1.03%[3]	$5.38 billion
LARGE CAP										
Baron Fifth Avenue Growth Fund†	Russell 1000 Growth Index	10.21%	12.04%	4/30/2004	-10.75%	14.43%	17.15%	14.48%	0.75%[3][6]	$575.35 million
Baron Durable Advantage Fund	S&P 500 Index	15.81%	15.25%	12/29/2017	15.07%	20.57%	N/A	N/A	1.48%/0.70%[3][7]	$47.90 million
ALL CAP										
Baron Partners Fund[1]	Russell Midcap Growth Index	16.62%	10.32%	1/31/1992	24.51%	56.69%	39.02%	25.80%	1.11%[4][5]	$8.04 billion
Baron Opportunity Fund†	Russell 3000 Growth Index	9.80%	6.82%	2/29/2000	-6.52%	27.39%	27.19%	17.26%	1.05%[3]	$1.26 billion
INTERNATIONAL										
Baron Emerging Markets Fund	MSCI EM Index	4.30%	2.32%	12/31/2010	-19.20%	3.44%	4.68%	5.31%	1.08%[4]	$7.65 billion
Baron Global Advantage Fund†	MSCI ACWI Index	15.26%	10.21%	4/30/2012	-20.62%	17.25%	20.20%	N/A	0.90%[4][8]	$1.73 billion
Baron International Growth Fund	MSCI ACWI ex USA Index	10.91%	7.45%	12/31/2008	-8.35%	10.80%	10.23%	8.42%	0.96%/0.95%[4][9]	$632.97 million
SECTOR										
Baron Real Estate Fund†	MSCI USA IMI Extended Real Estate Index	15.85%	12.27%	12/31/2009	-0.09%	24.76%	17.08%	15.14%	1.05%[4]	$1.86 billion
Baron Real Estate Income Fund	MSCI US REIT Index	15.86%	9.14%	12/29/2017	16.97%	21.24%	N/A	N/A	1.08%/0.80%[4][11]	$145.85 million
Baron Health Care Fund†	Russell 3000 Health Care Index	19.20%	15.01%	4/30/2018	3.62%	21.98%	N/A	N/A	0.89%/0.85%[4][12]	$214.20 million
Baron FinTech Fund†	S&P 500 Index	16.68%	18.09%	12/31/2019	-2.62%	N/A	N/A	N/A	1.18%/0.95%[4][13]	$52.01 million
EQUITY ALLOCATION										
Baron WealthBuilder Fund	S&P 500 Index	19.12%	15.25%	12/29/2017	-0.18%	23.66%	N/A	N/A	1.08%/1.05%[4][15]	$524.96 million

(1) 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.

(2) For the period June 30, 1987 to March 31, 2022.

(3) As of 9/30/2021.

(4) As of 12/31/2021.

(5) Comprised of operating expenses of 1.05% and interest expenses of 0.06%.
(6) Annual expense ratio was 0.75%, but the net annual expense ratio was 0.75% (net of Adviser's fee waivers). Expense reimbursement was less than 0.01%.
(7) Annual expense ratio was 1.48%, but the net annual expense ratio was 0.70% (net of Adviser's fee waivers).
(8) Annual expense ratio was 0.90%, but the net annual expense ratio was 0.90% (net of Adviser's fee waivers). Expense reimbursement was less than 0.01%.
(9) Annual expense ratio was 0.96%, but the net annual expense ratio was 0.95% (net of Adviser's fee waivers).
(10) Annual expense ratio was 8.59%, but the net annual expense ratio was 1.20% (net of Adviser's fee waivers).
(11) Annual expense ratio was 1.08%, but the net annual expense ratio was 0.80% (net of Adviser's fee waivers).
(12) Annual expense ratio was 0.89%, but the net annual expense ratio was 0.85% (net of Adviser's fee waivers).
(13) Annual expense ratio was 1.18%, but the net annual expense ratio was 0.95% (net of Adviser's fee waivers).
(14) Expense ratios are estimated for the current fiscal year.
(15) Annual expense ratio was 1.08%, but the net annual expense ratio was 1.05% (includes acquired fund fees and expenses, net of the Adviser's fee waivers).
* Not annualized.
† The Fund's historical performance was impacted by gains from IPOs. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

Performance for the Institutional Shares prior to 5/29/2009 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 5/29/2009 did not reflect this fee, the returns would be higher.

Baron Asset Fund's 1-year, **Baron Discovery Fund's** 3- and 5-year, **Baron Fifth Avenue Growth Fund's** 1- and 3-year, **Baron FinTech Fund's** 1-year, **Baron Global Advantage Fund's** 3- and 5-year, **Baron Health Care Fund's** 1-year, **Baron Opportunity Fund's** 1-, 3-, 5- and 10-year and **Baron Real Estate Fund's** 1-year historical performance were impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Funds' level of participation in IPOs will be the same in the future.

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

Portfolio holdings as a percentage of net assets as of March 31, 2022 for securities mentioned are as follows: **The Carlyle Group Inc.** – Baron Growth Fund (1.1%); **Choice Hotels International, Inc.** – Baron Asset Fund (1.4%), Baron Growth Fund (5.2%), Baron Focused Growth Fund (2.8%); **Dick's Sporting Goods, Inc.** – Baron Partners Fund (0.2%*); **Hyatt Hotels Corp.** – Baron Asset Fund (1.0%), Baron Partners Fund (3.6%*), Baron Focused Growth Fund (6.0%), Baron Real Estate Fund (1.9%); **Marriott Vacations Worldwide Corp.** – Baron Partners Fund (1.2%*), Baron Growth Fund (2.4%), Baron Real Estate Fund (3.6%), Baron Real Estate Income Fund (2.6%); **Red Rock Resorts, Inc.** – Baron Asset Fund (1.0%), Baron Partners Fund (0.5%*), Baron Small Cap Fund (2.4%), Baron Focused Growth Fund (2.3%), Baron Real Estate Fund (2.9%), Baron Discovery Fund (1.0%), Baron Real Estate Income Fund (1.6%); **Space Exploration Technologies Corp.** – Baron Asset Fund (1.0%), Baron Partners Fund (5.2%*), Baron Opportunity Fund (1.5%), Baron Fifth Avenue Growth Fund (0.5%), Baron Focused Growth Fund (8.5%), Baron Global Advantage Fund (1.1%); **Tesla, Inc.** - Baron Partners Fund (49.0%*), Baron Opportunity Fund (4.5%), Baron Fifth Avenue Growth Fund (4.0%), Baron Focused Growth Fund (27.7%) Baron Global Advantage Fund (1.6%), Baron Technology Fund (2.4%); **Penn National Gaming, Inc.** – Baron Partners Fund (0.3%*), Baron Growth Fund (2.9%), Baron Small Cap Fund (0.9%), Baron Focused Growth Fund (2.5%), Baron Real Estate Fund (1.7%); **Vail Resorts, Inc.** – Baron Asset Fund (2.9%), Baron Partners Fund (3.1%*), Baron Growth Fund (6.3%), Baron Focused Growth Fund (4.4%), Baron Real Estate Fund (2.3%), Baron Real Estate Income Fund (1.0%).

Portfolio holdings may change over time.

* % of Long Positions

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

For the period ended 3/31/2022:

Baron Focused Growth Fund received a 5-Star Overall Morningstar Rating™, 5-Star 3-Year Rating, 5-Star 5-Year Rating, and 5-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 542, 542, 503 and 386 funds in the category, respectively.

Baron Partners Fund received a 5-Star Overall Morningstar Rating™, 5-Star 3-Year Rating, 5-Star 5-Year Rating, and 5-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 1,124, 1,124, 1,025, and 765 funds in the category, respectively.

Baron Opportunity Fund received a 5-Star Overall Morningstar Rating™, 5-Star 3-Year Rating, 5-Star 5-Year Rating, and 4-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 1,124, 1,124, 1,025, and 765 funds in the category, respectively.

Baron Real Estate Fund received a 5-Star Overall Morningstar Rating™, 5-Star 3-Year Rating, 5-Star 5-Year Rating, and 5-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 236, 236, 205 and 149 funds in the category, respectively.

Baron Real Estate Income Fund received a 5-Star Overall Morningstar Rating™ and 5-Star 3-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 236 and 236 funds in the category, respectively.

Baron Global Advantage Fund received a 4-Star Overall Morningstar Rating™, 3-Star 3-Year Rating, and 5-Star 5-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 306, 306 and 265 funds in the category, respectively.

Baron WealthBuilder Fund received a 5-Star Overall Morningstar Rating™ and 5-Star 3-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 168 and 168 funds in the category, respectively.

Baron Health Care Fund received a 5-Star Overall Morningstar Rating™ and 5-Star 3-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 141 and 141 funds in the category, respectively.

Baron Small Cap Fund received a 3-Star Overall Morningstar Rating™, 3-Star 3-Year Rating, 3-Star 5-Year Rating, and 3-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 580, 580, 521 and 391 funds in the category, respectively.

Baron Discovery Fund received a 4-Star Overall Morningstar Rating™, 3-Star 3-Year Rating, and 4-Star 5-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 580, 580, and 521 funds in the category, respectively.

Baron Asset Fund received a 4-Star Overall Morningstar Rating™, 3-Star 3-Year Rating, 4-Star 5-Year Rating, and 4-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 542, 542, 503 and 386 funds in the category, respectively.

Baron Fifth Avenue Growth Fund received a 2-Star Overall Morningstar Rating™, 1-Star 3-Year Rating, 2-Star 5-Year Rating, and 2-Star 10-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 1,124, 1,124, 1,025 and 765 funds in the category, respectively.

Baron Durable Advantage Fund received a 4-Star Overall Morningstar Rating™ and 4-Star 3-Year Rating. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 1,124 and 1,124 funds in the category, respectively.

The Morningstar Ratings™ are for the Institutional share class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

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.

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time 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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