Dear Baron Opportunity Fund Shareholder:

Performance

Baron Opportunity Fund (the "Fund") had a strong year, climbing 40.88% (Institutional Shares). The Fund outperformed both the Russell 3000 Growth Index, which advanced 29.59%, and the S&P 500 Index, which rose 21.83%.

For the fourth quarter, the Fund increased 6.18%, slightly trailing the two indexes, which rose 7.61% and 6.64%, respectively.

Table I.
Performance†
Annualized for periods ended December 31, 2017

	Baron Opportunity Fund Retail Shares[1,2]	Baron Opportunity Fund Institutional Shares[1,2,3]	Russell 3000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	6.08%	6.18%	7.61%	6.64%
One Year	40.51%	40.88%	29.59%	21.83%
Three Years	10.61%	10.90%	13.51%	11.41%
Five Years	12.85%	13.15%	17.16%	15.79%
Ten Years	7.89%	8.14%	9.93%	8.50%
Fifteen Years	13.61%	13.79%	10.76%	9.92%
Since Inception (February 29, 2000)	6.01%	6.15%	4.10%	5.87%

MICHAEL A. LIPPERT

PORTFOLIO MANAGER

Retail Shares: BIOPX
Institutional Shares: BIOIX
R6 Shares: BIOUX

Review & Outlook

The Fund had a robust 2017 and, though we are only three weeks in, has had quite a solid start to 2018. I believe this is due to our consistent focus on secular innovation trends and sustainable growth. We target our investments towards how the world has changed and is changing: the generational, disruptive and tectonic shifts impacting how we live and work. To paraphrase one of my favorite sports quotes (from hockey legend Wayne Gretzky), we own a portfolio of businesses that represent where the world "is going, not where it has been."

The world remains early in the next generation of digital services that might be called the "intelligence," "algorithmic" or "big data" era. Data has been described as the new oil. The leading global platform businesses have proprietary databases powering applications and services that provide real and differentiated value to their users: Amazon, Google, Facebook, Alibaba, to highlight a few. Today's consumer and business digital services – unlike almost all analog products – get better the more they are used: more use (and users) yields more data which is captured and analyzed to improve the service and provide enhanced value – rinse and repeat.

The changes and shifts of the digital age impact our consumer and business lives in myriad ways that we now almost take for granted, for example:

- the way we shop
- the way we get information
- the way we interact with friends and family
- the way robotics has advanced how we build products
- the way artificial intelligence, machine learning and predictive analytics yield useful insights from the data we now capture
- the way we diagnose disease with genetic sequencing
- the ways we take advantage of cloud computing to more easily build apps and deploy computing infrastructure
- the ways we pay for products and services

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2017 was 1.41% and 1.14%, respectively. *The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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.*

† 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.

1 The indexes are unmanaged. The Russell 3000® Growth Index measures the performance of the broad segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000® Growth Index measures the performance of those companies classified as growth among the largest 3,000 U.S. companies and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares

4 Not annualized

3 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.

BARON FUNDS® 1987

Our portfolio is populated with companies driving or taking advantage of these types of disruptive changes and the longer list below. We invest in businesses that we believe are industry leaders and market share winners, possess durable competitive advantages and will be able to drive sustainable top-line growth. We carefully analyze whether the revenue growth is profitable – and will ultimately yield high margins, excess free cash flow ("FCF") and returns above the cost of capital. We focus more on forecasting and valuing a company's long-term earnings and FCF power, rather than current earnings or cash flow because, in our view, a myopic fixation on the near term will almost always miss the winners of the future.

In keeping with our consistent strategy, we have made only modest changes to the portfolio. Chiefly, we have attempted to steadily enhance portfolio quality, which I define as companies that are clear leaders in well-established secular themes; further ahead on the business maturity curve, which can be measured by scale, customer adoption or market capitalization; and material FCF generators. For example, we have increased portfolio weightings in **Microsoft Corporation**, **Adobe Systems Incorporated** and **Electronic Arts, Inc.** Moreover, the top of our portfolio remains populated by platform companies, such as **Amazon.com, Inc.**, Google (**Alphabet Inc.**) and **Tencent Holdings, Ltd.**, and leading innovators, like **Guidewire Software, Inc.**, **CoStar Group, Inc.** and **Tesla, Inc.**

Below is our more inclusive list of the powerful secular themes in which we invest:

- Cloud computing
- Software-as-a-service (SaaS)
- "Big Data" and "Artificial Intelligence"
- Mobile
- Digital media
- Targeted, people-based digital advertising
- E-commerce
- Genetics
- Minimally-invasive surgical procedures
- Cybersecurity
- Electric-drive vehicles/autonomous driving
- Electronic payments

By investing in businesses capitalizing on these potent trends, we have been able to build portfolios that consistently deliver revenue growth rates at multiples of the general economy, as reflected in broad market indexes. Below we compare the revenue growth rates of our portfolio and three indexes for the trailing four quarters for which we have reliable data:

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

	Actual Q3 2017	Actual Q2 2017	Actual Q1 2017	Actual Q4 2016
Baron Opportunity Fund	27.6%	25.2%	23.3%	20.5%
S&P 500 Index	6.8%	6.5%	8.2%	4.2%
Russell 3000 Index	7.7%	7.1%	8.4%	3.8%
Russell 3000 Growth Index	9.2%	8.5%	8.4%	5.7%

As I've addressed in recent letters, I am asked frequently about where we are in the current market "secular growth" or "tech" cycle and whether we are due for a reversal or change in market leadership. At Baron, we are not market timers. I admit that I do not know when the market will peak, how long the current cycle will last or when market leadership will change. The market now appears to be digesting the tax reform legislation – in particular, lower business tax rates – passed before the end of last year. On the economic front, the U.S. economy is growing at a solid pace, unemployment is approaching "full employment" levels and the Federal Reserve continues to signal a slow but steady normalization of interest rates. These factors have provided a favorable backdrop for equity investors. While we attempt to stay abreast of politics, economics and international events, we do not try in any way to predict the unpredictable in these areas or trade on the short-term market reactions they may provoke.

But I do remain steadfast in my belief that, over the long term, sustainable growth matters and will be the predominant underpinning of market leadership. Market multiples vary over time, but almost always within a long-established range. When we break out of this range on the upside or downside, the market hits a top or bounces off the bottom. I wouldn't bet on a "new normal" in market multiples, and I believe we remain within the long-term range today. That leaves future stock returns to be driven by growth in earnings and dividends. As we are experiencing right now, short-term or one-time lifts in a company's earnings can come from tax reform, as well as cost cuts, acquisitions, interest rate shifts, economic cycles, etc. But sustainable increases in a business's earnings or cash flow power can only be driven by profitable top-line growth – my "it's the growth, stupid." But where will the long-term growth the market needs to drive earnings and FCF power come from? We are confident this sustainable growth will be driven by the secular megatrends we relentlessly focus on.

Table II.
Top contributors to performance for the quarter ended December 31, 2017

	Percent Impact
Sage Therapeutics, Inc.	2.04%
Amazon.com, Inc.	1.46
argenx SE	1.06
Tencent Holdings, Ltd.	0.54
Alphabet Inc.	0.45

Sage Therapeutics, Inc. is focused on developing novel drugs for central nervous system disorders. The stock's fourth quarter outperformance was driven by positive clinical trial results of lead assets in the areas of postpartum depression and major depression. In our last quarterly letter, where Sage was a detractor, we wrote "[w]ith pivotal data in postpartum and major depression treatment coming out later this quarter, we believe Sage has the potential to turn things around quickly." Our analyst, Josh Riegelhaupt, had done his homework and proved to be right. In addition, Sage has announced expansion into disease indications like Parkinson's and tremor, and we expect maturation of the pipeline combined with upcoming commercial execution of its depression assets to continue to drive share appreciation. (Josh Riegelhaupt)

Shares of **Amazon.com, Inc.**, the world's largest retailer and cloud services provider, rose solidly in the fourth quarter. Amazon reported strong third quarter results and continued to invest in video streaming and international expansion. The company's flywheel effect of growing participation from Prime members driving further activity on Amazon.com also persisted. Its cloud business now contributes substantial profitability to the overall business and remains the category leader in market share. Amazon is also becoming a major player in digital advertising, a high-margin business, and, in our research, is being mentioned in the same conversations as Facebook and Google. (Ashim Mehra)

argenx SE is a Netherlands-based biotech company focused on cancer and autoimmune disorder treatments. Shares rose in the fourth quarter after the Phase 2 clinical trial of the company's ARGX-113 showed effective results for treating myasthenia gravis, a rare autoimmune disorder that causes muscle weakness. We expect the stock to continue rallying as results from trials of argenx's products for treating immune thrombocytopenia purpura, a blood disorder, and pemphigus vulgaris, a skin and mucus membrane disease, become available in 2018. (Josh Riegelhaupt)

Tencent Holdings, Ltd. is one of the two largest internet companies in China. Shares of Tencent were up solidly in the fourth quarter on the back of strong fundamentals in both its gaming and advertising businesses. The company operates the leading social network and messaging platform in China (QQ and WeChat), the largest online entertainment and media business in China, and the largest online PC and mobile gaming business in China. The company reaches almost a billion monthly users and operates or has investments in several other online business segments. We estimate that Tencent will be able to grow each of its large business segments for years to come given its track record of execution, its unique online intellectual property and assets and its scale. (Ashim Mehra)

Alphabet Inc. is the world's largest search and online advertising company. Shares of Alphabet climbed in the fourth quarter after reporting strong quarterly results. Alphabet continued to benefit from online advertising growth, driven by Google search, YouTube video and Google's large advertising network. We believe the company's capabilities in life sciences, artificial intelligence and self-driving cars will create additional value for investors. (Ashim Mehra)

Table III.
Top detractors from performance for the quarter ended December 31, 2017

	Percent Impact
Benefitfocus, Inc.	–0.50%
Expedia, Inc.	–0.49
Tesla, Inc.	–0.43
Glaukos Corporation	–0.36
Wix.com Ltd.	–0.35

Shares of employer-benefits software vendor **Benefitfocus, Inc.** declined this quarter, detracting from performance as uncertainty around health care reform froze sales cycles. We expect other short-term headwinds, including longer implementation periods, slower employer signings related to a sales restructuring, and channel conflict with brokers, to abate next year. We continue to believe that the company's addressable opportunity is large and expanding, its competitive position is continuing to improve, it has a sizeable brokerage opportunity and it is progressing on margins. (Neal Rosenberg)

Shares of **Expedia, Inc.**, the world's second largest global travel agency, declined in the quarter. The reason for the decline was the company's decision to accelerate investments into calendar 2018. The investments are focused on a few areas: accelerating the rate of adding properties to the Expedia network in Europe, fast-tracking its cloud migration and increasing brand marketing spend for HomeAway, its leading vacation rental marketplace. While these investments are expected to adversely impact profitability for 2018, they should provide the company with a higher growth rate going forward. The cloud investments should ultimately reduce the company's capital expenditures and yield higher levels of FCF. We remain supporters of the company and believe that the vacation rental business at Expedia is substantially undervalued by investors. (Ashim Mehra)

Tesla, Inc. is the world's first pure play diversified sustainable-energy company, manufacturing fully-electric automobiles, solar roof products and energy storage solutions. Tesla shares underperformed during the fourth quarter after the company disclosed Model 3 production challenges and lowered its expected production ramp cadence. The market appears to have concluded the slower ramp will pressure cash flow generation and lead Tesla to raise additional capital sometime in 2018. Though Tesla recently unveiled the exciting Semi Truck and Roadster 2.0, it will take time for these vehicles to impact results. Model 3 thus continues to be the main driver for the stock. We maintain a steady dialogue with the company and believe Tesla will solve its Model 3 production issues. We continue to expect Model 3 – which has garnered eye-opening reviews – to enable Tesla to make EVs a major player in the automotive mass market. (Ishay Levin)

Shares of **Glaukos Corporation**, a pioneer of minimally-invasive products and procedures for the treatment of glaucoma, fell in the quarter. Glaukos' product, the "iStent," is a stent that is inserted into the eye's clogged outflow drain to reduce pressure and slow glaucoma progression. Glaukos experienced execution issues as a Medicare price increase led to commercial insurance reimbursement issues, resulting in volume deceleration, guidance revisions and underperformance. In light of a multitude of challenges, including increased competition, unclear penetration into front-line usage and potential for continued reimbursement hurdles, we decided to exit our position. (Josh Riegelhaupt)

Wix.com Ltd. is an Israeli internet company that provides a leading cloud-based development platform to help small and micro businesses build and maintain websites and operate their businesses more efficiently. Wix, with over 110 million registered users and 3 million paying premium users, is the clear industry leader. Shares of Wix declined in the fourth quarter after the company guided to increased research and development spending, which will pressure margins in the short term, to support the launch of an innovative new product, called Wix Code. We retain conviction in Wix due to the large market opportunity, strong customer economics, its brand name and its innovative culture. We added to our position on weakness. (Guy Tartakovsky)

Portfolio Structure

The Fund invests in high-growth, innovative businesses across all market capitalizations. As of the end of the fourth quarter, the largest market cap holding in the Fund was $729.3 billion and the smallest was $84 million.

The median market cap of the Fund was $18.7 billion. The Fund had $252.8 million of assets under management. The Fund had investments in 50 securities. The Fund's top 10 positions accounted for 42.5% of the portfolio.

Table IV.
Top 10 holdings as of December 31, 2017

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$563.5	$17.6	7.0%
Guidewire Software, Inc.	5.6	13.8	5.5
Gartner, Inc.	11.2	13.3	5.2
Alphabet Inc.	729.3	12.9	5.1
Tesla, Inc.	52.3	11.7	4.6
CoStar Group, Inc.	10.7	9.9	3.9
Sage Therapeutics, Inc.	6.8	7.5	3.0
Tencent Holdings, Ltd.	493.6	7.1	2.8
Microsoft Corporation	659.9	7.1	2.8
Facebook, Inc.	515.0	6.5	2.6

Recent Activity

Table V.
Top net purchases for the quarter ended December 31, 2017

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Microsoft Corporation	$659.9	$7.0
Adobe Systems Incorporated	86.4	3.7
argenx SE	2.0	2.1
Wix.com Ltd.	2.6	1.2
Vertex Pharmaceuticals Incorporated	37.9	0.7

We initiated an investment in software mega-cap, **Microsoft Corporation**. While mostly known for its Windows and Office software, in recent years and especially since CEO Satya Nadella took the helm in 2014, Microsoft has become a cloud company, as well as an innovator in artificial intelligence and augmented reality. Today, Microsoft has roughly $20 billion of cloud revenues growing at a 50% rate. If it was a stand-alone business, it would have been the fastest growing cloud business of that size in the world. Microsoft has a strong moat around its business, based on the wide reach of its sales channel into enterprises that was built over decades, its unique hybrid-cloud offering (systems designed to run workloads seamlessly in one's own data center, known as "on premise," or in "public cloud" data centers owned and operated by Microsoft) and its positioning in the public cloud market, a highly attractive market with strong economies of scale, high barriers to entry and high switching costs. We believe Microsoft can accelerate its growth into the double-digits and expand margins at the same time.

We initiated a position in **Adobe Systems Incorporated**, a leading cloud-based software company providing solutions for creative and marketing professionals. Adobe's wide range of leading solutions span from Photoshop to digital marketing and analytics products that help companies with their digital transformations. Adobe's robust opportunity is driven by some of the largest technological shifts, including digitization of content, growing adoption of online advertising, transition to mobile and the widespread adoption of video. Adobe's access to data – with trillions of data points in marketing and web analytics, coming from millions of users and its artificial intelligence capabilities – creates a significant moat around its business, with a flywheel effect that continuously increases Adobe's gap from competitors. Adobe has an experienced, innovative management team, and a highly efficient business model, which generates over 87% gross profit margins and turns almost 37% of its revenues into FCF, the highest of the cloud-computing vendors we follow.

argenx SE is a biotech company developing antibodies for the treatment of autoimmune disorders and cancer. Lead asset ARGX-113 has broad applicability in reducing diseases caused by overactive antibodies. We invested in argenx given our confidence in a positive trial outcome in myasthenia gravis, which subsequently occurred. We expect execution to continue as argenx proves utility in immune thrombocytopenia and pemphigous vulgaris.

We increased our position in **Wix.com Ltd.** during the quarter, following a decline in the stock price, which we believed was short term in nature. The market reacted negatively to Wix's announcement of increased R&D investment in 2018, as it launches and markets its new Wix Code product. In the past, we have seen pullbacks like these – driven by short-term investments against exciting products – as excellent buying opportunities. We believe Wix Code has the real potential to be a disruptive solution for designing web applications, vastly increasing Wix's addressable market. We continue to like Wix's best-in-class economics, including its substantial free cash flow generation and its customer lifetime value, which is multiples of its customer acquisition cost.

Vertex Pharmaceuticals Incorporated is the leading developer of treatments for cystic fibrosis. Given continued success in developing its "triple" – the name given to the three-drug combination that will allow broad cystic fibrosis patient treatment (currently approved for 50% to 60% of the addressable market) – we now believe Vertex will dominate cystic fibrosis for years to come. Given its market dominance, we expect to see a material inflection in all of Vertex's financial measures, leading to expanded cash flow and continued investment against the sickle cell disease opportunity. We increased our Vertex position during the quarter.

Table VI.
Top net sales for the quarter ended December 31, 2017

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Acxiom Corporation	$ 2.2	$4.3
Glaukos Corporation	0.9	3.1
Red Hat, Inc.	21.3	3.0
Amazon.com, Inc.	563.5	2.3
The Trade Desk	1.9	2.2

We trimmed our **Acxiom Corporation** position and exited **Red Hat, Inc.** after year end – a profitable long-term investment that was trading at a higher multiple than it had in years – to fund the purchases and portfolio adjustments described above and in the Review & Outlook section.

We exited **Glaukos Corporation** as described above.

We made minor trims to our **Amazon.com, Inc.** position. We retain our high level of conviction in Amazon and it remains our largest holding at 7% of the Fund.

We reduced our weighting in **The Trade Desk**, a company and management team we retain long-term confidence in, at a level around its all-time high and after we had more than doubled our investment since the company's IPO in September 2016.

To conclude, I believe wholeheartedly in the strategy of the Fund: growth based on powerful, long-term, innovation-driven secular growth trends. In the highly uncertain world we live in, we believe non-cyclical, sustainable, and resilient growth should be part of investors' portfolios.

Sincerely,

Michael A. Lippert
Portfolio Manager

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

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

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio 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.

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