## DEAR BARON TECHNOLOGY FUND SHAREHOLDER:

### PERFORMANCE

During the second quarter, Baron Technology Fund® (the Fund) declined 3.89% (Institutional Shares), outperforming the MSCI ACWI Information Technology Index, which dropped 6.16%. The Fund slightly underperformed the broader S&P 500 Index, which fell 3.27%. For the year-to-date period, the Fund is up 37.34%, ahead of both indexes, which returned 28.47% and 13.07%, respectively.

**Table I.**
**Performance**
**Annualized for periods ended September 30, 2023**

| | Baron Technology Fund Retail Shares[1,2] | Baron Technology Fund Institutional Shares[1,2] | MSCI ACWI Information Technology Index[1] | S&P 500 Index[1] |
|---|---|---|---|---|
| Three Months[3] | (4.04)% | (3.89)% | (6.16)% | (3.27)% |
| Nine Months[3] | 36.69% | 37.34% | 28.47% | 13.07% |
| One Year | 28.81% | 29.44% | 35.88% | 21.62% |
| Since Inception (December 31, 2021) | (14.51)% | (14.19)% | (6.71)% | (4.30)% |

MICHAEL A. LIPPERT PORTFOLIO MANAGER
ASHIM MEHRA PORTFOLIO MANAGER
Retail Shares: BTEEX
Institutional Shares: BTECX
R6 Shares: BTEUX

### REVIEW & OUTLOOK

Like the market environment of 2022, the third quarter just concluded and the first weeks of the fourth quarter proved to be dominated by macroeconomic and exogenous issues, including: (1) economic debates and considerations regarding a soft landing vs. a recession, Fed policy (i.e., when will the Fed stop raising rates, when might it lower rates, the risk of *higher for longer*), the U.S. government budget picture, the spike to fresh multi-decade highs on the 10-Year Treasury yield, and the first United Auto Workers strike in more than 80 years; (2) domestic political instability, such as the absence of a Speaker of the House and the ensuing legislative paralysis, the possibility of a government shutdown (now, in mid-November), and the upcoming 2024 election; and (3) geopolitical fears and risks, particularly China-U.S. relations and U.S. semiconductor-technology export restrictions, the war in Ukraine, and now the tragic developments and threats of a wider conflict in the Middle East. As in the past, this backdrop restrained investor sentiment and negatively impacted equity market and Fund performance in the third quarter, and the Fund slightly underperformed the broader market indexes.

There has been no change at all in our research-based view of the longer-term secular trends we emphasize, particularly artificial intelligence (AI), semiconductors, software, cloud computing, and electric vehicles (EVs). But in our interactions with management teams, we are hearing a little more macroeconomic uncertainty, both in terms of the impact on customer behavior and company investment decisions. We chose the word *uncertainty* deliberately because it is not weakness we are hearing, but genuine hesitation, indecision, and a wait-and-see attitude about the macroeconomic issues listed above. History has taught us that in these types of conditions the strong get stronger, particularly for well-managed and well-capitalized businesses, and most of our companies are prudently investing to capture the large opportunities ahead of them, as well as sustaining healthy growth rates.

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*Performance listed in the above table is net of annual operating expenses. The gross annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2022 was 6.86% and 6.42%, respectively, but the net annual expense ratio was 1.20% and 0.95% (net of the Adviser's fee waivers and expense reimbursements), 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. The Adviser reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2034, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month-end, visit baronfunds.com or call 1-800-99-BARON.*

1 The **MSCI ACWI Information Technology Index Net (USD)** includes large and mid cap securities across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. All securities in the index are classified in the Information Technology sector as per the Global Industry Classification Standard (GICS®). MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The MSCI ACWI Information Technology Index Net (USD) and the Fund include reinvestment of dividends, net of foreign withholding taxes, while the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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

3 Not annualized.

### Semiconductors/AI

Semiconductor stocks underperformed the market during the third quarter. AI-related excitement from prior quarters waned somewhat, and macroeconomic and geopolitical concerns dominated investor sentiment. Geopolitical tensions between the U.S. and China continued to be a major source of uncertainty for semiconductor companies. The Biden administration has imposed stricter restrictions on the export of chips and manufacturing equipment to China. We continue to monitor these restrictions, especially for AI-related names like **NVIDIA Corporation** and **Advanced Micro Devices, Inc.**, and semi-cap equipment companies like **ASML Holding N.V.** In contrast to the short-term stock performance, demand for AI chips and systems remained robust and continues to outstrip supply. See our discussion of NVIDIA in the Top Contributors section below.

The long-term picture for the semiconductor industry remains favorable, with durable secular drivers expected to continue driving well-above-GDP growth through the end of the decade. We do not try to time the cycle but focus on buying high-quality growth companies at what we feel are attractive prices relative to their long-term growth and profitability prospects. Given the recent pullback in semiconductor stocks, we initiated positions in a couple of names and added to existing holdings that we thought were myopically punished in the current environment.

We wanted to delve deeper into an emerging trend in the world of high-performance computing. To put it simply, Moore's Law stated that computer chips would double in power every two years by cramming in tinier electrical components, known as transistors. We are now hitting a wall, however: these transistors are nearly as small as atoms, making further miniaturization both complex and costly. To navigate this challenge, the tech world is pivoting to a novel design concept known as *chiplets*. In contrast to the legacy approach, where all computing functions are fused onto a single, flat chip, chiplets modularize these functions. Each function, like processing or memory, gets its own mini chip. These mini chips are then stacked vertically, taking advantage of three-dimensional space in chip design for the first time. The chiplet architecture offers multiple benefits, such as improved performance, reduced cost, and higher manufacturing yields. One critical advantage is energy efficiency: stacking a memory chiplet directly above a processing chiplet reduces the distance data has to travel, saving energy in the process.

A groundbreaking technique called *hybrid bonding* is now being employed to seamlessly connect these chiplets, enhancing their performance even further. During the quarter, we initiated an investment in **BE Semiconductor Industries N.V.**, a Netherlands-based firm leading the charge in this hybrid bonding technology. We're confident that the company holds significant technological and first-mover advantages along with notable orders from leading semiconductor customers, positioning it well to capitalize on the widespread adoption of chiplet architectures in years to come.

### Software/Cloud/AI

Since mid-2022, we have observed a moderation in the purchases of cloud infrastructure and software tied to digital transformation, as companies looked to *optimize* their spending after several years of strong growth. More recently, software and cloud vendors have noted stabilization and attenuation in the pace of optimizations, and that new workload and new businesses pipelines are beginning to strengthen.

Despite near-term macro uncertainty, it's important to frame that we find ourselves in the early innings of both the AI investment cycle and overall cloud penetration. We estimate cloud penetration to be between 25% and 30% versus the likely 70% to 75% level over time, if not even higher. AI deployments are literally just getting off the ground.

Three vectors where we see the adoption of AI impacting cloud and software businesses include:

- Infrastructure and development platforms for securely storing and curating data, training and fine-tuning large-language and other AI models, and developing and delivering AI applications. Beneficiaries include Microsoft Azure and Amazon Web Services.
- Integration of generative AI capabilities, such as AI agents and copilots, directly into existing product offerings and customer workflows. Software vendors capitalizing on this opportunity include **Microsoft Corporation, Ceridian HCM Holding Inc., Workday, Inc., Intuit Inc., ServiceNow, Inc., CrowdStrike Holdings, Inc.,** and **HubSpot, Inc.**
- Developer productivity tools, including generative AI writing software code from natural language prompts. Leaders are Microsoft Github, Amazon CodeWhisperer, and **GitLab Inc.**

We continue to run a high-conviction portfolio with an emphasis on the secular trends cited above. Among others, during the third quarter we initiated positions in, or increased portfolio weights of, the following positions:

- Semiconductors: **NVIDIA Corporation** and **BE Semiconductor Industries N.V.**
- Software: **Ceridian HCM Holding Inc., Dynatrace, Inc., Workday, Inc., Intuit Inc.,** and **CrowdStrike Holdings, Inc.**
- Digital Media/Entertainment: **Take-Two Interactive Software, Inc.** and **Alphabet Inc.**
- IT Services: **Gartner, Inc.**

We remain steadfast in our belief that exposure to the broader technology sector should be a material part of an investor's portfolio for the long term. Technology has the power to reshape industries, disrupt business models, and create opportunities for substantial wealth creation.

**Table II.**
**Top contributors to performance for the quarter ended September 30, 2023**

| | Percent Impact |
|---|---|
| Rivian Automotive, Inc. | 0.52% |
| NVIDIA Corporation | 0.34 |
| CrowdStrike Holdings, Inc. | 0.25 |
| Intuit Inc. | 0.21 |
| PAR Technology Corporation | 0.19 |

Shares of **Rivian Automotive, Inc.**, a U.S.-based EV manufacturer, rose during the quarter. As we wrote last quarter, we concluded that Rivian was hitting a turning point in its execution, particularly ramping vehicle production, rolling out engineering innovations (such as the Enduro motor and lithium-iron-phosphate (LFP) battery pack) and lowering costs-of-goods-sold per vehicle. Rivian's second quarter results demonstrated that Rivian's unit-level economics continued to improve due to the company's rising production rate, which is driving better fixed cost absorption, and the ramp-up of its cheaper in-house technologies, including Enduro and LFP batteries. Management expects a long road of profitability in the years ahead as Rivian continues to scale production. While backlog remains healthy for now, we are monitoring levels as production volume and competition increase. We think Rivian will benefit from the release of its next-generation R2 model, which it plans to unveil in early 2024. More recently, the company raised $1.5 billion of additional funds to support its longer-term business plan and reported third quarter production and delivery figures that beat Street expectations and confirmed that it remained on track to hit its 52,000 annual production target.

**NVIDIA Corporation** is a leading semiconductor company that sells chips and software for accelerated computing and gaming. Shares have nearly tripled year-to-date, as the company continues reporting unprecedented growth because of the acceleration in demand for its data center chips. After reporting revenue of $7 billion in the first quarter and providing guidance of $11 billion for the second quarter, NVIDIA reported second quarter revenue of $13.5 billion and guided for another step up in the third quarter to $16 billion, with its CFO declaring "[d]emand for our Data Center platform for AI is tremendous and broad-based across industries and customers." We are at the tipping point of a new era of computing with NVIDIA at its epicenter. This is how CEO and founder Jensen Huang put it (during the company's August 23 earnings call):

> *"[T]he easiest way to think about the demand is the world is transitioning from general purpose computing to accelerated computing…[W]hat you're seeing companies do now is recognizing this… tipping point…recognizing the beginning of this transition, and diverting their capital investment to accelerated computing and generative AI…This isn't a singular application that is driving the demand, but this is a new computing platform…a new computing transitioning that's happening…A new computing era has begun. The simultaneously going through two platform transitions, accelerated computing and generative AI."*

While the opportunity within the data center installed base is already large at roughly $1 trillion, the pace of innovation in AI in general, and generative AI in particular, should drive a significant expansion in the addressable market, as generative AI enables natural language human-computer interaction better utilization of data to guide decision making.

**CrowdStrike Holdings, Inc.** is a native-cloud cybersecurity vendor. Shares performed well on results that beat expectations, with annual recurring revenue (ARR), total revenue, and cash flow all coming in ahead of investor estimates. The company also increased its guidance for the year, calling for a strong second half of 2023. CrowdStrike disclosed ARR levels for its top set of new products focused on cloud security, identity protection, and next-generation security information event management. Together these three product areas comprise over $500 million in ARR, with revenue more than doubling year-over-year. We believe CrowdStrike is innovating at a rapid pace and enabling customers to expand and consolidate spending easily from other point-solution providers onto the CrowdStrike platform. In our view, CrowdStrike is on track to becoming one of the preeminent cloud security platforms.

**Table III.**
**Top detractors from performance for the quarter ended September 30, 2023**

| | Percent Impact |
|---|---|
| Microsoft Corporation | –0.74% |
| indie Semiconductor, Inc. | –0.67 |
| Apple Inc. | –0.62 |
| ZoomInfo Technologies Inc. | –0.48 |
| ASML Holding N.V. | –0.35 |

**Microsoft Corporation** is the world's largest software company. Microsoft was traditionally known for its Windows and Office products, but over the last five years, it has built an over $60 billion cloud business, including its Azure cloud infrastructure service and its Office 365 and Dynamics 365 cloud-delivered applications. The stock detracted from performance because Microsoft is the Fund's largest holding and shares retreated 7.0% after strong first half performance. For the June quarter, Microsoft reported better-than-expected Azure results for the third straight period, highlighted by Azure revenue growing 27% in constant currency. Its computing division also beat expectations, with Windows revenue benefiting from an early back-to-school inventory build. Microsoft's September quarter revenue guidance came in below Street expectations; however, with Azure effectively in line and demonstrating stabilization, but computing seeing the negative sequential impact of the pull-forward in back-to-school purchases. Looking at the big picture, Microsoft continues to execute at a high level, navigating a challenging macro backdrop while aggressively investing in long-term growth, and we remain confident that Microsoft is well positioned to leverage AI over the medium to long term as it infuses Open AI and other generative AI technologies across its entire product portfolio.

**Indie Semiconductor, Inc.** is a fabless designer, developer, and marketer of automotive semiconductors for advanced driver assistance systems and connected-car user experience and electrification applications. Shares fell during the quarter due to investor concerns that near-term automotive semiconductor demand will face headwinds because of excess inventory in the automotive semiconductor supply chain, combined with third quarter revenue guidance that slightly missed consensus expectations due to a customer slightly delaying the launch of a new vehicle model where indie had secured a design win (so delayed, not lost sales). As indie steadily ramps new product and design wins into production, we are confident the company will achieve its targeted model of profitability by year end, while effectively doubling revenues as it delivers on its $4.3 billion and growing strategic backlog. We believe indie has the potential to grow from its $200 million revenue run rate today to its targeted $500 million by 2025 and $1 billion by 2028. In the years ahead, indie should benefit as it develops differentiated, highly integrated, energy-efficient products, while the automotive semiconductor vertical remains highly attractive over the long term.

After a strong start to the year, shares of **Apple Inc.** partially retraced their gains this quarter. Mixed second calendar quarter financial results, with iPhone, iPad, and Wearables revenue coming in just shy of consensus expectations, coupled with elevated investor concerns about the macro economy and potential weakness in consumer spending later this year, pressured shares. Despite these quarterly fluctuations in product sales, we are encouraged by several long-term trends, including: (1) revenue from higher-margin services like the App Store, iCloud, and Apple Pay, which are growing faster than the overall business, driving better revenue visibility and higher free-cash-flow (FCF) margins; (2) continued gains in global market share in smartphones, wearables, and other hardware categories; and (3) consistent returns of capital to shareholders via share repurchases and dividends. On top of these trends in the core business, Apple is thoughtfully investing in new categories like augmented reality, search, financial services, and streaming media content. We took advantage of weakness in the quarter to add to our position in Apple.

# Baron Technology Fund

## Portfolio Structure

We invest in companies of any market capitalization that we believe will deliver durable growth from the development, advancement, and/or use of technology. We invest principally in U.S. securities but may invest up to 35% in non-U.S. securities.

At the end of third quarter, the largest market cap holding in the Fund was $2.7 trillion and the smallest was $870.2 million. The median market cap of the Fund was $51.9 billion and the weighted average market cap was $753.5 billion.

We had $7.0 million in net assets. We had investments in 41 unique companies. Our top 10 positions accounted for 54.4% of net assets.

**Table IV.**
**Top 10 holdings as of September 30, 2023**

| | Quarter End Market Cap (billions) | Quarter End Investment Value (thousands) | Percent of Net Assets |
|---|---|---|---|
| Microsoft Corporation | $2,345.9 | $702.2 | 10.0% |
| NVIDIA Corporation | 1,074.4 | 701.6 | 10.0 |
| Amazon.com, Inc. | 1,311.6 | 568.0 | 8.1 |
| Tesla, Inc. | 794.2 | 441.1 | 6.3 |
| Apple Inc. | 2,676.7 | 345.3 | 4.9 |
| Meta Platforms, Inc. | 772.5 | 244.1 | 3.5 |
| Advanced Micro Devices, Inc. | 166.1 | 238.2 | 3.4 |
| Ceridian HCM Holding Inc. | 10.6 | 202.5 | 2.9 |
| Workday, Inc. | 56.3 | 192.7 | 2.7 |
| Intuit Inc. | 143.2 | 192.1 | 2.7 |

**Table V.**
**Fund investments in GICS industries as of September 30, 2023**

| | Percent of Net Assets |
|---|---|
| Semiconductors & Semiconductor Equipment | 28.0% |
| Software | 26.1 |
| Broadline Retail | 8.1 |
| Automobiles | 7.6 |
| Interactive Media & Services | 6.2 |
| Technology Hardware Storage & Peripherals | 4.9 |
| IT Services | 3.4 |
| Professional Services | 2.9 |
| Financial Services | 2.5 |
| Real Estate Management & Development | 1.9 |
| Electronic Equipment Instruments & Components | 1.4 |
| Automobile Components | 1.0 |
| Media | 1.0 |
| Entertainment | 1.0 |
| Hotels Restaurants & Leisure | 0.9 |
| Cash and Cash Equivalents | 3.1 |
| Total | 100.0%* |

* *Individual weights may not sum to the displayed total due to rounding.*

## Recent Activity

**Table VI.**
**Top net purchases for the quarter ended September 30, 2023**

| | Quarter End Market Cap (billions) | Net Amount Purchased (thousands) |
|---|---|---|
| Apple Inc. | $2,676.7 | $259.5 |
| NVIDIA Corporation | 1,074.4 | 240.3 |
| Microsoft Corporation | 2,345.9 | 218.3 |
| Tesla, Inc. | 794.2 | 131.9 |
| Ceridian HCM Holding Inc. | 10.6 | 85.6 |

We took advantage of weakness to increase our position in **Apple Inc.**

On a pullback in its share price, we opportunistically added to our position in **NVIDIA Corporation**.

During the quarter, we deployed fund inflows to purchase additional shares of **Microsoft Corporation**, preserving the investment's portfolio weighting and offsetting dilution.

Please see above for further discussion of each of these companies.

**Table VII.**
**Top net sales for the quarter ended September 30, 2023**

| | Quarter End Market Cap or Market Cap When Sold (billions) | Net Amount Sold (thousands) |
|---|---|---|
| Meta Platforms, Inc. | $772.5 | $79.5 |
| Pinterest, Inc. | 19.4 | 61.7 |
| Datadog, Inc. | 29.6 | 30.2 |
| Cloudflare, Inc. | 21.1 | 27.9 |
| Monolithic Power Systems, Inc. | 22.1 | 13.0 |

We trimmed our investments in **Meta Platforms, Inc.** and **Monolithic Power Systems, Inc.** to position sizes we were more comfortable with.

We exited our investment in **Pinterest, Inc.** to fund purchases of other names in which we have more conviction.

We slightly trimmed our holdings in **Datadog, Inc.** and **Cloudflare, Inc.** to fund increases in the software names listed in the Review and Outlook section above. Effectively, we engineered a slight shift from companies currently valued on sales multiples to those valued on FCF.

To conclude, despite the current uncertain macroeconomic geopolitical backdrop, we remain confident in and committed to the strategy of the Fund: durable growth based on powerful, long-term, innovation-driven secular growth trends across the broader technology space.

Sincerely,

Michael A. Lippert
Portfolio Manager

Ashim Mehra
Portfolio Manager

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

**Risks:** In addition to general market conditions, technology companies, including internet-related and information technology companies, as well as companies propelled by new technologies, may present the risk of rapid change and product obsolescence, and their successes may be difficult to predict for the long term. Technology companies may also be adversely affected by changes in governmental policies, competitive pressures and changing demand. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets. The Fund is non-diversified, which means it may have a greater percentage of its assets in a single issuer than a diversified fund. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and 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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**Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

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