Dear Baron Health Care Fund Shareholder:

Performance

In the quarter ended June 30, 2023, Baron Health Care Fund® (the Fund) advanced 9.22% (Institutional Shares), compared with the 3.44% gain for the Russell 3000 Health Care Index (the Benchmark) and the 8.74% gain for the S&P 500 Index. Year-to-date through June 30, 2023, the Fund increased 5.20%, the Benchmark was essentially unchanged, and the S&P 500 Index increased 16.89%. Since inception (April 30, 2018), the Fund increased 13.58% on an annualized basis compared with the 10.85% gain for the Benchmark and the 12.54% gain for the S&P 500 Index.

Table I.
Performance
Annualized for periods ended June 30, 2023

	Baron Health Care Fund Retail Shares[1,2]	Baron Health Care Fund Institutional Shares[1,2]	Russell 3000 Health Care Index[1]	S&P 500 Index[1]
Three Months[3]	9.22%	9.22%	3.44%	8.74%
Six Months[3]	5.09%	5.20%	0.06%	16.89%
One Year	7.58%	7.85%	6.34%	19.59%
Three Years	9.50%	9.76%	9.31%	14.60%
Five Years	12.71%	12.98%	10.49%	12.31%
Since Inception (April 30, 2018)	13.30%	13.58%	10.85%	12.54%

The Fund was up 9.22% in the second quarter, outperforming the Benchmark by 578 basis points due to favorable stock selection. Investments in biotechnology, pharmaceuticals, and health care equipment accounted for most of the relative gains. Strong stock selection in biotechnology was responsible for about 60% of the outperformance, driven by sharp gains from **Prometheus Biosciences, Inc.** and **Legend Biotech Corporation**. Prometheus' lead product candidate, PRA023, is a monoclonal antibody that has been shown to block a target called TL1A that is associated with intestinal inflammation and fibrosis. The company was a top contributor after Merck agreed to acquire the company for a significant premium. Legend is dedicated to the development and commercialization of cell therapies to treat multiple myeloma, a blood cancer affecting over 200,000 people in the U.S. The company's shares increased on positive updates from clinical trials showing Carvykti reduced the risk of cancer progression by 74% as compared to the current standard of care for second-line treatment of multiple myeloma. Apart from stock selection, the Fund also benefited from its lower exposure to **AbbVie Inc.**, whose shares were down almost 15% in the Benchmark due to concerns about the company's growth profile after the loss of exclusivity for lead drug Humira. We exited our position during the quarter.

NEAL KAUFMAN
PORTFOLIO MANAGER

Retail Shares: BHCFX
Institutional Shares: BHCHX
R6 Shares: BHCUX

Positive stock selection in pharmaceuticals, owing mostly to sizeable gains from British veterinary drugmaker **Dechra Pharmaceuticals PLC** and global pharmaceutical powerhouse **Eli Lilly and Company**, was partly offset by the

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 1.21% and 0.90%, respectively, but the net annual expense ratio was 1.10% and 0.85% (net of the Adviser's fee waivers), 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 reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2033, unless renewed for another 11- year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The **Russell 3000® Health Care Index** is an unmanaged index representative of companies involved in medical services or health care in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies as determined by total market capitalization. The **S&P 500 Index** measures the performance of 500 widely held large cap U.S. companies. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. The Fund includes reinvestment of dividends, net of foreign withholding taxes, while the **Russell 3000® Health Care Index** and **S&P 500 Index** include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the 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 redemptions of Fund shares.

3 Not annualized.

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Fund's lower exposure to this better performing sub-industry. Dechra's shares jumped in mid-April on news of an attractive offer from Swedish investment firm EQT to take the company private. We sold our position following the acquisition announcement. Eli Lilly was the largest overall contributor in the Fund due to continued investor excitement around novel weight loss drug Mounjaro. We offer more details on Eli Lilly below.

Strength in health care equipment was largely due to the outperformance of sleep apnea device company **Inspire Medical Systems, Inc.** and robotic surgery system pioneer **Intuitive Surgical, Inc.** Inspire Medical's shares appreciated on strong first quarter financial results and raised full-year guidance. Revenue growth exceeded 80%, driven by higher utilization at new and existing centers as well as sales force additions. We continue to believe Inspire Medical is only scratching the surface of its market opportunity and has a long runway for growth. Intuitive's stock rose after reporting strong first quarter financial results, highlighted by a 26% increase in procedures and raised guidance for 2023. These results, which came in well above Street estimates, were driven by strength in general surgery procedures in the U.S. and non-urology procedures outside the U.S. We continue to believe Intuitive has a large opportunity to expand the use of robotic surgery over time.

These positive effects were somewhat offset by adverse stock selection in managed health care, where the Fund's investments in health insurance leaders **Humana Inc.** and **Elevance Health, Inc.** were a modest drag on performance. Humana and Elevance Health were down during the quarter because of commentary from **UnitedHealth Group Incorporated** management indicating that medical cost trends were running at the high end of their guidance driven by higher levels of outpatient medical activity, particularly among Medicare patients. We think UnitedHealth, Humana, and Elevance will be able to manage through an uptick in medical cost trends, but we modestly reduced our positions in Humana and Elevance due to the potential impact on earnings.

Our strategy is to identify competitively advantaged growth companies that we can own for years. Similar to the other Baron Funds, we remain focused on finding businesses that we believe have secular growth opportunities, durable competitive advantages, and strong management teams. We conduct independent research and take a long-term perspective. We are particularly focused on businesses that solve problems in health care, whether by reducing costs, enhancing efficiency, and/or improving patient outcomes.

We continue to think the Health Care sector will offer attractive investment opportunities over the next decade and beyond. Health Care is one of the largest and most complex sectors in the U.S. economy, accounting for approximately 17.4% of GDP in 2022 and encompassing a diverse array of sub-industries. Health Care is also a dynamic industry undergoing changes driven by legislation, regulation, and advances in science and technology. We think navigating these changes requires investment experience and sector expertise, which makes the Health Care sector particularly well suited for active management.

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

	Percent Impact
Eli Lilly and Company	2.20%
Prometheus Biosciences, Inc.	1.99
Intuitive Surgical, Inc.	1.29
Inspire Medical Systems, Inc.	0.88
Exact Sciences Corporation	0.59

Eli Lilly and Company is a global pharmaceutical company developing and marketing drugs in oncology, diabetes, Alzheimers, immunology, and other diseases. Shares climbed due to continued investor excitement around novel weight loss drugs in the GLP-1 class, including Lilly's Mounjaro. Given demand that is orders of magnitude more than supply, the full potential of the GLP-1 class of drugs remains unclear, with sales projections eclipsing $100 billion. This number would set a new industry record by a large margin. Drug development in this space is understandably fierce, and as recently as late June, Eli Lilly revealed new data from its diabetes/obesity pipeline assets that will further enhance the value proposition offered to patients. We retain conviction.

Prometheus Biosciences, Inc. is a biotechnology company developing drugs for ulcerative colitis and Crohn's disease based on a biomarker strategy focused on TL1A. Shares increased on Merck's acquisition of Prometheus for $200 per share in cash, a 75% premium and a total equity value of $10.8 billion. We exited the position.

Intuitive Surgical, Inc. manufactures and markets the da Vinci Surgical System, a robotic system used for minimally invasive procedures. Shares increased after Intuitive reported strong first quarter financial results highlighted by a 26% increase in procedures and raised guidance for 2023. These results, which came in well above Street estimates, were driven by strength in general surgery procedures in the U.S. and non-urology procedures outside the U.S. We continue to believe Intuitive has a large opportunity to expand the use of robotic surgery over time.

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

	Percent Impact
Ascendis Pharma A/S	–0.48%
Thermo Fisher Scientific Inc.	–0.46
Mettler-Toledo International Inc.	–0.38
Repligen Corporation	–0.28
Illumina, Inc.	–0.27

Ascendis Pharma A/S is a biotechnology company dedicated to creating long-acting versions of various short-acting proteins or efficacious drugs where the long-acting version provides pharmacology benefits, including improved recapitulation of the drug's physiologic behavior, longer half-life, improved bioavailability, and lower maximum concentration to blunt side effects, as well as patient convenience, such as weekly versus daily shots. Initial efforts have focused on growth hormone and parathyroid hormone replacement drugs. Shares fell in response to an unexpected FDA issue weeks before the expected approval of Transcon PTH, Ascendis' drug for hypoparathyroidism. Approval of Transcon PTH was delayed, which sent shares down substantially for the period held. We sold our shares to harvest a tax loss.

Thermo Fisher Scientific Inc. is the world's largest life sciences tools company. Thermo Fisher provides analytical instruments, laboratory equipment, software, services, consumables, and reagents for life sciences research, manufacturing, analysis, discovery, and diagnostics. Shares fell along with other life sciences tools stocks because of multiple headwinds, including a slowdown in capital spending among pharmaceutical customers, slowed growth in China, lack of funding and spending among pre-commercial biotechnology companies, and inventory destocking among bioprocessing customers. We view these headwinds as temporary and believe management can achieve its long-term goal of solid mid- to high single-digit organic revenue growth driven by long-term end-market dynamics in the life sciences industry, including favorable demographics, scientific advances, new technology, and increased regulations.

Mettler-Toledo International Inc. is a leading provider of precision instruments and services for customers in the life sciences, food, and chemicals industries, among others. Shares fell after Mettler reported first quarter results that were solid but reflected the negative impact of a few headwinds, including a halt in shipping products to Russia, inventory destocking in the pipettes business, and unfavorable foreign currency exchange rates. We believe these factors are transitory, and Mettler can compound earnings at mid-teens or better rates over the long term.

Portfolio Structure

We build the portfolio from the bottom up, one stock at a time, using the Baron investment approach. We do not try to mimic an index, and we expect the Fund to look very different than the Benchmark. We loosely group the portfolio into three categories of stocks: earnings compounders, high-growth companies, and biotechnology companies. We define earnings compounders as companies that we believe can compound earnings at double-digit rates over the long term. We define high-growth stocks as companies we expect to generate mid-teens or better revenue growth. They may not be profitable today, but we believe they can be highly profitable in the future. We expect the portfolio to have a mix of earnings compounders, high-growth, and biotechnology companies.

We may invest in stocks of any market capitalization and may hold both domestic and international stocks. As of June 30, 2023, we held 42 stocks. This compares with 530 stocks in the Benchmark. International stocks represented 11.4% of the Fund's net assets. The Fund's 10 largest holdings represented 46.4% of net assets. Compared with the Benchmark, the Fund was overweight in life sciences tools & services, health care supplies, health care technology, and health care distributors, and underweight in pharmaceuticals, biotechnology, health care services, and health care equipment. The market cap range of the investments in the Fund was $141 million to $447 billion with a weighted average market cap of $142 billion. This compared with the Benchmark's weighted average market cap of $182 billion.

We continue to invest in multiple secular growth themes in Health Care, such as genomics/genetic testing/genetic medicine, technology-enabled drug development/discovery, minimally invasive surgery, diabetes devices and therapeutics, anti-obesity medications, *picks and shovels* life sciences tools providers, the shift to lower cost sites of care, value-based health care, growth of Medicare Advantage, and animal health, among others. To be clear, this list is not exhaustive: we own stocks in the portfolio that do not fit neatly into these themes and there are other themes not mentioned here that are in the portfolio. We evaluate each stock on its own merits.

Table IV.
Top 10 holdings as of June 30, 2023

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
UnitedHealth Group Incorporated	2018	$227.2	$447.5	$18.1	8.6%
Eli Lilly and Company	2021	187.4	445.2	16.2	7.7
Intuitive Surgical, Inc.	2018	49.9	119.8	10.3	4.9
Merck & Co., Inc.	2022	205.6	292.8	10.1	4.8
Thermo Fisher Scientific Inc.	2019	117.4	201.3	9.3	4.4
Vertex Pharmaceuticals Incorporated	2022	61.4	90.6	8.1	3.8
DexCom, Inc.	2018	8.3	49.8	7.8	3.7
Inspire Medical Systems, Inc.	2019	1.3	9.5	6.4	3.0
The Cooper Companies, Inc.	2022	16.5	19.0	6.1	2.9
HCA Healthcare, Inc.	2022	57.5	83.5	5.6	2.6

Table V.
Fund investments in GICS sub-industries as of June 30, 2023

	Percent of Net Assets
Health Care Equipment	19.0%
Life Sciences Tools & Services	18.7
Pharmaceuticals	17.4
Biotechnology	14.5
Managed Health Care	12.5
Health Care Supplies	4.2
Health Care Facilities	2.6
Health Care Technology	2.2
Health Care Distributors	2.0
Cash and Cash Equivalents	6.8
Total	100.0%*

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

Recent Activity

During the second quarter, we established three new positions and exited six positions. Below we discuss some of our top net purchases and sales.

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

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Boston Scientific Corporation	$77.8	$4.1
Veeva Systems Inc.	31.7	3.7
Exact Sciences Corporation	16.9	1.9
Legend Biotech Corporation	11.8	1.8
Arcellx, Inc.	1.5	1.5

We re-established a position in **Boston Scientific Corporation**, a global developer, manufacturer, and marketer of medical devices that are used in a broad range of interventional medical specialties. We believe Boston Scientific can grow revenue reliably in the high single digits, driven by differentiated products in electrophysiology and structural heart. Coupled with cost discipline and over 50 basis points of annual operating margin expansion, we believe the company's double-digit EPS growth profile makes Boston Scientific a compelling name within the large medical device universe.

Within electrophysiology, we think Boston Scientific is well positioned as a leader in the emerging field of pulsed field ablation (PFA). Traditionally, physicians have used temperature-based methods (either hot or cold) to disable heart tissue responsible for irregular heartbeats. Temperature-based methods may damage surrounding tissue, however. Examples include damaging the esophagus (food tube) and the phrenic nerve (which controls breathing). PFA, in comparison, relies on electricity to damage aberrant tissue, and because different types of tissue have different electrical thresholds, the surrounding tissue can be selectively spared. Boston Scientific is ahead of the pack with high-quality, randomized controlled trial data (Advent) to come out in the back half of 2023. Electrophysiology is an $8 billion market growing 12%, and we believe Boston Scientific can grow significantly above this market rate as it takes share with its PFA program.

Within structural heart, we like Boston Scientific's position within left atrial appendage closure, which is a procedure that lowers stroke risk for atrial fibrillation patients. The company's Watchman device continues to maintain dominant share (over 90%), and this is a $1 billion market growing over 25%. We are most excited about the potential for Watchman to expand into first-line therapy: currently patients would only get a Watchman if they cannot take anticoagulants because of bleeding risk; Boston Scientific is running the CHAMPION-AF trial to support Watchman as the first option. It has completed enrollment, and if the trial is successful, the company believes this has the potential to more than triple the addressable patients by 2027.

We re-established a position in **Veeva Systems Inc.**, a prior holding in the Fund and a longtime holding in other Baron Funds. Veeva is a leading provider of cloud-based software solutions for the life sciences industry. Veeva's products aim to help life sciences companies develop and bring products to market faster and more efficiently, market and sell more effectively, and maintain compliance with government regulations. The company's customers include some of the largest global biopharmaceutical companies such as Eli Lilly and Merck. Veeva is a founder-led business with a unique culture and has a strong track record of developing and launching new innovative products. The business has attractive financial characteristics, including high margins and strong free-cash-flow generation. In recent quarters, the business has faced some industry-wide headwinds, including funding pressure on smaller biotechnology companies and sales force headcount reductions by large biopharmaceutical customers. We think these headwinds are temporary and as they fade, revenue and free-cash-flow growth will accelerate. Management estimates the company's total addressable market is $13 billion and expanding, and we see a long runway for continued growth.

We added to our position in **Exact Sciences Corporation**, a cancer diagnostics company whose flagship product is Cologuard, a stool-based DNA colon cancer screening test. We wrote about Exact Sciences in the first quarter. The company's core Cologuard business has strong momentum, as confirmed by the company's recent first quarter financial results. Exact also demonstrated better-than-expected profitability, and management accelerated its timeline to be free cash flow positive to 2023, one year ahead of schedule. The company recently announced that its next-generation Cologuard test demonstrated improved sensitivity and specificity for colorectal cancer compared with the first-generation Cologuard test. Once approved and commercialized, the second-generation Cologuard test should result in lower false positives, which should benefit Exact by boosting its gross margins. We continue to believe Exact has a long runway for growth in the Cologuard business. In addition, we think Exact's initiatives in minimal residual disease testing and multi-cancer early detection represent significant optionality.

We added to our position in **Legend Biotech Corporation**, a biotechnology company developing cell therapies for cancer. The company's lead product is Carvykti, a cell therapy for the treatment of multiple myeloma, a blood cancer affecting over 200,000 people in the U.S. alone. Last year the FDA approved Carvykti as a fourth-line treatment for multiple myeloma, and the company is running clinical studies to move Carvykti up into first-line treatment. During the second quarter, Legend announced positive updates from clinical trials and continued to execute on the commercial roll out of Carvykti as a fourth-line therapy. Data has shown that Carvykti, in the second line, reduced the risk of cancer progression by 74% as compared to the current standard of care for multiple myeloma, and this was accomplished with a *one-and-done* treatment. While we do not know how effective the treatment will prove to be long term, results suggest two-plus years of progression-free survival. Legend's partners Janssen, a Johnson & Johnson (J&J) subsidiary, and Novartis have announced they will invest $100 million to increase manufacturing capacity, which is on top of the roughly $1 billion J&J has already committed to the program. Demand for Carvykti massively outstrips supply, and we expect Carvykti to generate billions of dollars in revenue by 2030. We retain conviction given this unique and exciting opportunity.

We initiated a small position in **Arcellx, Inc.**, an early-stage biotechnology company that is developing cell therapies for multiple myeloma. We are bullish on the overall multiple myeloma space and expect cell therapy to revolutionize multiple myeloma care. Right now, there are a few clinical stage assets, but only three platforms with any real commercial viability. We identify these as Legend/J&J, Two Seventy/Bristol Myers, and Arcellx/Gilead. Long term, we predict Legend and Arcellx will dominate the commercial market and generate billions in free cash flow. For rough math, these therapies are priced around $500,000 (equivalent to or cheaper than a bone marrow transplant) and have better outcomes, which, if all 200,000 patients in the U.S. alone had the procedure done, would equate to $100 billion in revenue. Longer term, this will be a global market and pricing will be lower, but directionally this helps describe the size of the opportunity. While earlier than its other two competitors, Arcellx has presented clinical data (100% overall response rate with median follow-up of 15 months) equivalent to if not better than market leader Legend and both perform better than Two Seventy. Ultimately there are nuanced technical differences in the way the cell therapy constructs are made, which explain why Legend and Arcellx have found success where Two Seventy has lagged. These cell therapies are difficult to manufacture at scale and given significant market demand, we take comfort that Legend has a partner in J&J and Arcellx in Gilead. Gilead bought Kite, the current market leader for cell therapies globally in the adjacent diffuse large B cell lymphoma market.

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

	Net Amount Sold (millions)
Prometheus Biosciences, Inc.	$8.6
Ascendis Pharma A/S	2.9
AbbVie Inc.	2.1
Option Care Health, Inc.	2.1
Dechra Pharmaceuticals PLC	2.1

We sold **Prometheus Biosciences, Inc.** after the company announced it would be acquired by Merck for a substantial premium. We sold **Ascendis Pharma A/S** to harvest a tax loss. We sold **AbbVie Inc.** due to our less optimistic view of the company's pipeline and long-term growth profile. We sold **Option Care Health, Inc.** after the company announced its decision to acquire Amedisys, a publicly traded home health operator, because the acquisition would have increased the company's exposure to Medicare reimbursement, which has been under pressure. We sold our position in **Dechra Pharmaceuticals PLC** following news of a bid by Swedish investment firm EQT to take the company private.

OUTLOOK

In early June at an investor conference, management of **UnitedHealth Group Incorporated** commented that they were seeing higher levels of outpatient medical activity, particularly among Medicare patients. Management noted strong volumes and activity in orthopedic procedures such as hips and knees as well as stronger care activity in behavioral health. Management further noted this heightened level of care activity could be attributed to pent-up demand as COVID-related mask mandates have finally been dropped and people have become more comfortable accessing health care services they might have delayed during the height of the pandemic. In addition, management cited less capacity constraints in the system. The result of this increased activity led management to raise guidance for the company's medical loss ratio to the upper half of the existing guidance range. This commentary by management of the bellwether in the industry led to pressure on managed care stocks broadly, while the stocks of health care providers and medical device companies rallied on the expectation for strong medical procedure volumes.

Managed care stocks have been under pressure all year, due to heightened political and regulatory scrutiny of the Medicare Advantage program and the pharmacy benefit management industry, less favorable Medicare Advantage rates for 2024, and higher medical cost trends. UnitedHealth management noted they caught the trend in time to incorporate higher medical cost trends into their pricing for 2024 Medicare Advantage bids. However, questions remain whether this increased utilization of the health care system is a temporary spike or the beginning of a sustained level of activity. We continue to own UnitedHealth, **Humana Inc.**, and **Elevance Health, Inc.** because we believe these companies will be able to manage through this period without a material earnings impact, but we did modestly reduce our positions in Humana and Elevance Health.

The flip side of higher medical utilization trends is that health care providers and medical device companies will benefit. We own **HCA Healthcare, Inc.**, one of the nation's largest providers of health care services, with 182 hospitals and 2,300 ambulatory sites of care in 20 states and the U.K. We own several medical device companies that should benefit in the short term from procedure recovery and in the long term from new product innovation and increasing demand driven by an aging global population and a higher disease burden from chronic diseases. For the most part, our investments are in companies addressing non-elective procedures, which makes them less likely to be deferred in a recession.

During the second quarter, **Merck & Co., Inc.** filed the first lawsuit (followed by the filing of additional lawsuits by other parties) against the federal government challenging the constitutionality of the Medicare Drug Price Negotiation Program (the Program) that Congress established as part of the Inflation Reduction Act. In Merck's complaint, Merck argues that the Program violates the Fifth Amendment because it allows the federal government to take Merck's innovative drugs without providing just compensation for them. In addition, Merck argues the Program violates the First Amendment because it forces them to sign an agreement saying the government mandated prices are fair and the result of a negotiation when in fact, Merck argues, prices are not negotiated or fair. These lawsuits will take time to work their way through the legal process and in the meantime, the Program moves ahead on its scheduled path. The consensus view is that these lawsuits will not be successful, and the Program will remain in place. We suspect Merck's arguments may convince at least a few U.S. Supreme Court Justices when the case reaches the U.S. Supreme Court, but the ultimate outcome is impossible to predict. For now, we assume the Program will remain in place and invest with that framework in mind.

We continue to focus on select biotechnology companies that we believe have innovative products and are well funded and well positioned in a more difficult pricing environment. Examples include **argenx SE**, a developer of therapeutic antibodies for severe autoimmune diseases; **Rocket Pharmaceuticals, Inc.**, a developer of gene therapies for rare, undertreated diseases; and **Legend Biotech Corporation**, a developer of cell therapies for blood cancers such as multiple myeloma.

In pharmaceuticals, our largest investment continues to be in **Eli Lilly and Company**. Lilly's new diabetes drug Mounjaro is on track to be FDA approved for obesity in 2023. At a medical conference in June, Lilly announced Phase 2 clinical data for a next-generation obesity drug called retatrutide, which showed the drug achieved up to 17.5% mean weight loss at 24 weeks in adults with obesity and up to 24.2% mean weight loss at 48 weeks. Lilly also announced Phase 2 clinical data showing its once daily oral drug orforglipron achieved up to 14.7% mean weight loss at 36 weeks in adults with obesity. The results from these pipeline obesity medicines confirmed Lilly's status as a market leader in the diabetes and obesity category. Also during the quarter, Lilly announced that its drug Donanemab slowed cognitive and functional decline in a Phase 3 study in people with early symptomatic Alzheimer's disease. We continue to think the company should be able to grow revenue and earnings at attractive rates through the end of the decade and beyond.

After benefiting during COVID and then having a challenging 2022, life sciences tools stocks continue to face multiple headwinds in 2023, including a pullback in spending by pharmaceutical customers, lower funding for biotechnology customers, a growth slowdown in China, and inventory destocking by biotechnology drug manufacturers. We continue to believe these headwinds are temporary and we think the life sciences tools companies we own (such as **Thermo Fisher Scientific Inc.**, **Mettler-Toledo International Inc.**, and **West Pharmaceutical Services, Inc.**, among others) are good long-term investments because they have secular growth drivers, pricing power, recurring revenues, high margins, and low-capital intensity.

Overall, our long-term outlook for Health Care remains bullish. Innovation in the sector and the themes in which we have been investing are very much

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intact. We believe the Fund includes competitively advantaged growth companies with pricing power, strong management, and excellent balance sheets.

As always, I would like to thank my colleague Josh Riegelhaupt, Assistant Portfolio Manager of Baron Health Care Fund, for his invaluable contributions to the Fund.

Thank you for investing in Baron Health Care Fund. I remain an investor in the Fund, alongside you.

Sincerely,

Neal Kaufman
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 the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: In addition to general market conditions, the value of the Fund will be affected by investments in health care companies which are subject to a number of risks, including the adverse impact of legislative actions and government regulations. 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 small and medium-sized companies whose securities may be thinly traded and more difficult to sell during market downturns. 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 manager 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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