DEAR BARON DURABLE ADVANTAGE FUND SHAREHOLDER:

PERFORMANCE

We had another strong quarter to close out the best year since the Fund's inception.

Baron Durable Advantage Fund® (the Fund) gained 13.9% (Institutional Shares) in the fourth quarter, compared to the 11.7% gain for the S&P 500 Index (the Benchmark). For the calendar year 2023, the Fund gained 45.5%, compared to the 26.3% gain for the Benchmark.

Table I.
Performance
Annualized for periods ended December 31, 2023

	Baron Durable Advantage Fund Retail Shares[1,2]	Baron Durable Advantage Fund Institutional Shares[1,2]	S&P 500 Index[1]
Three Months[3]	13.86%	13.94%	11.69%
One Year	45.11%	45.51%	26.29%
Three Years	12.78%	13.08%	10.00%
Five Years	19.39%	19.68%	15.69%
Since Inception (December 29, 2017)	14.42%	14.70%	12.07%

ALEX UMANSKY
PORTFOLIO MANAGER

Retail Shares: BDAFX
Institutional Shares: BDAIX
R6 Shares: BDAUX

U.S. equities had a strong bounce-back year in 2023. The S&P 500 Index gained 26.3%, which is its third highest return in the last decade. The year began with continued doom and gloom amid the unrelenting Fed continuing its historical tightening cycle, the ongoing recession debate, the geopolitical uncertainties, and the poor investor psychology following an 18.1% drawdown the year before, the worst decline experienced since the Great Financial Crisis of 2008. But for some reason stocks stopped going down. Restructuring announcements and mild guide downs were cheered by analysts and investors alike and the Index ended the first quarter with a 7.5% gain. It was more of the same in the spring and early summer as the Fed signaled that its interest rate hikes were likely coming to an end and the Index rose an additional 8.7%. The fall brought a realization that a stronger economy with a lower probability of recession meant rates were going to stay *higher for longer*, and the Index pulled back 3.3% in the third quarter. But then, lower inflation data and investor focus shifting to rate cuts caused the Index to finish with a bang and an 11.7% quarterly gain to end the year.

The Fund had an unusually consistent year as it outperformed in every quarter, rising more than the Benchmark on the way up, 16.0% in the first quarter, 10.7% in the second quarter and 13.9% in the fourth quarter, and declining less on the way down, just 0.6% in the third quarter. While we view this as a sign of a well-constructed and well-performing portfolio, we neither manage for nor expect this type of consistency to be the norm.

From a quarterly performance attribution perspective, both stock selection and sector allocation contributed to relative returns. Selection was strongest in Information Technology (IT) and Consumer Discretionary, which was partially offset by poor performance in Financials and Industrials, while overweights in Financials and IT, and lack of investments in Energy also contributed to relative gains.

For the full year, performance was driven by stock selection, which generated 1,481bps of the total 1,922bps of outperformance. We saw consistent contributions across the portfolio as all sectors in which the Fund was invested except Health Care outperformed the Benchmark. Our best sector was Communication Services, which drove 688bps of outperformance, thanks to **Meta** (up 194%) and **Alphabet** (up 57%). IT and Financials were also strong, contributing an additional 664bps of outperformance. Within IT, we had the biggest weights in the right sub-industries – semiconductors, application software, and systems software, as these were the three best

Performance listed in the table above is net of annual operating expenses. The gross annual expense ratio for the Retail and Institutional Shares as of September 30, 2023 was 1.40% and 1.00%, respectively, but the net annual expense ratio was 0.95% and 0.70% (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, 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 **S&P 500 Index** measures the performance of 500 widely held large cap U.S. companies. The Fund includes reinvestment of dividends, net of withholding taxes, while the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The index is 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.

performing IT sub-industries during 2023. Think **NVIDIA** (up 241%), **Monolithic Power Systems** (up 80%), and **Adobe** (up 77%). We were also in the right stocks within Financials, as the sector underperformed with a gain of just 14.8% versus 26.3% for the Benchmark. Our Financials investments were up 31.0% driven by **Blackstone** (up 83%) and **Moody's** (up 41%). Consumer Staples and Consumer Discretionary drove an additional 345bps of outperformance highlighted by **Amazon** (up 80%) and **Costco** (up 49%). Lastly, we also benefited from not investing in Energy and Utilities stocks, which were the two worst performing sectors in the Benchmark.

From a stock specific perspective, we benefited both from a high batting average and an excellent slugging percentage. The Fund had 26 contributors against only 6 detractors. More importantly, 15 of our investments added over 100bps each to absolute returns, 7 of which contributed 200bps or more. The shares of Alphabet, **Microsoft**, **Intuit**, Adobe, Monolithic Power Systems, Amazon, and Blackstone all rose over 50%, while Meta and NVIDIA posted extraordinary gains of 194% and 241%, respectively. On the other side of the ledger, **Estee Lauder**, **Danaher**, and **Mettler-Toledo** were our three largest detractors, costing the Fund 87bps combined.

The last two years proved to be quite a ride for equity investors. In some ways, it can be perceived and evaluated as a compressed market cycle. A sizable drawdown in 2022, followed by a meaningful recovery in 2023. We are pleased with how the Fund performed over this combined period generating a cumulative gain of 9.4%, a full 600bps better than the 3.4% return for the S&P 500 Index. As a reminder, we seek a targeted return of 100bps to 200bps of alpha over the Benchmark (per year, net of fees and expenses, and over full-market cycles) by investing in high-quality, competitively advantaged businesses for the long term, while minimizing the probability of a permanent loss of capital. We do it differently from many of our competitors who construct their portfolios similarly to the Index by combining cheap *value* stocks with more expensive *growth* stocks. Both value and growth labels are primarily a function of the multiple that is currently assigned to the stock; they do not tell us anything about the most important characteristic of the business: its quality.

Instead of splitting the investable universe into value stocks and growth stocks, we separate them into high-quality and lower-quality businesses. We further split the high-quality category into *Big Ideas* and companies that we call *holders of value*. Big Ideas are businesses going through the steep part of their growth s-curves that are in the earlier stages of their growth life cycles from the industry penetration perspective. These are companies that are either driving or are benefiting from disruptive change and that can become significantly larger in the future than they are today. This is the bread and butter of many investment strategies at Baron. This Fund, however, offers a home for the companies that are either in the later stages of being a Big Idea or that are transitioning into becoming holders of value (although, occasionally we may find a company priced and perceived as a holder of value that is on its way to becoming a Big Idea, as was the case with NVIDIA when we first invested in it in this Fund towards the end of 2022). Essentially, we focus on long-term *compounders with lower risk*: the highest quality large-cap companies with attractive business models (asset light, high recurring revenues, low financial leverage, etc.), durable growth characteristics (long duration of growth, though the growth rates may be lower), that solve critical problems for their customers, and have durable competitive advantages. Typically, these companies face lower risk of getting disrupted by competitors or new technologies. We also look for management teams with long track records of operational excellence and prudent capital allocation. One of the most common signs of a company leaving the realm of a Big Idea and transitioning into the holder of value is the recognition that it can no longer reinvest all of its excess cashflow back into the business at high rates of return, and therefore it chooses to return capital back to shareholders via dividends or stock buybacks. If we are successful in identifying and investing in businesses with the above characteristics, it should make our claim and conviction in *lower risk of a permanent loss of capital* somewhat self-evident.

We think it is important to differentiate between stock market volatility and the risk of permanent loss of capital. As long-only equity managers, we do not have the proper tools to manage market volatility effectively. Furthermore, we are not convinced that managing or mitigating the effects of volatility is a worthwhile exercise for long-term investors who tend to optimize for maximizing long-term returns. Numerous academic studies have concluded that overdiversification by mutual funds has been alpha destructive, particularly in an efficient asset class such as U.S. large cap where fewer stocks are mispriced. So instead of owning all kinds of businesses across the wide swath of the economy (like the Index) to dampen market volatility, we invest exclusively in high-quality, competitively advantaged businesses trading at attractive/reasonable multiples for the long term. The strategy has worked well so far, with the Fund outperforming by 308bps per year on an annualized basis over the last three years, by 399bps per year over the last five years, and by 263bps per year since inception. While we have a lot of conviction that our process works, we cannot guarantee that this positive outcome will continue to be the case.

Table II.
Top contributors to performance for the quarter ended December 31, 2023

	Quarter End Market Cap (billions)	Percent Impact
Microsoft Corporation	$2,794.8	1.84%
Amazon.com, Inc.	1,570.2	1.45
Meta Platforms, Inc.	909.6	1.16
Monolithic Power Systems, Inc.	30.2	1.03
S&P Global Inc.	139.6	0.87

Microsoft Corporation is a software company traditionally known for its Windows and Office products. Over the last eight years, it has built a $120 billion-plus cloud business, including Office 365, CRM product Dynamics 365, and infrastructure-as-a-service product Azure (including Azure AI services). Shares increased 19.3% (and closed the year up 58.1%) after posting strong quarterly results, with a material top-line beat and upside across all three operating segments and strong margin growth, despite ramping investments behind AI. Microsoft Cloud revenues grew 23% year-over-year in constant currency, significantly outpacing the company's 12% overall constant currency revenue growth as well as the growth rate of its main competitors. We continue to believe cloud is a durable growth engine for the company. We remain confident that Microsoft is one of the best positioned companies in IT with its vertically integrated software stack and broad sales distribution. We believe Microsoft will continue taking share across its business, driving durable, long-term, double-digit growth and best-in-class profitability.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares of Amazon were up 19.5% in the quarter and finished the year up 80.5%. Reported quarterly results were better than consensus estimates with 11% year-over-year revenue growth in constant currency, and a significant beat in North American operating profit as operating margins reached 4.9%. The cloud division, AWS, also grew 12% year-over-year and management reported that the impact of customer optimizations was

attenuating. We believe that AWS has many years of growth ahead as IT budgets continue switching from on-premises to the cloud and as Amazon remains the clear leader in the market, with large incremental opportunities in application software, including enabling generative AI (GenAI) workloads. We also believe Amazon is well positioned in the short-to-medium term to further improve core North American retail profitability to above pre-pandemic levels, benefiting from its new regionalized fulfillment network and its growing margin-accretive advertising business. Longer term, Amazon has substantially more room to grow in e-commerce taking share from offline retail, which still represents the majority of retail spending.

Shares of **Meta Platforms, Inc.**, the world's largest social network, were up 17.9% in the quarter due to healthy top-line growth and expense guidance that beat consensus. Revenues grew 21% year-over-year in constant currency, driven by growth in ad impressions, which were up 31% year-over-year, and with operating margins of 40%. Our industry checks have also validated advertiser adoption and satisfaction, with particular improvements in monetizing Instagram Reels (which has become net-neutral to revenues earlier than expected) and click-to-message ads. Moreover, Meta continues to innovate in GenAI, with a leading AI research lab and a number of widely adopted open-source models; we are also beginning to see Meta's core apps incorporate GenAI in the user experience. Core app engagement remains healthy with video and Instagram Reels incremental to user time spent on the platform. Longer term, we believe Meta will utilize its leadership in mobile advertising, user base size, innovative culture, GenAI research and distribution, and technological scale to sustain durable growth for years to come, with further monetization optionality ahead.

Table III.
Top detractors from performance for the quarter ended December 31, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Arch Capital Group Ltd.	$27.7	–0.19%
LPL Financial Holdings Inc.	17.2	–0.12
The Estee Lauder Companies Inc.	51.9	–0.02

Shares of specialty insurer **Arch Capital Group Ltd.** declined 6.8% in the fourth quarter after solid performance for most of the year (shares finished the year up 18.3%). We believe the share price weakness was primarily due to a market rotation away from defensive stocks following a decline in interest rate expectations. Company fundamentals remained strong with net premiums written growing 23% year-over-year, operating ROE expanding to 25%, and book value per share rising 30% year-over-year in the third quarter. Management expects favorable market conditions will persist. We continue to own the stock due to Arch's long history of world-class management execution, proving itself as an exceptional capital allocator, across insurance cycles and with a strong underwriting discipline over many years. We expect durable growth in earnings and book value for years to come.

LPL Financial Holdings Inc. is the largest independent broker-dealer in the U.S. Shares declined 4.1% in the quarter as expectations for the number of interest rate cuts in 2024 increased (shares still finished the year up 12.7%). LPL invests idle client cash in both floating as well as fixed rate contracts. Rate cuts could reduce LPL's cash revenues and earnings from its floating rate contracts. LPL's interest rate exposure has also made it a favored stock for short-term traders to gain exposure to higher interest rates. We believe some of the stock weakness was a result of these investors reducing their stake as rates look set to fall. On a long-term basis, we believe that even under conservative assumptions for rates, the stock offers a positively skewed risk/reward profile. Moreover, LPL's execution continues to be strong as it gains share among advisors and wins large enterprise deals. We therefore remain shareholders and have been adding to our position.

The Estee Lauder Companies Inc. is a leading manufacturer, marketer, and retailer of prestige beauty products globally. Shares continued underperforming in the fourth quarter after management cut the company's outlook for the fiscal year ending 6/30/2024. This downward revision was mainly driven by a worsening outlook in China, business disruptions in Israel and other parts of the Middle East, and worsening F/X headwinds. Estee Lauder's disproportionate exposure to the Chinese consumer and the travel retail channel in Asia relative to peers continues to place pressure on both growth and margins. We decided to exit our position and reallocate to ideas in which we have greater conviction.

Portfolio Structure

The portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level (rather than Benchmark composition and weights) determining the size of each individual investment. Sector weights tend to be an outcome of the stock selection process and are not meant to indicate a positive or a negative "view."

As of December 31, 2023, our top 10 positions represented 52.6% of the Fund's net assets, the top 20 were 82.2%, and we exited 2023 with 30 investments (this compares to 49.9%, 82.6%, and 29 investments as of the end of 2022, respectively). As of year end, IT and Financials were our largest sectors, representing 61.2% of the Fund. Health Care, Communication Services, Consumer Discretionary, Industrials, and Consumer Staples represented another 36.1% of the Fund. Cash was the remaining 2.7%.

Table IV.
Top 10 holdings as of December 31, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$2,794.8	$17.5	9.6%
Amazon.com, Inc.	1,570.2	14.8	8.1
Meta Platforms, Inc.	909.6	11.9	6.5
Alphabet Inc.	1,756.0	8.6	4.7
Visa Inc.	536.8	7.9	4.3
S&P Global Inc.	139.6	7.9	4.3
Intuit Inc.	175.0	7.5	4.1
NVIDIA Corporation	1,223.2	7.1	3.9
UnitedHealth Group Incorporated	486.9	6.7	3.6
Moody's Corporation	71.5	6.4	3.5

Recent Activity

During the fourth quarter, we took advantage of flows into the Fund to add to 28 existing holdings, with the largest additions flowing into our highest conviction ideas: **Microsoft**, **Amazon**, **Alphabet**, **Visa**, and **Meta**. We also exited **Estee Lauder** during the quarter and reallocated proceeds to ideas in which we had greater conviction.

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Table V.
Top net purchases for the quarter ended December 31, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Microsoft Corporation	$2,794.8	$6.4
Amazon.com, Inc.	1,570.2	6.1
Alphabet Inc.	1,756.0	3.4
Visa Inc.	536.8	3.2
Meta Platforms, Inc.	909.6	3.2

Our biggest add in the fourth quarter was to the software platform **Microsoft Corporation**. The stock has been the largest position in the Fund for years now as we continue to have a lot of conviction in the business. Microsoft's transformation under the helm of Satya Nadella has changed the company's trajectory as it went from a windows-centric, on-premises technology provider to one of the top two global cloud providers. Cloud now represents over 55% of total revenues and has been growing in the mix – it is now a $125 billion run-rate business, it is still growing rapidly and taking market share, and it is becoming a more important driver for the company overall. In the third quarter, Microsoft Cloud grew 23% year-over-year in constant currency, significantly outpacing the company's overall 12% growth. A 23% growth rate at this scale essentially implies that Microsoft added a run rate of around $24 billion of cloud revenues year-over-year. Just to put this in perspective, $24 billion is nearly the size of **Mastercard**'s business, it is over 8 times Snowflake's total revenues and is nearly 3 times ServiceNow's total revenues. We continue to view cloud as a durable growth driver for the company. According to the latest estimates from Gartner, global cloud spending was expected to finish 2023 at $564 billion,[1] still representing only 12% of the total $4.7 trillion worldwide IT spending.[2]

We also believe that Microsoft is one of the best competitively positioned companies in large cap with its vertically integrated software stack (infrastructure + applications) while the inflection in the adoption of AI and GenAI represents a significant positive optionality for the business. Microsoft also has a tight partnership with OpenAI, has a large proprietary data asset built over time, and has a go-to-market advantage through a vast and robust partner ecosystem. These aspects should enable it to cross-sell its existing user base as AI becomes embedded in current and new products.

We continue to believe Microsoft is well positioned to continue taking share across its business and specifically in cloud and AI, driving a durable long-term double-digit growth profile and a best-in-class profitability. Lastly, we believe shares are reasonably priced for this high-quality franchise and what should be a year of accelerating revenue growth in fiscal 2024 (as we lap the easy comps from the cyclical consumer business and as F/X headwinds abate, while Azure continues to post upside to the conservative guidance and likely reaccelerates later this year as customer optimizations attenuate). We also expect Microsoft to invest prudently in the business, prioritizing rapidly growing segments, which should support continuous healthy double-digit EPS growth for years to come.

Our second largest add in the fourth quarter was to **Amazon.com, Inc.** Despite the strong performance for Amazon's stock in 2023, its valuation remains attractive, in our view, as the company remains well positioned to benefit from durable growth, while the inflection in margins remains in early innings and is just starting to show in the reported numbers. For example, the company reported 4.9% margins for its North America segment in the last quarter and guided for margins to continue moving higher thanks to scale, operational efficiency, and the growing mix of the highly profitable advertising revenue stream. We continue to believe that Amazon holds sustainable competitive advantages with a leadership position in multiple trillion dollar markets that exhibit durable growth characteristics. According to the U.S. Census Bureau,[3] domestic e-commerce still accounts for only 15.6% of retail sales (as of the third quarter of 2023). Internationally, the upside is also significant as Amazon has less than 5% market share of international retail sales. Amazon's advertising market share is still below 10%, even though it continues to outgrow other digital advertising companies. For example, Amazon's advertising revenues were up 25% year-over-year in the third quarter of 2023, compared to revenue growth rates of 21% for Meta and 11% for Alphabet. This is driven by Amazon's structural advantages in advertising thanks to its closed loop between advertisers and transactions, which enables accurate targeting and measurement. AWS remains the leading cloud provider, while cloud computing still represents only 12% of the $4.7 trillion spending on global IT products and services. Areas such as logistics and health care present additional optionality. Lastly, we also believe that GenAI presents a potentially large opportunity for AWS, given its large installed base, data gravity and the likelihood that AI models would be brought to data (and not vice versa), and its 3-layered approach to AI across compute (through its own chips), AI services (such as Bedrock) and applications.

During the quarter, we also added to our other high-conviction investments including **Alphabet Inc.**, **Visa Inc.**, and **Meta Platforms, Inc.**, which we believe are well positioned to benefit from GenAI while their core businesses continue to exhibit durable growth characteristics with sustainable competitive advantages and high profitability.

Table VI.
Top net sales for the quarter ended December 31, 2023

	Market Cap When Sold (billions)	Net Amount Sold (thousands)
The Estee Lauder Companies Inc.	$51.9	$328.2

During the fourth quarter, we sold our position in the prestige beauty company **The Estee Lauder Companies Inc.** We have been studying the drivers behind the challenges the company has been facing over the last few years, which contributed to market share losses and margin deterioration. After not allocating incremental capital to the stock for some time, we decided to sell our position and reallocate the proceeds to investments in which we had greater conviction of a more positively skewed risk/reward over the long term.

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1 https://www.gartner.com/en/newsroom/press-releases/11-13-2023-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-679-billion-in-20240#:~:text=Worldwide%20end%2Duser%20spending%20on,Vice%20President%20Analyst%20at%20Gartner.

2 https://www.gartner.com/en/newsroom/press-releases/2023-10-18-gartner-forecasts-worldwide-it-spending-to-grow-8-percent-in-2024

3 https://www.census.gov/retail/ecommerce.html

Outlook

We continue to operate in an environment where an overwhelming majority of investors are hyper-focused on the minute-by-minute news cycle. What is the incremental change? The reality is that this incremental change is rarely of any consequence or materiality, yet stock prices react to the change and pick up momentum in both directions. We work hard on trying to cut through the noise and focus on seeing the forest for the trees.

Seth Klarman, the famed value investor and CEO of the Baupost Group once said that "Macro is like sports-talk radio. Anybody can do it." Debating whether the economy will grow 1% or 2% (or not at all), whether interest rates will stay at 5 ½% or go to 4 ½%, three rate cuts or six – is fun for equity investors. We do it for sport. But it is also so much more difficult than finding a company that is misunderstood and whose stock is mispriced where you can be wrong about a lot of things and still make an attractive return over the long term!

One of the biggest surprises of 2023 was the highly anticipated recession in the U.S. that has not materialized. While some were in the camp of hard landing and others were in the camp of soft landing, not many were in the camp of no landing… could that remain the case in 2024? When will the Fed start cutting rates? How aggressive will it be? What are the implications of the upcoming elections (*the S&P 500 has only declined twice in an election year since 1940*)?

Though we have a view on many of these questions, we do not have the answers. The range of outcomes continues to be extremely wide, creating a challenging environment for investors. But since we are not macro investors (or sports-talk radio hosts), we stick to focusing on well-managed, high-quality businesses with sustainable competitive advantages for the long term. We continue to speak with company management teams as often as we can, test our investment theses, look for disconfirming evidence and measure how well our businesses are performing *fundamentally*.

From the 30,000-foot view, our companies have reported a stabilization in business trends as the year 2023 progressed. The table below summarizes the change in consensus expectations for 2023 revenues, operating income, and operating margins at the portfolio level throughout the year:

Change in expectations at the Portfolio level

	1st Half of 2023	1st Half of 2023 excluding NVIDIA	2nd Half of 2023	2nd Half of 2023 excluding NVIDIA	Fourth Quarter of 2023	Fourth Quarter of 2023 excluding NVIDIA	2023	2023 excluding NVIDIA
Revenues	1.7%	(0.4%)	2.9%	0.1%	(0.3%)	(0.9%)	6.2%	(0.1%)
Operating Income	4.6%	0.5%	8.5%	3.0%	1.1%	0.0%	17.7%	3.7%
Operating Margins	+66bps	+29bps	+123bps	+41bps	+11bps	-6bps	+123bps	+41bps

Revenue estimates for the portfolio as a whole[4] are 6% higher now than at the start of the year (and flattish if we exclude **NVIDIA**, which has seen its business inflect due to the adoption of GenAI); operating income is 18% higher (4% higher excluding NVIDIA) and operating margins are 123bps higher (41bps higher excluding NVIDIA), as our businesses are running more efficiently during this time of increased uncertainty.

While the change in business fundamentals is one angle to gain more clarity over the portfolio's outlook, the change in valuation multiples is another. We looked at the weighted average multiple of the portfolio to assess the extent to which stock prices have moved due to changes in fundamentals as compared to exogenous factors (such as interest rates) and investor psychology. The conclusion is that while in 2022, the Fund's negative return was driven entirely by multiple contraction, in 2023, only part of the Fund's gains were due to multiple expansion. After the Fund's weighted average multiple declined 26% in 2022, it has partially recovered in 2023, finishing the year up 17%.[5]

Every day, we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Fed rate changes, ongoing trade disputes, government shutdowns, and the unpredictable behavior of important politicians the world over, are shrugged off by the financial markets one day and seem to drive them up or down the next. We often find it difficult to know why market participants do what they do over the short term. The constant challenges we face are real and serious, with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create. We are confident that our process is the right one, and we believe that it will enable us to make good investment decisions over time.

Our goal is to invest in large-cap companies with, in our view, strong and durable competitive advantages, proven track records of successful capital allocation, high returns on invested capital, and high free-cash-flow generation, a significant portion of which is regularly returned to shareholders in the form of dividends or share repurchases. It is our belief that investing in great businesses at attractive valuations will enable us to earn excess risk-adjusted returns for our shareholders over the long term. We are optimistic about the prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities.

Sincerely,

Alex Umansky
Portfolio Manager

[4] Based on FactSet consensus estimates for 2024 and calculated using a weighted average of all holdings in the portfolio as of 12/31/2023.

[5] We use P/E multiples for all stocks other than Blackstone, for which we use Price to Fee-related-earnings per share, which is the more appropriate valuation multiple for this type of business. We excluded Brookfield Corporation from our calculation since we value this business based on a sum-of-the-parts valuation methodology.

Baron Durable Advantage Fund

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: The Fund invests primarily in equity securities, which are subject to price fluctuations in the stock market. In addition, because the Fund invests primarily in large-cap company securities, it may underperform other funds during periods when the Fund's securities are out of favor.

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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Fifth Avenue Growth Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Price/Earnings Ratio (next 12-months)**: is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.

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