March 31, 2024

BARON CAPITAL INVESTOR

Navigating the Complex and Rapidly Changing Health Care Landscape

Baron Health Care Fund® | Sector

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The COVID pandemic spurred investor interest in a sector – Health Care – that for years had flown under the radar, viewed largely as a not-very-exciting, defensive, value-oriented sector.

In fact, well before the onset of the pandemic, the Health Care sector had been growing and transforming for years. Over the past decade, the number of health care companies in the Russell 3000 Index has increased to 525. Health Care now comprises roughly 12.4% of the index by weight. The industry is evolving on multiple fronts, driven by population demographics, governmental policies and regulations, trends in health care insurance, and revolutionary advances in technology and diagnostics and treatment of disease. We think the reinvigorated investor, societal, and governmental focus on health care brought on by COVID, coupled with the scientific breakthroughs achieved in the development of the vaccines and elsewhere, will only serve to accelerate many of these long-term trends.

Baron Health Care Fund

Five-plus years ago, we launched Baron Health Care Fund to capture the attractive growth opportunities we were seeing and leverage our long investment experience in the sector. The Fund has been run by Portfolio Manager Neal Kaufman and Assistant Portfolio Manager Josh Riegelhaupt since its April 30, 2018, inception. Neal and Josh are backed by four additional research analysts covering Health Care as well as the rest of our 45 investment professionals.

The sector is a fertile hunting ground for skilled stock pickers, as it is unusually complex, comprised of 10 sub-industries ranging from massive, long-established managed health care companies to tiny, high-growth, high-risk biotechnology startups. The fact that, over the last decade, Health Care experienced the biggest dispersion of any sector, presenting some of the best and the worst returns in the market, speaks to its complexity. We believe the transformative secular trends impacting health care coupled with its breadth and diversity create a competitive advantage for stock pickers like us with an expert understanding of the medical science, technology, and regulatory landscapes involved.

As seen below, our approach has produced solid results to date. Since its launch, the Fund has outperformed its benchmark by 216 basis points annualized. Its alpha for the five-year period is 3.07% while its beta is 1.04. The Fund's five-year upside capture of 105.14% and downside capture of 90.67% are also excellent.

Baron Health Care Fund Performance
as of 3/31/2024 (annualized)*

	1-year	3-year	5-year	Since Inception**
Baron Health Care Fund*	20.36%	3.49%	14.19%	13.61%
Russell 3000 Health Care Index	15.41%	6.77%	10.76%	11.45%

* Institutional shares. For Retail and R6 shares, visit baronfunds.com
** Inception date: April 30, 2018

Performance listed in the above table is net of annual operating expenses. The gross annual expense ratio as of December 31, 2023 was 0.88%, but the net annual expense ratio was 0.85% (net of reimbursements from the adviser).

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 waives and/or 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.

A Differentiated Approach to Health Care

Baron Health Care Fund takes a distinct approach to investing in health care. While we can invest across all market caps and geographies, we hold just 30 to 60 stocks at any one time, fewer than the 516 holdings in its primary benchmark or the 78 stocks in the average fund in Morningstar's health care category. The Fund's top 10 holdings represent 48.1% of the portfolio, reflecting the high conviction of its managers.

At the same time, the Fund is well diversified across sub-industries, with a focus on equipment and life sciences tools companies, pharmaceuticals, biotechnology, and managed health care. Its relatively higher growth, smaller market cap makeup also distinguishes us from many of our competitors and the benchmark.

A balanced approach to risk

To help manage risk, we seek to balance the portfolio among high growth, biotech, and stable growth or earnings compounders. Weights for each category are typically 25% in high growth, 25% in biotech, and 50% in stable growth or earnings compounders. Note that we view these weights as guidelines, not rigid mandates, and they may shift somewhat depending on the opportunity set and the market environment.

High growth

These are higher risk/return companies typified by revenue growth of 15% or more that we believe will lead to dramatic future earnings growth. This category includes newer businesses with novel products or services. Yet they are not venture businesses. We invest only in companies with fully formed business strategies.

DexCom, Inc. is a high-growth stock we own. DexCom provides a continuous glucose monitoring (CGM) device for patients with diabetes to help them monitor their blood glucose levels. As CGM continues to rapidly replace finger sticks in the U.S. and abroad, DexCom's system is differentiated in that it offers exceptional features and functionality. This market leader recently launched its seventh generation sensor called the G7, a smaller, disposable, lower cost sensor. We believe DexCom can continue to generate attractive growth, driven by continued penetration into the insulin intensive market and expansion into new markets, including the much larger non-insulin intensive, gestational diabetes, and hospital markets, among others.

Biotech

Even among high-growth health care stocks, biotechs present a unique challenge. For one, their growth – and in some cases, their very survival – is dictated by binary catalysts, usually the greenlighting of a drug by the FDA. Equally as important, in addition to all the other research we do into potential investments, biotechs require an expert understanding of and deep dive into the clinical and scientific data associated with the drugs being developed. Josh, who is the assistant portfolio manager of Baron Health Care Fund and covers biotech and pharma, holds a PhD in genetics and molecular biology from Rockefeller University. Yet Josh says that considering the amount of research he has done to evaluate prospective and existing investments in this area, he has probably "learned three [additional] PhDs worth of material" in his 14 years as an analyst and now portfolio manager. Within biotech, we have a preference for platform companies in which the drugs being developed are potentially applicable to more than one disease.

Argenx SE is developing antibodies for the treatment of autoimmune disorders and cancer. Argenx's main product, efgartigimod, which treats a rare muscle weakness disorder, has potentially broad applicability in ameliorating overactive antibody-based diseases. The stock has appreciated significantly in the time we have held it, and we expect it will continue to ramp as the company proves its product's effectiveness in multiple auto-antibody disorders.

Stable growth or earnings compounders

This category is constructed to help dampen volatility by offsetting holdings in other parts of the portfolio that may have higher beta. This category is also typically not as correlated to the market as the other two. These holdings might be more yield- or asset-oriented and generate solid free cash flow growth.

UnitedHealth Group Incorporated is the nation's leading health care franchise. Our investment allows us to participate in the strong secular growth of health care. We believe UnitedHealth has a uniquely diversified portfolio and complementary set of skills, services, and expertise that will allow it to deliver higher quality health care at lower cost to its members and customers. It uses its significant free cash flow to fund acquisitions and $5 billion in annual technology, research, and innovation investments that serve to reinforce the company's competitive moat.

Focus on investable themes

To find the most promising companies within health care, we typically search for and analyze what we believe to be defined, long-term growth themes. We then apply Baron Capital's time-tested research-intensive, fundamental, bottom-up approach to invest for the long term in companies that we believe benefit from durable competitive advantages, excellent management, and secular growth opportunities, at an attractive valuation. We do not make a bet on an entire space. Instead, we determine who the competing businesses are and whether we think there is a potential winner.

The following investment themes help illustrate our approach.

- Weight Loss Treatments
- Innovative New Drugs
- Technology-Enabled Drug Development
- Minimally Invasive Surgery
- Diabetes Management
- Tools Providers to Life Sciences Companies
- Animal Health

Baron Health Care Fund

Top 10 Holdings as of March 31, 2024

Holding	% of Net Assets
Eli Lilly and Company	8.4%
UnitedHealth Group Incorporated	7.7%
Intuitive Surgical, Inc.	5.0%
Merck & Co., Inc.	4.9%
Thermo Fisher Scientific Inc.	4.5%
Boston Scientific Corporation	4.4%
Vertex Pharmaceuticals Incorporated	4.0%
argenx SE	3.3%
Rocket Pharmaceuticals, Inc.	2.9%
Arcellx, Inc.	2.9%
Total	**48.1%**

Weight Loss Treatments

Without question, the biggest development in health care in 2023 was the exploding popularity of GLP-1 drugs to treat obesity. While earlier generations of GLP-1s, used to treat Type 2 diabetes, had only a limited impact on weight loss, the newest generation (Ozempic/Wegovy and Mounjaro/Zepbound) has been shown to reduce body weight by 15% to 20%, with few major side effects or safety concerns seen to date. We estimate a $150 billion opportunity in the U.S. alone and expect top 10 holding **Eli Lilly and Company** to capture a meaningful share of that market with its drug Mounjaro/Zepbound and its pipeline of next generation GLP-1s. We view Eli Lilly as a unique company with a compelling growth profile, strong competitive advantages, and a top-rated management team. Its R&D productivity is well above the industry average, and it has first mover advantage, clinical expertise, manufacturing capabilities, and payer relationship advantages in the diabetes and obesity market.

Innovative New Drugs

We have investments in companies developing innovative new drugs to treat a diverse array of diseases. In addition to argenx, **Rocket Pharmaceuticals, Inc.**, is specializing in gene therapies for rare genetic diseases outside of oncology and has a rich pipeline of targets including Danon disease, Fanconi anemia, LAL-D, and Pyruvate kinase deficiency.

Technology-Enabled Drug Development

The use of technology to help speed drug development and improve efficiencies is a relatively new area with massive growth potential, in our view. **Schrodinger, Inc.** offers a physics-based computational platform for drug discovery, enabling scientists to discover high-quality, novel molecules more rapidly, at lower cost, and with a higher likelihood of success compared to traditional drug discovery methods.

Minimally Invasive Surgery

Less invasive surgery is less traumatic for the patient, enabling a faster recovery and in many cases resulting in cost savings to the system. We have a number of investments in this growing space, including robotic surgery pioneer **Intuitive Surgical, Inc.**

Diabetes Management

The prevalence of diabetes is staggering, with over 400 million people globally with diabetes, yet this number is expected to keep climbing. The International Diabetes Federation estimates that 629 million people could have diabetes by 2045. We have investments in innovative medical technology companies that help patients better manage their diabetes. We own DexCom, which, as discussed above, provides a device that allows diabetics and caregivers to monitor insulin levels by smartphone.

Tools Providers to Life Sciences Companies

We like businesses that provide products and services to life sciences companies because they can benefit from the growth in life sciences without the risk inherent in drug development. Our investments in life sciences tools providers include **Thermo Fisher Scientific Inc.**, **Bio-Techne Corporation**, and **Mettler-Toledo International, Inc.**

Animal Health

Growth in pet ownership and spending on pets, and, on the flip side, increased consumption of animal protein and focus on food safety all bode well for the animal health industry. In addition, compared with drug development for humans, the animal health industry is characterized by lower regulatory barriers, faster and less costly R&D, less generic competition, and lower third-party reimbursement risks. We have investments in **Zoetis Inc.**, which develops and sells medicines for pets and food producing animals; and **IDEXX Laboratories, Inc.**, the leading provider of diagnostic instruments and assays used for pet care in veterinarian offices.

Conclusion

What we witnessed in 2020 with the development of vaccines for COVID-19 is nothing short of amazing. In less than a year, two separate pharmaceutical companies took the genetic sequence of a novel coronavirus, created a vaccine, completed clinical trials, received FDA authorization, and commercially launched a new product. This achievement is remarkable not just for the length of time involved – in the past, it could take up to a decade to develop a vaccine – but also for its novel use of messenger RNA, heralding a revolutionary new approach to building drugs. There are many other examples of disruptive innovation across the Health Care sector, from early-stage cancer screening tests using simple blood draws to medicines that cure rare genetic diseases. In short, we think the long-term outlook for the Health Care sector is excellent.

We remain optimistic about the long-term growth prospects for our holdings. We believe the companies in which the Fund invests are unique, competitively advantaged, well-managed growth companies. We continue to work hard to identify new themes and ideas that meet our investment criteria.

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

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

Portfolio holdings as a percentage of net assets as of 3/31/2024 for securities mentioned are as follows: **DexCom, Inc.** – 2.0%; **Schrodinger, Inc.** – 0.4%; **Bio-Techne Corporation** – 1.2%; **Mettler-Toledo International Inc.** – 1.5%; **Zoetis Inc.** – 2.0%; **IDEXX Laboratories, Inc.** – 1.6%.

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

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. 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 withholding taxes, while the index includes reinvestment of dividends, before withholding taxes, which positively impact the performance results. Index performance is not Fund performance; one cannot invest directly into an index.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **Upside Capture** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture** measures how well a fund performs in time periods where the benchmark's returns are less than zero.

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