Dear Baron Durable Advantage Fund Shareholder:

Performance

It was another strong quarter.

Baron Durable Advantage Fund® (the Fund) gained 10.9% (Institutional Shares) during the first quarter, slightly ahead of the 10.6% gain for the S&P 500 Index (the Index), the Fund's benchmark.

Table I.
Performance
Annualized for periods ended March 31, 2024

	Baron Durable Advantage Fund Retail Shares[1,2]	Baron Durable Advantage Fund Institutional Shares[1,2]	S&P 500 Index[1]
Three Months[3]	10.83%	10.86%	10.56%
One Year	38.68%	39.01%	29.88%
Three Years	15.61%	15.89%	11.49%
Five Years	18.56%	18.84%	15.05%
Since Inception (December 29, 2017)	15.70%	15.97%	13.37%

ALEX UMANSKY
PORTFOLIO MANAGER

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

U.S. large-cap equities was the place to be in early 2024. Picking up right where we left off last year, the Fund gained 3.2% in January and was up 9.7% by the end of February, well ahead of the 7.1% gain for the Index. But then, a higher-than-expected CPI print brought back the *higher for longer* narrative as well as a rise in the 10-Year U.S. Treasury yield. That in turn brought on a renewed focus on Utilities, banks, Consumer Staples, and Energy – in other words, sectors or industries where we have little to no exposure, and so, we gave up most of our relative quarterly gains in March.

The Fund's 10.9% gain was driven by a robust U.S. economy, which continues to outperform expectations despite the higher interest rate environment. Real GDP grew 3.4% in the fourth quarter while the unemployment rate remained stable at 3.8%. Although 2023 returns were driven mostly by the Magnificent Seven (**Alphabet**, **Amazon**, Apple, **Meta**, **Microsoft**, Tesla, and **NVIDIA**), this time around the Index's performance showed much better breadth with the other 493 stocks in the S&P 500 Index up on average 9.4% in the quarter. We have also seen a significant divergence within the Magnificent Seven as Telsa and Apple experienced double-digit declines. We did not own either of the two, which helped our returns.

There was nothing particularly insightful from a performance attribution perspective, which is not unusual for a relatively in line quarter. From a company-specific perspective, we benefited from broad-based strength with 27 contributors and only 6 detractors. Ten of our holdings appreciated over 11% during the quarter, with NVIDIA, Meta, Amazon, Microsoft, **Arch**, and **Taiwan Semiconductor** contributing over 60bps each to absolute returns. On the downside, **Adobe** (-15.6%) was the only stock to decline more than 5% with our six detractors costing the Fund a combined 90bps.

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 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.

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.

Despite the complex macro environment, many of our companies have continued to report improving business trends during their recent quarterly earnings calls, leading to upward estimate revisions over the last three months. In addition to NVIDIA's unprecedented growth, Amazon's 2024 EPS consensus expectations increased 14.3% during the first quarter and were up 65.1% from the same period last year.[1]

Similarly, 2024 EPS expectations for Meta were up 13.5% and 62.7%, respectively. Both companies also saw an increase in revenue expectations of 0.8% for Amazon and 4.6% for Meta over these three months, while operating margin expectations have increased by 119bps and 239bps, respectively. Amazon is benefiting from the early stages of a recovery in its cloud business (AWS), while also seeing significant improvement in profitability for its e-commerce business. Meta is benefiting from a recovery in ad spending, partially due to AI-driven improvements in algorithms that drove better user engagement as well as better ad targeting, as well as from the improved overall spending efficiency, which is driving operating leverage.

We continue to believe that we have put together the right collection of competitively advantaged companies with durable growth characteristics and great management teams. We have a lot of confidence in our process. If we continue to execute well, we should be able to outperform the Index over the long term while minimizing the risk of a permanent loss of capital.

Table II.
Top contributors to performance for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Percent Impact
NVIDIA Corporation	$2,258.9	2.44%
Meta Platforms, Inc.	1,237.9	2.28
Amazon.com, Inc.	1,873.7	1.44
Microsoft Corporation	3,126.1	1.13
Arch Capital Group Ltd.	34.6	0.63

NVIDIA Corporation sells semiconductors, systems, and software for accelerated computing, gaming, and generative AI (GenAI). NVIDIA's stock rose 82.9% in the first quarter, driven by continued strong demand for its Graphics Processing Units (GPUs) that are positioned at the epicenter of the GenAI revolution. NVIDIA closed 2023 with unprecedented revenue growth at massive scale, with a fourth quarter revenue run-rate just shy of $90 billion, growing over 3.5 times year-over-year with operating margins of 67%. NVIDIA's fourth quarter was even more impressive than numbers suggest considering the fact that sales to China declined significantly due to U.S. regulations, and we are nearing the end of the current generation of the *Hopper* architecture and the next generation called *Blackwell* coming out in the third quarter of 2024. NVIDIA continues to improve the performance of its chips and systems significantly from generation to generation, thanks to its full-stack approach, optimizing every layer of the stack from the chips, through systems, networking, and software. NVIDIA is taking a page from Apple's vertical integration book, adding to its competitive advantage. For example, the recently introduced GB200 NVL72, a liquid-cooled rack with 72 GPUs, interconnected with the latest generation NVLink technology, offers a significant boost to performance with one-fourth the GPUs required to train a 1.8T parameter model, using one-fourth the power. NVIDIA is also removing hurdles for AI adoption through software innovation, such as its recently announced NIMs NVIDIA Inference Microservices (NIMs), which make it easier for companies to adopt GenAI at scale. Jensen Huang, NVIDIA's CEO, spoke about NVIDIA's full stack innovation at the company's last investor day:

"Blackwell is both a chip at the heart of the system but it's really a platform. It's basically a computer system. What NVIDIA does for a living is not build the chip, we build an entire supercomputer, from the chip to the system to the interconnects, the NVLinks, the networking, but very importantly, the software. Could you imagine the mountain of electronics that are brought into your house, how are you going to program it? Without all of the libraries that we've created over the years in order to make it effective, you've got a couple of billion dollars worth of assets you just brought into your company. And any time it's not utilized, it's costing you money…

"And so our ability to help companies, not just buy the chips, but to bring up the systems and put it to use and then working with them all the time to make it – put it to better and better and better use, that is really important, okay? That's what NVIDIA does for a living. The platform we call Blackwell has all of these components associated with that. This is the part that's incredibly hard about what we do."

Despite the stock's continued outperformance, valuation remains reasonable, with the company trading at around a 30 times P/E ratio as most of the stock's performance was driven by growth in earnings rather than multiple expansion. We remain shareholders and believe that the upside for long-term investors remains significant. As AI models continue to improve and as the cost of running them declines, we believe an increasing proportion of human tasks (starting from the tasks of information workers and over time expanding to frontline workers) would be augmented or replaced by AI. Additionally, we believe that decisions would become much more data-driven (enabled by AI) as we are finally able to take advantage of the vast amount of unstructured data generated, which we estimate to represent 90% of all data generated[2]). With increasingly challenging demographics across many economies, especially in developed markets, a greater proportion of global growth must come from productivity enhancements. AI, in our view, is likely to be a key driver behind these productivity gains, and potentially, the basis for technological breakthroughs that help humanity solve a host of difficult problems from climate change to finding cures for diseases that are so far unsolved.

Shares of **Meta Platforms, Inc.,** the world's largest social network, were up 37.4% in the quarter due to robust fourth quarter top-line growth of 25% year-over-year with operating margins more than doubling year-over-year to 41% benefiting from *the year of efficiency* as Meta's headcount was down 22% year-over-year (note that the profitability of the core business is even stronger as Reality Labs' losses of over $4.5 billion in the quarter are included in the overall operating income metric). Meta also guided for first quarter revenue growth of approximately 29% year-over-year, which was better than expected. Our industry checks have validated continued advertiser adoption and satisfaction, with improving monetization of Instagram Reels and click-to-message ads. Meta also continues to rapidly innovate in GenAI, with a leading research lab, widely adopted

[1] We calculated the change in 2024 EPS expectations (as collected by FactSet) for Amazon during Q1 (i.e., change in expectations from 12/31/2023 to 03/31/2024) and from Q1 2023 to Q1 2024.

[2] https://blog.box.com/90-your-data-unstructured-and-its-full-untapped-value

open-source models (e.g., Llama 2), and internal algorithms being augmented with AI (e.g., Meta's recommendation engine). We are also beginning to see Meta's core apps incorporate GenAI in the user experience even though we remain early in that process as the company is iterating and fine tuning its offerings. Core app engagement also remains healthy, with video daily watch time growing 25% year-over-year and the total number of monthly active users rising 6% year-over-year to 4 billion in the fourth quarter. We remain shareholders and believe Meta will sustain its leading market share in digital advertising thanks to strong network effects driven by its massive user and advertiser base. Additionally, we believe the company's innovative culture, large installed base, and leading GenAI research would enable it to embed AI and GenAI into its offerings with further monetization opportunities ahead. For example, AI agents could help scale business messaging as they would handle a large volume of customer requests automatically.

Amazon.com, Inc. is the world's largest retailer and cloud services provider. Shares increased 18.7% on quarterly results that exceeded consensus expectations, with revenue growth of 13% year-over-year, and operating margins reaching 7.8% (up from 1.8% a year ago). We believe that Amazon is well positioned in the short to medium term to continue improving its core North American margins, which reached 6.1% in the fourth quarter, the seventh straight quarter of margin improvement and an overall 800bps of improvement. Amazon has been re-architecting its fulfillment network, improving efficiency, reducing cost-to-serve (thanks to regionalization), and accelerating delivery speeds (number of items delivered same day or overnight increased by nearly 70% year-over-year – reducing cost to serve also enables Amazon to sell lower priced items, expanding its addressable market. Additionally, Amazon continues to benefit from its fast-growing, margin-accretive advertising business as it continues to gain market share in digital advertising thanks to its structural advantages of a closed loop system (in which advertisers can directly see the results of their ad spending). We also believe that e-commerce growth will remain durable, as penetration is still less than 15% of the addressable market. Lastly, Amazon's cloud service, AWS, remains a durable growth engine, with customer cloud optimizations now attenuating and as AI should be a tailwind to digitization and migration to the cloud with incremental opportunity across the three layers of the GenAI stack – infrastructure, platform (*Bedrock*), and applications (first and third party).

Table III.
Top detractors from performance for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Percent Impact
Adobe Inc.	$226.1	–0.57%
UnitedHealth Group Incorporated	456.1	–0.15
S&P Global Inc.	136.3	–0.14
MSCI Inc.	44.3	–0.03
Broadcom Inc.	614.2	–0.02

Adobe Inc. is a leading developer of marketing, publishing, and graphics software. Shares declined 15.6% during the quarter after the company reported annual recurring revenue that surpassed its initial guidance but fell short of buy-side expectations by $20 million to $25 million. This shortfall raised investor concerns that Adobe may need a faster ramp in the second half of the fiscal year to hit its annual guidance. We have conviction that Adobe can meet or exceed its guidance thanks to: 1) expansion of price increases to additional regions as well as heightened renewals in the second half of the year, and easier year-over-year comparisons due to the dissipation of headwinds from 2022's price increases; 2) incremental monetization from GenAI's new offerings, particularly within enterprise-focused solutions like GenStudio and Firefly, which are gaining traction; and 3) introducing new solutions, including upcoming Document Intelligence add-on capabilities. While investors remain focused on the short term, we believe Adobe is a leading creative and marketing franchise with an exciting innovation cycle ahead, poised to optimize its extensive user base, expand its opportunity, and benefit from GenAI trends. We believe the stock's decline is overdone as more than 100% of the decline was driven by multiple contraction, even though the company's 2024 EPS estimates increased slightly (by 0.3% during the quarter) and the company's intrinsic value has not materially changed.

UnitedHealth Group Incorporated is a leading health insurance company that operates across four segments: United Healthcare, Optum Health, OptumInsight, and OptumRX. Shares declined 4.8% during the quarter alongside other managed care organizations (MCOs) due to patient utilization of Medicare Advantage (MA) that was higher than consensus forecasts and rising concerns that MCOs had mispriced 2024 bids and could suffer margin compression as a result. In addition, the industry is facing headwinds from MA reimbursement cuts and Star Rating changes. While management said higher cost trends are mostly transitory and reflected in its bidding, and 2024 guidance was roughly in line with consensus, investors took a more cautious wait-and-see approach. UnitedHealth remains a core portfolio holding, as we don't believe the cyclically low MA reimbursement levels and the cyclically high patient utilization rates are a new normal and are therefore unlikely to be impactful on the company's long-term prospects. We also believe that the long-term tailwinds that benefited UnitedHealth over the years remain intact, including positive demographics (aging population), rising health care needs, and value-based reimbursement trends. Despite its size, we think the company should be able to grow earnings consistent with its 13% to 16% long-term EPS annual target, the fastest among major MCOs. Similar to Adobe, more than 100% of UnitedHealth's stock price decline was driven by multiple contraction, with the stock now trading at a 17.3X P/E[3].

Shares of rating agency and data provider **S&P Global Inc.** declined 3.1% during the quarter after the company provided financial guidance that missed Street expectations. While S&P guided to solid organic revenue growth of 7% to 9% and EPS growth of 9% to 11%, projected margin expansion fell short of investor estimates, which underestimated the correlation between improving top-line trends and variable employee comp (which is rising as a result). We are not concerned with this short-term dynamic that is the outcome of improving business fundamentals. S&P reported solid results for the most recent quarter, with 11% organic revenue growth, 23% EPS growth, and broad-based strength across the company's business segments. Ratings growth was especially robust as debt issuance rebounded amid improving market conditions. Positive momentum has continued into 2024, with 66% issuance growth in January and February. We continue to own the stock due to the company's durable growth characteristics and significant competitive advantages.

[3] As of 3/31/2024 based on next 12 months consensus EPS (as collected by Factset).

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 March 31, 2024, our top 10 positions represented 51.8% of the Fund's net assets, the top 20 represented 78.5%, and we exited the quarter with 32 investments, up from 30 at the end of 2023. IT and Financials represented 61.2% of the Fund, while Communication Services, Health Care, Consumer Discretionary, Industrials, and Consumer Staples represented another 34.2%, with the remaining 4.6% held in Real Estate (via our new investment in CoStar Group), and cash.

Table IV.
Top 10 holdings as of March 31, 2024

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Microsoft Corporation	$3,126.1	$30.4	9.2%
Meta Platforms, Inc.	1,237.9	25.3	7.7
Amazon.com, Inc.	1,873.7	24.9	7.5
NVIDIA Corporation	2,258.9	14.6	4.4
Visa Inc.	575.2	14.6	4.4
Alphabet Inc.	1,884.6	14.1	4.3
S&P Global Inc.	136.3	12.7	3.8
Intuit Inc.	182.0	11.7	3.6
Mastercard Incorporated	449.3	11.4	3.4
Moody's Corporation	71.7	11.1	3.4

Recent Activity

During the first quarter, we took advantage of flows into the Fund to initiate three new investments: a leading alternative asset manager focused on private credit, **Apollo Global Management**; a leading fabless semiconductor and software company, **Broadcom**; and a real-estate data, information services, and marketplace operator, **CoStar Group**. We also added to 27 of our holdings and sold our stub position in **Veralto**, which we received through a spin-off from Danaher last year, as we determined it would not graduate to a core position in the portfolio.

Table V.
Top net purchases for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Microsoft Corporation	$3,126.1	$10.4
Meta Platforms, Inc.	1,237.9	8.2
Apollo Global Management, Inc.	63.9	8.1
Amazon.com, Inc.	1,873.7	6.4
Visa Inc.	575.2	5.9

During the quarter, we initiated a new position in **Apollo Global Management, Inc.**, one of the world's largest alternative asset managers. While Apollo is perhaps best known for its success as a private equity investor, the biggest driver of growth over the last 15 years has been its investment grade credit business, which has scaled rapidly alongside the growth in Athene, Apollo's wholly owned insurance company. Today, credit is $480 billion out of Apollo's $651 billion AUM.

This credit business was spearheaded by visionary CEO and co-Founder Marc Rowan who observed that while the private equity industry had typically focused on offering high-risk, high-return products, there existed a substantially larger opportunity to offer lower-risk, lower-return alternatives that could still deliver excess return over liquid alternatives. Insurance companies in the retirement space are natural consumers of these products given their need to hold largely investment grade debt and the long duration of their liabilities, which allows them to invest in illiquid assets, thus capturing an illiquidity premium as compared to publicly traded bonds. In Rowan's words *"this is a fixed income replacement business. This is not an opportunistic credit business. Our goal in our yield segment is to produce 150 to 200 basis points of excess return over the equivalent CUSIP across the capital structure. We want to get paid in our yield business for illiquidity and complexity and origination, not for taking additional credit risk or assuming other risks that we do not intend."* Apollo founded Athene to capture this opportunity and scaled its credit offerings to source proprietary private investment grade credit at scale. Following a multi-year buildout, Apollo now originates around $100 billion of debt annually, that in turn funds growth at Athene.

We believe that Apollo's head start, scale, and proprietary origination will continue to differentiate the company from peers. Besides this innovation, Apollo has been a beneficiary of the retrenchment in lending by banks following the Global Financial Crisis of 2008-2009. As banks withdrew from certain lending markets in favor of larger borrowers and more fee-related business, loans found their way to companies such as Apollo, which could fund the assets with long-duration liabilities that matched the duration of assets. We believe that Apollo's ability to fund these long-duration illiquid loans with long-duration liabilities is a more stable funding model than banks, which tend to fund long-duration loans with short-duration deposits that can evaporate during times of stress, as we saw during the March 2023 banking crisis. Continued tightening of bank capital requirements should provide a multi-year tailwind for Apollo to continue taking lending share away from banks, which could be a multi-trillion dollar opportunity, driving durable earnings growth for Apollo, both from the excess returns generated by Athene, and from management fee growth as Apollo's AUM grows towards $1 trillion.

We also initiated a new position in **Broadcom Inc.**, a global technology leader that designs, develops, and supplies a broad range of semiconductor and infrastructure software solutions. Its semiconductor solutions focus on complex digital, mixed signal, and analog products across a variety of end-markets while its software products help customers plan, develop, automate, manage, and secure applications across various platforms.

Historically, Broadcom's semiconductor business has been a market-leading franchise with high margins and market-level growth, but the emergence of AI-related demand has spurred stronger growth across its portfolio, specifically in its Networking business unit. Broadcom's AI-related revenue has grown from less than 5% of its semiconductor business to an expected 35% in its fiscal 2024 as its industry-leading Ethernet switch silicon business and, more importantly its custom silicon solutions, primarily the TPU for Google but with two additional customers ramping as well, have grown significantly. While custom chips tend to be less versatile and flexible than GPUs, their adoption makes sense if customers have large scale workloads with algorithms that are relatively stable, as they allow hyperscale customers to save costs on both upfront capex as well as on energy

consumption. Over time, we believe that custom silicon solutions will obtain a noticeable market share of internal AI workloads, with Broadcom as the main beneficiary given its 10-year history of working with its customers, leading to a higher proportion of sales related to AI and an above-market growth in the company's semiconductor solutions business.

Its software business is also now a more significant portion of revenues with its recent acquisition of VMWare (40% of revenues in fiscal 2024). While Broadcom is implementing its usual strategy with software acquisitions in pursuing cost synergies, in VMWare's case, the company is also investing in the product and reducing the hurdles for up-selling customers from the basic VSphere product (server virtualization) to the broader VMWare offering including networking, storage, and a management layer, while transitioning customers from license to subscription models. This, in our view, should drive noticeable growth for the software segment in the coming years.

These tailwinds would lead, in our view, to strong earnings growth and a re-rating in the stock's valuation, creating an attractive opportunity for long-term investors. These tailwinds are supported by a growing stream of free cash flow, an increasing dividend, and a decline in the overall share count as Broadcom continues to repurchase its own stock.

Lastly, we initiated a position in **CoStar Group, Inc.**, the leading provider of information, analytics, and marketing services to the real estate industry. CoStar initially focused on serving the domestic commercial real estate industry and built a comprehensive proprietary database of essential data to help participants buy, sell, and lease properties. The company has since expanded its focus to offer products and services to multi-family, industrial, commercial land, mixed-use, and hospitality end-markets across North America and Western Europe.

Today, the company's non-residential operations generate over $2 billion of recurring revenue with EBITDA margins in excess of 40%. We expect this business to compound its revenue at a low to mid-teens rate as the company launches new products, upsells existing customers, raises prices, and diversifies its customer base to owners, lenders, and tenants. We see profit and cash flow growing at an even faster rate given the low marginal costs inherent in CoStar's business model. We think that free cash flow from this business can double over the next five years, which implies a similar return for the stock.

The company undertook an audacious expansion plan in 2021 when it committed to invest $300 million to enter the domestic residential real estate market. This level of spending has increased significantly since then and will approach $1 billion of investment in 2024. CoStar sees an opportunity to disrupt existing players whose business model primarily relies on serving buy-side brokers. We think buy-side commissions may be pressured following the DOJ lawsuits against the NAR (National Association of Realtors) challenging the status quo of agent compensation policies. CoStar's Homes.com portal takes a different approach by focusing on sell-side agents (as opposed to buy-side), offering a better experience for the end customers (connecting them with the sell-side agent who is knowledgeable about the property instead of the highest bidder buy-side agent as is currently the industry norm), and an attractive value proposition for sell-side agents, who get business leads at an attractive cost.

We think that the residential market is vast, and that CoStar is well positioned to build a compelling and differentiated business serving this market. Early data points are positive; CoStar is able to reach 160 million visitors with its Homes.com and Apartments.com portals in February (after launching its marketing campaign during the Super Bowl). If successful, we think that CoStar could generate over $2 billion of incremental revenue over the next 5 to 10 years, leading to a significant positive optionality for the stock. If unsuccessful, CoStar can throttle back on its investment and redeploy the resources towards other markets or return cash to shareholders.

Table VI.
Top net sales for the quarter ended March 31, 2024

	Quarter End Market Cap When Sold (billions)	Amount Sold (thousands)
Veralto Corporation	$20.2	$269.5

As mentioned above, we sold the shares of **Veralto Corporation** and reallocated to higher conviction ideas.

OUTLOOK

The U.S. economy is proving more resilient than expected with real GDP growth of 3.4% in the fourth quarter, and the unemployment rate remaining low at 3.8%.[4] This, together with a CPI not yet returning to its target range, led to a return of the *higher for longer* narrative. While higher near-term rates are a headwind for equities, long-term rates and long-term inflation expectations matter more for intrinsic values and these haven't changed materially – with real rates hovering around 2.1% to 2.2% (as measured by 10-year TIPS) while the 10-year breakeven inflation rates have risen slightly to 2.4%.

There are few things investors dislike more than uncertainty, which gives an edge to shareholders who are willing to take a long-term view, accepting some short-term uncertainty along the way for the opportunity to earn long-term alpha. We believe that this Fund offers investors the opportunity to take this long-term view while not taking on significant risk of permanent loss of capital along the way. Baron Durable Advantage Fund is designed to invest in the highest quality (*the average company in the portfolio earns 14% higher gross margins and 6% higher operating margins than the average company in the S&P 500 Index*), competitively advantaged businesses trading at reasonable and often attractive valuations. We focus on companies that are in the later stages of their growth S-curves, with durable growth characteristics, that are no longer able to reinvest all of their excess cash flow back into the business at high rates of return and therefore, a meaningful portion of that cash flow is returned back to shareholders. We like companies with sustainable competitive advantages, proven management teams (both in operational performance as well as in capital allocation decisions), and with high-quality business models that allow them to earn higher-than-average ROIC and margins.

Businesses we own tend to be leaders in their industries and sell critical products or services to their customers that are hard to replace. This creates stickiness, high switching costs, and pricing power. They tend to be asset light and have low financial leverage. These characteristics enable them to

[4] https://fred.stlouisfed.org/series/UNRATE

be fundamentally more stable even during times of increased macro uncertainty. For example, during the last two years, which were objectively years of heightened uncertainty with the fastest Fed hike cycle in four decades, the weighted average company in our portfolio saw their revenue growth rate change only slightly, from +13.7% revenue growth in 2022 to +14.7% revenue growth in 2023[5], and with revenue growth expected to accelerate slightly to +14.9% in 2024[6]. Our companies have also seen improving fundamentals in the first quarter, with revenue expectations increasing by 1.6% from the end of 2023 through the end of the first quarter, operating income expectations rising by 3.3%, and operating margins rising by 27bps overall.

Every day, we live and invest in an uncertain world. Well-known conditions and widely anticipated events, such as Federal Reserve 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

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.

Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets. **Return on invested capital (ROIC)** is a calculation used to determine how well a company allocates its capital to profitable projects or investments.

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).

5 This was calculated based on the weights of the portfolio as of the end of the first quarter of 2024 – we calculated the weights at the end of the quarter to speak to the stability of the current portfolio.

6 Based on FactSet consensus estimates.