



QUARTERLY LETTER | MARCH 31, 2026

Baron Health Care Fund[®]

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



Neal Kaufman
Portfolio Manager

Dear Baron Health Care Fund[®] Shareholder,

Performance

During the quarter ended March 31, 2026, Baron Health Care Fund[®] (the Fund) declined 6.97% (Institutional Shares), compared with the 4.88% decline for the Russell 3000 Health Care Index (the Benchmark) and the 3.96% decline for the Russell 3000 Index (the Index). Since inception (April 30, 2018), the Fund increased 9.39% on an annualized basis compared with the 8.97% gain for the Benchmark and the 13.26% gain for the Index.

The Fund trailed the Index by 209 basis points due to disappointing stock selection. Stock selection in certain sub-industries, namely pharmaceuticals and biotechnology, was exacerbated by having limited exposure to a handful of larger-cap companies that managed solid gains in a period of general market uncertainty.

Weakness in pharmaceuticals was responsible for most of the underperformance, with the principal headwind being limited exposure to certain large-cap stocks that were up double digits in the period. In particular, having lower exposure to **Johnson & Johnson** and **Merck & Co., Inc.** and not owning Pfizer Inc. and Bristol-Myers Squibb Company detracted approximately 275 basis points from relative performance, representing the vast majority of relative losses in the period. We generally have limited exposure to large-cap pharmaceutical companies because we think they are unlikely to meet our growth hurdle of achieving at least double-digit earnings growth over the long term.

Higher exposure to lagging life sciences tools & services stocks and weak stock selection in biotechnology and health care services also contributed to the relative shortfall. Within biotechnology, a handful of holdings weighed on performance, with the principal detractor being **argenx SE**, a company best known for developing Vvygart, the leading FcRn inhibitor for the treatment

Annualized performance (%) for periods ended March 31, 2026[†]

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2}	Russell 3000 Health Care Index ¹	Russell 3000 Index ¹
QTD ³	(6.99)	(6.97)	(4.88)	(3.96)
1 Year	5.09	5.27	4.91	18.09
3 Years	4.56	4.81	6.24	17.86
5 Years	0.92	1.18	4.81	10.87
Since Inception (4/30/2018)	9.12	9.39	8.97	13.26

of autoimmune conditions. The stock sold off due to operating expense guidance being above investor expectations and sales guidance for a seasonally weak Q1, neither of which impact our positive long-term investment thesis. Another reason for share price weakness was the unexpected retirement of beloved CEO Tim Van Hauwermeiren, who will become the non-executive Chairman. We think that the new CEO Karen Massey (formerly COO) is highly capable and represents a continuation of the company's strategy. Poor stock selection in biotechnology was exacerbated by not owning Amgen Inc., whose share price increased 8% for the quarter. We think Amgen is fairly valued based on its long-term growth potential and do not believe the company meets our investment return hurdle.

The Fund's only position in health care services, **RadNet, Inc.**, was down 22% for the quarter, detracting approximately 52 basis points from relative results. We discuss the company in greater detail below.

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 April 30, 2025 was 1.18% and 0.87%, 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 waives and/or reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2036, 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 BaronCapitalGroup.com or call 1-800-99-BARON.

Somewhat offsetting the above was favorable impact from having minimal exposure to **UnitedHealth Group Incorporated** and other managed health care companies, which were pressured by lower-than-expected federal Medicare Advantage rate proposals and margin compression from rising medical utilization costs. We sold our two stub positions in managed health care because of lack of earnings visibility given less favorable rate increases and elevated medical cost trends.

Cash exposure in a down market and solid stock selection in the health care equipment and other health care related sub-industries also added value. Strength in health care equipment came from **Penumbra Inc.**, a manufacturer of mechanical thrombectomy devices, which remove blood clots that can cause severe conditions around the body. Penumbra's shares performed well after the company agreed to be acquired by **Boston Scientific Corporation** for \$374 per share, representing a premium of 19% to the prior closing price. We sold our position.

The Fund's unique position in **Welltower Inc.**, which is classified as a health care REIT by GICS, was a source of strength in the other health care related sub-industry. Welltower operates senior housing, life science, and medical office real estate properties. Shares rose on robust cash flow growth in the company's senior housing portfolio, driven by continued strong occupancy and rent trends supporting bottom-line growth, along with a strong initial full-year 2026 outlook and continued execution on accretive external growth opportunities. The company also announced additional initiatives to drive asset-light earnings growth. We are optimistic about the prospects for both cyclical and secular growth in senior housing demand against a backdrop of muted supply, which we believe will support several years of favorable growth. Welltower is a "best-in-class" operator with a luxury portfolio, well positioned to capture outsized organic and inorganic growth opportunities. We retain conviction in the company given its high-quality real estate portfolio, conservative balance sheet, prudent capital allocation, and compelling multi-year earnings growth story.

Our strategy is to identify competitively advantaged growth companies that we can own for years. Similar to 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 an estimated 18.0% of GDP in 2024 and encompassing a diverse array of sub-industries. Health Care is also a dynamic sector 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.

Top contributors to performance for the quarter

	Contribution to Return (%)
Arcellx, Inc.	0.51
Roivant Sciences Ltd.	0.50
AstraZeneca PLC	0.35
Johnson & Johnson	0.31
Gilead Sciences, Inc.	0.26

Arcellx, Inc. is a biotechnology company focused on cellular therapies. In partnership with Gilead, Arcellx is developing anitocel, a BCMA-targeted CAR-T therapy similar to Legend Biotech and Johnson & Johnson's Carvykti. Compared to Carvykti, anitocel appears to demonstrate similar efficacy with a more benign neurological side-effect profile. Shares rose during the quarter as Gilead announced plans to acquire Arcellx for \$115 per share, plus a \$5 per share contingent value right tied to cumulative revenues through year-end 2029.

Roivant Sciences Ltd. is a biotechnology company that develops novel drugs across a range of therapeutic areas. Often, Roivant will in-license or acquire deprioritized pipeline drug assets from larger pharmaceutical companies. Each program is housed in its own standalone entity, which fosters an entrepreneurial culture while centralizing capital allocation and key resources at the parent level. We are most excited about Priovant (in partnership with Pfizer), where brepocitinib has meaningful potential across a range of rare immunological conditions, and we also see promise in Immunovant, which is developing a next-generation FcRn inhibitor for other immunological conditions. Shares rose during the quarter after Phase 2 results for brepocitinib in cutaneous sarcoidosis showed impressive efficacy, positioning the drug as the new standard of care in this setting. We believe the value of the brepocitinib franchise remains underappreciated.

AstraZeneca PLC is a large, diversified multinational pharmaceutical company with a portfolio of innovative products and a broad pipeline that is driving, and should continue to drive, above-industry growth. Shares increased during the quarter as AstraZeneca's fourth-quarter results and 2026 revenue guidance exceeded consensus expectations, suggesting continued strength from its recently launched products. In March, the company also announced positive Phase 3 data for tozorakimab in chronic obstructive pulmonary disease, showing clinically meaningful reductions in exacerbations and supporting peak sales potential of \$3 to \$5 billion. We remain positive on AstraZeneca ahead of a number of additional clinical data readouts in the coming years, which should support sustained above-industry growth into the 2030s.

Top detractors from performance for the quarter

	Contribution to Return (%)
Eli Lilly and Company	(1.48)
Thermo Fisher Scientific Inc.	(0.86)
RadNet, Inc.	(0.73)
Intuitive Surgical, Inc.	(0.63)
argenx SE	(0.59)

Eli Lilly and Company, a global pharmaceutical company currently best known for its GLP-1 treatments for diabetes and obesity, detracted from performance. Following a robust fourth quarter of 2025, shares declined after competitor Novo Nordisk launched its oral Wegovy ahead of Lilly's oral launch in April 2026. Early prescription trends for oral Wegovy have been strong, prompting investor concerns about potential cannibalization of injectable obesity medications and the possibility of price cuts from Novo Nordisk igniting a price war. Novo Nordisk currently offers introductory cash-pay rates on the starting doses (\$149 for oral, \$199 for injectable), but patients can only access these promotional prices for two months, the discounts apply only to low starting doses that do not drive meaningful weight loss, and most patients ultimately titrate to higher-priced maintenance doses. Longer term, we continue to view Lilly's Mounjaro and Zepbound, along with its oral GLP-1 orforglipron, as best-in-class treatment options for diabetic and obese patients. We expect GLP-1 therapies to become the standard of care and to represent a \$150-billion-plus market opportunity.

Thermo Fisher Scientific Inc. is a life sciences company that offers instruments and consumables for research, tools for bioproduction, specialty diagnostics, and contract research and manufacturing services. Shares decreased during the quarter, as life sciences broadly came under pressure following a weak round of fourth-quarter 2025 results. Several areas still need to stabilize, including biotechnology spending, disruptions at the U.S. Food and Drug Administration (FDA), National Institutes of Health funding, and pharmaceutical spending following Most-Favored-Nation-related policy changes under the current administration. We remain positive on Thermo Fisher's long-term growth outlook, however. The company is dominant across multiple end markets, and its scale provides meaningful resilience. Once the macroeconomic environment normalizes, we expect Thermo Fisher to achieve a high-single-digit organic growth profile along with double-digit earnings-per-share growth.

RadNet, Inc. is the largest U.S. operator of freestanding imaging centers and a leading radiology software provider through its Deep Health subsidiary. Despite a fourth-quarter beat and above-consensus 2026 guidance, shares fell amid widespread investor concerns about the potentially disruptive impact of AI on software

companies. This was likely exacerbated by RadNet's recently announced \$270 million acquisition of Gleamer, a Paris-based X-ray-focused software company. The stock was also weighed down by severe weather in the first quarter, which negatively impacted volumes. We think AI will enhance, rather than replace, RadNet's software solutions and contribute to internal efficiencies that support margin expansion. As a result, we remain positive on RadNet and believe radiology volumes will continue to increase based on favorable demographics, a shift toward lower-cost outpatient settings, and expanded clinical applications driven by newer, more sophisticated modalities such as PET-CT.

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 grow revenue at least mid-single digits and compound earnings at double-digit rates over the long term. We define high-growth stocks as companies we believe can generate double-digit 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 March 31, 2026, we held 41 stocks. This compares with 494 stocks in the Benchmark. International stocks represented 13.6% of the Fund's net assets. The Fund's 10 largest holdings represented 45.5% of net assets. Compared with the Benchmark, the Fund was overweight in biotechnology, life sciences tools & services, and other health-care-related companies, roughly equal weight in health care technology, services, and supplies, and underweight in managed health care, health care equipment, pharmaceuticals, health care facilities, and health care distributors. The market cap range of the investments in the Fund was \$2.1 billion to \$869.0 billion with a weighted average market cap of \$189.5 billion. This compared with the Benchmark's weighted average market cap of \$267.1 billion.

We continue to invest in multiple secular growth themes in Health Care, such as genomics/genetic testing/genetic medicine, innovative medical devices that endeavor to improve outcomes and/or lower costs, minimally invasive surgery, anti-obesity medications, *picks and shovels* life sciences tools providers, the shift to lower cost sites of care, beneficiaries of AI, and animal health care, 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.

Top 10 holdings

	Year Acquired	Market Cap When Acquired (\$B)	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Eli Lilly and Company	2021	187.4	869.0	12.0	10.3
AstraZeneca PLC	2021	191.2	305.9	6.1	5.3
Johnson & Johnson	2025	494.9	588.8	5.5	4.7
Thermo Fisher Scientific Inc.	2019	117.4	182.6	5.1	4.4
Mettler-Toledo International Inc.	2018	14.3	25.5	4.8	4.1
Gilead Sciences, Inc.	2025	139.2	173.0	4.2	3.6
Teva Pharmaceutical Industries Limited	2025	20.3	35.1	3.9	3.4
Intuitive Surgical, Inc.	2018	49.9	163.6	3.9	3.3
argenx SE	2018	2.8	45.2	3.8	3.3
Roivant Sciences Ltd.	2025	8.8	19.8	3.5	3.0

Fund investments in GICS sub-industries

	Percent of Net Assets (%)
Biotechnology	32.2
Pharmaceuticals	31.4
Life Sciences Tools & Services	16.4
Health Care Equipment	11.8
Health Care Services	2.9
Health Care REITs	2.2
Health Care Technology	1.0
Health Care Supplies	0.5
Cash and Cash Equivalents	1.5
Total	100.0*

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

Recent Activity

During the quarter, we added 9 new positions and exited 11 positions, bringing the number of positions in the Fund to 41. Below we discuss some of our top net purchases and sales.

Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Johnson & Johnson	588.8	4.3
Guardant Health, Inc.	12.1	3.5
Natera, Inc.	28.3	3.0
Merck & Co., Inc.	297.4	2.9
BillionToOne, Inc.	3.6	1.6

We increased the position in **Johnson & Johnson (J&J)**, a large-cap health care company with two segments, Innovative Medicine and MedTech. J&J has been actively optimizing its portfolio, separating and spinning off lower-growth and less attractive businesses and investing in higher growth, innovative businesses. This has led to a portfolio of businesses with accelerating growth, which we think justifies a higher multiple. For example, J&J spun off its consumer health business (along with talc-related liabilities) in 2023 into a new, independent company named Kenvue, and in October 2025, J&J announced plans to separate its orthopedics business into a new, independent entity named Depuy Synthes. J&J is now focused on the Innovative Medicine segments (focused on oncology, immunology, and neuroscience) and a growth MedTech business (focused on cardiology, robotic surgery, and vision). Management guidance for 2026 operational sales growth is roughly 6%, and could accelerate to double-digit revenue growth by the end of this decade. In the Innovative Medicine segment, key growth drivers include (among others): Tremfya, an injectable biologic treatment for patients with plaque psoriasis, psoriatic arthritis, Crohn's disease and ulcerative colitis; Icotyde, a once daily oral peptide tablet recently approved for plaque psoriasis and being studied in psoriatic arthritis, ulcerative colitis and Crohn's disease; Caplyta, a medication used to treat schizophrenia or along with an antidepressant to treat major depressive disorder, bipolar depression; Spravato, a nasal spray used along with an oral antidepressant to treat adults with treatment-resistant depression and major depressive disorder; Darzalex, a treatment for multiple myeloma, Tectivli and Talvey, bispecific antibodies for adults with relapsed or refractory multiple myeloma; and Rybrevant, a bispecific antibody for adults with EGFR-mutated non-small cell lung cancer. In the MedTech segment, J&J has a strong cardiology franchise growing double digits. In the surgery business, J&J plans to be a player in robotic surgery and filed for FDA approval of its soft tissue robot called OTTAVA. In the vision business, J&J is a leader in contact lenses, which is a steady growth business with demographic tailwinds. J&J is one of only two companies in the U.S. with a AAA credit rating (the other being Microsoft). In addition, J&J generates over \$20 billion of free cash flow per year which allows the company to reinvest in the business and return value to shareholders. Although valuation has expanded in recent months

due to strong execution, we believe the company's accelerating growth outlook justifies a higher multiple for the business.

We bought shares of **Guardant Health, Inc.**, a diagnostics company which offers a portfolio of blood and tissue-based tests that are used for therapy selection for patients with advanced stage cancer, monitoring for recurrence in early-stage cancer patients, and screening for early-stage cancer in asymptomatic patients. Guardant's flagship product, Guardant360, is the market leading liquid biopsy test used to help inform physicians which therapy may be effective for advanced stage cancer patients with solid tumors without the need to obtain archival tissue or subject the patient to an invasive biopsy. Therapy selection is a \$10 billion market opportunity, according to management estimates. Guardant Reveal provides minimal residual disease detection, recurrence monitoring and late-stage therapy monitoring, which represent a \$20 billion market opportunity, according to management estimates. This year, the company will launch Guardant Reveal Ultra, a tissue-informed assay. Guardant is in the early innings of the launch of Shield, a blood test for colorectal cancer screening in adults age 45 and older who are at average risk for the disease. Based on our estimates, colorectal screening is an \$18 billion annual market opportunity, and adoption of Shield has exceeded Wall Street analyst expectations to date. Management plans to increase the Shield sales force from 300 to 600 and partnered with Quest Diagnostics to provide expanded access to physicians and patients. In the future, the company expects to expand into lung cancer screening and multi-cancer detection with the Shield platform. Guardant's business has accelerated the past few years, and in 2025 the company generated 33% revenue growth. Excluding Shield, Guardant generated positive free cash flow in Q3 and Q4 2025, and management is targeting free cash flow breakeven in Q4 2027. With cash at year end 2025 of \$1.3 billion, Guardant has the balance sheet to execute its growth plans. Management is targeting 27% to 30% revenue growth in 2026 and we think the company has a long runway for future growth beyond 2026 with opportunity for significant free cash flow generation in the out years.

We reacquired shares of **Natera, Inc.**, a diagnostics company that provides testing services in the oncology, prenatal, and organ transplant settings. We are particularly excited about the promise of Natera's Signatera minimal residual disease (MRD) tests, which account for half of the company's revenues today and are the company's key growth driver. Signatera tests for any evidence of cancer cell DNA in a patient's blood and can be used to: 1) stratify patients and guide therapy decisions after surgical tumor removal; 2) monitor how patients respond to treatment; and 3) detect early cancer recurrence. Signatera is the leading test in the MRD category and has been proven to meaningfully affect patient outcomes in colorectal cancer, breast cancer, bladder cancer, and to monitor immunotherapy response. Natera continues to invest in clinical studies to prove Signatera's clinical value in additional treatment settings. In particular, we expect Signatera growth to benefit from recently published/presented data in muscle-invasive bladder cancer and head and neck squamous cell carcinoma. We also anticipate Signatera to launch in Japan following reimbursement

for colorectal cancer testing, which could drive significant growth in 2027 and beyond given the large patient population. Further, Natera continues to defend its leadership position by expanding its MRD test offerings, including launching their whole genome sequencing-based test and the tumor-naïve Latitude test. Overall, we think MRD testing can be a \$20 billion market as oncologists continue to adopt these tests and as its clinical utility is proven in more settings, and we are bullish that Natera will continue to hold its leadership position.

We bought shares of **Merck & Co., Inc.**, a large-cap pharmaceutical company. Merck's largest product in terms of revenue is Keytruda, a cancer therapy which generated over \$31 billion of revenue in 2025, representing close to 50% of the company's revenue. Keytruda loses patent protection in 2028 which will result in biosimilar competition. Merck has been preparing to manage the impact of the Keytruda patent cliff through aggressive business development and pipeline investment. We think management has done a good job particularly with acquisitions and can effectively manage through this period. In fact, over the past five years Merck has acquired five companies which at the time the acquisition was announced the Fund owned, including Acceleron Pharma Inc. (in 2021), Prometheus Biosciences, Inc. (in 2023), Verona Pharma plc (in 2025), Cidara Therapeutics, Inc. (in 2025), and most recently, Merck announced its intent to acquire Terns Pharmaceuticals, Inc. (in March 2026). In addition, Merck also in-licensed ex-China rights to a portfolio of antibody-drug conjugates from Kelun-Biotech in 2022, which includes sac-TMT, a very promising TROP2 targeting drug. Including internally developed drugs (such as the oral PCSK9), Merck is launching over 20 new growth drivers which represent a potential commercial opportunity of over \$70 billion by the mid-2030s on a non-risk-adjusted basis. Over the next 12 to 18 months, the company will have multiple clinical data readouts across its portfolio, which should add visibility to the company's ability to fill the sales and earnings gap when Keytruda loses patent protection. Merck trades at a valuation of 12 times trough 2029 EPS and we think the multiple will expand as visibility on earnings growth beyond 2029 increases.

We added to the Fund's investment in **BillionToOne, Inc.**, a diagnostics company that is disrupting the market with more accurate prenatal and oncology genetic tests. At the core is the company's innovative quantitative counting template (QCT) technology, which allows BillionToOne to accurately count the number of mutation copies at a single-gene level. BillionToOne generates the vast majority of its revenue today from UNITY, which is a differentiated prenatal genetic test. Traditional prenatal tests can check for chromosomal abnormalities like Down syndrome but require more invasive testing to test for single gene inherited disorders. UNITY is a single blood draw from the mom that can screen for chromosomal problems and provide an accurate risk assessment for recessive single-gene disorders. BillionToOne has already captured 15% of the \$2 billion-plus U.S. prenatal screening market (according to our estimates) in a short period of time, and we expect them to continue to gain share. BillionToOne is also making early headways in oncology, which represents a \$50 billion-plus total addressable market, according to our estimates.

The same QCT technology powers BillionToOne's NORTHSTAR SELECT therapy selection test, which can find 51% to 109% more actionable mutations than competitor tests. The test has a much lower lower-limit-of-detection compared to competitors and can detect driver mutations even when the allele copy number is low. BillionToOne also offers NORTHSTAR RESPONSE, which is a new type of test that can detect subtle change in a cancer patient's tumor burden and can track whether the patient is responding to therapy. We are optimistic that more data about RESPONSE this year will enable broad Medicare reimbursement for the test. BillionToOne's launch in oncology is still nascent, but we think this product differentiation will help BillionToOne capture share in this large and growing market. Impressively, BillionToOne has accomplished all of this while maintaining financial discipline. The company has 70% gross margins and has already achieved GAAP profitability and positive free cash flow.

Top net sales for the quarter

	Net Amount Sold (\$M)
argenx SE	5.1
Penumbra, Inc.	4.4
McKesson Corporation	4.1
Danaher Corporation	3.9
Boston Scientific Corporation	3.8

We reduced the position in **argenx SE** to manage risk after the position size had increased from multi-year share price appreciation, though we maintain a high level of conviction in the investment. We sold **Penumbra, Inc.** after the company agreed to be acquired. We sold **McKesson Corporation** due to valuation after strong multi-year performance. We took a tax loss in **Danaher Corporation** and sold **Boston Scientific Corporation** due to concerns about market share losses in the company's electrophysiology business, which has been a key growth driver for the company.

Outlook

The positive momentum for the Health Care sector that began in the second half of 2025 stalled in Q1, with pronounced weakness in life sciences tools, medical technology, and managed care stocks. Tools stocks had risen in Q4 in anticipation of growth acceleration after several years of challenges, but stocks sold off due to tepid Q1 guidance and fears that AI would reduce wet lab work in drug discovery and reduce demand for clinical trial services provided by Contract Research Organizations. Medical device stocks suffered from investor concerns about weak procedure volumes in Q1 due to bad weather, inflation concerns related to rising oil prices, and the potential impact of people losing insurance coverage from the expiration of Affordable Care Act subsidies and/or stricter Medicaid requirements. Managed care stocks sold off on a disappointing Medicare Advantage rate increase and broader concerns about government policies for Medicare and Medicaid.

Trends within pharmaceuticals and biotechnology were much more positive. Biotechnology funding continued to be strong. M&A activity was robust, with eight deals announced in the first quarter for \$33 billion, according to a Bank of America report dated April 1. We think M&A activity will continue given that 23 blockbuster drugs, representing nearly \$150 billion in 2025 sales, are expected to go off patent by 2030, according to the same report. The regulatory environment is also favorable for the biopharmaceutical industry - the Food and Drug Administration has introduced new pathways to accelerate drug development, including through the policy proposal to make one pivotal Phase 3 trial, supported by other evidence, the new default requirement for new drug approvals, and through the Commissioner's National Priority Voucher Program, which accelerates review and approval of products that meet certain national health priorities.

With all our investments, we consider how AI will impact their businesses. Here are a few examples of how we think our holdings will benefit from AI. For **Thermo Fisher Scientific Inc.**, a leading life sciences tools company, we think AI will enable more efficient drug discovery, speed development timelines, and result in more overall R&D investment with more drugs approved at a faster pace, which will drive more demand for Thermo Fisher's products and services. For **RadNet, Inc.**, an owner and operator of diagnostic imaging centers, we think AI will reduce the time required to conduct and review a scan and enhance the accuracy of diagnosis, which will increase RadNet's capacity to perform more cases while enabling earlier cancer detection. **Welltower Inc.**, an owner and operator of senior housing, has built a data science platform (encompassing AI and machine learning) which it uses to direct capital to the highest risk-adjusted returns across acquisitions, developments, dispositions, and lending. Recently, Welltower began monetizing its data science platform with the recent announcement of inaugural partnerships with Public Storage and a prominent private equity firm, creating an additional growth lever for the company.

Overall, we continue to believe the long-term outlook for health care is positive given favorable secular growth drivers, including the aging population, rising incidence of chronic diseases, advances in biotechnology, medical technology and diagnostics, and increased health care spending. Many health care stocks look cheaper now than at any time since the launch of the Fund. We continue to follow our process for identifying attractive long-term investment opportunities and creating a portfolio of competitively advantaged growth companies with strong management teams. Thank you for investing in the Fund. I remain an investor in the Fund, alongside you.

Sincerely,



Neal Kaufman
Portfolio Manager

[†] Historical performance was impacted by gains from IPOs. There is no guarantee that these results can be repeated or the level of IPO participation will be the same in the future.

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 **Russell 3000[®] Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market, as of the most recent reconstitution. 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 Russell 3000[®] Health Care and Russell 3000[®] Indexes include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in 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.

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 1-800-99-BARON or visiting BaronCapitalGroup.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 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 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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