



QUARTERLY LETTER | JUNE 30, 2025

Baron Health Care Fund®

Retail Shares: BHC FX | Institutional Shares: BHCHX | R6 Shares: BHCUX

Dear Baron Health Care Fund Shareholder,

Performance

In the quarter ended June 30, 2025, Baron Health Care Fund® (the Fund) declined 5.06% (Institutional Shares), compared with the 6.19% decline for the Russell 3000 Health Care Index (the Benchmark) and the 10.99% gain for the Russell 3000 Index (the Index). Since inception (April 30, 2018), the Fund increased 8.84% on an annualized basis compared with the 8.25% gain for the Benchmark and the 13.76% gain for the Index.

Against a challenging backdrop for the broader Health Care sector, the Fund declined 5.06%, outperforming the Benchmark by 113 basis points. The Fund managed to beat the Benchmark due to a combination of cash exposure in a down market and differences in sub-industry weights. Style-related tailwinds also factored into outperformance for the period, as the Fund benefited from its overexposure to Beta given the factor had its second-best three-month performance in the last 25 years.

Aside from cash exposure, which accounted for over half of the outperformance in the period, higher exposure to better performing health care distributors and equipment stocks and lower exposure to Benchmark heavyweight **UnitedHealth Group Incorporated** in managed health care accounted for most of the remaining relative gains. UnitedHealth's shares fell sharply during the quarter after the company missed earnings estimates and cut its 2025 EPS guidance, citing higher-than-expected medical costs in its Medicare Advantage business. Investor confidence was further shaken in early May by the abrupt departure of CEO Andrew Witty and the suspension of 2025 guidance. UnitedHealth has historically commanded a premium valuation, reflecting its scale advantages, integrated care model, industry-leading innovation, and consistent execution.



Neal Kaufman
Portfolio Manager

Annualized performance (%) for period ended June 30, 2025[†]

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2}	Russell 3000 Health Care Index ¹	Russell 3000 Index ¹
3 Months ³	(5.09)	(5.06)	(6.19)	10.99
6 Months ³	(7.64)	(7.48)	(2.56)	5.75
1 Year	(11.74)	(11.48)	(6.13)	15.30
3 Years	0.56	0.83	3.30	19.08
5 Years	4.42	4.68	6.25	15.96
Since Inception (4/30/2018)	8.57	8.84	8.25	13.76

Solid stock selection in biotechnology and pharmaceuticals also added value, but these impacts were negated by disappointing stock selection elsewhere. Strength in biotechnology came from **Insméd Incorporated**, which has three leading pulmonology drugs that could collectively generate over \$8 billion in peak sales. We are especially excited about treprostinil palmitil inhalation powder (TPIP), which is being developed for both pulmonary arterial hypertension (PAH) and pulmonary hypertension (PH) associated with interstitial lung disease. The company was the top contributor after Phase 2 data for TPIP in PAH exceeded investor expectations. We offer additional thoughts on Insméd below.

Within pharmaceuticals, the Fund's sizeable position in **Eli Lilly and Company** was responsible for a portion of the relative surplus after the company's shares held up better than the broader sub-industry. Lilly is currently best known for developing GLP-1 medications to treat

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, 2035, 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.

diabetes and obesity, including blockbuster drugs Mounjaro and Zepbound. Despite concerns about a potential price war following competitor Novo Nordisk’s formulary deal with CVS and ongoing regulatory uncertainty, Lilly’s shares outperformed as Zepbound continues to launch well for the treatment of obesity. We believe Mounjaro and Zepbound are important treatments and expect Lilly to remain a leader in next-generation therapies that are more effective and convenient, including oral GLP-1, orforglipron, which recently demonstrated strong Phase 3 results in diabetes. Additional obesity-related data is expected later this year. In our view, GLP-1 adoption is still in its early innings, and we believe continued uptake will drive a doubling of Lilly’s revenues by 2030.

Solid stock selection in pharmaceuticals was enhanced by lack of exposure to certain larger-cap companies that were down sharply in the Benchmark, namely Bristol-Myers Squibb Company and Merck & Co., Inc. Not owning these names contributed the vast majority of relative gains in the sub-industry.

Offsetting the above was adverse stock selection in life sciences tools & services and health care supplies, where **Exact Sciences Corporation** and **The Cooper Companies, Inc.** (CooperCompanies) were the top detractors. We acquired shares of cancer diagnostics company Exact Sciences during the quarter and the company was a modest detractor due to short-term fluctuations in the stock. We detail reasons for our purchase of Exact Sciences below. CooperCompanies is a global medical device company with two business units: CooperVision, a leading manufacturer of soft contact lenses; and CooperSurgical, which focuses on women's health care and fertility. CooperCompanies’ shares detracted from performance following mixed fiscal Q2 results. While CooperCompanies reported an EPS beat—supported by 7% organic growth at CooperVision versus the Street’s 5.5% estimate—the results were overshadowed by management’s acknowledgment of softening contact lens end markets due to macroeconomic headwinds and tighter channel inventories across the industry. Still, CooperCompanies maintained that it is positioned to outpace the market by approximately 150 basis points in fiscal 2025, driven by robust contact lens demand and stable pricing. Management cited ongoing margin expansion as another bright spot and projected continued strength throughout the year due to efficiency gains and favorable product mix. The global contact lens market benefits from long-term secular trends, including sustained demand for premium lenses, and CooperCompanies, which offers the industry’s broadest portfolio of specialty lenses, continues to gain share. We remain shareholders.

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

We continue to think the Health Care sector will offer attractive investment opportunities over the next decade and beyond. Health Care is one of the largest and most complex sectors in the U.S. economy, accounting for an estimated 17.6% of GDP in 2023 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 (%)
Insmed Incorporated	0.55
Intuitive Surgical, Inc.	0.42
IDEXX Laboratories, Inc.	0.33
HealthEquity, Inc.	0.30
RadNet, Inc.	0.27

Insmed Incorporated is a biotechnology company with three lead pulmonology drugs that collectively have the potential to generate more than \$8 billion in peak sales. We are particularly excited about TPIP, a once-daily prostanoid in development for PAH and PH associated with interstitial lung disease. Prostacyclin therapies are a mainstay for these conditions and currently generate about \$4.5 billion in global sales. We believe TPIP could become the most effective option in the class, with significantly more convenient dosing. Shares rose after Phase 2 data for TPIP in PAH exceeded investor expectations. We are also positive on brensocatib for non-cystic fibrosis bronchiectasis, which is a \$5 billion-plus opportunity. Physician feedback and survey data suggests the drug could be transformative, showing a 20% reduction in pulmonary exacerbations and improved lung function. We believe the disease is widely underdiagnosed (often misdiagnosed as asthma or chronic obstructive pulmonary disease) and could affect up to 500,000 patients in the U.S.

Intuitive Surgical, Inc. manufactures the da Vinci Surgical System, a robotic surgical system used for minimally invasive surgical procedures. The stock contributed to performance on solid financial results. Intuitive continues to generate strong procedure growth and is in the early stages of a new product cycle with its da Vinci 5 system. We continue to view Intuitive as a competitively advantaged business with durable moats, including proprietary technology, a strong portfolio of patents, regulatory approvals, a large installed base of robotic systems, a growing base of customers trained on its platform, and a robust balance sheet. We believe the company has a long runway for growth driven by the continued adoption and expansion of robotic surgery.

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** contributed to performance for the quarter after reporting better-than-expected financial results. Foot traffic to veterinary clinics in the U.S. remains under pressure, which has continued to hamper aggregate revenue growth. Despite macroeconomic challenges, IDEXX's excellent execution has enabled the company to maintain strong performance. We believe competitive trends are outstanding, and we expect new proprietary innovations and field sales force expansion to be meaningful contributors to growth in 2025. We see increasing evidence that long-term secular trends around pet ownership and pet care spending have structurally accelerated, which should help support IDEXX's long-term growth rate.

Top detractors from performance for the quarter

	Contribution to Return (%)
UnitedHealth Group Incorporated	(3.72)
Thermo Fisher Scientific Inc.	(0.69)
argenx SE	(0.67)
The Cooper Companies, Inc.	(0.45)
Elevance Health, Inc.	(0.41)

UnitedHealth Group Incorporated is a diversified health and well-being company with \$450 billion in annual revenue, operating across four segments: UnitedHealthcare, Optum Health, Optum Insight, and Optum Rx. Shares fell sharply during the quarter after the company missed earnings estimates and cut its 2025 earnings per share guidance, citing higher-than-expected medical costs in its Medicare Advantage business. Investor confidence was further shaken in early May by the abrupt departure of CEO Andrew Witty and the suspension of 2025 guidance. The company also mispriced its Medicare Advantage business for 2025—a challenge compounded by reimbursement changes and an influx of newly acquired members who had not been properly risk coded. While we acknowledge UnitedHealth's potential to restore profitability in this segment over time through disciplined pricing and benefit adjustments, we chose to exit our position during the quarter in favor of other opportunities.

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 detracted from performance during the quarter. The life sciences segment remains under pressure due to continued grant cancellations by the National Institutes of Health (NIH) and persistent funding constraints at universities. We retain conviction as Thermo Fisher is dominant across multiple end markets and its scale gives it resilience. Once the macroeconomic environment stabilizes, we expect the company to resume organic growth in the high single-digit range and deliver double-digit earnings-per-share growth.

Argenx SE is a biotechnology company best known for developing Vyvgart, the leading FcRn inhibitor for the treatment of autoimmune conditions. Shares declined after Q1 Vyvgart sales came in below elevated investor expectations due to a combination of seasonal factors (such as insurance reverification) and higher Medicare Part D utilization and associated discounts. Our conversations with management and neurologists continue to reinforce Vyvgart's value as an important treatment option with strong long-term growth potential. The drug continues to launch well in both generalized myasthenia gravis and chronic inflammatory demyelinating polyneuropathy. Over time, we expect Vyvgart to demonstrate efficacy across an expanding range of autoantibody-driven autoimmune conditions, supported by encouraging Phase 2 myositis data recently presented by argenx at a major medical conference.

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 expect to 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 June 30, 2025, we held 35 stocks. This compares with 502 stocks in the Benchmark. International stocks represented 12.6% of the Fund's net assets. The Fund's 10 largest holdings represented 54.5% of net assets. Compared with the Benchmark, the Fund was overweight in health care equipment, life sciences tools & services, health care distributors, and health care supplies, roughly equal weight in biotechnology and health care technology, and underweight in pharmaceuticals, managed health care, health care services, and health care facilities. The market cap range of the investments in the Fund was \$1.7 billion to \$739 billion with a weighted average market cap of \$165 billion. This compared with the Benchmark's weighted average market cap of \$212 billion.

We continue to invest in multiple secular growth themes in Health Care, such as genomics/genetic testing/genetic medicine, innovative medical devices that 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 pet 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	738.8	18.6	13.1
argenx SE	2018	2.8	33.7	12.1	8.6
Boston Scientific Corporation	2023	73.4	158.9	8.6	6.1
Stryker Corporation	2023	98.8	151.2	7.1	5.0
Intuitive Surgical, Inc.	2018	49.9	194.8	6.5	4.6
Masimo Corporation	2025	10.3	9.1	5.0	3.6
Danaher Corporation	2022	202.9	141.4	4.9	3.5
Waters Corporation	2025	24.1	20.8	4.9	3.5
McKesson Corporation	2025	75.5	91.7	4.8	3.4
Penumbra, Inc.	2025	11.7	9.9	4.5	3.2

Fund investments in GICS sub-industries

	Percent of Net Assets (%)
Health Care Equipment	28.6
Biotechnology	20.3
Pharmaceuticals	17.3
Life Sciences Tools & Services	14.6
Health Care Distributors	3.4
Health Care Supplies	2.7
Health Care Services	2.4
Managed Health Care	2.2
Health Care Facilities	1.5
Health Care Technology	0.7
Cash and Cash Equivalents	6.2
Total	100.0*

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

Recent Activity

During the quarter, we added seven new positions and exited seven positions. 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)
Masimo Corporation	9.1	3.0
Exact Sciences Corporation	10.0	2.5
Eli Lilly and Company	738.8	2.1
Penumbra, Inc.	9.9	2.1
Edwards Lifesciences Corporation	45.9	1.9

We added to our position in **Masimo Corporation**, a medical device company that manufactures non-invasive patient monitoring technologies, such as pulse oximetry for measuring blood oxygen levels of patients in the hospital. The company finalized the divestiture of its consumer audio business, which had been a distraction from their core health care business. The company plans to prioritize share repurchases with the proceeds from the sale. The trade war and tariff uncertainty has been an overhang, given Masimo manufactures products in Mexico, Malaysia, and China, but there is reason to be optimistic about de-escalation and trade deals. After meeting with new CEO Katie Szyman, we feel confident in her vision which is focused on achieving commercial excellence, bringing Masimo's AI technology to the hospital, and expanding the company's overall patient monitoring footprint within the hospital. We think the core health care business can continue to grow in the high single digits on the top line, and cost rationalization and disciplined spending should enable the company to more than double EPS within five years.

We initiated a position in **Exact Sciences Corporation**, a molecular diagnostics company focused on the early detection of colorectal cancer. The company is best known for its non-invasive colorectal cancer stool tests, Cologuard and Cologuard Plus. 106 million adults in the U.S. are eligible for colorectal cancer screening, of which half are not up to date. Colonoscopies are the gold standard for colorectal cancer screening, but they are invasive and require significant preparation. In contrast, Cologuard is non-invasive and requires significantly less time commitment. Cologuard adoption is growing and the test now accounts for around 13% of colorectal cancer screening. We are increasingly hearing from doctors and patients that they are considering Cologuard ahead of colonoscopies. Shares underperformed in 2024 as adoption of Cologuard slowed, as investors anticipate competition from Guardant Health which launched a colorectal cancer blood test, and as investors feared a worst-case outcome from a Supreme Court case that potentially has implications for insurance coverage mandates for Cologuard. We think shares are well positioned to re-rate as each fear is dispelled: (1) we expect Exact Science's commercial restructuring to continue to drive volume growth reacceleration; (2) Guardant's blood test is less sensitive than Cologuard and we think blood tests will be relegated to patients who refuse more sensitive screening options; and (3) at the end of June, the Supreme Court issued its decision

in the Braidwood case which preserved the insurance coverage mandate. We think Cologuard is a compelling option for colorectal cancer screening and Exact Sciences will continue to penetrate this market.

We added to our position in **Eli Lilly and Company**, a global pharmaceutical company best known for developing and selling GLP-1 medications for diabetes and obesity. The most recent generation of GLP-1 drugs (brand names Mounjaro and Zepbound) not only offer superb blood sugar control for diabetics, but also can drive 20% or greater weight loss and likely improve cardiovascular outcomes in both diabetic and non-diabetic obese patients. We think these drugs will become the standard of care for both diabetes and obesity, and will become a \$150 billion category. We see Lilly as the leader in the space, setting a high efficacy bar with their GLP-1s on the market and continuing to innovate and develop next-generation medications that are more effective and more convenient. We are excited about once-daily oral orforglipron, which recently showed Phase 3 data in type 2 diabetes that rivaled Novo Nordisk's injectable Ozempic. We expect Phase 3 orforglipron in obesity this summer to also be competitive with Novo Nordisk's injectable Wegovy. Beyond orforglipron, Lilly is also studying a high efficacy injectable (retatrutide) in Phase 3, an amylin hormone analogue (eloralintide) that can be combined with Zepbound in Phase 2, and a muscle-preserving drug bimagrumab (which can also be combined with Zepbound) in Phase 2. We continue to think this market is in the early innings of uptake, we think the adoption of GLP-1s will drive Lilly to triple its total revenues by 2030, and we think Lilly has the pipeline portfolio of drugs to sustain its leadership position.

We added to our position in **Penumbra, Inc.**, a medical device company that manufactures mechanical thrombectomy devices to remove clots. We think Penumbra's products are differentiated because of their computer assisted vacuum thrombectomy (CAVT) technology. CAVT utilizes algorithms to modulate the aspiration power depending on if a clot is detected, and to control a separate valve that injects saline to reduce friction between the clot and catheter. This maximizes clot removal while decreasing risk of blood loss. For U.S. thrombectomy, we see a market opportunity for over 1 million procedures a year across stroke and peripheral vascular, with a total addressable market (TAM) north of \$8 billion. Of this TAM, Penumbra is only high single digits percentage penetrated in 2024. We are looking forward to this mechanism rolling out in the stroke setting (the Thunderbolt product which is in development). In addition, the company is seeing strong momentum in the venous setting already with their Flash product. We think this momentum could accelerate if the Storm-PE trial, which completed enrollment during the quarter, demonstrates superiority of Penumbra's CAVT plus anticoagulation versus anticoagulation alone (the current standard of care) in intermediate-high risk pulmonary embolism patients. The trial could change the treatment paradigm for pulmonary embolism.

We reacquired shares of **Edwards Lifesciences Corporation**, a leading manufacturer of heart valve replacement and repair products. Transcatheter aortic valve replacement (TAVR) is a minimally invasive procedure to treat aortic stenosis, a disease that obstructs the flow of blood out of the aortic valve, which strains

the heart. Edwards Lifesciences has a leading position in the TAVR market backed by a robust body of clinical evidence and physician familiarity with the product and workflow. TAVR is a \$5 billion market that still continues to grow many years after Edwards Lifesciences first entered the market. We expect this growth to continue at a moderate pace as indications expand to cover a broader patient population. In addition, competitor **Boston Scientific Corporation** recently exited the TAVR market, which provides incremental market share opportunity for Edwards Lifesciences.

Besides Edwards Lifesciences' leading position in TAVR, the company also offers products for the mitral and tricuspid valves. These are other valves in the heart that, if dysfunctional, can also cause the heart to work harder and become strained. We believe that transcatheter tricuspid valve replacement represents the most exciting growth driver for Edwards Lifesciences because tricuspid regurgitation is an area with high unmet need and has the potential to be just as large as the TAVR TAM, if not larger. We believe Edwards Lifesciences is uniquely positioned here with their tricuspid valve replacement product Evoque, which is in the early stages of the commercial launch. We believe over the long term, Edwards Lifesciences can grow revenue in the high single digits to low double digits and EPS mid-teens.

Top net sales for the quarter

	Net Amount Sold (\$M)
UnitedHealth Group Incorporated	12.5
Boston Scientific Corporation	6.0
Intuitive Surgical, Inc.	5.0
Thermo Fisher Scientific Inc.	4.2
Arcellx, Inc.	1.9

We sold **UnitedHealth Group Incorporated** because the company lowered guidance shortly after reporting earnings and then suspended guidance shortly after that. Management cited three issues: greater-than-expected impact from the health status of new members, higher-than-expected cost trends in the Medicare Advantage business, and a broadening of this higher trend to the Medicaid and commercial business. Some of these issues could potentially be fixed in the short term through repricing, but we felt management's lack of visibility raised too many questions about the long-term earnings potential of the business. We plan to revisit the investment thesis after new management conducts its comprehensive review and resets earnings guidance.

We reduced **Boston Scientific Corporation** and **Intuitive Surgical, Inc.** to manage risk after the position sizes increased from multi-year share appreciation. We maintain a positive view about the long-term outlook for both companies.

We reduced **Thermo Fisher Scientific Inc.** because several headwinds are impacting the business, including NIH funding cuts, potential tariffs on the company and its biopharmaceutical customers, a biotechnology funding slowdown, and slower growth in China.

We reduced **Arcellx, Inc.** to manage portfolio risk.

Outlook

Health Care’s stretch of recent underperformance versus the broader equity markets reached unprecedented levels in the second quarter. The Benchmark underperformed the Index by over 17%! There are many reasons for the Health Care sector’s dramatic underperformance. Big picture, Health Care is a highly regulated industry which depends in significant part on government reimbursement, and the current Administration has proposed spending cuts and major policy changes that cause uncertainty around profits for many different Health Care sub-industries.

For example, in February, new leadership at the NIH, the government agency with a \$50 billion annual budget which provides research grants to universities, announced a change in policy regarding the funding of indirect costs of research projects. While currently the subject of litigation, if the policy is implemented, some of the nation’s leading research universities each stand to lose hundreds of millions of dollars in research grants. In the meantime, the NIH has terminated or delayed research grants and the Trump Administration has proposed a 40% cut to the NIH budget for fiscal year 2026. Ultimately Congress will decide what next year’s NIH budget will be, but all of this uncertainty and disruption is causing headwinds for life sciences tools companies that sell products and services to academic laboratories.

For pharmaceutical and biotechnology companies, we await details around the Trump Administration’s plans for implementing a Most-Favored-Nation (MFN) drug pricing policy and for pharmaceutical sector tariffs. It’s unclear whether these policy proposals would withstand legal challenges, but the threat of these potential policies has raised questions about the potential impact on future earnings and R&D budgets. There have also been personnel changes and headcount reductions at the Food and Drug Administration (FDA), which have caused investor concerns that new drug approvals will be delayed or that the agency will change its criteria for approving drugs. Beyond these policy issues, Chinese biotechnology companies have emerged as a competitive threat and large multinational pharmaceutical companies have been partnering with Chinese biotechnology companies (where prices for early-stage companies are lower) at the expense of early-stage U.S. biotechnology companies. As a result, investors have been reluctant to deploy capital in the biotechnology sector. Although biotechnology funding improved in the June quarter versus the March quarter, biotechnology funding is still down year-over-year due to a very weak start to the year.

Outside of life sciences, managed care companies have suffered earnings shortfalls this year due to elevated medical cost trends in their Medicare and Medicaid books of business and the impact of changes to the risk adjustment rules for Medicare Advantage plans. Further, on July 4, President Trump signed the One Big Beautiful Bill Act (the OBBBA) into law. The OBBBA includes more than \$1 trillion in health care spending cuts over 10 years, mostly from Medicaid. This represents the biggest cut to federal health care spending and to Medicaid in history. Medicaid work requirements are scheduled to begin on January 1, 2027, and would require individuals to spend at least 80 hours each month working, completing community service, participating in a work program, or enrolling in an educational program. The Congressional Budget Office (CBO) has estimated that

the work requirements would increase the number of uninsured people by 4.8 million by 2034, while other Medicaid provisions (immigration rules, more frequent eligibility checks) would add another 3 million to the uninsured number. In addition, the OBBBA curtails well-established state Medicaid funding mechanisms, such as state provider taxes and directed payment programs. The Trump Administration has also been imposing stricter requirements for people to enroll and retain health insurance under the Affordable Care Act (ACA) exchanges. And at year end, the federal subsidies that help people pay for plans on the ACA exchanges are set to expire. If Congress doesn’t extend these subsidies, another 5.1 million people could lose insurance coverage, according to the CBO. As a result of all these changes, hospitals could face reduced Medicaid payments and an increase in uncompensated care costs, and managed care companies could face fewer enrollees and adverse selection as healthier members drop coverage.

Given this backdrop, why are we optimistic about the long-term outlook for Health Care?

We think the long-term secular growth drivers for health care are intact. The U.S. population is aging, driven by the aging of the baby boomer population and increased longevity, fueled by new ways to diagnose, monitor, and treat diseases. In 2022, there were 57.8 million Americans aged 65 and older, representing 17.3% of the population. The Census Bureau estimates older Americans will represent over 20% of the population in 2030. Health care spending is expected to grow faster than GDP and reach 20.3% of GDP by 2033 (note: this projection occurred prior to passage of the OBBBA). Innovation in the sector is robust. Despite recent underperformance, we remain encouraged that Health Care often outperforms the broad market over the long term. As indicated in the chart below, the Russell 3000 Health Care Index outperformed the Russell 3000 Index 65% of the time on a rolling 5-year basis and 76% of the time over rolling 10-year periods, meaning the longer one invests in Health Care, the more likely the sector is to outperform the broad market.

Health Care Outperformance vs. Broader Market

Percentage of time Health Care sector outperformed Broad Based Benchmarks over different time periods from inception of Russell 3000 Health Care Index (7/1/1996) through 6/30/2025

Rolling Return Period	1 Year	3 Years	5 Years	10 Years
Russell 3000 Health Care Index vs. Russell 3000 Index	50%	54%	65%	76%
Russell 3000 Health Care Index vs. S&P 500 Index	52%	54%	65%	84%

Performance data quoted represents past performance. Past performance is no guarantee of future results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

Once there is greater clarity around policy changes, investors can reassess the earnings impact and value companies under the new rules. With the OBBBA now signed into law and the Trump Administration’s announcements about tariffs and MFN drug pricing likely to come in the near term, we think policy changes are largely priced in, and there is potential for some of the draconian changes to be modified in the future, given likely political pushback. Polls show that the OBBBA’s health care cuts are unpopular with the public. With

respect to the FDA personnel changes, so far the FDA appears to be functioning and drugs are getting approved. Leaders at the FDA have made encouraging public statements about streamlining the drug approval process. In fact, the OBBBA expands the number of orphan drugs that are exempted from Medicare price negotiations, which should promote more innovation in the biopharmaceutical industry, and by extension, bolster life science tools suppliers. As to academic research, Congress decides the NIH budget and Congress has been supportive of annual increases. A federal judge ordered the NIH to reinstate 800 research grants that have been canceled, and another judge issued an injunction blocking the NIH from implementing the cap on indirect costs. Regarding Medicaid cuts, there has been speculation that blue states will try to maintain enrollment with work requirement workarounds, and because most of the major changes do not come into effect until 2027 and 2028, hospitals have time to lobby lawmakers and build public support to prevent the cuts from ultimately going into effect.

We think the companies in which the Fund invests are unique, competitively advantaged growth companies with innovative products that can improve patient outcomes and/or lower health care costs. **Eli Lilly and Company**'s new GLP-1 medicines offer a broad range of health benefits, including blood sugar control and weight loss, reduced risk of heart attack, stroke and heart failure, improved kidney function, reduction in sleep apnea, and could potentially reduce substance abuse disorders and treat neurocognitive illnesses like Alzheimer's. **Argenx SE**'s Vyvgart is transforming the treatment of various rare autoimmune diseases like myasthenia gravis and

chronic inflammatory demyelinating polyneuropathy. **Boston Scientific Corporation**'s Farapulse pulsed field ablation system is transforming the treatment of atrial fibrillation through the use of targeted electrical pulses that make procedures more precise, faster, and safer. **Intuitive Surgical, Inc.**'s robotic surgical systems are making surgical procedures less invasive, which reduces pain, results in less blood loss, and allows for faster recovery for the patient, while surgeons benefit from enhanced precision, dexterity, and visualization during the procedure. **Insmed Incorporated**'s innovative new medicines for respiratory diseases have the potential to be a game changer for patients. **RadNet, Inc.** is using AI algorithms to enhance the accuracy of breast cancer screening mammograms, leading to earlier cancer detection and reducing the number of unnecessary patient call backs.

These are just a few examples of why we are optimistic about the long-term outlook for Health Care and the Fund. We continue to follow our process for identifying 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

¹ The Fund's historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs 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.

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

Beta explains common variation in stock returns due to different stock sensitivities to market or systematic risk that cannot be explained by the US Country factor. Positive exposure indicates high beta stock. Negative exposure indicates low beta stock.

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