DEAR BARON SMALL CAP FUND SHAREHOLDER:

PERFORMANCE

Baron Small Cap Fund (the "Fund") had a good first quarter of 2018. The Fund gained 2.86% (Institutional Shares), which compared favorably to the Russell 2000 Growth Index (up 2.30%) and the S&P 500 Index (down 0.76%).

Table I.
Performance
Annualized for periods ended March 31, 2018

	Baron Small Cap Fund Retail Shares[1,2]	Baron Small Cap Fund Institutional Shares[1,2,3]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	2.82%	2.86%	2.30%	(0.76)%
One Year	20.50%	20.77%	18.63%	13.99%
Three Years	8.83%	9.11%	8.77%	10.78%
Five Years	11.13%	11.40%	12.90%	13.31%
Ten Years	9.86%	10.10%	10.95%	9.49%
Fifteen Years	11.42%	11.58%	12.04%	10.10%
Since Inception (September 30, 1997)	10.08%	10.20%	6.23%	7.12%

CLIFF GREENBERG

PORTFOLIO MANAGER

Retail Shares: BSCFX
Institutional Shares: BSFIX
R6 Shares: BSCUX

The quarter started with a continuation of trends from 2017. The market was strong in January, driven by excitement for faster growth and higher earnings because of the positive momentum in the U.S. and global economies, and the additional boost of lower tax rates from the passage of tax reform in December.

Information Technology stocks led the rise, as in the prior year. The market traded persistently higher and seemed almost euphoric. Investor sentiment was elevated, and the market kept hitting new highs. However, things changed in February, and the market environment has been much different since.

The employment report for January showed a large increase in wage rates, which raised concerns that inflation could become problematic and prompt higher interest rates that would hurt the economy and be bad for stocks. The yield on the 10-year bond rose 50 basis points in just a few months. The market pulled back and dropped 10% in less than two weeks, the first such decline in three years.

The rest of the quarter has been characterized by significantly increased volatility. A gaggle of unsettling events have taken place that the market has had to sort out. One headache after another. In addition to the concerns about higher inflation and Fed tightening, there has been angst about: escalating trade tensions, with the U.S. government's enactment of some tariffs and fear of a broader trade war with China; domestic political issues (the Mueller investigation and government resignations); privacy concerns and fear of government interference with the businesses of some of the leading tech companies/market darlings; and the unease caused by the market's crazy trading patterns with its frequent triple-digit swings in response to the daily news flow.

Our approach is not affected by the change in market tenor, and the Fund performed well during the quarter. Our high-quality growth businesses are, for the most part, unaffected by the above, and are continuing to grow presently and developing long-term opportunities, and their stocks reflect such growth and outlook.

Our stock selection led to our outperformance. Our Consumer Discretionary and Industrial stocks performed the best relatively. Our best absolute performers and most significant contributors were companies that announced important positive developments in the quarter (which we discuss below). These micro factors most often matter more to results than the big macro trends. The Fund proved more stable than the market during the quarter, which we expect because we invest in established well-performing companies. Being underweight "volatility" was a style bias that was a positive in the quarter.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2017 was 1.31% and 1.05%, 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 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 www.BaronFunds.com or call 1-800-99BARON.*

[1] The indexes are unmanaged. The Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

[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] Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

[4] Not annualized.

BARON FUNDS 1987

Table II.
Top contributors to performance for the quarter ended March 31, 2018

	Percent Impact
On Assignment, Inc.	0.73%
Shutterfly, Inc.	0.62
IDEXX Laboratories, Inc.	0.60
2U, Inc.	0.57
GTT Communications, Inc.	0.53

On Assignment, Inc. (now called ASGN Incorporated)**,** a leading U.S. staffing firm, was our biggest contributor after the company announced strong operating results and a large acquisition in a new growth segment. The company grew its revenues 9.4% and EBITDA 17% in the fourth quarter, which exceeded estimates and showed acceleration in the rate of growth. Guidance pointed to a continued positive outlook. We believe the company is well positioned and executing well in fast-growing niches (IT and digital creative) which are benefiting from the strong employment market and an increased rate of adoption of the company's staffing model. The company announced the acquisition of ECS Federal, a leading staffing provider to the government service sector, specializing in workers in cyber-security and IT solutions. We view the acquisition favorably, as we see ECS as a high-quality, growth player in an attractive adjacent market, which nicely compliments ASGN's present portfolio and which should be less cyclical over time. We also foresee the opportunity for ASGN to help ECS grow at a faster rate with its expertise in recruiting additional staffers for ECS to place. The acquisition is also accretive, as we expect about a 20% lift in earnings from the deal. This transaction reminds us of the successful acquisitions of Apex (2012) and Creative Circle (2015). We attribute our great success in this stock in large extent to the uncanny skill of senior management to enter high-growth sectors through winning acquisitions that favorably re-position the company and to shrewdly allocate capital.

Shares of **Shutterfly, Inc.**, the premier online provider of consumer photo prints and related products, increased sharply in the first quarter after reporting good numbers and a large, strategic acquisition. Sound familiar? This combination is common to our best near-term performers.

Revenues for the all-important fourth quarter were much better than expected, as retention of customers from closed/migrated brands was ahead of plan. Shutterfly has been consolidating brands, which has dampened overall growth, but comparable growth of its core brand grew 7% in the quarter, which was a nice uptick. Outlook calls for similar high single-digit growth go forward. The company is acquiring Lifetouch, the dominant player in school photography – yearly school photos, yearbooks, and other specialty photo services. The company has been around for 80 years and is 10 times larger than its next competitor. We love the deal, primarily because we think so highly of the capabilities of the management at Shutterfly and believe they can succeed in dramatically improving Lifetouch, by digitizing its business and improving operations, much like they are doing with its base business. Lifetouch is also a highly accretive deal. Lifetouch is being acquired at 5.5 times EBITDA, net of synergies expected to be realized in time. We are also excited about the potential revenue growth and the revenue synergies from cross-selling core services to the new customer base. Though the stock popped on announcement of the deal, we added to our position because we view the company to be undervalued based on our estimates of future profits.

Shares of **IDEXX Laboratories, Inc.**, the leader in veterinary diagnostics, continued its strong performance as the company posted outstanding results. Revenues in the fourth quarter grew about 12% organically, which was well ahead of Street expectations, and business accelerated as the year progressed. Margins continue to expand, despite the increased discretionary investments on new product and sales staff. The company continues to repurchase its stock and will benefit from lower taxes go forward. We believe IDEXX's market position is unassailable and strengthening. Its installed base of instruments grew 20% in the quarter We are excited about the present launch of its SDMA test for kidney disease, and the upcoming introduction of fecal antigen SNAP test, as we see both as being meaningful contributors to future profitability.

2U, Inc., a provider of technology and services to universities to deliver high-quality graduate education services online, announced strong results and business trends. Revenue grew 51% in the quarter, 30% in the base business, and guidance calls for 40% growth in the upcoming year. The company reported that the margins of its oldest cohort of programs had scaled beyond company projections, which points to the underlying business model developing as hoped. GetSmarter, the recently acquired complimentary business that provides services to top universities to provide short courses, is off to a great start. We believe the company will have great success cross-selling both services to each other's clientele. 2U announced the signing of its first international graduate program deal, which we believe can be an important source of future growth. 2U has had a sensational run and is highly valued against present revenues and profits. We still see substantial long-term potential as the company goes from 35 programs in operation to over 200 and significantly expands its short course business. As its programs mature, we believe the enterprise value can increase more than four-fold from where it presently trades, and we expect to be long-term holders to reap the benefits of the growth.

Other stocks in the portfolio that rose over 20% in the quarter, but contributed less to our returns, were **GTT Communications, Inc.**, **Wix.com Ltd.**, **HealthEquity, Inc.**, **Wingstop Inc.**, **Qualys, Inc.**, **Altair Engineering Inc.**, **DexCom, Inc.**, **Abcam plc**, and **BJ's Restaurants, Inc.**

Table III.
Top detractors from performance for the quarter ended March 31, 2018

	Percent Impact
Camping World Holdings, Inc.	–0.55%
Cognex Corp.	–0.39
MACOM Technology Solutions Holdings, Inc.	–0.33
REV Group, Inc.	–0.32
Acuity Brands, Inc.	–0.31

Shares of **Camping World Holdings, Inc.**, the largest recreational vehicle (RV) dealer in the U.S., fell in the quarter on concerns that the RV industry was hitting a cyclical peak and newly enacted steel tariffs could lead to higher RV prices making them less affordable. Camping World's inventory is higher, but that is because they think demand will stay firm and they don't want to miss sales. Camping World primarily sells low-priced towable units, which we believe will remain accessible. We do not expect sales to be so cyclical because they appeal to popular trends of increased spending of experiential goods. In our view, there is still a significant long-term runway for growth through the thoughtful and accretive consolidation of a very fragmented industry. We like the company's focus on selling related subscription services ("Good Sam Club") to its customer base. We also think its entrance into the outdoor retailing space, through the acquisition of Gander Mountain and other related retail assets, has significant potential.

Cognex Corp. sells machine vision products for factory automation and logistic applications. The company had an exceptional year in 2017, profits rose over 50% and the stock gained more than 90%, so now it is facing difficult comparisons for 2018. We trimmed our position in 2017 into its surge, and the stock came back to earth a bit in the last quarter. We continue to believe Cognex is a special company with great long-term growth prospects from expanding applications for its machine vision products. We grant that it is hard to forecast what they will earn in 2018 as they lap extraordinary results, but that has been the case in other periods over our seven years of owning the stock. During that period, the company has grown its market cap over six-fold, from $1.4 billion to $9 billion, we believe the company will be worth considerably more in time.

Shares of **MACOM Technology Solutions Holdings, Inc.**, a designer and manufacturer of analog semiconductors, lost value after the company reported disappointing sales in its optical network connectors, and its Chinese end market. After further work, we became more concerned about competitive products and lost some of our excitement about the prospects for its new products for data centers, so decided to sell our position.

REV Group, **Inc.** manufactures special vehicles – fire and emergency vehicles, buses and commercial vans and RVs – for sale in domestic markets. The shares declined this quarter on market fears of rising metal input costs following the recent enactment of tariffs and the delay in shipments of some orders. These factors negatively affected first quarter earnings and are causing uncertainty with projections for the near term. We admire REV's management for its success to date in creating the leading manufacturer in many fragmented markets. We believe there is great opportunity to expand margins from present levels through improvements in production procedures, from additional procurement savings and from continued development of high-margin aftermarket opportunities. We expect that the company will also grow value through further strategic acquisitions, though this is not a present focus. We consider the present issues to be temporary.

Other stocks in the portfolio that declined over 20% in the quarter, but impacted us less, were **Acuity Brands, Inc.**, **Dominion Energy Midstream Partners, LP**, **Valero Energy Partners LP**, and **Scorpio Tankers Inc.**

PORTFOLIO STRUCTURE

As of March 31, 2018, the Fund had $4.2 billion under management. The top 10 positions represented 31.2% of the Fund.

Table IV.
Top 10 holdings as of March 31, 2018

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$164.7	3.9%
On Assignment, Inc.	2012	143.3	3.4
GTT Communications, Inc.	2017	141.8	3.4
Guidewire Software, Inc.	2012	141.5	3.4
Waste Connections, Inc.	2016	139.9	3.3
IDEXX Laboratories, Inc.	2008	134.0	3.2
TransDigm Group, Inc.	2006	122.8	2.9
Bright Horizons Family Solutions, Inc.	2013	119.7	2.8
SiteOne Landscape Supply, Inc.	2016	105.9	2.5
SBA Communications Corp.	2004	102.6	2.4

We ended the quarter with 73 stocks in the portfolio, in keeping with our plan of the last few years to reduce the amount of positions held. We manage a diversified portfolio with its heaviest weightings in stocks with which we have had long-term success, yet we still believe there is considerable upside. This approach dampens volatility of the Fund, since many of these companies are well-established growth businesses with business models that are "baked," are building off established market positions, and have predictable and reliable revenues. We supplement these long-term winners with new ideas each year that are smaller and somewhat less developed companies, but which can provide more significant upside and develop into long-term holdings.

With the promotion of David Goldsmith to the role of Assistant Portfolio Manager, we set out to increase our turnover and add more new ideas to the portfolio. I am pleased with how this is going and thank David and our crack research staff for unearthing lots of new exciting investments. Our turnover increased over the last 12 months to about 25%, meaning about a quarter of the portfolio was fresh. Year-to-date, we are running at a similar pace. In the first quarter, we made seven new investments and added to six positions that we had previously owned. We exited 10 positions. We also trimmed back 15 others, many of which are our larger market-cap holdings, which is our practice to manage the overall market capitalization of the Fund and use the capital to buy new small-cap names. For the quarter, the average market cap of our buys was $2.2 billion and for our sales was $6.6 billion.

We do not try to mimic the Russell 2000 Growth Index in our portfolio construction. We build the Fund stock by stock, from the bottom up. Concentrations in the Fund holdings evolve over time, based on where we are finding the most opportunity. Presently it differs somewhat significantly from the Russell 2000 Growth Index. We are well overweight in the Consumer Discretionary, Information Technology, and Industrials sectors. As usual, we are meaningfully underweight in Health Care (especially Biotech and Drugs), Financials, and Consumer Staples. The variance between our Fund and the composition of the index sometimes leads to variance in performance. This year and last, that hasn't been the case.

We are long-term investors, buying small companies that we believe can become big, and holding onto our winners as they grow and their stocks compound. We have owned four stocks in the portfolio for over 10 years, and nine others for seven years or more. These holdings make up about 26% of the Fund. We purchased these stocks when their market caps were between $200 million and $2.5 billion, and they now range from $2.2 billion to $20 billion. Our average annualized return in these stocks is about 24% a year, which, in our mind, confirms the success of our approach and execution. Another nine stocks have been held between five and seven years, and these holdings too have compounded at similar rates.

An outgrowth of our approach is that the Fund has about 20% of its assets in stocks that have over $10 billion in market cap. These stocks we have owned for over eight years on average, and the average annualized return of this bucket of holdings is 27%, again confirming the wisdom of holding onto these holdings in these special companies. We realize that this is unusual for a small-cap fund, and we are sensitive about maintaining our small-cap mandate. So, we scrutinize these large-cap holdings carefully and actively manage this portion of the Fund, selling out of names if we don't see significant upside and scaling back position sizes often into strength. Our primary concern is to maximize the return of the Fund, and we strongly believe we should "water our flowers," and stay involved as our investments flourish. We would be doing our shareholders a disservice if we were forced into selling out of our "big winners" too soon and try, often unsuccessfully, to replace the holdings with a new position that is of lesser quality.

Recent Activity

As mentioned above, we were active this quarter in adding new names and adding to some existing positions. The increased market volatility is helpful in enabling us to buy and sell positions at attractive prices.

Table V.
Top net purchases for the quarter ended March 31, 2018

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Hudson Ltd.	2018	$1.5	$46.3
Installed Building Products, Inc.	2017	1.9	31.1
Orion Engineered Carbons S.A.	2018	1.6	28.6
Houlihan Lokey, Inc.	2018	3.1	23.3
Americold Realty Trust	2018	2.7	21.2

Hudson Ltd. is the industry leader in the North American Travel Retail industry. It operates about 1,000 stores in airports and other major transportation centers, under the Iconic Hudson News or Hudson brand name, plus some freestanding bookstores, electronics stores, and quick service food and beverage outlets. Its core purpose is to be "the traveler's best friend" and the stores have evolved over time from being newsstands to convenience stores of travel essentials. The business was started 30 years ago and has been managed by the same family ever since. Hudson was sold to a private equity firm a decade ago and then merged into Dufry, a leading global operator of duty free stores. Dufry sold 42% of its holding in an IPO this spring, and we participated in the company's IPO.

We believe that travel retail has distinct advantages. There is a captive audience of customers, who normally dwell in airports preflight for over an hour, have a propensity to spend, and have immediate needs and wants. Airport retailers are insulated from e-commerce. Airports are complex operating environments and are controlled by governments and local authorities, who enter long-term leases with experienced and trustworthy operators. Hudson is the biggest player, with a mid 30% market share, over $1.8 billion in revenues, about 100 locations, and over 200 concession agreements. The travel concessions business is also a growth industry. Passenger volumes going through airports grow at about 3% per year and spending per passenger has grown at about 4% per year. New terminals are being built and existing terminals upgraded, providing an opportunity for Hudson to grow its footprint.

Hudson has grown organically at high single-digits, through a combination of increased same-store-sales, driven by passenger volume growth, price increases, and productivity improvements; and net new business, new concessions, and conversions of stores from Hudson News to Hudson. Last year organic growth was 8.8%. The company had many new wins and lease extensions/expansions. We expect continued organic growth at a similar pace go forward. The company's margins have been expanding along with the sales growth, and we expect that to continue as well. Hudson generates strong free cash flow, well beyond its needs, which will be used to reduce existing debt and add to earnings growth. This equates to mid-teens earnings growth. The company is also pursuing acquisition of smaller travel retail operators and is considering expanding further into the larger airport food and beverage segment, which we think could really matter in time. We believe these inorganic activities could also add to growth.

Hudson is trading at under nine times our estimate of EBITDA in 2018 and less than eight times next year's, and 15 times this year's adjusted earnings and 12 times next year's. We think these multiples are too low for a business of this quality and outlook. High-quality growth retailers that are immune from pressure from the internet are hard to come by, and those that are out there, trade at hefty multiples. We are excited by the prospect for multiple expansion and compounding income that could lead to strong returns for the stock.

Orion Engineered Carbons S.A. is a leading global producer of Carbon Black. Carbon Black is used as a pigment and as a performance additive in coatings, polymers, printing applications (Specialty) and the reinforcement of rubber in tires and mechanical rubber goods (Rubber Black).

60% of Orion's EBITDA comes from the Specialty Carbon Black business, one we view as truly special. Orion has over 75 years of experience and a long-standing reputation for technical capability with 280 highly-formulated grades offering critical strengthening, UV protection, and conductive properties at a relatively (<5% of product) low cost. Management's strategy is based on innovation and converting capacity from its commodity offerings to its Specialty platform generates attractive ROIs. With a global production network, Orion has an industry-leading 25% market share, and is growing EBITDA at almost 8% CAGR (since 2012) with 30%+ margins.

We believe prospects for Orion's Rubber Black business are improving. High utilization rates globally (Europe 90% and U.S. 85%+) in a consolidating industry, along with curtailed production on the stricter environmental regulations in China has led to tighter supply/demand. We think pricing and a push towards more technical grades can drive margin improvement in this segment from 13% in 2017 to mid- to high-teens over the next three years.

The company ended 2017 at its lowest leverage (2.2x net debt/EBITDA) as a public company, enabling management the flexibility to use its free cash flow to increase its dividend (2.95% yield), opportunistically repurchase stock, and make accretive acquisitions.

We believe investors will give Orion a fresh look given its lower leverage, full exit of private equity ownership, along with its plan to domicile in the U.S. and to convert to U.S. Dollar reporting and U.S. GAAP accounting. We initiated our position shortly after both the CEO and CFO acquired a meaningful block of stock, reinforcing our confidence in the business.

Table VI.
Top net sales for the quarter ended March 31, 2018

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Welbilt, Inc.	2016	$2.0	$2.7	$33.8
Liberty Expedia Holdings, Inc.	2016	2.4	2.2	29.9
Valero Energy Partners LP	2013	1.6	2.5	28.3
MACOM Technology Solutions Holdings, Inc.	2017	2.8	1.4	26.7
Acuity Brands, Inc.	2011	2.5	5.9	23.3

During the quarter, we raised capital half by exiting positions and half by trimming existing positions. We used the proceeds to purchase new ideas and add to holdings we like more.

We sold out **Welbilt, Inc.**, **ACI Worldwide, Inc.** and **Electronics for Imagining, Inc.** as we grew frustrated at the pace of growth. We sold **The Chefs' Warehouse, Inc.** and **Healthcare Services Group, Inc.** when the stocks hit our price targets and we didn't see enough upside from those levels. We exited our position in **CBRE Group, Inc.**, a long-term winner that we had held for 13 years, when its stock traded at a full multiple and for market cap considerations. We sold three of our energy holdings – **Valero Energy Partners LP**, **Dominion Energy Midstream Partners, LP** and **Scorpio Tankers Inc.** – as we think we can find better secular growth ideas for the Fund.

We trimmed numerous existing holdings, primarily into strength. Sales included slivers of our holdings in **TransDigm Group, Inc.**, **FleetCor Technologies, Inc.**, **Bright Horizons Family Solutions, Inc.** and **SBA Communications Corp.** We sold a portion of other stocks where results were somewhat disappointing, and we scaled back our positions, these being **Liberty Expedia Holdings, Inc.** and **Acuity Brands, Inc.**

Outlook

The market remains preoccupied with concerns about potential trade wars, with rising interest rates and with political issues. This has led to a turbulent market that has gone sideways for a few months. As we enter earnings season, we think the focus will shift to company fundamentals, which really are what drives the long-term performance of our holdings.

We think the business environment is terrific. The U.S. economy is strong, and we are in a period of broad-based prosperity. Global growth has improved as well. The next recession does not seem to be anywhere on the horizon. Corporate America is doing great, with earnings across a plethora of industries growing more rapidly than anytime in this recovery, benefiting from a pro-business environment and aided by the one-time benefit of the tax cut. Inflation is moving up, but not sharply. Because of technological advances, increased competition, and added supply enabled by extraordinary liquidity, we do not expect that the inevitable increase in wages or commodity prices will change the inflation picture so much as to force much higher rates. The latest economic stats point to a slight deceleration in growth rates. This would be a positive for the market, since the biggest apparent risk seems to be the economy overheating.

Naysayers point out that we are 10 years into a recovery, that the Fed is tightening, that the market is expensive, and that there are significant political risks. We get it. But we are more excited about how well our companies are doing, how strong their outlooks are, and how many of our companies are doing strategic/accretive deals to enhance their earnings, growth opportunities, and their market positions. Though stock multiples are higher, we consider them to be reasonable, because of the positive macro environment.

Thanks for investing in the Fund, fellow shareholders. We appreciate your confidence. We are sticking to our knitting, even as the market gyrates, in belief that our approach and process will lead to good long-term results. We continue to work hard in maintaining a portfolio of what we believe are special, high-quality businesses with great managements and actively look to find new ideas that could be our future breadwinners.

Thank you for your investment and interest in the Fund.

Cliff Greenberg
Portfolio Manager

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

The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and they may be 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.