

# Baron Funds®

## Quarterly Report

December 31, 2017

"Man, I heard this was Louis C.K.'s gig last year. I hope what happened to him doesn't happen to me...but you never know!" Chris Rock. Lunchtime entertainer. 26th annual Baron Investment Conference. Metropolitan Opera House. New York City. November 10, 2017.



"Ron, teasing his friend Rob Katz, CEO of Vail Resorts, on CNBC's Squawk Box live from the Annual Baron Conference on November 10<sup>th</sup>, 2017. Becky Quick, Squawk Box co-anchor, overcome with laughter, tries not to fall off her chair."

On November 10, 2017, more than 5,000 Baron Funds' shareholders, institutional clients of Baron Capital, service providers to our firm, and executives of businesses in which Baron has invested attended the 26th Annual Baron Investment Conference. This meeting at the Metropolitan Opera House in New York City's Lincoln Center had a very different vibe than our first annual meeting in 1992. Our first meeting all those years ago was held at The Harmonie Club also in New York City. Then we entertained and informed 35 guests, virtually all of whom were family and friends whom I had asked to attend as a favor. This was so I wouldn't be embarrassed if no Baron Funds' shareholders, of which there weren't many, showed up. Our lunchtime entertainers in 1992, by the way, were Beatlemania, a Beatles' cover band, and Hedda Lettuce, whom, if you met her, you wouldn't forget her.

"Disruption," as depicted by the colorful comic book "BAM!" on our 2017 conference tee-shirts, was our theme. It was chosen to reflect the accelerating pace of economic and social change that our country is now experiencing. Since disruptions upend the status quo, instinct compels most to be cautious. We "think different" as Apple once said. We believe disruptions during "electric" times like the present create exceptional investment opportunities.

The 2017 annual Baron Investment Conference was again held at New York City's Lincoln Center. For two hours beginning at 6 AM, Becky Quick, co-anchor of CNBC's Squawk Box, was on site at the Met, interviewed me and several CEOs of businesses in which Baron has invested. The picture on the cover of this letter is of me teasing my friend Rob Katz, Vail Resorts' CEO, live on Squawk. I hope Rob thought I was funny, but I'm not really sure since he later told my son David back stage that he "didn't know how or when..." but he would "definitely get back at your dad." I assume Rob was kidding, but, as an individual always concerned with what can go wrong, I will remain vigilant whenever I visit Vail. Seriously though, we consider Rob a spectacular executive, and, under his leadership, Vail has been a successful investment for Baron shareholders. Rob's accomplished this with innovative strategies, among the most important were selling a significant percentage of Vail's

season ski passes at less than day rates in advance of the skiing season...and acquiring a network of ski mountains. That was in order to sell season passes to skiers who might otherwise not have considered winter vacations at Vail, Beaver Creek, Park City, Whistler, Breckenridge, Keystone, Stowe, Tahoe and Perisher in Australia.

Beginning at 8 AM that morning, **The Charles Schwab Corp.**'s CEO Walt Bettinger; **Hyatt's** CEO Mark Hoplamazian; **Guidewire Software, Inc.**'s CEO Marcus Ryu; and, **Vail Resorts, Inc.**'s CEO Rob Katz addressed our shareholders and answered their questions, no holds barred. All those companies are important holdings of Baron Funds which have appreciated significantly since our purchases...and which, we think, under the leadership of those executives, will continue to grow

substantially. The executives' presentations were streamed live and can still be watched at our web site, [www.baronfunds.com](http://www.baronfunds.com)...which we strongly recommend. Just click on 2017 Conference when you arrive at our site.

Before lunch, we raffled a 2018 Tesla Model 3 prize to a lucky Baron Funds' shareholder. Michael Anguili, a retired, 67-year-old, Technology school teacher in White Plains, New York was the winner. Michael and his wife, Lucille, live in Mahopac and have invested their IRAs in Baron Funds since 2003. Michael has been attending Baron Conferences for the past nine years. He finds them "inspirational and uplifting in these confusing times." Michael was born in Italy and came to the United States when he was eight years old. He is a member of the White Plains



# "Disruption"

Volunteer Fire Department and CERT (Community Emergency Response Team). His favorite conference was in 2015 when the theme was "Question Everything." Since then, "I have been asking many more questions even though my wife sometimes thinks it is annoying." (Michael, I feel your pain.)

Michael and Lucille are incredibly excited about their good fortune and look forward to becoming one of the first of millions to own and drive a Tesla Model 3. More than 95% of Tesla S and Tesla X owners say they will never purchase any car other than a Tesla! Finally, Tesla wanted to be sure you know that the Tesla M3 was a prize given and paid for by our privately-owned investment management company, Baron Capital Group, not by Tesla. We also want you to know that this gift, the lunchtime and end of day entertainment, and all other expenses for our annual meeting, were paid for by us, not by you or Baron Funds.

We believe lunch and end of the day entertainment lure our shareholders from nearby and across the country. We think the conversations with Baron executives and leaders of businesses in which we invest keep them coming back...even though our entertainment is not exactly chopped liver...as they say...

During lunch, our shareholders were entertained in three venues on the Lincoln Center campus, David Geffen Hall, David H. Koch Theatre and Alice Tully Hall. In David Geffen Hall, superstar comedian Chris Rock made us laugh with his riotous observational humor. His social commentary on sexual harassment, race, politics and bullying, could not have been more on point. Chris also wanted our audience to go home feeling they had done some good in the world that day. "You have just paid me so much, you have put three young African American children through private school in New York," he told us..."no mean feat." In David Koch Theatre our shareholders were treated to the spectacular voice of Broadway Tony Award winner Idina Menzel. Finally, Grammy Award winner Diana Krall, whom I love listening to when driving my Tesla, entertained us in Alice Tully Hall.

P.S. While they last...if you're a shareholder and would like a complimentary Baron Funds' "Disruption" "BAM!" 2017 conference tee-shirt, please email us at [info@baronfunds.com](mailto:info@baronfunds.com). Please specify sizes S-2XL. Great for working out...sleeping...or out on the town! Looks great belted as a dress! Amazing to me how often I see them in gyms when I am traveling! Not as often as I see Under Armour tee's, but more often than you'd expect for an investment manager. We also have been getting lots of compliments about our tee-shirt designs. They're a team effort with lots of input from lots of people. But, the three people most responsible for their creation and design are our director of shareholder services and corporate projects and events, Jazmin Jourdain, senior analyst and Baron Durable Advantage Fund's assistant portfolio manager, Matt Weiss...and me, of course.

P.P.S. We still have 2016 "Exceptional Takes Time" 1776 American flag tees available. If you're a shareholder and would like one, let us know. Not as colorful as 2017 "BAM!" shirts...but very patriotic.

*Our afternoon at The Met was even cooler than usual...if that is possible...*

After lunch, welcoming our investors back to the Met, Grammy and Tony Award winning actress, Cynthia Erivo, performed "The Impossible Dream" from the Broadway show, "Man of La Mancha," with a touching filmed montage of the slain 35th president as a backdrop. This was just as she had done at Kennedy Center in Washington, D.C. in a tribute to the 100th Anniversary of John F. Kennedy's birth...which you could watch on YouTube just like I did before we hired her. Cynthia then sang what has become our traditional opening for the conference afternoon session, Irving Berlin's "God Bless America." At her request, everyone stood. A Baron portfolio manager panel moderated by our firm's research director, Amy Chasen, followed Cynthia. Then Linda's always entertaining speech and then mine. Linda's and my speeches follow this Letter from Ron. You can also watch Linda's presentation and mine as well, our portfolio manager panel, and presentations by executives that I described above, on our web site. We are pretty sure you will not find them boring.

Finally, Country Pop power couple, Faith Hill and Tim McGraw, with 8 Grammy awards between them, ended the day with a spectacular performance on the Met stage. Faith had performed for our shareholders once before at lunchtime, and this time brought her husband. We thought it was appropriate to include Tim this year, since his dad, Tug, was a pitcher for the 1969 World Series Champion, Miracle Mets. Tug coined the unforgettable, inspirational phrase, "Ya Gotta Believe," that was so instrumental in helping the Mets achieve what they did. In "disruptive times" like we are now experiencing, we believed Tug's message would resonate through Tim and Faith...whether you live in a "red" state or a "blue" one.

One more thing. I must say, recalling Cynthia's performance and the filmed, extemporaneous speech Robert Kennedy gave from the back of a pickup truck in Indianapolis forty-nine years ago on the evening of Martin Luther King's assassination that we used to end my speech...I can still feel the tingles and the emotion that I

and virtually everyone else at our conference experienced that afternoon.

## Baron Funds' Performance Update.

As of December 31, 2017, **98.9%** of Baron mutual fund assets net of fees and expenses have *outperformed* their benchmarks since inception; **96.9%** of Baron mutual fund assets rank in the *top 13%* of their Morningstar categories; and **36.4%** of Baron mutual fund assets rank in the *top 3%* of their mutual fund categories! Further, as of the date of this letter, our firm's assets under management approximate \$28.1 billion and Baron has earned more than \$25 billion in realized and unrealized profits for our investors since 1992. Our firm managed approximately \$100 million in 1992!

Baron Funds' mutual fund performance charts and shareholder letters that follow Linda's and my 2017 Baron conference speeches will allow you to see and read about Baron mutual funds absolute, relative and risk adjusted performance net of our fees. We hope you will agree with me after reviewing that data and related information that our 1% annual management fees, about .16% above industry median annual management fees for small cap and mid cap growth funds, for example, are a "bargain" compared to the results our managers and analysts have achieved over the long term...which we hope to continue to attain for you...and for us.

If you didn't have a chance to attend at our 26th annual conference, we hope you will join us next fall at our 27th. Thank you also for joining us as fellow shareholders in Baron Funds. We will continue to work hard to justify your confidence.

Respectfully,



Ronald Baron  
CEO and Chief Investment Officer  
January 24, 2018.

## Fund (Institutional Shares) and Benchmark Performance 12/31/2017

Fund	Primary Benchmark	Annualized Return Since Fund Inception	Annualized Benchmark Return Since Fund Inception	Inception Date	Average Annualized Returns				Annual Expense Ratio	Net Assets
					1-Year	5-Year	10-Year	15-Year		
<b>SMALL CAP</b>										
Baron Growth Fund	Russell 2000 Growth Index	13.17%	8.14%	12/31/1994	27.35%	13.52%	8.55%	11.22%	1.04% <sup>(3)</sup>	\$6.20 billion
Baron Small Cap Fund	Russell 2000 Growth Index	10.17%	6.19%	9/30/1997	27.45%	13.45%	8.19%	11.39%	1.05% <sup>(3)</sup>	\$4.29 billion
Baron Discovery Fund†	Russell 2000 Growth Index	15.97%	10.56%	9/30/2013	35.83%	N/A	N/A	N/A	1.23%/1.10% <sup>(3)(4)</sup>	\$265.35 million
<b>SMALL/MID CAP</b>										
Baron Focused Growth Fund	Russell 2500 Growth Index	11.04% <sup>(1)</sup>	8.04%	5/31/1996	26.59%	10.10%	6.64%	12.81% <sup>(1)</sup>	1.13%/1.10% <sup>(5)(6)</sup>	\$192.81 million
<b>MID CAP</b>										
Baron Asset Fund	Russell Midcap Growth Index	11.52%	10.14% <sup>(2)</sup>	6/12/1987	26.49%	15.59%	8.24%	11.43%	1.04% <sup>(3)</sup>	\$3.06 billion
Baron Partners Fund	Russell Midcap Growth Index	12.93% <sup>(1)</sup>	9.78%	1/31/1992	31.91%	17.04%	8.14%	13.29% <sup>(1)</sup>	1.52% <sup>(5)(7)</sup>	\$1.97 billion
<b>LARGE CAP</b>										
Baron Fifth Avenue Growth Fund	Russell 1000 Growth Index	8.79%	9.72%	4/30/2004	40.97%	16.77%	8.61%	N/A	0.84%/0.75% <sup>(3)(8)</sup>	\$199.49 million
<b>ALL CAP</b>										
Baron Opportunity Fund†	Russell 3000 Growth Index	6.15%	4.10%	2/29/2000	40.88%	13.15%	8.14%	13.79%	1.14% <sup>(3)</sup>	\$252.82 million
<b>INTERNATIONAL</b>										
Baron Emerging Markets Fund	MSCI EM Index	6.85%	2.56%	12/31/2010	40.63%	9.23%	N/A	N/A	1.13% <sup>(5)</sup>	\$4.97 billion
Baron Global Advantage Fund†	MSCI ACWI Growth Index	13.87%	11.28%	4/30/2012	49.82%	14.91%	N/A	N/A	3.40%/0.90% <sup>(9)(9)</sup>	\$43.61 million
Baron International Growth Fund	MSCI ACWI ex USA Index	13.05%	9.17%	12/31/2008	37.33%	11.01%	N/A	N/A	1.24%/0.95% <sup>(9)(10)</sup>	\$168.07 million
<b>SPECIALTY</b>										
Baron Energy and Resources Fund†	S&P North American Natural Resources Sector Index	-3.01%	1.25%	12/30/2011	-8.68%	-2.56%	N/A	N/A	1.46%/1.10% <sup>(9)(11)</sup>	\$54.94 million
Baron Real Estate Fund	MSCI USA IMI Extended Real Estate Index	16.38%	13.76%	12/31/2009	31.42%	12.96%	N/A	N/A	1.07% <sup>(5)</sup>	\$1.09 billion

(1) Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee.

(2) For the period June 30, 1987 to December 31, 2017.

(3) As of 9/30/2017.

(4) Annual expense ratio was 1.23%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

(5) As of 12/31/2016.

(6) Annual expense ratio was 1.13%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

(7) Comprised of operating expenses of 1.09% and interest expenses of 0.43%.

(8) Annual expense ratio was 0.84%, but the net annual expense ratio was 0.75% (restated to reflect current fee waivers).

(9) Annual expense ratio was 3.40%, but the net annual expense ratio was 0.90% (restated to reflect management fee reduction from 1.00% to 0.85% and current fee waivers).

(10) Annual expense ratio was 1.24%, but the net annual expense ratio was 0.95% (restated to reflect management fee reduction from 1.00% to 0.88% and current fee waivers).

(11) Annual expense ratio was 1.46%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

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 has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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 [www.BaronFunds.com](http://www.BaronFunds.com) or call 1-800-99BARON.

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

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting [www.BaronFunds.com](http://www.BaronFunds.com). Please read them carefully before investing.

Portfolio holdings as a percentage of net assets as of December 31, 2017 for securities mentioned are as follows: **Vail Resorts, Inc.** - Baron Asset Fund (5.0%), Baron Growth Fund (7.5%), Baron Partners Fund (8.2%\*), Baron Focused Growth Fund (15.0%); **The Charles Schwab Corp.** - Baron Asset Fund (3.8%), Baron Opportunity Fund (2.2%), Baron Partners Fund (6.2%\*), Baron Fifth Avenue Growth Fund (3.0%); **Hyatt Hotels Corp.** - Baron Asset Fund (1.2%), Baron Partners Fund (8.0%\*), Baron Focused Growth Fund (13.0%); **Guidewire Software, Inc.** - Baron Asset Fund (2.9%), Baron Partners Fund (3.3%\*), Baron Growth Fund (1.4%), Baron Opportunity Fund (5.5%), Baron Focused Growth Fund (3.9%), Baron Small Cap Fund (4.0%); **Tesla Motors, Inc.** - Baron Opportunity Fund (4.6%), Baron Partners Fund (14.4%\*), Baron Fifth Avenue Growth Fund (1.4%), Baron Focused Growth Fund (14.5%), Baron Energy and Resources Fund (7.9%), Baron Global Advantage Fund (1.3%).

# “Disruption”

Portfolio holdings may change over time.

\* % of Long Positions

Ranking information provided is calculated for Institutional Share Class and is as of 12/31/2017.

For Baron Growth Fund in the Morningstar US Fund Mid-Cap Growth Category, as well as all Funds' since inception or since conversion time periods, the number of share classes in each category may vary depending on the date that Baron made the calculation.

Morningstar moved Baron Growth Fund from the **Small Growth Category** effective 5/31/2011 to the **Mid-Cap Growth Category**. The Fund's investment mandate has been, and continues to be, to invest in small-cap growth stocks for the long term. Because of its long-term approach, the Fund could have a significant percentage of its assets invested in securities that have appreciated beyond their market capitalization at the time of the Fund's initial investment. As a result, we provide comparative performance data for the Morningstar Mid-Cap Growth Category and the Baron-Adjusted Morningstar Small Growth Category, created to include Baron Growth Fund's Retail, Institutional, and R6 shares.

As of 8/31/2017, Morningstar calculates its category averages using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

The **Morningstar US Fund Mid-Cap Growth** consisted of 617, 490 and 362 funds for the 1-, 5-, and 10-year periods. Morningstar ranked **Baron Asset Fund** in the 30th, 15th, 39th and 11th percentiles, respectively, in the category for the 1-, 5-, 10-year and since inception (6/12/1987) periods (consisted of 20 share classes). Morningstar ranked **Baron Growth Fund** in the 25th, 56th, 32nd and 7th percentiles, respectively, in the category for the 1-, 5-, 10-year and since inception (12/31/1994) periods (consisted of 60 share classes). Morningstar ranked **Baron Opportunity Fund** in the 1st, 64th, 41st and 50th percentiles, respectively, in the category for the 1-, 5-, 10-year and since inception (2/29/2000) periods (consisted of 146 share classes). Morningstar ranked **Baron Partners Fund** in the 7th, 5th, 41st and 3rd percentiles, respectively, in the category for the 1-, 5-, 10-year and since conversion (4/30/2003) periods (consisted of 259 share classes). Morningstar ranked **Baron Focused Growth Fund** in the 29th, 95th and 71st percentiles, respectively, in the category for the 1-, 5-year and since conversion (6/30/2008) periods (consisted of 373 share classes).

The **Morningstar US Fund Small Growth Category** consisted of 684, 544 and 406 share classes for the 1-, 5- and 10-year time periods. Morningstar ranked **Baron Small Cap Fund** in the 18th, 61st, 57th and 13th percentiles, respectively, in the category for the 1-, 5-, 10-year and since inception (9/30/1997) periods (consisted of 119 share classes). Morningstar ranked **Baron Discovery Fund** in the 5th and 1st percentiles, respectively, in the category for the 1-year and since inception (9/30/2013) periods (consisted of 558 share classes).

The **Baron-Adjusted Morningstar Small Growth Category** consisted of 687, 547, 409 and 59 share classes for the 1-, 5-, 10-year and since inception periods. Morningstar ranked **Baron Growth Fund** in the 18th, 60th, 49th and 3rd percentiles, respectively.

The **Morningstar US Fund Large Growth Category** consisted of 1,363, 1,109, 787 and 604 share classes for the 1-, 5-, 10-year and since inception (4/30/2004) periods. Morningstar ranked **Baron Fifth Avenue Growth Fund** in the 2nd, 24th, 44th and 53rd percentiles, respectively, in the category.

The **Morningstar US Fund Foreign Large Growth Category** consisted of 399, 289, and 233 share classes for the 1-year, 5- year, and since inception (12/31/2008) periods. Morningstar ranked **Baron International Growth Fund** in the 13th, 12th, and 7th percentiles, respectively, in the category.

The **Morningstar US Fund Real Estate Category** consisted of 257, 199 and 159 share classes for the 1-year, 5- year and since inception (12/31/2009) periods. Morningstar ranked **Baron Real Estate Fund** in the 1st, 1st, and 1st percentiles, respectively, in the category.

The **Morningstar US Fund Diversified Emerging Markets Category** consisted of 806, 467 and 310 share classes for the 1-year, 5-year and since inception (12/31/2010) periods. Morningstar ranked **Baron Emerging Markets Fund** in the 19th, 2nd and 1st percentiles, respectively, in the category.

The **Morningstar US Fund Equity Energy Category** consisted of 107, 75 and 69 share classes for the 1-year, 5-year and since inception (12/30/2011) periods. Morningstar ranked **Baron Energy and Resources Fund** in the 71st, 50th and 63rd percentiles, respectively, in the category.

The **Morningstar US Fund World Stock Category** consisted of 860, 589 and 533 share classes for the 1-year, 5-year and since inception (4/30/2012) periods. Morningstar ranked **Baron Global Advantage Fund** in the 1st , 4th and 5th percentiles, respectively, in the category.

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Index performance is not fund performance; one cannot invest directly into an index.

Definitions (provided by BAMCO, Inc.): **The S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The **Russell 2000® Growth Index** is an unmanaged index that measures the performance of small-sized U.S. companies that are classified as growth.



2017 Baron Investment Conference: Center Image, Michael Baron, Asst. Portfolio Manager, Baron Partners Fund, & Research Analyst, Baron Capital, Inc. with Ron.

Clockwise from upper left: Anuj Aggarwal, Research Analyst, Baron Capital, Inc., Michael Kass, Portfolio Manager of Baron International Growth Fund and Baron Emerging Markets Fund, Kyuhey August, Asst. Portfolio Manager, Baron International Growth Fund, & Research Analyst, Baron Capital, Inc. and Shuyang Bai, Research Analyst, Baron Capital, Inc. Grammy and Tony award winner Cynthia Erivo captivates Baron shareholders with her heavenly voice as she sings “The Impossible Dream,” a moving tribute to President John F. Kennedy. Superstar stand-up Chris Rock ‘brought the pain’ at the 2017 Baron Investment Conference as shareholders couldn’t stop laughing at his mostly PG routine! David Baron, Asst. Portfolio Manager, Baron Focused Growth Fund, & Research Analyst, Baron Capital, Inc. with Robert Katz, CEO, Vail Resorts, Inc. Jamie Stone, Portfolio Manager of Baron Energy and Resources Fund and Alex Umansky, Portfolio Manager of Baron Fifth Avenue Growth Fund, Baron Global Advantage Fund and Baron Durable Advantage Fund. Walt Bettinger, President and CEO, The Charles Schwab Corporation. Record attendance, over 5000, at the 2017 Baron Investment Conference. Three-time Grammy award winning pianist Diana Krall jazzed things up with her amazing performance at the 2017 Baron Investment Conference. Neil Rosenberg, Asst. Portfolio Manager, Baron Growth Fund, & Research Analyst, Baron Capital, Inc. Michael Lippert, Portfolio Manager of Baron Opportunity Fund with Andrew Peck, Portfolio Manager of Baron Asset Fund. Mark Hoplamazian, CEO, Hyatt Hotels, Inc.

# “Disruption”

2017 Baron Investment Conference: Left Center Image, Andrew Peck, Portfolio Manager of Baron Asset Fund and Susan Robbins, Senior Research Analyst, Baron Capital, Inc. Right Center Image, Amy Chasen, Director of Research.

Clockwise from upper left: Marcus Ryu, CEO and President, Guidewire Software, Inc. “Wickedly” talented, Tony award winning star Idina Menzel ‘let it go’ as she captivated Baron shareholders with her voice. Robert Katz, CEO, Vail Resorts, Inc. Linda Martinson, Chairman, President & COO, Baron Funds. Michael Kass, Portfolio Manager of Baron International Growth Fund and Baron Emerging Markets Fund and Randolph Gwirtzman, Co-Portfolio Manager of Baron Discovery Fund. Matt Weiss, Asst. Portfolio Manager, Baron Durable Advantage Fund, & Research Analyst, Baron Capital, Inc., Pat Patalino, General Counsel & Secretary, Baron Capital, Inc. and Linda Martinson, Chairman, President & COO, Baron Funds. Laird Bieger, Co-Portfolio Manager of Baron Discovery Fund. With 80 million albums sold and 8 Grammy awards between them, country pop superstars and husband and wife sensation Tim McGraw and Faith Hill had the crowd ‘rockin’ at the 2017 Baron Investment Conference. David Baron, Asst. Portfolio Manager, Baron Focused Growth Fund, & Research Analyst, Baron Capital, Inc. Cliff Greenberg, Portfolio Manager of Baron Small Cap Fund and Jeffrey Kolitch, Portfolio Manager of Baron Real Estate Fund and Baron Real Estate Income Fund.



Ron's Introduction of Tony and Grammy awarded artist Cynthia Erivo beginning the afternoon session.

Please be seated...Welcome...

Thank you for helping us to celebrate Baron's 35th birthday...and our 26th annual conference...

Tomorrow is Veteran's Day.

I'd like to ask the men and women in our audience who have served in our armed forces to please stand so we can honor your service. Thank you.

Our goal today is to describe how we have been able to invest your money successfully...It is not to tell you how to think or how to vote...

But, by the way...

did anyone here happen to vote last year?

We are in the midst of an important social and economic Disruption in our country.

We believe incredible investment opportunities present themselves in unsettled times...and we expect to take advantage of those Disruptions...

When Albert Einstein was discouraged by McCarthyism in the 1950s, similar to the way many of you are discouraged about the current political discourse, he wrote about the resilience of America's democracy. He compared America to a gyroscope.

"Just when you think this country is going off a cliff, it rights itself," he said. I believe in Einstein's gyroscope theory;

I have not given up hope it is still operative...  
[Cynthia enters stage]



When I watched Grammy, Emmy and Tony award winning actress, Cynthia Erivo, perform Man of LaMancha's "The Impossible Dream" at the Kennedy Center this year to honor our martyred President,

I was so touched that we asked her to perform it for you.

I hope you will stand after that when Cynthia performs "God Bless America," a song written by Irving Berlin, a Jewish immigrant from Russia...who also happens to have written "White Christmas"... which we think tells you a lot about our "nation of immigrants." I am sure Cynthia will help you appreciate America for what it is, what President Reagan called a "shining city upon a hill...a beacon light for freedom loving people everywhere"...Thank you again for coming today.

Cynthia...



RONALD BARON  
CEO AND CHIEF INVESTMENT OFFICER

Before I managed stock portfolios, I managed my comic book collection.

I grew up in the 1950s, the golden age of comics. They were so popular that in 1953 the United States Senate formed a subcommittee to investigate their role in juvenile delinquency! The following year, members of that subcommittee switched their focus from comics to communism with the Army McCarthy hearings! I'm not making this up!

What I liked most about comic books was that before the characters became superheroes, they were just normal guys...and gals...like us.

Every superhero had a backstory. Peter Parker was a nerdy kid bitten by a radioactive spider and WHAM! he became Spider-Man. Bruce Wayne's parents were murdered by the Joker and to avenge them, POW! he became Batman. Before Superman's planet, Krypton, blew up, his dad, Marlon Brando, put his infant son in a rocket and sent him to a Kansas cornfield and WHOOSH! he became Clark Kent. Beautiful Israeli actress Gal Gadot, the Amazonian woman flawlessly sculpted from clay and imbued with super powers to right wrongs women endure from men...K-BOOM!, became Wonder Woman!

Finally, perhaps most relevant to us...Ironman was a playboy, brilliant scientist who, after he was kidnapped, built a flying metal suit and BAM! became Elon Musk!...or do I have that backwards?



For every comic book hero, there was a "BAM!" moment, a disruption, that set the hero on a new path...

My backstory is that when I had saved \$1,000 from my bar mitzvah gifts and summer jobs I asked my parents for permission to invest. It was a "big ask" since I needed that money for college. My dad finally agreed, if I thoroughly researched what I wanted to buy. After months reading company reports, I invested the entire \$1,000 in Monmouth County National Bank's stock. The bank's main office was a two story, red brick, building in Allenhurst where I kept my passbook savings. Six months later the bank was acquired, my life's savings became worth \$1,700, and, K-CHING! I was hooked.

SLIDE: Disruption

"Disruption," as Linda explained, is the theme of the 2017 Baron Conference.

Disruption means to upend the status quo. Disruption is derived from Latin and means to "break apart." In Mandarin, the word disruption is composed of two characters, one means "danger," the other "opportunity."

Disruptions occur when businesses become complacent and no longer innovate. It is when yesterday's business model gets punched in the face by tomorrow's. Wars, economic distress or government failures create societal disruptions. We believe disruptions create exceptional opportunities.

# Ron's Conference Speech, "Disruption"

SLIDE: BAM!



When we thought about a design that depicted "Disruption," we chose a comic book, "BAM!" Since the management company for Baron Funds is BAMCO...it just hit us in the face!

AUDIO: Batman Theme

Today I would like to discuss three topics:

**B:** Back Story – Disruptions create opportunity.

**A:** Analysis – Analysts can identify "Competitive Advantage" that Algorithms and Apps cannot.

**M:** Mindset – Our Outlook, not surprisingly, is positive.

**B: Back story.**

We believe the quality of our lives improves following disruptions. It's hard to see investment opportunities when you are living through disruptions. But, I promise you, they are there...just as they have been in past decades.

SLIDE: 1940s Disruption. 1950s Peace and Prosperity

The 1950s Peace and Prosperity followed the Disruption of World War II.

AUDIO: Bill Haley – Rock Around the Clock

In 1952, America elected General Dwight D. Eisenhower, a pacifist war hero, as President. The 1950s brought America peace, prosperity...and tranquility. We watched Dick Clark's American Bandstand; played baseball on the street; and shot hoops on friends' driveways. Elvis swiveling his hips on the Ed Sullivan show was vulgar. Ozzie and Harriet slept in twin beds.



President Eisenhower reallocated government spending from defense to interstate highways and schools...and BAM! America's GDP

increased from \$200 billion in 1945 to \$550 billion in 1960.

Consumers purchased televisions, dishwashers, air conditioners and single-family homes... from Sears Roebuck...the Amazon of its day! The Sears catalogue in our living room was so heavy I could barely lift it. Air travel and Eisenhower's Interstate highways paved the way for a tourist boom in America's Sunbelt.

President Eisenhower, measured and deliberate in his decisions, he rarely "tweeted," made us feel safe. Until 1957, that is, when Russia launched Sputnik, the first satellite to orbit Earth.

SLIDE: 1960s-1970s Disruption. 1980s-2000. Peace and Prosperity.

John F. Kennedy was elected President in 1960 and the "torch was passed to a new generation."

AUDIO: President John F. Kennedy Inaugural Address

Kennedy was the first Catholic and the youngest individual ever elected to that office. After that, BAM! Everything changed. Just like that.

AUDIO: The Doors – Light My Fire



America in the 1960s experienced greater disruption than during any other period in my lifetime except, perhaps, now. The Cuban Missile Crisis; unspeakable violence against black people protesting for civil rights and voting rights; assassinations of President Kennedy in 1963 and, five years later, of Dr. Martin Luther King and the President's brother, Robert; violence in America's cities during the "long hot summers" in 1967 and 1968; student protests against the Vietnam War; Women's Marches demanding equality; and, my favorite, "sex, drugs and rock 'n' roll." The chaos continued into the 1970's with the first resignation of a President who was about to be impeached...

SLIDE: Dwight D. Eisenhower Tweet



It was difficult to see opportunity amid the disruptions of that period but the foundation for social progress and growth had been established.

AUDIO: The Beatles – Blackbird

Civil Rights...Voting Rights...Medicare and Medicaid...Pop Art...The Beatles...birth control pills...and, Neil Armstrong's moon landing and safe return to Earth. That lunar mission required sophisticated computer connectivity. Before the decade ended, BAM! that technology had spread to universities with computers on one campus communicating with computers on another. They called it ARPANET. Today we call it the Internet.



The end of the Vietnam War and technology resulting from that lunar mission set the stage for strong economic growth, record job creation and a soaring stock market in the 1980s and 1990s.

SLIDE: 2000-2017. Millennium Disruption.

We call the dawn of the 21st century through the present day, the "Millennium Disruption." It has been anything but calm. The Internet Bubble burst in 2000; terrorism reached America on 9/11; wars in Afghanistan and Iraq followed; and ten years ago, our economy nearly plunged into a depression following an unprecedented financial crisis.

The surprising election of our 45th President last year was the capstone to this disruption. It's been just one BAM! after another since then. Remember when our greatest fear was Y2K?!!!

SLIDE: 2017- ?? Prosperity

Amid this "Millennium Disruption," we are achieving previously unimaginable innovations... autonomous cars... artificial intelligence... reusable space rockets...37-minute trips from New York to Tokyo.

There's Elon Musk's BFR. The B stands for big the R stands for rocket. You can figure out the rest.





Multi-planetary civilizations...the ability of new technologies to dramatically lower costs...and deliveries by drones. I'm sure we'll put that technology to good use.

In health care, sequencing the genome will soon become commonplace and, spurred by philanthropy, all diseases could be eradicated before the next millennium!

Advances in technology have always been disruptive. Just not at this pace...which is accelerating exponentially. It took more than fifty years after Alexander Graham Bell invented the telephone for half of America to have one. It took only five years for half the country to have smartphones....and just a few more years for their owners to download 200 billion apps!

For the past 100 years, automobiles have been powered by internal combustion engines. Although present electric vehicle production is modest, we think well before 2030, virtually all new cars will be electric...and that Tesla could become the largest car company in the world.

According to my 5-year-old grandson, Leo, "Gran'pa, gasoline cars are bad for nature...Tesla is good for nature!" I predict he's going to be a great analyst!

And then, there's Amazon. Jeff Bezos' "everything store" is disrupting more industries every single day. Amazon has even disrupted the way we order things...and for older generations...that can be REALLY disruptive...

CLIP: Saturday Night Live – Amazon Echo AARP edition. It responds to anything that remotely sounds like Alexa.



A few more examples where BAM!, technology changed everything?

The biggest retailer in the world is Amazon. They own no stores. The biggest movie company in the world is Netflix. They own no theatres. The biggest taxi company is Uber. They own no cars. The biggest hotel companies are Airbnb, Expedia and Priceline. They own no real estate.

That's how disruption works. People are dismissive of disruptors until BAM!, everything changes...but by then it's too late for others to catch up.

Mahatma Gandhi said, "First they ignore you, then they laugh at you, then they fight you, then you win." In a disruptive world, change is the only constant.

AUDIO: David Bowie – Changes

#### A: Analysis.

We believe Baron analysts have an advantage over Apps, Algorithms and Artificial Intelligence in assessing competitive advantage.

Algorithms can value cash flows, revenues, earnings, and assets. They can't assess the value created by Vail's global network of ski mountains that increases season pass sales...or Hyatt's loyalty program that disrupts on-line travel agents...or an incumbent auto OEM's structural disadvantage against an innovative, disruptive competitor like Tesla...or Charles Schwab's disintermediation of wirehouses with services and software for independent advisors.

It may seem like there's an app for everything, but apps cannot imagine what a business will become. Apps cannot value a dream.

Masayoshi Son, Softbank's CEO, is investing \$100 billion dollars in artificial intelligence but even he believes one area where humans will always reign supreme is imagination.

We invest in people. Apps and algorithms cannot assess character, leadership, or judgment. They cannot judge curiosity, the desire to know how things work and wonder how to make them better. Apps and Algos cannot assess heart and trustworthiness of individuals. The New York Times' Adam Bryant says human beings can "sense at a kind of lizard-brain level" whether to trust someone.

Of course, you can't always be right. One investment that didn't work out for me was my comic book collection. That was because I didn't put them in a safe place, and when I left for college, my neighbor Alan stole them from my attic!

Alan went on to become the principal writer for a popular television show and called me several years ago for financial advice. "You stole my comic books in 1961," I answered. "When you return them we can talk about me helping you," I said before I hung up. That theft taught me a lesson more valuable than my comic books...make sure you can trust whomever you are dealing with!

#### M: Mindset.

This is our outlook...I'm sure you won't be surprised that it's positive.

Mark Twain observed, "History doesn't repeat itself, but it does rhyme." America's growth

accelerated following the disruption of war in the 1940s and the turmoil of the 1960s. Similarly, we believe the "Millennium Disruption" has set the stage for accelerated growth. Oil, technology, and low interest rates underpin our confidence.

OPEC had us "over a barrel" during the Oil Embargo in 1973. The cartel then raised the price of oil from \$10 to \$30 per barrel before pushing it to \$147 in 2008!

High energy prices had a material negative impact on America's growth since 1973...and were partly to blame for our recent financial crisis. America's vast shale reserves AND growing electrification of transportation have reduced energy risk.

America's technology-focused economy is becoming "capital light." Low interest rates and well capitalized banks mean capital constraints will no longer limit growth.

America's growth is understated since GDP fails to capture the benefit of services we used to pay for that are now free. "News" and "search," for example, are excluded from GDP.

Remember when we paid to search for telephone numbers? Dialing 4-1-1 cost \$1.00. You can't imagine how upset Judy was whenever she opened our phone bill and saw my 4-1-1 charges. Can you imagine what she'd say if we were charged whenever I Googled?! Or if she knew what I was Googling?

SLIDE: Google Search



Despite these positives, many investors remain cautious. One reason may be that the foundational pillars of our democracy...Freedom of Speech...Freedom of the Press...Freedom of Religion...Right to Vote...and the checks and balances provided by our judiciary and legislatures are under assault.

Regardless, we think that Einstein's gyroscope theory about our democracy is intact...and the "Millennium Disruption" has created remarkable growth opportunities. Because news during disruptions is often scary, human instinct leads us to avoid investment "risk." As a result, we believe investors have undervalued businesses' growth prospects.

# Ron's Conference Speech, "Disruption"

Baron is in the "compound your money" business. We take the long view, so you will be able to benefit from what Albert Einstein called the "most powerful force in the universe, compound interest." It is astonishing to see the results of investing relatively small amounts of money regularly through your lifetime...if you remain optimistic.

SLIDE: President John F. Kennedy

We began this afternoon with a tribute to President John F. Kennedy when Cynthia Erivo performed Man of La Mancha's "The Impossible Dream." This is the 100th year since President Kennedy's birth!! Two of our nation's most consequential leaders during the Disruptive 1960s were President Kennedy and his brother Senator Robert F. Kennedy.

SLIDE: Senator Robert F. Kennedy

I would like to close today with a tribute to Senator Robert Kennedy, one of my personal heroes. Heroes like Robert Kennedy used their humanity to make us feel confident and safe amid disruptions.



On April 4, 1968, Dr. Martin Luther King was assassinated. More than 100 American cities erupted in violent protests. Our country felt like it was coming apart at the seams. Only one major city, Indianapolis, did not suffer rioting, looting and arson that evening. Most attribute this to Robert Kennedy who was campaigning there for President. At dusk, the Senator stood on the back of a pickup truck and gave an impromptu speech breaking the news of Dr. King's murder to a congregation of black worshippers leaving church. Local police had warned Kennedy they could not guarantee his safety.

CLIP: Robert F. Kennedy – Statement on Assassination of Martin Luther King, Jr.

Ladies and Gentlemen,

I'm only going to talk to you just for a minute or so this evening, because I have some – some very sad news for all of you – Could you lower those signs, please? – I have some very sad news for all of you, and, I think, sad news for all of our fellow citizens, and people who love peace all over the world; and that is that Martin Luther King was shot and was killed tonight in Memphis, Tennessee.

Martin Luther King dedicated his life to love and to justice between fellow human beings. He died in the cause of that effort. In this difficult day, in this difficult time for the United States, it's perhaps well to ask what kind of a nation we are and what direction we want to move in. For those of you who are black – considering the evidence evidently is that there were white people who were responsible – you can be filled with bitterness, and with hatred, and a desire for revenge.

We can move in that direction as a country, in greater polarization – black people amongst blacks, and white amongst whites, filled with hatred toward one another. Or we can make an effort, as Martin Luther King did, to understand, and to comprehend, and replace that violence, that stain of bloodshed that has spread across our land, with an effort to understand, compassion, and love.

For those of you who are black and are tempted to fill with – be filled with hatred and mistrust of the

injustice of such an act, against all white people, I would only say that I can also feel in my own heart the same kind of feeling. I had a member of my family killed, but he was killed by a white man.

But we have to make an effort in the United States. We have to make an effort to understand, to get beyond, or go beyond these rather difficult times.



My favorite poem, my – my favorite poet was Aeschylus. And he once wrote:

*Even in our sleep, pain which cannot forget falls drop by drop upon the heart, until, in our own despair, against our will, comes wisdom through the awful grace of God.*

Senator Kennedy's speech has stayed with me and since it is relevant to our discussion today, I wanted to share it with you.

Two months later, Bobby Kennedy was killed. As his funeral train slowly traversed hundreds of miles to his burial site in Washington, D.C., grieving Americans of all colors, races and economic stations lined the tracks to honor and pay their respects to the person who cared so deeply about them and this country.

Robert Kennedy believed "we can do well in this country despite difficult times." We share his sentiments and we, like Senator Kennedy, remain optimistic about America. Thank you.

Respectfully,

Ronald Baron  
CEO and Chief Investment Officer

What we need in the United States is not division; what we need in the United States is not hatred; what we need in the United States is not violence and lawlessness, but is love, and wisdom, and compassion toward one another; and a feeling of justice toward those who still suffer within our country, whether they be white or whether they be black.

So I ask you tonight to return home, to say a prayer for the family of Martin Luther King – yeah, it's true – but more importantly to say a prayer for our own country, which all of us love – a prayer for understanding and that compassion of which I spoke.

We can do well in this country. We will have difficult times. We've had difficult times in the past, but we – and we will have difficult times in the future. It is not the end of violence; it is not the end of lawlessness; and it's not the end of disorder.

But the vast majority of white people and the vast majority of black people in this country want to live together, want to improve the quality of our life, and want justice for all human beings that abide in our land.

And let's dedicate ourselves to what the Greeks wrote so many years ago: to tame the savageness of man and make gentle the life of this world. Let us dedicate ourselves to that, and say a prayer for our country and for our people.

Thank you very much.

This video clip can be viewed as part of Ron's speech replay on our website [www.BaronFunds.com](http://www.BaronFunds.com).

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Portfolio holdings may change over time.

\* % of Long Positions

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