

December 31, 2017  
Institutional Shares (BARIX)

# Baron Asset Fund Fact Sheet

BAMCO, Inc., Registered Investment Adviser



The Fund may not achieve its objectives. Portfolio holdings may change over time.

Prior to February 15, 2007, the Fund's strategy was to invest primarily in small and mid-sized growth companies. Since then, the Fund's investment strategy has shifted to mid-sized companies.

Definitions (provided by BAMCO, Inc.): The indexes are unmanaged. The **Russell Midcap® Growth Index** measures the performance of medium-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. As of 8/31/2017, Morningstar calculates the **Morningstar US Mid-Cap Growth Category Average** using its Fractional Weighting methodology. The Fund's Institutional Shares have been included in the category since May 29, 2009 and the Fund's Retail Shares since April 1, 1999. © 2018 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Standard Deviation (Std. Dev.):** measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk). **Sharpe Ratio:** is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance. **Alpha:** measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta:** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **R-Squared:** measures how closely a fund's performance correlates to the performance of the benchmark index, and thus is a measurement of what portion of its performance can be explained by the performance of the index. Values for R-Squared range from 0 to 100, where

0 indicates no correlation and 100 indicates perfect correlation. **Tracking Error:** measures how closely a fund's return follows the benchmark index returns. It is calculated as the annualized standard deviation of the difference between the fund and the index returns. **Information Ratio:** measures the excess return of a fund divided by the amount of risk the fund takes relative to the benchmark index. The higher the information ratio, the higher the excess return expected of the fund, given the amount of risk involved. **Upside Capture:** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture:** explains how well a fund performs in time periods where the benchmark's returns are less than zero. **EPS Growth Rate (3-5 year forecast):** indicates the long-term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance. **Price/ Earnings Ratio (trailing 12-months):** is a valuation ratio of a company's current share price compared to its actual earnings per share over the last twelve months. **Price/Book Ratio:** is a ratio used to compare a company's stock price to its tangible assets, and it is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. **Price/Sales Ratio:** is a valuation ratio of a stock's price relative to its past performance. It represents the amount an investor is willing to pay for a dollar generated from a particular company's operations. Price/Sales is calculated by dividing a stock's current price by its revenue per share for the last 12 months. Historical portfolio characteristics are provided by Compustat and FactSet Fundamentals. **Weighted Harmonic Average:** is a calculation that reduces the impact of extreme observations on the aggregate calculation by weighting them based on their size in the fund.

This information does not constitute an offer to sell or a solicitation of any offer to buy securities by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation. This information is only for the intended recipient and may not be distributed to any third party.

Not bank guaranteed, may lose value, not FDIC insured



## Portfolio Facts and Characteristics

	Fund	Russell Midcap Growth Index
# of Equity Securities / % of Net Assets	55 / 98.7%	-
Turnover (3 Year Average)	11.91%	-
Median Market Cap†	\$10.73 billion	\$8.83 billion
Weighted Average Market Cap†	\$16.40 billion	\$15.60 billion
EPS Growth (3-5 year forecast)†	15.7%	16.0%
Price/Earnings Ratio (trailing 12-month)*†	32.1	27.0
Price/Book Ratio*†	4.9	5.3
Price/Sales Ratio*†	4.2	2.3

\* Weighted Harmonic Average

† Source: FactSet PA – Compustat, FactSet and BAMCO. Internal valuations metrics may differ.

R6 Shares are also available for this Fund.

## Performance Based Characteristics<sup>2</sup>

	3 Years	5 Years	10 Years
Std. Dev. (%) - Annualized	11.32	11.27	17.45
Sharpe Ratio	0.90	1.36	0.45
Alpha (%) - Annualized	0.64	0.54	-0.21
Beta	0.96	0.98	0.93
R-Squared (%)	87.94	89.35	92.71
Tracking Error (%)	3.95	3.68	4.87
Information Ratio	0.06	0.08	-0.18
Upside Capture (%)	99.33	100.97	95.98
Downside Capture (%)	96.59	99.70	98.43

## Top 10 Holdings

## % of Net Assets

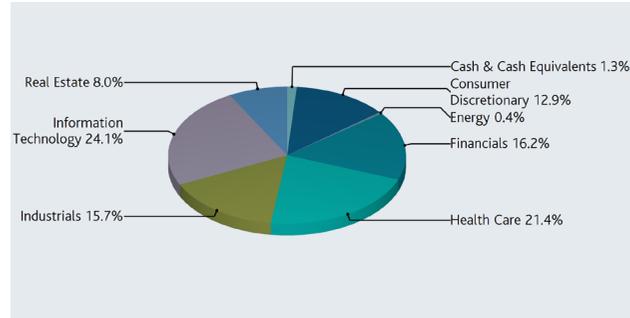
Gartner, Inc.	6.2
IDEXX Laboratories, Inc.	5.6
Mettler-Toledo International, Inc.	5.0
Vail Resorts, Inc.	5.0
Verisk Analytics, Inc.	4.1
The Charles Schwab Corp.	3.8
Arch Capital Group Ltd.	3.5
Guidewire Software, Inc.	2.9
SBA Communications Corp.	2.9
FactSet Research Systems, Inc.	2.7
<b>Total</b>	<b>41.7</b>

Securities issued by medium sized companies may be thinly traded and may be more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

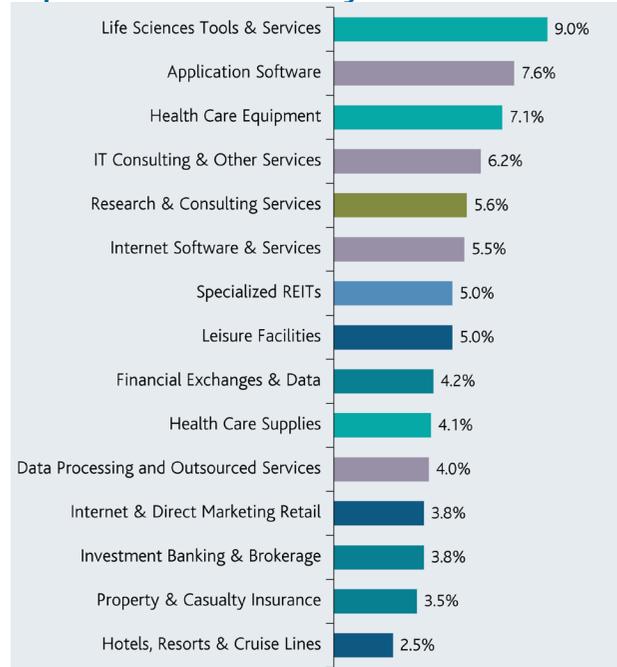
1 - Industry sector or sub-industry group levels are provided from the Global Industry Classification Standard ("GICS"), developed and exclusively owned by MSCI, Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P"). All GICS data is provided "as is" with no warranties. The Adviser may have reclassified/classified certain securities in or out of a sub-industry. Such reclassifications are not supported by S&P or MSCI.

2 - Source: FactSet SPAR. Except for Standard Deviation and Sharpe Ratio, the performance based characteristics above were calculated relative to the Fund's benchmark.

## GICS Sector Breakdown<sup>1</sup>



## Top 15 GICS Sub-Industry Breakdown<sup>1</sup>



Colors of Sub-Industry bars correspond to sector chart above.

## Investment Strategy

The Fund invests mainly in mid-sized U.S. companies that have matured beyond their start-up phase and have significant secular growth opportunities. Diversified.

## Portfolio Manager

Andrew Peck joined Baron in 1998 as a research analyst and was named portfolio manager in 2003. He has 22 years of research experience. From 1992 to 1994, Andrew worked at Salomon Brothers as an analyst in the Equity Capital Markets group. Andrew graduated magna cum laude from Yale College with a B.A. in History in 1991 and from Stanford Law School and Graduate School of Business with a J.D. and M.B.A. in 1998.

## Investment Principles

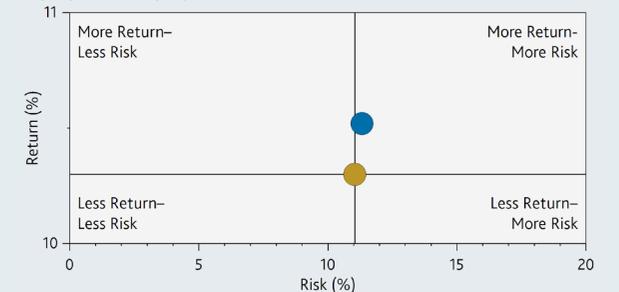
- Long-term perspective allows us to think like an owner of a business
- Independent and exhaustive research is essential to understanding the long-term fundamental growth prospects of a business
- We seek appropriately capitalized open-ended growth opportunities, exceptional leadership, and sustainable competitive advantages
- Purchase price and risk management are integral to our investment process

## Fund Facts

Inception Date	June 12, 1987
Net Assets	\$3.06 billion
<b>Institutional Shares</b>	
CUSIP	068278605
Expense Ratio (as of FYE 09/16)	1.04%

## Risk/Return Comparison<sup>2</sup>

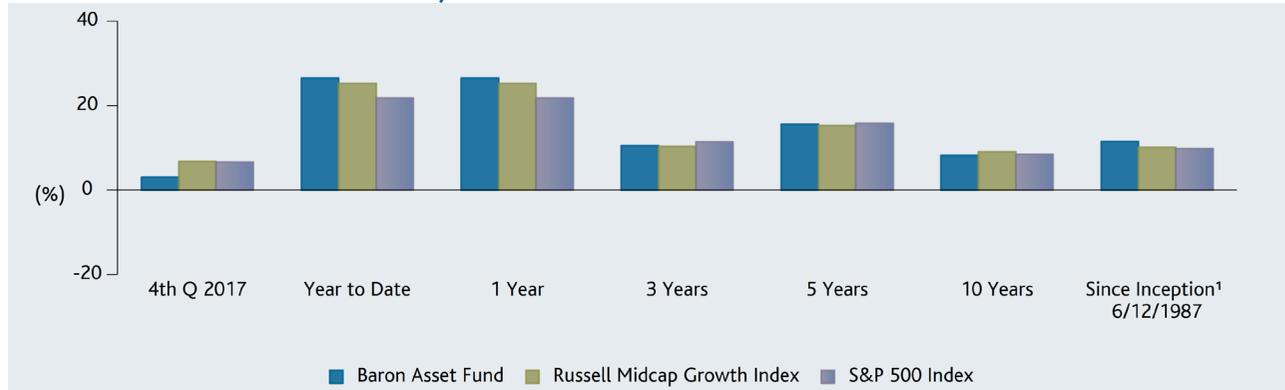
12/31/2014 - 12/31/2017



- Baron Asset Fund - I
- Russell Midcap Growth Index



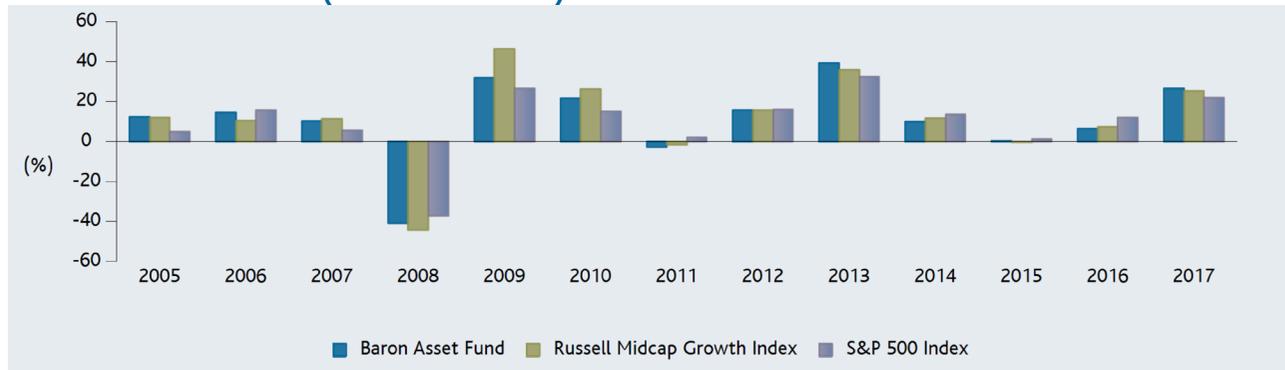
## Performance as of December 31, 2017



	Total Returns(%)						Annualized Returns(%)									
	4th Q 2017		Year to Date		1 Year		3 Years		5 Years		10 Years		Since Inception <sup>1</sup> 6/12/1987			
	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -		
BARIX - Institutional Shares	3.10		26.49		26.49		10.52		15.59		8.24		11.52			
Russell Midcap Growth Index	6.81	-3.71	25.27	1.22	25.27	1.22	10.30	0.22	15.30	0.29	9.10	-0.86	10.14	1.38		
S&P 500 Index	6.64	-3.54	21.83	4.66	21.83	4.66	11.41	-0.89	15.79	-0.20	8.50	-0.26	9.84	1.68		
Morningstar Mid-Cap Growth Category Average	6.02	-2.92	23.91	2.58	23.91	2.58	9.40	1.12	13.73	1.86	7.67	0.57	N/A			

The blue shading represents Fund outperformance vs. the corresponding benchmark. The yellow shading represents underperformance.

## Historical Performance(Calendar Year %)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
BARIX - Institutional Shares	12.47	14.64	10.13	-40.75	31.85	21.66	-2.68	15.63	39.25	9.77	0.20	6.51	26.49
Russell Midcap Growth Index	12.10	10.66	11.43	-44.32	46.29	26.38	-1.65	15.81	35.74	11.90	-0.20	7.33	25.27
S&P 500 Index	4.91	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83

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](http://www.BaronFunds.com) or call 1-800-99BAR-ON.

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

Performance for the Institutional Shares prior to 5/29/2009 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 5/29/2009 did not reflect this fee, the returns would be higher.

1 - For this report, the Since Inception date for Russell Midcap Growth Index is 6/30/1987.

## Review and Outlook

The ongoing stock market rally continued into the end of 2017. Throughout the year, investors remained focused on the widespread strength in both the domestic and the global economies, coupled with U.S. interest rates that have remained lower for longer than most observers expected. During the quarter, stocks got a further boost from the new U.S. tax law, which included a large-scale reduction in corporate tax rates, as well as incentives for companies to repatriate any offshore cash. These developments will lead to accelerated growth in many companies' after-tax earnings. They may also result in accelerated merger activity, particularly in the mid-cap universe, as larger companies have additional cash at their disposal to pursue acquisitions. A further consequence of the tax bill, in our view, was a rotation by investors into certain sectors that were perceived beneficiaries of the bill and its longer-term impact, and out of other sectors that might not benefit to the same degree.

Baron Asset Fund continued to participate in this year's rally. The Fund gained 3.10% during the quarter, bringing its performance for 2017 to 26.49%. Holdings in Industrials, Information Technology (IT), and Real Estate were the largest contributors in the quarter. Second largest contributor Verisk Analytics Inc. led gains in the Fund's Industrials holdings. Increases in 11 of 13 investments drove positive performance of IT, led by third largest contributor ANSYS, Inc. Real Estate advanced on gains in three of four investments, including SBA Communications Corp. and CBRE Group, Inc., both of which were among the top five contributors to Fund performance in the quarter. Consumer Discretionary was the sole detracting sector. Weak performance in the sector was led by top detractor Vail Resorts, Inc.

We remain optimistic about the environment for U.S. equities. The global economy is growing in concert across nearly all developed and emerging markets, which bodes well for ongoing gains in corporate earnings. Although interest rates have moved modestly higher, they remain near historically low levels, and inflation remains tame. Tax reform should lead to improved corporate earnings, and we believe it may also lead to accelerated merger activity in the mid-cap universe. Finally, the market has demonstrated that it can look beyond the confusion and dysfunction in Washington, and focus its attention on the positive dynamics mentioned above.



## Top Contributors/Detractors to Performance for the Quarter Ended December 31, 2017

### Contributors

- Shares of discount brokerage firm **The Charles Schwab Corp.** appreciated in the quarter. Schwab's core operations continue to perform well. Net new assets are growing steadily and new clients are joining the firm at a record pace. Schwab has been focused on sharing economies of scale with clients through price reductions, rebates, and low-cost products. Despite these lower fees, operating margins continue to expand to record levels through its scale and efficiencies, which we believe bodes well for Schwab's continued abilities to increase its client base and assets.
- Shares of **Verisk Analytics, Inc.**, a leading data and analytics vendor, contributed to performance following a strong Q3 earnings report, improved results in the Financial Services sector, and positive organic constant currency growth in the Energy & Specialized Markets segment. Investor sentiment on Verisk heading into the Q3 earnings report was relatively low, so the strong results were well received. We remain positive about the competitive positioning, long-term growth, margin, and capital deployment prospects for the business.
- Shares of simulation software vendor **ANSYS, Inc.** increased in Q4 due to powerful secular trends and reinvigorated growth under a new management team. Organic revenue growth grew 12%, while bookings increased by 38% after the company signed the largest deal in its history. Management continues to reinvest aggressively back into the business, which is weighing modestly on near-term margins but should result in sustainable double-digit revenue growth trends. The company has nearly \$1 billion in cash on its balance sheet, which can be used for accretive M&A and repurchases.

### Detractors

- Shares of **Vail Resorts Inc.**, a global operator of ski resorts, decreased in Q4 on concerns about snow levels during the holidays as snow was sparse at its resorts in Colorado, Utah, and California. However, this lack of snow was offset slightly by higher snow levels at its resorts in Canada and Vermont. Season pass sales for the current season are up 20%, which, when combined with Vail's more geographically diversified portfolio of resorts, should significantly mitigate the impact of the low early season snowfall, in our view.
- **Arch Capital Group Ltd.** is a specialty insurance and reinsurance company based in Bermuda. The stock declined amid waning expectations for significant rate increases in the reinsurance market and large losses from catastrophic events in the third quarter. Also, recent tax law changes will reduce Arch's tax advantage relative to peers, causing a sector rotation into domestic insurers. We retain conviction because we believe the impact of 2017 events will be short term, and Arch has a strong management team and underwriting discipline.
- **First Republic Bank** provides banking and wealth management to affluent clients in the U.S. Shares declined on recent federal tax law changes related to mortgage interest deductibility and state and local taxes, which could adversely impact mortgage lending in the bank's markets. Also, a flattening of the yield curve from rising short-term rates is putting upward pressure on the bank's funding costs without a commensurate benefit from higher loan yields. We retain conviction because we believe the bank has a strong management team, an attractive market position, and a long runway for growth.

## Top Contributors/Detractors to Performance for the Year Ended December 31, 2017

### Contributors

- Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** rose during 2017 due to multiple expansion and financial results that beat Street expectations. Competitive trends for IDEXX are improving, evidenced by installed base growth of 15%, domestic lab growth over twice that of competitor VCA, improving sales productivity, and acceleration in rapid assays. We think IDEXX's go-to-market model and its meaningful product enhancements will put upward pressure on organic revenue and earnings growth over time. We believe margins can approach 30% over the next several years.
- **Mettler-Toledo International, Inc.**, the world's largest provider of weighing instruments for use in laboratory, industrial, and food retailing applications, contributed to performance in 2017. Mettler reported strong financial results in 2017 and raised guidance throughout the year. Sales strength was broad-based across product segments and geographies, with particular strength in China, the Americas, and the industrial business. We continue to believe Mettler is an exceptionally well managed business that can compound earnings at attractive rates.
- Shares of **Vail Resorts, Inc.**, a global operator of ski resorts, increased during the year after the company reported strong sales of its season passes, up 20% for the 2017/2018 year. The company also acquired Stowe in Vermont, gaining access to the northeast customer base and opening a new market to cross-sell its resorts. Vail is now well-diversified with iconic assets and, in our view, should continue to grow its EBITDA and free cash flow over time as it grows skier visits by a low single-digit percentage and raises lift ticket prices by mid-single digits each year.

### Detractors

- Shares of aftermarket automotive parts retailer **Advance Auto Parts, Inc.** declined on disappointing Q1 earnings results and negative industry sentiment as soft consumer demand and weather drove negative same-store sales and margins compressed. Concerns about increased online competition also pressured the auto parts retail sector. We sold our position, as we expect industry headwinds to persist and have decreased confidence in management's ability to accelerate revenue growth and improve profitability.
- **Acuity Brands, Inc.**, the leading U.S. provider of lighting solutions, reported soft results as its end market for non-residential construction projects - specifically smaller retrofit jobs - grew less than it had projected. While Acuity's connected lighting platform Atrium has yet to scale, we believe it represents an exciting technology which could lead to a new high-value business line. Though the stock may be stuck until near-term trends improve, we remain confident given the company's leading market position and believe the stock is undervalued at current prices.
- **Tractor Supply Co.** is the leading farm and feed retail chain in the U.S., with over 1,500 stores and \$7 billion in sales. Shares declined during 2017 after the company reported results that fell short of Street expectations due to a confluence of factors, including depressed farm incomes from unusually low crop prices, overexposure to struggling energy markets, and increasing maturation in the company's unique end markets. As a result, we exited our position.

## Contribution to Return<sup>1</sup> By Holdings - Quarter End

Top Contributors	Average Weight(%)	Contribution(%)
The Charles Schwab Corp.	3.53	0.57
Verisk Analytics, Inc.	3.80	0.54
ANSYS, Inc.	2.52	0.45
SBA Communications Corp.	2.94	0.37
CBRE Group, Inc.	2.08	0.28

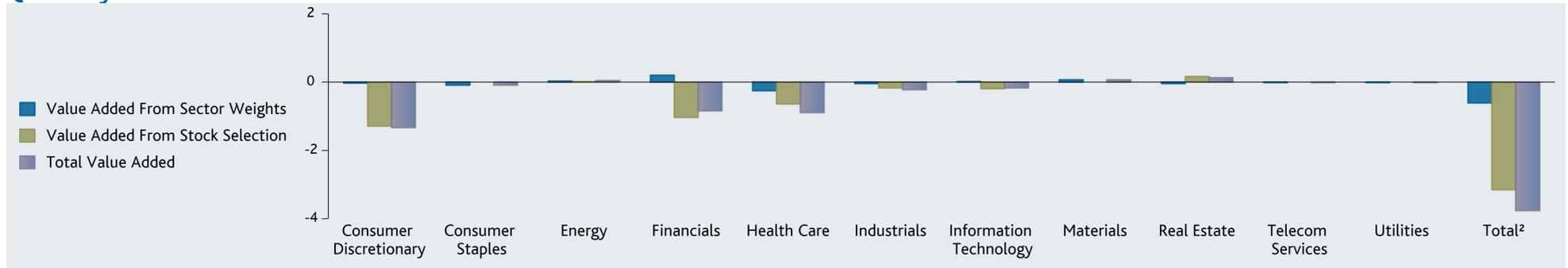
Top Detractors	Average Weight(%)	Contribution(%)
Vail Resorts, Inc.	5.25	-0.32
Arch Capital Group Ltd.	3.89	-0.31
First Republic Bank	1.45	-0.27
Expedia, Inc.	1.32	-0.24
Henry Schein, Inc.	1.09	-0.22

## By Holdings - 12 Month

Top Contributors	Average Weight(%)	Contribution(%)
IDEXX Laboratories, Inc.	6.18	2.31
Mettler-Toledo International, Inc.	4.87	2.11
Vail Resorts, Inc.	5.19	1.76
SBA Communications Corp.	2.77	1.38
Gartner, Inc.	6.27	1.37

Top Detractors	Average Weight(%)	Contribution(%)
Advance Auto Parts, Inc.	0.24	-0.17
Acuity Brands, Inc.	0.46	-0.16
Tractor Supply Co.	0.21	-0.12
Nielsen Holdings plc	0.81	-0.06
Liberty Ventures Group	0.17	-0.05

## Quarterly Performance Attribution<sup>1</sup>



Sector Average Weights(%)	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Telecom Services	Utilities	Total <sup>2</sup>
Baron Asset Fund	13.01	-	0.34	16.48	21.68	15.25	23.56	-	7.98	-	-	100.00
Russell Midcap Growth Index	17.16	4.06	2.49	7.14	14.06	16.80	28.30	6.39	3.34	0.22	0.05	100.00
Over/Underweight	-4.15	-4.06	-2.15	9.34	7.62	-1.55	-4.74	-6.39	4.65	-0.22	-0.05	-
<b>Total Return(%)</b>												
Baron Asset Fund	-2.33	-	14.04	2.63	0.28	8.45	5.21	-	8.41	-	-	3.06
Russell Midcap Growth Index	7.78	9.17	5.37	9.22	3.35	9.52	5.92	5.49	5.99	6.91	11.43	6.81
Relative Return	-10.12	-9.17	8.68	-6.58	-3.07	-1.08	-0.71	-5.49	2.42	-6.91	-11.43	-3.75

## Quarterly Analysis

Baron Asset Fund increased 3.10% in the fourth quarter, trailing the Russell Midcap Growth Index by 371 basis points due to stock selection.

Stock selection in Real Estate added the most value, thanks to the outperformance of tower operator SBA Communications Corp. and commercial real estate services company CBRE Group, Inc. Shares of SBA rose on news that AT&T's FirstNet coverage build will likely coincide with rising network build activity from Sprint, an unexpected event after a breakdown in merger talks between the Sprint and T-Mobile. Rising network spending at the carrier level should lead to increased amendment activity for SBA and colocation activity on its towers. CBRE's stock price appreciated after the company reported solid Q3 earnings and raised full-year guidance for 2017. CBRE's long-term prospects remain positive, in our view, due to the company's leading market positions in its major businesses.

Investments in Consumer Discretionary, Health Care, and Financials detracted the most from relative performance. Within Consumer Discretionary, underperformance of Vail Resorts, Inc. and greater exposure to lagging internet & direct marketing retail stocks through investments in The Priceline Group Inc., Expedia, Inc., and Liberty Ventures Group hurt relative performance. Following significant outperformance in the first nine month of the year, Vail was the largest detractor on an absolute basis in the fourth quarter. Weakness in Health Care was partly due to the underperformance of the Fund's two largest positions in the sector, weighing instruments provider Mettler-Toledo International, Inc. and veterinary diagnostics leader IDEXX Laboratories, Inc. Mettler's shares fell after reaching an all-time high in November as a result of possible profit-taking despite the company's strong fundamentals and outlook. IDEXX's shares lagged due to the company's failure to raise guidance after its most recent quarterly results. Additionally, higher exposure to this poor-performing sector and underperformance of medical device company The Cooper Companies, Inc. and health care products and services distributor Henry Schein, Inc. hampered relative results. Cooper's Q4 results underwhelmed due to growth in the company's U.S. contact lens business that missed market expectations, while Henry Schein was hurt by disappointing 2018 guidance and concerns about potential competition from Amazon and other online providers. Stock selection was negative in Financials due to the underperformance of Arch Capital Group Ltd., First Republic Bank, and Willis Towers Watson Public Limited Company. Arch and First Republic were two of the largest detractors from absolute performance, while shares of insurance broker and human resources consultant Willis Towers Watson underperformed despite demonstrating accelerating organic growth on its latest quarterly earnings report.

When reviewing performance attribution on our portfolio, please be aware that we construct the portfolio from the bottom up, one stock at a time. Each stock is included in the portfolio if it meets our rigorous investment criteria. To help manage risk, we are aware of our sector and security weights, but we do not include a holding to achieve a target sector allocation or to approximate an index. Our exposure to any given sector is purely a result of our stock selection process.

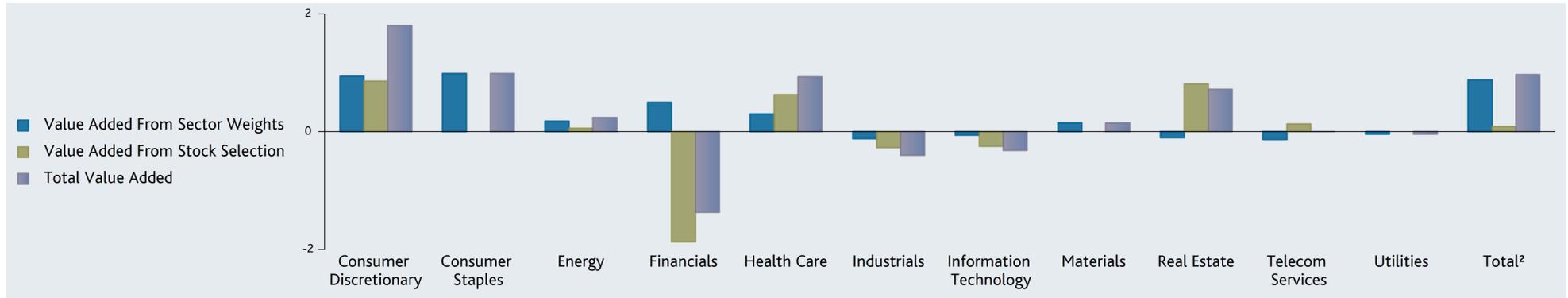
Return calculations for the Portfolio are transaction based and are calculated from the underlying security-level data; they may not correspond with published performance information based on NAV per share.

1 - Attribution analysis for other periods or versus another index will be provided upon request. Source: FactSet PA.

2 - Fund total returns include cash, fees and unassigned securities.



## One-Year Performance Attribution<sup>1</sup>



Sector Average Weights(%)	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Telecom Services	Utilities	Total <sup>2</sup>
Baron Asset Fund	12.96	-	0.43	16.85	22.16	15.18	23.08	-	7.51	0.39	-	100.00
Russell Midcap Growth Index	19.95	5.50	1.85	6.25	15.05	15.73	25.33	5.84	4.22	0.24	0.03	100.00
Over/Underweight	-6.99	-5.50	-1.41	10.60	7.10	-0.56	-2.25	-5.84	3.29	0.14	-0.03	-
<b>Total Return(%)</b>												
Baron Asset Fund	21.13	-	11.17	19.30	33.98	21.32	36.47	-	36.35	7.61	-	26.25
Russell Midcap Growth Index	15.29	7.49	-5.63	33.05	31.32	23.17	37.49	21.83	22.73	21.33	64.17	25.27
Relative Return	5.84	-7.49	16.80	-13.76	2.66	-1.85	-1.02	-21.83	13.62	-13.71	-64.17	0.97

## Annual Analysis

Baron Asset Fund was up 26.49% for the year, outperforming the Russell Midcap Growth Index by 122 basis points due to relative sector and sub-industry weights.

Investments in Consumer Discretionary, Health Care, and Real Estate and lack of exposure to the underperforming Consumer Staples sector contributed the most to relative results. Within Consumer Discretionary, lower or lack of exposure to the poor-performing automotive retail, advertising, apparel, accessories & luxury goods, and apparel retail sub-industries lifted relative results. Strength in the sector was also attributable to the outperformance of Vail Resorts, Inc., the third largest contributor on an absolute basis, and Choice Hotels International, Inc., a global franchisor of hotels. Choice's shares rose more than 40% on growth in revenue per available room and royalty fees that beat market expectations and a robust development pipeline. Health Care investments outperformed after increasing nearly 34% as a group, driven by the Fund's largest positions in the sector, Mettler-Toledo International, Inc., IDEXX Laboratories, Inc., and Illumina, Inc. IDEXX and Mettler were the two largest contributors to absolute performance. Shares of DNA sequencing platform Illumina appreciated after the company reported strong financial results that exceeded investor expectations. Demand for the company's new high throughput instrument NovaSeq launched early in 2017 was strong throughout the year. In addition, higher exposure to strong-performing life sciences tools & services and health care supplies stocks and lack of exposure to lagging biotechnology stocks added value in the sector. Within Real Estate, outperformance of SBA Communications Corp. and CBRE Group, Inc. aided relative results. Lack of exposure to declining retail REITs also added value as these stocks were pressured by a slowdown of in-store sales due to the growth of online purchases.

Investments in Financials detracted the most from relative performance. Weakness in the sector, owing mostly to the underperformance of Arch Capital Group Ltd. and First Republic Bank, was somewhat offset by meaningfully higher exposure to this better-performing sector, which was up 33.1% in the index.

When reviewing performance attribution on our portfolio, please be aware that we construct the portfolio from the bottom up, one stock at a time. Each stock is included in the portfolio if it meets our rigorous investment criteria. To help manage risk, we are aware of our sector and security weights, but we do not include a holding to achieve a target sector allocation or to approximate an index. Our exposure to any given sector is purely a result of our stock selection process.

Return calculations for the Portfolio are transaction based and are calculated from the underlying security-level data; they may not correspond with published performance information based on NAV per share.

1 - Attribution analysis for other periods or versus another index will be provided upon request. Source: FactSet PA.

2 - Fund total returns include cash, fees and unassigned securities.



## Top 10 Holdings as of December 31, 2017

Company	Investment Premise	Company	Investment Premise
<b>Gartner, Inc. (IT)</b> is the leading independent provider of research and analysis on the information technology industry.	Gartner has a vast addressable market, which management estimates exceeds \$70 billion annually, implying a penetration rate of less than 3%. IT is rapidly changing and growing in strategic importance, leading users to turn to third-party providers for insight into trends. The low price of Gartner's research relative to its value has created strong renewal trends, with retention rates running above 100%. We think management can improve results with its recent acquisition of CEB, accelerating growth towards 15% over the next 3 years while driving \$50 million of cost synergies.	<b>The Charles Schwab Corp. (SCHW)</b> is a discount brokerage firm offering securities brokerage and other financial services to individual investors directly and through independent financial advisors.	Schwab's emphasis on earning customer trust has made it a sterling brand in financial services, in our view. Schwab's stability stands out, given the credit-related struggles of some of its traditional and discount-brokerage competitors. We believe the company's Investor Services division is well positioned to take share from traditional brokerages. Its institutional business has continued to gain RIA relationships. We expect organic growth to hold above 10% once interest rates normalize.
<b>IDEXX Laboratories, Inc. (IDXX)</b> is the leading provider of diagnostics to the veterinary industry.	IDEXX has continued to benefit from secular growth spending on pets, due to a growing human-animal bond, favorable demographics, increased use of diagnostics, and enhanced focus on preventative care. We think IDEXX has the best menu of diagnostics, which it has continuously improved by spending six times more on R&D annually than all its competitors combined. The company's products are sold via a razor/razorblade model, which creates high retention rates and incremental margins. IDEXX generates strong cash flow, which it has returned to shareholders via repurchases.	<b>Arch Capital Group Ltd. (ACGL)</b> is a specialty insurance and reinsurance company with operations in Bermuda, the U.S., Europe, and Canada.	Arch Capital is led by an experienced management team with a successful track record across insurance cycles. We believe the company excels at underwriting specialized policies and can nimbly shift its business mix to target the most profitable lines. Arch has a compensation system that rewards long-term profitability rather than short-term premium growth. In our view, management has demonstrated strong underwriting discipline and capital stewardship, allowing Arch to maintain industry-leading returns on equity.
<b>Mettler-Toledo International, Inc. (MTD)</b> is the world's largest provider of weighing instruments for use in laboratory, industrial, and food retailing applications.	Mettler has a track record of consistent growth. In our opinion, the company has strong brand recognition, customer diversification, pricing power, and margin expansion opportunities. We think the business has attractive financial characteristics, including high returns on capital, minimal capital requirements, and strong free cash flow generation. The company uses all of its free cash flow to repurchase its stock. We believe the management team is an excellent steward of capital and skilled at developing sales and marketing initiatives to enhance growth.	<b>Guidewire Software, Inc. (GWRE)</b> is a leading provider of core systems software to the global P&C insurance industry.	Guidewire is a small player in a vast addressable market and has been benefiting from the inevitable need for P&C insurers to upgrade 30-year-old systems. The company offers best-in-class functionality, as evidenced by its growing installed base and 100% retention rates, and we believe it has a significant amount of off-balance sheet revenue. We think the company's recent launch of data, benchmarking, and ancillary applications could drive a network effect, provide significant upside to financial estimates, and double its addressable market.
<b>Vail Resorts, Inc. (MTN)</b> is the largest operator of ski resorts in the U.S. It owns 14 resorts, including Vail and three others in Colorado; two in Utah; three in Lake Tahoe, California; Whistler Blackstone in Canada; Perisher in Australia; and Stowe in Vermont.	Most of Vail's revenues come from its ski resorts. The company has been upgrading its properties to offer new and higher quality services and amenities and summer recreational activities, which we believe should help attract more visitors and allow it to raise ski ticket prices. Vail is also focused on increasing season-pass sales and has been acquiring resorts to enhance the attractiveness of its multi-resort season pass. The company generates strong free cash flow that it is using for increased dividends and debt reduction.	<b>SBA Communications Corp. (SBAC)</b> is the third largest independent owner of wireless towers in the U.S. and has a growing presence in Canada, Central America, and Brazil. SBA owns and operates over 25,000 towers in total.	Consumers continue to adopt smartphones and use increasing amounts of wireless data bandwidth, forcing carriers to augment their networks. To increase network density, carriers lease space for equipment on existing and new towers. We think SBA can generate additional revenue from new lease and amendment activity, leading to strong cash flow growth. Given its strong balance sheet, we believe SBA has many opportunities to grow internationally, particularly in Brazil, where SBA has acquired over 5,000 towers.
<b>Verisk Analytics, Inc. (VRSK)</b> provides information about risk to companies in the insurance, financial services, and energy industries. Verisk enables these businesses to better understand and manage their risks and optimize their decision-making processes.	We think Verisk has a unique competitive position. The company is investing to expand its product set in Insurance and Financials. It also acquired Wood Mackenzie in 2015 and Greentech Media, Inc. for energy exposure, creating a path to sustained double digit growth. Verisk generates robust margins, which we believe can grow modestly over time with scale. Verisk has been generating significant levels of free cash flow, which it has been using to repurchase stock and make acquisitions.	<b>FactSet Research Systems, Inc. (FDS)</b> provides financial information to the global investment community.	FactSet serves only a small part of the addressable market, which we estimate is roughly \$20 billion annually. The company has been taking market share and offering broader data sets and more advanced portfolio analytics than its competitors, and has a highly regarded customer service model. FactSet has also been expanding into fixed income markets. Its products are sticky, leading to retention rates of over 95% and high visibility. FactSet generates robust free cash flow, which it has aggressively returned to shareholders via share repurchases and dividends.