

DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

Stocks experienced heightened volatility during the third quarter, as trade tensions between the U.S. and China dominated headlines. In addition, mixed global economic data combined with the inversion of the U.S. yield curve weighed on investor sentiment. Investors sought safety in perceived defensive sectors, such as Utilities and Consumer Staples. Real Estate also held up well, driven by yield-oriented REITs, which benefited from a declining interest rate environment. Energy was down the most in the quarter because of the continued decline in oil prices. Health Care was also under pressure because of rising support for Democratic presidential candidates who support Medicare for All, as well as uncertainty regarding other potential health care policy changes, such as measures to lower prescription drug prices.

Investors gravitated towards larger capitalization stocks for the third consecutive quarter. Among mid-caps, value stocks outperformed growth stocks. Against this backdrop, Baron Asset Fund (the "Fund") declined 2.35% (Institutional Shares), while the Russell Midcap Growth Index (the "Index") fell 0.67%, and the S&P 500 Index gained 1.70%.

Table I.  
Performance

Annualized for periods ended September 30, 2019

	Baron Asset Fund Retail Shares <sup>1,2</sup>	Baron Asset Fund Institutional Shares <sup>1,2,3</sup>	Russell Midcap Growth Index <sup>1</sup>	S&P 500 Index <sup>1</sup>
Three Months <sup>5</sup>	(2.42)%	(2.35)%	(0.67)%	1.70%
Nine Months <sup>5</sup>	28.99%	29.24%	25.23%	20.55%
One Year	7.82%	8.11%	5.20%	4.25%
Three Years	17.56%	17.88%	14.50%	13.39%
Five Years	12.96%	13.26%	11.12%	10.84%
Ten Years	14.19%	14.50%	14.08%	13.24%
Fifteen Years	10.69%	10.90%	10.53%	9.01%
Since Inception (June 12, 1987)	11.66%	11.75%	10.17% <sup>4</sup>	9.76%

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, 2018 was 1.30% and 1.04%, 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](http://www.BaronFunds.com) or call 1-800-99BARON.

<sup>1</sup> The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. The Russell Midcap<sup>®</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> For the period June 30, 1987 to September 30, 2019.

<sup>5</sup> Not annualized.



ANDREW PECK

PORTFOLIO MANAGER

Retail Shares: BARAX  
Institutional Shares: BARIX  
R6 Shares: BARUX

Investments in Industrials and Financials, higher exposure to strong performing REITs within Real Estate, and lack of exposure to the lagging Energy sector added the most value. Favorable stock selection in Industrials was driven by data and analytics vendor **Verisk Analytics, Inc.** and consumer credit bureau **TransUnion**. Both companies saw their stock prices rise after reporting strong earnings results. Real estate information and marketing services company **CoStar Group, Inc.**, landscaping equipment manufacturer **The Toro Company**, and nuclear components and fuel supplier **BWX Technologies, Inc.** also performed well within the sector. Strength in Financials came from specialty insurer **Arch Capital Group Ltd.**, whose stock price rose over 13% during the quarter, driven by improving market conditions for commercial insurance and continued strength in mortgage insurance.



# Baron Asset Fund

Investments in Health Care, Information Technology (IT), and Communication Services as well as the lack of exposure to the defensive Consumer Staples sector detracted the most from relative performance. Within Health Care, higher exposure to poor performing life sciences tools & services stocks through sizeable positions in **Mettler-Toledo International, Inc.** and **Illumina, Inc.** hurt relative results. Weakness in IT was driven by syndicated research provider **Gartner, Inc.**, which fell after reducing its full-year earnings guidance. Additionally, lack of exposure to semiconductor equipment stocks, which were up more than 25% in the Index, and underperformance of internet services & infrastructure companies **Wix.com Ltd.** and **Verisign, Inc.** hampered relative results. Communication Services holdings underperformed, with real estate website operator **Zillow Group, Inc.** leading the decline. Zillow's shares were down sharply due to expanded testing of the company's new Flex commission model, whereby the company takes a percentage of agents' commissions. While the new model will likely weigh on profitability in the short-to-medium term, we believe Flex will be accretive to long-term shareholder value.

**Table II.**  
Top contributors to performance for the quarter ended September 30, 2019

	Year Acquired	Percent Impact
Verisk Analytics, Inc.	2009	0.34%
Arch Capital Group Ltd.	2003	0.26
ANSYS, Inc.	2009	0.23
Equinix, Inc.	2007	0.23
TransUnion	2017	0.22

Shares of **Verisk Analytics, Inc.**, a leading data and analytics vendor, gained after the company reported solid quarterly earnings results. Verisk's Insurance segment continued its strong performance, and both its Energy and Financial Services segments showed encouraging signs of improvement. We remain positive about the company's competitive positioning, defensive business model, long-term growth prospects, margin expansion potential, and its ability to effectively deploy its capital.

**Arch Capital Group Ltd.** is a specialty insurance and reinsurance company based in Bermuda. Its shares outperformed, as general market conditions for commercial insurance improved and the mortgage insurance market continued to perform well. Management took advantage of higher insurance rates to selectively underwrite additional new business. In addition, Arch reported better-than-expected earnings, highlighted by 19% growth in its book value per share.

**ANSYS, Inc.** is a leading provider of physics-based simulation software used to evaluate how products will perform under various real-world environments. Its shares rose after ANSYS held its first analyst event in two years. Investors' overall takeaways were positive around changes in its go-to-market strategy. There was also optimism that a growing product line will enable the company to become a more strategic vendor for clients and increase its average selling price. The company's continued healthy sales growth has allowed it to keep generating substantial cash despite making prudent reinvestments into its business.

**Equinix, Inc.** is a global operator of network-dense, carrier-neutral colocation data centers. Shares increased because of its robust second quarter results, management's increase of full-year guidance, and the company's investment grade debt upgrade. The lower interest rate environment benefited REITs broadly as well. We retain conviction in Equinix because of the ongoing demand for cloud adoption and IT outsourcing. We believe that Equinix's unique position as one of the only operators that can offer a global platform is an important competitive differentiator.

**TransUnion** is a consumer credit bureau that helps businesses make credit and marketing decisions. Its shares performed well after the company reported better-than-expected quarterly results and raised its full-year guidance. Revenue grew 18% and EBITDA grew 20%, with organic, constant-currency revenue growth accelerating to 10% as its bank customers resumed spending on marketing, health care demand improved, and year-over-year comparisons eased. We continue to own the stock because we expect TransUnion to generate industry-leading growth while diversifying into additional information services segments.

**Table III.**  
Top detractors from performance for the quarter ended September 30, 2019

	Year Acquired	Percent Impact
Mettler-Toledo International, Inc.	2008	-0.72%
Gartner, Inc.	2007	-0.57
Illumina, Inc.	2012	-0.40
FactSet Research Systems, Inc.	2006	-0.38
SmileDirectClub, Inc.	2019	-0.35

Shares of weighing instruments manufacturer **Mettler-Toledo International, Inc.** detracted from performance. The company reported quarterly financial results that fell slightly short of investor expectations because of weakness in its non-core food retailing business. Given Mettler's large presence in China, the President's intense trade war rhetoric during the quarter compounded the stock's weakness. We continue to believe Mettler is a good business with stable growth, strong pricing power, robust free cash flow, and shareholder-friendly management.

Shares of **Gartner, Inc.**, a provider of syndicated research, detracted from performance after the company reduced its full-year guidance. Although forward-looking metrics in Gartner's traditional IT research business decelerated modestly, they remain at a robust low-teens growth rate. The company also chose to discontinue several non-subscription products, which will hurt profitability this year but are not core to its long-term strategy. Finally, the company was more successful than expected in filling its open sales force positions, which should reduce this year's earnings while driving faster revenue growth in 2020.

Shares of **Illumina, Inc.** fell after the market-leading manufacturer of next generation DNA sequencing systems and consumables reported a revenue miss and lowered revenue guidance for the year. The shortfall was due to delays in population genomics programs, slower growth in the consumer genomics market, and a slowdown in sales of certain low throughput sequencing instruments. We continue to believe Illumina has a long runway for growth driven by expanding applications and utilization of DNA sequencing technologies.

Shares of **FactSet Research Systems, Inc.**, a leading provider of investment management tools, declined during the quarter after the company reported weak guidance for 2020 while also announcing a new three-year investment plan to accelerate revenue growth. This hurt the stock because it led analysts to presume that corporate margins will not increase for a couple of years.

We were excited by the business prospects for dental aligner company **SmileDirectClub, Inc.**, including its large addressable market, first mover advantage, unique vertically integrated business model, and commanding direct-to-consumer presence. However, the company's IPO performed poorly, with shares opening below deal price and trading down sharply from there. It became apparent to us that shares had been mispriced and poorly placed by underwriters who greatly misjudged demand for the company stock. We felt it was best to limit our losses and exit the position.

### PORTFOLIO STRUCTURE

At September 30, 2019, Baron Asset Fund held 58 positions. The Fund's 10 largest holdings represented 38.9% of assets, and the 20 largest represented 60.8% of assets. The Fund's largest weighting was in the IT sector at 26.8% of assets. This sector includes software companies, IT consulting businesses, data processing firms, and internet services and infrastructure companies. The Fund held 22.8% of its assets in the Health Care sector, which includes investments in life sciences, health care equipment, health care supplies, health care technology, and biotechnology companies. The Fund held 17.9% of its assets in the Industrials sector, which includes investments in research and consulting companies, industrial conglomerates, and machinery companies. The Fund also had significant weightings in Financials at 12.1% of assets and Consumer Discretionary at 8.4% of assets.

**Table IV.**  
Top 10 holdings as of September 30, 2019

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
IDEXX Laboratories, Inc.	2006	\$2.5	\$23.4	\$265.6	6.1%
Gartner, Inc.	2007	2.9	12.9	226.5	5.2
Verisk Analytics, Inc.	2009	4.0	25.9	208.1	4.8
Mettler-Toledo International, Inc.	2008	2.4	17.3	176.9	4.1
Guidewire Software, Inc.	2013	2.8	8.7	148.8	3.4
Vail Resorts, Inc.	1997	0.2	9.2	145.5	3.4
ANSYS, Inc.	2009	2.3	18.6	135.4	3.1
Verisign, Inc.	2013	7.1	22.3	131.9	3.0
CoStar Group, Inc.	2016	5.0	21.7	130.2	3.0
TransUnion	2017	7.1	15.2	119.1	2.8

### RECENT ACTIVITY

During the past quarter, the Fund established 4 new positions and added to 14 others. The Fund eliminated 7 positions and reduced its holdings in 4 others.

**Table V.**  
Top net purchases for the quarter ended September 30, 2019

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Clarivate Analytics Plc	\$ 5.2	\$33.3
Alexandria Real Estate Equities, Inc.	17.5	20.3
argenx SE	4.3	10.3
Amphenol Corporation	28.7	8.3
Gartner, Inc.	12.9	6.1

**Clarivate Analytics Plc** provides comprehensive intellectual property and scientific information that allow various types of clients (including academia, governments, corporations, and the legal community) to discover and commercialize new ideas, while also helping to protect content, patents, and brands. Clarivate operates several brands that are well known in the broad scientific community, including Web of Science (scientific and academic research), Cortellis (pharmaceutical and biotechnology intelligence), Derwent Innovation (patent analytics), CompuMark (trademark protection), and MarkMonitor (domain brand protection).

We believe that Clarivate has an attractive business model, similar to that of other leading companies in the information services sector. The company's key assets are its highly valuable proprietary databases—Clarivate is the #1 or #2 player in nearly every market in which it operates. Its databases are combined with analytical tools that help users apply the underlying data to everyday business problems. The proprietary data and accompanying analytics become an important part of the end users' daily workflow, creating a sticky and predictable business model (>80% subscription revenue) with high levels of recurring revenue (>90% revenue retention). In addition, we are particularly impressed by CEO Jerre Stead, who was previously the longtime CEO of IHS Markit (a \$27 billion company) and has served on more than 30 corporate boards during his career.

Since much of the company's required investment is in collecting the underlying data and creating the analytical tools, we believe that Clarivate should have high operating leverage ("build it once, sell it many times"), with sales of new subscriptions carrying high incremental margins. This natural operating leverage along with targeted cost synergies should help increase its margins during the next couple of years. Customers typically pay Clarivate up front on an annual basis and the business has low capital requirements; both these factors should result in strong free cash flow generation.

We believe that Clarivate is poised to accelerate its revenue growth. After its recent history of low single-digit organic growth, the company is planning to exit 2020 with a 4% to 6% organic growth rate. This growth acceleration will be driven by a number of factors, including positive tailwinds around the growth of predictive analytics and data, product and pricing enhancement strategies, growth in the Asia Pacific region, an increased focus on subscription revenue, cross/up-selling across the existing client base, and an overall improvement in the management of the business. Once the company reduces its leverage, M&A is also likely to be a driver of incremental growth, as management sees a robust pipeline of potential acquisition targets. We believe that Clarivate will be a steady earnings compounder, which should drive solid returns for the stock over a multi-year period.

# Baron Asset Fund

**Table VI.**  
**Top net sales for the quarter ended September 30, 2019**

	Amount Sold (millions)
Align Technology, Inc.	\$19.5
Fastenal Co.	14.7
First Republic Bank	14.2
FactSet Research Systems, Inc.	13.2
A. O. Smith Corporation	12.9

We exited our position in **Align Technology, Inc.**, the manufacturer of Invisalign-brand orthodontic devices, over concerns increased competition in the market for teeth-straightening solutions. We exited our position in industrial distributor **Fastenal Co.** over concerns about e-commerce firms entering the distribution industry. We reduced our stake in **First Republic Bank** because of concerns about its ability to grow its profitability given an increasingly unfavorable interest rate environment for banks. We reduced our stake in **FactSet Research Systems, Inc.** because of concerns about slowing growth in certain of its end markets. We exited our position in **A. O. Smith Corporation**, a manufacturer of water heating and treatment devices, over concerns about problems in their important Chinese market.

## OUTLOOK

Throughout the past decade's bull market, prominent market commentators and strategists have offered various reasons to sell equities. However,

investors that have ignored "short-term noise" in the stock market while pursuing a long-term "buy and hold" strategy have generally been richly rewarded. We believe this straightforward method remains the best approach for investors to follow.

We continue to remain optimistic that the prospects for U.S. equities are bright. We believe that the U.S. economy remains generally robust and that the outlook for continued earnings growth from the companies in our portfolio is solid. The U.S. unemployment rate remains at historically low levels, and most leading economic indicators remain encouraging. Inflation is muted, and the Federal Reserve seems poised to ensure that interest rates remain at historically low levels.

We believe that our portfolio of well-managed, competitively advantaged, fast growing companies will continue to perform well, although we cannot guarantee that they will. We continue to believe that high-quality, mid-sized growth stocks represent a compelling long-term investment opportunity.

Sincerely,



Andrew Peck  
Portfolio Manager

*Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain 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](http://www.BaronFunds.com). Please read them carefully before investing.*

**Risks:** The Adviser believes that there is more potential for capital appreciation in mid-sized companies, but there also may be more risk. Specific risks associated with investing in mid-sized companies include that the securities may be thinly traded and they 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. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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