DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

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PORTFOLIO MANAGER

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

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 (the "Fund") continued to participate in this year's rally. The Fund (Institutional Shares) gained 3.10% during the quarter, bringing its performance for 2017 to 26.49%. The Russell Midcap Growth Index (the "Index") gained 6.81% during the quarter, bringing its year-to-date performance to 25.27%. The S&P 500 Index gained 6.64%, bringing its year-to-date performance to 21.83%.

Table I.
Performance
Annualized for periods ended December 31, 2017

	Baron Asset Fund Retail Shares[1,2]	Baron Asset Fund Institutional Shares[1,2,3]	Russell Midcap Growth Index[1]	S&P 500 Index[1]
Three Months[5]	3.04%	3.10%	6.81%	6.64%
One Year	26.13%	26.49%	25.27%	21.83%
Three Years	10.21%	10.52%	10.30%	11.41%
Five Years	15.28%	15.59%	15.30%	15.79%
Ten Years	7.99%	8.24%	9.10%	8.50%
Fifteen Years	11.26%	11.43%	11.96%	9.92%
Since Inception (June 12, 1987)	11.44%	11.52%	10.14%[4]	9.84%

After being among the best performing sectors in the Index during the first nine months of the year, the Information Technology (IT) and Health Care sectors, which comprise approximately 45% of the Fund's assets, both underperformed during the quarter. Instead, the leading sectors in the Index included Industrials, Financials, Consumer Staples and Consumer Discretionary. The Fund's relative performance was hindered by this change in sector leadership coupled with some large investments in the IT and Health Care sectors that underperformed. In addition, as discussed below, several other investments retreated after reporting disappointing quarterly earnings.

The Fund's best performing investments included brokerage **The Charles Schwab Corp.**, which benefited from continued strong business trends, coupled with both rising interest rates and rising equity markets. Companies with exposure to the surging energy market did well. These included data and analytics vendor **Verisk Analytics, Inc.**, which has an energy-focused unit, and **FleetCor Technologies, Inc.**, a credit card processor for the fuel card market. Hotel companies **Choice Hotels International, Inc.** and **Hyatt Hotels Corp.** benefited from strong occupancy and pricing trends in the travel sector. Simulation software vendor **ANSYS, Inc.** was a standout in the IT sector, gaining on the back of impressive earnings results. **SBA Communications Corp.**, which owns and operates cellular towers, rose on positive spending trends by cellular phone carriers.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2017 was 1.31% and 1.04%, 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 or call 1-800-99BARON.*

1 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.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

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

4 For the period June 30, 1987 to December 31, 2017.

5 Not annualized.

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The Fund's performance was hindered by two large, longtime holdings that were hurt by idiosyncratic issues. Shares of **Vail Resorts, Inc.**, the global operator of ski resorts, fell on concerns about the impact of poor snowfall levels during the holiday season. Specialty insurer and reinsurer **Arch Capital Group Ltd.** fell as hopes faded for significant rate increases stemming from the recent hurricane-related losses that impacted the industry. Tax law changes were perceived to be unfavorable for **First Republic Bank**, which has large operations in states that are losing the state and local tax deduction. **Expedia, Inc.**, the second largest online travel agency, declined after unexpectedly announcing plans to accelerate reinvestment into its business. **Henry Schein, Inc.**, a leading dental distributor, fell on continued concerns about potential competition from online distributors.

Table II.
Top contributors to performance for the quarter ended December 31, 2017

	Year Acquired	Percent Impact
The Charles Schwab Corp.	1992	0.57%
Verisk Analytics, Inc.	2009	0.54
ANSYS, Inc.	2009	0.45
SBA Communications Corp.	2007	0.37
CBRE Group, Inc.	2005	0.28

Brokerage firm **The Charles Schwab Corp.** was the largest positive contributor during the quarter. Schwab's core business continued to perform well, as net new assets grew steadily, and new clients joined at a record pace. Schwab has focused on sharing its economies of scale with its clients by offering price reductions, rebates, and certain lower cost products. Despite these initiatives, the company's operating margins continued to expand to record levels. In addition, Schwab's business benefited during the quarter from both rising interest rates and rising equity markets.

Shares of **Verisk Analytics, Inc.**, a leading data and analytics vendor, rose after the company reported strong earnings. Verisk experienced a significant improvement in its core Insurance segment and better results in its Financial Services segment. And, for the first time in several quarters, its Energy & Specialized Markets segment experienced positive organic constant currency revenue growth. Investor sentiment on Verisk prior to its earnings report was mixed, particularly for its energy business, so its strong results were well received. We remain positive about the competitive position, long-term growth, margin, and capital deployment prospects for the business.

Shares of simulation software vendor **ANSYS, Inc.** increased after its new management team reported earnings results that demonstrated powerful secular trends and reinvigorated revenue growth. The company's organic revenue grew 12% and new bookings increased by 38%, as the company signed the largest deal in its history. Management continued to reinvest aggressively in the business, which weighs modestly on near-term margins. However, we believe these investments should result in sustainable double-digit revenue growth trends going forward. In addition, ANSYS has nearly $1 billion in cash on its balance sheet, which we expect to be used for accretive M&A and share repurchases.

Shares of **SBA Communications Corp.**, which owns and operates cellular towers, rose during the quarter following industry news that the domestic wireless carriers would likely invest more into their cellular networks. AT&T's investment into its FirstNet network (designed for first responders to public safety emergencies) now seems likely to coincide with rising network investment by Sprint, an unexpected event following the breakdown in merger talks between Sprint and T-Mobile. Rising network investments by these large carriers should result in increased high-margin revenue for SBA.

Shares of **CBRE Group, Inc.**, the leading global commercial real estate services company, gained during the quarter after the company reported earnings that exceeded Wall Street's expectations and raised its full year 2017 earnings guidance. With leading market positions in all of its major businesses, which include leasing, investment sales, outsourcing, project and development services, advisory services, and commercial real estate investment management, we believe the company's long-term prospects remain attractive.

Table III.
Top detractors from performance for the quarter ended December 31, 2017

	Year Acquired	Percent Impact
Vail Resorts, Inc.	1997	–0.32%
Arch Capital Group Ltd.	2003	–0.31
First Republic Bank	2010	–0.27
Expedia, Inc.	2016	–0.24
Henry Schein, Inc.	2003	–0.22

Shares of **Vail Resorts, Inc.**, the global operator of ski resorts, decreased as investors grew concerned about snow levels during the holiday season. Snowfall was unseasonably sparse at its resorts in Colorado, Utah, and California. However, the likely business impact of this event was partially offset by stronger-than-expected snow at its resorts in Canada and Vermont. In addition, the company reported that its season pass sales for the upcoming ski season increased by 20%. We believe the strong growth in season pass sales combined with its portfolio's geographic diversity will mitigate the impact of the low early season snowfall. And, at the time of this report, snow conditions had improved in the western U.S.

Arch Capital Group Ltd. is a specialty insurance and reinsurance company based in Bermuda. Its shares underperformed, as expectations faded for significant rate increases in the reinsurance market in the aftermath of large hurricane-related losses during the quarter. In addition, recent changes in U.S. tax law are likely to reduce Arch's tax advantage relative to its U.S.-based peers. This resulted in some rotation by investors into domestic insurers. We continue to be optimistic about the company's long-term opportunity, driven by its talented management team and long track record of disciplined underwriting.

First Republic Bank provides banking and wealth management to affluent clients in metropolitan areas of the U.S. Its shares underperformed as recent tax law changes relating the deductibility of mortgage interest and state and local taxes could adversely impact mortgage lending in several important markets. Also, a flattening yield curve caused by rising short-term interest rates is putting upward pressure on the bank's funding costs without a commensurate benefit from higher loan yields. We continue to own the stock because we believe the bank has a strong management team, an attractive market position, and a long runway for growth. In addition, we believe that the current shape of the yield curve and the associated interest rate headwind are short-term phenomena that will eventually reverse.

Shares of **Expedia, Inc.**, the second largest online travel agency, declined after management unexpectedly announced plans to accelerate business investments in 2018. These include increasing the rate at which hotels get added to its Europe network, accelerating the migration of its software to the cloud, and increasing its marketing spend on HomeAway. While these investments will reduce near-term profitability, we believe they should result in a faster growth rate and improved profitability going forward.

Henry Schein, Inc. is a leading global distributor of dental, medical, and animal health products. Its shares fell on continued concerns about potential competition from online distributors, particularly Amazon.com. The company also issued disappointing 2018 earnings guidance. While Schein's excellent service and consultative sales should insure customer loyalty, we believe the company is losing market share for some of its less differentiated products. We reduced our position in the company despite its excellent management and historically consistent performance.

Portfolio Structure

At December 31, 2017, Baron Asset Fund held 55 positions. The Fund's 10 largest holdings represented 41.7% of assets, and the 20 largest represented 63.3% of assets. The Fund's largest weighting was in the IT sector at 24.1% of assets. This sector includes software companies, IT consulting firms, and data processing firms. The Fund held 21.4% of its assets in the Health Care sector, which includes investments in life sciences companies, health care equipment and supplies companies. The Fund held 16.2% of its assets in the Financials sector, which includes investments in insurance companies, investment brokers, and financial exchanges. The Fund also had significant weightings in Industrials at 15.7% of assets and Consumer Discretionary at 12.9% of assets.

Table IV.
Top 10 holdings as of December 31, 2017

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)	Percent of Net Assets
Gartner, Inc.	2007	$2.9	$11.2	$189.4	6.2%
IDEXX Laboratories, Inc.	2006	2.5	13.6	172.4	5.6
Mettler-Toledo International, Inc.	2008	2.4	15.8	153.7	5.0
Vail Resorts, Inc.	1997	0.2	8.6	152.9	5.0
Verisk Analytics, Inc.	2009	4.0	15.8	123.9	4.1
The Charles Schwab Corp.	1992	1.0	68.9	115.5	3.8
Arch Capital Group Ltd.	2003	0.9	11.9	105.9	3.5
Guidewire Software, Inc.	2013	2.8	5.6	89.9	2.9
SBA Communications Corp.	2007	3.8	19.2	89.2	2.9
FactSet Research Systems, Inc.	2006	2.5	7.5	83.2	2.7

Recent Activity

During the past quarter, the Fund established two new positions and added to eight others. The Fund also sold three positions and reduced its holdings in nine others.

Table V.
Top net purchases for the quarter ended December 31, 2017

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Liberty Ventures Group	$ 4.6	$26.1
Veeva Systems Inc.	7.8	19.3
Teleflex Incorporated	11.2	13.4
The Toro Company	7.0	6.4
BWX Technologies, Inc.	6.0	4.2

Veeva Systems Inc. is the leading provider of cloud-based software solutions to the life sciences industry. In fact, 19 of the industry's largest 20 companies are Veeva customers. The highly-regulated nature of the life sciences industry helped drive demand for customized software solutions. Veeva first established a dominant position in the market for customer relationship management (CRM) software. This is used primarily by sales representatives in the pharmaceutical and biotechnology industries to assist in their sales and marketing efforts while complying with a wide range of industry-specific regulations.

More recently, the company has had success selling the Veeva Vault product, a cloud-based document management system. Vault enables users to manage various highly-regulated processes in drug development and communication with regulators. These include clinical drug trials, quality management, and drug manufacturing. We believe that Vault offers its customers an integrated system that affords them greater operational efficiency while ensuring strict regulatory compliance. Because the software is cloud-based, data can be accessed and collaborated upon from multiple locations simultaneously, and users are always accessing the most updated version of Veeva software. This helps the company's customers bring their drugs to market more quickly, which has meaningful economic benefits for the manufacturers.

We believe that Veeva's business has attractive financial characteristics. Its customer retention rates are near perfect, and Veeva has demonstrated consistent progress in cross-selling customers additional software modules. We expect Veeva to report approximately $700 million in revenues this year. We believe the addressable market for its current product offerings is more than 10 times as large. The company has also achieved healthy profit margins, while continuing to invest aggressively in growing its business. In addition, we believe that Veeva may be successful in expanding beyond its core life sciences market by selling modified versions of its core offerings to other highly-regulated sectors, such as the aerospace and chemical industries.

Table VI.
Top net sales for the quarter ended December 31, 2017

	Amount Sold (millions)
Henry Schein, Inc.	$25.1
Acuity Brands, Inc.	15.1
Nielsen Holdings plc	13.6
Universal Health Services, Inc.	11.2
Arch Capital Group Ltd.	9.1

We reduced our holdings of **Henry Schein, Inc.** the distributor of dental, medical, and animal health products. There was incremental news about potential competition from online distributors, particularly Amazon.com; and, the company also issued disappointing 2018 earnings guidance. We exited our position in **Acuity Brands, Inc.**, a distributor of LED lighting systems, after repeatedly disappointing earnings results called its growth prospects and competitive position into question. We exited our position in **Nielsen Holdings plc** given ongoing concerns about the negative impact shifting media viewing patterns were having on its business. We exited our position in hospital operator **Universal Health Services, Inc.** on concerns about potential changes in health care funding under the Trump administration. We trimmed our position in **Arch Capital Group Ltd.**, the specialty insurance and reinsurance company, as expectations faded for significant price increases its markets in the aftermath of large, recent hurricane-related losses.

Outlook

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 will 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.

We think that our portfolio of what we believe are well-managed, competitively advantaged, fast-growing companies will continue to perform well in this environment, 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. During the past 30 years, mid-cap growth stocks, as a category, have outperformed small-cap and large-cap growth stocks. However, mid-caps have underperformed both these asset classes during the past 10 years. We are hopeful that this trend will reverse, presenting an attractive opportunity for the mid-cap growth asset class in the future.

Our entire Firm and our research department, in particular, are committed to justifying your ongoing confidence and support. I remain a significant investor in the Fund alongside you.

Thank you for investing in Baron Asset Fund.

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 contains this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

The Adviser believes that there is more potential for capital appreciation in 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. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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