## Dear Baron Growth Fund Shareholder:

### Performance

Baron Growth Fund (the "Fund") rose 7.03% (Institutional Shares) during the three months ended June 30, 2019. The Fund's results once again meaningfully exceeded those of its primary benchmark, the Russell 2000 Growth Index, which rose 2.75%. The S&P 500 Index, which measures the performance of publicly traded leading large-cap U.S. companies and covers approximately 80% of the U.S market cap, increased 4.30%. The first half of 2019 was strong for both the Fund and the broader stock market. The Fund gained 30.22% through June 30, which exceeded the Russell 2000 Growth Index by 9.86% and the S&P 500 Index by 11.68%. Both indexes had strong absolute performance, with the S&P 500 Index posting its best first half in more than two decades.

The Fund's performance was robust across its entire portfolio. Stock prices of securities representing approximately 50% of the Fund's average net assets appreciated more than 10% and stock prices of securities representing approximately 75% of its average net assets gained more than the benchmark. We were particularly pleased that the Fund's outperformance continues to be driven by favorable stock selection. This is the goal of our fundamentally driven investment philosophy and is where we devote our time. *Approximately 97% of our outperformance for the quarter and the year-to-date has come from favorable stock selection.*

**Table I.**
**Performance**
**Annualized for periods ended June 30, 2019**

| | Baron Growth Fund Retail Shares[1,2] | Baron Growth Fund Institutional Shares[1,2,3] | Russell 2000 Growth Index[1] | S&P 500 Index[1] |
|---|---|---|---|---|
| Three Months[4] | 6.95% | 7.03% | 2.75% | 4.30% |
| Six Months[4] | 30.05% | 30.22% | 20.36% | 18.54% |
| One Year | 14.21% | 14.51% | (0.49)% | 10.42% |
| Three Years | 17.97% | 18.28% | 14.69% | 14.19% |
| Five Years | 11.02% | 11.31% | 8.63% | 10.71% |
| Ten Years | 15.22% | 15.52% | 14.41% | 14.70% |
| Fifteen Years | 10.10% | 10.29% | 8.90% | 8.75% |
| Since Inception (December 31,1994) | 13.28% | 13.40% | 8.01% | 9.97% |

NEAL ROSENBERG
CO-PORTFOLIO MANAGER

RONALD BARON
CEO AND LEAD PORTFOLIO MANAGER

Retail Shares: BGRFX
Institutional Shares: BGRIX
R6 Shares: BGRUX

The "usual suspects" dominated headlines once again this quarter, as investors and pundits continued to debate the direction of monetary policy, trade, international relations, energy prices, and Brexit. We view such developments as largely unpredictable, and believe that trying to forecast the corresponding impact on stock prices is even more capricious. There is no better evidence than the last several quarters, when the "consensus view" of the aforementioned debates seemed to change by the week. By June, the pendulum had swung so far that traders trying to profit by predicting these events began blatantly rooting for negative macroeconomic news in the hope that this would incent the Fed to reduce interest rates.

Instead of trying to predict the unpredictable, we spend our time doing fundamental due diligence alongside our growing team of analysts. Our goal is to identify what we believe are competitively differentiated businesses that can grow independently of the macroeconomy. In general, these businesses serve large addressable markets, benefit from durable and robust secular trends, and enjoy high barriers to entry. Our investments also tend to have attractive business models, highlighted by recurring revenue models, high incremental margins, and strong free cash flow conversion. We insist on investing with management teams that we view as best-in-class*, with a

*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 1.29% and 1.03%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.*

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

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

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

4 Not annualized.

* The portfolio manager defines "Best-in-class" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking.

BARON FUNDS 1987

track record of managing their businesses to deliver attractive and sustained returns over the long term. These attributes create predictable earnings and cash flow streams that are less sensitive to the ebbs and flows of geopolitical and macroeconomic cycles. By extension, these investments are inherently less risky than the market. This is captured by our portfolio's beta, which is approximately 30% less than the market (see Table II) since inception.

We meet regularly with management teams and their competitors, customers, and suppliers to gain a holistic understanding of businesses' long-term growth opportunities. We also seek to understand the costs required to achieve that growth. *We view this as an iterative and long-term process and spend as much time researching businesses that we have owned for a decade as we do evaluating new potential investments*. We were more active in adding new positions this quarter, initiating four new investments. Overviews of some of these investments are detailed below. While this was the quarter when we began to deploy capital, we have been researching all of them for months or years. In the case of **Adaptive Biotechnologies Corporation**, we have been meeting with management for at least two years in preparation for this quarter's IPO. In the case of **Covetrus, Inc.**, we have been meeting with the company for a year and a half, have known members of the management team for more than five years, and have been sizeable investors in the veterinary health space since 2007. Most importantly, all four new investments, in our view, boast significant and sustainable competitive advantages.

We pay particularly close attention to assessing the competitive advantages of potential and existing investments. Competitive advantage is the enabler of our long-term philosophy, as it allows us to be confident in forecasting how competitive dynamics and market share will evolve over our investment horizon. Such competitively advantaged businesses also tend to have pricing power, which is critical as inflation inevitably erodes the purchasing power of money. Finally, we have observed that such competitively advantaged businesses tend to surprise investors with the magnitude and duration of their growth, causing them to be attractive investments across market cycles.

Our portfolio presently includes 62 investments, all with their own unique competitive advantages. Stocks including **CoStar Group, Inc.**, **MSCI, Inc.**, and **Gartner, Inc.** have vast proprietary data assets that have been built at a significant expense over extended time frames. Veterinary diagnostic leader **IDEXX Laboratories, Inc.** has constructed a broad, proprietary portfolio of diagnostic tests with retention rates approaching 100%. IDEXX continually strengthens this competitive advantage by spending in excess of $100 million on R&D annually, or five times more than all of its competitors combined. Our real estate investments own irreplaceable real assets in attractive end markets. **Douglas Emmett, Inc.** is the largest commercial landlord in West Los Angeles, a market with such strict zoning regulations that the buildings can literally not be rebuilt, while **Alexander's, Inc.** owns the iconic Bloomberg Building in Manhattan. Our gaming investments, such as **Red Rock Resorts, Inc.** and **Penn National Gaming, Inc.**, possess scarce gaming licenses granting the right to operate in their jurisdictions, as well as, in the case of Red Rock, certain parcels of entitled land giving it the right for future footprint expansion in local Las Vegas markets. Further entitlements in such local markets are restricted by legislation. **Vail Resorts, Inc.** is perhaps the apotheosis of sustainable competitive advantage, with the right to operate resorts on such irreplaceable mountains including Vail, Whistler, Beaver Creek, and Park City.

**Table II.**
**Performance Based Characteristics as of June 30, 2019**

| | Millennium Internet Bubble to Financial Panic 12/31/1999 to 12/31/2008 | Millennium Internet Bubble to Present 12/31/1999 to 6/30/2019 | Inception 12/31/1994 to 6/30/2019 |
|---|---|---|---|
| Alpha (%) | 5.05 | 5.54 | 7.32 |
| Beta | 0.58 | 0.66 | 0.69 |

**Table III.**
**Performance.**
**Millennium to Present. The Impact of Not Losing Money.**

| | Millennium Internet Bubble to Financial Panic 12/31/1999 to 12/31/2008 | | Millennium Internet Bubble to Present 12/31/1999 to 6/30/2019 | | Inception 12/31/1994 to 6/30/2019 | |
|---|---|---|---|---|---|---|
| | Value $10,000 | Cumulative | Value $10,000 | Cumulative | Value $10,000 | Cumulative |
| Baron Growth Fund (Institutional Shares) | $12,448 | 24.48% | $ 58,915 | 489.15% | $ 217,932 | 2,079.32% |
| Russell 2000 Growth Index | $ 6,476 | (35.24)% | $ 27,707 | 177.07% | $ 66,090 | 560.90% |
| S&P 500 Index | $ 7,188 | (28.12)% | $ 29,228 | 192.28% | $ 102,626 | 926.26% |

Our fundamental, bottom-up approach again generated attractive returns this quarter. The Fund returned 7.03%, which exceeded the return of our benchmark by 4.28%. When we parse these returns using standard portfolio analytic techniques, we find that 97% of all the excess returns can be attributed to favorable stock selection. This contrasts with allocation effect, which represents the excess returns that a portfolio derives from targeting certain sectors or industries. Over time, we expect stock selection to continue to be the primary driver of our returns, as this is where we devote our attention and resources.

The Fund has significantly outperformed its peer group average over the long term. A $10,000 investment in Baron Growth Fund at its inception would be worth $217,932 at June 30, 2019. This is almost 3.3 times greater than the $66,090 value of the same investment made in a passive fund that tracks the Fund's benchmark, the Russell 2000 Growth Index. Those returns were achieved with approximately 30% less volatility than the benchmark. While this lower sensitivity to market movements tends to be underappreciated in strong markets, we view it as a particularly valuable attribute when markets inevitably turn volatile, as in the fourth quarter of 2018. (Please see Tables II and III.)

Baron Growth Fund didn't make much money from the peak of the Internet Bubble December 31, 1999 through the trough of the Financial Crisis on December 31, 2008, but did generate a positive cumulative return of 24.48%. This is a much better outcome than if you had invested in a passive fund that tracks the Russell 2000 Growth Index, the Fund's benchmark, which declined 35.24%. The large-cap S&P 500 Index did modestly better, but still declined 28.12%. (Please see Table III – Millennium Internet Bubble to Financial Panic.)

The effects of compounding illustrate the difference between making money and losing it over the long term. A $10,000 investment in Baron Growth Fund on December 31,1999 was worth $58,915 on June 30, 2019. That is more than double an investment in a passive index mutual fund such as the Russell 2000 Growth Index or S&P 500 Index (See Table III – Millennium Internet Bubble to Present). We are pleased that our long-term investments in what we believe are competitively advantaged growth companies with exceptional management teams helped us to generate attractive returns in good markets, and help to protect on the downside during more challenging ones.

**Table IV.**
**Top contributors to performance for the quarter ended June 30, 2019**

| | Year Acquired | Market Cap When Acquired (billions) | Quarter End Market Cap (billions) | Total Return | Percent Impact |
|---|---|---|---|---|---|
| MSCI, Inc. | 2007 | $1.8 | $20.2 | 20.41% | 1.15% |
| CoStar Group, Inc. | 2004 | 0.7 | 20.2 | 18.79 | 1.14 |
| IDEXX Laboratories, Inc. | 2005 | 1.9 | 23.7 | 23.13 | 0.86 |
| FactSet Research Systems, Inc. | 2006 | 2.5 | 11.0 | 15.72 | 0.75 |
| Arch Capital Group Ltd. | 2002 | 0.4 | 15.0 | 14.73 | 0.71 |

Shares of **MSCI, Inc.**, a leading provider of investment decision support tools, contributed to performance. MSCI hosted an upbeat investor day presentation in March, and positive momentum continued into the second quarter. Moreover, the company announced solid first quarter earnings and named Linda Huber, who is well respected by the investment community, its new CFO. We retain conviction in MSCI because we believe it owns strong franchises and stands to benefit from several prominent tailwinds.

Shares of **CoStar Group, Inc.,** a real estate information and marketing services company, added to performance. Business trends are excellent, with the company's bookings improving by approximately 36% year-over-year. We are excited about the successful integration of ForRent into Apartments.com, and see sustained growth of 20% or more in the multi-family market. We expect the company to begin to raise prices given its unique competitive position in commercial real estate data. The company has over $1.2 billion of cash on its balance sheet, which we expect it to use for acquisitions.

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc**. contributed to performance after reporting robust financial results. In the core companion animal business, competitive trends are outstanding, highlighted by instrument installed base growth of 21%, domestic lab growth more than twice that of competitor VCA, and improving sales productivity. We think new proprietary innovations and field sales force expansion should be meaningful contributors to growth. Margins are moving significantly higher, and we believe that margins can approach 30% over the next several years.

**FactSet Research Systems, Inc.** is leading provider of investment management tools. Shares increased on reports of solid earnings growth, with steady (though slightly declining) increases in annual subscription value, meaningful margin expansion, and approximately 20% adjusted EPS growth. We retain conviction in FactSet due to the large addressable market, consistent execution on both new product development and financial results, and robust free cash flow generation.

**Arch Capital Group Ltd.** is a specialty insurance company based in Bermuda. Shares appreciated after the company reported first quarter financial results that exceeded Street expectations. Book value per share grew 13% due to strong Mortgage segment margins and low catastrophe losses. After years of soft market conditions, we are starting to see firmer pricing for insurance and reinsurance, which we think could drive profitability over time. We continue to own the stock due to Arch's strong management team and underwriting discipline.

**Table V.**
**Top detractors from performance for the quarter ended June 30, 2019**

| | Year Acquired | Market Cap When Acquired (billions) | Quarter End Market Cap or Market Cap When Sold (billions) | Total Return | Percent Impact |
|---|---|---|---|---|---|
| Benefitfocus, Inc. | 2013 | $1.3 | $ 0.9 | –45.17% | –0.76% |
| Iridium Communications Inc. | 2014 | 0.6 | 2.6 | –12.06 | –0.45 |
| SS&C Technologies Holdings, Inc. | 2010 | 1.0 | 14.6 | –9.39 | –0.33 |
| 2U, Inc. | 2017 | 2.3 | 2.3 | –54.99 | –0.33 |
| Red Rock Resorts, Inc. | 2016 | 2.3 | 2.5 | –16.54 | –0.20 |

Shares of benefits software vendor **Benefitfocus, Inc**. detracted from performance due to disappointing short-term growth forecasts. The company terminated its exclusive technology relationship with Mercer, which will reduce organic growth in 2019; however, we believe it will allow the company to work with a larger number of independent brokers and be accretive to growth in 2020. Despite the unexpected departure of the CFO and head of sales, we expect the company to drive significant growth in customers and revenue per customer, pushing growth above 20%.

**Iridium Communications Inc.** is a leading satellite provider of mobile voice and data communications services, and the only commercial provider offering true global coverage. With successful deployment of its NEXT satellites into orbit, Iridium reduced execution, growth, and liquidity risks. The stock came under pressure due to extended renewal discussions with its largest customer, the Department of Defense. By leveraging the new platform, we expect Iridium to launch new services, capture market share, and benefit from its growing hosted solutions businesses.

Shares of financial technology vendor **SS&C Technologies Holdings, Inc.** detracted from performance after the company reported mixed first quarter earnings, with organic revenue growth coming in below Street expectations. The company raised fiscal year 2019 adjusted EPS guidance, but the stock had already run up significantly before earnings. We retain conviction, as we believe SS&C will continue to generate attractive earnings growth through market share gains, cross sales of its services portfolio, new product introductions, additional M&A, and synergy-led margin expansion.

Shares of **2U, Inc.**, an education technology services provider that enables universities to deliver high-quality online degree programs, detracted from performance. The company reported solid first quarter earnings, but guidance for the second quarter and fiscal year 2019 fell short of investor expectations.

Shares of **Red Rock Resorts, Inc.** a casino owner and operator in the Las Vegas locals market, declined in the quarter as investors grew concerned over earnings at the newly renovated Palms casino. However, numbers continue to be in line with the ramping of a new property, and the company still expects the Palms to produce a strong high-single-digit return next year. This should generate more cash flow, which we expect Red Rock to use to pay down debt and reduce leverage.

## Recent Purchases

The Fund made four new investments this quarter: **Marel hf**, **Covetrus, Inc., Adaptive Biotechnologies Corporation,** and **Alector, Inc.**

Food processing system vendor **Marel hf** completed its dual listing in Amsterdam and the U.S. during the quarter. Marel was founded at the University of Iceland in 1978 as a project to help the fishing industry improve throughput and yield. Since then, the company has grown to become a leading global provider of advanced processing systems and services to the poultry, meat, and fish industries. Marel's state-of-the-art equipment and proprietary software helps food processing companies automate traditionally manual tasks of "primary" and "secondary" processing. By automating tasks such as cutting, deboning and forming, Marel's customers can increase throughput, reduce waste, and lower costs.

Marel competes in a large and fragmented industry. The primary and secondary food processing markets represent an $11 billion annual opportunity, inclusive of both equipment and services. We expect the market to grow at low single-digit rates, driven by secular trends including growing demand for proteins, improving food safety standards, and accelerating industry adoption of automation.

Marel is a global technology leader, and targets investing 6% of annual revenue in innovation. This corresponds to more than $70 million of annual spend, a level that exceeds the revenue of many of Marel's competitors. This creates a highly innovative product portfolio. Additionally, the company derives significant and sustainable competitive advantage from its global network of service and support personnel. This has been a significant investment for Marel and it helps drive sales and retention by reducing downtime, improving customer experience, and uniquely positioning the company to compete for larger, diversified accounts.

Marel has historically been acquisitive, using M&A to enhance its product lines, geographic reach, and industry footprint. We expect management to continue acquiring sub-scale competitors that can benefit from Marel's broader sales and service capabilities. We estimate that Marel has around 10% share of its total market, or 17%-18% share of the $6.5 billion-$7.0 billion market subset on which it is focused, implying a long runway for the company's M&A program.

We expect Marel's strong revenue growth to be amplified by continued margin expansion. Margins have already doubled under the current management team, but significant opportunity remains. Marel's poultry business boasts margins that are approaching 20%, while its fish and meat businesses are closer to 10%. We believe that margins in poultry should continue to improve and that the meat business should ultimately be just as profitable as poultry.

**Covetrus, Inc.** is a leader in animal health technology and distribution. The company was formed through the combination of two predecessor entities, privately held Vets First Choice ("VFC") and Henry Schein Animal Health ("HSAH") which merged in early 2019. The company, which was rebranded to reflect its broader capabilities, is led by the legacy VFC management team.

We are enamored with the global animal health market, and have successfully invested in the space for over a decade. We estimate that the global animal health market exceeds $150 billion in annual revenue and grows at a mid-single-digit rate. Growth is driven by powerful secular trends, including the humanization of pets and the growth of middle class consumers in emerging markets. We also view the veterinary health care market as structurally superior to the human health care market. Unlike human health care, there are no government payors and few third party commercial insurers. Pet owners pay for products and services using cash rather than insurance, which helps eliminate reimbursement risk, and enables the industry to implement modest annual price increases. Additionally, industry regulations promulgated by the USDA rather than the FDA are less stringent than in the human space.

Legacy VFC created a software solution to help boost the low refill rates for animal medications. It developed an integrated platform that uses data to identify gaps in care and then contacts pet owners to improve refill compliance and enhance medication completion rates. Veterinarians that work with Covetrus can offer their customers convenient reminders, multi-channel ordering capabilities, and home delivery. This results in enhanced pet health, improvements to the pet owner's experience, and growth for the veterinarian's practice. This is particularly helpful to veterinarians seeking to stem prescription leakage to online/retail competitors. Legacy VFC's software and fulfillment business has been combined with legacy HSAH, the world's largest veterinary distribution business. HSAH, with over 65 years of operating history, serves over 100,000 customers in over 100 countries with a sales force of over 1,200.

We think the combination of VFC and HSAH is highly synergistic. We believe that Covetrus will leverage its vast distribution footprint to accelerate growth of the company's technology and online fulfillment platform. Similarly, we believe its software and distribution will allow Covetrus to take market share from distribution competitors without similar capabilities. We expect vet consolidators, an increasingly large share of the market, to be early adopters. Finally, we see a virtuous cycle where improved medication compliance helps increase foot traffic to veterinarians' offices. This should help improve practice revenue and drive increased use of the consumables supplied by Covetrus.

We expect attractive margin expansion for the combined Covetrus. We believe that Covetrus management will take a more aggressive view of cost reduction and integration than legacy HSAH management, resulting in lower selling, general and administrative expenses. We see attractive selling leverage from the combined business leveraging the vast installed base of customers and captive field sales people. Finally, we believe that software and online fulfilment businesses are inherently more profitable than traditional distribution, resulting in margin accretion over time as these parts of the business grow faster.

Shares of Covetrus have come under pressure in the early days following the transaction. This is typical of spin outs, as financial results tend to be noisy, cash integration costs can be high, management distraction is at its peak, and the shareholder base turns over. We have sought to take advantage of this dislocation, which we view as temporary. We believe that as some of these early distractions abate, and growth accelerates, we will be rewarded with multiple expansion in addition to attractive earnings growth.

**Adaptive Biotechnologies Corporation** uses DNA sequencing, computational biology, software and machine learning to read and interpret cells in the immune system. We view Adaptive as a platform company, with applications across research, diagnostics and drug discovery. In total, we believe that the company serves an addressable market that exceeds $40 billion in annual revenue. The company has assembled a compelling set of sustainable competitive advantages including a proprietary database of over 20 billion immune receptors, a deep patent portfolio, and collaborations with Microsoft for artificial intelligence and machine learning and Genentech for drug development. The company boasts an outstanding management team led by co-founders Chad and Harlan Robins, brothers who made the scientific breakthroughs upon which Adaptive products are based and built the associated business model.

Adaptive's current portfolio consists of a product for the life sciences research market and a product for diagnostics. ImmunoSEQ, which sequences immune system cells, has been used for research purposes by over 2,000 academic researchers and more than 125 biopharmaceutical companies. ImmunoSEQ serves to answer translational research questions relating to the adaptive immune system, monitors response to therapies and discovers new signals. ClonoSEQ is a diagnostics product for detection and monitoring of minimal residual disease in patients with multiple myeloma and B-Cell Acute Lymphoblastic Leukemia. ClonoSEQ enables hematologists to detect relapse early, help predict patient outcomes and monitor response to therapy. ClonoSeq has FDA approval and Medicare coverage and the company has been securing reimbursement from commercial payors. We expect Adaptive to expand ClonoSEQ's approval to additional blood cancers, including chronic lymphocytic leukemia and non-Hodgkin's lymphomas.

Adaptive's new product pipeline is potentially transformational. Adaptive is developing ImmunoSEQ Dx for early detection of diseases, including certain cancers such as ovarian cancer and autoimmune diseases such as celiac disease. Adaptive is also building a map of the immune system as part of its strategic collaboration with Microsoft, the ultimate goal of which is the development of a universal diagnostic blood test that can detect any early stage disease. Additionally, Adaptive is working with Genentech to develop, manufacture and commercialize T-cell therapies for the treatment of a broad range of cancers.

We made a modest initial investment in **Alector, Inc.**, a biotechnology company focused on finding cures for neurodegenerative diseases. Alector's efforts currently focus on frontotemporal dementia ("FTD"), the most prevalent form of dementia in patients under 60 years of age. We estimate that approximately 170,000 people in the U.S. and EU currently suffer from FTD. Sadly, patients with FTD develop brain atrophy that is visible via MRI within 6-to-12 months of disease onset, and have an expected life span of approximately 10 years. At present, there are no therapies for FTD that have been approved by the FDA.

While there are still many open questions regarding the pathology of FTD, it is clear that a subset of FTD patients suffer from a loss of function in a gene called progranulin. Alector has developed a targeted therapeutic to treat this subset of FTD patients. The company has begun clinical trials to determine whether recovery of progranulin levels can stop brain atrophy. If successful, we believe the market opportunity is several billion dollars. Additionally, the company believes that the recovery of progranulin levels might also play a role in recovering function in the broader group of non-genetically-driven FTD patients, which would significantly broaden the market.

In addition to the FTD opportunity, Alector is developing two drugs for Alzheimer's disease in partnership with AbbVie Pharmaceuticals. AbbVie paid Alector $225 million upfront will provide Alector additional milestone payments up to $1 billion, and will incur most of the clinical development costs. Once in clinic, Alector can elect to receive a royalty stream or an equal share of future profits from AbbVie. While we view the Alzheimer's opportunity as more speculative outcome, the financial risk to Alector is low and the potential rewards significant.

## Portfolio Structure And Investment Strategy

The Fund seeks to invest in businesses that we believe have attractive and durable fundamental characteristics. These characteristics include large addressable markets and positive secular trends. We seek businesses that have created high barriers to entry and are investing to enhance competitive advantages. We favor business models that have high levels of recurring revenue, generate attractive incremental margins, and have strong free cash flow conversion. We exclusively invest with management teams that we consider to be best-in-class, with incentives aligned with ours and who operate with the goal of driving long-term shareholder value.

When we identify businesses that meet our investment criteria, we seek to invest at reasonable prices relative to their long-term potential. We expect these investments to generate attractive long-term performance as businesses' revenue and earnings compound at above-market rates. Ideally, we will also benefit from multiple expansion, meaning that we have paid a particularly attractive price for our investment. Occasionally this occurs when we have identified an asset whose attributes were underappreciated or unknown, or when the durability of growth was underappreciated. This also occurs when management teams take actions that are detrimental to short-term financial performance in pursuit of longer-term growth opportunities, or when the broader market declines due to macroeconomic concerns. We relish these situations as our focus on longer-term results allows us to look past short-term uncertainties.

The Fund holds investments for the long term. As of June 30, 2019, 38 of the Fund's investments representing over 90% of the portfolio's net assets had been held for more than five years, and approximately 62% of the portfolio's net assets had been held for more than 10 years. This is dramatically longer than most other small-cap growth funds, which, according to Morningstar, turn over about 73% of their portfolios annually. We view this long-term perspective as a source of our competitive advantage and a very important driver of returns.

**Table VI.**
**Top performing stocks owned more than five years**

| | Year of First Purchase | Cumulative Total Return Since First Date of Purchase |
|---|---|---|
| IDEXX Laboratories, Inc. | 2005 | 1,813.0% |
| Choice Hotels International, Inc. | 1997 | 1,694.9 |
| CoStar Group, Inc. | 2004 | 1,283.8 |
| Vail Resorts, Inc. | 1997 | 1,224.3 |
| Arch Capital Group Ltd. | 2002 | 1,197.0 |
| Mettler-Toledo International, Inc. | 2008 | 1,064.4 |
| MSCI, Inc. | 2007 | 915.3 |

Baron Growth Fund's investments in the 38 businesses that have been held for more than five years and that represent 90.7% of the Fund's net assets have earned an annualized rate of return of 18.3% based on weighted average assets since they were first purchased. This exceeds the performance of the Fund's benchmark by 8.0% per year. Most Fund investments that have been held for more than five years have realized approximately three- to eight-fold appreciation so far, and nine have achieved returns in excess of nine times since their initial purchase. In addition, 11 of the 38 investments have achieved annualized returns that exceed their benchmark by more than 10%.

**Table VII.**
**Top performing stocks owned less than five years**

| | Year of First Purchase | Cumulative Total Return Since First Date of Purchase |
|---|---|---|
| Kinsale Capital Group, Inc. | 2016 | 241.4% |
| Wix.com Ltd. | 2016 | 203.0 |
| Altair Engineering Inc. | 2017 | 120.6 |
| Performance Food Group Company | 2015 | 108.5 |
| Essent Group Ltd. | 2016 | 100.0 |

We exclusively purchase small-cap companies that we think can double in size in a four- or five-year period. Investments held for less than five years include 23 stocks that account for 8.6% of the Fund's net assets. As a group, they have returned 28.1% annually based on weighted average assets since their initial purchase, and exceeded our benchmark by 17.9% annualized. Ten of these investments have achieved annualized returns that exceeded our benchmark by more than 10%, and 7 have achieved annualized returns that exceeded our benchmark by more than 30%.

## Portfolio Holdings

As of June 30, 2019, Baron Growth Fund held 62 investments. The top 10 holdings represented 51.5% of the Fund's total net assets. All these top 10 investments have grown dramatically since they were purchased when they were smaller businesses. We believe they all continue to offer significant further appreciation potential, although we cannot guarantee that will be the case. We believe the Fund's diversified portfolio offers investors potentially better-than-market returns with less risk than the market. Note that diversification cannot guarantee a profit or protect against loss.

Baron Growth Fund exclusively purchases small-cap companies. Since the Fund holds its investments for the long term, the Fund has a significant percentage of assets invested in securities that have appreciated beyond their market capitalizations at the time of the Fund's investment. Baron Growth Fund's median market cap is $4.3 billion; its weighted geometric average market cap is $9.0 billion. The Morningstar U.S. market breakpoints for small- and mid-cap funds were $3.7 billion and $19.3 billion, respectively, as of June 30, 2019.

**Table VIII.**
**Top 10 holdings as of June 30, 2019**

| | Year Acquired | Market Cap When Acquired (billions) | Quarter End Market Cap (billions) | Quarter End Investment Value (millions) | Percent of Net Assets |
|---|---|---|---|---|---|
| CoStar Group, Inc. | 2004 | $0.7 | $20.2 | $471.0 | 6.8% |
| Vail Resorts, Inc. | 1997 | 0.2 | 9.0 | 468.7 | 6.7 |
| MSCI, Inc. | 2007 | 1.8 | 20.2 | 429.8 | 6.2 |
| Arch Capital Group Ltd. | 2002 | 0.4 | 15.0 | 365.6 | 5.3 |
| FactSet Research Systems, Inc. | 2006 | 2.5 | 11.0 | 358.2 | 5.2 |
| Gartner, Inc. | 2007 | 2.3 | 14.5 | 357.3 | 5.1 |
| ANSYS, Inc. | 2009 | 2.3 | 17.2 | 307.2 | 4.4 |
| IDEXX Laboratories, Inc. | 2005 | 1.9 | 23.7 | 302.9 | 4.4 |
| Choice Hotels International, Inc. | 1997 | 0.4 | 4.8 | 261.0 | 3.8 |
| Bright Horizons Family Solutions, Inc. | 2013 | 1.8 | 8.8 | 252.7 | 3.6 |

Thank you for joining us as fellow shareholders in Baron Growth Fund. We are appreciative of the confidence you have shown in us. We will continue to work hard to justify your confidence.

Respectfully,

Ronald Baron
CEO and Lead Portfolio Manager

Neal Rosenberg
Co-Portfolio Manager

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*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. Please read them carefully before investing.*

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

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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Growth Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

**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 (Russell 2000 Growth Index) is 1.00 by definition.