INSIDE THE BARON FUNDS
INVESTOR

Baron Small Cap Fund

A Differentiated Approach to Small Cap Investing

As a firm that got its start investing in small cap stocks more than four decades ago, we are long believers in the potential for active managers to generate alpha and sustainable, long-term returns in this space. In addition to providing diversification, we think the breadth, diversity, and relative lack of coverage of this equity asset class is tailor made for the acumen and selectivity of a skilled active manager. The unique characteristics of the small cap space create opportunities for managers like us who have the capacity to engage in comprehensive research to discover promising companies with great characteristics and opportunities for growth that we can invest in for the long term.

Baron Small Cap Fund

We launched Baron Small Cap Fund in 1997 with Cliff Greenberg as portfolio manager. Cliff is a veteran investor with 35 years of experience across multiple market cycles and investment environments. One of the Firm's longest-tenured portfolio managers, Cliff, who once served as director of research, has been instrumental in building Baron's investment team – now numbering 15 portfolio managers and 21 research analysts. Analyst David Goldsmith has served as assistant portfolio manager of the Fund since 2016.

Cliff takes a distinctive approach that sets him apart from his peers in a number of key respects, including the types of names he favors, the number of stocks he holds and concentration of holdings, the length of time he holds them, and his management of risk.

As set forth in the table below, this approach has resulted in solid performance over the 22 years since the Fund's launch. This performance has been achieved with significantly lower risk than average in an asset class that is known for its volatility. The Fund has annualized alpha of 4.69% with beta of just 0.88 and up/down capture of 96.35% and 71.79%, respectively, for the three-year period ended March 31, 2019. It has always maintained high active share; its current active share is 92.7%.


Cliff Greenberg
Portfolio Manager

Baron Small Cap Fund Performance
as of 3/31/2019 (annualized)*

	1 Year	3 Year	5 Year	10 Year	Since Inception**
Baron Small Cap Fund	11.20%	18.23%	9.45%	16.37%	10.24%
Russell 2000 Growth Index	3.85%	14.87%	8.41%	16.52%	6.12%

* Institutional Shares. For Retail and R6 Shares, visit www.BaronFunds.com.
** 9/30/1997

The Fund has a Morningstar Analyst Rating of Silver, based on its proven and repeatable investment approach; focus on durable, long-term growth; solid, long-term results; and Cliff's status as a veteran investor backed by Baron's strong stock-picking culture.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Institutional Share Class as of 9/30/2018 was 1.04%.

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.

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.

Please refer to p.5 for Morningstar disclosures.

A Differentiated Process

We combine fundamental, bottom-up research with a long-term perspective to invest in small-cap growth companies with what we believe have competitive advantages, excellent management, and secular growth opportunities, at an attractive valuation. We supplement this by investing in special situations where we see investment opportunity in a company that is new to the market through a spinoff, IPO, restructuring, or acquisition by a SPAC (special purpose acquisition company); and also in “turnarounds,” a company with a strong business model that has stumbled and has a new management team and plan.

To build and manage our portfolio, we use our extensive research capacity and industry expertise to source promising investment opportunities. Because we invest only in stocks in which we have strong conviction, we hold a limited number of names. As of March 31, 2019, the Fund held 70 stocks, compared with a category average of 185 stocks. The top 10 holdings comprised about 30% of assets. Our high-conviction, long-term approach, combined with our deep bench of research analysts, means we can do the necessary due diligence to gain in-depth knowledge of the companies we invest in, including engaging their management teams and visiting key facilities.

We favor certain kinds of companies. Our investments typically include:

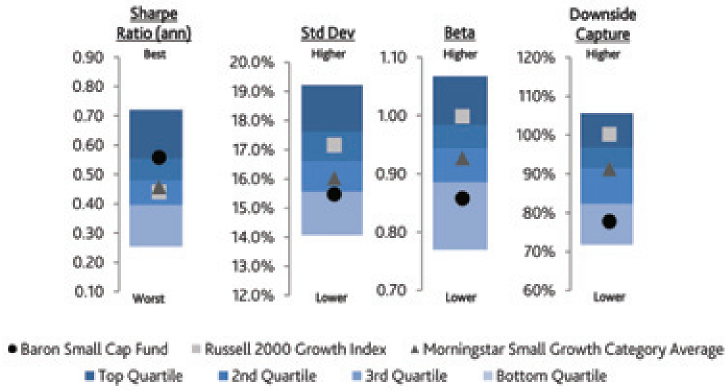
- Companies that are leaders in their sectors and are often disrupting those industries while strengthening their competitive position
- Companies that we believe have great business models, with visible, recurring, and sustainable revenues and cash flows, and exceptionally high margins
- Companies run by, in our view, sharp, often founding executives, who have proven track records of success, and are of high character
- Stocks with trading multiples that we think offer great upside as earnings grow over time and/or multiples expand to recognize the special qualities of these businesses

We look for companies with strong and compounding organic revenue growth. Often, strategic and accretive acquisitions add to value creation. We prefer companies with expanding margins, where profits are growing faster than revenue. Another attribute we look for is strong free cash flow that can be used to add value through debt-reduction, acquisitions, capital expenditures, share buybacks, or dividends.

We are comfortable with a company that leverages its balance sheet to optimize returns if it is an established business with recurring and predictable free cash flow and debt levels are prudent. For instance, **Bright Horizons Family Solutions, Inc.**, a provider of corporate-sponsored child care, has successfully used leverage for accretive acquisitions of established centers in its highly fragmented market and for geographic expansion.

We are valuation-conscious, buying only when we think firms are attractively priced relative to their earnings prospects over three to five years. To assess the growth opportunities of an investment, we build a proprietary, company-specific, long-term model focused on key revenue growth drivers, cost structure, profitability, and capital structure. We model five years of forward looking earnings and financial metrics. Our valuations are done based on our projections applying conservative and reasonable multiples. We stress test for company-specific and market risk. We continuously update our models and thoughts based on new data points and developments.

Multi-Faceted Risk Management



Source: FactSet SPAR

As seen in the chart above, over the three-year period ended March 31, 2019, the Fund has had significantly better downside capture, beta, and standard deviation of returns than its peer average and the index. It also has better risk-adjusted performance, as measured by its Sharpe ratio, than its peers and the index. The excellent risk/return characteristics of Baron Small Cap Fund are no accident. Rather, they are a direct result of our multi-pronged approach to risk that involves:

- Extensive due diligence
- Barbell approach to portfolio weighting
- Focus on non-correlated end markets

Extensive due diligence We believe the best risk management starts with knowing the companies in which we invest. Throughout the life of all of our investments, we continue to conduct due diligence and interact with management in order to stay on top of the company’s growth story as it develops. We visit with and speak to our holdings’ management teams multiple times per year. Our sustained level of interaction with management helps sharpen our model inputs and assumptions. Cliff, as portfolio manager, is involved in research on each name, and is supported by assistant portfolio manager David Goldsmith and Baron analysts who are industry experts.

Barbell approach to portfolio weighting We manage a diversified portfolio with its heaviest weightings in stocks with which we have had long-term success, yet we still believe have considerable upside. This approach dampens volatility of the Fund, since many of these companies are growth companies with business models that are "baked," are building off established market positions, and have predictable and reliable revenues. We supplement these long-term winners with new ideas that are smaller and younger companies, but that can provide more significant upside and develop into long-term holdings.

As an example, aircraft parts manufacturer and long-time top ten holding **TransDigm Group, Inc.** generates recurring cash flow and high margins on after-market replacement parts for airplanes that remain in service for decades. We have held the stock for 13 years and have made a 32% annualized total return on our initial investment. Another example of a top ten holding is wireless tower owner **SBA Communications Corp.,** which leases towers to wireless carriers. The company benefits from long-term leases and limited competition due to zoning and licensing obstacles that prevent new entrants into its markets. We have held SBA for 15 years and have made a 30% annualized total return on our initial investment.

Focus on non-correlated end markets We also manage risk by investing in businesses across a range of non-correlated end markets. For instance, although we own a number of application software businesses, they serve different end markets, so we believe they are less correlated than they would appear at first glance. **The Trade Desk** and **Cision Ltd.** are involved in media and advertising; **Aspen Technology, Inc.** services process engineering markets; **2U, Inc.** serves the higher education markets; and **Guidewire Software, Inc.** the property and casualty insurance industry. The fate of each of these application software companies will be impacted in large part by how it is transforming its particular end market.

Proven Long-Term Approach

Our approach for the Fund is simple in premise but difficult in execution. We seek to find special, one-of-a-kind companies that have competitive advantages and strong business models, are well managed, and can grow on a compounding basis, in our view. We hope to find these companies when they are smaller and own them as they mature and grow. We stay invested as long as the businesses perform (as the stock should follow) but sell out and replace them in the portfolio if the businesses falter.

As Cliff likes to say, "We water our flowers and cut our weeds." Consistent with our strategy of watering our flowers, we leverage our experience to resist the urge to sell when a stock takes a hit for non-fundamental reasons such as short-term market volatility or a missed quarter or when it spikes up on good news. We will not hold a stock indefinitely, but strive to maintain a rigorous sell discipline, informed by regular conviction checks to determine whether the investment premise remains intact.

As a result of our long-term investment strategy, many of our holdings have added significant value to the Fund. As of March 31, 2019, 13 stocks comprising one third of the portfolio have achieved returns in excess of five times since their initial purchase. In addition, we have made at least a double on other stocks that comprise another one third of the Fund. Together, this means that two thirds of the net assets are represented by stocks that have more than doubled since our first purchase. Average annualized returns on these holdings since purchase are 28.3% for the former group and 44.5% for the latter, which in our minds, validates the success of our approach and gives us confidence to pursue this strategy into the future.

An outgrowth of this approach is that the Fund has about 20% of its assets in stocks that it has held longer than 10 years. The average annualized return on these holdings is 23.4%, which confirms the wisdom of staying invested in these special companies. Another 23% of the Fund's assets are in stocks that it has held between 5 and 10 years. The average annualized return on these holdings is 21.4%

Of course, not every stock we invest in performs as well as the examples we have cited. In addition, please note that there is no guarantee that these results will be repeated in the future.

We realize that our approach is unusual for a small-cap fund and we are committed to maintaining our small-cap mandate. In a given year, we will normally sell about a quarter of our holdings and use the proceeds to purchase new small-cap companies or add to existing smaller-cap holdings. By doing so, we remain small cap. Our three-year average turnover is about 17%. We sell stocks of companies that get acquired, or meet our long-term price targets, or that we like less than new ideas we uncover, and trim our larger-cap holdings to regulate position sizes and be mindful of the small-cap charter of the Fund.

This process keeps the portfolio fresh, and the overall market cap controlled. From 12/31/2017 through 3/31/2019, the weighted average market cap for our buys was $2.2 billion and for our sales was $8.2 billion. Our primary goal is to maximize the returns of the Fund, and we strongly believe we should hold on to our winners and stay involved as our investments flourish, as proven by past results. We believe we would be doing our shareholders a disservice if we were forced to sell out of our big winners too soon and try to replace them with a new position that might not perform as well.

New Holdings

With the promotion of David Goldsmith to the role of assistant portfolio manager in late 2016, we have made it a goal to add more new ideas to the portfolio. From 12/31/2017 through 3/31/2019, we added 18 new names. Concentrations in the Fund holdings also evolve over time. As has been the case for a while, the Fund is currently heavily invested in the Information Technology Sector. As technology companies are the driving force behind the innovation and change happening in the U.S. and global economies, it makes sense that this is where we find many of our most compelling investment opportunities. However, our new names range across a wide variety of sectors and sub-industries, as we build the Fund stock by stock from the bottom up, wherever we find opportunities.

A newer IT holding is **Ceridian HCM Holding Inc.**, a rapidly growing provider of Human Capital Management (HCM) and payroll applications. We participated in the company's IPO last year. Ceridian's products are used to manage the employee lifecycle, from recruiting to payment to promotion. Similar to longtime holding **Ultimate Software Group, Inc.**, Ceridian is disrupting the HCM and payroll space as a next-generation SaaS vendor offering more functionality and better user experiences at lower cost. Ultimate was acquired earlier in 2019. The stock was up ten-fold since our purchase 11 years ago.

Two of our newer non-IT purchases are **Churchill Capital Corp.** and **Americold Realty Trust**. Churchill is a SPAC that was formed last year with the express purpose of building a leading information services company. We invested in Churchill after it announced a combination with Clarivate Analytics in January 2019. We expect the deal to close in the second quarter of 2019. Clarivate provides comprehensive IP and scientific information/services through a collection of well-known brands that allow clients to discover, protect, and commercialize new ideas. The company's foundation is its highly valuable proprietary data assets (#1 or #2 player in nearly every market where it operates) that are combined with analytical tools to help users apply the 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). Clarivate is also run by an experienced and highly successful management team.

Americold is a specialty REIT that is the largest operator of temperature-controlled warehouses in the U.S. We bought shares following its initial public offering in early 2018. We like the cold storage business because of its stability, "mission critical" nature, and growth opportunities. The company's proprietary technology platform is also a differentiator. Americold should continue to benefit from a strong demand environment, supplemented by greenfield expansions. Lastly we think Americold can continue to consolidate smaller cold storage operators at accretive acquisition multiples.

Conclusion

The fundamental outlook for the economy remains solid and investment conditions are strong, in our view. The U.S. employment rate remains close to historic lows, and most leading economic indicators remain positive. Inflation is muted, suggesting that the Federal Reserve will keep interest rates at or near current levels for the time being. While most observers believe that the economy will slow this year since fiscal stimulus has ended, we have not seen any significant slowdown in the pace of earnings growth for our holdings. We believe we have built a portfolio of high quality businesses that are performing well and have bright futures. Over the long term, we believe that it is not macro or market factors but the results of our companies that matter most to their stock price performance.

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

Risks: Risks associated with investing in smaller and medium 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 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 manager 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.

Portfolio holdings as a percentage of total investments as of March 31, 2019 for securities mentioned are as follows: **Bright Horizons Family Solutions, Inc.** – 2.6%; **TransDigm Group, Inc.** – 3.1%; **SBA Communications Corp.** – 2.7%; **The Trade Desk** – 2.8%; **Cision Ltd.** – 2.0%; **Aspen Technology, Inc.** – 2.1%; **2U, Inc.** – 2.2%; **Guidewire Software, Inc.** – 3.9%; **Ceridian HCM Holding Inc.** – 1.1%; **Ultimate Software Group, Inc.** – 2.0%; **Churchill Capital Corp.** – 1.2%; **Americold Realty Trust** – 1.8%.

The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The Morningstar Analyst Rating is not a credit or risk rating, but a subjective evaluation performed by the analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars (process, performance, people, parent and price). Morningstar's analysts use this valuation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors and the weightings of each pillar may vary. The Analyst Rating reflects overall assessment and is overseen by Morningstar's Analyst Rating Committee. The analyst rating scale is five-tiered, with three positive ratings (Gold, Silver, Bronze), a Neutral rating and a Negative rating, with Gold being the highest rating and Negative being the lowest rating. The Morningstar Analyst Ratings should not be used as the sole basis in evaluating a mutual fund and are based on Morningstar's current expectations about future events. Morningstar does not represent ratings as a guarantee. Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly. The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a 'Silver' rating has notable advantages across several, but perhaps not all, of the five pillars that give the analysts a high level of conviction. A "Bronze"-rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a 'Neutral' rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated at least every 14 months.

Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth. An investor cannot invest directly in an index.

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.

Upside Capture explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

Diversification cannot guarantee a profit or protect against loss.

Downside Capture measures how well a fund performs in time periods where the benchmark's returns are less than zero.

Active Share is a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics M. Cremers and A. Petajisto, as a measure of active portfolio management.

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.

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).

Baron Small Cap Fund Top 10 Holdings as of March 31, 2019

GICS Sector	Holding	% of Net Assets
Information Technology	Gartner, Inc.	4.3
Information Technology	Guidewire Software, Inc.	3.9
Industrials	TransDigm Group, Inc.	3.1
Industrials	Waste Connections, Inc.	3.0
Information Technology	The Trade Desk	2.8
Industrials	ASGN Incorporated	2.7
Real Estate	SBA Communications Corp.	2.7
Health Care	IDEXX Laboratories, Inc.	2.7
Consumer Discretionary	Bright Horizons Family Solutions, Inc.	2.6
Health Care	PRA Health Sciences, Inc.	2.4

Baron Sales & Relationship Management

INSTITUTIONAL

JAMES BARRETT	VP, Head of Institutional Sales, 212-583-2076, jbarrett@baronfunds.com
DAVID KAPLAN	VP, Senior Director, Institutional Sales, 212-583-2033, dkaplan@baronfunds.com
MEETA SINGAL	VP, Director, Institutional Sales, 212-583-2055, msingal@baronfunds.com
JENNIFER NIGRO	VP, Director, Institutional Sales, 212-583-2101, jnigro@baronfunds.com
DAVID CHOW	VP, Director, Consultant Relations, 917-933-0173, dchow@baronfunds.com
LUCY PESA	Director, Public Funds & Taft/Hartley, 212-583-2143, lpesa@baronfunds.com

RIA AND FAMILY OFFICE GROUP

FRANK MAIORANO	VP, Head of RIA and Family Office Group, 212-583-2183, fmaiorano@baronfunds.com
ROBIN THURAU	VP, Regional Director – Northeast and Georgia, 212-583-2083, rthurau@baronfunds.com
LIZ CASSAL	VP, Regional Director – Pacific, 212-583-2178, lcassal@baronfunds.com
BRIAN McNAMARA	CFA, VP, Regional Director – Midwest, 773-718-7444, bmcnamara@baronfunds.com
ERIC BELGARD	CFA, VP, Regional Director – Southeast, 212-583-2180, ebelgard@baronfunds.com
FRANK COSTIGLIOLA	Regional Director – Rocky Mountains, 917-933-0122, fcostigliola@baronfunds.com

INTERMEDIARY AND NATIONAL ACCOUNTS

DAVID JUDICE	VP, Head of Intermediary Sales and National Accounts, 212-583-2034, djudice@baronfunds.com
GLENN SMITH	VP, National Sales Manager, 212-583-2007, gsmith@baronfunds.com
STEPHANIE GISRIEL	VP, Director, National Accounts, 212-583-2187, sgisriel@baronfunds.com
ROGER MACK	VP, Director, National Accounts, 212-583-2131, rmack@baronfunds.com
CHELSEA M. AMEEN	VP, Director, National Accounts, 212-583-2158, cameen@baronfunds.com
BILL ZOROVICH	VP, Regional Director – Northeast, 516-578-3478, bzorovich@baronfunds.com
SCOTT KOZIOL	VP, Regional Director – Southeast, 404-433-6137, skoziol@baronfunds.com
WAYNE OUIMETTE	VP, Regional Director – West, 310-292-6255, wouimette@baronfunds.com
BRIAN CULLEN	Regional Director – Mid-Atlantic, 203-912-4433, bcullen@baronfunds.com
CHARLES KRUGER	Regional Director – Southwest, 917-882-2095, ckruger@baronfunds.com
JENNIFER ROMMEL	Regional Director – Central, 773-450-7495, jrommel@baronfunds.com
MARK J. WHITEHOUSE	Regional Director – New England, 603-661-8887, mwhitehouse@baronfunds.com
RON STANKIEWICZ	Regional Director – NY Metro, 917-287-7248, rstankiewicz@baronfunds.com
JIMMY O'LEARY	Regional Director – Rocky Mountains, 646-965-2657, joleary@baronfunds.com
IAN FORMAN	Regional Director – Midwest, 845-642-1936, iforman@baronfunds.com
MATT O'DONNELL	Regional Director – Ohio Valley, 917-615-4879, modonnell@baronfunds.com
CARA BROKAW	Regional Director – Northwest, 929-442-1119, cbrokaw@baronfunds.com

CLIENT SERVICE

JANET LAM CHEN	Director, Client Service, 212-583-2162, jchen@baronfunds.com

Non-mutual fund products are available to institutional investors only.

PRODUCTS WE OFFER

We offer sixteen mutual funds in retail, institutional, and R6 share classes; collective investment trusts, separately managed accounts, sub-advisory services, private funds, and offshore vehicles.

STRATEGIES

BARON DISCOVERY STRATEGY
BARON SMALL CAP GROWTH STRATEGY
BARON FOCUSED GROWTH STRATEGY
BARON SMALL TO MID CAP GROWTH STRATEGY
BARON MID CAP GROWTH STRATEGY
BARON DURABLE ADVANTAGE STRATEGY
BARON LARGE CAP GROWTH STRATEGY
BARON ALL CAP GROWTH STRATEGY
BARON HIGH GROWTH STRATEGY
BARON EMERGING MARKETS STRATEGY
BARON GLOBAL ADVANTAGE STRATEGY
BARON INTERNATIONAL GROWTH STRATEGY
BARON HEALTH CARE STRATEGY
BARON REAL ESTATE STRATEGY
BARON REAL ESTATE INCOME STRATEGY

MUTUAL FUNDS

BARON DISCOVERY FUND
BARON GROWTH FUND
BARON SMALL CAP FUND
BARON FOCUSED GROWTH FUND
BARON ASSET FUND
BARON DURABLE ADVANTAGE FUND
BARON FIFTH AVENUE GROWTH FUND
BARON OPPORTUNITY FUND
BARON PARTNERS FUND
BARON EMERGING MARKETS FUND
BARON INTERNATIONAL GROWTH FUND
BARON GLOBAL ADVANTAGE FUND
BARON HEALTH CARE FUND
BARON REAL ESTATE FUND
BARON REAL ESTATE INCOME FUND
BARON WEALTHBUILDER FUND

BARON CAPITAL, INC.
767 FIFTH AVENUE
NEW YORK, NY 10153
1-800-99BARON OR
1-212 583-2000
www.BaronFunds.com

BARON FUNDS 1987