INSIDE THE BARON FUNDS

INVESTOR

JUNE 2017

Baron Asset Fund

Finding Growth in the Market's Sweet Spot

Bridging the gap between large and small cap equities, we think mid-cap equities have the potential to offer the best of both asset classes.

In our experience, mid caps can represent a lower risk option than their small-cap peers, as they generally have more experienced management teams, stronger balance sheets, readier access to capital markets, longer and deeper customer relationships, and more robust free cash flow streams to reinvest in their businesses. Compared to large caps, we have found that mid-cap companies tend to have more agile, less bureaucratic management and a greater entrepreneurial spirit that can help propel growth through faster decision making.

Baron Asset Fund is our mid-cap investment option. With a 4-star Morningstar rating for its three-year and a 5-star Morningstar rating for its five-year performance, we believe Baron Asset Fund is a smart choice for the long-term investor.[5] Portfolio manager Andrew Peck applies Baron's research-intensive, long-term investment approach to manage a concentrated, low-turnover, high conviction portfolio of mid-cap growth stocks. Andrew brings more than two decades of research experience to the Fund, which he has managed since 2003.

Andrew Peck
Portfolio Manager

Andrew's differentiated strategy has produced excellent results. Year-to-date, the Fund increased 18.67%, outperforming its benchmark by 727 basis points. During this same time period, the Fund ranked in the 7th percentile of its mid-cap growth equity peer group as defined by Morningstar. As shown in the chart to the left, its longer term performance is strong as well. The Fund has achieved these returns with relatively less risk. Its Sharpe ratio, which measures risk-adjusted returns, is 0.82, compared with a 0.53 average for its peer group.

We invest with a long-term perspective, which allows us to take advantage of opportunities that may be overlooked by investors who are more focused on quarterly earnings reports, market swings, and other short-term events. We seek stocks that we believe have the

Performance as of June 30, 2017 (annualized)*

	1 year	3 year	5 year	10 year	Since inception**
Baron Asset Fund[1,2,3]	24.85%	10.03%	15.81%	7.69%	11.49%
Russell Midcap Growth Index[1]	17.05%	7.83%	14.19%	7.87%	9.89%[4]
Morningstar US Fund Mid-Cap Growth Category Average	18.58%	6.86%	12.72%	6.81%	
Morningstar Percentile Rank	7%	10%	8%	30%	N/A

* Institutional shares. For Retail and R6 shares, visit www.BaronFunds.com.
**6/12/1987

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 expenses 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 listed in the above table is net of annual operating expenses. The expenses of the Fund are 1.04%.

1 The indexes are unmanaged. The Russell Midcap® Growth Index measures the performance of medium-sized U.S. companies that are classified as growth. The index 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 Index. 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 June 30, 2017.

5 Please refer to p.3 for Morningstar disclosure.

potential to return 100% within four to five years. To help achieve this target, we look for companies with:

Growth opportunities

- Large addressable markets
- Secular, not cyclical, trends

Competitive advantages

- Unique assets
- Pricing power
- Dominant market share

Business models that can support sustainable growth

- Scalable
- High incremental margins
- Strong and visible cash flow

Exceptional management

- Experienced
- Visionary

The portfolio typically has positions in 50 to 60 companies, with its top 10 holdings comprising roughly 45% of net assets, and its top 20 holdings about 65% of net assets. This relatively low number of holdings allows us to invest only in companies in which we have high conviction. This approach to investing also results in a truly differentiated Fund, with a high active share of 86.4%.

Turnover is 12.1%, compared with average turnover of 66.0% among the Fund's peer group. This low-turnover strategy allows Andrew and Baron's deep bench of research analysts to devote meaningful amounts of time to discovering and analyzing a wide range of public companies to add to the Fund, while investing only in the highest conviction ideas.

A stock by stock approach

We are bottom-up investors, building our portfolios one stock at a time. We identify these opportunities through extensive, in-depth, original research. We think this research-intensive approach gives us an edge in the mid-cap space, where stocks tend to be less closely followed by Wall Street analysts than their large-cap counterparts. We seek to differentiate ourselves through independent and creative thinking, which we believe is key to the development of the unique insights and perspectives that are the foundation of our competitive advantage.

While all of our holdings represent promising opportunities based on the investment philosophy that we have developed and followed for more than 35 years, many of them share certain attractive characteristics. In the mid-cap space, we favor companies with subscription-based or platform business models or unique assets. We believe these attributes offer sustainable competitive advantages – something that differentiates them from their competitors while creating barriers to entry into their markets. Following are some examples of these companies.

Subscription-based business models

The Fund has investments in a number of subscription-based companies, including three of our top 10 holdings: **Gartner, Inc.**, **Verisk Analytics, Inc.** and **FactSet Research Systems, Inc.** While each targets a different market, these companies all play key roles in their clients' daily workflows, creating sticky customer relationships and high switching costs.

Companies built around a subscription-based business model tend to benefit from a number of attractive attributes, including:

- Unique proprietary data and analytics that are difficult to replicate
- Data that is embedded in client workflows
- Highly visible, recurring revenue streams
- Pricing power

Gartner provides syndicated information and technology research and advisory services to IT and other businesses. The low price of its research relative to value has produced retention rates running above 100%. The Gartner brand is highly regarded, and it is frequently cited in the media as a leading expert on IT trends. Its stock price has almost quadrupled since we first invested and it is currently the Fund's second largest holding. We think Gartner still has considerable room to expand both organically and through acquisitions such as research and advisory company CEB Inc., which it acquired earlier this year. We believe its key forward-looking metrics, including easing annual comparisons, improved sales force productivity, and increasingly refined sales tactics, point toward continued robust growth.

Verisk provides risk information to the insurance, financial services, and energy industries. We think Verisk has a unique competitive position. The company is investing to expand its product set in Insurance and Financials. It also acquired two companies over the last two years to give it energy exposure, creating a path to sustained double digit growth. The stock has almost tripled since our initial investment. Verisk generates robust margins and significant free cash flow, which it has been using to repurchase stock and make acquisitions.

FactSet is another subscription-based company that we believe still has a long trajectory of growth ahead. FactSet provides financial data and analysis to the investment community. The company aggregates data from multiple sources into proprietary data sets, and overlays unique analytical capabilities, which we believe give it a competitive advantage. This open approach to content, coupled with a commitment to a high level of customer support, has resulted in an exceptionally sticky business model, with retention rates of more than 95%. The stock has tripled since we first purchased it. Like most information services companies, FactSet generates outstanding cash flow. As the company prefers to rely on organic product development rather than acquisitions to improve its portfolio, it has also been able to return excess cash to shareholders.

Platform businesses

A number of the Fund's holdings are what we consider to be high quality platform companies. With platform companies, we emphasize the following:

- Economies of scale
- Network effect
- Dominance within their vertical market
- Large, global, addressable markets

Platform companies have constructed a platform that third parties can use to connect their businesses, sell products and services, and co-create value. The economies of scale, network effect, and barriers to entry that characterize a platform company can lead to dominance within its vertical market, which can be extended across geographies. Moreover, once a platform company has established itself as the leader in its market, it creates formidable barriers to entry. A disproportionate percentage of the market's revenues accrue to the market leader, frequently at high incremental margins.

The Priceline Group, Inc. is a Consumer Discretionary company that operates online platforms connecting retailers in the travel space – hoteliers, airlines, rental cars, and restaurants – with consumers. Priceline is the global leader among online travel agencies, operating in more than 200 countries through six primary brands: Booking.com, priceline.com, agoda.com, KAYAK, Rentalcars.com, and OpenTable. The stock has increased more than nine-fold since our initial investment. We think Priceline has a continued long runway for growth, especially in emerging markets, where industry penetration levels are still much lower than in developed countries.

Within the Financials sector, **MarketAxess Holdings Inc.** owns and operates the dominant electronic platform for trading corporate bonds and other fixed income securities. Trading across asset classes continues to migrate away from trading pits and phones to electronic venues. Regulations enacted after the global financial crisis of 2007-08 have accelerated this shift as higher capital and liquidity requirements for banks have restricted their ability to act as market-makers. We believe the corporate bond market is in the early stage of a secular transition from voice-based to electronic trading, and that MarketAxess, as a leading electronic platform, will be a prime beneficiary of this shift.

Equinix, Inc., which is classified under Real Estate as a specialized REIT, is the leading provider of internet business exchanges. Early in its lifecycle, Equinix leveraged its scale and "network neutral" policy, which allows its customers to connect with one another, to take on large telecom networks as customers. Once Equinix had solidified its leading market position, other telecom networks, major enterprises, web commerce companies, and cloud computing companies felt compelled to join the Equinix "ecosystem" in order to easily and efficiently access these networks. Its stock has appreciated more than five-fold since we first invested. We believe it will continue on its strong growth trajectory driven by key long-term trends, including growth in internet traffic (including video), globalization of financial markets, IT outsourcing, cloud computing, and mobility. Equinix has also been active on the acquisition front, including its largest European competitor. As these acquisitions become fully integrated, we believe they will create meaningful cost and revenue synergies, further enhancing Equinix's global platform.

Unique assets

We are invested in several companies that own and operate what we consider to be assets that are difficult to replace or replicate, due to lack of new supply, regulatory restrictions, or other constraints.

Ski resort owner and operator **Vail Resorts, Inc.** is the Fund's third largest holding, representing 5.2% of net assets. The stock has increased more than eight-fold since we first invested. Restrictions on and expenses associated with developing new ski resorts create high barriers to entry. Vail is focused on increasing season pass sales, which helps immunize it from poor snowfall seasons. It has embarked on an aggressive acquisition strategy to enhance the attractiveness of its multi-resort season passes. In the last several years, it has added Park City in Utah, Perisher in Australia, Whistler Blackcomb in Canada, and most recently, Stowe in Vermont. It has also been upgrading its properties to offer new and improved services and amenities.

Another top ten holding, **SBA Communications Corp.**, is the third largest independent owner of wireless towers in the U.S., with a growing presence in Canada, Central America, and Brazil. SBA owns and operates over 25,000 towers in total. Because of regulatory and zoning requirements, supply is restricted, creating an advantage for existing tower operators like SBA. At the same time, demand is increasing as consumers use increasing amounts of wireless data bandwidth, forcing carriers to augment their networks. To increase network density, carriers lease space for equipment on towers. We think SBA can generate additional revenue from new lease and amendment activity, leading to strong cash flow growth. Given its strong balance sheet, we believe SBA has many opportunities to grow internationally, particularly in Brazil, where SBA has acquired over 5,000 towers.

Baron Asset Fund Institutional Share Class is in the Morningstar US Fund Mid-Cap Growth Category. The Category is not weighted and represents the straight average of annualized returns of each of the funds in the Mid-Cap Growth Category. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of 6/30/17, the category consisted of 626, 576, 502 and 370 funds for the 1-, 3-, 5- and 10-year time periods.

For the period ended 6/30/2017 the Baron Asset Fund was awarded 4-star Morningstar Rating for the 3-year, 5-star for the 5-year, and 3-star for the 10-year performance. Morningstar 3-year star rating is based on risk adjusted returns with 576 funds in category; 5-year star rating is based on risk adjusted returns with 502 funds in category and 10-year star rating is based on risk adjusted returns with 370 funds in category.

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

Performance as of June 30, 2017*

INSTITUTIONAL SHARES	Average Annualized Returns 1-Year	5-Year	10-Year	Since Inception Annualized	Cumulative	Inception Date	Expense Ratio	Ticker
Small Cap								
Baron Growth Fund	20.05%	13.43%	7.61%	13.05%	1481.01%	12/31/94	1.05%[1]	BGRIX
Baron Small Cap Fund	25.11%	13.11%	7.31%	9.91%	546.73%	9/30/97	1.06%[1]	BSFIX
Baron Discovery Fund	43.85%	N/A	N/A	15.60%	72.24%	9/30/13	1.49%/1.10%[1]	BDFIX
Small-Mid Cap								
Baron Focused Growth Fund[2]	20.00%	11.83%	7.09%	11.01%	804.98%	5/31/96	1.13%/1.10%[3]	BFGIX
Mid Cap								
Baron Asset Fund	24.85%	15.81%	7.69%	11.49%	2525.66%	6/12/87	1.04%[1]	BARIX
Large Cap								
Baron Fifth Avenue Growth Fund	29.03%	15.49%	7.53%	8.15%	180.58%	4/30/04	0.85%[1]	BFTIX
All Cap								
Baron Opportunity Fund	28.34%	12.04%	7.95%	5.76%	163.88%	2/29/00	1.13%[1]	BIOIX
Baron Partners Fund[2]	33.43%	18.58%	8.33%	13.09%	2180.86%	1/31/92	1.52%[3]†	BPTIX
International								
Baron Emerging Markets Fund	18.50%	8.91%	N/A	4.85%	36.06%	12/31/10	1.13%[3]	BEXIX
Baron Global Advantage Fund	30.19%	13.92%	N/A	11.55%	75.92%	4/30/12	3.55%/1.10%[3]	BGAIX
Baron International Growth Fund	19.06%	9.58%	N/A	11.84%	158.91%	12/31/08	1.36%/1.10%[3]	BINIX
Specialty								
Baron Energy and Resources Fund	-1.75%	-2.06%	N/A	-4.29%	-21.43%	12/30/11	1.46%/1.10%[3]	BENIX
Baron Real Estate Fund	18.41%	14.43%	N/A	15.59%	196.36%	12/31/09	1.07%[3]	BREIX

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 Adviser has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) and 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.

* For Retail and R6 shares, visit www.BaronFunds.com/performance

For Baron Discovery Fund, Baron Opportunity Fund and Baron Fifth Avenue Growth Fund, the Adviser has contractually agreed that for so long as it serves as the Adviser to these Funds to reduce its fee, to the extent required to limit the net annual operating expense ratio (excluding portfolio transaction costs, interest, dividend and extraordinary expenses) to 1.10%, 1.25% and 0.85% of average daily net assets of the Institutional Shares, respectively. For Baron Focused Growth Fund, Baron Partners Fund, Baron Emerging Markets Fund, Baron Global Advantage Fund, Baron International Growth Fund, Baron Energy and Resources Fund and Baron Real Estate Fund, the Adviser has contractually agreed that for so long as it serves as the Adviser to these Funds to reduce its fee, to the extent required to limit the net annual operating expense ratio (excluding portfolio transaction costs, interest, dividend and extraordinary expenses) to 1.10%, 1.20%, 1.25%, 1.25%, 1.25%, 1.10% and 1.10% of average daily net assets of the Institutional Shares, respectively.

† Total expense ratio shown for Baron Partners Fund was comprised of operating expenses of 1.09% and interest expense of 0.43%.

1 As of September 30, 2016 for Baron Asset, Baron Growth, Baron Small Cap, Baron Opportunity, Baron Fifth Avenue Growth and Baron Discovery Funds. For Baron Discovery Fund, the total expense ratio was 1.49%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

2 Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee. The predecessor partnerships' performance is only for periods before the Funds' registration statements were effective (4/30/03 for BPF and 6/30/08 for BFGF). During those periods, the predecessor partnerships were not registered under the Investment Company Act of 1940 and were not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if they were, might have adversely affected their performance.

3 As of December 31, 2016 for Baron Partners, Baron Focused Growth, Baron International Growth, Baron Real Estate, Baron Emerging Markets, Baron Energy and Resources and Baron Global Advantage Funds. For Baron Focused Growth Fund, the total expense ratio was 1.13%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). For Baron International Growth Fund, the total expense ratio was 1.36%, but the net annual expense ratio was 1.10% (restated to reflect current fee waivers). For Baron Energy and Resources Fund, the total expense ratio was 1.46%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). For Baron Global Advantage Fund, the total expense was 3.55%, but the net annual expense ratio was 1.10% (restated to reflect current fee waivers).

For updated performance for all Baron Mutual Funds, Please visit www.BaronFunds.com.

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

Portfolio holdings as a percentage of total investments as of June 30, 2017 for securities mentioned are as follows: **Gartner, Inc.** – 6.6%; **Verisk Analytics, Inc.** – 3.8%; **FactSet Research Systems, Inc.** – 2.5%; **The Priceline Group, Inc.** – 2.1%; **MarketAxess Holdings Inc.** – 1.6%; **Equinix, Inc.** – 2.1%; **Vail Resorts, Inc.** – 5.1%; **SBA Communications Corp.** – 2.8%.

Active Share 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.

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

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