DEAR BARON OPPORTUNITY FUND SHAREHOLDER:

PERFORMANCE

Baron Opportunity Fund (the "Fund") had a good third quarter, increasing 3.41% (Institutional Shares). The Fund underperformed both the Russell 3000 Growth Index, which advanced 5.93%, and the S&P 500 Index, which rose 4.48%. For the first three quarters of 2017, the Fund climbed 32.68%, outperforming the two indexes, which rose 20.43% and 14.24%, respectively.

Table I.
Performance†
Annualized for periods ended September 30, 2017

	Baron Opportunity Fund Retail Shares[1,2]	Baron Opportunity Fund Institutional Shares[1,2,3]	Russell 3000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	3.35%	3.41%	5.93%	4.48%
Nine Months[4]	32.45%	32.68%	20.43%	14.24%
One Year	24.32%	24.65%	21.87%	18.61%
Three Years	9.72%	10.02%	12.65%	10.81%
Five Years	11.24%	11.54%	15.18%	14.22%
Ten Years	7.41%	7.65%	9.03%	7.44%
Fifteen Years	14.20%	14.37%	10.73%	10.04%
Since Inception (February 29, 2000)	5.74%	5.88%	3.72%	5.57%

MICHAEL A. LIPPERT
PORTFOLIO MANAGER

Retail Shares: BIOPX
Institutional Shares: BIOIX
R6 Shares: BIOUX

REVIEW & OUTLOOK

The Fund is having a strong year, led by the outperformance of many of our holdings and the secular *megatrends* we emphasize. In the month of September, however, value, small caps and cyclicals (Energy, Financials, Industrials) traded well and led the market. That backdrop–combined with a handful of our larger positions lagging in the quarter (Tesla, Gartner, Expedia, Amazon, CoStar), all of which are up significantly this year, and some of our holdings working through short-term issues (Acxiom, Zillow, Benefitfocus, MACOM, Sage Therapeutics, and Glaukos)–caused the Fund to slightly underperform in the quarter. Still, the Fund has solidly outperformed this year, our investment themes are intact and driving their industries and the vast majority of our investments are operating in line with, or better than, our forecasts.

As I discussed last quarter, I'm asked quite a bit about where we are in the current market "secular growth" or "tech" cycle and whether we are due for a reversal or change in market leadership. As we consistently share with our investors, at Baron we are not market timers. I don't know when the market will peak, how long this cycle will last or when market leadership will change. I cannot accurately predict the market for the next week, month, six months or year. Who can or has? For instance, who would have thought the market would have made an abrupt "about-face" on effectively New Year's Day from the end of 2016 "Trump trade" back to the secular-growth groups we favor? But I do have some reflective, and hopefully insightful, thoughts or observations about this market-cycle debate that I'd like to share.

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, 2016 was 1.41% and 1.13%, 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 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.*

† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

1 The indexes are unmanaged. The Russell 3000® Index measures the performance of the broad segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000® Growth Index measures the performance of those companies classified as growth among the largest 3,000 U.S. companies 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.

BARON FUNDS® 1987

Baron Opportunity Fund

One definition of "cyclical" is "happening at regular intervals." But market and economic cycles do not occur at regular intervals. In fact, they are highly irregular and unpredictable.[1] We don't know when they will start, how long they will last or what will lead them. "Here and there," "hit-or-miss" or "shifting"–all words/phrases related to cyclical on Thesaurus.com–are each more fitting accounts of cyclical in the context of the stock market.

To oversimplify a bit, historical stock returns are driven by earnings and dividends. In the absence of growth, a company's stock price depends entirely on the multiple or yield investors are willing to assign to these metrics. Short-term or one-time growth in a company's earnings base can come from cost cuts, acquisitions, tax law changes, interest rate shifts, economic cycles, etc. But sustainable expansion in a business's earnings or free cash flow ("FCF") power has to be driven by profitable top-line growth (returns above the cost of capital).

That's why on a recent CNBC appearance, when asked about why the "big tech" players (the so-called FANG stocks) are leading the market, I flippantly responded–paraphrasing the Bill Clinton line from the 1992 presidential campaign–"it's the growth, stupid." Following the financial crisis, economic growth rates have been more subdued both domestically and abroad. This has incited a significant divide between the haves and have-nots of growth and a stock market battle between structural/secular and cyclical forces.[2] There are fewer firms today growing double digits and more barely growing at all. Structurally slower global growth appears to have been a tailwind for technology-driven stocks as investors hunt for growth, stability and cash flow yield … three things the broader tech sector of today provides in bulk.

The secular troops have won this year's market leadership war…and, I truly believe, will prevail in more of the battles to come. As I acknowledged last quarter, market leadership will forever swing back and forth. At some points in the future, the cyclical, interest rate, tax repatriation, oil price or value trades, among others, will work and exert leadership. When? How long? Which ones? Almost impossible to say. For a limited period of time, some of these factors may drive growth–one time or short term–in some sector or another. But where will the long-term growth the market needs to drive earnings and FCF power come from? We are confident it is the secular megatrends–the disruptive, generational and/or tectonic shifts–we relentlessly focus on. These themes are disrupting so many industries and changing the way practically all of us go about our daily lives:

- the way we shop
- the way we inform ourselves
- the way we socialize
- the way we build apps and computing infrastructure
- the way we drive ... or take a ride
- the way we entertain ourselves
- the way we diagnose disease
- the way we conduct surgery

We believe these undeniable trends will power the sustainable and secular growth that will be the predominant foundation of market leadership in the future.

Our portfolio is populated with companies taking advantage of these types of disruptive changes. We invest in businesses that are industry leaders and market share winners, and that we believe possess durable competitive advantages. We carefully analyze whether the top-line growth is profitable–and will ultimately yield high margins, excess FCF and returns above the cost of capital. We focus more on forecasting and valuing a company's long-term earnings and FCF power rather than current earnings or cash flow…because a myopic fixation on the near-term will almost always miss the winners of the future. The best growth businesses, with the poster child being Amazon and Jeff Bezos, should always be reinvesting and maximizing the net present value of future earnings and FCF, not just today's.

Below is our more inclusive list of the powerful secular themes in which we invest:

- Cloud computing
- Software-as-a-service (SaaS)
- "Big Data" and "Artificial Intelligence"
- Mobile
- Digital (internet-delivered) media
- Targeted, people-based digital advertising
- E-commerce
- Genetics
- Minimally-invasive surgical procedures
- Cybersecurity
- Electric-drive vehicles/autonomous driving
- Electronic payments

By selecting innovative businesses capitalizing on these potent secular trends, we have been able to build portfolios that consistently deliver top-line growth rates orders of magnitude above the general economy, as reflected in broad market indexes. Below we compare the revenue growth rates of our portfolio and three indexes for the trailing four quarters for which we have reliable data:

Comparison of Revenue Growth (based on end-of-the-quarter holdings)

	Actual Q2 2017	Actual Q1 2017	Actual Q4 2016	Actual Q3 2016
S&P 500 Index	6.45%	8.15%	4.23%	2.51%
Russell 3000 Index	7.13	8.31	4.18	2.84
Russell 3000 Growth Index	8.44	8.33	6.36	5.18
Baron Opportunity Fund	27.64	26.93	25.08	28.15

1 Remember some of the quotes from my last quarterly letter: Harvard economist, John Kenneth Galbraith, saying, "We have two classes of [economic] forecasters: Those who don't know–and those who don't know they don't know." And distinguished investor Howard Marks, the Chairman of Oaktree Capital Management, commenting that investors too often "swing in the wrong direction."

2 A company is cyclical if it needs a strong economy in order to perform well–if its fortune depends on the business cycle. Secular, on the other hand, refers to companies whose growth persists regardless of the economy and is less affected by short-term trends. It also refers to trends that are not cyclical or seasonal but sustain for a relatively long period.

Table II.
Top contributors to performance for the quarter ended September 30, 2017

	Percent Impact
Guidewire Software, Inc.	0.76%
Alibaba Group Holding Limited	0.52
Netflix, Inc.	0.44
Tencent Holdings, Ltd.	0.40
Mastercard Incorporated	0.38

Shares of **Guidewire Software, Inc.**, a property and casualty insurance software platform, performed well during the third quarter. Guidewire is the gold standard of P&C vendors, as demonstrated by near-perfect retention rates, a growing installed base and accelerating adoption. The company is early in its core insurance systems replacement cycle, and has tripled its addressable market through new products (data management, analytics, and digital portals) and cloud delivery. It recently announced a landmark deal to become State Farm's sole core systems provider. And this Spring it went live with its first cloud implementation of its core system product ("InsuranceSuite") for MetLife. Cloud implementations yield 2 to 2.5 times the revenues and 1.5 to 2 times the gross profit of on-premise deployments. Most recently, Guidewire acquired Cyence, whose data listening and risk analytics solutions enable insurers to model, underwrite and price "21st century risks," such as cyber. (Neal Rosenberg)

Alibaba Group Holding Limited is the largest e-commerce company and cloud computing provider in China. Shares of Alibaba appreciated in the quarter on financial results that continued to exceed analyst expectations. Alibaba's total revenue grew 56%, and its core China retail commerce business grew 57%. It's cloud computing business just missed triple-digit growth, expanding 96%. Bottom-line performance was also excellent, with earnings growing 65%. The company is benefiting from strong mobile and advertising growth, which is driving upside beyond its core merchandise growth. We believe mobile monetization should continue to improve while Alibaba invests in new growth areas such as groceries, logistics, and cloud computing. (Ashim Mehra)

Netflix, Inc. is the leading global on-demand video service with over 100 million paying subscribers in the U.S. and abroad. Shares of Netflix were up on subscriber additions that exceeded market consensus, particularly on the international side where they added almost one million more paying subscribers than they had forecasted. We expect the company to continue to invest in content in 2017 and beyond and to benefit from recent set-top box integrations with companies like Comcast. We believe Netflix's substantial investments in original programming could reduce the time it takes for it to achieve its goal of 150 million global subscribers. (Ashim Mehra)

Shares of **Tencent Holdings, Ltd.** increased on the strength of robust quarterly results in both advertising and gaming. Tencent is one of the two largest internet companies in China, reaching almost 900 million monthly users. It operates the country's leading social network and messaging platform (QQ and WeChat), largest online entertainment and media business, and largest online pc and mobile gaming business. Tencent grew total revenues 59%, earnings 45%, and free cash flow 80%. Online games grew 39%, digital content services grew 51%, media advertising grew 48%, and social and other advertising grew 61%. We believe Tencent will grow each of its business segments for years to come given its track record of execution, unique online intellectual property and assets and scale. (Ashim Mehra)

Mastercard Incorporated is one of the world's largest payment networks. The stock outperformed after the company reported strong financial results and raised guidance. In the most recent quarter, revenue grew 13% and EPS grew 15%, driven by stable purchase volume growth and higher yields. At the annual investor day, management raised guidance for this year and next year to reflect better organic growth and less severe FX headwinds. We think Mastercard is a prime beneficiary of global consumer spending growth and the secular shift from cash to electronic payments. (Josh Saltman)

Table III.
Top detractors from performance for the quarter ended September 30, 2017

	Percent Impact
Tesla, Inc.	–0.38%
MACOM Technology Solutions Holdings, Inc.	–0.37
Glaukos Corporation	–0.34
Sage Therapeutics, Inc.	–0.33
Zillow Group, Inc.	–0.29

Tesla, Inc. may now be the world's first pure-play diversified sustainable energy company, manufacturing fully electric automobiles, solar roof products and energy storage solutions. Tesla shares pulled back somewhat during the third quarter after the company reported second quarter Model S/X vehicle deliveries that came in below analyst estimates, as a result of a production shortfall of 100 kilowatt-hour battery packs. Investors also remained skittish ahead of the end-of-the-year Model 3 production ramp that CEO Elon Musk has described as "production hell." More recently, Tesla reported Model S/X third quarter deliveries nicely ahead of Street expectations, and forecasted this trend to continue in the fourth quarter, leading many analysts to raise their 2017 projections for these cars. Offsetting this strength, Tesla signaled that the Model 3 ramp was slightly behind schedule, although the company underlined that there were "no fundamental issues" and that it was "confident of addressing the manufacturing bottleneck issues in the near term." (Ishay Levin)

MACOM Technology Solutions Holdings, Inc. designs and manufactures analog semiconductors used for industrial, military, and communications end markets. We made a small investment in shares of MACOM during the third quarter, focused on its large revenue opportunities in data center optical networking (proprietary laser technology), radar technology (including upgrades to F-16 fighters and civilian weather and air traffic control systems) and cellular base station power amplifiers. Our research suggested that each of these areas presented market opportunities over $1 billion each, and for which MACOM has proprietary, patented components. Our investment had nothing to do with timing a single quarter's performance, but in 20/20 hindsight our timing was awful. Shares traded down sharply after the company reported a weak June quarter and materially lowered guidance for the September quarter due to weakness in certain optical networking markets related to Chinese telecommunications. The company was admittedly quite conservative in its guidance, nearly zeroing out any revenue contribution from these products. While we continue to believe that MACOM is executing well against the large revenue opportunities we set out above, we decided to sell our shares to harvest a short-term tax loss. We are continuing our research and will determine whether to re-invest at some point in the future. (Randy Gwirtzman)

Shares of **Glaukos Corporation**, a pioneer of minimally-invasive products and procedures for the treatment of glaucoma, fell in the quarter. Glaukos' product, the "iStent," is a stent that is inserted into the eye's clogged outflow drain to reduce pressure and slow glaucoma progression. A Medicare price increase–a long-term positive–led to short-term commercial insurance reimbursement issues that resulted in volume deceleration and pressure on the stock price. Glaukos' new and improved iStent Inject is due to launch in the second half of 2018. According to doctors, this product will be much easier to use and should accelerate adoption of the iStent procedure. As Glaukos is currently approved only for a subset of the market, we are positive on the product's long-term growth trajectory as coverage broadens to frontline usage. (Josh Riegelhaupt)

Sage Therapeutics, Inc. is focused on developing novel drugs for central nervous system disorders. At the time we invested, we understood that data from its Phase 3 trial for the treatment of a rare medically-induced coma called SRSE (super refractory status epilepticus) would be released before data for its far more important trials in post-partum and major depression. We considered the SRSE trial to be, at best, a 50/50 shot and did not view it as material to our investment case. The stock fell during the quarter after the company announced the failure of the first Phase 3 round for SRSE. With pivotal data in post-partum and major depression treatment coming out later this quarter, we believe Sage has the potential to turn things around quickly. Additionally, Sage has announced expansion into disease indications such as Parkinson's and tremor. (Josh Riegelhaupt)

Zillow Group Inc. operates the leading digital (both online and mobile) real estate sites in the U.S. Shares fell on a Consumer Finance Protection Bureau (CFPB) investigation into whether Zillow's co-marketing service between mortgage brokers and real estate agents violated the anti-kickback regulations of the Real Estate Settlement Procedures Act. We expect Zillow to either settle with the CFPB by the end of the year or to modify its co-marketing service, which may have a small negative impact on revenue and profitability. We do not consider the CFPB investigation to be material to our investment in Zillow. We believe Zillow is still in the early stages of penetrating the growth opportunity in digital real estate advertising. We believe long-term margins will be robust and short-term swings in profitability are less relevant as it invests against new growth initiatives. (Ashim Mehra)

Portfolio Structure

The Fund invests in high-growth, innovative businesses across all market capitalizations. As of the end of the third quarter, the largest market cap holding in the Fund was $669.2 billion and the smallest was $0.1 billion.

The median market cap of the Fund was $12.5 billion. The Fund had $254.1 million of assets under management. The Fund had investments in 52 securities. The Fund's top 10 positions accounted for 43.1% of the portfolio.

Table IV.
Top 10 holdings as of September 30, 2017

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$461.8	$16.4	6.5%
Guidewire Software, Inc.	5.8	15.4	6.0
Gartner, Inc.	11.3	13.6	5.4
Tesla, Inc.	56.9	13.3	5.2
Alphabet Inc.	669.2	11.8	4.7
CoStar Group, Inc.	9.6	9.5	3.7
Acxiom Corporation	2.0	8.7	3.4
Expedia, Inc.	21.8	7.0	2.8
Visa, Inc.	240.7	7.0	2.8
Benefitfocus, Inc.	1.0	6.7	2.6

Recent Activity

Table V.
Top net purchases for the quarter ended September 30, 2017

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Vertex Pharmaceuticals Incorporated	$38.3	$2.4
Clovis Oncology, Inc.	4.0	1.1
Gemphire Therapeutics Inc.	0.1	0.9
Supernus Pharmaceuticals, Inc.	2.0	0.8
Glaukos Corporation	1.1	0.8

We continued to add to our bio-pharma sector investments in the quarter. We are interested in the innovation and growth opportunities within the industry, balanced against our healthy respect for the risk-reward conditions in the space. We favor companies with assets that address real, often unmet, needs with novel approaches. We prefer companies in the later stages of drug development (i.e., Phases 2 or 3)–and thus a higher probability of success – or commercial products.

Vertex Pharmaceuticals Incorporated is the leading developer of treatments for cystic fibrosis. Given continued success in developing its "triple"–the name given to the three drug combination that will allow broad cystic fibrosis patient treatment (currently approved for 50% to 60% of the addressable market)–we now believe Vertex will dominate cystic fibrosis for years to come. Given this backdrop, revenues and margins will continue to expand, with free cash flow generation expected to surpass $2 billion by 2021 (currently about $400 million). We view Vertex as a unique company among its peers, given its quasi-monopolistic business model drives meaningful margin expansion as it pursues continued top-line growth.

Clovis Oncology, Inc. is marketing and developing Rubraca for the treatment of cancer. Specifically, Rubraca is a PARP inhibitor and is well suited for addressing cancers that are driven by excessive DNA damage. Rubraca is currently approved for second-line maintenance treatment of ovarian cancer. Longer term, we expect expansion into earlier lines of treatment in ovarian cancer and indication expansion into breast and prostate cancer to drive top-line growth. Furthermore, as a validated mechanism of action for the treatment of oncology, we believe Clovis maintains a scarcity premium for M&A by large pharmaceutical/biotechnology suitors.

We initiated a very small position in **Gemphire Therapeutics Inc.**, which is developing a novel molecule and mechanism of action for the treatment of metabolic syndrome and the lowering of cholesterol, fat and inflammation, called gemcabene. To date, we have had analyzed data read outs for patients with heart disease that has shown drug activity and bodes well for future clinical development. The company is due to report clinical data early next year for patients with elevated triglycerides (too high fat content in the blood that leads to acute pancreatitis and emergency room visits) that we believe will propel share performance as investors begin to appreciate the novel triple effect of gemcabene on cholesterol, fat and inflammation, a trifecta of benefit not offered by any other drug in its class.

We continued to build our position in **Supernus Pharmaceuticals, Inc.**, which we wrote about last quarter. Supernus is a profitable pharmaceutical company with two commercial products for the treatment of epilepsy and a pipeline targeted towards neurological disorders. We expect Supernus to continue its organic growth via indication expansion, the maturation of its pipeline and business development.

We addressed **Glaukos Corporation** in the top detractor section above.

Table VI.
Top net sales for the quarter ended September 30, 2017

	Quarter End Market Cap (billions)	Amount Sold (millions)
CoStar Group, Inc.	$ 9.6	$1.9
Netflix, Inc.	78.3	1.5
Varonis Systems, Inc.	1.2	1.3
MarketAxess Holdings Inc.	6.9	1.0
Visa, Inc.	240.7	0.8

All of the above sales were position-sizing trims of businesses we retain conviction in. I note that **CoStar Group, Inc.** and **Visa, Inc.** remain top 10 positions for the Fund. **Netflix, Inc.** remains a top 20 position.

To conclude, I believe wholeheartedly in the strategy of the Fund: growth based on powerful, long-term, innovation-driven secular growth trends. In the highly uncertain world we live in, we believe non-cyclical, sustainable, and resilient growth should be part of investors' portfolios.

Sincerely,

Michael A. Lippert
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 securities of high growth businesses benefiting from innovation through development of pioneering, transformative or technologically advanced products or services, but there also is more risk. Companies propelled by innovation, including technological advances and new business models, may present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. Securities issued by small and medium sized companies may be thinly traded and 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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