DEAR BARON SMALL CAP FUND SHAREHOLDER:

PERFORMANCE

Baron Small Cap Fund (the "Fund") had a great quarter, rising 23.17% (Institutional Shares). Our results well outpaced the Russell 2000 Growth Index (the "Index"), which was up 17.14%, and the S&P 500 Index, which was up 13.65%.

Table I.
Performance
Annualized for periods ended March 31, 2019

	Baron Small Cap Fund Retail Shares[1,2]	Baron Small Cap Fund Institutional Shares[1,2,3]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	23.06%	23.17%	17.14%	13.65%
One Year	10.84%	11.20%	3.85%	9.50%
Three Years	17.91%	18.23%	14.87%	13.51%
Five Years	9.16%	9.45%	8.41%	10.91%
Ten Years	16.08%	16.37%	16.52%	15.92%
Fifteen Years	9.27%	9.45%	8.71%	8.57%
Since Inception (September 30, 1997)	10.11%	10.24%	6.12%	7.23%

CLIFF GREENBERG
PORTFOLIO MANAGER

Retail Shares: BSCFX
Institutional Shares: BSFIX
R6 Shares: BSCUX

The market made a strong recovery in the first quarter after the very steep losses in the prior quarter.

This was a welcome relief…and a very solid comeback. It was the best quarter for the market since 2009, and for the Fund since 1999.

All the fears that pulled the market down in the fourth quarter were cast away. Economic conditions remained solid and concerns about an imminent recession were overblown. Though we expect growth to slow, as last year had the benefit of stimulus from tax cuts, it seems like the economic expansion will continue as no signs of excess are apparent. Interest rates are lower (pretty significantly) and the Federal Reserve is clearly on hold. Central banks around the globe have re-entered easing modes, which is bullish for the global economy and markets. Inflation is modest. Corporate bond spreads have tightened. Growth in China is re-accelerating. And there is progress in trade talks, and, while not off the table, this concern is dissipating as well.

Small- (and mid-) cap stocks and growth equities in general led the rally. Primarily because these stocks acted worse in the prior period and were oversold and poised to rebound. Many of our best stocks this quarter were our leaders last year, then fell in the fourth quarter, only to rebound strongly this period….as we postulated could happen. Our gains were broad based, as over half our stocks were up over 20% and over a quarter were up over 30% for the period.

Information Technology ("IT") stocks topped all sectors, driven by software stocks. The Fund is heavily invested in and overweight this sector, which helped fuel our strong returns this quarter. Our belief is that "software is eating the world," and we have many investments in dominant companies providing software and services to various verticals. Our software holdings were up across the board, our biggest winners included **The Trade Desk**, **Ultimate Software Group, Inc.**, and **2U, Inc.**, and as a group they were up over 35% for the quarter. Industrials and Consumer Discretionary stocks bounced back on the better economic outlook. Within Industrials, our aerospace and defense holdings, **TransDigm Group, Inc.** and **Mercury Systems, Inc.**, contributed most to our gains, as both companies announced strong organic growth and meaningful acquisitions. Our Consumer Discretionary stocks outperformed as well, led by housing-related companies **Floor & Decor Holdings, Inc.** and **Installed Building Products, Inc.** The decline in interest rates has led to a better outlook for housing and housing-related equities.

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 1.30% and 1.04%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The indexes are unmanaged. The Russell 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.

We are underweight in Health Care (as always) because of minimal exposure to biotechnology, which hurt relative performance this quarter since those stocks did well. Our underexposure to volatile stocks also detracted from relative performance for the quarter, as is often the case with big up moves. We favor high-quality/stable businesses. Still, our stock picking proved to be prescient and our positioning timely, so we were able to better the Index.

Table II.
Top contributors to performance for the quarter ended March 31, 2019

	Percent Impact
The Trade Desk	1.63%
TransDigm Group, Inc.	1.01
Ultimate Software Group, Inc.	0.89
Floor & Decor Holdings, Inc.	0.89
Guidewire Software, Inc.	0.83

The Trade Desk is the leading demand-side software platform, providing best-in-class technology enabling advertising agencies and their client brands to manage their digital ad campaigns and budgets more effectively. The company is on a tear and reported revenue growth of 55% for 2018. We believe that the addressable market is expanding dramatically and that eventually all advertising will be bought on a programmatic basis, which is Trade Desk's approach. The company has had great success serving the Connected TV industry (ads on Netflix and Hulu). They are just ramping up in international markets and its initial foray into China is going well. The company considers itself a global provider, but international sales are just 15% now, and we expect this percentage to rise. The Trade Desk was our best stock in 2018 and it is off to a great start in 2019. We believe it can sustain a high rate of revenue growth, while remaining very profitable. We see opportunity for the company to triple its value from here, but with the stock up five-fold from our initial purchase and trading at a high multiple, we have trimmed back our position a bit.

TransDigm Group, Inc., the manufacturer of proprietary parts for the aerospace industry with an emphasis on the aftermarket, continued to perform well. Bolstered by the tailwinds of steadily growing commercial passenger traffic, and better-than-expected demand from defense industry clients, the company reported EBITDA growth of 21%, which beat numbers for the quarter, and raised full-year guidance. The company also closed the purchase of Esterline, which is the largest acquisition TransDigm has ever made. We think the deal is right in its wheelhouse, a great use of the company's free cash flow, and accretive from the get-go. We also believe that TransDigm management will significantly increase Esterline's growth rate and margin profile in time…so a great acquisition. Also in the quarter, the AG issued its report on the company's pricing practices with no allegations of wrongdoing. Much ado about nothing. A strong rebuke to short sellers and publicity-hungry politicians. We have owned TransDigm for 13 years and have made a 32% annualized total return on our initial investment. We trimmed back our holdings this quarter as the stock has a $24 billion market cap…we bought in at $1 billion!

Ultimate Software Group, Inc. is a leading provider of cloud-based payroll and human resources software. Its shares rose in the quarter on the announcement that a private equity firm will acquire the company at a 32% premium. We are sad to see it go, but happy for management since this will allow them more flexibility to grow the company. I can remember our first meeting with management…11 years ago…like it was yesterday. The company was struggling, but had big plans to take market share and approach software delivery in a new manner. What most resonated was the passion, vision, and the focus on a people/goals-driven culture that the CEO Scott Scherr espoused. On his encouragement, I bought Pat Riley's "The Winner Within" right then and there. And what a winner the stock has been. Ultimate appreciated more than ten times since being added to the Fund in 2008, and has been an important contributor to the Fund's performance for years. Thank you, Scott.

Floor & Decor Holdings, Inc., a hard-surface flooring retailer, rebounded sharply in the quarter. Interest rates fell, so housing-related equities were in favor, not that this business is so housing related…but still. The concern about potential of additional tariffs had weighed heavily on the stock, and now that is less unnerving. The company successfully mitigated the first 10% tariffs through vendor concessions and by shifting some production. Results for the December quarter were solid, with same-store growth of over 8%. Guidance for 2019 was ahead of expectations and incorporates continued strong high single-digit comps. We think Floor and Decor is a highly-differentiated, well-managed retail concept, with a long runway of growth ahead (100 stores now to over 400 in time). We expect earnings to compound at a high rate as square footage grows 20% per year and margins improve. We increased our position in the fourth quarter of 2018 when the stock was lower. After the big move in the stock, we think it now trades at an appropriate multiple, and think we can make good returns go forward from growth.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** recovered in the quarter and surged ahead as the company reported an important cloud-based Insurance Suite deal, and it was extremely upbeat about demand for more to come. Guidewire is the dominant provider of software to its end market and has grown considerably over the years through continued penetration of new and existing accounts, delivery of new modules and data offerings, and introduction of products for smaller insurers. Now the company is in a new phase of its life. The insurance industry would like Guidewire's products delivered on a Software-as-a-Service basis through the cloud as opposed to on premise, as with many other verticals. The company is transforming its product, sales, and service organizations to accommodate this preference. The transition is time consuming and complicated, but the ultimate result will be tremendous for Guidewire since the revenue opportunity per customer is more than double what the company is spending on the transition, and customer relationships will be even stickier. Word is that the transition is going well, which is super important.

Other stocks that rose over 30% in the quarter, but weren't mentioned above because they contributed less to Fund performance on a percentage basis, were **GTT Communications, Inc.**, **2U, Inc.**, **Wix.com Ltd.**, **WEX Inc.**, **Cognex Corporation**, **Installed Building Products, Inc.**, **LiveRamp Holdings, Inc.**, **Mercury Systems, Inc.**, **Guardant Health, Inc.**, **Ceridian HCM Holding Inc.**, **Altair Engineering Inc.**, **Yext, Inc.**, **Sun Hydraulics Corporation**, **Dechra Pharmaceuticals PLC**, **OneSpa World Holdings Limited**, and **Avalara, Inc**. Cool.

Table III.
Top detractors from performance for the quarter ended March 31, 2019

	Percent Impact
Hudson Ltd.	–0.34%
Orion Engineered Carbons S.A.	–0.15
Cantel Medical Corp.	–0.12
Party City Holdco Inc.	–0.04
BJ's Restaurants, Inc.	–0.04

Hudson Ltd., the leading travel retailer, fell in the quarter after announcing disappointing results and the departure of its CEO. Sales slowed in the company's duty free and luxury retail operations, caused by lower spending by Chinese travelers. Net new business growth (contracts for new stores) decelerated as well, which the company explains as just the ebb and flow of the procurement cycle. The CEO did leave abruptly, but was replaced by the second in command, who has significant experience and has earned our confidence. We still like Hudson. We see the company as the undisputed leader in a protected retail environment and believe it can continue to grow sales organically by high-single digits through new wins and same-store growth. We are also excited about the company's ambitions to expand its airport Food and Beverage operations, which greatly expands its long-term opportunity. The stock traded to seven times EBITDA on the miss, which is way too cheap for a business with these characteristics, in our opinion.

Orion Engineered Carbons S.A. traded down after management reduced its outlook for 2019. The new guidance stems from weakness in China and auto production globally. While only 6% of volume is produced in China, 20% of production (including high-margin adhesives, sealants, and coatings) ends up there via export from Orion facilities, so the negative flow through is more pronounced. Also, the company announced that it will spend more to remediate an environmental issue, which, though we expect this to be reimbursed in time, will reduce free cash flow. Interestingly, the near-term issues are in the "specialty" piece of the business, while the more commodity side of Orion is doing very well. The stock traded down to six times EBITDA, which we believe doesn't properly reflect the value of the business.

Shares of **Cantel Medical Corp.**, the leading provider of infection prevention products and services to medical facilities, declined after announcing disappointing results. Sales of Dialysis Water declined due to customers scaling back clinic growth and a key customer insourcing the purchase. Though a negative development, this division represents under 20% of sales, and we believe it is not strategic, so could be sold. Cantel also announced a change in senior management, elevating a board member and seasoned health care executive to the role of CEO. We expect him to be more focused on restructuring and growing the portfolio of businesses. We admire the company's endoscopy cleaning segment, where organic growth re-accelerated to double-digits as the company builds on its global leadership franchise.

Party City Holdco Inc., the nation's largest specialty retailer of decorative party goods, declined in the quarter after reporting disappointing fourth quarter results, which were negatively affected by delays and extra expenses associated with getting products from Chinese suppliers ahead of potential tariffs. The company also explained that a supply chain disruption in the global helium market was restricting the amount of helium the company could obtain, crimping sales of mylar balloons, a very profitable line for the business. We believe the first issue is now behind the company, but the helium issue will probably linger for some time. The stock trades at five times earnings, and though we think that's nuts, we sold some crying "uncle."

BJ's Restaurants, Inc., an owner/operator of casual dining restaurants, lowered its projected earnings for the first quarter due to bad weather that reduced customer visits. The stock also was lower because of concern about hard comparable results for the next few quarters, since the company had such a strong year in 2018. We feel this is shortsighted and added to our position. BJ's management has done a sensational job in both increasing sales through menu innovation and reducing costs through operational excellence. Now the company will focus more on return of capital, and we expect to see a faster pace of unit growth and more share repurchases. The casual restaurant space is crowded, and there is lots of discounting going on, which hurts all participants. But we see BJ's as a differentiated concept-high-quality food at attractive prices that appeals to a broad base of consumers. We expect that its stock will reflect the success of its business over time.

No other stocks were down more than 10% in the quarter.

PORTFOLIO STRUCTURE

As of March 31, 2019, the Fund had $4.1 billion under management. The top 10 holdings accounted for 30.2% of the Fund. We owned 70 stocks at the end of the quarter.

Table IV.
Top 10 holdings as of March 31, 2019

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$174.4	4.3%
Guidewire Software, Inc.	2012	160.3	3.9
TransDigm Group, Inc.	2006	124.8	3.1
Waste Connections, Inc.	2016	121.8	3.0
The Trade Desk	2017	113.8	2.8
ASGN Incorporated	2012	111.1	2.7
SBA Communications Corp.	2004	109.8	2.7
IDEXX Laboratories, Inc.	2008	108.4	2.7
Bright Horizons Family Solutions, Inc.	2013	104.9	2.6
PRA Health Sciences, Inc.	2014	99.3	2.4

The Fund's largest weighting was in the IT sector at 32.4% of assets. About 60% of our IT investments are in software businesses, the merits of which we have long espoused. We also have about a third of our investments in IT services companies. We believe these are the most stable and impenetrable sub-industries, where we can find absolute leaders with strong business models (subscription business, high margins, low capital requirements…). We don't own any semiconductor, hardware or communications holdings, which are more cyclical and volatile and less appealing to us. The Fund has 18.0% of its net assets invested in Industrials and 14.3% in Consumer Discretionary companies. These are primarily unique companies in niches that have the wind at their backs. The Fund is overweight IT and Industrials and in line in Consumer Discretionary when compared to the Index. We have 17.0% invested in the Health Care sector, favoring life science tools and health care equipment and supplies. We have modest investments in biotechnology and pharmaceuticals. Since those two sub-industries make up about 14% of the Index, we are well underweight Health Care. We believe in the biotechnology revolution, however we find the small-cap stocks in the Index, for the most part, to be too unproven and unseasoned, and prefer to

invest in companies that we believe are more fully "baked," meaning they are established leaders in their niches.

We have managed the Fund in the same fashion since its inception. In a given year, we will sell about a quarter of our holdings and use the proceeds to purchase new small-cap companies or add to our existing smaller market cap holdings.

We sell stocks of companies that get acquired, we sell stocks that meet our long-term price targets, we sell stocks that we like less than new ideas that we uncover, and we trim our holdings in our larger market cap holdings to regulate position sizes and to be mindful of the small-cap charter of the Fund.

This process keeps the portfolio fresh, and the overall market cap controlled. In the first quarter, we purchased new ideas that had a weighted average market cap of $1.2 billion and we added to holdings that had a weighted average market cap of $2.3 billion. The market cap of our sales during the quarter was $8.9 billion.

Our three-year average turnover is about 17%. It's declined somewhat over the last five years, primarily because we have had to use some of the proceeds from stock sales to fund redemptions….in line with industry trends of outflows from active managers to passive or lower fee products. Of course, we don't believe this is wise since we think we can continue to outperform the indexes and do so with a less risky and more considered approach.

At the end of last quarter, we highlighted an observation that our stocks seemed to be trading at a significant discount to our price targets on year 2020 estimates. The undervaluation led us to be quite bullish about the prospects for the Fund. As the Fund has made large gains so far this year, we note that valuations have moved from cheap to fair in our mind. We believe that future gains will come from compounding earnings growth. We see great prospects for such growth in our holdings.

Recent Activity

During the quarter we were pretty busy, buying 5 new stocks and increasing our holdings in 11 others.

Two new investments were in SPACs, or "special purpose acquisition companies," which are pools of uncommitted capital that purchase shares of private companies, serving as a conduit to taking businesses public. SPACs are becoming more prevalent because of their recent successes. We believe this will continue to be a fertile channel for us to find new investments.

We often meet with the sponsors of the vehicles on their formation, who are typically management teams who have had previous success at managing a particular type of business. But we only invest after they have an announced acquisition in hand, when we can do significant due diligence on the company that is coming public through this approach. We are finding that we can do more extensive work, and sometimes invest alongside the SPAC in the acquisition (through a "pipe"), and have found situations where we are able to make a larger investment at an attractive price in a company that fits our standard criteria. It's like a combination of a special situation and an IPO and plays to our strengths of being able to make a large investment out of the gate after we give an investment great consideration.

Table V.
Top net purchases for the quarter ended March 31, 2019

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Churchill Capital Corp.	2019	$1.2	$37.5
OneSpa World Holdings Limited	2019	0.8	25.3
SiteOne Landscape Supply, Inc.	2016	2.3	15.9
Neogen Corp.	2019	3.0	13.1
BJ's Restaurants, Inc.	2012	1.0	8.9

Churchill Capital Corp. 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 that allow a variety of clients (academia, governments, corporations, and the legal community) to discover, protect, and commercialize new ideas, content, patents, and brands. Clarivate operates as a collection of well-known brands, including Web of Science (scientific and academic research), Cortellis (pharmaceutical and biotechnology intelligence), Derwent Innovation (patent analytics), CompuMark (trademark protection), and MarkMonitor (domain brand protection).

We believe that Clarivate has an excellent management team. The CEO of Chuchchill is Jerre Stead who was the longtime CEO of IHS Markit, a very successful information services company. Jerre will play an important role as Executive Chairman of the public company. CEO Jay Nadler has over 30 years of industry experience and is intimately familiar with Clarivate's collection of assets. We invested with Jay at a prior company and regard him highly.

Clarivate has an attractive information services business model. 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 underlying 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). Since much of the required investment is in collecting the underlying data and creating the analytical tools, Clarivate should have very high operating leverage ("build it once, sell it many times"), with sales of new subscriptions carrying high incremental margins. This natural operating leverage, along with targeted cost savings, should help to meaningfully drive up adjusted EBITDA margins into the 35% to 38% range over the next couple of years. Customers typically pay Clarivate up front on an annual basis and the business has low capital expenditure requirements, both of which will lead to strong free cash flow generation.

Clarivate is poised to accelerate its revenue growth. After a recent history of modest organic growth, the company is hoping to exit 2020 with a 4% to 6% organic growth rate. This growth acceleration will be driven by a number of factors, including positive tailwinds around the growth of predictive analytics and data, more effectively managing the business relative to Thomson Reuters' ownership, product and pricing enhancement strategies, growth in the Asia-Pacific region, increased focus on subscription revenue, and cross-/up-selling across the existing client base. Once the company is able to reduce its leverage, M&A is also likely to be a big driver of incremental growth as management sees a robust pipeline of potential acquisition targets.

Churchill is acquiring Clarivate at a below market valuation since the private equity sellers are taking stock and will benefit greatly from Jerre's involvement. The company sees significant cost savings that will make the acquisition even cheaper. And if the top line accelerates as expected, we see a great stock based on EBITDA growth, deleveraging, acquisitions, and multiple expansion.

OneSpa World Holdings Limited ("OSW") is the exclusive onboard provider of health, fitness, beauty, and wellness services to the cruise line industry. The company operates the spa and fitness centers of cruise ships on an outsourced basis. Our Firm successfully invested with this management team and in this business under its publicly listed predecessor, Steiner Leisure. After being taken private in 2015, OSW has returned to the public markets through merger into a SPAC. We built our position by investing alongside the sponsors to close the deal, and by buying shares in the new company in the public markets. In its new incarnation, OSW is a more focused, asset-lite company, high cash flow generator with a dominant, market position.

OSW enjoys 84% market share, 10 times the nearest competitor, providing spa services to all the biggest cruise lines such as Carnival, Royal Caribbean, and Norwegian. OSW has hard-to-replicate processes and infrastructure necessary to recruit and train technicians, provide human logistics, facility design expertise, yield and revenue management via proprietary technology and training tools, and partnerships with global beauty brands. Customer relationships span 20+ years with five-year average contracts (usually staggered) and 95% renewal rates. Revenue sharing contracts align interests and offer compelling value for OSW and cruise line partners alike (capture >$0.50 on the dollar). OSW's business model requires modest capital, as the cruise line funds the build-out, maintenance, and refurbishment of onboard spas. The spas on boats have expanded as passengers had proven to love the services and cruise operators earn meaningful incremental profits by providing them. Over time, OSW has expanded the scope of its operations by adding medi-spa and pain management services through medical doctors onboard, offering Botox treatments and CoolSculpting, which is increasing revenues generated per spa, since many of these treatments cost more than 10 times that of a traditional massage or acupuncture session. OSW is adopting yield management programs that have been perfected by the hotel and airline industries. They are increasingly focused on maximizing revenue per spa by marketing their offerings in advance of the cruise, in conjunction with the operators, and through dynamic pricing of treatments during the cruise based on demand for the services.

We expect more ships to come into service over time and OSW to have spas in most all the new ships that are built. The cruise industry has achieved over 20 consecutive years of global passenger growth, including a 5% CAGR passenger count since 2009 and growth during each of the last two recessions. OSW operates on 163 ships currently, and we expect 45 new ships to be launched by OSW cruise partners in the next four years. The company recently won back some contracts that it had lost to a competitor, so 2020 will be a year of much higher growth as these spas come on line. Longer term, further development of Asia's cruise industry and expansion of OSW's 67 resort spa footprint (10% of revenues) could be additional growth drivers.

Predicated on new ships, new contract wins, and modest increases in per passenger spending, we estimate OSW can grow revenue 25% and earnings 32% over the next two years. We underwrite low-double-digit growth thereafter. A hallmark of this business is strong free cash flow given low CAPX (1% of revenue) and limited tax leakage (2%) with most of the income earned in international waters. Leverage should be brought down to well under two times by 2020, giving management the flexibility to return capital to shareholders. Given its entrenched business model, market leadership, predictable growth, and FCF profile, we believe that OSW deserves to trade at a 20 times earnings multiple. We were able to establish our position at 11 times earnings. The stock has moved up since the closing of the transaction, but we believe it is still undervalued on near-term metrics, and there are prospects for strong compound growth go forward.

Table VI.
Top net sales for the quarter ended March 31, 2019

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Shutterfly, Inc.	2017	$1.5	$ 1.5	$45.7
Ultimate Software Group, Inc.	2008	0.7	10.5	39.5
The Trade Desk	2017	1.7	8.8	31.6
Gartner, Inc.	2007	2.2	13.6	21.6
TransDigm Group, Inc.	2006	1.1	24.0	21.4

During the quarter, we exited our positions in **Shutterfly, Inc.**, **Avalara, Inc.**, and **Emerald Expositions Events, Inc.** Shutterfly reported soft sales in the crucial fourth quarter and the resignation of its CEO. We greatly admired the executive, so when his plan to increase sales of legacy products didn't succeed, we sold our position, as it was a premise to our investment. We still see opportunity to turn around the business, but we moved to the sidelines to watch for progress.

Avalara was a recent investment, the leading provider of sales tax software, that performed incredibly, and the stock exceeded our price targets. We took our profits.

Emerald was a disappointment. The operator of trade shows failed to meet our growth expectations as some of their biggest trade shows had stubbornly weak results. We sold the stock at a modest loss.

Ultimate Software Group, Inc. is being acquired at a nice premium, as discussed before. We sold some of our position this period and expect the deal to close in the second quarter.

We trimmed many other of our larger market cap positions in the quarter, most often into strength. The largest trims were in **The Trade Desk**, **Gartner, Inc.**, **TransDigm Group, Inc.**, and **Waste Connections, Inc.**

Outlook

The fundamental outlook for the economy is solid and investment conditions strong…growth not recession, rates down not up, employment strong but not inflationary, China recovering, and trade tensions diminished. That combined with an oversold market that was fearful of events that didn't play out has led to a great run in the market. We wouldn't expect such terrific stock performance go forward, since valuations are now fair not cheap, sentiment has improved (yet not ebullient) and was awful, and the market has been pretty much straight up, and we will probably see more volatility in the future.

Earnings might be a little sloppy in the first quarter, since the concerns of the end of 2018 weighed on corporate decisions. However, we believe this will likely be the low quarter for economic growth, and since the outlook is

fine, the market will probably look through any softness. Most believe that the economy will slow this year, which makes sense since last year had fiscal stimulus. However, we do not see any slowdown in the pace of earnings growth for our holdings. And remember that, over time, the results of our companies matter most to their stock price performance, not macro or market factors.

Our approach at Baron and 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, strong business models, are well managed, and we think can grow on a compounding basis. We hope to find these companies and stocks when they are young and small and own them as they mature and grow. We stay invested, in a varied amount, as long as the businesses perform (as the stocks will follow), but sell out and replace them in the portfolio if the businesses falter.

Easier said than done. I ascribe a lot of the Firm's success to the great prowess of our research staff, which includes analysts and PMs in executing the plan. We have a group of smart, nice, hardworking, and focused analysts. Many of the younger analysts are catching on and becoming true "money makers." We have promoted many sector analysts to portfolio managers, and this has had the positive affect of propelling each to become better investors and better resources to the other managers. It feels like it's all really humming. I want to thank the others in the group for participating greatly in the strong results of the Fund.

We have assembled a portfolio of high-quality businesses that are doing well and have great futures. There is a shortage of high-quality assets, so we are not surprised as multiples for these companies expand and add to our returns.

Thanks for investing in the Fund, my fellow shareholders.

I appreciate your confidence.

Cliff Greenberg
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.

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.

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