Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund (the "Fund") had a good second quarter, gaining 6.49% (Institutional Shares). For the first six months of 2018, the Fund is up 9.54%, in line with the Russell 2000 Growth Index (the "Index"), to which the Fund is compared. The Index was up 7.23% for the quarter and 9.70% year-to-date. The broader S&P 500 Index is doing worse, up 3.43% for the quarter and 2.65% for the year-to-date.

Table I.
Performance
Annualized for periods ended June 30, 2018

	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]	6.38%	6.49%	7.23%	3.43%
Six Months[4]	9.39%	9.54%	9.70%	2.65%
One Year	20.16%	20.48%	21.86%	14.37%
Three Years	11.62%	11.91%	10.60%	11.93%
Five Years	12.14%	12.43%	13.65%	13.42%
Ten Years	10.75%	11.01%	11.24%	10.17%
Fifteen Years	10.55%	10.73%	10.95%	9.30%
Since Inception (September 30, 1997)	10.28%	10.40%	6.51%	7.21%

CLIFF GREENBERG

PORTFOLIO MANAGER

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

The market was volatile in the quarter. The positive momentum from the strong economy and corporate earnings was offset by trade tensions and then the institution of new trade tariffs between the U.S. and its trading partners in China, Canada, and Mexico. Investor sentiment swung back and forth from focusing on macro concerns about protectionism to excitement about the pace of business, with the latter winning out in the end. It is our view that trade discussions are fluid, that it is a mistake to read too much into the events of the day, and we are not obsessing about the daily news flow because we might miss out on opportunities in our stocks.

The economic narrative stayed very positive in the quarter. The economy continues to add about 200,000 jobs per month, and in April, the unemployment rate declined below 4% for the first time since 2000. The consumer confidence reading also was the highest since 2000, and consumer spending has been very strong. It is expected that growth in the quarter will be around 4%...up considerably from years at the mid 2% level. We expect overall corporate earnings to be up 20% plus in the quarter, as was the case in the first quarter. Of course, some of the growth comes from the one time positive of lower corporate tax rates. Inflation remains in check. The Fed continues to increase the Fed Funds rate, as advertised, but yields have fallen as emerging market economies slow and the trade tensions somewhat dampen future growth expectations.

Growth stocks continued to outpace value stocks in the quarter. But, in this period, leadership shifted to more conservative groups like Energy, Health Care, Consumer Staples and Consumer Discretionary. Information Technology (IT) stocks did fine as well, but Industrials and Materials lagged because of concern about slowing global growth and the rise in the U.S. dollar, which negatively affects foreign earnings. High-quality/small-growth stocks, like we emphasize at Baron, continue to be the place to be...in our mind, because their growth trajectories and outlook are so strong. Many of our companies have dominant market positions in growing business segments, with major secular tailwinds and a long runway of growth ahead. And, we think they shouldn't be affected by geopolitical turmoil.

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, 2017 was 1.31% and 1.05%, 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.

Our absolute results were driven by strong performance of our IT, Health Care, and, to a lesser degree, our Consumer Discretionary holdings. Compared to the Index, our "low volatility" portfolio and our somewhat higher market cap holdings were detriments to our relative performance, as those factors underperformed. Our stock picking somewhat made up for it. We had a handful of stocks that had big gains in the quarter.

Table II.
Top contributors to performance for the quarter ended June 30, 2018

	Percent Impact
The Trade Desk	0.88%
Teladoc, Inc.	0.70
Gartner, Inc.	0.54
Cision Ltd.	0.50
IDEXX Laboratories, Inc.	0.45

The Trade Desk characterizes itself as "the next wave of advertising." It powers the most sophisticated buyers of advertising with the fastest growing demand-side platform in the industry that enables real time/programmatic bidding for digital advertising campaigns. Trade Desk reported a blowout first quarter, with revenues up 61% and cash flow up over 200%, way surpassing estimates and accelerating materially versus prior quarter. The shares rose 89% in the quarter. The strong results were driven by new product introduction, the doubling of international sales, the entrance into new product verticals, and market trends shifting some advertising away from Facebook. We believe that programmatic advertising will gain share and that Trade Desk will lead the charge. We are particularly excited about some of the new innovations the company is rolling out such as the incorporation of artificial intelligence into the product suite and the inroads the company is making in the Chinese advertising market.

Shares of **Teladoc, Inc.**, the largest telehealth company in the U.S., rose in the quarter after reporting strong first quarter results and announcing an important acquisition. The company offers "quality care you need and the convenience you want," by enabling its users to contact doctors directly over the internet or phone and get immediate medical attention or second opinions about more complicated courses of treatment. Teladoc reported revenue growth of 109%, inclusive of 47% organic growth, which bested estimates. Patient visits and membership, the key metrics of utilization of the service, were both up over 40%. Teladoc announced the acquisition of Advanced Medical, the leading virtual care provider outside of the U.S. With a broadened international footprint and the ability to offer an expanded set of clinical services worldwide, the combination creates the only global comprehensive virtual care platform capable of serving companies and people everywhere. We think that telehealth is a huge growth industry and that Teladoc is well positioned to maintain its lead and extend its service to additional medical care management, like chronic care.

Gartner, Inc., the provider of syndicated research about technology products and trends (and our largest position) announced strong results in its legacy business and positive trends in its integration and growth of CEB, leading to gains in its shares. Core research grew 17% and events 24% pro forma. Contract value metrics, which provide visibility to future growth, are solid and point to continued mid-teens organic growth. Management announced that it is accelerating its spending on CEB, by dramatically increasing its sales staff, which along with some catch-up investments on infrastructure and product development, will dampen margins in the short term. But, they are stepping up the spending because of early positive traction they are seeing with customer retention, product acceptance and pricing practices. We are hopeful, as queued by management, that the CEB segment can grow mid-teens in time and have similar margins as the base business, which would make the acquisition a home run. We like that the company sold a non-strategic asset it got as part of the purchase and believe it will generate sufficient free cash flow to start returning capital to shareholders early next year.

Cision Ltd. empowers communications executives to identify influencers, craft and distribute meaningful stories, and measure the impact through its offerings of the PR industry's leading SaaS operating platform and press release distribution service. Shares rose in the quarter after the company announced good results, the successful simplification of its capital structure, and the rollout of a meaningful new product. As we have explained, Cision is an amalgamation of software companies serving the communications industry under the auspices of talented and experienced managers who are seeking to create the leading cloud-based solutions for this poorly-served niche. Cision delivered another solid quarter of financial results and continues to focus its efforts on delivering best-in-class products and services to its customers, executing its strategic and operational plans, and driving toward its long-term financial goals. This focus resulted in first quarter pro forma organic revenue growth of 2.0%, which we expect to accelerate. The company called its outstanding warrants from the SPAC transaction and did two equity offerings in the quarter, which will provide some necessary liquidity in the shares. We believe that the recently introduced "Cision Impact" product is revolutionary in that it's a service in which earned media can be properly measured enabling better attribution and quantification of the effectiveness of PR campaigns. If adopted as an industry standard, it would cement Cision's market position and result in significantly higher growth.

Other stocks in the Fund that rose 20% or more in the quarter were **Wix.com Ltd.**, **HealthEquity, Inc.**, **WEX Inc.**, **The Madison Square Garden Company**, **Acxiom Corporation**, **Financial Engines, Inc.**, **Avalara, Inc.**, **Yext, Inc.**, **BJ's Restaurants, Inc.**, **DexCom, Inc.**, **Ceridian HCM Holding Inc.**, **Liberty Media Corporation – Liberty Formula One** and **Ollie's Bargain Outlet Holdings, Inc.**....lots. Nice.

Table III.
Top detractors from performance for the quarter ended June 30, 2018

	Percent Impact
GTT Communications, Inc.	–0.71%
John Bean Technologies Corporation	–0.48
Camping World Holdings, Inc.	–0.36
Cognex Corp.	–0.32
Mercury Systems, Inc.	–0.24

Shares of **GTT Communications, Inc.**, a telecom services provider to global enterprise corporations, fell due to profit taking after a big rally in the first quarter following the announced acquisition of Interoute, a similar business located in Europe. We think investors are a little concerned about post-transaction debt levels, and that overall revenues will contract as management exits some less favorable contracts assumed in the deal and takes its time to build its international sales force. We remain excited about the transaction, which doubles the size of the company. We think the rationale for the deal is sound, that management has a great record of execution, and that accretion could be significant. We underwrite that EBITDA will more than double over the next three years and so can the stock, as the company executes on its game plan.

John Bean Technologies Corporation, a leading global manufacturer of equipment for the food processing and air transportation industries, missed its numbers in the first quarter and the stock fell in conjunction. Cost overruns and negative organic revenue growth both contributed to the shortfall, and new revenue recognition requirements added to the confusion. The company maintained its yearly estimates for high single-digit organic growth signaling its expectation that the business will recover quickly. And it announced a restructuring plan to reduce expenses which would increase margins by 2% if accomplished. The stock traded off to what we believe was a very attractive multiple (20 times 2018 earnings and 10 times EBITDA) and we added to our position. We continue to think very highly of the company's management and that this is just a blip, that this is a leading company in an attractive niche that can compound earnings through both organic growth and margin expansion, and that there is significant acquisition potential so that the company can be much bigger and more profitable in the future.

Shares of **Camping World Holdings, Inc.**, the largest retailer of recreational vehicles (RV) in the U.S., continued to sell off in the second quarter. Investors are concerned that dealer sales could decline since inventory levels are elevated and the price of RVs will increase with the pass through of higher steel costs which could negatively affect consumer purchases. The company also reported sizeable losses in its recently acquired and assembled outdoor retail business, which was not part of investors' mindsets. On these issues, we think that sales of RV dealers will hold up better than manufacturers if there is an industry slowdown…which we think Camping World will mostly avoid because of its reliance on selling cheaper towable units, and that its "Good Sam" subscription business will cushion sales declines. We like the company's venture into the outdoor retailing space because the risk/reward of the investment is potentially sensational and there are great synergies with the base business. Two-thirds of the new stores will soon offer RVs in addition to a differentiated retail approach. We added to our position on the weakness in the stock.

Cognex Corp. sells machine vision products for factory automation and logistic applications. After an exceptional year in 2017, driven in part by large special orders from consumer electronics companies, Cognex reported that it expects sales will slow in the back half of 2018, so that this year's sales will increase about 5%, versus the 47% growth in 2017. We think all is still very good at Cognex, that some sales were moved forward last year from this, and that the company is likely to return to 20% plus organic revenue growth (and higher profit growth) go forward. Cognex continues to benefit from secular growth drivers, including factory automation and the use of artificial intelligence in advanced manufacturing and logistics, expanding the use and applications for the company's machine vision products. We sold some of our position into the extraordinary results and price rise last year. The stock has traded back to what we think is a relatively cheap valuation and expect the shares to perform well from these levels.

Other stocks in the Fund that fell about 20% or more in the quarter were **Mercury Systems, Inc.** (to which we added) and **Beacon Roofing Supply, Inc.** (which we reduced).

Portfolio Structure

As of June 30, 2018, the Fund had $4.4 billion under management. The top 10 positions represented 29.8% of the Fund. At the end of the quarter, we owned 71 stocks, in line with our desire to have fewer names in the portfolio.

Table IV.
Top 10 holdings as of June 30, 2018

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$186.1	4.2%
Guidewire Software, Inc.	2012	155.4	3.5
IDEXX Laboratories, Inc.	2008	147.1	3.3
TransDigm Group, Inc.	2006	138.1	3.1
Waste Connections, Inc.	2016	135.5	3.1
ASGN Incorporated	2012	129.0	2.9
GTT Communications, Inc.	2017	112.5	2.6
SiteOne Landscape Supply, Inc.	2016	109.2	2.5
The Ultimate Software Group, Inc.	2008	102.9	2.3
ICON plc	2013	102.7	2.3

The Fund's largest concentration is in IT stocks, primarily application software and internet software and services holdings. These stocks have been some of our best performers this year and we continue to like them for the long term. As such, tech stocks now make up a third of the Fund, and we are now overweight this sector versus the Russell 2000 Growth Index. We have about 20% of the Fund invested each in Consumer Discretionary and Industrials stocks. These are historic areas of concentration and we skew higher than the Index as well. We have about 15% of the Fund invested in Health Care stocks, which is much lower than the 27% Index weighting for this sector. The major difference is that we don't really invest in biotechnology and pharmaceuticals companies because of our aversion to investing in unseasoned/speculative issues, which characterizes much of the Health Care stocks in the small-cap index.

At the end of the quarter, about 20% of the Fund had a market cap over $10 billion; about 25% of the Fund was between $5 billion and $10 billion, and 54% of the Fund was under $5 billion. All stocks were bought as small caps, generally with market caps of under $2 billion. But because of our "water the flower, cut the weeds" long-term mantra, we have held onto stocks that have appreciated significantly and those we think still have meaningful upside. 32 of our holdings, representing 56% of our assets, have more than doubled since purchase.

Year-to-date, we have purchased new stocks or increased existing holdings with an average market cap of $2.4 billion. We have sold out of stocks or trimmed our positions in stocks with an average market cap of $6.3 billion. This practice of recycling capital from high market cap stocks to much smaller companies is how we maintain the small-cap nature of the Fund and stay true to our mandate.

Recent Activity

After a flurry of activity over the prior nine months, we were quieter this quarter. We added three new names, two of which were IPOs. We increased our position in 15 other holdings. We exited five names and trimmed 15 of our positions.

Table V.
Top net purchases for the quarter ended June 30, 2018

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Ceridian HCM Holding Inc.	2018	$4.5	$22.1
Installed Building Products, Inc.	2017	1.8	17.1
Floor & Decor Holdings, Inc.	2017	4.8	16.2
Ollie's Bargain Outlet Holdings, Inc.	2018	4.5	14.9
Raven Industries Inc.	2018	1.4	13.2

We participated in the IPO of **Ceridian HCM Holding Inc.**, a rapidly growing provider of Human Capital Management (HCM) and payroll applications. Ceridian's products are used by businesses to manage the employee lifecycle, from recruiting and making new hires, to tracking, scheduling, and paying employees, to reviewing and promoting high performers. Ceridian's flagship product is Dayforce, a Software-as-a-Service (SaaS) platform. Dayforce has historically been focused on mid-sized companies in the U.S. market but was designed to accommodate organizations with any number of employees in any geography. Ceridian also offers a SaaS platform, that focuses exclusively on the Canadian SMB market called PowerPay. Finally, Ceridian continues to manage the decline of its legacy Bureau business, which offers a subset of capabilities on an outsourced basis.

Companies like ADP and Paychex have dominated the HCM and payroll space for decades. They are now being disrupted by next generation SaaS vendors such as Ceridian and Ultimate Software (a longtime holding in the Fund), which offer more functionality and better user experiences at lower cost. As a result, most leading SaaS HCM and payroll companies are growing revenue in excess of 20% annually. Within this group, Ceridian is highly differentiated. It offers the most modern user experience and was designed and built internally rather than pieced together through acquisitions. The company's flagship Dayforce platform enables continuous, real-time calculations between the payroll and time and attendance systems, a key feature that is difficult to replicate. Finally, CEO and Dayforce founder Dave Ossip has created a unique and compelling corporate culture that prioritizes customer success and employee engagement and creates superior customer outcomes.

Dayforce is currently growing at an industry-leading pace in excess of 40% and is the piece we find so compelling. Overall, Ceridian is growing around 12% due to slower growth at PowerPay and ongoing but moderating declines at the legacy Bureau business. The HCM and payroll software market is $19 billion and is growing in the high single digits. We expect Dayforce to grow around 30% on a sustainable basis, ahead of the market due to ongoing market share gains in the U.S., more aggressive sales hiring, and entry into international markets. We also see a long runway for cross-sales to existing customers, who on average are only purchasing around a third of Ceridian's product offerings. We expect the drag from the company's Bureau business to become less onerous over time as its relative size shrinks and migrations conclude.

Ceridian's IPO priced at $22. Shares traded around $34 at the end of the quarter, which we think is a reasonable multiple of next year's revenue. We expect the rapid revenue growth of Dayforce to result in nice margin expansion through a favorable mix shift and operating leverage, enabling margins to expand into the high 30% range over time. We also see significant free cash flow generation. As the business scales and margins improve, we expect the stock to begin to trade on a free cash flow basis. We see the stock moving into the mid-$50 range over the next two years, and towards $90 per share over the longer term. Leverage should decline towards 2.5 times debt to EBITDA over the next year or so, at which point the company can opt to begin to return capital to shareholders, further enhancing equity returns.

Table VI.
Top net sales for the quarter ended June 30, 2018

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Financial Engines, Inc.	2010	$0.7	$ 2.9	$46.8
Acuity Brands, Inc.	2011	2.5	5.2	38.5
Beacon Roofing Supply, Inc.	2017	2.9	2.9	21.4
FleetCor Technologies, Inc.	2010	1.8	18.9	21.4
Bright Horizons Family Solutions, Inc.	2013	1.8	5.9	19.9

During the quarter, we sold out of longtime holding **Acuity Brands, Inc.**, as we grew frustrated with the pace of revenue growth. We exited our position in **MSG Networks Inc.**, when its stock rose on speculation that the company could be sold in conjunction with Disney's purchase of Fox, and we thought the stock traded to a price that reflected its value. We sold our remaining stub positions in two MLPs, choosing to use the proceeds to buy purer small-growth companies. And we sold out of **Syneos Health, Inc.**, but stayed invested in our other CRO holdings (ICON plc and **PRA Health Sciences, Inc.**).

Financial Engines, Inc., a longtime position, was acquired during the period by a private equity firm at a nice premium. We would not be surprised if more of our holdings were picked off by bigger companies or private funds in the future, as is often the case.

We trimmed some bigger positions into strength – **FleetCor Technologies, Inc.**, **Bright Horizons Family Solutions, Inc.**, **Waste Connections, Inc.** – as is our practice, to take some profits off the table during strong runs and to redeploy those funds into new small-cap investments.

Outlook

The market continues to perform well despite all the conflict – between political parties, between nations, within communities, within alliances – which is mighty impressive. Usually, such turmoil is unsettling to investors and business leaders and weighs on markets. Yet, we are at all-time highs. In our mind, this is because the domestic economy is so strong, turmoil is not causing changes in business behavior, there is no sign of a recession on the horizon, and inflation is in check...a great setup for equities.

High-quality growth businesses continue to lead the market. Especially those companies that are rapid growers, have dominant positions in their niches, are technological disrupters, and can grow organically and through acquisition. And though there have been periods of rotation out of these stocks during the year, the market keeps coming back to reward them, in recognition of their superior traits, in our opinion. Our portfolio, and others at Baron, are laden with such investments. We monitor the valuation of these holdings, and when they get extended, our approach is to sell a little into strength. Most sales have been bad sales so far, but over time, this method has worked for us. For the most part, we believe valuations are reasonable considering the quality of the companies and we believe we will make our returns from the growth of the businesses, not from further multiple expansion.

For the rest of the market, we have seen multiple contraction year-to-date. Without the so called "FANG" stocks*, the S&P 500 Index is flat on the year. Yet earnings are up about 20%. We view this to be healthy, that the markets are digesting gains and are squeamish because of the uncertainty of the trade talk and elongated expansion of the economy and market. Maybe the market is being complacent about the trade tensions and the issues in the Eurozone. Maybe multiples of the great companies we invest in will contract. We will see. We are attentive to the issues, but not so nervous to change our stripes from what has served us well.

We are staying focused on the fundamentals. We believe that corporate earnings will determine the path of the market, and they are very strong as of now. We are monitoring our holdings closely to make sure they are living up to our expectations of quality and growth and that their futures are still bright. We are looking for new investments in companies that meet our standards–companies that are leaders in their fields; companies that we believe are well managed by people we have faith in, are experiencing and projecting solid organic growth in revenues and margins, have opportunities to make strategic and accretive acquisitions, and are reasonably valued so we have the potential to make good long-term returns.

Thanks for your confidence in us to do so.

Cliff Greenberg
Portfolio Manager

* Acronym for Facebook, Amazon, Netflix and Google.

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.

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.

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