Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund (the "Fund") is having a strong year. We had a good second quarter, gaining 4.95% (Institutional Shares). For the year, the Fund is up 29.26%. Our results were better than the Russell 2000 Growth Index (the "Index") for the second quarter and are well ahead year-to-date. The Index was up 2.75% in the quarter and is up 20.36% for the year. The Fund is also doing better than the S&P 500 Index, which is up 4.30% in the quarter and 18.54% year-to-date.

The strong results now have the Fund outperforming its benchmark index for all the time periods measured below.

Table I.
Performance
Annualized for periods ended June 30, 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]	4.89%	4.95%	2.75%	4.30%
Six Months[4]	29.07%	29.26%	20.36%	18.54%
One Year	9.28%	9.59%	(0.49)%	10.42%
Three Years	17.90%	18.21%	14.69%	14.19%
Five Years	9.60%	9.89%	8.63%	10.71%
Ten Years	14.49%	14.79%	14.41%	14.70%
Fifteen Years	9.50%	9.69%	8.90%	8.75%
Since Inception (September 30, 1997)	10.23%	10.36%	6.18%	7.35%

The market was up and down in the quarter, mostly in line with sentiment around trade tensions. By the end of the quarter, trade deals were reached with Mexico and Canada, and discussions with China were revived, so concerns ended on a softer note and the market rose.

The U.S. economy has slowed, and global growth has weakened as a result of prior increases in interest rates, reductions in global trade, and lower capital spending from supply chain disruption. The U.S. Federal Reserve acknowledged the slowdown and adopted a more dovish stance in its commentary. Now the market expects interest rate cuts…a major reversal from six months ago. Investors cheered the prospect for lower rates and remain optimistic that the growth outlook is still solid and inflation MIA. By the way, the current economic expansion is now the longest in history.

CLIFF GREENBERG
PORTFOLIO MANAGER

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

The Fund did well and outperformed largely due to stock selection. Health Care stocks in general were flat but our Health Care stocks performed well, especially veterinary diagnostics company **IDEXX Laboratories, Inc.**, contract research provider **ICON plc**, virtual health care provider **Teladoc Health, Inc.**, and glucose monitoring device manufacturer **DexCom, Inc.** These stocks and others we own did well in reaction to strong operating results and positive outlooks. Our stock selection also added value in Consumer Discretionary, Real Estate, and Industrials. Some of our lead stocks in these groups were Consumer Discretionary companies **Bright Horizons Family Solutions, Inc.**, the provider of child care, and **Installed Business Products, Inc.**, the installer of insulation and other housing products; Industrials companies **John Bean Technologies Corporation** and **SiteOne Landscape Supply, Inc.**; and tower operator **SBA Communications Corp.** in the Real Estate sector. Our Information Technology ("IT") stocks, which drove our relative performance in the first quarter, underperformed this quarter, which is fine with us as it feels good that our results this quarter were more broad-based across various sectors.

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 index performance is not Fund performance; one cannot invest directly into an index. 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.

On a relative basis, our tilt towards high-quality and lower-volatility stocks helped our performance. Also, larger-cap stocks did better than smaller ones, and the Fund skews higher in market cap than the Index because we hold our winners for the long term, which has added much value and benefited our shareholders greatly.

Table II.
Top contributors to performance for the quarter ended June 30, 2019

	Percent Impact
IDEXX Laboratories, Inc.	0.59%
John Bean Technologies Corporation	0.58
SiteOne Landscape Supply, Inc.	0.50
The Trade Desk	0.49
Bright Horizons Family Solutions, Inc.	0.49

IDEXX Laboratories, Inc., the leading provider of diagnostics to veterinarians, reported robust financial results and the shares rose nicely. The company reported double-digit organic revenue growth and 12% recurring revenue growth. The installed base of instruments was up 21%, and new offerings being rolled out on the platform are being well received. U.S. lab growth grew 15%, as IDEXX continues to gain share because of proprietary tests and superior service. Margins grew over 200 basis points, and the company continued to repurchase its shares. All in all, an excellent quarter. Subsequently, it was reported that the company's CEO, who we revere and treasure, was in a serious biking accident. We wish him the best.

Shares of **John Bean Technologies Corporation** ("JBT"), a leading global provider of equipment and solutions to the food processing and air transport industries, rose after reporting strong results for the quarter and raising guidance for the year. JBT also announced two acquisitions, spending about $350 million. Both companies sell technological solutions to the poultry industry and are in keeping with the company's desire to automate food production. Part of the thesis for our investment is that these industries are very fragmented, and that JBT can play a role in consolidating the businesses in an accretive fashion and increase the organic growth of the targets by extending their global reach, professionalizing their operations, and incorporating the products in its larger sales and service organization. We retain our conviction that JBT can continue to grow organically and inorganically and thereby compound its earnings at a faster pace than most industrials.

SiteOne Landscape Supply, Inc. is the largest distributor of wholesale supplies to the landscape trade in the U.S., selling a wide range of irrigation, agronomics, hardscape, and nursery products. The company reported good results and reiterated guidance. The stock responded well. The company's share price had been depressed as weather negatively affected prior results, and higher interest rates held the stock price back on fear that housing starts would decline, which hasn't played out. We have been involved since the company's IPO and remain excited about the company's ability to: become the dominant player in a large and highly fragmented market; improve the way that business is conducted; serve its customers better with improved service, product, prices, and convenience; make significant and highly accretive acquisitions; and, in time, run the business at a significantly higher margin. This should lead to great value creation. The runway is very long, as SiteOne now has about 11% market share with the aspiration of increasing its position by three- or four-fold. Management is very strong, and we have great faith in its vision and execution.

The Trade Desk, the leading internet advertising demand-side platform, enables advertisers and their agencies to purchase digital ads more effectively. The company continues to report incredible results; this quarter's revenues rose over 40%, and the stock continues to soar. The company outlined how enormous the opportunity is for growth, in that programmatic advertising has just 10% penetration of total advertising. Also, the company is just entering the Chinese advertising market, which offers great promise. The stock also benefited from issues at Google and Facebook, as advertisers seek to diversify their spending to other sites. The shares now trade at a full multiple (30 times forward EBITDA) and has over a $10 billion market cap (we bought in at $1.7 billion about two and a half years ago!!), and we sold some stock to take profits and moderate position size after the great run.

Shares of **Bright Horizons Family Solutions, Inc.**, the leading provider of high-quality, corporate-sponsored child care, rose in the second quarter after beating Street expectations across the board. Bright Horizons is a unique company in that it has had over 20 years of sustained sales and margin growth and has a very stable, visible, and consistent business model based on long-term contracts, and over 95% client retention. The company has added new lines of business and is expanding its business internationally to extend its growth horizon. The rate of earnings growth has modestly slowed over the last couple of years as the company digested a lower margin acquisition and spent heavily on technological improvements to its offerings. Now it is on the cusp of faster growth, as the company benefits from its investments and also as its "consortium" centers mature and add to profitability. This inflection in growth has led to multiple expansion.

Other stocks we own that rose over 20% in the quarter but affected performance less are **Installed Building Products, Inc.**, **RBC Bearings Incorporated**, **DexCom, Inc.**, **Cantel Medical Corp.**, **Endava plc**, **Revolve Group**, **Abcam plc**, **Summit Materials, Inc.**, **The Real Real, Inc.**, and **Pagerduty, Inc.**

Table III.
Top detractors from performance for the quarter ended June 30, 2019

	Percent Impact
2U, Inc.	–1.02%
GTT Communications, Inc.	–0.93
Red Rock Resorts, Inc.	–0.30
Cision Ltd.	–0.30
PRA Health Sciences, Inc.	–0.24

2U, Inc., an education technology service provider that enables universities to deliver high-quality online degree programs, fell a lot after reporting disappointing results. The company lowered guidance for revenue growth. Partner universities became more selective and lowered admission rates, and the delayed launch of an important program will result in only one cohort being seated this year. The company recently announced a large and meaningful acquisition of Trilogy, a company that provides tech bootcamps and training, which along with the GetSmarter purchase last year, has significantly diversified 2U's revenues. With the issues in the base business, many investors view these purchases with skepticism and uncertainty rather than with excitement, and the shares are in the penalty box for the time being.

GTT Communications, Inc., a multi-national telecommunications service provider to large enterprises, reported negative revenue growth in the first quarter and pushed out the timetable for the return to positive organic growth, and the stock was punished. The combination of high leverage, a large short position, and weak current results is calamitous. Management believes that the shortfall has to do exclusively with an understaffed sales force and is focused on adding headcount and quickening training. We are disappointed in the poor execution and had sold some stock before the miss was reported, but we still do like the opportunity and respect the management, so we have maintained the bulk of our position, and we believe it is wise to wait until results improve.

Shares of **Red Rock Resorts, Inc.**, a leading casino owner and operator focused on the Las Vegas locals' market, declined in the quarter after reporting lackluster results, and as other casino companies missed estimates. The company is finishing two large renovations of owned casinos, and the market is somewhat concerned over the pace of the ramp of the renovated Palms hotel. We think the project will be a success and are less focused on near-term results. We also believe that the stock traded down to a multiple which understates the value of the business once the new projects scale and the company uses some free cash flow to reduce leverage. We added to our holding on weakness.

Cision Ltd., the SaaS software provider to public relations and earned media industries, declined in the quarter after the company announced two acquisitions to expand the company's offerings. The company explained that the acquisitions fit its long-term objectives and had to act timely to take advantage of these opportunities. However, they are dilutive to near-term margins and Cision issued new equity to close the transactions, which has seemingly leaked back into the market. Organic growth has improved but hasn't reached "lift off" (company term). If and when it does, we believe the balance sheet will improve and the trading multiple could expand pretty significantly, so there is great upside in the stock. We are patiently awaiting these developments.

Shares of **PRA Health Sciences, Inc.**, a global clinical research organization, fell after reporting mixed first quarter financial results. Data Solutions revenues were light, which we attribute to management turnover. Importantly, the company maintained guidance and foreshadowed that revenues should reaccelerate after a couple of quarters of slowing. The stock has been quite volatile, since results have been less consistent, and it now trades at a significant discount to other contract research organizations. We like the business, the company, and management. We have been shareholders since it has been public, and we believe the multiple should expand if results revert to prior consistent growth.

The other stock we own that was down over 20% in the quarter was **Covetrus, Inc.**

Portfolio Structure

As of June 30, 2019, the Fund had $4.2 billion under management. The top 10 holdings made up 30.3% of the Fund. We owned 73 stocks.

Table IV.
Top 10 holdings as of June 30, 2019

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Guidewire Software, Inc.	2012	$167.3	4.0%
Gartner, Inc.	2007	165.0	4.0
Bright Horizons Family Solutions, Inc.	2013	124.5	3.0
SBA Communications Corp.	2004	123.7	3.0
Waste Connections, Inc.	2016	119.5	2.9
IDEXX Laboratories, Inc.	2008	117.0	2.8
The Trade Desk	2017	113.9	2.7
ICON plc	2013	111.6	2.7
SiteOne Landscape Supply, Inc.	2016	110.9	2.7
ASGN Incorporated	2012	106.1	2.5

The Fund's largest weighting was in the IT sector, at 28.4% of net assets at the end of the quarter. This is down 4% from the end of the first quarter. IT stock performance wasn't as strong, and we consciously diversified our new investments to other sectors to reduce IT weightings a bit to dampen volatility. We still are well overweight IT compared to our benchmark index, as we see great long-term opportunity, especially in software companies. But we did take our foot off the gas somewhat.

We have 20.5% of the Fund invested in Industrials, which is more than the Index. However, our Industrials are not so cyclical or economically sensitive, so we don't think growth rates will moderate much in a slower overall economy. The Fund held 18.2% of its net assets in the Health Care sector, way underweight our benchmark index since we are without much in biotechnology and pharmaceuticals. We have 15.4% in Consumer Discretionary and have been able to find some new companies that are in front of changing trends in how people shop.

As discussed, trade is a wild card, since dealings between sovereign nations have been heated (potentially affecting long-term relationships), and supply chains are in flux in the short term. We are following developments closely but want to point out that only about 10% of our net assets are affected by potential near-term or long-term changes in trade relations.

We are primarily invested in businesses that we think can grow at good clips for long periods of time.... that my colleague Alex Umansky dubs as having long "duration of growth." We note that, because of technological changes, innovation, and disruption that is affecting most businesses, there are industry leaders that we have identified that we believe have significant competitive advantages and a long runway of above average growth. In my 30+ years of managing money, I don't recall an environment like this. This dovetails well with our desire to invest in companies while they are young and small and hold them as they grow and mature. It's not the easiest fit in a "small-cap" mutual fund, but we have years of experience and success in "watering our flowers" and "cutting our weeds." We sell some of our winners as they appreciate and re-invest those proceeds in new small-cap ideas.

At the end of the quarter, we own five stocks that are considered large caps (**SBA Communications Corp.**, **TransDigm Group, Inc.**, **IDEXX Laboratories, Inc.**, **Mettler-Toledo International, Inc.**, and **Waste Connections, Inc.**)

- We have owned them for about 15, 13, 11, 11, and 10 years, respectively.
- We bought them when they had market caps of $235 million, $1.1 billion, $2.0 billion, $2.4 billion, and $431 million, respectively.
- We have made annualized returns in the stocks of 30%, 32%, 30%, 26%, and 22%, respectively.
- We have sold a large portion of our initial holdings over time, as per our approach, and now own 19%, 11%, 24%, 13%, and 32% of our peak positions in each, respectively.
- In aggregate, these stocks have an annualized return of 34.9%, 31.8%, and 26.0% over the last one, three, and five years, respectively.

I hope this illustrates the logic and success of our long-term approach.

Recent Activity

Table V.
Top net purchases for the quarter ended June 30, 2019

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Trex Company, Inc.	2019	$4.2	$27.8
Endava plc	2019	2.2	16.6
Covetrus, Inc.	2019	2.7	14.9
The RealReal, Inc.	2019	2.4	12.9
Inspire Medical Systems, Inc.	2019	1.4	11.9

During the second quarter, we initiated a new position in **Trex Company, Inc.** Though a new position for the Fund, Trex has been a long-term, successful holding for Baron. Trex is the dominant manufacturer and industry pioneer of wood-alternative ("composite") residential decking in the U.S. We have long admired Trex and focused on the opportunity to buy shares when they fell on disappointing first quarter earnings results. In our view, the issues that impacted first quarter results represent transitory growing pains, as the company strives to meet robust demand for its brand new, lower-priced product ("Enhance"), while bumping up against capacity constraints.

The introduction of Enhance doubles the company's addressable market, with a price more competitive with wood, which represents 83% of the decking market today. Composite accounts for approximately 17% of the U.S. decking market and is growing share by approximately 1% per year. We think Enhance will accelerate this trend as consumers increasingly choose composite over wood because composite offers similar aesthetics and costs with better performance (composites do not rot, fade, or stain). Importantly, the demand environment for Trex products remains strong, giving management confidence to announce plans to expand capacity by 70% over the next couple of years. On the heels of the Enhance rollout, we expect Trex to return to its double-digit organic growth trajectory (high-teens EPS growth), and in that scenario we see potential for the stock multiple to expand.

Trex exemplifies many of the traits we seek in our new investments. Trex has approximately 50% market share (which continues to rise!) and is the most well-regarded brand. Trex has an exclusive dealership network and proprietary recycling expertise that affords it a significant distribution and cost advantage versus its peers. We think highly of CEO Jim Cline and his executive team, and their ability to use a cash-rich balance sheet to enhance shareholder value.

We made some smaller investments in new ideas as well in the quarter.

- We bought into the IPOs of two cool consumer concepts–**The RealReal, Inc.**, which is an online marketplace for authenticated luxury goods; and **Revolve Group**, an online clothing retailer selling to fashion focused millennials.
- We invested in **Endava plc**, a leading next-generation technology services provider helping accelerate disruption by delivering rapid digital evolution to enterprises. Some other Baron Funds have had successful investments in this IT service space, so we are piggybacking on their research.
- We added to our investment in **Covetrus, Inc.**, a special situation formed through the spin out of a division of a publicly traded company that merged with a high-growth service provider to the same industry. Covetrus services veterinarians by distributing supplies and drugs and providing an online pharmacy to help vets stay involved in ordering prescriptions and food for their clients/pet owners.
- We added to our investment in **Inspire Medical Systems, Inc.**, a medical device company that provides an innovative treatment option for people with moderate-to-severe Obstructive Sleep Apnea and who are unable to use or get consistent relief from CPAP.

Table VI.
Top net sales for the quarter ended June 30, 2019

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Ultimate Software Group, Inc.	2008	$0.7	$10.5	$82.9
TransDigm Group, Inc.	2006	1.1	25.7	35.5
Cboe Global Markets, Inc.	2017	8.8	12.0	20.6
Gaming and Leisure Properties, Inc.	2005	4.2	8.4	19.8
Gartner, Inc.	2007	2.2	14.5	19.5

During the quarter, we exited our long-held position in **Ultimate Software Group, Inc.** (up ten-fold since our initial purchase) when it was acquired by private equity.

We sold out of **Cboe Global Markets, Inc.**, a successful investment that had run up, was fully valued (in our opinion), and had a high market cap.

We trimmed, into strength, mid- and large-cap holdings **TransDigm Group, Inc.**, **Gartner, Inc.**, **IDEXX Laboratories, Inc.**, and **Waste Connections, Inc.**

We also sold some of our holdings in **Gaming and Leisure Properties, Inc.** and **The Trade Desk**, as the stocks increased in the quarter, and we thought it was opportune to reduce position sizes.

Outlook

The market is hitting all-time highs. The economy is slowing, but still doing fine. The Fed has set the stage for rate cut(s), joining the global easing cycle, which the market loves. Interest rates have fallen, and inflation is tame. The trade conflict is at a truce…it's a pretty good environment.

The most recent employment report in June was strong, and leading indicators seem to be bottoming, so maybe economic growth will pick up from here. That could be the case, especially with the effects of lower rates and stimulus actions by foreign governments.

This macro is the focus of most investors. Not ours. We concentrate on the quality, management's performance, and the opportunities of our portfolio companies, and we believe if the businesses perform, so will the stocks over the long term. If the overall economy were to grow 2%, not 3%, it doesn't affect our companies much and does not alter our investment thesis. And as we enter earnings season, we are optimistic about the near-term and long-term prospects of our holdings.

Against these positives, we acknowledge that our stocks have been strong and now trade at higher multiples on current earnings, so valuations are less attractive. The IPO market is a little frothy and valuations between growth and value stocks have diverged. Consumer and investor sentiment has improved, which is less good for stocks. Trade remains a major wild card, and negative developments could suddenly stoke uncertainty and anxiety for businesses and the markets.

Thanks for investing with us in the Baron Small Cap Fund, my fellow shareholders. I appreciate your confidence. We will continue to do our best and follow our time-tested approach, which will hopefully continue to provide positive returns.

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 contain 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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