Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund (the "Fund") had a strong quarter, gaining 8.55% (Institutional Shares) for the period ending March 31, 2017. The Fund nicely outperformed the Russell 2000 Growth Index and S&P 500 Index (up 5.35% and 6.07%, respectively) for the period.

Table I.
Performance
Annualized for periods ended March 31, 2017

	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]	8.48%	8.55%	5.35%	6.07%
One Year	22.74%	23.07%	23.03%	17.17%
Three Years	5.09%	5.36%	6.72%	10.37%
Five Years	10.50%	10.78%	12.10%	13.30%
Ten Years	7.03%	7.25%	8.06%	7.51%
Fifteen Years	8.69%	8.63%	8.00%	7.09%
Since Inception (September 30, 1997)	9.57%	9.68%	5.63%	6.78%

The market continued to advance after the election of Donald Trump on the premise that his pro-growth agenda would increase economic growth, leading to higher corporate profits and stock prices. Conversations with business leaders confirmed a new-found optimism, a more confident attitude to move forward and not feel restrained by prior burdensome economic policies. Domestic economic data released in January and February painted a more positive picture, with strong employment growth, rising consumer confidence and spending, and, for the most part, healthy corporate sales and earnings. Global growth noticeably improved. The Federal Reserve raised its benchmark interest rate (25 basis points in mid-March), stating the simple message is the economy is doing well.

However, the March jobs report was weak, and the Trump administration suffered some setbacks, most noticeably, the failure to repeal and replace Obamacare. As a result, the market got jittery and choppy.

During the quarter, market leadership again changed, this time in our favor. The Fund, and most of the Baron Funds shined, as the best performing stocks were the businesses we favor – high quality growth companies whose businesses are performing well. Growth stocks outperformed value. More mature companies outperformed smaller, more speculative issues. Health Care and Information Technology (IT) led, as opposed to Financials, Industrials and Energy, the prior quarter's winners.

CLIFF GREENBERG
PORTFOLIO MANAGER

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

The change was caused, in our opinion, as the market lost its conviction for accelerated near-term growth, which had propelled the stocks of companies whose businesses were languishing (isn't it perverse the "growth stocks" underperform when investors get excited about a better growth environment?) and because the stock prices of prior leaders got over-extended and the laggards were oversold.

Table II.
Top contributors to performance for the quarter ended March 31, 2017

	Percent Impact
IDEXX Laboratories, Inc.	1.14%
Cognex Corp.	0.73
DexCom, Inc.	0.59
SiteOne Landscape Supply, Inc.	0.53
Waste Connections, Inc.	0.44

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 1.32% and 1.06%, 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.

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Most of our stocks acted quite well in the quarter. The best ones reported stellar results in the period or exciting corporate developments, and/or benefitted from the market's appreciation for the characteristics of the businesses we emphasize.

IDEXX Laboratories, Inc., the leader in diagnostic and IT solutions for the animal health industry, reported excellent financial results for the fourth quarter of 2016 and the trading multiple of the stock expanded, reflecting the outstanding outlook for the company. Organic growth accelerated to 12%, and margins expanded 300 basis points. Instrument placements were up 24% and consumable sales rose 18%, both leading indicators of strong future growth. The company launched a new proprietary urinalysis analyzer with impressive placements, and new tests are getting great traction. Management dramatically accelerated share repurchases, at what now, in retrospect, were very attractive prices. We have been privileged to be invested in this company for eight years and have made over six times our money, about 25% per year. We scaled back this position size a bit this quarter into the big move the stock has made.

Shares of **Cognex Corp.**, the leading provider of machine vision products used in the automation of manufacturing and distribution plants, rose significantly after reporting very strong results. Revenues grew 32%, profit margins expanded 1,200 basis points and net income doubled. Cognex is the dominant technological leader in a secular growth business, which is benefitting from increasing capex in industrial markets, increased focus on automation, and the company's expansion into selective new markets which has greatly expanded their addressable market. The company spends heavily on R&D to maintain its technical lead, has an impressive fortress balance sheet (with $750 million of net cash), and a very special corporate culture (check out their unique annual reports – this year's features Watson and Holmes). We are proud to be associated with these "Cognoids."

DexCom, Inc., which sells continuous glucose monitoring devices (CGM) for people with insulin-dependent diabetes, bounced after Medicare announced in January that it would reimburse for use of DexCom's device, significantly expanding the company's market opportunity. DexCom is the only seller of CGM product to be covered by Medicare, which confirms the company's product superiority. DexCom has a strong pipeline of new products on the horizon, which includes important advances in its present offerings and new low cost miniature sensors being developed in competition with Google that could enable participation in the much larger market for those suffering from Type 2 diabetes.

SiteOne Landscape Supply, Inc. (a new investment we discussed in last quarter's report) reported solid results in the quarter that beat expectations. The trading multiple of the stock was re-rated higher as the market better appreciated the opportunity the company has to consolidate and dominate its niche and the significant achievements they have demonstrated to date. Acquisition activity has remained strong and the pipeline is full. Initiatives to reduce costs are taking hold and there is good line of sight towards sustained margin expansion. We expect improved same store growth from implementing best practices between branches and product offerings.

Other stocks that rose 20% or more during the quarter but contributed less to our performance were an eclectic mix: **Mercury Systems, Inc.**, **Flotek Industries, Inc.**, **Wix.com Ltd.**, **REV Group, Inc.** and **PBF Logistics LP**.

Table III.
Top detractors from performance for the quarter ended March 31, 2017

	Percent Impact
TransDigm Group, Inc.	–0.57%
Acuity Brands, Inc.	–0.38
INC Research Holdings, Inc.	–0.20
Zoe's Kitchen, Inc.	–0.13
WEX Inc.	–0.11

Our losers in the quarter either missed guidance or were subject to negative reports by short sellers.

Shares of **TransDigm Group, Inc.**, the provider of proprietary aircraft parts with a focus on the aftermarket, were down in the quarter due to a short seller report that accused the company of improper government contracting practices. Our view is that this is a headline risk, and any potential actions that might be taken against the company are likely to be highly manageable. TransDigm reported solid results for the most recent quarter and guided for mid-to-high single-digit organic growth in their key commercial aftermarket segment, which would result in double-digit EBITDA growth and 20% of value creation. The company repurchased $150 million of its shares when the stock price was depressed and significantly reloaded their buyback authorization, which they had exhausted. The stock has traded at a discount valuation for the first time in a decade.

Acuity Brands, Inc., the leading U.S. provider of lighting solutions, reported earnings that fell short of Wall Street expectations, and its shares fell. Management cited a precipitous drop off in small construction projects around the uncertainty from the election and into the new year. Acuity remained staffed up for what they believe would be improved activity and more high value Tier 3 and Tier 4 projects, so margins have contracted with the revenue shortfall. Also weighing on the stock is the fact that Acuity assembles products in Mexico that get transferred to States, which might be subject to the potential "border adjusted tax" that is being discussed as part of the Trump administration plan of tax reform. We continue to believe in our long-term thesis – leading pure play in North American lighting, a massive retrofit market (indoor and outdoor) as LEDs replace old formats, which provide strong economic paybacks, plus participation in new high value lines of business that integrate lighting with controls, connections to other building services, and data collection. We are riding out the bumps in the road.

Shares of **INC Research Holdings, Inc.**, a leading global contract research organization (CRO) provider of outsourced drug development services to biopharma, declined in the quarter when the company reported below consensus guidance due to weak bookings and delayed trial starts. We believe these issues are more episodic than structural and guidance is conservative. The industry backdrop remains favorable, and some of our other holdings are doing quite well, so we have concentrated our position more in those and cut back our INC position.

Zoe's Kitchen, Inc., the operator of the fast casual restaurant chain, declined in the first quarter due to weak same store sales and initial guidance for 2017 that missed Wall Street expectations. The overall restaurant industry has shown weakness, and Zoe's was comparing sales to very strong previous year results. Though we think there are too many restaurants out there and that cooking at home and delivery are taking share from eating out, we still believe that dining trends are changing and there is great opportunity for the development of new outlets featuring healthy, fresh/wholesome food in a high service casual setting. Zoe's is a burgeoning chain offering Mediterranean cuisine that we think is very appealing to consumers. From a financial standpoint, Zoe's offers best in class development economics with a long runway of growth ahead. We have used this downdraft on the stock to add to our position.

The other stock that fell over 20% in the quarter was **Medpace Holdings, Inc.** Most of our stocks (about 80% of the portfolio) were up in the quarter.

Portfolio Structure

As of March 31, 2017, the Fund had $3.4 billion under management and was invested in 71 common stocks. The top 10 positions represented 33.3% of the Fund, and include mostly familiar, long-term holdings.

Table IV.
Top 10 holdings as of March 31, 2017

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$156.6	4.6%
Waste Connections, Inc.	2016	127.9	3.8
IDEXX Laboratories, Inc.	2008	127.6	3.8
Bright Horizons Family Solutions, Inc.	2013	126.9	3.8
TransDigm Group, Inc.	2006	121.1	3.6
SBA Communications Corp.	2004	99.3	2.9
On Assignment, Inc.	2012	97.1	2.9
Acuity Brands, Inc.	2011	91.8	2.7
Guidewire Software, Inc.	2012	90.1	2.7
Cognex Corp.	2011	84.0	2.5

We had a fertile quarter adding new small cap ideas and increasing our holdings in recent small-cap purchases. Thus, the Fund is somewhat less concentrated than in the past few quarters. Even with the market at highs, our research staff, along with Assistant Portfolio Manager David Goldsmith's involvement, have unearthed a bunch of, what we feel, are compelling ideas. We funded these purchases primarily by trimming some of our larger holdings in larger market capitalization companies. I sense that this level of increased activity will continue and accrue to our benefit.

In the quarter, the weighted average market capitalization of new positions added was $1.6 billion and that of the positions added to was $2.1 billion…in line with our historic sweet spot of finding opportunity. We sold stocks with market capitalizations of $6.1 billion on average. We continue our approach to buy small caps and fund the purchases through sale of larger caps to keep the portfolio fresh and appropriately small cap.

Compared to the Russell 2000 Growth Index, the Fund is overweight in Industrials and Consumer Discretionary and underweight in Health Care and somewhat in Information Technology. These weightings fall out from our "bottom up" stock picking and reflect where we are finding investments that meet our criteria. Interesting that this quarter we were underweight the sectors that performed best this period. It means our stock picking was particularly strong this quarter.

As a point of emphasis, we do not try to pick sectors that we think will perform over the short term and move our money to those. Just the opposite. We run a diversified portfolio, with investments across most sectors, in what we consider to be special companies that are well managed and have big opportunities for growth and increased equity value that we hold for the long term. We don't obsess about "when" we will make money, or how our portfolio performs compared to an index over the short term, but "if" we are in the right investments that can compound at attractive returns over the long term.

Recent Activity

During the quarter, we purchased six new investments and added to six positions that we had recently bought into.

Table V.
Top net purchases for the quarter ended March 31, 2017

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Capitol Acquisition Corp. III	2017	$0.4	$30.9
John Bean Technologies Corporation	2017	2.8	25.5
Wix.com Ltd.	2017	3.0	24.0
Qualys, Inc.	2017	1.4	21.5
REV Group, Inc.	2017	1.8	17.0

Capitol Acquisition Corp. III is a special acquisition company (SPAC) that is buying a stake in **Cision**. We are in essence participating in the initial public offering of Cision, which is coming public through an unorthodox approach. Interesting.

Cision is the go-to global SAAS platform for communications professionals, the "Bloomberg terminal" for the PR industry. Through a series of acquisitions of competitive products and component parts, the private equity sponsor has created a comprehensive product suite that combines all needed capabilities under one roof. The platform is the industry standard for PR professionals and deeply embedded in industry workflow. Cision is used by a loyal blue chip customer base that buys services on recurring revenue basis with high renewal rates…a business model we highly value.

We believe Cision is poised for significant growth by cross selling the recently integrated functionality and by adding new features sets. We also expect the company to continue to make strategic acquisitions going forward, which we think will likely be highly accretive and additive to shareholder value.

Cision is managed by an experienced leadership team, the CEO having built the Oracle marketing cloud and the CFO having successfully managed three previous public companies backed by the same private equity sponsor. We purchased our stock at 10.5 times projected EBITDA, which we believe is an attractive valuation for a business with these characteristics and growth prospects. The shares have significant upside potential based on our expectation of rapid cash flow growth, both organically and through acquisition, deleveraging from the free cash flow generated, and multiple expansion, which we expect as the company gets recognized by the market and continues to execute.

John Bean Technologies Corporation is a leading global technology solutions provider to the food and beverage and air transportation industries. The company was originally founded in the 1880s and became a stand-alone publicly traded company in 2007 when it was spun out of FMC Corp. A new CEO was brought in by the Board in 2013 to take the company to the next level through improving organic growth and margins, as well as implementing a consolidation strategy in the food processing industry. He is doing a bang up job.

Approximately 70% of JBT's revenue and profits currently come from the food processing segment. JBT's technology plays a critical role in the preparation of the food and drink that most of us consume every day, including freezing 50% of the world's frozen foods and sterilizing 50% of the world's canned foods. The food processing industry has highly favorable characteristics with minimal cyclicality and is levered to long-term positive drivers and trends, such as the growing middle class and changing diet around the world. We think there is room for substantial margin improvement as the company focuses on transforming into the solutions and service provider of choice to globalizing food companies.

JBT's goal is to become a pure-play food processing company and sell the AeroTech business in a tax-efficient manner in the future. The company embarked on an aggressive acquisition strategy in the fragmented $25 billion+ food processing industry and has done deals worth $475 million over the past three years. In March, the company raised equity in order to reduce its leverage so that it could continue doing value enhancing deals. We established our position in that offering. We think that JBT could do upwards of $900 million of acquisitions in the next three years and that EBITDA could double over that time frame due to organic growth, margin expansion, and the accretive acquisition strategy.

Table VI.
Top net sales for the quarter ended March 31, 2017

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
The Ultimate Software Group, Inc.	2008	$0.7	$ 5.8	$40.0
Bats Global Markets, Inc.	2016	2.2	3.4	28.0
INC Research Holdings, Inc.	2014	1.0	2.5	27.1
IDEXX Laboratories, Inc.	2008	2.0	13.6	26.1
Gaming and Leisure Properties, Inc.	2013	4.2	6.9	23.5

During the quarter, we trimmed long held positions **The Ultimate Software Group, Inc.**, **IDEXX Laboratories, Inc.** and **Gaming and Leisure Properties, Inc.** We consolidated our holdings in the CRO space by selling our small position **Medpace Holdings, Inc.** and reducing our holdings in **INC Research Holdings, Inc**. **Bats Global Markets, Inc.** was acquired by **CBOE Holdings**, but we got some of the proceeds in CBOE stock which we have held since we see much upside in the combined entity. We sold our stake in **Penn National Gaming, Inc.** and **HealthStream, Inc.** to fund some of the new investments we made in the quarter.

Outlook

The market topped out in early March and has been trading sideways since. There is uncertainty concerning the implementation of President Trump's pro-growth legislative agenda (to reduce corporate and individual taxes, dismantle regulations, spend on infrastructure) subsequent to the failure to repeal the Affordable Care Act. Also, the latest economic reports seem to indicate that the economy's present growth is more muted.

For whatever its worth, we still believe the economy is very solid and improving. That the fundamentals of our companies are strong, and we expect the pace of earnings growth to accelerate. We think the move in stocks has been based on this improving fundamental outlook, and that the implementation of pro-growth programs would provide another leg up to the market. But what do we know? Our real focus is on the businesses of our portfolio companies. If their businesses continue to perform, so will their stocks over the long term.

We are heartened that the stocks of companies we gravitate towards are back in favor. We suspect that they will remain in vogue, if growth projections moderate and the market is more uneven.

We remain focused on the consistent application of our long-standing approach to identify, research and purchase a portfolio of high quality, well-managed, small growth companies that are performing well, have considerable opportunities ahead and can benefit us as long-term shareholders as they continue to grow. We think this is a thoughtful and sensible strategy, one that we have employed with success since the inception of the Fund.

Thanks for your investment and interest in the Fund.

Cliff Greenberg
Portfolio Manager
April 20, 2017

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 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.