Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund (the "Fund") gained 4.50% (Institutional Shares) for the quarter ended September 30, 2017. Year-to-date the Fund has gained 21.09%. We have had a strong year, nicely outperforming the Russell 2000 Growth Index (up 16.81%) and the S&P 500 (up 14.24%). The Fund trailed the Russell 2000 Growth this quarter, which was up 6.22%.

Table I.
Performance
Annualized for periods ended September 30, 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]	4.43%	4.50%	6.22%	4.48%
Nine Months[4]	20.87%	21.09%	16.81%	14.24%
One Year	22.45%	22.76%	20.98%	18.61%
Three Years	9.77%	10.06%	12.17%	10.81%
Five Years	12.79%	13.07%	14.28%	14.22%
Ten Years	7.42%	7.65%	8.47%	7.44%
Fifteen Years	10.86%	11.02%	11.78%	10.04%
Since Inception (September 30, 1997)	9.91%	10.03%	6.03%	7.00%

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PORTFOLIO MANAGER

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

The economy remained on solid footing in the quarter. Job growth is strong, with the unemployment rate falling to its lowest level in 16 years. Global growth is synchronized and accelerating, as economies in Europe and Asia continue to recover. Inflation is still not evident, even in the face of a tighter labor market. Weaker economic releases in September were negatively impacted by the devastating hurricanes. However, recent company surveys are optimistic for an upside breakout consistent with the U.S. economy improving towards 3% GDP growth.

Stocks continue to climb despite the disorder in Washington. Though the disconnect might seem curious, we believe Wall Street is focused, rightfully so, on the strong earnings reports and positive conditions for stocks. Correlations between individual stocks have been lower this year, enabling stock pickers like us to excel. Year-to-date we have had lots of winners in many sectors: Information Technology (**Cognex Corp.**, **Guidewire Software, Inc.**, **Gartner, Inc.**, **The Trade Desk**); Industrials (**SiteOne Landscape Supply, Inc.**, **Waste Connections, Inc.**, **Mercury Systems, Inc.**); Consumer Discretionary (**Nord Anglia Education, Inc.**, **Camping World Holdings, Inc.**, **Bright Horizons Family Solutions, Inc.**); and Health Care (**IDEXX Laboratories, Inc.**, **Mettler-Toledo International, Inc.**, **ICON plc**). The common theme being high-quality companies reporting outstanding results.

In September, President Trump introduced his tax proposal, which propelled small-cap stocks. The Fund underperformed relatively, as low quality/high beta, micro caps benefited the most, and biotechnology stocks were particularly strong in the quarter. We believe this market rotation is being driven by quant investors relying on factor-based models that temporarily are favoring businesses we don't emphasize. Not a big concern.

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

	Percent Impact
Cognex Corp.	0.75%
Camping World Holdings, Inc.	0.52
Guidewire Software, Inc.	0.45
Cision Ltd.	0.40
ICON plc	0.37

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.

Our best performers this quarter, and year-to-date, announced excellent results or exciting developments, which led to strong stock performance.

Cognex Corp., the leading provider of machine vision products for factory automation, reported record quarterly results for the second quarter. It announced another monster order for the upcoming quarter from a consumer electronics customer incorporating its readers in the manufacture of its devices. They now expect to grow revenues over 70%. Cognex is gaining share and expanding into new markets that have large total addressable markets. We believe this company will be able to continue to grow at a high rate as it penetrates the new opportunities for its products.

Camping World Holdings, Inc., the largest owner of recreational vehicle dealers in the U.S., rose when the company reported strong results for the quarter (earnings were up 32%) and significantly raised guidance for the year. We believe that Camping World is benefiting from thriving industry conditions, best-in-class dealerships, and an improved attachment rate of ancillary product offerings. Camping World acquired three more dealers in the quarter. We believe that management's skillful consolidation of this fragmented industry and expansion into other adjacent outdoor channels via recent acquisitions will continue to benefit shareholders.

Property and casualty (P&C) insurance vendor **Guidewire Software, Inc.** reported outstanding results for the quarter, significantly above expectations on the top and bottom line. Guidewire is the gold standard of P&C software vendors, as demonstrated by accelerated adoption, a growing installed base, and near-perfect retention rates. The company is early in its system replacement cycle and has tripled its addressable market by adding new products (data and analytics) and new target markets (smaller insurers, through the acquisition of Insurance Now). Interest in cloud deployment continues to grow, and these implementations cost more than double that of traditional term licenses. In the quarter, the company announced a landmark deal with State Farm to be its sole core systems provider, which we believe will be an outstanding reference customer for other large carriers.

Cision Ltd., a provider of software for public relations firms (which we discussed in length in our March 2017 quarterly letter) finalized its merger with Capital Acquisition Corp. The integration of platforms is going well and the company is meeting synergy targets. So far, it is achieving good sales traction, and we believe that the growth profile of the business will accelerate. We expect that as it introduces comprehensive integrated cloud and data solutions, the company will gain share from existing point solutions and evolve the business more towards a sticky subscription model, which we think would garner a higher trading multiple.

Other stocks in the portfolio that rose over 20% in the quarter but were less impactful because they were smaller positions include **Mercury Systems, Inc.**, **The Chefs' Warehouse, Inc.**, **2U, Inc.**, **Cantel Medical Corp.**, **RBC Bearings Incorporated**, **The Trade Desk**, **Qualys, Inc.,** and **Welbilt, Inc.**

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

	Percent Impact
Acuity Brands, Inc.	–0.42%
Flotek Industries, Inc.	–0.38
DexCom, Inc.	–0.31
Electronics For Imaging, Inc.	–0.29
The Ultimate Software Group, Inc.	–0.21

The stocks that most negatively affected performance in the quarter fell because the companies missed earnings expectations or announced unfavorable developments, which is normally not the case.

Acuity Brands, Inc., the leading U.S. provider of lighting solutions, reported soft results as the end market for non-residential construction projects, specifically smaller retrofit projects, showed only modest growth. We are not sure when the industry lull will end. It seems to have decelerated somewhat, so projections have come down. Acuity shared more about its connected lighting platform (called Altrius), which uses its lighting installations with a software overlay to provide the backbone to deliver "internet of things" solutions. We think this is really exciting and could lead to a new high-value business line. We have maintained our position and believe the stock is cheap with new opportunities ahead, but we also think the stock is stuck until near-term trends improve.

Flotek Industries, Inc. is a supplier of chemical additives to the oil and gas industry, with a proprietary product that is proving very effective in increasing productivity of shale wells. The company reported lower-than-expected sales in the second quarter as one of its customers identified surfactants as a potential area of cost savings. We think the issues are temporary, that sales will improve, and the stock is oversold. Nevertheless, we reduced our position because of the poor results.

DexCom, Inc., which sells a continuous glucose monitoring (CGM) device for patients with insulin-dependent diabetes, fell in the quarter after a competitor received FDA approval for its product and announced it would enter the market at a lower price point than anticipated. We had reduced our position prior to this approval because of competitive concerns, and we sold more after the news broke. We still believe that CGM is in its infancy, that the market opportunity is enormous, and DexCom is the technological leader in the space.

Electronics for Imaging, Inc., a manufacturer of digital printers and solutions, fell after the company announced the postponement of its second quarter results to assess its accounting policies concerning revenue recognition. An "OMG" moment. In time, the company declared that there was no material error, reported results and provided guidance in line with expectations, and the stock recovered most of its decline. The company is the innovator in the transformation from analog to digital printing in certain industries and is, we believe, on the cusp of significant sales from enabling such transition in the corrugated packaging industry.

The other stocks that fell over 15% in the quarter are **The Cheesecake Factory, Inc.** and **BJ's Restaurants, Inc.**

Portfolio Structure

As of September 30, 2017, the Fund had $4.2 billion under management. The top 10 positions represented 28.5% of the Fund.

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$174.2	4.1%
Waste Connections, Inc.	2016	141.7	3.3
Guidewire Software, Inc.	2012	136.3	3.2
Bright Horizons Family Solutions, Inc.	2013	129.3	3.0
TransDigm Group, Inc.	2006	121.4	2.9
IDEXX Laboratories, Inc.	2008	116.6	2.7
Cognex Corp.	2011	110.3	2.6
On Assignment, Inc.	2012	99.3	2.3
SBA Communications Corp.	2004	97.2	2.3
ICON plc	2013	88.3	2.1

The Fund had large inflows in the quarter. We invested the bulk of the proceeds during the period. About 60% of the money was invested in existing holdings: favorite ideas, at what we thought were good prices. The remaining 40% went into six new names. Kudos to Assistant Portfolio Manager David Goldsmith and the full team of analysts at Baron for unearthing and researching many exciting new ideas throughout the year.

The nature of the Fund was slightly altered, to my liking. The Fund is a little less concentrated, which is something I have been striving for. The market cap of the Fund is smaller, since the average market cap of the new investments was $2.0 billion. I like that because our large market cap holdings have performed well, and are now more highly valued, so it's fine to dilute somewhat. The Fund is now more weighted to Information Technology stocks, which is where we are finding the most interesting, disruptive companies in which to invest. And, the number of stocks in the portfolio increased by just one, as we remain true to our goal of the last few years of owning fewer stocks to make their impact more significant.

Recent Activity

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

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Glaukos Corporation	2017	$1.1	$45.8
Teladoc, Inc.	2017	1.9	40.8
2U, Inc.	2017	2.9	38.0
Beacon Roofing Supply, Inc.	2017	3.4	36.0
Shutterfly, Inc.	2017	1.6	35.7

During the quarter, we invested in six new companies. They cover the gamut of all the types of investments we favor–classic growth, special situations, fallen angels/turnarounds.

Glaukos Corporation is an ophthalmic medical technology company that sells a tiny stent used to treat glaucoma, which is superior to the use of eye drops or other surgical procedures. Glaukos has a pipeline of product launches planned for the next several years–an injector that more easily inserts multiple stents, a device that inserts stents in a different space of the eye for certain conditions, and an implantable drug delivery device–all of which will be rolled out by 2020. Presently, its stent is only approved for implant when the patient also has cataracts, but we expect approval for the broad glaucoma market, which will dramatically increase the addressable market. Glaukos will have approximately $150 million in revenues in 2017, and we believe sales could become five to ten times larger as this is all rolled out.

Glaukos came public in 2015 and is owned by a handful of Funds at Baron. We bought it in this quarter when the stock was weak, as near-term results have been less than expected.

Teladoc, Inc. is the largest health company providing on-demand remote medical care over telephone or videoconference. We believe the lower cost, greater convenience, and broader access afforded by telemedicine is a powerful secular trend. Insurers and large employers are rapidly incorporating telehealth benefits into their benefit packages. We believe Teladoc has a first mover advantage and is the market leader with a defensible moat, mostly from the scope and reliability of its service provision. The $30 billion addressable market is only 1% penetrated, and we envision significant growth as new customers are signed up, utilization increases, and additional benefits are added to the bundle.

Beacon Roofing Supply, Inc. is the second largest distributor of roofing materials in the U.S. The end market served is steady because most roofing jobs are non-discretionary. Beacon has been public since 2004 and has a 16.5% revenue CAGR, driven by organic growth of 5% and acquisitions of 11%, having completed 37 acquisitions over the period. Beacon just announced its largest acquisition ever, of Allied Business Products, the fourth largest player in the sector. We like this "special situation" as we believe the deal is strategic–it improves the company's market position and offers new product categories to distribute–and it will be accretive if integration goes as we expect. We also believe the stock will trade at a higher multiple in time as leverage taken on to do the deal is paid back with free cash flow.

We also made new investments in **Shutterfly, Inc.**, a digital printer of photo books, for which we believe a talented new management team will be able to turn around operations and extend the business into larger market opportunities, leveraging its competitive scale advantage in digital printing; in **MACOM Technology Solutions Holdings, Inc.**, a high performance analog semiconductor company, whose stock was depressed after a recent earnings shortfall, but has major growth opportunities in selling high-speed optical networking products to the data centers and proprietary chips to the cellular base station market; and in **GCP Applied Technologies Inc.**, a manufacturer of specialty construction chemicals products and building materials that was recently spun out from WR Grace, where we believe the company will grow nicely as a standalone business, is undervalued, and is a probable take out candidate.

We added to 28 existing positions during the quarter. The largest purchases were increases to new ideas that we started earlier in the year: **2U, Inc.**, **John Bean Technologies Corporation**, **GTT Communications, Inc.**, **Cision Ltd.**, and **Wix.com Ltd.** Please see prior quarterly reports from earlier this year where we lay out the cases for these investments.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
The Spectranetics Corporation	2015	$1.5	$1.7	$48.1
Nord Anglia Education Inc.	2014	1.7	3.4	26.3
DigitalGlobe, Inc.	2013	1.4	2.2	26.1
DexCom, Inc.	2012	1.0	4.2	19.6
PT Sarana Menara Nusantara Tbk.	2012	2.1	3.4	14.4

We sold out of five names in the quarter. Four were companies that were acquired in the period: **The Spectranetics Corporation**, **Nord Anglia Education, Inc.**, **DigitalGlobe, Inc.** and **Patheon N.V**. The other was **Zoe's Kitchen, Inc.,** where sales trends continued to disappoint and confound us. We also reduced our position in **DexCom, Inc.** and **PT Sarana Menara Nusantra Tbk.**, the Indonesian cell tower owner.

Outlook

The market remains healthy, propelled by a stable and improving economy (even without tax reform), strong results from leading technology and industrial companies, and fueled by a skeptical view by most investors about the rally itself. We believe these favorable conditions are likely to persist. However, we are concerned by the danger that could come from President Trump's bellicose approach to foreign policy.

We continue to believe it is wise to invest in fast growing, well-managed companies that are leading and disrupting their niches. We can see many years of strong results for these companies. . .more so than in the past. . . and are focused on the long-term upside for these stocks, if the businesses perform as we expect. We do not know how they should be valued at any given point in time and don't care to opine about the present multiple for the market as a whole. We acknowledge present multiples have increased, but we don't consider them alarming, as we feel they are justified because the future is so bright for many holdings.

Thanks for investing in the Fund. We will continue to work hard to create and oversee a portfolio of what we think are special businesses. We believe this will lead to good returns over the long term as it has in the past.

Cliff Greenberg

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.

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.