DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

U.S. equity markets continued their rally during the fourth quarter, driven by factors including the successful development of COVID vaccines, the resolution of the U.S. Presidential election, the ongoing tailwind from central bank liquidity measures, additional monetary policy accommodation, and stronger-than-expected economic and corporate earnings data.

Within the mid-cap space, all sectors except Consumer Staples had positive returns. Information Technology (IT), which comprises the largest sector within the mid-cap growth universe, had particularly strong returns, partly driven by sharp gains from semiconductor, semiconductor equipment, and software stocks. This presented a headwind for the Fund, given its underweighting in the IT sector, along with its lack of exposure to semiconductor-related securities. The Communication Services sector also performed well, driven by interactive media & services stocks. The Energy sector, in which the Fund has no investments, rebounded alongside the rising price of oil. The Industrials, Health Care, and Financial sectors, in which the Fund has significant investments, all trailed the broader market during the quarter.

These conditions presented an attractive absolute, but difficult relative, backdrop for Baron Asset Fund (the "Fund"), which gained 15.21% (Institutional Shares), while the Russell Midcap Growth Index (the "Index") gained 19.02%, and the S&P 500 Index gained 12.15%.

ANDREW PECK
PORTFOLIO MANAGER

Retail Shares: BARAX
Institutional Shares: BARIX
R6 Shares: BARUX

Table I.
Performance
Annualized for periods ended December 31, 2020

	Baron Asset Fund Retail Shares[1,2]	Baron Asset Fund Institutional Shares[1,2,3]	Russell Midcap Growth Index[1]	S&P 500 Index[1]
Three Months[5]	15.14%	15.21%	19.02%	12.15%
One Year	32.98%	33.33%	35.59%	18.40%
Three Years	22.26%	22.58%	20.50%	14.18%
Five Years	19.61%	19.93%	18.66%	15.22%
Ten Years	15.33%	15.64%	15.04%	13.88%
Fifteen Years	11.29%	11.52%	11.55%	9.88%
Since Inception (June 12, 1987)	12.37%	12.47%	11.03%[4]	10.22%

Consumer Discretionary investments and lack of exposure to the underperforming Consumer Staples sector contributed the most to relative results. Strength in Consumer Discretionary was partly due to the outperformance of luxury fashion e-commerce marketplace **Farfetch Limited** and global ski resort operator **Vail Resorts, Inc.** Farfetch's shares more than doubled after being added to the Fund early in the quarter. Investors were enthusiastic about the company's recently announced partnership with Alibaba and Richemont in China, which is expected to expand its reach in one of the most important luxury markets. Vail was a significant contributor, as its ski pass sales rose 20% from last year's levels despite the pandemic's impact. Lower exposure to this sector, which failed to keep pace with the broader market during the quarter, also added value.

Investments in IT, Real Estate, Industrials, and Communication Services accounted for all the relative underperformance during the period. Weakness in IT was largely due to share price declines from web software firm **Wix.com Ltd.** and payment services provider **Fidelity National**

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, 2020 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 **Russell Midcap® Growth Index** measures the performance of medium-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. The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index.

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 For the period June 30, 1987 to December 31, 2020.

5 Not annualized.

Information Services, Inc. After doubling during the first three quarters of 2020, Wix's shares fell slightly on concerns that its business, which benefited from increased website creation during the pandemic, could eventually moderate. Fidelity National's stock underperformed because of revenue headwinds from the pandemic as reduced travel and spending activity led to lower payment processing volumes. Management believes these headwinds are temporary and expects growth to accelerate next year. Lack of exposure to semiconductor and semiconductor equipment stocks also detracted from relative results.

Negative stock selection in Real Estate stemmed from specialized REITs **SBA Communications Corp.** and **Equinix, Inc.** Both stocks were among the best-performing REITs earlier in the year, and they were penalized as investors rotated into more cyclical companies. Within Industrials, underperformance of research & consulting services businesses **Clarivate Plc**, **CoStar Group, Inc.**, and **Verisk Analytics, Inc.** and higher exposure to this lagging sub-industry hampered relative results. These companies' share prices also trailed the more cyclically exposed stocks in the Industrials sector. Performance in Communication Services was hampered by **ZoomInfo Technologies Inc.**, which operates a cloud-based information platform used primarily by sales professionals to identify and target their highest-value potential sales targets. The company's shares underperformed on fears about spending trends among its clients, which we believe to be improving.

Table II.
Top contributors to performance for the quarter ended December 31, 2020

	Year Acquired	Percent Impact
IDEXX Laboratories, Inc.	2006	1.82%
Gartner, Inc.	2007	1.16
Vail Resorts, Inc.	1997	0.80
Ceridian HCM Holding Inc.	2018	0.74
Mettler-Toledo International, Inc.	2008	0.72

IDEXX Laboratories, Inc., a veterinary diagnostic company, was the largest contributor to performance for the third consecutive quarter. The stock gained after the company again reported excellent quarterly results that exceeded expectations, despite the headwinds caused by the pandemic. Recurring revenue growth in IDEXX's core companion animals group improved to 21% and consolidated operating margins expanded nearly 500 basis points. Competitive trends remain outstanding, and there continue to be indications that COVID-related testing will further accelerate growth in veterinary diagnostics. We believe these results continued to demonstrate that IDEXX is a unique, competitively advantaged business that is likely to outperform across economic cycles.

Shares of **Gartner, Inc.**, a provider of syndicated research primarily on information technology, increased after reporting financial results that exceeded analyst expectations. The company's research business continued to generate growth, albeit at a slower rate than before the pandemic. We expect its growth to re-accelerate as economic conditions stabilize, which we believe will lead to meaningful margin expansion and enhanced free cash flow generation. While Gartner's destination events business has been disrupted by the pandemic and the suspension of corporate travel, the company has pivoted to virtual events, which may offer enhanced economics over the long term.

Shares of **Vail Resorts, Inc.**, a global operator of ski resorts, gained in the quarter on season ski pass sales that increased 20% from last year's levels, despite the pandemic-related headwind. Robust renewal rates demonstrated the loyalty of Vail's existing skiers, while first time pass sales demonstrated their potential to accelerate Vail's future growth. In addition, we believe that the company's robust balance sheet positions the company well for potential acquisitions of ski resorts that have suffered from the pandemic.

Shares of **Ceridian HCM Holding Inc.**, a leader in payroll and workforce management software, contributed to performance in the quarter. New sales of the company's flagship Dayforce platform already exceed pre-pandemic levels and should accelerate across 2021. We expect Dayforce to generate rapid revenue growth, leading to meaningful gross margin expansion, improved free cash flow conversion, and rapid deleveraging of its balance sheet. We are also excited about the possibility of Dayforce Wallet, a new product that will allow employees access to earned wages on a real-time basis (i.e., at the end of each work day rather than on the traditional once every two week pay cycle).

Mettler-Toledo International, Inc. is the world's leading supplier of weighing instruments for laboratory and industrial applications. The company's shares increased on third quarter financial results that significantly exceeded investor expectations, coupled with guidance for 2021 well ahead of market forecasts. We continue to believe Mettler is an excellent business with best-in-class management that should be able to compound its earnings at attractive rates well into the future.

Table III.
Top detractors from performance for the quarter ended December 31, 2020

	Year Acquired	Percent Impact
SBA Communications Corp.	2007	–0.32%
DexCom, Inc.	2019	–0.20
GoodRx Holdings, Inc.	2020	–0.15
Equinix, Inc.	2007	–0.10
Veeva Systems Inc.	2017	–0.10

After strong performance earlier in the year, **SBA Communications Corp.**, a REIT that owns and operates approximately 30,000 cell towers domestically and internationally, detracted from performance. SBA was impacted as many investors rotated into "laggards." In addition, the slight increase in interest rates during the quarter impacted companies with elevated valuations and leveraged balance sheets. We are optimistic about SBA's prospects because we believe the inevitable growth in data and video usage should be a durable driver of demand for its services. We also believe the company will be able to consistently return capital to shareholders via share buybacks and dividends.

DexCom, Inc. sells a continuous glucose monitoring device used by diabetics. The stock performed well early this year, but fell during the quarter on concerns about competition from Abbott Laboratories, which received regulatory approval to market its third generation Libre device in Europe. We continue to believe that the market DexCom is addressing will be large enough to support two different players, and we believe that there is significant value in its new product pipeline.

GoodRx Holdings, Inc. operates the nation's largest online platform providing users free access to drug pricing information and pharmacy discounts. After a well-received IPO, the shares fell on Amazon.com, Inc.'s announcement that it has entered the online pharmacy space. Although Amazon is a formidable rival, we believe its success is not assured, as its participation is limited to the low-penetration mail order segment of the market. GoodRx has the advantages of the leading brand in its space, best pricing, a tie-in with its telehealth unit, and nascent opportunities in referrals from drug manufacturers.

Equinix, Inc. is a REIT that operates network-dense, carrier-neutral colocation data centers spanning the globe. After strong performance earlier in the year, Equinix, like SBA Communications Corp., was negatively impacted by investors' shift toward "laggards" and increased interest rates. We remain optimistic about the company benefiting from cloud adoption and IT outsourcing, its unique position as one of the only operators that can offer a global platform, and continued execution on strategic M&A transactions to enhance its moat.

Veeva Systems Inc. offers cloud-based software solutions for the life sciences industry. Its shares lagged during the quarter. Despite strong third quarter results, management offered a more cautious 2021 outlook, suggesting some headwinds to its commercial business. A new Presidential administration also caused some uncertainty about the regulatory environment for its key end-markets. We believe Veeva remains well positioned to benefit from the life science industry's ongoing digitalization initiatives.

Portfolio Structure

At December 31, 2020, Baron Asset Fund held 65 positions. The Fund's 10 largest holdings represented 38.1% of assets, and the 20 largest represented 60.4% of assets. The Fund's largest weighting was in the IT sector at 28.8% of assets. This sector includes software companies, internet services companies, IT consulting firms, and data processing firms. The Fund held 24.9% of its assets in the Health Care sector, which includes investments in life sciences companies, and health care equipment, supplies, and technology companies. The Fund held 16.6% of its assets in the Industrials sector, which includes investments in research and consulting companies, industrial conglomerates, and machinery companies. The Fund also had significant weightings in Financials at 10.6% of assets and Consumer Discretionary at 8.1% of assets.

Table IV.
Top 10 holdings as of December 31, 2020

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
IDEXX Laboratories, Inc.	2006	$2.5	$42.6	$424.7	7.2%
Gartner, Inc.	2007	2.9	14.3	253.8	4.3
Verisk Analytics, Inc.	2009	4.9	33.8	236.9	4.0
Mettler-Toledo International, Inc.	2008	2.4	27.1	226.9	3.8
ANSYS, Inc.	2009	2.3	31.2	213.5	3.6
CoStar Group, Inc.	2016	5.0	36.4	199.2	3.4
Guidewire Software, Inc.	2013	2.8	10.8	183.0	3.1
Ceridian HCM Holding Inc.	2018	4.3	15.7	174.3	3.0
Vail Resorts, Inc.	1997	0.2	11.2	171.2	2.9
Zillow Group, Inc.	2015	1.5	30.6	167.2	2.8

Recent Activity

During the past quarter, the Fund established 4 new positions and added to 2 others. The Fund eliminated 1 position and reduced its holdings in 13 others.

Table V.
Top net purchases for the quarter ended December 31, 2020

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Stitch Fix, Inc.	$ 6.2	$37.2
Farfetch Limited	21.7	29.8
DoorDash Inc.	45.3	19.0
RingCentral, Inc.	34.0	6.4
Pinterest, Inc.	40.7	1.5

Stitch Fix, Inc. is an online personal styling service (stitchfix.com) that utilizes recommendation algorithms and data science to personalize clothing items based on size, budget, and style across all genders and ages. Stitch Fix users rank their style preferences across a series of images and receive their "fix" of curated apparel based on their results and personal stylists' recommendations, which are informed by historical data from like-minded consumers. Under the company's initial business model, users paid $20/box to receive a curated outfit of five items which they could try on at home before purchasing. This required a lot of customer effort and intensive reverse logistics, which limited the service's appeal. However, Stitch Fix is in the process of leveraging its proprietary data and algorithms to enable direct retail purchases from its site. To support its new product roadmap, Stitch Fix hired President Elizabeth Spaulding, with 20 years of previous experience at Bain where she led its digital practice, and CFO Dan Jedda, with 15 years of previous experience at Amazon. We are optimistic about the prospects for the company's new business model under its expanded management team.

We believe the company's new "direct buy" offering expands its total addressable market to include the nearly $400 billion U.S. apparel market, which will be supplemented by international opportunities. Stitch Fix recently expanded its direct buy capabilities with the launch of "Shop by Category," a highly personalized digital shopping feed that leverages individual clients' data-driven "style graph," which is powered by a wealth of proprietary data about shoppers' preferences. The richer customer experience has driven increasing direct buy penetration across both men's and women's categories. We believe Stitch Fix will continue to successfully penetrate the market for traditional retail purchases.

We believe that Stitch Fix will also be better able to optimize its inventory management to drive faster conversion rates and stronger revenue growth, while also improving capital efficiency. Management envisions a dynamic marketplace with active vendor management, pricing and demand forecasting, and increased high-margin private label penetration. The company is optimistic that its model can be successfully expanded into new categories like furniture, décor, beauty, resale, and luxury. We believe the company is poised to more than double its sales and meaningfully expand its profitability over the next five years.

Farfetch Limited is a global luxury fashion e-commerce marketplace that connects luxury brands, consumers, and retailers. The platform sells luxury merchandise from upscale boutiques, larger retailers, and the brand manufacturers to more than 2.5 million consumers globally. Led by visionary founder José Neves, the company uses its longstanding relationships with exclusive brands and boutiques to create an unmatched product selection through an attractive "asset-light" marketplace model. Unlike a traditional retailer, Farfetch's marketplace does not need to hold much of the inventory listed for sale on its site. This allows Farfetch to boast more than seven times the selection of its nearest competitor. Farfetch's supply is further differentiated by its exclusive content. The company owns New Guards Group (collective of luxury brands like Off-White and Palm Angels), and it can leverage insights from its brand designers and use product launches to attract new consumers. We believe Farfetch will continue to gain market share from other online retailers and traditional luxury retailers that carry their own inventory.

As the only global luxury online marketplace, Farfetch is positioned to benefit from the acceleration of luxury spending online, which according to Bain, is expected to rise from 12% penetration pre-COVID to 30% by 2025. Farfetch recently announced a partnership with Alibaba and Richemont in China, one of the most important and fastest growing luxury markets. Following the deal, we have even more conviction that Farfetch has durable competitive advantages and is well positioned for long-term growth within an expanding addressable market as more luxury spending moves online.

Table VI.
Top net sales for the quarter ended December 31, 2020

	Amount Sold (millions)
BWX Technologies, Inc.	$31.8
West Pharmaceutical Services, Inc.	22.8
FleetCor Technologies, Inc.	16.0
IDEXX Laboratories, Inc.	10.5
CBRE Group, Inc.	10.0

We sold our stake in **BWX Technologies, Inc.**, which designs and manufactures nuclear components for the U.S. government, on concerns that the company's growth prospects were no longer attractive. In addition, we modestly reduced our stakes in several successful long-term holdings to raise capital to allocate elsewhere in the Fund. These included **West Pharmaceutical Services, Inc.**, **FleetCor Technologies, Inc.**, **IDEXX Laboratories, Inc.**, and **CBRE Group, Inc.**

Outlook

Baron Asset Fund is a long-term investor in businesses that we believe will benefit from long-lived secular growth trends, with sustainable competitive advantages, led by exceptional management teams. We remain sensitive to valuation levels, particularly in light of the recent strength in the overall market and the high valuations being assigned to many speculative companies. We continue to own businesses that we believe will allow us to double our investments over a five-year period.

We believe that we have created value for our investors throughout the Fund's 30-plus years by understanding and analyzing businesses better than many others. We do not believe that we have unusual insight into the macroeconomic, political, and public health issues that the nation and the stock market have been grappling with. However, we are optimistic that we are soon approaching the end of the pandemic, which should lead to a rapid recovery in many businesses that have suffered during the past year.

We believe that advances in technology and changing consumer preferences and business practices will continue to cause long-lasting benefits for certain businesses and challenges for others. We continue to adhere to our traditional investment methodology, while working hard to identify these long-term corporate beneficiaries. We remain optimistic that this approach will generate strong performance for our portfolio, no matter the economic climate.

Sincerely,

Andrew Peck
Portfolio Manager

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Risks: The Adviser believes that there is more potential for capital appreciation in mid-sized companies, but there also may be more risk. Specific risks associated with investing in mid-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. 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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