

DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

U.S. equity markets experienced meaningful volatility during the quarter, and market indexes finished with mixed results. The U.S. economy continued its recovery, driven by generally strong corporate earnings, the massive fiscal stimulus package, declining COVID-19 infection rates, an accelerating vaccination rollout, and the possibility of further significant federal spending on infrastructure. A steep back-up in interest rates pressured higher growth areas of the market where valuations had become stretched, and this contributed to a continued rotation into traditional value-oriented stocks. As a result, growth-oriented indexes underperformed indexes with a value component, such as the S&P 500 Index. The Energy sector led the market, as oil prices surged to their highest levels in over a year. Industrials and Materials benefited from the movement into value and cyclicals, while the uptick in rates drove the Financials sector higher. After outperforming last year, Information Technology and Consumer Discretionary trailed most other sectors. Utilities, Health Care, and Consumer Staples also underperformed as investors shied away from these more defensive sectors.

Against this backdrop, Baron Asset Fund (the "Fund") fell 1.03% (Institutional Shares), while the Russell Midcap Growth Index (the "Index") fell 0.57%, and the S&P 500 Index gained 6.17%.

Table I.
Performance

Annualized for periods ended March 31, 2021

	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	(1.09)%	(1.03)%	(0.57)%	6.17%
One Year	57.89%	58.28%	68.61%	56.35%
Three Years	20.00%	20.31%	19.41%	16.78%
Five Years	19.74%	20.05%	18.39%	16.29%
Ten Years	14.44%	14.74%	14.11%	13.91%
Fifteen Years	10.55%	10.78%	10.97%	10.02%
Since Inception (June 12, 1987)	12.23%	12.34%	10.93% ⁴	10.34%

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.

The Fund's 1Q 2021 historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

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, net of withholding taxes, 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 March 31, 2021.

⁵ Not annualized.



ANDREW PECK

PORTFOLIO MANAGER

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

Outperformance of the Fund's investments in Communication Services, Health Care, and Financials added the most value. Strength in Communication Services stemmed from online travel platform **TripAdvisor, Inc.**, whose shares appreciated on optimism about its new travel-focused subscription offering. The Health Care sector benefited from lower exposure to poor performing biotechnology stocks and the outperformance of life sciences tools developer **Bio-Techne Corporation**. The company saw its organic growth accelerate, driven by widespread strength across its businesses. Favorable stock selection in Financials was driven by brokerage firm **The Charles Schwab Corp.** and bank and wealth management company **First Republic Bank**. Both businesses are expected to benefit from higher interest rates.

Investments in Industrials, Consumer Discretionary, and Real Estate detracted the most from relative performance. Industrials suffered double-

Baron Asset Fund

digit share price declines from data and analytics vendor **Verisk Analytics, Inc.** and real estate information and marketing services company **CoStar Group, Inc.**, both of which had performed quite well last year. Verisk fell after its quarterly results were slightly below expectations because of pandemic-related weakness in its Energy and Financial Services segments. CoStar shares sold off alongside other higher multiple growth stocks in the latter half of the quarter. Performance in Consumer Discretionary was hindered by luxury fashion e-commerce marketplace **Farfetch Limited** and online personal styling service **Stitch Fix, Inc.** Shares of Farfetch were negatively impacted by the forced liquidation of positions at Arcegos Capital Management, while Stitch Fix's stock price was down after financial results disappointed because of near-term logistics headwinds. Negative stock selection in Real Estate, driven by share price declines in REITs **Equinix, Inc.**, **Alexandria Real Estate Equities, Inc.**, and **SBA Communications Corp.**, was partly offset by higher exposure to this top performing sector.

Table II.
Top contributors to performance for the quarter ended March 31, 2021

	Year Acquired	Percent Impact
Gartner, Inc.	2007	0.56%
Bio-Techne Corporation	2015	0.46
Tripadvisor, Inc.	2021	0.45
The Charles Schwab Corp.	1992	0.35
CDW Corporation	2017	0.23

Shares of **Gartner, Inc.**, a provider of syndicated research primarily on information technology, increased after reporting financial results that exceeded analyst expectations. Growth in the company's core research business stabilized, and we believe it is poised to return to consistent double-digit revenue growth. We also believe its destination events business should contribute positively to financial results as travel restrictions ease. We expect that improved revenue growth combined with renewed focus on cost control will drive ongoing margin expansion and enhanced free cash flow generation. Gartner remains well capitalized, and we expect an acceleration in its share repurchase program.

Bio-Techne Corporation is a leading developer and manufacturer of high-quality purified proteins and life sciences tools, which it sells primarily to biomedical researchers and clinical research laboratories. The stock performed well after the company reported a 19% acceleration in organic growth during its fourth quarter, driven by strength across all areas of its business including a small contribution from COVID-19-related products. We continue to believe Bio-Techne has a solid long-term outlook with multiple growth drivers.

Tripadvisor, Inc., an online travel company on whose site users can browse reviews and plan trips, gained meaningfully during the quarter following a well-received launch of its travel-focused subscription offering. With more than 460 million unique monthly visitors to its travel sites, we believe that Tripadvisor is a unique asset that is well-positioned to benefit from pent-up demand as pandemic-related travel restrictions ease. We believe there are several positive changes underway at Tripadvisor, notably its introduction of subscription-based products, that will drive improved monetization going forward.

Shares of brokerage firm **The Charles Schwab Corp.** rose in the quarter. The company continued to successfully integrate its acquisition of TD Ameritrade. The merger enables Schwab to leverage efficiencies of scale to drive down its industry-leading operating costs per client assets even further. Additionally, net new assets grew in the mid-single-digits as customers tapped the services of the combined businesses. Finally, the business now has over \$400 billion of interest-earning assets, which will generate improved profitability in a more normalized interest rate environment.

Shares of **CDW Corporation**, a value-added reseller that provides integrated information technology solutions, contributed to performance. The company reported strong fourth quarter earnings and issued 2021 guidance ahead of investor expectations. As the economy continues its post-pandemic recovery, we believe CDW will be in a strong competitive position that will allow it to compound earnings at a low double-digit rate. Technology is becoming an ever more critical and complex area of investment for businesses worldwide, and we believe CDW is well positioned to benefit from this trend.

Table III.
Top detractors from performance for the quarter ended March 31, 2021

	Year Acquired	Percent Impact
Guidewire Software, Inc.	2013	-0.65%
Ceridian HCM Holding Inc.	2018	-0.58
Verisk Analytics, Inc.	2009	-0.52
RingCentral, Inc.	2019	-0.36
CoStar Group, Inc.	2016	-0.32

Shares of property and casualty ("P&C") insurance software vendor **Guidewire Software, Inc.** detracted from performance as shares of high-multiple growth stocks lagged. The company is near the midpoint of transitioning its software from an on-premise solution to a cloud-based offering, which we believe will correspond with improved financial results. Despite short-term headwinds, we believe Guidewire has tripled its addressable market through new products and cloud delivery and will become the critical software vendor for the global P&C insurance industry, potentially capturing 30% to 50% of its \$15 billion to \$30 billion total addressable market and generating margins above 40%.

Ceridian HCM Holding Inc., a leader in payroll and workforce management software, detracted on concerns that increased pandemic-related mobility restrictions may slow the rate of employment recovery in its customer base. We expect its cloud-based Dayforce product to generate rapid revenue growth, leading to meaningful margin expansion, improved free cash flow conversion, and rapid deleveraging of its balance sheet. We are also excited about the potential for Dayforce Wallet, which will allow employees access to earned wages on a real-time basis rather than the traditional two-week pay cycle.

Shares of **Verisk Analytics, Inc.**, a leading data and analytics vendor, detracted from performance after the company reported fourth quarter earnings that came in slightly below Street expectations. Verisk's core insurance segment delivered strong results, but pandemic-related weakness impacted its smaller Energy and Financial Services segments. We remain positive about the competitive positioning, long-term growth, margin expansion, and capital deployment prospects for the business.

RingCentral, Inc. provides global cloud communications and collaboration solutions across multiple channels, including voice, video, and messaging. Despite continued solid execution with revenue acceleration, RingCentral's stock corrected during the quarter as the market rotated out of many fast-growing stocks. With its distribution advantage and the pandemic crystalizing the need for a communications platform that is agile, scalable, and global, we believe that RingCentral remains early in penetrating its addressable market. We believe this should allow sustainable growth for many years to come.

Shares of **CoStar Group, Inc.**, a real estate information and marketing services company, detracted as a result of the rotation away from higher multiple growth stocks. CoStar continued to experience accelerated demand for its digital marketplace businesses as "traditionally offline" activities shifted online. Modest headwinds in its data licensing businesses that hampered growth in 2020 are now abating. In addition, CoStar has moved to enter the residential real estate market, which meaningfully expands its overall market opportunity.

PORTFOLIO STRUCTURE

At March 31, 2021, Baron Asset Fund held 67 positions. The Fund's 10 largest holdings represented 36.1% of assets, and the 20 largest represented 57.7% of assets. The Fund's largest weighting was in the IT sector at 29.5% of assets. This sector includes software companies, IT consulting firms, and internet services companies. The Fund held 25.0% 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 14.6% 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 11.0% of assets and Communication Services at 7.9% of assets.

Table IV.
Top 10 holdings as of March 31, 2021

	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	\$41.8	\$367.8	6.4%
Gartner, Inc.	2007	2.9	16.2	289.2	5.0
Mettler-Toledo International, Inc.	2008	2.4	27.0	224.3	3.9
ANSYS, Inc.	2009	2.3	29.6	199.3	3.5
Vail Resorts, Inc.	1997	0.2	11.7	178.9	3.1
CoStar Group, Inc.	2016	5.0	32.4	177.1	3.1
Verisk Analytics, Inc.	2009	4.9	28.8	174.3	3.0
Zillow Group, Inc.	2015	1.5	31.3	167.0	2.9
Bio-Techne Corporation	2015	4.0	14.8	152.8	2.7
Guidewire Software, Inc.	2013	2.8	8.5	144.5	2.5

RECENT ACTIVITY

During the past quarter, the Fund established 8 new positions and added to 5 others. The Fund eliminated 5 positions and reduced its holdings in 18 others.

Table V.
Top net purchases for the quarter ended March 31, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Tripadvisor, Inc.	\$ 7.3	\$57.3
EPAM Systems, Inc.	22.3	47.1
Diversey Holdings, Ltd.	4.5	27.8
Avalara, Inc.	11.4	22.4
HubSpot, Inc.	21.0	18.1

We initiated a position in **Tripadvisor, Inc.**, whose core business is hotel metasearch, driven by its extensive library of hotel reviews posted by travelers. The company has additional online aggregation businesses in private home rentals, travel experiences, and restaurants, as well as a 40% joint venture with Trip.com in China. We believe that Tripadvisor is a valuable online asset with more than 460 million unique monthly visitors that should benefit from pent-up consumer travel demand. Moreover, the business is undergoing several positive changes that we believe will drive improved monetization of its extensive internet traffic, most notably a subscription-based consumer travel product.

Three developments attracted us to the investment. We believe management was enhanced by an active board member with an excellent track record of capital allocation and extensive expertise in the travel industry, as well as new management in important parts of its business. Second, we believe that there is a large opportunity to drive more revenue from its substantial website traffic, particularly with a subscription service. Third, the company reduced parts of its cost structure in a permanent manner that should result in higher long-term margins and profitability.

Tripadvisor has been testing its Tripadvisor Plus subscription, which provides subscribers with discounts and perks on Tripadvisor bookings for \$99/year. We have observed similar subscription products drive high-quality recurring revenue and strong customer loyalty at other companies, such as Amazon.com and DoorDash. If just a small percentage of the site's 460 million monthly unique visitors opt for this product, it could generate more than \$1 billion in recurring subscription revenue at high margins. Based on our research, we are optimistic that this product could achieve meaningful adoption. Furthermore, this type of revenue would likely be assigned a high stock market multiple, potentially driving significant upside in its share price.

We also initiated a position in **EPAM Systems, Inc.**, which provides consulting and outsourced software development for business customers using highly skilled, low-cost employees based mostly in Eastern Europe. Competition is forcing businesses to invest more in technology and digital transformation to increase agility and better serve their customers. Corporate leaders are increasingly viewing technology as a strategic priority to grow revenue rather than merely as an operating

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expense to run the business. However, companies often lack the necessary talent and skills to drive digital transformation, so many turn to outsourced providers like EPAM. EPAM is well suited for this shift in corporate IT spending to software modernization, data and analytics, and cloud migration given its workforce of 37,000 engineers, designers, and consultants with valuable expertise in advanced technologies.

Within the \$1 trillion global market for IT services, EPAM focuses on the \$150 billion segment for digital platform and product engineering services, which is growing at a double-digit rate. With less than a 2% share of a highly fragmented market, we believe that EPAM has an extensive runway for growth. EPAM's advanced technical capabilities and differentiated talent pool enable the company to work on higher-value projects with better pricing power than peers. EPAM has longstanding relationships with over 400 clients, including Bridgewater Associates, Expedia, Google, Regeneron Pharmaceuticals, and UBS. Management targets 20% or better organic revenue growth, which is being supplemented with tuck-in acquisitions that expand its geographic reach and customer mix. We believe EPAM will continue gaining share in a large, growing market by adding new clients and increasing wallet share with existing clients.

Table VI.
Top net sales for the quarter ended March 31, 2021

	Amount Sold (millions)
IDEXX Laboratories, Inc.	\$49.9
Booking Holdings, Inc.	45.1
FleetCor Technologies, Inc.	38.7
DoorDash Inc.	36.8
Verisk Analytics, Inc.	29.2

We reduced our stakes in successful longtime holdings **IDEXX Laboratories, Inc.** and **Verisk Analytics, Inc.**, and sold out of **Booking Holdings, Inc.** to raise capital to allocate elsewhere in the Fund. We sold our stake in **FleetCor Technologies, Inc.** on concerns about the company's reliance on credit cards used to purchase gasoline, a market which we believe may soon be in secular decline. We sold our stake in food delivery company **DoorDash**

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 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.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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Inc. after its stock appreciated considerably after its recent IPO, and we became uncomfortable with its valuation.

OUTLOOK

Baron Asset Fund remains 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 large valuations being accorded to many speculative companies. We invest in stocks that we believe, based on our deep fundamental research, will double in value over a five-year period, and all new and existing holdings must meet that objective.

We believe that we have created value for our investors throughout the Fund's long history by understanding and analyzing businesses better than many others. We do not invest based on our insights into macroeconomic, political, or, more recently, public health issues. Nevertheless, we are optimistic that near-term business conditions seem favorable for our investments—vaccinations are proceeding rapidly, the reopening of the domestic economy appears imminent, significant fiscal stimulus in the form of infrastructure and related spending seems likely, and interest rates, though recently elevated, remain below historic levels.

We continue to adhere to our longstanding investment methodology, while working hard to identify beneficiaries of accelerating changes in technology and consumer preferences, many of which have been impacted by the pandemic. We remain optimistic that this approach will generate strong performance for our portfolio, regardless of the economic climate.

Sincerely,



Andrew Peck
Portfolio Manager