Dear Baron Asset Fund Shareholder:

Performance

The second quarter was very challenging for U.S. equity markets. Investors remained focused primarily on the Federal Reserve's likely need to continue raising interest rates to contain rising inflation. Pessimistic sentiment was further exacerbated by geopolitical tensions, rising commodity prices, the negative impact on corporate earnings from a strengthening U.S. dollar, and the potential effects of COVID-related lockdowns in China on global supply chains. Lackluster financial results from several technology bellwethers, including Amazon, Netflix, and Microsoft, also contributed to the market downdraft.

The best performing sectors included traditionally defensive areas. Consumer Staples, Utilities, and Health Care benefited from investors' flight to safety during the quarter. The Energy sector also continued its meaningful outperformance, as oil prices topped $120 a barrel in early June. In contrast, the growth-oriented Consumer Discretionary, Information Technology (IT), and Communication Services sectors were each down more than 20%, as investors continued to sell longer duration growth stocks with elevated near-term valuations. For the second consecutive quarter, growth meaningfully underperformed value as the higher interest rate environment disproportionately impacted growth stocks.

Against this difficult backdrop for the type of growth stocks we favor, Baron Asset Fund (the "Fund") fell 21.09% (Institutional Shares) in the quarter, performing roughly in line with the Russell Midcap Growth Index.

Table I.
Performance†
Annualized for periods ended June 30, 2022

	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]	(21.15)%	(21.09)%	(21.07)%	(16.10)%
Six Months[5]	(32.63)%	(32.55)%	(31.00)%	(19.96)%
One Year	(29.43)%	(29.25)%	(29.57)%	(10.62)%
Three Years	2.04%	2.31%	4.25%	10.60%
Five Years	8.35%	8.63%	8.88%	11.31%
Ten Years	11.86%	12.16%	11.50%	12.96%
Fifteen Years	7.76%	8.01%	8.21%	8.54%
Since Inception (June 12, 1987)	10.97%	11.08%	9.75%[4]	9.85%

ANDREW PECK
PORTFOLIO MANAGER

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

Favorable stock selection in IT, Industrials, and Real Estate together with higher exposure to the better performing Financials sector and lower exposure to the lagging Consumer Discretionary sector added the most value. Within IT, lack of exposure to poor performing systems software stocks and outperformance of syndicated research provider **Gartner, Inc.** added the most value. Gartner's shares outperformed amid macroeconomic uncertainty as its business conditions remained strong, with its core research business compounding at a double-digit rate. Strength in Industrials was broad-based, led by private rocket and spacecraft manufacturer **Space Exploration Technologies Corp.**, whose shares were revalued higher using prices of recent transactions and Baron's proprietary valuation model. Real estate data and marketing platform **CoStar Group, Inc.**, diversified technology company **Roper Technologies Inc.**, applied solutions provider **IDEX Corporation**, and pest control leader **Rollins, Inc.** also outperformed after reporting strong financial results. REITs **SBA Communications Corp.** and **Equinix, Inc.** bolstered performance in Real Estate, as investors rewarded their underlying secular growth drivers in an uncertain macroeconomic environment.

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, 2021 was 1.29% and 1.03%, 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 3-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs 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. 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 and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. 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 June 30, 2022.

5 Not annualized.

These positive impacts were mostly offset by adverse stock selection in the Health Care and Communication Services sectors. Weakness in Health Care was largely due to the underperformance of veterinary diagnostics company **IDEXX Laboratories, Inc.** and DNA sequencing market leader **Illumina, Inc.** IDEXX was the largest detractor as multiple compression was particularly acute for companies that benefited disproportionately from the pandemic, given challenging growth comparisons in 2022. Illumina's shares were pressured by concerns over increased competition from new entrants into its market. Performance in Communication Services was hindered by marketing solutions provider **ZoomInfo Technologies Inc.**, whose shares fell over concerns about the company's compliance with changing privacy regulations in its market.

The Fund also suffered a material headwind from its negligible exposure to the Energy, Consumer Staples, and Materials sectors, which were among the best performing areas amid a treacherous market environment. Energy and Materials companies benefited from rising commodity prices. The Fund generally has limited exposure to these areas because we believe it is difficult to identify companies with secular growth characteristics and durable competitive advantages. The Fund generally has few Consumer Staples holdings because of our preference for generally faster growing businesses in the Consumer Discretionary sector.

Table II.
Top contributors to performance for the quarter ended June 30, 2022

	Year Acquired	Percent Impact
Space Exploration Technologies Corp.	2020	0.23%
argenx SE	2021	0.09
Rollins, Inc.	2016	0.02
Diversey Holdings, Ltd.	2021	0.01

Space Exploration Technologies Corp. (SpaceX) is a high-profile private company founded by Elon Musk that designs, manufactures, and launches rockets, satellites, and spacecrafts. Its long-term goal is to enable human beings to inhabit Mars. We believe SpaceX is creating substantial value through the ongoing expansion of its Starlink service, a broadband offering that connects its proprietary user terminals to its proprietary satellite constellation. In addition, the company continues to reliably provide reusable launch capabilities, including crewed space flights, and it is advancing the development of its largest rocket, Starship. We value SpaceX using prices of recent financing transactions and a proprietary valuation model.

Argenx SE is a biotechnology company focused on developing treatments for autoimmune disorders. Shares increased given the encouraging launch of Vyvgart, argenx's treatment for generalized myasthenia gravis, a chronic autoimmune disease that causes muscle weakness. Early sales tripled consensus expectations, and global approvals for the drug are coming in earlier than many investors had expected. Data from Vyvgart's trial to treat immune thrombocytopenia was positive as well. We expect the company to announce several further positive developments during the next two years.

Rollins, Inc., which provides pest and termite control services for residential and commercial customers, contributed to performance. The company reported solid quarterly earnings and continued its consistent execution despite macroeconomic uncertainties. We believe Rollins has a strong brand and leading market share within in an attractive and defensive end market. The company has historically raised its prices to offset growth in its operating expenses. We expect that Rollins should be able to continue compounding its revenues, earnings, and free cash flow for many years.

Diversey Holdings, Ltd. is global leader in infection prevention, hygiene, and cleaning solutions. Its shares stabilized during the quarter after a first quarter sell-off. The price of raw materials Diversey needs to make its products has risen sharply in the inflationary environment, and the company increased its prices and added energy-related surcharges to mitigate some of these cost pressures.

Table III.
Top detractors from performance for the quarter ended June 30, 2022

	Year Acquired	Percent Impact
IDEXX Laboratories, Inc.	2006	–2.34%
Gartner, Inc.	2007	–1.55
Mettler-Toledo International, Inc.	2008	–0.93
ZoomInfo Technologies Inc.	2020	–0.90
ANSYS, Inc.	2009	–0.83

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** fell in the quarter. The broader veterinary industry benefited during the pandemic, as the pet population grew and owners working from home were often more attentive to their pets' well-being. As the pandemic subsides, IDEXX may be adversely impacted by difficult year-over-year growth comparisons, and the company's overseas' earnings will likely suffer from the strengthening U.S. dollar. Nevertheless, we believe that the pandemic accelerated the long-term secular trends impacting pet ownership and pet care, and we believe that foreign exchange rates will eventually move in the opposite direction. Furthermore, we believe that IDEXX's competitive position is the strongest that it has ever been. We further expect the company's proprietary testing innovations and its field sales force expansion to meaningfully contribute to its long-term growth rate and operating leverage.

Shares of **Gartner, Inc.**, which sells syndicated research to corporations largely through annual subscription contracts, detracted from performance as investors contemplated the impact of a potential recession on its future growth trends. We believe that the company's business conditions remain strong, as Gartner's research business compounded at double-digit levels during its most recent quarter. Gartner has demonstrated an ongoing ability to raise its prices, even during challenging economic environments. We expect sustained revenue growth and renewed focus on cost control to drive margin expansion and enhanced free-cash-flow generation. The company's balance sheet remains in excellent shape and can support repurchases and bolt-on acquisitions.

Mettler-Toledo International, Inc. is the world's largest provider of precision weighing instruments used in laboratory, industrial, and food retailing applications. Mettler reported solid results during the quarter, and management increased its 2022 earnings guidance. Nevertheless, we believe its shares fell because of investor concerns around the impacts of a possible economic slowdown, inflation, supply-chain constraints, a stronger U.S. dollar, and higher interest rates. We remain shareholders as we believe Mettler has strong brand recognition, pricing power, customer and geographic diversification, margin expansion opportunities, and strong free cash flow and can compound its earnings in the mid-teens over the long term.

ZoomInfo Technologies Inc. operates a cloud-based data intelligence platform that provides corporate sales teams with data to identify sales prospects, shorten sales cycles and increase overall win rates. Its shares detracted from performance following a short seller's report questioning whether the company was compliant with new and upcoming privacy regulations. After extensive due diligence, we remain comfortable that ZoomInfo is compliant with all current legislation and has every intention to remain compliant with any new or pending privacy legislation. We do not believe this will pose a meaningful headwind to the company's ability to achieve its growth and profitability objectives.

ANSYS, Inc. is a leading provider of physics-based simulation software. Despite quarterly financial results that exceeded expectations, the stock was pressured by the negative impact of foreign exchange rates, a transition in its sales management team, and the widespread rotation out of technology stocks. We believe ANSYS remains well positioned to benefit from the increasing demand for simulation software by leveraging its growing product offerings, expanding its distribution, and deepening its customer relationships across both industry verticals and geographies.

Portfolio Structure

At June 30, 2022, Baron Asset Fund held 56 positions. The Fund's 10 largest holdings represented 43.5% of assets, and the 20 largest represented 66.9% of assets. The Fund's largest weighting was in the IT sector at 31.3% of assets. We have investments in software companies, IT consulting firms, internet services companies, and data processing firms. The Fund held 26.1% of its assets in the Health Care sector, which includes investments in life sciences companies, and health care equipment, technology, and supplies companies. The Fund held 14.9% of its assets in the Industrials sector, which includes investments in research and consulting firms, aerospace & defense companies, and machinery companies. The Fund also had significant weightings in Financials at 12.9% of assets and Consumer Discretionary at 7.0% of assets.

As the chart below shows, the Fund's largest investments all have been owned for significant periods. This is consistent with our approach of investing for the *long term* in companies benefiting from secular growth with significant competitive advantages and best-in-class management teams.

Table IV.
Top 10 holdings as of June 30, 2022

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$2.9	$19.5	$338.9	8.3%
IDEXX Laboratories, Inc.	2006	2.5	29.5	236.3	5.8
Mettler-Toledo International, Inc.	2008	2.4	26.1	223.0	5.4
Verisk Analytics, Inc.	2009	4.0	27.3	164.6	4.0
CoStar Group, Inc.	2016	5.0	23.9	147.4	3.6
FactSet Research Systems, Inc.	2006	2.5	14.6	142.6	3.5
Bio-Techne Corporation	2015	4.0	13.6	138.7	3.4
ANSYS, Inc.	2009	2.3	20.8	136.8	3.3
Vail Resorts, Inc.	1997	0.2	8.8	131.6	3.2
West Pharmaceutical Services, Inc.	2014	2.9	22.4	122.3	3.0

Recent Activity

Table V.
Top net purchases for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
ICON Plc	$17.6	$23.8
Floor & Decor Holdings, Inc.	6.7	10.4

We established a position in **ICON Plc**, the second largest participant in the $50 billion Contract Management Organization (CMO) market. Founded in 1990, ICON provides outsourced drug and device development and commercialization services to pharmaceutical, biotechnology, and medical device companies, as well as to governments and public health organizations. We believe the CMO industry and ICON, in particular, is poised to benefit from a variety of positive secular growth trends, and we believe that ICON should remain relatively unimpacted by potential disruption in the broader economy.

As clinical drug trials become increasingly complex and global in their scope, market share among CMOs has been shifting to large-scale providers like ICON. The company offers several important advantages to drug developers, particularly smaller and mid-sized biotechnology firms that lack the internal infrastructure to run the trials necessary to obtain regulatory approval for their drugs. These include the economic efficiency associated with converting previously fixed costs to variable costs, and a significant reduction in the time required to bring new drug treatments to market. ICON's large scale has also enabled the company to secure long-term strategic partnerships with multiple large pharmaceutical customers, which provides added visibility into their revenue pipeline. Lastly, we believe that there remains a long runway for further drug development services to be outsourced to the CMO industry.

ICON has expertise running trials in multiple therapeutic areas, including oncology, orphan and rare diseases, central nervous system, dermatology, infectious disease, women's health, and immunology. The company offers its clients differentiated technology, including proprietary data gathering and analytics solutions that target inefficiencies in the clinical trial process. In particular, the company's unique network site strategy addresses two of the largest challenges in overseeing drug trials–the time needed to recruit patients and the generation of the clean data needed for submission to regulators.

We believe ICON is positioned to deliver high single-digit revenue and mid-teens earnings growth for an extended period. We believe ICON is perhaps the best managed company within its industry, with a long history of developing new products and services that are embraced by customers, coupled with excellent cost management. Furthermore, we believe ICON has yet to fully capitalize on the potential revenue and cost synergies stemming from its 2020 merger with PRA Health Sciences, Inc., then the fifth largest player in the industry.

We also established a position in **Floor & Decor Holdings, Inc.**, a specialty retailer of hard-surface flooring (tile, vinyl, wood, stone, and laminate) and accessories. We believe the company is one of the most exciting growth concepts in retail. The company operates 166 warehouse-format stores that average 78,000 square feet, significantly larger than most competitors' stores. The large warehouse format allows Floor & Decor to showcase inspirational displays of the industry's broadest trends, while offering a huge number of in-stock options across flooring types. The company's significant scale, and its ability to source product directly from a global manufacturer network, has enabled it to become the low-price leader across hard surface flooring.

We believe that the hard-flooring market is currently fragmented and has tailwinds from the ongoing shift away from carpet toward durable, hard surfaces. In addition, given a customer's desire to see and touch the product, and the cost and logistical challenges of shipping flooring direct to customers, the concept is not susceptible to significant e-commerce disintermediation.

While Floor & Decor's shares could be volatile in the near term because of the uncertain economic environment, we believe the company's pricing advantage and in-stock selection should allow it to continue taking market share. Floor & Decor also should continue to grow its store base, which we believe can reach 500 domestic units. Given its pricing leadership and the infrequent nature of flooring purchases, Floor & Decor should possess pricing power needed to pass along inflation-driven cost increases. Floor & Decor also has a large opportunity to increase its penetration among professional contractors.

Over the medium term, we believe Floor & Decor can increase its revenues 20% annually, as the company triples its store base and increases its operating margins to the high teens. In light of the economy, the company's shares are trading at trough multiples, despite Floor & Decor's successful track record of navigating prior periods of uncertainty. We believe that shares have meaningful upside over the next three to five years.

Table VI.
Top net sales for the quarter ended June 30, 2022

	Amount Sold (millions)
Tripadvisor, Inc.	$23.4
Clarivate Plc	21.8
MarketAxess Holdings Inc.	16.8
Diversey Holdings, Ltd.	12.2
Clearwater Analytics Holdings, Inc.	11.9

We exited several positions during the quarter. We sold **Tripadvisor, Inc.**, a website containing travel-related information and reviews. We believed that the company had a significant opportunity to sell high-margin subscription-based products, and we were disappointed by continued delays in their introduction to the market. We sold **Clarivate Plc**, an information services company focused primarily on the academic and legal end markets. We believed that the company's well-regarded management team would be able to accelerate organic revenue growth, increase margins and cash flow, and acquire and integrate various complementary information services assets. We grew frustrated by the company's continued inability to meet these goals. We sold **Diversey Holdings, Ltd.**, a leader in infection prevention, hygiene, and cleaning solutions. We were concerned that rising commodity prices would impact the company's profitability. We sold **Clearwater Analytics Holdings, Inc.**, a cloud-based software provider focused on accounting and reporting products for financial services companies, over concerns about the company's valuation, given an unforgiving market environment for technology stocks. We reduced our position in **MarketAxess Holdings Inc.**, an electronic trading platform for fixed income instruments, on concerns about modest declines in the company's relative market share.

Outlook

We believe that Baron Asset Fund is positioned to perform well amid the stock market's two most pressing concerns – rising inflation and a slowing economy. We believe our companies will be able to successfully navigate the inflationary environment. We have a portfolio of businesses with strong competitive positions that sell highly differentiated services and products. These businesses have demonstrated their ability to increase prices without undue customer pushback, and broad-based inflation should make these price increases easier for customers to accept. In addition, these businesses have largely variable cost structures and limited exposure to commodity-sensitive inputs. These factors should afford management the flexibility to protect their margins, despite rising costs. Importantly, the large majority of our investments are cash flow positive with limited debt, and they are not dependent on additional funding from the capital markets or terribly sensitive to rising interest rates.

For many of these same reasons, we also believe our companies can prosper in a slower-growing macroeconomic backdrop. We are invested in businesses that we believe are leaders within their industries, which are being buoyed by long-lived *secular*, as distinct from cyclical, growth drivers. Thus, we do not expect their fortunes to be overly dependent on cyclical factors, like GDP growth, interest rates, or energy prices, remaining at certain levels. In addition, during the past 12 months, cyclical concerns have helped lead the Russell Midcap Value Index to outperform its Growth counterpart by nearly 2,000 basis points.

Given the rapid, precipitous decline in many of our companies' stock prices, we are optimistic about the long-term return potential across the Fund. In many cases, our businesses have continued to achieve, or exceed, our expectations for revenue and earnings performance, yet their stock prices have fallen significantly. We remain confident that the stocks in our Fund have the potential to double in value over a five-year period.

As we have written in the past, we are not aware of any investors who have been able to consistently buy at the bottom of turbulent markets or consistently sell at the top. Instead, we believe that investors should take a long-term view of their equity holdings, which have generally compounded at attractive rates over time. We believe the best time to invest in equities, and mid-cap growth equities in particular, is often during times like these–when fear and pessimism have resulted in, we believe, compelling valuations that should lead to attractive long-term returns.

Sincerely,

Andrew Peck
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 the Funds' 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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