INSIDE THE BARON FUNDS
INVESTOR

Baron Asset Fund

The Underappreciated Advantages of Mid-Cap Growth Stocks

Bridging the gap between large- and small cap equities, mid-cap equities can offer the best of both asset classes.

Mid caps can be a lower risk option than their small-cap peers, as they tend to have stronger balance sheets, readier access to capital markets, more experienced management teams, longer and deeper customer relationships, and more robust free cash flow streams to reinvest in their businesses or return to shareholders. Compared to large caps, mid-cap companies often have more agile, less bureaucratic management and a more entrepreneurial approach that can help propel growth through faster decision making and execution, in our view. They may also be earlier in their efforts to target large addressable markets for their product or service.

Baron Asset Fund Performance
as of 9/30/20 (annualized)*

	1-Year	3-Year	5-Year	10-Year	15-Year	Since Inception**
Baron Asset Fund	23.53%	18.13%	17.66%	15.50%	10.80%	12.09%
Russell Midcap Growth Index	23.23%	16.23%	15.53%	14.55%	10.51%	10.54%†
Morningstar US Fund Mid-Cap Growth Category Average	24.49%	14.68%	14.28%	13.22%	9.74%	
Morningstar Percentile Rank	41%	27%	18%	14%	27%	

* Institutional shares. For retail and R6 shares, visit www.BaronFunds.com.

**6/12/87

† For the period June 30, 1987 to September 30, 2020.

Baron Asset Fund

Andrew Peck
Co-CIO and Portfolio Manager

Baron Asset Fund is our mid-cap investment option. Portfolio Manager Andrew Peck applies Baron's research-intensive, long-term investment approach to manage a high conviction, low-turnover portfolio of mid-cap growth stocks. Andrew brings more than two decades of investment experience to the Fund, which he co-managed starting in 2003 before assuming sole control in early 2008.

Andrew's patient, differentiated approach has produced excellent results. As of 9/30/20, the Fund has a 5-star Morningstar rating for its overall and 10-year performance and a 4-star rating for its 3- and 5-year performance For the 3-year period, the Fund beat its benchmark, the Russell Midcap Growth Index, by 190 basis points while its mid-cap growth equity peer group as defined by Morningstar, underperformed the benchmark. As seen in the chart to the left, its longer-term performance is also quite strong. The Fund has outperformed its benchmark and peer group average across the 3-, 5-, and 10-year investment periods. For the 3-year period, the Fund's alpha is 2.96% and beta is 0.91. Its upside capture of 97.56% and downside capture of 87.68% for the same time period is equally as impressive.

The Fund has always maintained high active share; its current active share is 82.4%.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Institutional Share Class as of fiscal year ended 9/30/2019 was 1.05%. *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.*

Baron Asset Fund Institutional Share Class is in the Morningstar Mid Cap Growth Category. Morningstar calculates the category average using the Morningstar Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of 9/30/20, the category consisted of 607, 557, 500, 380, and 271 share classes for the 1-, 3-, 5-, 10-year and 15-year periods. Baron Asset Fund Institutional Share Class ranked in the 41st, 27th, 18th, 14th, and 27th percentiles, respectively. The Morningstar overall, 3-year, 5-year, and 10-year rating is based on risk adjusted returns with 557, 557, 500, and 380 funds, respectively, in the category.

Baron Asset Fund
Top 10 Holdings as of September 30, 2020

Holding	Sector	% of Net Assets
IDEXX Laboratories, Inc.	Health Care	6.7%
Verisk Analytics, Inc.	Industrials	4.1%
Gartner, Inc.	Information Technology	3.8%
Mettler-Toledo International, Inc.	Health Care	3.8%
ANSYS, Inc.	Information Technology	3.7%
CoStar Group, Inc.	Industrials	3.5%
West Pharmaceutical Services, Inc.	Health Care	3.2%
Guidewire Software, Inc.	Information Technology	2.9%
SBA Communications Corp.	Real Estate	2.8%
Ceridian HCM Holding, Inc.	Information Technology	2.6%
Total		**37.1%**

A Differentiated Investment Approach

We believe the Fund's strong performance is the direct result of a consistent, repeatable, and time-tested investment process and approach that is differentiated by the following characteristics:

- Long-term perspective with low turnover
- High-conviction portfolio with a limited number of names
- Bottom-up approach with a focus on company fundamentals
- Style purity

Long-term perspective with low turnover Consistent with our long-standing Baron investment philosophy, Baron Asset Fund is managed with a long-term perspective. We believe this long view gives us an edge over many of our competitors. Most active mid-cap managers are focused on the short term, where factors that may have little to do with business fundamentals, such as a quarterly earnings beat or miss or overall market volatility, are frequently the most significant factor driving stock price performance.

As mid-cap managers, we operate in a relatively efficient market, requiring us to focus on the few inefficiencies that exist to gain an investment edge. Since the vast majority of managers employ a short-term approach, we believe that our long-term perspective affords us less competition while also allowing us to take advantage of the short-sightedness of the market. We leverage our extensive research capabilities to conduct a deep dive on the fundamentals of every company in which we are considering an investment. Our research allows us to develop an informed and thorough understanding of the longer-term secular advantages of these companies. Ultimately, we are more interested in the ultimate duration of a company's growth opportunity – rather than being overly focused on its timing. We believe this is a key part of the engine that drives alpha for us.

The Fund's 10.33% turnover is significantly lower than its peer group average of 11.83%. The large runway for growth within the mid-cap space means that we can hold our highest conviction names for many years while maintaining our mid-cap mandate. We believe this is a more tax efficient approach to managing a portfolio. This low turnover approach is often attractive to company management teams, as their executives are aware of our reputation as long-term holders of stock, and frequently seek us out as investors.

Yet it is important to note that our low turnover is an outgrowth of our investment process rather than a goal in and of itself. If we find and invest in the right companies, we believe that it makes little sense to replace these companies with new and relatively untested ones. We would rather remain invested throughout the duration of the growth trajectory of our highest conviction companies.

Low turnover does not mean that we are passive buy and hold investors. We are constantly researching new, promising ideas and add new names to the portfolio every quarter. We vigilantly monitor our holdings and shift our exposure over time according to where we are seeing the most promising investment opportunities. Most recently, we have reduced the Fund's long-held exposure to the Consumer Discretionary sector in favor of Health Care and Financials. Within Health Care, we prefer more established, less speculative sub-industries such as health care equipment and suppliers over biotech and pharma. Our Financials holdings contain names such as brokerage **The Charles Schwab Corp. (SCHW)** and data provider **FactSet Research Systems, Inc. (FDS)**, both of which carry wide Morningstar Economic Moat Ratings.

High-conviction portfolio with a limited number of names Under Andrew's stewardship, the Fund has consistently held about 60 stocks. This number is less than half of the 142 stocks held by the average mid-cap fund, because we believe there are a limited number of truly compelling investment ideas at any particular time. We believe overdiversification can be dilutive of alpha and does not necessarily reduce risk. As Warren Buffett said, "wide diversification is only required when investors do not understand what they are doing."

Our top 10 holdings, which comprise 37.1% of the portfolio by weight, are all companies that rank among our highest conviction names. We have owned these names for an average of 10 years, and all of them have performed well during the time we have held them. Our relatively concentrated portfolio, coupled with our long-term investment horizon, means we enjoy a significant competitive advantage: namely, we have continually researched our companies longer than virtually anyone else. While Andrew works with a long-tenured team of analysts, he considers himself an analyst on every one of his holdings. One would be hard pressed to find another investor in **IDEXX Laboratories, Inc. (IDXX)** – the Fund's largest holding – who has been meeting with management four times a year since 2009, when we initiated a position in the company.

Bottom-up approach with a focus on company fundamentals We take a bottom-up approach to investing, seeking stocks that we believe have the potential to double within five years. To help achieve this target, we look for companies with:

- *Long-term, secular growth opportunities*
- *Strong, sustainable competitive advantages*
    - Unique assets
    - Pricing power
    - Dominant market share
- *Business models that can support sustainable growth*
    - Scalable
    - High incremental margins
    - Strong and visible cash flow
    - Capital structure appropriate to the industry
- *Exceptional management*
- *Attractive valuation*

- *Long-term, secular growth opportunities* We look for companies that are positioned to benefit from secular growth opportunities with large, addressable markets. We estimate that 300 to 400 companies in our investable universe meet these criteria. We find these opportunities across a wide and varied range of sectors and sub-industries. IDEXX, for instance, is benefitting from significant, sustainable growth in the pet care/animal health industry. The growth trajectory of **Equinix, Inc. (EQIX)**, the leading provider of internet business exchanges, is being driven by increasing internet traffic volume, globalization of financial markets, IT outsourcing, cloud computing, and mobility. Global online travel agency **Booking Holdings, Inc. (BKNG)** is profiting from the ongoing shift in the travel industry to online bookings, which is currently 45% penetrated globally. A rare few are creating their own growth opportunities. Ski resort owner **Vail Resorts, Inc. (MTN)** pioneered the multi-resort season pass, the success of which has enabled Vail to continue to raise prices and acquire additional resorts, shoring up its position as the largest ski resort operator in North America.

- *Strong, sustainable competitive advantages* We believe compelling and sustainable competitive advantages are key to successful investing in growth stocks. We look for companies that are establishing their competitive advantages, as companies that already have them tend to be more fully priced. Many of our holdings benefit from more than one competitive advantage. We focus on three: unique assets, pricing power, and a leading market position.

  Assets that are difficult to replace or replicate make it more difficult for new entrants to compete. Vail Resorts, for example, benefits from restrictions on and expenses associated with developing new ski resorts. **CoStar Group, Inc. (CSGP),** the leading provider of information and marketing services to the commercial real estate industry, has built a proprietary database over the past 20 years, creating high barriers to entry.

  Pricing power is another type of competitive advantage that we look for. We prefer companies that have pricing power tied to the utility of their product or service rather than a monopolistic grip on the market. For example, we like subscription-based business models that provide unique, proprietary data and analytics that become deeply embedded in customer workflow. This dynamic allows the vendor to raise prices in exchange for incremental improvements. CoStar and FactSet are both subscription-based businesses. Other examples include **Gartner, Inc. (IT)**, which provides research to the IT industry, and **Verisk Analytics, Inc., (VRSK)**, which provides risk data to insurance, financial services, and energy companies.

  Dominant market share – often as a result of first mover advantage – provides companies with a formidable competitive advantage in many instances. One example is **MarketAxess Holdings Inc. (MKTX)**, which owns and operates the dominant electronic trading platform for corporate bonds and other fixed income securities. The corporate bond market is still in the early stage of a secular transition from voice-based to electronic trading, and MarketAxess, as a leading trading platform, is well-positioned to benefit from this shift, in our view.

- *Business models that can support sustainable growth* We invest in businesses that are scalable and have high incremental margins, strong and visible cash flow, and a capital structure appropriate to the industry. Many of our holdings are asset light, low capital-intensive businesses because once they have built their core assets – database, platform, etc. – as they scale, margins can expand significantly. Companies such as Equinix, Booking Holdings, and MarketAxess, which have built platforms enabling their customers to do business, illustrate this concept. After the platform has been built, the cost of adding new customers is de minimus, resulting in high incremental margins. We also like strong and visible free cash flow, because unlike earnings, it is rarely manipulated by accounting conventions. Finally, we look for a capital structure appropriate to the industry in which the company operates. We are comfortable with a company that leverages its balance sheet to optimize returns if it is an established business with recurring and predictable free cash flow and prudent debt levels. We believe such balance-sheet optimization is a way for companies to maximize shareholder returns.

- *Exceptional management* For Andrew, identifying a great management team is more of an "art than a science," honed over his 20+ years of experience as an investment professional, over the course of which he has met with and questioned thousands of executives about their companies. We look for a track record of successful capital allocation with proven ability to reinvest excess cash flows at high rates of return. We also look for "skin in the game" – a personal financial stake in the company's success.

- *Attractive valuation* We project the long-term intrinsic value of every stock we own using both quantitative and qualitative analysis. Our projection is based on all key financial metrics – revenue, margins, capex, EBITDA, and free cash flow, etc. – as well as more qualitative factors, such as the ultimate growth opportunity, quality, and sustainability of the competitive advantage, and management. We will initiate a position only if we believe the stock will increase by an average of 15% per year over a five-year period. We will remain invested in a stock as long as its valuation is supported by our projection of intrinsic value.

Style purity Baron Asset Fund is a true mid-cap fund. While we do not manage to the benchmark in terms of sector allocation or other factors, we do manage the portfolio to remain comfortably within the mid-cap space. We buy stocks with market caps of at least $2.5 billion and below the largest stock in the Index. We will sometimes keep a particularly strong stock after it outgrows the mid-cap range, but the Fund's stake in large-cap names is also in line with the typical mid-cap growth fund. The Fund's $24.88 billion weighted average market cap is in line with its benchmark, as it has been historically.

Conclusion

We started investing in mid-caps more than 30 years ago, when few other investment managers were focused on this asset class.[1] In our experience, mid caps tend to offer greater growth opportunities than large-cap stocks and less risk than their small-cap peers. Mid caps are more established than small caps, having developed their business beyond the initial, usually riskier, start-up phase. At the same time, they have yet to reach the more mature, less growth-oriented stage of their life cycle. It is no surprise to us that mid-cap stocks have been described as the "sweet spot" of equity investing. We also believe that Baron Asset Fund is an excellent option for an investor looking to tap into the benefits of this "sweet spot."

1 Baron Asset Fund was launched as a smid-cap fund in 1987. It was converted to a mid-cap fund in 2007.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-80099BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Performance for the Institutional Shares prior to 5/29/2009 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 5/29/2009 did not reflect this fee, the returns would be higher.

Risks: Securities issued by medium sized companies may be thinly traded and 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 discussion of market trends and companies are not intended as advice to any person regarding the advisability of investing in any particular security. Some of our comments are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change any time based on market and other conditions, and we have no obligation to update them.

Portfolio holdings as a percentage of total investments as of September 30, 2020, for securities mentioned are as follows: **The Charles Schwab Corp.** – 1.3%, **FactSet Research Systems, Inc.** – 2.4%, **IDEXX Laboratories, Inc.** – 6.7%, **Equinix, Inc.** – 1.9%, **Booking Holdings, Inc.** – 0.7%, **Vail Resorts, Inc.** – 2.5%, **CoStar Group, Inc.** – 3.5%, **Gartner, Inc.** – 3.8%, **Verisk Analytics, Inc.** – 4.1%, **MarketAxess Holdings Inc.** – 2.4%.

The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Russell Midcap® Growth Index measures the performance of medium-sized U.S. companies that are classified as growth. The index is unmanaged. The index performance is not fund performance; one cannot invest directly into an index.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

Beta measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition.

Upside Capture explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

Downside Capture measures how well a fund performs in time periods where the benchmark's returns are less than zero.

Active Share is a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics M. Cremers and A. Petajisto, as a measure of active portfolio management.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a limited purpose broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).

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