INSIDE THE BARON FUNDS
INVESTOR

Baron Growth Fund

Long-term investing in small cap growth companies

At one time, The Charles Schwab Corp., BlackRock, Inc., American Tower, Inc., CME Group, Inc., and Illumina, Inc. – all large cap stocks today – were small cap stocks.

That was when we first invested in them.

As a firm that got its start more than 30 years ago by researching and investing in small cap growth companies, we are long believers in the potential for active managers to generate sustainable, long-term outperformance in the small cap space. Small cap stocks tend to be overlooked by Wall Street, in part because finding the right ones takes intensive, hands-on research. We invest in this level of research because we believe that small cap stocks have the ability to grow in ways that are not possible for larger companies.

With Baron Growth Fund, one of our three small cap growth funds, we also believe we take an investment approach that is distinct in several key respects. We think this investment philosophy and process, which we describe in detail below, is the driving force behind the Fund's outperformance with less risk over time.

Baron Growth Fund

Baron Growth Fund is managed by firm founder Ron Baron and co-manager Neal Rosenberg. Ron, who has headed the Fund since its inception in 1994, has the benefit of a 50-year career researching and investing in small cap growth companies. Neal was named co-portfolio manager of the Fund in 2018 after serving for two years as assistant portfolio manager. He brings 17 years of investment experience to his position, including 14 years at Baron.

Ron and Neal apply Baron's research-intensive, fundamental, bottom-up approach to find and invest for the long term in companies that they believe benefit from sustainable competitive advantages, excellent management, and secular growth opportunities, at an attractive valuation.

Neal Rosenberg
Co-Portfolio Manager

Ron Baron
CEO and Portfolio Manager

This time-tested, repeatable investment process has produced excellent results over the 25 years since the Fund's launch. As seen in the chart below, the Fund has outperformed its benchmark across all standard timeframes (1-, 3-, 5-, and 10-year). For the 3-year period, the Fund's alpha is 6.14% and beta is 0.92. Its upside capture of 101.65% and downside capture of 81.34% is also strong.

Baron Growth Fund Performance as of 6/30/20 (annualized)*

	1-Year	3-Year	5-Year	10-Year	Since Inception**
Baron Growth Fund	6.85%	13.78%	11.17%	14.24%	13.14%
Russell 2000 Growth Index	3.48%	7.86%	6.86%	12.92%	7.83%

* Institutional shares. For retail and R6 shares, visit www.BaronFunds.com
** 12/31/94

Risks: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Fund is diversified, it may establish more significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's return.

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 1.04%.

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 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 Growth Fund
Top 10 Holdings as of June 30, 2020

Holding	Sector	% of Net Assets
MSCI, Inc.	Financials	8.7%
CoStar Group, Inc.	Industrials	7.7%
ANSYS, Inc.	Information Technology	6.4%
FactSet Research Systems, Inc.	Financials	6.0%
Vail Resorts, Inc.	Consumer Discretionary	5.5%
IDEXX Laboratories, Inc.	Health Care	4.8%
Arch Capital Group Ltd.	Financials	4.0%
Choice Hotels International, Inc.	Consumer Discretionary	3.5%
Iridium Communications Inc.	Communication Services	3.3%
Bio-Techne Corporation	Health Care	3.3%
Total		**53.2%**

Unique Attributes of Small-Cap Stocks

We believe small caps provide several advantages for long-term growth managers like Baron focused on research-driven, bottom-up stock selection.

- ***Broad investment universe*** With approximately 2,100 listed domestic stocks (excluding penny stocks), this asset class has a large pool of companies to analyze.
- ***Less coverage*** Small caps get less coverage on Wall Street. On average, a large cap company is followed by 25 analysts, compared with just six for the average small cap company. This thinner coverage can provide active managers with robust research capabilities an edge in identifying promising companies early in their growth trajectory.
- ***Entrepreneurial mindset*** The entrepreneurial mindset – visionary, passionate, open to new ideas – that we see in many small-cap management teams helps keep these companies innovative and flexible in their strategies for growth, in our view.
- ***Personal stake*** The significant personal stake that many founders and executives of small-cap companies have in their business helps provide assurance that the interests of management and shareholders are aligned.
- ***Acquisition target*** Small caps are more likely to be acquired than their larger-cap counterparts. In the past 10 years, on average, 4.8% of the companies in the Russell 2000® Index were acquired, compared with just 1.2% for the Russell Top 200® Index. When publicly traded companies are acquired, they are typically bought at a premium to their existing share price.

On the downside, small caps can be volatile. As long-term investors, we are accustomed to riding out short-term volatility, and will selectively take advantage of a dip in the market to initiate or add to a position. As less well-established businesses, small caps can also carry more risk than their larger peers. As described below, we take a multi-faceted approach to managing risk, which we believe is key to successful management of a small cap portfolio.

A Differentiated Investment Approach

Baron Growth Fund is a diversified small-cap growth strategy. We employ a consistent, repeatable, and time-tested investment process with the aim of providing superior returns over time with less risk. We believe our strategy benefits from a distinctive approach characterized by:

- Research-intensive stock selection with a focus on fundamentals
- Proven long-term approach
- Multi-faceted approach to risk

Research-intensive stock selection with a focus on fundamentals

We take a research-driven, bottom-up investment approach to identify what we believe are competitively differentiated businesses that can grow independently of their sector economics and macroeconomy. Because we invest only in businesses in which we have strong conviction, we have a limited number of holdings. As of June 30, 2020, the Fund held 51 stocks, compared with a category average of 143 stocks. The top 10 holdings comprised 53.2% of our portfolio.

Our stock specific approach is borne out by our results, as virtually all our outperformance is driven by stock selection. Our goal is to find companies that can double in value with five or six years. To help achieve our objective, we focus on businesses with:

- Long-term, secular growth opportunities
- Strong, sustainable competitive advantages
- Attractive business model
- Exceptional management
- Attractive valuation

Long-term, secular growth opportunities We look for companies that we believe are well positioned to benefit from secular growth opportunities with large, addressable markets. We find these opportunities across a range of sectors and subindustries.

For example, we own a number of companies that are tapping the explosive growth in data generation and consumption, including **CoStar Group, Inc. (CSGP)**, **FactSet Research Systems, Inc. (FDS)**, **and MSCI, Inc. (MSCI)**, all of which are top 10 holdings. While each of these companies services a different end market, they are all subscription-based businesses that provide unique, proprietary data and analytics that typically become deeply embedded in customer workflow.

IDEXX Laboratories, Inc. (IDXX) and **Dechra Pharmaceuticals, PLC (DPH LN)** are benefiting from significant, sustainable growth in the pet care/animal health industry. IDEXX, which we have owned since 2005 and is a top 10 holding, is the leader in diagnostic tests for companion animals, livestock and poultry. Dechra, which is a newer holding in the Fund, is a U.K.-based company that develops, manufactures, and sells specialty veterinary pharmaceuticals.

Companies that provide products and services to biotech and pharma can benefit from the ongoing growth in this space without the risk inherent in a single-product company. We own **West Pharmaceutical Services, Inc. (WST)**, which sells products and services used in injectable drug packaging; and **Bio-Techne Corporation (TECH)**, which develops life sciences tools for biomedical researchers and clinical research laboratories.

Some companies are creating their own growth opportunities. Ski resort owner **Vail Resorts, Inc. (MTN)** pioneered the multi-resort season pass as a way to increase revenue and help immunize the company against poor snowfall seasons. In addition to allowing Vail to increase prices, this innovative approach has enabled the company to acquire additional resorts, each of which expands its addressable market. We first invested in Vail in 1997, shortly after its IPO.

Strong, sustainable competitive advantages A sustainable competitive advantage is another key attribute of the companies we own. We look for businesses that are establishing their competitive advantages, as a fully realized competitive advantage is more likely to be reflected in the stock price.

Attractive business model We seek to invest in companies with the following characteristics:

- Pricing power
- Long-term contracts / high retention rates
- Recurring or reoccurring revenue
- High and/or expanding incremental margins
- Asset light / low capital intensive
- Strong free cash flow conversion
- Appropriate capital structure

We prefer companies whose pricing power is tied to the utility of their product or service rather than a monopolistic hold on the market. For example, with subscription-based business models, companies are able to leverage the continual improvement and expansion of the services they provide to raise prices on a regular basis. Long-term contracts with high retention rates – another characteristic of many of our subscription-based businesses, provide stability, sustainability, and transparency, as does recurring or reoccurring revenue.

We like companies with high or expanding margins that are reinvesting their profits in future growth. 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. We also like strong and visible free cash flow, because unlike earnings, cash flow is not readily manipulated by accounting conventions. Finally, we look for a capital structure appropriate to the industry in which the company operates. We are comfortable with leverage if it is an established business with recurring and predictable free cash flow and sensible debt levels. We believe such balance-sheet optimization is a way to maximize shareholder returns.

Exceptional management Baron's long-held motto, "we invest in people," reflects our belief that experienced, visionary management is at the heart of a company's success. To find these talented people, Ron and Neal tap their decades of experience as investment professionals, over the course of which they have met with and interviewed thousands of executives about their companies. We look for 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 key revenue growth drivers, profitability, cost structure, and capital structure – as well as more qualitative factors, such as the total addressable market, sustainability of the competitive advantage, and strength of the management team. We will initiate a position only if we believe the stock can double in size in a four-to-five-year period. We will remain invested as long as the stock's valuation is supported by our projection of intrinsic value.

Proven long-term approach Consistent with our longstanding Baron investment philosophy, Baron Growth Fund is managed with a long-term perspective. We believe this long view gives us an edge. Most small-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 often the most significant factor driving trading decisions and share price performance.

Since the vast majority of managers employ a short-term approach, we believe our long-term perspective affords us less competition while also allowing us to take advantage of the shortsightedness 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 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 3-year average turnover of 2.41% is significantly lower than its peer group average of 58%. 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. We also believe this is a more tax efficient approach to managing a portfolio, and one that is often attractive to company management who are aware of our reputation as long-term holders of stock.

As a result of our low turnover, long-term investment strategy, many of our holdings have added significant value to the Fund. Our top 10 holdings illustrate this. As of June 30, 2020, the portfolio's 10 largest positions have been owned for a weighted average of 15 years. This group has compounded at an average annual rate of 18.8% based on weighted average assets since our initial purchase, which exceeds the benchmark return by 9.6% annually. Of course, not every stock we invest in performs as well as the examples we have cited. In addition, past performance is no guarantee of future results. Nevertheless, we believe these results help reinforce the validity of our approach and give us the confidence to continue this strategy into the future. Our primary goal is to maximize the returns of the Fund, and we strongly believe we should stay involved as our investments grow and flourish as long as our investment thesis holds true. We believe we would be doing our shareholders a disservice if we sold out of our most successful stock too soon to replace them with a new position that might not perform as well.

Multi-Faceted Risk Management

With a beta of 0.92, standard deviation of 21.95, and downside capture of 81.34% for the 3-year period, we believe Baron Growth Fund is an excellent option for investors looking for a lower risk option in the small cap space.

We believe this lower risk profile is a direct result of our multi-pronged approach to risk that involves:

- Extensive due diligence
- Emphasis on high quality businesses
- Focus on non-correlated end markets

Extensive due diligence We believe the best risk management starts with knowing the companies in which we invest. Throughout the life of all of our investments, we continue to conduct due diligence and engage with management so we can keep apprised of the company's business as it develops and grows. The research we continue to put in to each of our holdings goes well beyond participating in quarterly earnings conference calls. We speak to our holdings' management teams multiple times per year, conduct site visits, and meet with management at our offices or theirs on an annual basis to the extent practicable. We believe this sustained research and interaction with management helps us test and refine our valuation models on an ongoing basis.

Emphasis on high quality businesses We invest in what we believe to be high quality businesses with attributes that helps dampen volatility. Our top 10 holdings in particular all have a strong track record of success during the period held, yet we still believe have significant upside. These holdings tend to be cash-generative, asset light businesses that are building off established market positions and have predictable and reliable revenues. We supplement these long-term success stories with smaller and younger companies that we think can provide more significant growth and develop into long-term holdings.

Focus on non-correlated end markets We also manage risk by investing in businesses across a range of non-correlated end markets. For instance, the they serve different end markets, so we believe they are less correlated than they would initially appear. **ANSYS, Inc. (ANSS)** and **Altair Engineering Inc. (ALTR)** provide simulation software to engineers; **SS&C Technologies Holdings, Inc. (SSNC)** serves the financial services industry; and **Guidewire Software, Inc. (GWRE)**, the property and casualty insurance industry. The growth of each of these application software companies will be affected primarily by how successful it is transforming its particular end market.

Conclusion

The world changed dramatically in the first half of 2020, transformed by a global pandemic. Much economic activity has ground to a halt, forcing governments and central banks to step in and ensure the orderly functioning of capital markets and financially backstop individuals and businesses. We do not have any insight into how the situation will develop over the short term but are optimistic about the long term. We are confident that human ingenuity will prevail and that ultimately medical science will identify the right combination of diagnostics, therapeutics, and vaccines to allow daily life to resume safely and efficiently.

We expect the COVID-19 pandemic will accelerate certain secular trends such as e-commerce, telecommuting, virtual health care, and benefit certain industries, particularly biotechnology and pharmaceuticals. We also think we will see significant transformations in consumer travel habits, public health screening, and corporate supply chains. We believe such changes will create meaningful investment opportunities, and we are working to identify and assess the potential beneficiaries.

As we reflect on prior downturns, we have seen that the types of businesses in which we invest – well managed, appropriately capitalized, and competitively advantaged – are generally well positioned to not just navigate such downturns but benefit from them as many of their competitors may not survive, leaving them better positioned than before to aggregate market share. Market crises also offer opportunistic M&A prospects as asset valuations are reset and sub-scale or over-leveraged businesses seek capital.

Finally, equity valuations are particularly compelling right now given fiscal and monetary stimulus. Interest rates are at or around zero, and we believe they are unlikely to rise meaningfully for some time. This gives us the opportunity to invest in new or add to existing stocks at attractive prices relative to their growth prospects.

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.

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 June 30, 2020 for securities mentioned are as follows: **Dechra Pharmaceuticals PLC** – 0.3%, **West Pharmaceutical Services, Inc.** – 1.8%, **Bio-Techne Corporation** – 3.3%, **Altair Engineering Inc.** – 0.4%, **SS&C Technologies Holdings, Inc.** – 2.7%, **Guidewire Software, Inc.** – 1.7%.

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

Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth. **Russell Top 200 Index** is a market capitalization weighted index of the largest 200 companies in the Russell 3000. The Russell Top 200 Index is a benchmark index for U.S.-based large-cap stocks; the average member has a market cap above $100 billion. The index is reconstituted annually to account for new members and growing companies. The indexes are unmanaged. The index performance is not fund performance; one cannot invest directly in an index. 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.

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.

Standard deviation measures the degree to which a fund's performance has varied from its average performance over a particular time. The greater the standard deviation, the greater the fund's volatility (risk).

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).

Baron Sales & Relationship Management

INSTITUTIONAL

JAMES BARRETT	VP, Head of Institutional Sales, 212-583-2076, jbarrett@baronfunds.com
DAVID KAPLAN	VP, Senior Director, Institutional Sales, 212-583-2033, dkaplan@baronfunds.com
MEETA SINGAL	VP, Director, Institutional Sales, 212-583-2055, msingal@baronfunds.com
JENNIFER NIGRO	VP, Director, Institutional Sales, 212-583-2101, jnigro@baronfunds.com
DAVID CHOW	VP, Director, Consultant Relations, 917-933-0173, dchow@baronfunds.com
STEPHEN MILLAR	VP, Head of EMEA, Institutional Sales, +44(0)7769 958822, smillar@baronfunds.com
LUCY PESA	Director, Public Funds & Taft/Hartley, 212-583-2143, lpesa@baronfunds.com

RIA AND FAMILY OFFICE GROUP

FRANK MAIORANO	VP, Head of RIA and Family Office Group, 212-583-2183, fmaiorano@baronfunds.com
ROBIN THURAU	VP, Regional Director – Northeast and Georgia, 212-583-2083, rthurau@baronfunds.com
LIZ CASSAL	VP, Regional Director – Pacific, 212-583-2178, lcassal@baronfunds.com
BRIAN McNAMARA	CFA, VP, Regional Director – Midwest, 773-718-7444, bmcnamara@baronfunds.com
ERIC BELGARD	CFA, VP, Regional Director – Southeast, 212-583-2180, ebelgard@baronfunds.com
FRANK COSTIGLIOLA	Regional Director – Rocky Mountains, 917-933-0122, fcostigliola@baronfunds.com

INTERMEDIARY AND NATIONAL ACCOUNTS

DAVID JUDICE	VP, Head of Intermediary Sales and National Accounts, 212-583-2034, djudice@baronfunds.com
GLENN SMITH	VP, National Sales Manager, 212-583-2007, gsmith@baronfunds.com
STEPHANIE GISRIEL	VP, Director, National Accounts, 212-583-2187, sgisriel@baronfunds.com
ROGER MACK	VP, Director, National Accounts, 212-583-2131, rmack@baronfunds.com
CHELSEA M. AMEEN	VP, Director, National Accounts, 212-583-2158, cameen@baronfunds.com
BILL ZOROVICH	VP, Regional Director – Northeast, 516-578-3478, bzorovich@baronfunds.com
SCOTT KOZIOL	VP, Regional Director – Southeast, 404-433-6137, skoziol@baronfunds.com
WAYNE OUIMETTE	VP, Regional Director – West, 310-292-6255, wouimette@baronfunds.com
BRIAN CULLEN	Regional Director – Mid-Atlantic, 203-912-4433, bcullen@baronfunds.com
CHARLES KRUGER	Regional Director – Southwest, 917-882-2095, ckruger@baronfunds.com
JENNIFER ROMMEL	Regional Director – Central, 773-450-7495, jrommel@baronfunds.com
MARK J. WHITEHOUSE	Regional Director – New England, 603-661-8887, mwhitehouse@baronfunds.com
RON STANKIEWICZ	Regional Director – NY Metro, 917-287-7248, rstankiewicz@baronfunds.com
JIMMY O'LEARY	Regional Director – Rocky Mountains, 646-965-2657, joleary@baronfunds.com
IAN FORMAN	Regional Director – Midwest, 845-642-1936, iforman@baronfunds.com
MATT O'DONNELL	Regional Director – Ohio Valley, 917-615-4879, modonnell@baronfunds.com
CARA BROKAW	Regional Director – Northwest, 929-442-1119, cbrokaw@baronfunds.com

CLIENT SERVICE

JANET LAM CHEN	Director, Client Service, 212-583-2162, jchen@baronfunds.com

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MUTUAL FUNDS

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BARON CAPITAL, INC.
767 FIFTH AVENUE
NEW YORK, NY 10153
1-800-99BARON OR
1-212 583-2000
www.BaronFunds.com

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