DEAR BARON DISCOVERY FUND SHAREHOLDER:

PERFORMANCE

We were pleased with the performance of Baron Discovery Fund (the "Fund") for calendar year 2017. The Fund was up 35.83% (Institutional Shares), exceeding the Russell 2000 Growth Index by 13.66%. While we were slightly behind in the fourth quarter (for reasons we will explain below), we were satisfied with the way our investments (and, particularly, the fundamentals related thereto) performed in the quarter. As fundamental investors, not traders and not speculators, we invest for the long run. We believe our nearly 16% annualized performance since inception (after deducting fees), which is more than 5% per year above the Russell 2000 Growth Index, validates our investment process. Just like every Baron portfolio manager, we strive to provide exceptional performance net of fees (of course, we cannot guarantee that we will achieve this goal, particularly in the short term).

We are thankful for so many things, including our supportive families, being citizens of this great country, and working for an organization as fine as Baron Capital. Let's savor 2017, and, in 2018, we will look to build on our collective success. We hope to see many of you in our travels this year!

RANDY GWIRTZMAN AND LAIRD BIEGER

PORTFOLIO MANAGERS

Retail Shares: BDFFX
Institutional Shares: BDFIX
R6 Shares: BDFUX

Table I.
Performance†
Annualized for periods ended December 31, 2017

	Baron Discovery Fund Retail Shares[1,2]	Baron Discovery Fund Institutional Shares[1,2]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[3]	3.34%	3.37%	4.59%	6.64%
One Year	35.52%	35.83%	22.17%	21.83%
Three Years	11.95%	12.22%	10.28%	11.41%
Since Inception (September 30, 2013) (Annualized)	15.68%	15.97%	10.56%	13.88%
Since Inception (September 30, 2013) (Cumulative)[3]	85.75%	87.67%	53.21%	73.75%

Does this sound familiar? "The Fund lagged in the fourth quarter due to some very unusual circumstances that we do not believe will affect its potential to outperform the benchmark on a long-term basis." It is a quote from our 2016 fourth quarter letter, and it referenced the underperformance in that quarter (of about 3.6%) due to some extreme market swings in the wake of the 2016 presidential election. When President Trump was elected, markets anticipated that regulations could be lifted, and tax reform had at least a meaningful chance of happening. This caused a sharp rise in the stocks of companies that have cyclical growth (i.e., Industrials and Financials) as opposed to secular growth (i.e., Information Technology and Health Care). The Fund emphasizes secular growth and thus we underperformed in that quarter. Outperforming categories reversed over the full year 2017 as investors realized that secular growth companies would also benefit from such tailwinds, and we outperformed throughout the year as a result.

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, 2017 was 1.47% and 1.23%, but the net annual expense ratio was 1.35% and 1.10% (net of the Adviser's fee waivers which the Adviser has contractually agreed to for so long as it serves as the adviser to the fund), 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 Adviser has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) and 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 historical performance was impacted by gains from IPOs and/or secondary offerings. 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 indexes are unmanaged. The Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

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 Not annualized.

BARON FUNDS 1987

Baron Discovery Fund

The fourth quarter of 2017 was similar to that of 2016. With an actual tax reform plan enacted into law, suddenly the high probabilities assessed in late 2016 became reality, and we saw a short-term reaction in more economically sensitive sectors. So again, Financials, Industrials, and other cyclicals outperformed, and we lagged the market (this time by just over 1%, as we put up solid absolute growth of over 3%) due to our lower exposure to those sectors. We believe that the magnitude of our relative underperformance in the quarter was less than last year, as the "surprise" was less that a tax law would be passed versus the 2016 election results. But if the fourth quarter of 2017 was similar to that of last year, we also believe that the full year of 2018 will be similar to that of 2017.

Which brings us to the heart of our letter. In 2017, it helped that the management teams in which we invested executed well against their business plans. To be sure, this is amply reflected in our investment performance. But we can also point to some more tangible evidence of the skill of those management teams, as well as our ability to assess their business prospects. This evidence is in the list of company specific catalysts we laid out in our fourth quarter of 2016 letter. For the most part, catalysts we laid out in last year's letter occurred, resulting in solid share appreciation. Getting our investment theses right more often than wrong, we believe, validates our research/investment process and distinguishes it from prediction/speculation.

Health Care put up a strong catalytic show:

- **Flexion Therapeutics Inc.** gained an on-time FDA approval for its injectable, long-lasting osteoarthritis drug (+31.1%)
- **TherapeuticsMD, Inc.** progressed (though a quarter or two late) on approval for its two menopause-related drugs (+3.2%)
- **Foundation Medicine, Inc.** gained an FDA approval and likely CMS reimbursement of its complex cancer diagnostic (+298.6%)
- **Sientra, Inc.** progressed toward recertification of its breast implant manufacturing facility and acquired key strategic assets (+64.1%)
- Other standouts included **Myriad Genetics, Inc.**, a hereditary cancer testing company (+103.2%), **Sage Therapeutics, Inc.**, which is working toward approval of potentially revolutionary anti-depression drugs (+228.1%), **AxoGen, Inc.** which specializes in nerve repair (+77.8%) and **Teladoc, Inc.**, the leading provider of telemedicine nationwide (+49.8%)

Consumer Discretionary did well too while Consumer Staples lagged**:**

- **Wingstop Inc.** continued to open new restaurants and launched its expected national ad campaign (+33.3%)
- **Red Rock Resorts, Inc.** managed its makeover as we expected, with progress on its Palms property (+47.6%)
- **Liberty Media Corp.** completed its purchase of the Formula One Racing series, which will result in longer-term growth (+4.5%)
- **Barfresh Food Group, Inc.** was a catalyst miss as its trials with large restaurant customers have not yet reached launch status (-32.0%)
- Other standouts included **Pinnacle Entertainment, Inc.** (+126.3%)

Ironically, our 2016 Information Technology catalyst call outs didn't play out, but in all cases we believe we were just early and our research indicates we are still on track with all of these investments:

- **MACOM Technology Solutions Holdings, Inc.** is executing on its growth in data center optical networking, but got hurt in China telecom-related businesses (-29.5%)
- **Everspin Technologies, Inc.** progressed with game changing memory technology, but a new CEO laid out a six month longer timeline to revenue ramp than was expected (-7.9%)
- **Impinj, Inc.** faced greater-than-expected competition and this impacted sales and margins (-42.3%)
- While not laid out in our catalysts last year, Information Technology performance was still positive for the Fund and our IT investments outperformed the sector in the index. Cybersecurity vendors were up, including **Qualys, Inc.** (+87.0%) and **Varonis Systems, Inc.** (+81.1%). Semiconductor equipment vendor **Ichor Holdings, Ltd.** was up 128.4%, advertising technology company **The Trade Desk** was up 61.5%, financial software provider **Envestnet, Inc.** was up 40.0% and U.K. based food delivery website **JUST EAT plc** was up 45.8%.

So why should you invest in Baron Discovery Fund for 2018? First, because we continue (as we always will) to follow our detailed, fundamental research process. Second, we believe that like last year, we have a tremendous number of catalysts ripening to drive performance through 2018. We are as excited now as we were at this time last year. This is not a comprehensive list of catalysts, but it should provide a window into our thought process.

<u>Health Care</u>

- *Pharmaceuticals and Biotechnology*. We have two companies that have achieved FDA drug approvals including Flexion mentioned above and **Adamas Pharmaceuticals, Inc.**, which has just obtained approval of a novel drug that helps Parkinson's patients control involuntary movements (called dyskinesia) caused by current drug treatments for Parkinson's. We believe that both of these companies will dramatically ramp sales in 2018, and that each has potential markets to exploit of $1 billion or more. In addition, we expect two drug approvals for TherapeuticsMD (menopause related with multi-billion dollar markets), an approval of a dramatically effective postpartum depression drug from Sage, and a big cardiovascular trial result for Gemphire (triglyceride lowering). While our exposure to pharmaceuticals and biotechnology is typically lower than 10% (excluding Foundation Medicine, which we consider to be a diagnostics company as it does not develop drugs), these companies can have dramatic price movements and successful trials and drug commercialization can catalyze significant value.
- *Diagnostics*. Foundation Medicine should grow revenues significantly as its reimbursement and quality recognition increases after the FDA and CMS actions of 2017. Moreover, as Foundation Medicine grows its database of high-quality test results, it will only become more valuable to cancer patients, oncologists, and pharmaceutical companies. Myriad Genetics is likely to continue to surprise on revenue and cash flow growth, as it increases reimbursement for cancer tests and its new test to best match patients to depression and anxiety drugs.
- *Devices*. We expect Sientra will finally gain approval for its manufacturing plant and breast implant sales will accelerate dramatically. We also believe that **Cerus Corporation**, which sells devices that inactivate viruses and bacteria in donated blood, will see significant sales acceleration in the U.S. and in the EU as contracts inked in 2017 become effective.

Information Technology

- *Semiconductors*. As we mentioned before, we believe we were early on MACOM and Impinj last year. We expect significant progress (and share appreciation) in 2018 for both. We believe Impinj will be releasing important product updates and new product introductions in 2018 that could help the company reignite growth in its endpoint chip business. We foresee a doubling of MACOM's optical networking revenues in its data center business. Finally, we believe we will start to see meaningful commercial sales growth of non-volatile memory from Everspin Technologies, and we believe investors will start discounting the important 2019 launch of embedded memory (royalty based) sales to a key foundry customer.
- *Advertising Technology*. **Acxiom Corporation** is in the process of separating its Marketing Services business from its faster growing LiveRamp business. The company expects this to be completed by the end of the first quarter, and we believe this will allow the company to sell the Marketing Services business which in turn will highlight the value of its LiveRamp division.

Industrials

- **TPI Composites, Inc.**, which is a large independent producer of composite blades for wind turbine manufacturers, should have a good year as it continues to fill growing factory lines and starts a new business line producing composite chassis for electric commuter buses. Utilization in 2017 is artificially low, given a number of line transitions to new customers or higher-end blades. This makes TPI look more expensive than its normalized cash flow would suggest, and, in our opinion, the company is downright cheap on 2019 estimates. We also believe that we could see OEM announcements in 2018 related to composite parts produced by the company for mainstream passenger vehicles. This would represent a big upside catalyst to current expectations.

Consumer

- *Gaming*. Pinnacle Entertainment announced it will be purchased by Penn National Gaming. We believe this acquisition makes a lot of sense as there are significant synergies and we would expect these synergies to be realized in a very short time frame. Red Rock Resorts has been under earning as it makes significant renovations at two of its casinos, Palace Station and The Palms. We believe that as we move through 2018, the new and improved Palace Station will be fully completed and that The Palms will see earnings progress in the second half of 2018, even though completion is slated for early 2019.
- *Restaurants*. Wingstop has committed to returning capital to shareholders given its strong free cash flow characteristics. We expect the company to announce a large one-time special dividend in the first half of 2018 as part of a larger corporate recapitalization.
- *Media*. Liberty Media is expected to make progress on increasing sponsorship, creating exciting new content via a new streaming service, and in negotiating the financial terms for the Formula One series and the racing teams when the current agreement expires in 2020.

While many speak about the "market" being overvalued, we subscribe (as always) to the notion that the stock market is a collection of individual stocks, and our investment philosophy requires us to invest in individual companies that we believe can provide outsized long-term compounded returns based on fundamental factors that we believe exceed consensus expectations. Every position in the portfolio is meticulously researched prior to investing, and our due diligence and valuation scrutiny continues during the entire course of our investment holding period. We monitor our short-, medium-, and long-term valuations on each investment in the portfolio on a dynamic, ongoing basis with real-time pricing and constantly updated valuation models. In this manner, we can keep to our goal of buying only companies that we believe (though we can't guarantee) will produce at least 15% compound annual returns for our shareholders. In answering the question of whether the "market" is overvalued, we say that's the wrong question. Our key analytic criteria revolve around whether our investments are currently overvalued. Our research and models suggest that they are not. While we are a long-only fund with a beta roughly equivalent to the market (meaning that we tend to move in the general direction of the market up or down), we continue to believe that over the medium to long term, we can create outperformance by investing in companies that are rapidly growing their cash flows at valuations that are reasonable using a longer-term view.

Table II.
Top contributors to performance for the quarter ended December 31, 2017

	Percent Impact
Sage Therapeutics, Inc.	1.29%
Red Rock Resorts, Inc.	1.18
Foundation Medicine, Inc.	1.05
Pinnacle Entertainment, Inc.	0.78
AxoGen, Inc.	0.77

Sage Therapeutics, Inc. is a biotech company developing novel drugs to treat postpartum depression (PPD), major depressive disorder (MDD), and other neurologically based diseases. Shares were up significantly in the quarter as Sage executed extremely well on its clinical trial program. In November, Sage announced successful results in its phase 3 PPD trial. Its intravenous (IV) drug had an almost curative treatment effect that starts working within 48 hours. And once it's used you don't need to use it again. An approval application will be filed in the second half of 2018 and FDA approval could come within six months to a year. Then in December, Sage had terrific phase 2 results for a pill-based treatment for MDD (an 18 million patient market per year in the U.S., with 1 million patients who respond poorly to other therapies). Like the PPD results, patients showed dramatic, rapid improvement in depression symptoms. These drugs have the potential to change millions of people's lives for the better.

Red Rock Resorts, Inc., an operator of casino and entertainment properties that primarily target "locals" in the Las Vegas market, was a top contributor in the quarter. The company is undergoing significant construction disruption while it performs upgrades at two of its large casinos. We believe these investments will achieve high returns on investment and ultimately will allow the company to grow faster starting in 2019. The market had been unwilling to look through these short-term profit headwinds and take a longer-term view for most of 2017, however, this seemed to have changed in the fourth quarter as the stock finally started to reflect what we believe is the ultimate profit potential of these projects. That being said, we still believe that Wall Street's profit projections for Red Rock are too low for 2019 and 2020 and that the company's stock still has upside from these levels.

Foundation Medicine, Inc., a company that is creating the premier database of next generation genomically sequenced cancer samples, did well in the quarter. As was mentioned above, Foundation Medicine achieved a major milestone by gaining FDA approval of its solid tumor diagnostic test, and will soon have a concurrent CMS reimbursement approval for Medicare patients. Such patients constitute approximately one-third of the company's testing volume so this should have an immediate effect on revenue growth in 2018. We believe that these approvals will lead to much more comprehensive private reimbursement as well as charge up its European growth. This is a true network effect company disguised as a medical testing firm. Its high definition database of comprehensive tests is the largest, highest quality and best curated in the world. About 25% to 30% of the tests have associated outcomes data as well (i.e., which treatment regimen was used, and the success thereof). The more tests entered into the database (nearly 175,000 by our estimates), the more useful it becomes to oncologists, patients, and the drug companies using it to target new drugs and find the right patients for trials. Since the tests will be used for drug trial testing, they will also be used (if the drug is approved) as a companion diagnostic in the future. With a market for over 1 million complex cancer tests per year, Foundation Medicine has a long way to grow given its current rate of around 67,000 tests.

Pinnacle Entertainment, Inc., an operator of regional casinos, was a contributor in the quarter as it agreed to be acquired by Penn National Gaming, Inc. for a combination of cash and Penn National stock. We purchased Pinnacle Entertainment around the inception of the Fund as we were big believers in both management and the quality of the company's assets. Since our purchase, the stock, which at one point was the largest ever position in the Fund, has contributed 4.46% which is 5.1% of the 87.67% cumulative return since inception. This investment illustrates why "we invest in people, not buildings" as management has created value not only through its operational prowess, but also through the sale of its real estate assets, the repurchase of its own shares, and ultimately its sale to Penn National. We are bullish on the combined Penn National and Pinnacle Entertainment entity and believe that synergies and operational efficiencies will ultimately prove to be greater than expected.

AxoGen, Inc. is a medical device company which makes an off-the-shelf processed human nerve allograft (a nerve taken from a cadaver) for bridging severed nerves. The company's principal product, Avance, is as effective as autografts (nerves taken from another part of the same patient's body) but avoids the comorbidities associated with a second surgical site, and saves procedure time and costs. Shares did well in the quarter, as the company continued to execute on its careful plan to expand Avance's base of surgeon customers and increased its usage among existing customers. We think Avance is in the early stages of adoption and has a long runway for growth with expanding applications, patents, and regulatory barriers against competition.

Table III.
Top detractors from performance for the quarter ended December 31, 2017

	Percent Impact
Everspin Technologies, Inc.	–1.06%
MACOM Technology Solutions Holdings, Inc.	–0.96
Impinj, Inc.	–0.83
The Trade Desk	–0.62
The KEYW Holding Corporation	–0.58

Everspin Technologies, Inc., a designer and manufacturer of non-volatile memory, fell in the quarter. Everspin has a high-quality memory product which retains data even if power is lost to the circuit. Applications include usage in solid state disk drives (SSDs) which are set to explode in volume in data centers due to their lower overall cost of ownership versus hard disk drives. At the end of 2017, the company brought in a new CEO, Kevin Conley, who has significant industry experience. While we liked the prior CEO, we feel that this is a necessary (and typical) transition to move from founder-based to industry/scale-based management. As part of the transition, Mr. Conley tempered sales expectations a bit, leading to share weakness. We believe that the changes only set back the company's revenue ramp by a few quarters, and that we should see significant sales growth in the second half of 2018.

MACOM Technology Solutions Holdings, Inc. was hurt in the fourth quarter after it announced lower-than-expected September quarterly sales and guided lower-than-expected December quarterly sales. In both cases the culprit was lower sales of optical data connection components to Chinese telecommunications customers. While disappointing, this side of the business can be lumpy, and we believe that the size of the miss in China is small in comparison to the growth markets MACOM will be exploiting for years to come in U.S. data center-oriented markets in which our research indicates the company has scale, yield, and intellectual property advantages versus its competitors. We expect a meaningful revenue rebound in 2018 for the company.

Impinj, Inc. is the global leader in passive ultra-high-frequency Radio Frequency Identification chips. These are used to connect physical items to the digital world. Shares of Impinj declined in the fourth quarter as a result of delays in adoption by several large customers and increased competition from NXP following the recent introduction of its new chips. We believe Impinj will introduce new and improved chips on more advanced semiconductor processes during 2018, regaining its leadership position in the market. Impinj's long-term prospects remain strong due to the long runway (~7 billion items are currently connected out of 1 trillion potential), strong adoption across industries, and significant barriers to entry as designing and building a comparable chip is costly and complex. We purchased more stock during the quarter.

The Trade Desk is a leading Internet advertising Demand Side Platform. The company enables advertising agencies to purchase online advertising through PC, mobile, and online video channels more efficiently. It was a detractor in the quarter as the company's outlook was cautious based on several large consumer goods advertisers pulling back advertising budgets across several media channels in October. Based on our checks, we believe that budgets came back later in the quarter, and that the long-term growth potential of the business remains strong. We remain positive on shares of The Trade Desk as the company only has an estimated 10% share in the $10 billion programmatic advertising market, which is a small but fast growing subset of the $640 billion spent on global advertising annually.

The KEYW Holding Corporation provides products and services to the U.S. intelligence community. It focuses on important needs including cybersecurity, aerial imagery, and unique products for the military. Since taking over in 2016, CEO Bill Weber has been driving a strategic plan to overhaul KEYW's business development group. Shares were down in the quarter after KEYW announced the departure of the leader of its business development unit and then missed guidance expectations in the following quarter. While we were disappointed in the operating results in the quarter, we continue to believe that Mr. Weber's strategy is sound. The significant pipeline being built by the team is starting to convert into contract orders.

Portfolio Structure

Our key sector weightings per the GICS methodology at the end of December 2017 were 33.3% in Information Technology, 25.5% in Health Care, 12.4% in Consumer Discretionary, and 11.8% in Industrials.

At December 31, 2017, our top 10 holdings represented 28.8% of the portfolio. This is consistent with our practice, since inception, of holding about 30% of the Fund's value in our top 10 positions.

Table IV.
Top 10 holdings as of December 31, 2017

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Teladoc, Inc.	2017	$9.8	3.7%
Red Rock Resorts, Inc.	2016	9.3	3.5
Novanta Inc.	2017	8.0	3.0
MACOM Technology Solutions Holdings, Inc.	2015	7.7	2.9
Qualys, Inc.	2013	7.7	2.9
Wingstop Inc.	2015	7.0	2.6
Sientra, Inc.	2016	6.9	2.6
JUST EAT plc	2014	6.9	2.6
TPI Composites, Inc.	2016	6.8	2.6
Noble Midstream Partners LP	2017	6.5	2.4

Recent Activity

Table V.
Top net purchases for the quarter ended December 31, 2017

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Noble Midstream Partners LP	2017	$2.0	$6.6
ForeScout Technologies, Inc.	2017	1.2	3.2
Teladoc, Inc.	2017	2.1	2.3
Impinj, Inc.	2016	0.5	2.2
Emergent BioSolutions Inc.	2017	1.9	2.1

Noble Midstream Partners LP is a provider of crude oil, natural gas, and water-related midstream services in the Delaware and DJ Basins. The company's majority owner and sponsor is Noble Energy, Inc. We believe Noble Midstream can grow distributions 20%+ for the next few years driven by organic and inorganic drivers. On the organic side, wells continue to be more productive than expected and sponsor Noble Energy is adding rigs, which should result in increased volumes for Noble Midstream. On the inorganic side, Noble Energy and Noble Midstream have executed several favorable transactions. Cash flow accretive deals included the first drop-down transaction in June and an attractive JV acquisition of additional pipelines in the DJ Basin in December. Lastly, Noble Energy's November sale of additional Noble Midstream-dedicated acreage to a third party for development should de-risk the business by reducing customer concentration. Going forward, we like Noble Midstream's strong financial profile (high distribution coverage and low leverage), which gives them the flexibility to opportunistically invest in growth, and the strong relationship with Noble Energy, which ensures its ability to capture its fair share of production volume growth and realize leverage from systems currently operating below capacity.

ForeScout Technologies, Inc. is a new investment for the Fund in our cybersecurity software segment. We have followed this company for many years, even while it was still private, as we were interested in its technology. We participated in the IPO when the company went public in the fourth quarter. ForeScout's software finds and maps all devices that are connected to a computer network, whether or not they run a major software operating system. As cyber attack vectors increasingly exploit weakness in the "internet of things" (internet protocol connected cameras, phones, sensors, and even hospital beds), we believe that ForeScout's industry leading solutions will be in high demand.

Another new investment for the Fund is **Emergent BioSolutions Inc.**, a pharmaceutical company that provides vaccines and post-exposure treatments for extreme pathogens including anthrax and smallpox. Emergent has a solid recurring revenue stream supplying the U.S. with its stockpile of anthrax vaccine, and is one of the very few companies in the world qualified to produce these drugs. Over the past couple of years management has done a good job of focusing the company by spinning off its cancer therapeutics division and adding additional pathogen-related assets through acquisition. We believe the company will continue to show nice growth in the future.

We added to our **Teladoc, Inc.** position as we grew more confident in the ability of management to extend its market lead in providing telemedicine solutions.

Table VI.
Top net sales for the quarter ended December 31, 2017

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Bob Evans Farms, Inc.	2017	$1.3	$1.5	$4.8
Glaukos Corporation	2015	0.9	0.9	4.1
Dominion Energy Midstream Partners, LP	2016	1.9	3.0	3.0
TrueCar, Inc.	2016	1.1	1.1	2.3
Qualys, Inc.	2013	0.7	2.3	2.3

We sold our position in **Bob Evans Farms, Inc.** as the company agreed to be acquired by Post Holdings, Inc. During 2017 we had six companies agree to be acquired. Coincidentally, this is the same number of companies as in 2016. We sold our position in **Glaukos Corporation** in the quarter after our research indicated that the company's medical implant to treat glaucoma might suffer reimbursement cuts (which turned out to be true). We very much like the device and the management team, so there might be a time when it makes sense to revisit this investment. We reduced our position in **Dominion Energy Midstream Partners, LP** to reallocate those proceeds into Noble Midstream Partners LP. We sold our position in **TrueCar, Inc.** as we felt fundamentals had deteriorated and that near- to medium-term profits would be less than expected. We trimmed some of our exposure to **Qualys, Inc.** due to its terrific run up in 2017, but continue to think this is one of our best investments.

Outlook

We hope that our current and potential investors find this narrative helpful in understanding the Fund. Our enthusiasm for the Fund's prospects in 2018 is guided by our menu of catalysts and the current valuations of the individual investments held in the Fund. We wish everyone a happy, healthy, and profitable new year!

Randy Gwirtzman & Laird Bieger
Portfolio Managers

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contains 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.

The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. 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 manager only through the end of the period stated in this report. The portfolio managers' 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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Beta: measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition.