Baron Funds®

March 31, 2019 Quarterly Report

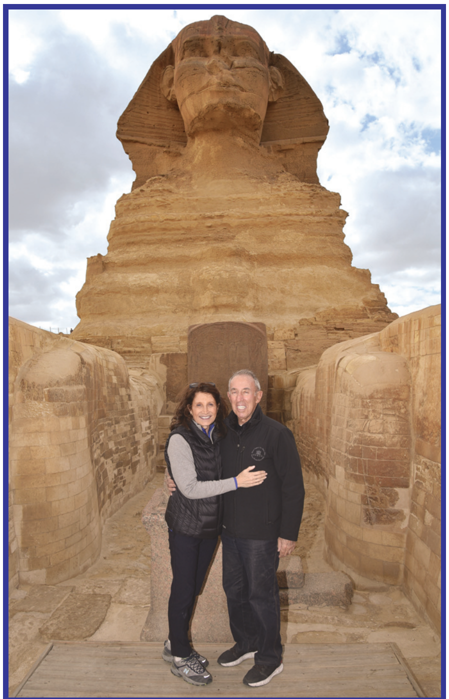
"Would you be proud?" Rabbi Ari Lorge. Central Synagogue. New York City. September 21, 2018.

"Do you like him?" "Do you think he would like you?" That was how Central Synagogue's Rabbi Ari Lorge began his Yom Kippur sermon last fall. Yom Kippur is "The Day of Atonement" in the Jewish religion, the day when individuals of Jewish faith ask God for forgiveness for their transgressions during the past year. And, just as I did two years ago, because I found his advice relevant and poignant, both personally and… as an investor…a business owner…and a lifelong student of people…I decided to again share his teachings.

Rabbi Lorge titled his talk, "Would you be proud?" "If your younger selves confronted you today, *would they like you*?" "Would they *be proud* of the person you've become?" "Of the *life* you've *lived*?" "Of the *choices* you've *made*?" Rabbi Lorge then told us about "*The Up Series*," a series of documentaries filmed in Great Britain beginning in 1964. Documentarians chose 7-year olds from across Britain to be interviewed at seven-year intervals. Those were the haunting questions those now 62 year olds were asked after they watched their prior filmed interviews. The Rabbi told us there is probably "no greater existential distress than the idea if we were confronted by our younger, hopeful, bright-eyed selves that, when they hear what we've done, see who we've become, they would be disappointed or, worse, regard us with disdain."

The Rabbi concluded that respect by your younger self can be achieved by living up to youthful ideals, not by fulfillment of tangible dreams. According to Rabbi Lorge, when Bob Dylan wrote the lyrics hoping his son would stay, "forever young," he did not want his son to literally forever remain a child. He wanted his son to grow up but retain his youthful idealism, his values. "May you always do for others, may you always be courageous, stand upright and be strong, may you build a ladder to the stars, may your heart always be joyful."

Dylan's advice to his son is consistent with that given by Amazon's Chairman and CEO, Jeff Bezos, in his Baccalaureate remarks to Princeton University's graduating class in 2010. It was also about values. ("Growth + Values" was the theme of the 2018 Baron Investment Conference.) Bezos titled his address "Choices."



Judy and Ron visit the Great Sphinx. While it may be one of the Seven Wonders, we invest in people, not pyramids.

"We are what we choose," Bezos said. "Cleverness is a gift Princeton graduates obviously possess." "Kindness is a choice you make." "Build yourself a great story," he advised.

The Baron Story

When privately owned investment manager Baron Capital was founded in 1982, it had $10 million in assets under management. It has since become a successful, "buy and hold" investor in competitively advantaged growth companies. The firm had $29.9 billion assets under management as of April 30, 2019 and has earned more than $27.5 billion profits for its clients since 1992 when we managed $100 *million*. We have accomplished this by investing for the long term in people who manage those businesses as well as in people who work at Baron Capital and who discover and study those businesses...and, in the individuals at Baron who support those investors.

We have benefitted by investing for the long term in growth companies that are improving our standard of living...not by rapidly buying and selling securities. The profits we have earned have made many individuals financially secure. Those returns have been significantly greater than could have been earned by investing in passive indexes or ETFs. We hope to have an even larger impact on the financial circumstances of even more individuals and families in coming decades although we cannot guarantee that will be the case.

Baron Capital is a financially strong "family business" that we hope will last for generations. The firm is diverse by race and gender. 43% of our employees are women and 51% of leadership positions are held by females… including Linda Martinson, my friend, our third employee and the President and Chief Operating Officer of our business who has worked with me since 1983… and built our outstanding sales, marketing, operations, client service, and infrastructure functions to support our investment professionals. We now have 168 employees. She also built our office. Literally.

We are aware that many consider wealth disparity in our nation problematic. We are trying to help by giving bigger percentage raises to individuals who earn less. We are increasing Baron's Tuition Assistance program. We recently changed the funding of our 401(k) program so that $566,000 plan contributions were made during the last fiscal year by our firm instead of by our 73 employees who presently earn less than $250,000. Further, Baron Capital…and my family…are making an effort to build our charitable foundation to significantly above nine figures during the next ten years. Am I proud of our firm's investment acumen and results? Of course. Am I proud of the individuals who have committed to spend their careers with us in part because of the financial incentives we provide…and probably even more because of our efforts to treat people fairly and with respect? And, because they enjoy their "work" and like the people with whom they interact everyday? OK. You get it. We, too, have tried to live by Dylan's dictate to "stay forever young."

One more thing. We are cognizant of our obligation to manage funds to maximize returns and not take excessive risks. Since we regard businesses that ignore environmental, social and governance ("ESG") issues as taking excessive risks, we have taken steps to formally integrate the analysis of these factors into our investment process. We have become a signatory to the UN PRI, the United Nations' Principles for Responsible Investing. The UN PRI requires signatories to consider ESG issues when investing in businesses. How businesses impact the environment; how they govern themselves; how they treat their employees, and how they impact their communities are among the ESG factors UN PRI signatories consider. This is a natural evolution of our investment process, which has always sought to invest in brilliant people with what we regard as high integrity. Today we recognize the increasing importance of a formal process for considering these factors and reporting them.


Ron thinks Judy is having a little too much fun.

"He took a deep breath, picked up his suitcase and walking quickly, despite not knowing where to go, like so many others he stepped into the magical music box called America." – Narrator in "The Lehman Trilogy" on Hayum Lehmann's arrival in 1844.

The Lehman Trilogy is a critically acclaimed play that tells the story of three Jewish immigrant brothers who, in 1850, founded Lehman Brothers, a small general store that became a leading commodities broker and, ultimately, a prestigious banking firm. 150 years after its founding, Lehman Brothers' continuously evolving and interdependent businesses had become highly leveraged. The firm was then so large that it had become systemically important to America's financial markets and the global economy! Consequently, Lehman's collapse in 2008 precipitated a nearly catastrophic financial crisis!

In 2008, Lehman was no longer managed by family members but instead by industry executives incented by personal benefit to grow regardless of risk. During Lehman's prior "life" as a privately owned "family business," the firm's "partners invested their own money in the firm's ventures and stood to lose everything in the event of a spectacular failure." Accordingly, such a disastrous end would have then been unthinkable.

On September 11, 1844, Henry Lehman, né Hayum Lehmann, a German-Jewish immigrant from a small town in rural Bavaria, arrived in America. Henry's father was a Bavarian cattle merchant. Settling in Montgomery, Alabama, Henry first worked for nominal wages. He accepted menial jobs to repay loans he had taken in order to emigrate to America. After Henry repaid his debts, he sent for his two brothers, Emanuel and Mayer, to join him. The Lehman Brothers general store soon began to distribute cotton grown on Alabama plantations to northern states. Lehman's "middleman," brokerage, "capital-light" business evolved from buying and selling physical goods to trading financial instruments.

When Alabama cotton plantations were burned in the Civil War, Mayer was distraught. "We're ruined," he declared. "No, we're not," Henry, his older brother, answered. "We'll sell the seeds and equipment plantation owners need to rebuild." Which they did. Just like they sold steel for the reconstruction of the south following the Civil War…and when farmers needed capital, made loans and accepted promises to pay in cotton crops thus inventing "futures markets." The brothers subsequently invested in railroad bonds to finance the construction of transport for commodities including cotton, tobacco and oil; and, later in growth businesses like airlines, the transportation mode of the future. They financed movies like *King Kong* and *Gone with the Wind* and were an early financier of growth industries like computers.

What does "The Lehman Trilogy" have to do with Baron?

Executives of businesses in which Baron has invested or considers investing visit us every day. Fortive Corp. is a $28 billion industrial business spun out three years ago from highly regarded Danaher Corporation. Fortive uses "agile software development" to create products and processes that allow utilities and hospitals to operate more efficiently and factories to produce more goods faster and cheaper. Fortive executives visited us last week.

Although we were given several examples during our meeting, I asked Rebecca Ellin, an Industrials analyst at our firm, whether she was persuaded about the competitive advantages for that business? "I don't understand. Why do Fortive's customers need to pay premium prices for their equipment? Why do those customers continue to purchase from Fortive? And why can't competitors offer similar services?" I wanted to know. Rebecca answered that Fortive's DNA is to focus on *continuous improvements*. There is *no finish line*. "Why do you think Baron has been able to significantly outperform its indexes and its competitors over the long term?" she asked. "Just like Fortive's structural focus on process you have taught our analysts and managers… actually, you've indoctrinated us…with shared values and systems of beliefs. Fortive has done the same thing by operating its businesses for 26 years believing only in continuous improvement…and hiring great engineers and training them over the long run to become even better."

Baron has not invested to maximize our privately owned management company's profitability in the short run. We have never had a layoff, and, regardless of how difficult the market environment, have continued to hire and grow. This has engendered significant loyalty among our exceptional employees. You can easily see this by looking at their tenure and educational backgrounds.

My family is the largest investor in the Baron family of funds. Like my family, and similar to the original Lehman Brothers when it was an entrepreneurial run "family business" a century ago, all our firm's senior executives' interests are closely aligned with Baron mutual fund shareholders. Most Baron executives have a significant portion of their families' assets invested in Baron mutual funds. Just like Lehman Brothers before its professional executives were most interested in maximizing their salaries and did not adequately assess the risks involved in growing their businesses at rapid rates.

This, among many factors, may in part explain why most mutual funds and most institutional investors have a difficult time outperforming markets. That has not been the case for Baron mutual funds…which have significantly outperformed since their inceptions.

From their inceptions through March 31, 2019, 12 of 16 Baron mutual funds representing **98.8%** of Baron Funds' AUM, **outperformed** their respective benchmarks. Ten of these funds representing **97.8%** of Baron Funds' AUM rank in the **top 18%** of their respective Morningstar categories; and six of these Funds representing **62.2%** of Baron Funds AUM rank in the **top 6%**. The performance rankings, net of all fees and expenses, are based on our Retail Shares, which is the highest cost, and oldest, share class. AUM reflects assets in all share classes.

We hope you will join us at our 28th annual conference on October 25th, 2019. Registration begins on August 5th.

Thank you for joining us as fellow shareholders in Baron Funds. We will continue to work hard to justify your confidence in us.

Ronald Baron

Ronald Baron
CEO and Chief Investment Officer
May 1, 2019

P.S. While they last…if you're a shareholder and would like a complimentary Baron Funds' "Growth + Values" 2018 conference tee-shirt, please email us at info@baronfunds.com. Please specify sizes S-2XL. Great for working out…sleeping…or out on the town! Looks great belted as a dress! Amazing to me how often I see them in gyms when I am traveling! Not as often as I'd like, of course, but a lot but more often than you'd expect for an investment manager. We also have been getting lots of compliments about our tee-shirt designs. They're a team effort with lots of input from lots of people. But, the three people most responsible for their creation and design are our director of shareholder services and corporate projects and events, Jazmin Jourdain, senior analyst and one of the most imaginative people I know, Matt Weiss…and me, of course.

Ranking information provided is calculated for Retail Share Class and is as of 3/31/2019.

The number of share classes in each category may vary depending on the date that Baron downloaded information from Morningstar Direct.

Morningstar calculates its category averages using its 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.

The **Morningstar US Fund Mid-Cap Growth Category** consisted of 615, 495, and 352 share classes for the 1-, 5-, and 10-year periods.

Morningstar ranked **Baron Asset Fund** in the 11th, 13th, 19th, and 18th percentiles, respectively, in the category for the 1-year, 5-year, 10-year, and since inception periods. The Fund was incepted 6/12/1987 and the category consisted of 18 share classes for the since inception period.

Morningstar ranked **Baron Growth Fund** in the 10th, 41st, 29th, and 6th percentiles, respectively, in the category for the 1-year, 5-year, 10-year, and since inception periods. The Fund was incepted 12/30/1994 and the category consisted of 57 share classes for the since inception period.

Morningstar ranked **Baron Partners Fund** in the 34th, 39th, 9th, and 5th percentiles, respectively, in the category for the 1-year, 5-year, 10-year, and since conversion periods. The Fund was converted into a mutual Fund 4/30/2003 and the category consisted of 234 share classes for the since conversion period.

The **Morningstar US Fund Small Growth Category** consisted of 679, 522, and 392 share classes for the 1-, 5-, and 10-year time periods.

Morningstar ranked **Baron Small Cap Fund** in the 31st, 41st, 53rd, and 12th percentiles, respectively, in the category for the 1-year, 5-year, 10-year, and since inception periods. The Fund was incepted 9/30/1997 and the category consisted of 112 share classes for the since inception period.

Morningstar ranked **Baron Discovery Fund** in the 5th, 9th, and 2nd percentiles, respectively, in the category for the 1-year, 5-year and since inception periods. The Fund was incepted 9/30/2013 and the category consisted of 504 share classes for the since inception period.

The **Morningstar US Fund Large Growth Category** consisted of 1,397, 1,114, 805, and 340 share classes for the 1-year, 5-year, 10-year, and since inception (2/29/2000) periods. Morningstar ranked **Baron Opportunity Fund** in the 4th, 45th, 16th, and 13th percentiles, respectively, in the category.

The **Morningstar US Fund Foreign Large Growth Category** consisted of 442, 314, 228, and 234 share classes for the 1-year, 5-year, 10-year, and since inception (12/31/2008) periods. **Morningstar ranked Baron International Growth Fund** in the 81st, 20th, 10th, and 9th percentiles, respectively, in the category.

The **Morningstar US Fund Real Estate Category** consisted of 251, 198, and 144 share classes for the 1-year, 5-year, and since inception (12/31/2009) periods. Morningstar ranked **Baron Real Estate Fund** in the 100th, 99th, and 6th percentiles, respectively, in the category.

The **Morningstar US Fund Diversified Emerging Markets Category** consisted of 833, 553, and 293 share classes for the 1-year, 5-year, and since inception (12/31/2010) periods. Morningstar ranked **Baron Emerging Markets Fund** in the 57th, 31st, and 2nd percentiles, respectively, in the category.

The **Morningstar US Fund World Large Stock Category** consisted of 900, 617, and 490 share classes for the 1-year, 5-year, and since inception (4/30/2012) periods. Morningstar ranked **Baron Global Advantage Fund** in the 2nd, 1st, and 1st percentiles, respectively, in the category.

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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term 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.

Fund (Institutional Shares) and Benchmark Performance 3/31/2019

Fund	Primary Benchmark	Annualized Return Since Fund Inception	Annualized Benchmark Return Since Fund Inception	Inception Date	Average Annualized Returns 1-Year	5-Year	10-Year	15-Year	Annual Expense Ratio	Net Assets
SMALL CAP										
Baron Growth Fund	Russell 2000 Growth Index	13.23%	7.98%	12/31/1994	15.57%	9.94%	16.92%	9.92%	1.03%[3]	$6.54 billion
Baron Small Cap Fund	Russell 2000 Growth Index	10.24%	6.12%	9/30/1997	11.20%	9.45%	16.37%	9.45%	1.04%[3]	$4.07 billion
Baron Discovery Fund†	Russell 2000 Growth Index	15.99%	9.26%	9/30/2013	22.02%	12.18%	N/A	N/A	1.12%/1.10%[3,4]	$515.31 million
SMALL/MID CAP										
Baron Focused Growth Fund[1]	Russell 2500 Growth Index	11.16%	8.04%	5/31/1996	15.45%	8.50%	14.63%	10.54%	1.09%[5]	$225.10 million
MID CAP										
Baron Asset Fund	Russell Midcap Growth Index	11.70%	10.18% [2]	6/12/1987	15.17%	12.16%	17.51%	10.48%	1.04%[3]	$4.02 billion
LARGE CAP										
Baron Fifth Avenue Growth Fund	Russell 1000 Growth Index	9.38%	9.85%	4/30/2004	12.04%	13.91%	17.33%	N/A	0.82%/0.75%[3,7]	$290.16 million
Baron Durable Advantage Fund	S&P 500 Index	5.14%	6.87%	12/29/2017	5.10%	N/A	N/A	N/A	5.71%/0.70%[3,8]	$4.02 million
ALL CAP										
Baron Opportunity Fund	Russell 3000 Growth Index	7.26%	4.52%	2/29/2000	20.46%	12.27%	17.99%	10.90%	1.11%[3]	$449.35 million
Baron Partners Fund[1]	Russell Midcap Growth Index	12.87%	9.84%	1/31/1992	10.88%	10.06%	18.15%	11.19%	1.77%[5,6]	$2.27 billion
INTERNATIONAL										
Baron Emerging Markets Fund	MSCI EM Index	4.62%	1.39%	12/31/2010	-9.51%	3.91%	N/A	N/A	1.10%[5]	$5.29 billion
Baron Global Advantage Fund†	MSCI ACWI Index	14.41%	8.71%	4/30/2012	13.73%	13.09%	N/A	N/A	1.18%/0.90%[5,9]	$148.19 million
Baron International Growth Fund†	MSCI ACWI ex USA Index	10.94%	7.43%	12/31/2008	-5.80%	5.52%	11.98%	N/A	1.07%/0.95%[5,10]	$271.33 million
SPECIALTY										
Baron Real Estate Fund†	MSCI USA IMI Extended Real Estate Index	13.11%	12.19%	12/31/2009	-1.85%	5.01%	N/A	N/A	1.06%[5]	$614.56 million
Baron Real Estate Income Fund	MSCI US REIT Index	3.91%	7.27%	12/29/2017	11.61%	N/A	N/A	N/A	7.18%/0.80%[5,11]	$3.46 million
Baron Health Care Fund	Russell 3000 Health Care Index	9.60% *	13.94% *	4/30/2018	N/A	N/A	N/A	N/A	4.06%/0.85%[5,12]	$10.07 million
FUND OF FUNDS										
Baron WealthBuilder Fund	S&P 500 Index	8.90%	6.87%	12/29/2017	8.64%	N/A	N/A	N/A	1.61%/1.17%[13]	$115.00 million

(1) Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee.
(2) For the period June 30, 1987 to March 31, 2019.
(3) As of 9/30/2018.
(4) Annual expense ratio was 1.12%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).
(5) As of 12/31/2018.
(6) Comprised of operating expenses of 1.06% and interest expenses of 0.71%.
(7) Annual expense ratio was 0.82%, but the net annual expense ratio was 0.75% (restated to reflect current fee waivers).
(8) Annual expense ratio was 5.71%, but the net annual expense ratio was 0.70% (net of Adviser's fee waivers).
(9) Annual expense ratio was 1.18%, but the net annual expense ratio was 0.90% (net of Adviser's fee waivers).
(10) Annual expense ratio was 1.07%, but the net annual expense ratio was 0.95% (net of Adviser's fee waivers).
(11) Annual expense ratio was 7.18%, but the net annual expense ratio was 0.80% (net of Adviser's fee waivers).
(12) Annual expense ratio was 4.06%, but the net annual expense ratio was 0.85% (net of Adviser's fee waivers).
(13) Annual expense ratio was 1.61%, but the net annual expense ratio was 1.17% (includes acquired fund fees and expenses, net of the Adviser's fee waivers).
* Not annualized.
† 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.

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.

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 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Portfolio holdings as a percentage of net assets as of March 31, 2019 for securities mentioned are as follows: **Amazon.com, Inc.** – Baron Opportunity Fund (5.9%), Baron Fifth Avenue Growth Fund (13.2%), Baron Global Advantage Fund (5. 3%); **Danaher Corporation** – Baron Durable Advantage Fund (4.7%).

Baron Funds do not currently hold shares of **Fortive Corp.**

Portfolio holdings may change over time.

Past performance is no guarantee of future results.