Baron Funds®

Quarterly Report

June 30, 2018

"I didn't vote for him....so I can enjoy the strong economy and favorable market outlook and not feel guilty." CEO. Large United States Investment Bank. Summer 2018.

Regardless of strong U.S. economic growth and the favorable market outlook of my banker friend, many remain wary of stocks. This is although our economy's growth rate recently accelerated to 4.2%, nearly twice its growth 21 months ago; our nation's unemployment rate remains near historical lows at 4.0%, we don't have enough skilled labor to fill open positions; American workers' wage growth is accelerating; corporate earnings growth is strong; corporate capital spending is improving; the supply of publicly owned shares is shrinking due to corporate share repurchases; and publicly owned businesses are valued at an historically moderate 16.1 times earnings per share multiple that may soon become 15 times if stocks don't begin to rise faster.

We attribute current modest valuations to investors' concerns over rising interest rates, higher energy costs, tightening credit, trade wars, the Mueller investigation into Russian efforts to influence our 2016 Presidential election, and strong market appreciation since March 2009. While the rebound from the lows of Spring 2009 is awesome, from the *Fall 2007 market peak* preceding the 2008-'09 Crash through present, *markets have grown about 5.4% per year and our economy even slower. This is less than the stock markets' approximately 7% annualized nominal price change since 1960.*

Investor confidence in the Summer of 2018 has also been impaired by the searing and still fresh memory of the 2008-'09 Financial Panic. Financial reports headed "2019 is setting up to be a dangerous period for the economy," "we are bearish on almost all financial assets" and "the global flow of money and credit is gradually rolling over" abound. Is it any wonder that U.S. markets in 2018 through June advanced only modestly?

Accordingly, it is not surprising, I suppose, that expensive and illiquid hedge funds, designed to mitigate risk in the challenging times many believe either have arrived or will soon arrive, remain popular. According to *The New York Times* reporter James B. Stewart in his July 12, 2018 Common Sense opinion column, hedge funds with $3.2 trillion assets under management continue to experience positive flows...despite their significant underperformance over the past

RONALD BARON
CEO AND CHIEF INVESTMENT OFFICER

10 years. Burdened by high fees and counter market bets, hedge funds' relative and absolute performance continues to be disappointing. Stewart observes that, according to research firm HFR, an index of hedge funds "...gained just 0.81% in the first half of 2018. That is less than half of the S&P's 1.67% gain."

"Network intensely." Byron Wien. Chief Investment Strategist. Blackstone Group. $385 billion Assets Under Management. "Life's Lessons." Summer 2018.

On June 22, 2018, at Byron's request, I interviewed my friend for a little more than half an hour in the basement of the East Hampton Library before a standing room only, totally engaged audience of more than 150 people. I then moderated 40 minutes of questions posed to Byron by the attendees. Among the wide-ranging topics he was asked to discuss were: trade; climate change; markets; our economy; China; charitable endeavors; Iran; research and development; health care; how, after he became an orphan at nine, attending Harvard changed his life; and, of course, the Presidency. The question period would have lasted a lot longer, if permitted. Regardless, it was clear, at least to me, the audience would have run out of questions a long time before Byron ran out of answers.

I have known Byron for more than two decades. We were introduced all those years ago by a friend we had in common. Since I met Byron, it has been reassuring to me to be able to access at will the perspective of such a wise and intelligent man. It was a fun task to review my notes from conversations with him and his friends when preparing for the East Hampton Library interview. I was pleased and honored he had asked me to be the interviewer.

Probably the most important reasons for Byron's success as an investment strategist, in my opinion, come from his raw intelligence, his great curiosity about how things operate, his love of his life's work, and his ability to understand the world gained from his persistent efforts to read, travel, and "network intensely." Although Byron's career is as an advisor, not an investor, the lesson to "network intensely" is what he seems to try most to impart to his friends and all investors. From his networking efforts, Byron has been able to meet and befriend important and interesting people whose ideas he has been adept at synthesizing to shape his views.

Among the most important investment advice he learned was provided by his late mentor, Edgar de Picciotto, whom Byron deemed "The Smartest Man in Europe." At de Picciotto's request, his identity was not disclosed until Edgar's death in 2016. Byron met de Picciotto in the 1980s and the two subsequently served together on the Soros Fund Advisory Board. De Picciotto was the founder of Union Bancaire Privée in Switzerland, a well-capitalized private bank with $110 billion assets in 2016. De Picciotto was a Sephardic Jew born in Lebanon and educated in Europe. He was descended from a mercantile family that operated canteens providing shelter and food to travelers along the Silk Route between India and China in the 1500s.

De Picciotto was a believer in "being different," "questioning himself continuously about the fundamental premises of his investments," "concentration not diversification as the way to make "serious money" and "investing in businesses and assets that others don't like."

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He thought disdain by others for his ideas indicated little investment risk since negatives were already reflected in the pricing.

Byron called me last week to talk briefly about Tesla following a spate of negative news about Tesla and Elon Musk, the company's CEO. "Well," he began, "Tesla certainly seems to meet Edgar's 'hated' investment criteria."

I was flattered at the end of the evening in East Hampton when Byron told his audience that he tries "to invest the way Ron does and I should have invested more with Ron." When we were leaving the Library, the head of that institution remarked, "the next time, Byron should interview you."

"I want to invest with individuals who have 30 years' experience." Michael Steinhardt. Retired Principal. Steinhardt Partners. Philanthropist. Birthright Israel Co-Founder. Summer 2018.

Michael Steinhardt, age 78, founded Steinhardt Partners. He had been one of the most successful hedge fund managers from his business' founding in 1967 until 1995 when he "retired." Since then, Michael has been a private investor, a philanthropist and, with Sheldon Adelson and Charles Bronfman, a co-founder of Birthright Israel. Birthright is a charitable organization that provides Jewish children, ages 18 to 26, with what those three men regard as those children's "birthright," a free trip to Israel.

Michael is now a friend. He had been a client early in my career when I was a research analyst. Several months ago, I asked him to describe what he believed was the most important characteristic that he believed would enable him to predict if an individual would be a successful investor. "Thirty years' experience," he responded without hesitation. "Too many individuals experience short periods of great success that don't last. That is why I want to bet on experience. If managers have survived for a long time and have been successful, they must have learned something."

Several months ago, I had breakfast in my office with the principal of a multi-family office with more than $10 billion under management. That individual told me his firm's credit, private equity and real estate investments have been successful. He then remarked that his firm's equity investments were not, and he was in the process of replacing his chief investment officer and his firm's analysts…again. This was since his analysts and managers had not been successful beating their benchmark indexes. When I asked about his "investment process," he told me that he felt the ages of his analyst team were the most important factor determining whether or not they would be successful. He was trying to hire individuals in their early 30s! He felt that if they were young, smart, hardworking and "hungry," they had the best chance to achieve success.

So…one person wanted his managers to have 30 years' experience and a proven record of success, the other wanted really smart, hardworking and driven 30-year olds!

Baron's investment process combines both experience and youth.

We invest in people…who manage the businesses in which we invest for Baron Funds' shareholders…and…year after year, in our team of young analysts whom we hire, train and retain. The young, brilliant individuals we recruit are mentored in our "investment process" by older, experienced portfolio managers…and by me…who provide perspective and experience. First, we ask our portfolio managers and analysts to find companies with outstanding growth opportunities. Second, those businesses must be competitively advantaged. Third, they must be managed by individuals we believe are outstanding, smart, hardworking executives and leaders of unquestioned integrity. Finally, we invest for the long term…often…for 10 or 15 years or longer…when our competitors often replace their entire portfolios every year!

Baron consistently hires every year…in good times and bad…and has never had a layoff. We think that has built loyalty among our analysts, portfolio managers, traders, executives, risk managers, client service representatives, compliance professionals, accountants and IT staff of our "family business." We believe our focus on the long-term rather than the short-term profitability of our Firm enables us to continue to attract outstanding talent. We invest in our fellow employees to try to achieve exceptional returns for Baron Funds' shareholders. However, we can only be certain of this: if we continue to hire a diverse group of exceptional people, more exceptional people will want to join them and remain with us for their entire careers, which we believe will benefit our clients.

In 2006, Baron had 60 employees including 20 analysts and portfolio managers. We presently have 154 employees, including 37 analysts and portfolio managers (all managers are also analysts). We are among the few investment managers, whether mutual fund managers or hedge fund managers or private wealth managers, who have consistently outperformed their benchmarks over the long term…although we cannot assure you that will continue to be the case.

Since their inceptions, as of June 30, 2018, 14 of 17 Baron mutual funds, representing **98.7%** of Baron Funds'® AUM have **outperformed**, net of fees and expenses, their benchmarks. Nine of these Funds, representing **96.1%** of Baron Funds' AUM, rank in the **top 13%** of their respective Morningstar categories; and three of these Funds, representing **32.5%** of Baron Funds' AUM, rank in the **top 1%**. The performance and rankings are based on our Retail Shares, which is the highest cost, and oldest, share class. AUM reflects assets in all share classes. Further, as of June 30, 2018, our Firm's assets under management approximated $28.3 billion and, since 1992, Baron has earned more than $26 billion in realized and unrealized profits for our investors. Our Firm managed approximately $100 million in 1992.

The charts on pages 12-17 illustrate the absolute and relative performances of Baron Funds compared to their benchmark indexes from those Funds' inceptions. You can learn *why* nearly all our Funds have outperformed by reading the Baron Funds' shareholder letters and studying our Funds' portfolio holdings.

27th Annual Baron Investment Conference. November 9, 2018. Metropolitan Opera House. Lincoln Center. New York City.

We hope you will be able to attend the 27th Annual Baron Investment Conference on November 9. The meetings have grown from fewer than 35 attendees at our first meeting at New York City's Harmonie Club in 1992 to more than 5,000 at New York City's Met last year. Our meetings are intended to allow you to meet and question executives of businesses in which Baron Funds has invested. We also intend these meetings to give you an opportunity to meet and question Baron portfolio managers and analysts, our client services representatives, Linda, David, Michael and me. We are there to discuss our investments, process and any other topics on your mind….no questions are off limits…all day long.

Finally, the entertainment at lunch and at the end of the day, as always, will be incredibly cool. Also, as always, it will be at our expense, not yours. And, as always, it will be a surprise.

To register please go to www.BaronFunds.com/register. We hope to see you at The Met this Fall. For those of you who can't attend, you will be able to watch our meeting streamed live on the Baron Funds website...everything but the entertainment, that is (we are contractually prevented from streaming entertainment). You can get a sense of our meeting by watching CNBC's Squawk Box that morning from 6 AM to 8:30 AM (Eastern Standard Time). CNBC's Andrew Ross Sorkin will first interview me and then the two of us will interview several executives with whom we have invested.

We like to say that "we invest in people." When you attend our annual conferences or watch us on CNBC or visit us at our website, we believe you will gain a better understanding of the businesses in which your savings have been invested. In the end, we think it's all about people.

Thank you for joining us as fellow shareholders of Baron Funds...and for your long-term support. We will continue to work hard to justify your confidence.

See you on November 9th.

Respectfully,

Ronald Baron
CEO and Chief Investment Officer
July 13, 2018

Letter from Ron

Fund (Institutional Shares) and Benchmark Performance 6/30/2018

Fund	Primary Benchmark	Annualized Return Since Fund Inception	Annualized Benchmark Return Since Fund Inception	Inception Date	Average Annualized Returns				Annual Expense Ratio	Net Assets
					1-Year	5-Year	10-Year	15-Year		
SMALL CAP										
Baron Growth Fund	Russell 2000 Growth Index	13.36%	8.39%	12/31/1994	20.38%	12.55%	10.71%	10.94%	1.04%[3]	$6.55 billion
Baron Small Cap Fund	Russell 2000 Growth Index	10.40%	6.51%	9/30/1997	20.48%	12.43%	11.01%	10.73%	1.05%[3]	$4.40 billion
Baron Discovery Fund	Russell 2000 Growth Index	17.66%	11.55%	9/30/2013	25.69%	N/A	N/A	N/A	1.23%/1.10%[3][4]	$277.07 million
SMALL/MID CAP										
Baron Focused Growth Fund	Russell 2500 Growth Index	11.43%[1]	8.23%	5/31/1996	20.71%	11.11%	9.05%[1]	12.72%[1]	1.12%/1.10%[5][6]	$220.10 million
MID CAP										
Baron Asset Fund	Russell Midcap Growth Index	11.69%	10.16%[2]	6/12/1987	18.01%	14.69%	10.70%	11.52%	1.04%[3]	$3.33 billion
Baron Partners Fund	Russell Midcap Growth Index	13.29%[1]	9.80%	1/31/1992	18.46%	15.96%	11.55%	13.66%[1]	1.53%[5][7]	$2.26 billion
LARGE CAP										
Baron Fifth Avenue Growth Fund	Russell 1000 Growth Index	9.55%	9.90%	4/30/2004	29.81%	18.47%	11.89%	N/A	0.84%/0.75%[3][8]	$262.19 million
Baron Durable Advantage Fund	S&P 500 Index	3.20%*	2.65%*	12/29/2017	N/A	N/A	N/A	N/A	1.61%/0.70%[12]	$3.69 million
ALL CAP										
Baron Opportunity Fund†	Russell 3000 Growth Index	7.05%	4.39%	2/29/2000	32.07%	14.44%	11.74%	12.78%	1.14%[3]	$415.79 million
INTERNATIONAL										
Baron Emerging Markets Fund	MSCI EM Index	5.12%	1.45%	12/31/2010	6.85%	7.14%	N/A	N/A	1.10%[5]	$5.43 billion
Baron Global Advantage Fund†	MSCI ACWI Growth Index	14.91%	10.84%	4/30/2012	33.92%	17.14%	N/A	N/A	1.59%/0.90%[5][9]	$87.07 million
Baron International Growth Fund	MSCI ACWI ex USA Index	12.30%	8.23%	12/31/2008	16.27%	10.35%	N/A	N/A	1.13%/0.95%[5][10]	$258.28 million
SPECIALTY										
Baron Energy and Resources Fund†	S&P North American Natural Resources Sector Index	(1.92)%	1.96%	12/30/2011	12.23%	(2.56)%	N/A	N/A	1.42%/1.10%[5][11]	$60.33 million
Baron Real Estate Fund	MSCI USA IMI Extended Real Estate Index	14.75%	12.80%	12/31/2009	8.69%	9.96%	N/A	N/A	1.06%[5]	$964.61 million
Baron Real Estate Income Fund	MSCI US REIT Index	(0.15)%*	0.54%*	12/29/2017	N/A	N/A	N/A	N/A	1.71%/0.80%[12]	$2.95 million
Baron Health Care Fund	Russell 3000 Health Care Index	4.90%*	3.38%*	4/30/2017	N/A	N/A	N/A	N/A	1.71%/0.85%[12]	$3.68 million
FUND OF BARON FUNDS										
Baron WealthBuilder Fund	S&P 500 Index	7.40%*	2.65%*	12/29/2017	N/A	N/A	N/A	N/A	0.77%/0.05%[12]	$31.66 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 June 30, 2018.

[3] As of 9/30/2017.

[4] Annual expense ratio was 1.23%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

[5] As of 12/31/2017.

[6] Annual expense ratio was 1.12%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

[7] Comprised of operating expenses of 1.08% and interest expenses of 0.45%.

[8] Annual expense ratio was 0.84%, but the net annual expense ratio was 0.75% (restated to reflect current fee waivers).

[9] Annual expense ratio was 1.59%, but the net annual expense ratio was 0.90% (restated to reflect management fee reduction from 1.00% to 0.85% and current fee waivers).

[10] Annual expense ratio was 1.13%, but the net annual expense ratio was 0.95% (restated to reflect management fee reduction from 1.00% to 0.88% and current fee waivers).

[11] Annual expense ratio was 1.42%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

[12] Expense ratios are estimated for the current fiscal year.

* 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 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.

Portfolio holdings as a percentage of net assets as of June 30, 2018 for securities mentioned are as follows: **Tesla, Inc.** - Baron Opportunity Fund (3.2%), Baron Partners Fund (13.4%*), Baron Fifth Avenue Growth Fund (1.3%), Baron Focused Growth Fund (14.0%), Baron Energy and Resources Fund (8.0%), Baron Global Advantage Fund (1.4%).

** % of Long Positions*
Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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.

Risks: The Adviser believes that there is more potential for capital appreciation in mid-sized companies, but there also may be more risk. Specific risks associated with investing in mid-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Asset Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

Ranking information provided is calculated for Retail Share Class and is as of 6/30/2018.

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 607, 480, and 344 share classes for the 1-, 5-, and 10-year periods.

Morningstar ranked **Baron Asset Fund** in the 50th, 16th, 28th, and 12th 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 33rd, 53rd, 27th, and 5th 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 46th, 4th, 15th, and 1st 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 238 share classes for the since conversion period.

The **Morningstar US Fund Small Growth Category** consisted of 701, 534, and 404 share classes for the 1-, 5-, and 10-year time periods.

Morningstar ranked **Baron Small Cap Fund** in the 62nd, 61st, 50th and 13th 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 116 share classes for the since inception period.

Morningstar ranked **Baron Discovery Fund** in the 34th and 1st percentiles, respectively, in the category for the 1-year and since inception periods. The Fund was incepted 9/30/2013 and the category consisted of 542 share classes for the since inception period.

The **Morningstar US Fund Foreign Large Growth Category** consisted of 423, 304, and 234 share classes for the 1-year, 5-year, and since inception (12/31/2008) periods. Morningstar ranked **Baron International Growth Fund** in the 13th, 13th, and 9th percentiles, respectively, in the category.

The **Morningstar US Fund Real Estate Category** consisted of 259, 199, and 154 share classes for the 1-year, 5-year, and since inception (12/31/2009) periods. Morningstar ranked **Baron Real Estate Fund** in the 5th, 2nd, and 3rd percentiles, respectively, in the category.

The **Morningstar US Fund Diversified Emerging Markets Category** consisted of 823, 489, and 304 share classes for the 1-year, 5-year, and since inception (12/31/2010) periods. Morningstar ranked **Baron Emerging Markets Fund** in the 50th, 8th, and 1st percentiles, respectively, in the category.

The **Morningstar US Fund World Large Stock Category** consisted of 872, 596, and 506 share classes for the 1-year, 5-year, and since inception (4/30/2012) periods. Morningstar ranked **Baron Global Advantage Fund** in the 1st, 2nd, and 3rd percentiles, respectively, in the category.