

Baron Funds®

September 30, 2019

Quarterly Report

"Did you burn down your home?" Jerome Guillen. President, Tesla. November 2018.

That is the question Jerome asks youthful engineers to help him decide whether to hire them. "I want them to have burned down their house, not mine, before I hire them. I want them to have learned what not to do through experimentation." "Did you ever burn down your home?" I asked him. "Yes. My family lives in a small farmhouse in the South of France. It is where my father was born and still lives and where he will die. Just like my grandfather. When my brother and I were young, we were experimenting with chemical mixtures when one compound exploded and our home burned to the ground."

Our strategy at Baron is fundamentally similar to Jerome's. We want our analysts to have learned what not to do before they are given responsibility to invest other people's money. Mistakes are part of the learning process for our researchers. That is why before we decide to start a new mutual fund, our tenured analysts first manage a "paper" portfolio and then a small portfolio we fund. As analysts, they learn to ask the right questions to see what can go wrong in a business...and, as investors, they learn to judge risk and appropriately size positions. *There are no shortcuts to learning these lessons.* Further, we incur substantial startup expenses for each new fund. It takes about five years for a fund to reach critical mass. When you review the tenures of our analysts and portfolio managers at www.baronfunds.com you will see that we have been successful at hiring and training talented employees...and, in keeping them.

Jerome focuses on the backgrounds of engineers that suggest whether or not they will be successful. We do the same with our youthful MBAs. We recruit from top business schools. Jerome believes "kids who come from privileged backgrounds may not succeed at Tesla because they don't realize how hard you have to work when you are trying to do very difficult things...against all the odds." Most investors



Ron and friends who "don't stop thinking about tomorrow"
Backstage at the 28th Annual Baron Investment Conference – October 25, 2019

thought Tesla would not likely be successful. Elon and Jerome didn't agree with that assessment. After we met the exceptional people who work at Tesla, we agreed with Elon and Jerome.

While few active mutual fund managers outperform their "benchmark" indexes, as of 9/30/2019, 12 funds, representing 98.3% of Baron Funds' assets under management ("AUM") have outperformed their benchmarks from their inceptions; 10 funds, representing 97.8% of Baron Funds' AUM are in the top 17% of their respective Morningstar categories; and, 6 funds, representing 62.0% of Baron Funds' AUM are in the top 7% of their respective Morningstar categories. So, our employee selection and training obviously work for us... just like Jerome's work for Tesla.

"The Fall and Rise of the Town Springsteen made Famous." *The New York Times*. September 2019.

I grew up in Wanamassa, N.J., a village of 4,500 people three blocks outside Asbury Park. Asbury is a small beach town of 16,000 on the Jersey Shore. It is about an hour south of New York City. Asbury Park is where I attended high school. Asbury's gritty and diverse community, comprised of 48% blacks and 32% Hispanics, succumbed to severe economic decline following the riots and burning of its commercial establishments in 1968. That was immediately

after the assassinations of Dr. Martin Luther King and Senator Robert F. Kennedy. Asbury Park is the city made famous by Bruce Springsteen's 1973 debut album, "Greetings from Asbury Park."

Asbury Park's economy has since experienced a strong recovery. We think this is in part because Asbury's beaches are among the best in New Jersey; its boardwalk is iconic; its music scene is legendary...the Stone Pony is where "Bruuuuce" and bar bands like the E Street Band played all those years ago...and prices for architecturally important Victorian homes by the ocean were depressed

following the turmoil of the '60s and attracted bargain-seeking buyers. That downtrodden seaside community 50 years ago now receives about one million visitors every summer and *USA Today* recently called my hometown "the coolest small town in America!!!" Yay!!!

Why am I writing about Asbury Park other than because its return to "Glory Days" is so personal to me? It's to illustrate what we call "competitive advantage." My dad was an engineer for the Army. When I was young, my good friend Marc's dad owned a real estate brokerage business (capital light) and amusement rides on the Asbury Park boardwalk...and a much more expensive, glass walled house than my family's (\$50,000 vs. \$20,000) on Deal Lake (not in the middle of a block). One lesson? There is a limited amount of real estate on water. Seaside property retains its value and almost always becomes more valuable over time. This is in comparison to a landlocked residential lot in the middle of a block which we regard as a commodity. We think waterfront land is competitively advantaged... and oceanfront property is really, really competitively advantaged. Competitively advantaged properties...just like competitively advantaged businesses...are limited in quantity, are more desirable, and, although are often premium-priced, grow in value faster!



Letter from Ron

Wanamassa Grammar School Reunion for my 1957 eighth grade graduating class.

One more story. John Cougar Mellencamp sang, "I was born in a small town" at our annual conference several years ago. That song is one of my favorites. Not just because I like how it sounds...but because I was also born in a small town and Mellencamp's values resonate with me. Another of my favorite songs is Journey's "Don't Stop Believing." I suppose this is because that song also has small town focused lyrics.

I graduated from Wanamassa Grammar School in 1957 and from Asbury Park High School in 1961. Two years ago, I attended my 60th Wanamassa eighth grade class reunion. I arrived early that summer weekend morning and first walked the Asbury Park boardwalk for about an hour, which brought back so many memories. Then to the gym at Wanamassa Grammar School to see my childhood friends. When I arrived at the gym, 57 of my 70 grammar school classmates were already there! I was immediately greeted by Cheryl Gibbons, one of my best friends in 1957. I hadn't seen her since. Cheryl was captain of both the Wanamassa cheerleaders and the safety patrol and sat next

P.S. While they last...if you're a shareholder and would like a complimentary Baron Funds' "What's Next?" 2019 conference T-shirt, please call us at 1-800-992-2766 ext. 3. Please specify sizes S-2XL. They are great for working out...sleeping...or for a fancy evening out on the town! They look great belted as a dress! It is amazing to me how often I see Baron T-shirts in gyms when I am traveling! Certainly much more often than you'd expect for an investment manager.

to me in home room for three years. "Ronnie, Ronnie," she called excitedly, "June, June DiSarno, come over here." June had also been a cheerleader for our grammar school. "Ronnie, June and I read all about you on the internet...that you took \$1,000 you had saved from your summer jobs and Bar Mitzvah, invested it and grew it to \$4,000 by the time you graduated Asbury Park High School and needed it for college. June and I came to your Bar Mitzvah. *We are your seed money!!!*"

Lesson one. Compounding. Capital gains from investing what I had earned summers as a lifeguard, ice cream truck driver, cabana boy, caddy, waiter, water ski instructor, hospital emergency room orderly, umbrella rental boy, and dishwasher initially did not seem like much. However, that wasn't the case over the long term. So, if the returns you earn on initially small savings seem inconsequential, don't be tempted to spend those savings. In year one, the amount you earn on your investments will not be a lot. In year 10...or 20...or 30... you will not believe the impact of the "power of compounding". If you earn 6.5%, the approximate historic annual growth rate of the United States' economy and

We also have been getting lots of compliments about our T-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 Jazmin Jourdain, Director of Shareholder Services, Corporate Projects & Events, Matt Weiss, a Baron vice president and research analyst...and me, of course.

stock market for the past 60 years, by investing in a low cost passive index fund, the growth of your savings over a lifetime will be exponential. You will have nearly 7 times your starting amount in 30 years, 12 times in 40 years, and more than 23 times in 50 years! And this doesn't even factor in dividends! Which approximate over 2.5% per year.

Baron has historically done a lot better than passive benchmark indexes although we cannot assure you that will continue to be the case.

Lesson two. Don't forget where you came from...and don't forget who are your real friends.

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

Respectfully,



Ronald Baron
CEO and Chief Investment Officer

P.P.S One more thing. Tesla wants to be sure you know that the Tesla Model 3s were prizes given and paid for by our privately owned investment management company, Baron Capital Group, not by Tesla.

We also want you to know that these gifts, the lunchtime and end of day entertainment, and all other expenses incurred for our annual meeting, were paid for by us, not by you or Baron Funds.

All the indexes listed in this report are unmanaged indexes; one cannot invest directly into an index. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies, the **Russell 1000® Growth Index** of large-sized U.S. companies that are classified as growth, the **Russell Midcap® Growth Index** of medium-sized U.S. companies that are classified as growth, the **Russell 2500™ Growth Index** of small to medium-sized companies that are classified as growth, the **Russell 2000® Growth Index** of small-sized U.S. companies that are classified as growth and the **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. **Russell 3000® Health Care Index** is an unmanaged index representative of companies involved in medical services or health care in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies as determined by total market capitalization. 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. The S&P and Russell indexes include reinvestment of dividends, which positively impact the performance results. The MSCI ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The **MSCI ACWI ex USA Index Net USD** measures the equity market performance of large and mid-cap securities across developed and emerging markets, excluding the United States. The **MSCI EM (Emerging Markets Index Net USD)** is a free

float-adjusted market capitalization weighted index designed to measure equity market performance of large, mid and small cap securities in the emerging markets. The MSCI indexes and the Funds include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The **MSCI US REIT Index** is an unmanaged free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. Index performance is not fund performance. The **MSCI USA IMI Extended Real Estate Index** is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. The **MSCI ACWI Index** is an unmanaged, free float-adjusted market capitalization weighted index reflected in US dollars that measures the equity market performance of large- and mid-cap securities across developed and emerging markets. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The index is calculated with dividends net of withholding taxes. Its returns include reinvestment of interest, capital gains and dividends, which positively impact the performance results.

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 Fund expenses for Baron Opportunity Fund, Baron Partners Fund, Baron Fifth Avenue Growth Fund, Baron Focused Growth Fund, Baron International Growth Fund, Baron Real Estate Fund, Baron Emerging Markets Fund, Baron Global Advantage Fund, Baron Discovery Fund, Baron Durable Advantage Fund, Baron Real Estate Income Fund, Baron WealthBuilder Fund, and Baron Health Care Fund (pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term) and all Funds' 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 above. For performance information current to the most recent month end, visit www.BaronFunds.com/performance or call 1-800-99BARON.

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.

The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

Ranking information provided is calculated using the Retail Share Class and is as of September 30, 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 603, 487, and 375 share classes for the 1-, 5-, and 10-year periods.

Morningstar ranked **Baron Asset Fund** in the 14th, 13th, 18th, and 17th percentiles, respectively, in the category for the 1-year, 5-year, 10-year, and since inception periods. The Fund was inceptioned 6/12/1987 and the category consisted of 19 share classes for the since inception period.

Morningstar ranked **Baron Growth Fund** in the 32nd, 24th, 28th, and 4th percentiles, respectively, in the category for the 1-year, 5-year, 10-year, and since inception periods. The Fund was inceptioned 12/30/1994 and the category consisted of 57 share classes for the since inception period.

Morningstar ranked **Baron Partners Fund** in the 46th, 32nd, 10th, 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 231 share classes for the since conversion period.

The **Morningstar US Fund Small Growth Category** consisted of 664, 519, and 399 share classes for the 1-, 5-, and 10-year time periods.

Morningstar ranked **Baron Small Cap Fund** in the 29th, 53rd, 50th, and 15th percentiles, respectively, in the category for the 1-year, 5-year, 10-year, and since inception periods. The Fund was inceptioned 9/30/1997 and the category consisted of 106 share classes for the since inception period.

Morningstar ranked **Baron Discovery Fund** in the 80th, 10th, and 3rd percentiles, respectively, in the category for the 1-year, 5-year, and since inception periods. The Fund was inceptioned 9/30/2013 and the category consisted of 492 share classes for the since inception period.

The **Morningstar US Fund Large Growth Category** consisted of 1,388, 1,110, 822, and 325 share classes for the 1-year, 5-year, 10-year, and since inception (2/29/2000) periods. Morningstar ranked **Baron Opportunity Fund** in the 44th, 19th, 46th, and 16th percentiles, respectively, in the category.

The **Morningstar US Fund Foreign Large Growth Category** consisted of 467, 340, 247, and 239 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 52nd, 25th, 12th, and 10th percentiles, respectively, in the category.

The **Morningstar US Fund Real Estate Category** consisted of 259, 198, and 143 share classes for the 1-year, 5-year, and since inception (12/31/2009) periods. Morningstar ranked **Baron Real Estate Fund** in the 93rd, 97th, and 7th percentiles, respectively, in the category.

The **Morningstar US Fund Diversified Emerging Markets Category** consisted of 839, 569, 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 33rd, 31st, and 3rd percentiles, respectively, in the category.

The **Morningstar US Fund World Large Stock Category** consisted of 867, 599, and 452 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 2nd percentiles, respectively, in the category.

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The indexes are unmanaged. Index performance is not fund performance; one cannot invest directly into an index.

Risks: All Investments are subject to risk and may lose value.

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Letter from Ron

Baron Funds (Institutional Shares) and Benchmark Performance 9/30/2019

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	13.23%	7.74%	12/31/1994	5.36%	11.89%	14.00%	10.19%	1.03% ⁽³⁾	\$6.79 billion
Baron Small Cap Fund	Russell 2000 Growth Index	10.00%	5.90%	9/30/1997	(3.91)%	9.93%	12.80%	9.72%	1.04% ⁽³⁾	\$3.88 billion
Baron Discovery Fund†	Russell 2000 Growth Index	13.83%	8.18%	9/30/2013	(11.75)%	13.18%	N/A	N/A	1.12%/1.10% ⁽³⁾⁽⁴⁾	\$538.91 million
SMALL/MID CAP										
Baron Focused Growth Fund ⁽¹⁾	Russell 2500 Growth Index	10.94%	7.90%	5/31/1996	0.22%	8.97%	10.99%	9.98%	1.09% ⁽⁵⁾	\$226.53 million
MID CAP										
Baron Asset Fund	Russell Midcap Growth Index	11.75%	10.17% ⁽²⁾	6/12/1987	8.11%	13.26%	14.50%	10.90%	1.04% ⁽³⁾	\$4.33 billion
LARGE CAP										
Baron Fifth Avenue Growth Fund†	Russell 1000 Growth Index	9.42%	9.95%	4/30/2004	3.73%	14.08%	14.39%	9.77%	0.82%/0.75% ⁽³⁾⁽⁷⁾	\$308.35 million
Baron Durable Advantage Fund	S&P 500 Index	10.25%	8.46%	12/29/2017	10.23%	N/A	N/A	N/A	5.71%/0.70% ⁽³⁾⁽⁸⁾	\$7.07 million
ALL CAP										
Baron Partners Fund ⁽¹⁾	Russell Midcap Growth Index	12.85%	9.83%	1/31/1992	2.83%	11.40%	15.07%	11.13%	1.77% ⁽⁵⁾⁽⁶⁾	\$2.34 billion
Baron Opportunity Fund†	Russell 3000 Growth Index	7.14%	4.70%	2/29/2000	2.78%	13.52%	13.74%	11.44%	1.11% ⁽³⁾	\$411.51 million
INTERNATIONAL										
Baron Emerging Markets Fund	MSCI EM Index	3.98%	0.88%	12/31/2010	1.84%	2.94%	N/A	N/A	1.10% ⁽⁵⁾	\$4.87 billion
Baron Global Advantage Fund†	MSCI ACWI Index	13.79%	8.61%	4/30/2012	10.95%	13.02%	N/A	N/A	1.18%/0.90% ⁽⁵⁾⁽⁹⁾	\$324.58 million
Baron International Growth Fund†	MSCI ACWI ex USA Index	10.57%	7.19%	12/31/2008	0.35%	6.55%	8.14%	N/A	1.07%/0.95% ⁽⁵⁾⁽¹⁰⁾	\$289.74 million
SPECIALTY										
Baron Real Estate Fund	MSCI USA IMI Extended Real Estate Index	13.42%	12.55%	12/31/2009	9.01%	6.50%	N/A	N/A	1.06% ⁽⁵⁾	\$588.99 million
Baron Real Estate Income Fund	MSCI US REIT Index	7.93%	10.12%	12/29/2017	13.98%	N/A	N/A	N/A	7.18%/0.80% ⁽⁵⁾⁽¹¹⁾	\$4.05 million
Baron Health Care Fund	Russell 3000 Growth Index	6.62%	7.92%	4/30/2018	(5.60)%	N/A	N/A	N/A	4.06%/0.85% ⁽⁵⁾⁽¹²⁾	\$11.65 million
FUND OF FUNDS										
Baron WealthBuilder Fund	S&P 500 Index	8.47%	8.46%	12/29/2017	3.04%	N/A	N/A	N/A	1.61%/1.17% ⁽⁵⁾⁽¹³⁾	\$104.50 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 September 30, 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).

† 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.

Portfolio holdings as a percentage of net assets as of September 30, 2019 for securities mentioned are as follows: **Tesla, Inc.** – Baron Opportunity Fund (2.8%*), Baron Partners Fund (8.7%*), Baron Focused Growth Fund (9.6%).

* % of Long Positions.

Portfolio holdings may change over time.

Past performance is no guarantee of future results.