Baron Funds®

Quarterly Report

September 30, 2017

"You don't have much of a track record with me. I need to charge you 75% interest." Eighth grader responding to his younger sister's request for a pre-allowance-day loan. Gary H. Stern. Former President, Federal Reserve Bank of Minneapolis. Board Director, Council for Economic Education. June 5, 2017.

On a beautiful afternoon in June, we loaned one of our conference rooms high above New York City's Central Park to the Council for Economic Education (CEE) for a lunch meeting. The CEE is a non-profit organization that teaches financial literacy to school children from kindergarten through high school. More than five million K-12 students annually benefit from CEE programs. CEE also sponsors an annual contest among high schoolers who compete to demonstrate rigorous knowledge of economics and current events. Since I knew little about CEE, and because providing financial education to America's youth interests me, I attended that lunch.

When Gary Stern, a CEE Board Director and former President of The Federal Reserve Bank of Minneapolis, addressed the luncheon, he relayed an anecdote of an eighth grader's negotiations with his younger sister seeking a pre-allowance-day loan from her older brother. I laughed when Gary recounted how the student considered his sister's "track record" determinative of the loan terms. What made the story especially funny is the serious principle underlying the eighth grader's concern…his sister's "track record."

We believe "track records," when studying businesses or individuals, encompass long-term performance and financial capacity; history of meeting obligations to employees, creditors, and shareholders; and living up to promises through good economic times and bad. Baron has never had a layoff…and continues to consistently hire through good and bad times, regardless of whether our Firm's profit margins are under pressure or not. This is because we are trying to build an institution that will last, not to maximize our privately held Firm's current profits.

RONALD BARON
CEO AND CHIEF INVESTMENT OFFICER

Baron's track record of investment performance since our founding in 1982 has, in our opinion, been exceptional. When coupled with our reputation for ethical conduct and fair dealing with employees, clients, vendors and communities, Baron Funds' shareholders have gained confidence to invest with us…while our 145 person staff of talented, honorable, and hard-working employees continues to grow. Baron has earned more than $23 billion in realized and unrealized profits for our investors since 1992. Baron's assets under management were $100 million in 1992 and now approximate $25.7 billion! Since their inceptions, **98.9%** of Baron mutual fund assets have outperformed their passive benchmark indexes; **96.9%** of Baron mutual fund assets rank in the top 11% of their Morningstar categories; and **30.4%** of Baron mutual fund assets rank in the top 1% of their peers!

When you do your own research, we think you make better decisions…

We have made many more good investment decisions than poor ones over the 35 years since Baron Capital's founding. But, since we rely only on inferential data and opinions to create mosaics of businesses, we, like virtually all investors, have made mistakes over the years. We make a lot fewer mistakes now than 25 years ago…and recent mistakes have been less consequential. We believe this is because our process has continuously improved; our research analysts and portfolio managers have worked together longer than at most firms; and, our industry expertise, knowledge, judgment, and assessment of competitive advantage continues to improve. Finally, we remain more focused than ever on perhaps our most important principle, "we invest in people."

…we didn't invest with Harvey Weinstein in The Weinstein Company…

Reading about Harvey Weinstein during the last week reminded me of two high profile investments that we chose NOT to make. The Weinstein Company was one, Theranos was the other. First, The Weinstein Company. In August 2009, Harvey Weinstein and his brother Robert visited us to discuss Baron Funds making a modest investment in privately owned The Weinstein Company. This was shortly after the brothers had sold their interest in Miramax to Disney. After nearly a day and a half meeting with the Weinsteins, we were convinced that Harvey was an enormously talented producer. Further, when we questioned Harvey closely about governance issues involving the characterization of expenses as business or personal (for which he had been criticized), he promised that that would never again be an issue. When the Weinsteins left our office, we

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were intrigued enough by Harvey's ability to produce successful movies and television programs to continue our diligence. During the next two days, we spoke to several media executives who knew Harvey well. All warned us about the governance issues about which we had expressed concerns and recounted, in graphic detail, allegations that the press has been widely reporting *eight years later*. When I called Harvey in August 2009 following our diligence to tell him we had decided not to invest with him, he screamed at me admonishing us for wasting his time. I don't remember whether he hung up on me or I on him, but I do remember an incredibly unpleasant conversation.

…we didn't invest with Elizabeth Holmes in Theranos, either…

The second high profile investment we avoided was Theranos. One of my best friends from high school, who now lives in Palo Alto, suggested we research Theranos after he read about that company and its high profile CEO and founder, Elizabeth Holmes. In 2011, Elizabeth was the youngest female "billionaire" on Forbes' list of 400 wealthiest Americans. Theranos' business premise was to disrupt blood testing labs by pricking your finger at a local Walgreens' pharmacy and using the internet to transmit markers in your blood to a remote Theranos machine for analysis. We contemplated making a $25 million investment in that privately held $6 billion company. However, since we believed Theranos' business opportunity was sizeable, and if Theranos were to become a publicly owned business we could make a much larger investment, we felt a significant diligence effort was justified. We studied Theranos for 10 months, visited the company in Palo Alto, had its executives visit us several times in New York, spoke to one of its clients, and tried to understand Theranos' technology. Regardless, we could not get comfortable with numerous issues, including no FDA filings and data that didn't seem to prove their case, and we chose not to invest. When I informed Elizabeth during her last visit to our office that we could not invest, she, like Harvey Weinstein, began to yell at me until I left our conference room. When I was writing this "Letter from Ron," I showed Pat Patalino, our Firm's General Counsel, an e-mail sent in June 2011 by Sunny Balwani, then Theranos' COO, to Randy Gwirtzman, then a senior Baron analyst and now a co-manager of Baron Discovery Fund. That letter criticized Baron research and our failure to understand Theranos' value proposition/valuation. Susan Robbins, one of our health care analysts, termed this "breathtaking chutzpah." ("Chutzpah" is Jewish for "what incredible nerve.")

Pat told me that soon after our decision not to invest, Sunny and Elizabeth called him on his cell phone while he was waiting for a commuter train in White Plains. "They spent the first 10 minutes scolding me for wasting their time." They then told Pat they provided us with unprecedented access and were "particularly upset about Andrew's skepticism and his unwillingness to accept what they were telling us at face value. It was not pleasant."

The postscript to this story is that the *Wall Street Journal* and *The New York Times* in 2015 published a series of articles questioning whether or not Theranos' technology worked; the FDA investigated the company and suspended Elizabeth from any involvement with Theranos for three years; Sunny resigned; and the value of Theranos' business has fallen from more than $6 billion to $800 million! Finally, Jennifer Lawrence will star as Elizabeth Holmes in *Bad Blood* a movie about Theranos …which there is no way I will miss. One more thing. Andrew Peck, the "Andrew" Pat referred to above, is the portfolio manager of Baron Asset Fund; a graduate of Yale College, Stanford Business School, and Stanford Law School, with high honors from each; a senior executive at our Firm for 20 years; and one of the brightest individuals I know.

To put an exclamation point on why "we invest in people" and why "track records," process, and people all matter, I will end this essay with the following story. Uber's license to operate in London was revoked in September when London's transportation regulator, citing a long list of bad behavior by Uber and its former CEO, found that company not to be "fit and proper." Dara Khosrowshahi, the newly appointed Uber CEO, then wrote in an email to his employees, "there is a high cost to a bad reputation" and, "it's critical that we act with integrity with everything we do, and learn how to be a better partner to every city we operate in."

"There is such a thing as an invisible legacy. We can live longer than we are remembered." Rabbi Ari Lorge. Central Synagogue. New York City. September 21, 2017. Rosh Hashanah 5778.

My family and I are members of Central Synagogue's congregation in New York City. This year on Rosh Hashanah, the holiday that celebrates the beginning of the Jewish New Year 5778, the topic of Central's Rabbi Ari Lorge's sermon was "An Invisible Legacy." That subject seemed especially relevant to me, the founder of a 35-year old business that I expect to far outlive me.

Rabbi Lorge began his sermon by discussing two years he spent as a rabbinical student researching a thesis on the life of Rabbi Louis Grossmann. Grossmann was a senior rabbi at one of the most prestigious synagogues in America more than 100 years ago. When Rabbi Lorge uncovered Grossmann's "rich and vibrant legacy," he wondered how that rabbi's name had been lost not just to history but to his own family? How could the memory of such a leader, the teacher of a generation of rabbis during an important period of Jewish history that encompassed "mass immigration of Eastern European Jews to America and the Balfour Declaration" just disappear? Even Rabbi Grossmann's family, his descendants just four generations later, knew little about him. When it goes beyond parents and grandparents, Rabbi Lorge explained, "our ancestors become two-dimensional at best." This conformed to the Russian proverb that "you live as long as you are remembered."

Rabbi Lorge observed that even the memories of Presidents, famous athletes, and celebrities fade in a remarkably short period. He pointed out that Alexander Hamilton, the individual most responsible for the drafting and adoption of America's Constitution 236 years ago and who invented our financial system, had been mostly forgotten. Until, that is, the Broadway smash hit, *Hamilton*, celebrated him and revived his legacy…at least for a short period. We did our part by honoring the first Treasury Secretary, an immigrant, by using a Hamilton inspired theme, "Exceptional Takes Time," for the 25th annual Baron Investment Conference last year!

But, back to my story. When I thought about what Rabbi Lorge was really saying, both while I listened to him speak and, when I read the text of his remarks afterwards, it made me think about the relevance of his comments to my life and to our "family business," Baron Capital. I think about my legacy as the people with whom I work every day (including my two sons, David and Michael, who are both senior analysts and assistant portfolio managers at Baron Capital) and the founding and growth of our financially strong business with an outstanding reputation that has impacted many lives. My "invisible legacy," when memories of me fade, is not a monument. It is our Firm's values, research principles and the idea that "we invest in people"–individuals with whom we work and who manage the businesses in which we invest.

Our Firm has been built with the intention to create and maintain an exceptional reputation and a workplace to attract the most talented individuals. They work with us in large part because they are proud of our business and what they do; are committed to conduct themselves ethically; and work on behalf of our clients to strive to produce significantly better returns than those clients could achieve by investing in passive indexes. Our employees are taught to think about *everything* for the long term; that there are no shortcuts to success; and, to create goals for themselves and our business in which our employees and customers both believe. I never intend to retire since my office is one of my favorite places in the world…which I hope will be the case for many more years.

Baron Investment Conference 2017. November 10, 2017. Metropolitan Opera House, Lincoln Center. New York City.

We hope you will be able to attend our 26th Annual Investment Conference on November 10th. It is unusual for investment firms to invite their shareholders and clients to meet and question the chief executives of businesses in which their savings have been invested and to meet and question the investment firm's managers and analysts about those investments. At Baron Capital we believe in providing our shareholders with unique insight and access to the entrepreneurs and businesses that are disrupting and improving our world to see first hand the opportunities we see.

One lucky Baron Funds' shareholder attendee this year will have a chance to win an *"electrifying"* and *"disruptive"* prize. For those of you who can't attend, you will be able to watch a live webcast on the Baron Funds' website (except for the entertainment, which we are contractually prevented from streaming). You can also get a sense of our meeting by watching CNBC's Squawk Box that morning from 6 a.m. to 8:30 a.m. EST when I will appear with several of our speakers, executives…and Squawk Box anchors Becky, Joe and Andrew.

We hope when you attend our annual conferences or watch us on CNBC or visit our website, you will gain a better understanding of the businesses in which we invest, the character and talent of their executives, as well as of the people who work at our Firm. Thank you for joining us as fellow shareholders in Baron Funds. We will continue to work hard to justify your confidence in us. See you in November.

Respectfully,

Ronald Baron

Ronald Baron
CEO and Chief Investment Officer
October 19, 2017

P.S While they last…if you're a shareholder and would like a complimentary Baron Funds' "Exceptional Takes Time", 1776 American Flag 2016 Conference t-shirt, please email us at info@baronfunds.com. Sizes S-2XL are still available. Great for when you're working out…sleeping…on the beach…or out on the town! (Looks great belted as a dress!)

P.P.S. Don't forget to send your photo wearing our t-shirt if you'd like it posted on our website in our Conference t-shirt gallery.

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.

Fund (Institutional Shares) and Benchmark Performance 9/30/2017

Fund	Primary Benchmark	Annualized Return Since Fund Inception	Annualized Benchmark Return Since Fund Inception	Inception Date	Fund Annualized Returns: 1-year returns	5-year returns	10-year returns	15-year returns	Annual expense ratio
Baron Asset Fund	Russell Midcap Growth Index	11.51%	9.99%	6/12/1987	22.76%	15.19%	7.79%	11.19%	1.04%(2)
Baron Growth Fund	Russell 2000 Growth Index	13.06%	8.02%	12/31/1994	20.79%	12.82%	7.71%	10.82%	1.05%(2)
Baron Small Cap Fund	Russell 2000 Growth Index	10.03%	6.03%	9/30/1997	22.76%	13.07%	7.65%	11.02%	1.06%(2)
Baron Opportunity Fund†	Russell 3000 Growth Index	5.88%	3.72%	2/29/2000	24.65%	11.54%	7.65%	14.37%	1.13%(2)
Baron Partners Fund	Russell Midcap Growth Index	13.02%(1)	9.60%	1/31/1992	30.46%	17.39%	7.33%	13.84%	1.52%(3)(4)
Baron Fifth Avenue Growth Fund	Russell 1000 Growth Index	8.49%	9.29%	4/30/2004	24.57%	15.53%	7.77%	N/A	0.85%(2)(5)
Baron Focused Growth Fund	Russell 2500 Growth Index	11.04%(1)	7.83%	5/31/1996	22.56%	10.76%	5.88%	13.20%	1.13%/1.10%(3)(6)
Baron International Growth Fund	MSCI ACWI ex USA IMI Growth Index	12.53%	9.88%	12/31/2008	19.98%	9.67%	N/A	N/A	1.36%/1.10%(3)(7)
Baron Real Estate Fund	MSCI USA IMI Extended Real Estate Index	15.56%	13.40%	12/31/2009	19.91%	12.36%	N/A	N/A	1.07%(3)
Baron Emerging Markets Fund	MSCI EM IMI Growth Index	6.17%	3.02%	12/31/2010	21.56%	8.42%	N/A	N/A	1.13%(3)
Baron Energy and Resources Fund†	S&P North American Natural Resources Sector Index	(4.00)%	0.30%	12/30/2011	(10.04)%	(3.38)%	N/A	N/A	1.46%/1.10%(3)(8)
Baron Global Advantage Fund†	MSCI ACWI Growth Index	12.58%	10.52%	4/30/2012	26.57%	14.02%	N/A	N/A	3.55%/1.10%(3)(9)
Baron Discovery Fund†	Russell 2000 Growth Index	16.08%	10.01%	9/30/2013	31.41%	N/A	N/A	N/A	1.49%/1.10%(2)(10)

(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) As of 9/30/2016.
(3) As of 12/31/2016.
(4) Comprised of operating expenses of 1.09% and interest expenses of 0.43%.
(5) Restated to reflect current management fees.
(6) Annual expense ratio was 1.13%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).
(7) Annual expense ratio was 1.36%, but the net annual expense ratio was 1.10% (restated to reflect current fee waivers).
(8) Annual expense ratio was 1.46%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).
(9) Annual expense ratio was 3.55%, but the net annual expense ratio was 1.10% (restated to reflect current fee waivers).
(10) Annual expense ratio was 1.49%, but the net annual expense ratio was 1.10% (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 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.

Ranking information provided is calculated for Institutional Share Class and is as of 9/30/2017.

For Baron Growth Fund in the Morningstar US Fund Mid-Cap Growth Category, as well as all Funds' since inception or since conversion time periods, the number of share classes in each category may vary depending on the date that Baron made the calculation.

Morningstar moved Baron Growth Fund from the **Small Growth Category** effective 5/31/2011 to the **Mid-Cap Growth Category**. The Fund's investment mandate has been, and continues to be, to invest in small-cap growth stocks for the long term. Because of its long-term approach, the Fund could have a significant percentage of its assets invested in securities that have appreciated beyond their market capitalization at the time of the Fund's initial investment. As a result, we provide comparative performance data for the Morningstar Mid-Cap Growth Category and the Baron-Adjusted Morningstar Small Growth Category, created to include Baron Growth Fund's Retail, Institutional, and R6 shares.

As of 8/31/2017, 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 614, 484, and 362 share classes for the 1-, 5-, and 10-year periods. Morningstar ranked **Baron Asset Fund** in the 10th, 12th, 30th, and 10th percentiles, respectively, in the category or the 1-, 5-, 10-year and since inception (6/12/1987) periods (consisted of 21 share classes). Morningstar ranked **Baron Growth Fund** in the 22nd, 46th, 31st, and 7th percentiles, respectively, in the category for the 1-, 5-, 10-year and since inception (12/31/1994) periods (consisted of 62 share classes). Morningstar ranked **Baron Opportunity Fund** in the 6th, 72nd, 31st, and 50th percentiles, respectively, in the category for the 1-, 5-, 10-year and since inception (2/29/2000) periods (consisted of 152 share classes). Morningstar ranked **Baron Partners Fund** in the 2nd, 2nd, 41st, and 1st percentiles, respectively, in the category for the 1-, 5-, 10-year and since conversion (4/30/2003) periods (consisted of 261 share classes). Morningstar ranked **Baron Focused Growth Fund** in the 11th, 84th, and 67th percentiles, respectively, in the category for the 1-, 5-year and since conversion (6/30/2008) periods (consisted of 378 share classes).

The **Morningstar US Fund Small Growth Category** consisted of 674, 532, and 399 funds for the 1-, 5- and 10-year periods. Morningstar ranked **Baron Small Cap Fund** in the 26th, 51st, 50th, and 11th percentiles, respectively, in the category for the 1-, 5-, 10-year, and since inception (9/30/1997) periods (consisted of 117 share classes). Morningstar ranked **Baron Discovery Fund** in the 2nd and 1st percentiles, respectively, in the category for the 1-year and since inception (9/30/2013) periods (consisted of 559 share classes).

The **Baron-Adjusted Morningstar Small Growth Category** consisted of 677, 537, 402 and 57 share classes for the 1-, 5-, 10-year and since inception (12/31/1994) periods. Morningstar ranked **Baron Growth Fund** in the 40th, 54th, 47th, and 3rd percentiles, respectively.

The **Morningstar US Fund Large Growth Category** consisted of 1,398, 1,125, 800, and 625 share classes for the 1-year, 5-year, 10-year, and since inception (4/30/2004) periods. Morningstar ranked **Baron Fifth Avenue Growth Fund** in the 13th, 18th, 47th and 50th percentiles, respectively, in the category.

The **Morningstar US Fund Foreign Large Growth Category** consisted of 396, 280, and 301 share classes for the 1-year, 5-year, and since inception (12/31/2008) periods. Morningstar ranked **Baron International Growth Fund** in the 29th, 25th, and 7th percentiles, respectively, in the category.

The **Morningstar US Fund Real Estate Category** consisted of 255, 203, and 159 share classes for the 1-year, 5-year, and since inception (12/31/2009) periods. Morningstar ranked **Baron Real Estate Fund** in the 3rd, 1st, and 2nd percentiles, respectively, in the category.

The **Morningstar US Fund Diversified Emerging Markets Category** consisted of 797, 447, and 315 share classes for the 1-year, 5-year, and since inception (12/31/2010) periods. Morningstar ranked **Baron Emerging Markets Fund** in the 44th, 4th, and 1st percentiles, respectively, in the category.

The **Morningstar US Fund Equity Energy Category** consisted of 115, 82, and 76 share classes for the 1-year, 5-year, and since inception (12/30/2011) periods. Morningstar ranked **Baron Energy and Resources Fund** in the 81st, 51st, and 63rd percentiles, respectively, in the category.

The **Morningstar US Fund World Large Stock Category** consisted of 842, 583, and 539 share classes for the 1-year, 5-year, and since inception (4/30/2012) periods. Morningstar ranked **Baron Global Advantage Fund** in the 5th, 6th, and 8th percentiles, respectively, in the category.

Index performance is not fund performance; one cannot invest directly into an index.

Definitions (provided by BAMCO, Inc.): **The Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. The **Russell 2000® Growth Index** is an unmanaged index that measures the performance of small-sized U.S. companies that are classified as growth. The **Russell 2500™ Growth Index** measures the performance of small- to medium-sized companies that are classified as growth. **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. The **Russell Midcap® Growth Index** is an unmanaged index of those Russell Midcap medium-sized companies that are classified as growth companies. **MSCI ACWI Growth Index** is unmanaged free float-adjusted market capitalization weighted index designed to measure the performance of large- and mid-cap securities classified as growth in the developed and emerging markets. 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 EM (Emerging Markets) IMI Growth Index Net USD** is a free float-adjusted market capitalization index designed to measure equity market performance of large, mid and small-cap securities in the emerging markets. The MSCI EM IMI Growth Index Net screens for growth-style securities. The index returns reflect the reinvestment of dividends and other earnings, which positively impact performance results. **MSCI ACWI ex USA IMI Growth Index Net USD** is an unmanaged, free float-adjusted market capitalization weighted index. It measures the performance of large-, mid-, and small-cap growth securities across developed and developing markets, excluding the U.S. **S&P North American Natural Resources Sector Index** is a modified capitalization-weighted equity index of U.S.- traded natural resources-related stocks, including mining, energy, paper and forest products, and plantation owning companies.

About Risk: The value of investments in equity securities is subject to unpredictable declines in the value of individual securities and periods of below average performance in individual securities and the equity market as a whole. Growth stocks are generally more sensitive to market movements than other types of stocks primarily because their stock prices are based heavily on future expectations. If our assessment of the prospects for a company's growth is wrong, or if our judgment of how other investors will value the company's growth is wrong, then the price of the company's stock may fall or not appreciate as we expect.