DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

Contrary to the expectations of almost all market observers earlier this year, U.S. equities rallied for a second consecutive quarter. Few of the events that pundits fretted about proved to be as dire as feared. Inflation continued to ease, leading the Federal Reserve to suspend its prolonged trajectory of interest rate hikes, and Congress avoided much drama surrounding the debt ceiling cliff. Corporate earnings were generally better than feared, and economic releases supported the narrative that a *soft landing* of the U.S. economy is more likely than a prolonged recession. These developments all contributed to greater optimism about the near-term outlook for U.S. businesses and stocks.

The stock market's rise has been driven largely by the outsized performance of a small group of large technology companies, partly driven by excitement surrounding their potential gains from widespread adoption of artificial intelligence (AI). This was most pronounced in the performance of the NASDAQ Composite Index, where the seven largest companies by market cap (Apple, Microsoft, NVIDIA, Amazon, Alphabet, Meta, and Tesla) were almost entirely responsible for its strong showing during the quarter.

Most sectors advanced during the quarter, led by double-digit gains from the growth-oriented Information Technology (IT), Consumer Discretionary, and Communication Services sectors. The principal laggards were Energy and Materials, owing to declining commodity prices, as well as defensive sectors, such as Utilities, Consumer Staples, and Health Care. Small- and mid-cap stocks remained out of favor, trailing their large-cap counterparts for a fourth consecutive month.

Against this backdrop, Baron Asset Fund® (the Fund) rose 3.63% (Institutional Shares) in the quarter, trailing the Russell Midcap Growth Index (the Index) by 260 basis points. The Fund trailed for several reasons. Certain stocks underperformed, particularly those in the IT sector. The Fund's second largest weighting is in the Health Care sector, which was the second worst performing sector in the Index. In addition, several of the Fund's longstanding style biases were headwinds amid the broader market rally. The Fund remained underexposed to the Beta and Residual Volatility factors, which was a headwind as more volatile stocks outperformed. The Fund's overexposure to the Earnings Quality factor was also challenging, as stocks with higher-quality earnings underperformed.

ANDREW PECK

PORTFOLIO MANAGER

Retail Shares: BARAX
Institutional Shares: BARIX
R6 Shares: BARUX

Table I.
Performance
Annualized for periods ended June 30, 2023

	Baron Asset Fund Retail Shares[1,2]	Baron Asset Fund Institutional Shares[1,2,3]	Russell Midcap Growth Index[1]	S&P 500 Index[1]
Three Months[5]	3.57%	3.63%	6.23%	8.74%
Six Months[5]	9.03%	9.17%	15.94%	16.89%
One Year	19.67%	19.97%	23.13%	19.59%
Three Years	4.64%	4.91%	7.63%	14.60%
Five Years	8.71%	8.99%	9.71%	12.31%
Ten Years	11.51%	11.80%	11.53%	12.86%
Fifteen Years	9.85%	10.13%	10.21%	10.88%
Since Inception (June 12, 1987)	11.20%	11.31%	10.10%[4]	10.11%

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2022 was 1.29% and 1.04%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The 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.

1 The **Russell Midcap® Growth Index** measures the performance of medium-sized U.S. companies that are classified as growth. The **S&P 500 Index** measures the performance of 500 widely held large cap U.S. companies. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. The Fund includes reinvestment of dividends, net of foreign withholding taxes, while the **Russell Midcap® Growth Index** and **S&P 500 Index** include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 For the period June 30, 1987 to June 30, 2023.

5 Not annualized.

BARON FUNDS 1987

Given our focus on high-quality companies, the Fund has underperformed during previous periods when the market was recovering from a significant sell-off. These include 2009, following the Great Financial Crisis, and 2020-2021, following the COVID-driven market drop. From late 2021 into early 2022, concerns about rising inflation, rising interest rates and their potential economic impact caused the Index to fall nearly 40%. The types of stocks that tend to perform best initially during these recoveries are more cyclically-exposed, higher-beta and lower-quality companies. As the market moves beyond the initial recovery phase and the economy stabilizes, we expect the types of companies that we favor to outperform – leading companies in their industries that benefit from secular growth drivers, strong competitive positions, and exceptional management teams.

During the quarter, adverse stock selection in IT contributed to the Fund's relative shortfall. Weakness in the sector came from the Fund's application software holdings, namely **Ceridian HCM Holding Inc.** and **Guidewire Software, Inc.**, which are market leaders in their respective verticals of human capital management (HCM) and insurance software. Ceridian's stock fell on investor concerns that a potential economic downturn could impact its revenue growth. While Ceridian has some direct exposure to overall employment levels, the company also benefits from powerful secular trends surrounding the modernization of HCM software and increasing adoption of SaaS solutions in this market. We believe Ceridian can continue to grow in excess of 20%, helped by continued market share gains, a move to larger-size customers, traction in international markets, and success in cross-selling additional modules to its existing customers. We expect Ceridian's growth to be enhanced by its Wallet suite (a product that allows employees to access their pay more quickly) as well as higher interest rates, which benefits the amount earned on the company's float income. Guidewire's shares fell after announcing mixed quarterly results. On the positive side, Guidewire made excellent progress on subscription gross margins, grew annual recurring revenue (ARR) faster than expected, and gave upside margin guidance for fiscal year 2024. On the downside, new ARR deals came with steeper ramps, services revenue slipped because of some legacy fixed price service contracts, and cash collection cycles extended during the quarter. Despite the mixed performance, we remain optimistic about the company's long-term prospects. The company has crossed the midpoint of its cloud transition and is demonstrating more consistent recurring revenue growth and durable gross margin expansion. We believe Guidewire will be the critical software vendor for the global P&C insurance industry, likely capturing 30% to 50% of its $15 billion to $30 billion total addressable market and generating margins above 40%. Other detractors in application software were engineering software provider **ANSYS, Inc.** and industrial automation software leader **Aspen Technology, Inc.**

Investments in Financials together with higher exposure to lagging life sciences tools & services stocks within Health Care also served as material headwinds to performance. Performance in Financials was impacted by bond trading platform **MarketAxess Holdings Inc.** and investment management tools provider **FactSet Research Systems Inc.** MarketAxess shares were hindered by a slowdown in trading activity resulting from short-term dislocations in the banking sector and lower credit spread volatility. Interest rate movements and product mix shifts have also pressured the variable fee rate. Despite reporting solid quarterly results, FactSet's stock fell as macro-related uncertainty (challenges in the banking sector, lengthening sales cycles, constrained client budgets) caused its annual subscription value growth to decelerate. While there is some near-term uncertainty, we believe that these issues are more cyclical in nature, and we believe FactSet's large addressable market and new product development should lead to sustained long-term growth and free-cash-flow generation.

Partially offsetting the above was favorable stock selection in Industrials attributable to sharp gains from real estate data and marketing platform **CoStar Group, Inc.** and data and analytics vendor **Verisk Analytics, Inc.** CoStar was the largest contributor after reporting robust financial performance, with net new sales growing 18% in the first quarter, driven by acceleration in multifamily bookings, which expanded 110% year-over-year. Verisk was another top contributor after the company's organic growth rate reached one of its highest levels in years. Several other holdings also performed well in the sector, led by consumer credit bureau **TransUnion** and pest control services provider **Rollins, Inc.** The Fund also benefited from its lack of exposure to Energy, which was pressured by declining oil prices during the quarter.

Table II.
Top contributors to performance for the quarter ended June 30, 2023

	Year Acquired	Percent Impact
CoStar Group, Inc.	2016	1.15%
Verisk Analytics, Inc.	2009	0.77
Gartner, Inc.	2007	0.75
TransUnion	2017	0.55
Fair Isaac Corporation	2020	0.37

CoStar Group, Inc. provides data analytics and marketing services to the commercial and residential real estate industries. Its shares increased after reporting robust financial performance during its recent quarter. Overall net new sales grew 18%, driven by accelerated bookings in the company's multifamily segment, which expanded 110% year-over-year, albeit partially offset by slower growth in its commercial real estate segment. We are encouraged by early signs of traction in CoStar's nascent residential offering. We estimate that CoStar invested $230 million in this initiative in 2022 and is targeting a total investment approaching $500 million in 2023. While this is a significant upfront commitment, we believe the residential market represents a transformative opportunity for the company. We believe CoStar's proprietary data, broker-oriented approach, and best-in-class management uniquely position the company to succeed in this large adjacent market.

Verisk Analytics, Inc. is a leading data and analytics vendor, selling primarily to the insurance industry. Its shares gained after the company reported impressive quarterly earnings with its organic growth rate reaching one of its highest levels in years. Despite an uncertain macroeconomic backdrop, management pointed to its consistent sales execution and its ability to pass through selective price increases to customers. We remain encouraged by management's decision to focus its business firmly on the insurance market, where we believe its competitive position is unassailable. We remain optimistic about Verisk's opportunity for long-term growth, margin expansion, and shareholder-friendly capital deployment.

Gartner, Inc. provides syndicated research primarily focused on the IT sector to a large global corporate client base. Its shares gained in response to both healthy revenue and earnings growth, as well as Gartner's ability to benefit from the widespread interest among its clients in AI. We believe Gartner will emerge as a critical decision support resource for every company evaluating the opportunities and risks that AI offers its business. We further expect Gartner's sustained revenue growth and focus on cost control to drive ongoing margin expansion and enhanced free-cash-flow generation. The company's balance sheet also remains in excellent shape, allowing Gartner to support aggressive repurchases and accretive bolt-on acquisitions.

Table III.
Top detractors from performance for the quarter ended June 30, 2023

	Year Acquired	Percent Impact
Mettler-Toledo International Inc.	2008	–0.95%
MarketAxess Holdings Inc.	2016	–0.50
Aspen Technology, Inc.	2022	–0.26
Ceridian HCM Holding Inc.	2018	–0.25
Illumina, Inc.	2012	–0.19

Mettler-Toledo International Inc. is a leading provider of precision instruments and services for customers in the life sciences, food, and chemicals industries. We have owned the stock for 14-plus years and have long been impressed by Mettler's ability to consistently compound its revenues and EPS throughout various market environments. Shares fell after Mettler reported first quarter results that were solid but reflected the negative impact of a few headwinds that we believe will prove transitory. These include a halt in shipping products to Russia, inventory destocking in the pipettes business, and unfavorable foreign currency exchange rates. We believe that Mettler's leading share in growing markets coupled with its demonstrated pricing power should allow the company to compound earnings at mid-teens or better rates over the long term.

MarketAxess Holdings Inc. operates the leading electronic platform for trading corporate bonds. Weak performance during the quarter was driven by a decline in trading activity. Following a strong start to the year, trading volumes slowed during the quarter as a result of short-term dislocations in the banking sector and remained subdued because of lower volatility in the credit spread market. Interest rate movements and product mix shifts also pressured the variable fee rate that the company captured on trades. We remain optimistic that these headwinds will prove transitory and that MarketAxess will benefit from the ongoing secular shift to electronic trading in the fixed income market.

Aspen Technology, Inc. is a leading software company focused on industrial automation. Its shares detracted from performance after falling in response to mixed financial results. The company experienced a slowdown in sales to chemical customers, and it suffered from integration issues related to its 2022 merger with a subsidiary of Emerson Electric Company. We believe that the integration challenges are an unfortunate, but temporary, outcome of a business combination that should ultimately prove fruitful. We are hopeful that the decline among Aspen's chemical customers proves to be a short-term cyclical event. We believe Aspen's long-term revenue and free-cash-flow growth potential remains intact, and the current share price offers attractive return potential.

Portfolio Structure

At June 30, 2023, the Fund held 50 positions. The Fund's 10 largest holdings represented 47.5% of assets, and the 20 largest represented 71.3% of assets. The Fund's largest weighting was in the IT sector at 27.2% of assets. This sector includes application software companies, IT consulting firms, and internet services companies. The Fund held 25.9% of its assets in the Health Care sector, which includes investments in life sciences companies, and health care equipment, technology, and supplies companies. The Fund held 16.7% of its assets in the Industrials sector, which includes investments in research and consulting companies, human resources firms, and aerospace and defense companies. The Fund also had significant weightings in Financials at 12.6% of assets and Real Estate at 7.9% of assets.

As the chart below shows, the Fund's largest investments all have been owned for extended periods – 8 of the 10 largest holdings have been owned for longer than a decade. This is consistent with our approach of investing for the *long term* in companies benefiting from secular growth trends with significant competitive advantages and best-in-class management teams.

Table IV.
Top 10 holdings as of June 30, 2023

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$2.9	$27.7	$424.3	9.1%
IDEXX Laboratories, Inc.	2006	2.5	41.7	338.3	7.3
Mettler-Toledo International Inc.	2008	2.4	28.9	234.9	5.1
CoStar Group, Inc.	2016	5.0	36.4	217.2	4.7
Verisk Analytics, Inc.	2009	4.0	32.7	215.0	4.6
ANSYS, Inc.	2009	2.3	28.6	184.2	4.0
Arch Capital Group Ltd.	2003	0.9	27.9	164.9	3.5
Vail Resorts, Inc.	1997	0.2	9.7	151.9	3.3
FactSet Research Systems Inc.	2006	2.5	15.4	148.5	3.2
West Pharmaceutical Services, Inc.	2014	2.9	28.4	127.9	2.8

Recent Activity

Table V.
Top net purchases for the quarter ended June 30, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Morningstar, Inc.	$ 8.3	$17.3
Booz Allen Hamilton Holding Corporation	14.6	15.3
MSCI Inc.	37.6	9.4
Repligen Corporation	7.9	4.5
Quanta Services, Inc.	28.5	3.0

We initiated a position in **Morningstar, Inc.**, a leading provider of financial data and software for the investment industry. The company owns several leading data assets that are widely used by public and private investors, as well as investment managers and consultants. We believe that Morningstar will benefit from rising demand for its proprietary financial information, allowing it to achieve strong revenue, margin, and earnings growth. We expect the company to continue to aggregate market share, exercise pricing power, and reduce the rate of its expense growth.

Morningstar owns several unique and differentiated data assets that span both public and private markets. Key products include Morningstar Data, which is the de facto standard for mutual fund ratings. Pitchbook aggregates data on private market companies, such as valuations, fundraising rounds, and information on company debt. Morningstar generates over 70% of its revenue from license-based products that are sold on a subscription basis. These products generate highly recurring revenues, with high margins and pricing power, which results in a high-quality earnings model. Aside from subscriptions, Morningstar also generates revenues from some products in which fees are charged on a transactional basis or as a percentage of client assets.

Recently, Morningstar shares have underperformed as profit margins have dipped into the low teens from their historic 20% to 25% range. This has been caused by revenue declines in some more cyclical products, combined with significant expense growth as the company invested in headcount to support future growth. Management has begun to slow hiring to constrain expense growth, and we believe that continued growth in Morningstar's license-based products and a normalization in cyclical product sales will help profit margins and drive earnings growth. We took advantage of the price weakness to purchase this high-quality financial information business with earnings that should grow durably over a multi-year period.

We re-initiated a position in **Booz Allen Hamilton Holding Corporation**, the premier provider of outsourced civil and military consulting services to the federal government. We believe that Booz's consultants (65% of whom possess security clearances) are best in class at tackling sensitive and high-priority cybersecurity, intelligence, defense, and spending efficiency projects for various government agencies. Under longtime CEO Horacio Rozanski, the company has thoughtfully invested in AI, cybersecurity, software, and other advanced technologies. It had remained ahead of its peers and is an important partner providing the government mission-critical and highly technical solutions. In addition, Booz is the largest single provider of AI services to the federal government, which we believe will be a source of ongoing, outsized growth.

We believe the ongoing U.S. military rivalry with Russia and China will provide a tailwind for increased defense budget growth and enhance the demand for Booz's services. Booz expects to continue outgrowing its consulting peers by 2% to 4% annually, translating to mid- to high single-digit organic revenue growth that will be enhanced by targeted acquisitions. We expect improved pricing realizations and gradually increased margins as well.

Table VI.
Top net sales for the quarter ended June 30, 2023

	Net Amount Sold (millions)
Alexandria Real Estate Equities, Inc.	$21.2
Gartner, Inc.	20.4
Liberty Broadband Corporation	13.1
SBA Communications Corp.	12.5
Illumina, Inc.	12.3

We exited our position in **Alexandria Real Estate Equities, Inc.**, a REIT focused on developing office and laboratory space for the life sciences industry, given concerns about slowing real estate demand among its primary tenant base. We took some profits and managed the position size of long-term holding **Gartner, Inc.** We exited our stake in **Liberty Broadband Corporation**, a cable and internet service provider, to redeploy the proceeds into new investments. We reduced our stake in long time holding **SBA Communications Corp.**, which owns and operates cellular towers, on concerns that higher interest rates would increase its debt servicing costs. We reduced our stake in **Illumina, Inc.**, as the company's CEO is stepping down.

Outlook

We remain encouraged by the third consecutive quarter of strong performance in the equity markets, with growth stocks continuing to outperform after a period of significant underperformance relative to value stocks.

Most investors have long been too pessimistic about the risks that macroeconomic and geopolitical events pose for the U.S. economy. The prior consensus view that the U.S. will experience a *hard landing*, which crushed stock prices during the first half of 2022, appears to have been misguided. Inflation seems to have peaked, the bond market is signaling an upcoming reduction in interest rates, concerns about contagion in the banking sector have subsided, and corporate earnings have generally exceeded expectations. We expect the recovery in stock prices, which remain considerably below their 2021 peaks, to continue.

As discussed earlier, the market continues to recover from the dramatic sell-off of early 2022. The types of stocks that initially perform best tend to be more cyclical, higher-beta and lower-quality companies. As the market recovers and the economy stabilizes, we expect the types of companies that we favor to outperform – leading companies that benefit from secular growth drivers, secure competitive positions, and talented management teams.

We believe that stocks' recent strong performance amid pervasive pessimism about the economy supports our view that near-term market moves are largely unknowable, and stocks move upwards over time. As a result, investors should take a long-term view of their equity investments, and they should resist the urge to time their exposure to the stock market.

It is also worth noting that, despite recent strong performance from growth stocks, the Russell Midcap Growth Index still trails its value equivalent by 741 basis points annualized during the past three years. This has helped reduce the premium that is generally accorded to faster growing stocks, and we believe it presents an attractive opportunity to invest in midcap growth stocks.

Sincerely,

Andrew Peck
Portfolio Manager

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

Risks: Securities issued by medium-sized companies may be thinly traded and 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.

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The portfolio manager defines "**Best-in-class**" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking. **Beta** explains common variation in stock returns due to different stock sensitivities to market or systematic risk that cannot be explained by the US Country factor. Positive exposure indicates high beta stock. Negative exposure indicates low beta stock. **Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

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