Dear Baron Asset Fund Shareholder:

Performance

U.S. equities closed higher for the fourth consecutive quarter. Generally upbeat economic reports coupled with the Federal Reserve's (the Fed) long-awaited interest rate cuts spurred a meaningful rotation out of large-cap/*Magnificent Seven*/growth/momentum stocks and into value/cyclicals/small caps. Sectors that stand to benefit from lower interest rates did particularly well, notably Utilities, Real Estate (REITs), and Financials. Materials also outperformed thanks to rising prices for precious metals such as silver and gold. Energy was the only sector to decline in the period, falling alongside the price of oil. Information Technology (IT) and Communication Services also underperformed.

Baron Asset Fund® (the Fund) rose 8.34% (Institutional Shares) in the quarter, outperforming the Russell Midcap Growth Index by 180 basis points due to solid stock selection. It is noteworthy that the best-performing factor driving stock returns during the period was Earnings Quality, and, as we would have expected, this environment proved favorable for our investment style.

Stock selection in IT accounted for the bulk of the outperformance. Strength in the sector was driven by sharp gains from application software holdings **Guidewire Software, Inc.** and **Fair Isaac Corporation** (FICO). Shares of Guidewire, a property and casualty (P&C) insurance software vendor, advanced after its subscription gross margin improved by more than 1,000 basis points in its most recently reported quarter; data and analytics company FICO performed well after reporting solid fiscal third quarter earnings results and raised fiscal 2024 guidance. Another material contributor in IT was syndicated research provider **Gartner, Inc.**, whose shares appreciated double digits after the company's core subscription research businesses inflected higher in the second quarter.

Health Care was another standout sector thanks to strong performance from **The Cooper Companies, Inc.**, a medical device company with two business units: CooperVision, a leading manufacturer of soft contact lenses; and CooperSurgical, which targets women's health care and fertility. Cooper's stock increased after impressive second quarter results. We expect continued solid earnings growth in its core contact lens business, driven by price increases, additional manufacturing capacity coming online, continuing mix improvement, the likelihood of lower interest expense (both from debt repayment and lower rates) and the dissipation of FX headwinds. Besides

ANDREW PECK

PORTFOLIO MANAGER

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

Table I.
Performance†
Annualized for periods ended September 30, 2024

	Baron Asset Fund Retail Shares[1,2]	Baron Asset Fund Institutional Shares[1,2,3]	Russell Midcap Growth Index[1]	Russell 3000 Index[1]
Three Months[5]	8.27%	8.34%	6.54%	6.23%
Nine Months[5]	10.60%	10.81%	12.91%	20.63%
One Year	24.29%	24.61%	29.33%	35.19%
Three Years	0.16%	0.41%	2.32%	10.29%
Five Years	9.12%	9.40%	11.48%	15.26%
Ten Years	11.02%	11.31%	11.30%	12.83%
Fifteen Years	12.48%	12.78%	13.21%	13.80%
Since Inception (June 12, 1987)	11.32%	11.44%	10.34%[4]	10.47%

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, 2023 was 1.30% and 1.05%, 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 BaronCapitalGroup.com or call 1-800-99-BARON.

† The Fund's historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

1 The **Russell Midcap® Growth Index** measures the performance of medium-sized U.S. companies that are classified as growth. The **Russell 3000® Index** measures the performance of the broad 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. 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 withholding taxes, while the Russell Midcap® Growth and Russell 3000® Indexes include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in 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 December 31, 1987 to September 30, 2024.

5 Not annualized.

BARON FUNDS® 1987

stock selection, the Fund benefited from its higher exposure to the Real Estate sector along with its lack of exposure to the lagging Consumer Staples and Energy sectors.

Somewhat offsetting the above was the disappointing performance of certain holdings in Industrials and Real Estate together with lack of exposure to the top performing Utilities sector. Weakness in Industrials was driven by the Fund's sizeable positions in data and analytics vendor and **Verisk Analytics, Inc.** and private rocket and spacecraft manufacturer **Space Exploration Technologies Corp.** (SpaceX). Despite reporting generally solid second quarter earnings, Verisk was a modest detractor, as its stock pulled back after its transactional revenue was modestly softer than expectations. SpaceX's primary focus is developing and launching advanced rockets, satellites, and spacecrafts, with the ambitious long-term goal of enabling human colonization of Mars. SpaceX is also generating significant value through the rapid expansion of its Starlink broadband service. Driven by its vast constellation of proprietary Starlink satellites, Starlink has seen substantial growth in its active user base. SpaceX is also making significant progress on its newest rocket, Starship, the largest, most powerful rocket ever flown. This next-generation vehicle represents a significant leap forward in reusability and space exploration capabilities. We value SpaceX using prices of recent financing transactions.

Real estate data and marketing platform **CoStar Group, Inc.** was negatively impacted by deceleration in net new sales of homes.com, its residential product offering. We remain encouraged by the website traffic growth and growing brand awareness for the platform, and we are optimistic that sales momentum will improve as the company builds out a dedicated residential sales force and enhances its customer targeting. We believe performance in CoStar's non-residential business remains strong, and we expect to see better organic growth as the commercial real estate market improves and salespeople return to focus exclusively on a single product.

Table II.
Top contributors to performance for the quarter ended September 30, 2024

	Year Acquired	Contribution to Return (%)
Guidewire Software, Inc.	2013	1.38
Gartner, Inc.	2007	1.25
Fair Isaac Corporation	2020	0.98
TransUnion	2017	0.63
Arch Capital Group Ltd.	2003	0.54

Shares of P&C insurance software vendor **Guidewire Software, Inc.** advanced after the company's subscription gross margins improved by more than 1,000 basis points in its most recently reported quarter. After a multi-year transition period, we believe the company has substantially completed its transition from an "on premise" to a "cloud-based" software provider. We believe cloud will be its sole path forward, with annual recurring revenue (ARR) benefiting from new customer wins and the migration of its existing customer base to InsuranceSuite Cloud. We also expect Guidewire to shift its R&D resources to product development from infrastructure investment, which should help drive cross-sales into its sticky installed base and potentially accelerate ARR over time. We believe Guidewire will become the most critical software vendor for the global P&C insurance industry, capturing 30% to 50% of its $15 billion to $30 billion total addressable market and generating margins above 40%.

Shares of **Gartner, Inc.**, a provider of syndicated research, contributed to performance in the quarter. Gartner's core subscription research businesses inflected higher in the second quarter, and we believe growth is poised to continue accelerating over the next several quarters. Longer term, we think Gartner will emerge as a key resource for companies evaluating the opportunities and risks of AI on their business, providing a tailwind to Gartner's volume growth and pricing realization over time. Sustained revenue growth coupled with Gartner's focus on cost control should drive ongoing margin expansion and enhanced free cash flow generation, in our view. The company's balance sheet remains in excellent shape and can support continued aggressive share repurchases and bolt-on acquisitions.

Shares of **Fair Isaac Corporation** (FICO), a data and analytics company focused on predicting consumer behavior, contributed to performance. The company reported solid fiscal third quarter earnings results and raised its fiscal 2024 guidance. Management recently spoke at several conferences and expressed optimism about the trends in its two key divisions—scores and software. In addition, recent interest rate cuts are expected to lead to more mortgage activity and the associated need by lenders for more FICO credit scores. While some near-term areas of uncertainty remain (most notably scores volumes based on the timing of changing macroeconomic conditions and a potential CFPB investigation into scores pricing), we believe FICO will be a steady earnings compounder, which should drive solid returns over a multi-year period.

Table III.
Top detractors from performance for the quarter ended September 30, 2024

	Year Acquired	Contribution to Return (%)
The Charles Schwab Corporation	1992	–0.33
DexCom, Inc.	2019	–0.33
West Pharmaceutical Services, Inc.	2014	–0.22
ICON Plc	2022	–0.11
LPL Financial Holdings Inc.	2022	–0.09

The Charles Schwab Corporation detracted from performance following a weak second quarter update. The broker-dealer generates significant earnings from net interest income on idle client cash. Clients have been moving cash into higher-yielding money market funds, forcing Schwab to utilize external sources of funding to support its balance sheet. This external funding is more costly than other liabilities on its balance sheet, and it is intended to be temporary. However, it has taken Schwab longer than expected to reduce its reliance on these funds, which disappointed the market. While the timing has been extended, we believe Schwab will eventually pay down these funds, leading to accelerated earnings growth.

DexCom, Inc. sells a continuous glucose monitoring device for patients with diabetes. Shares fell after DexCom reported lower-than-expected second quarter financial results and reduced its guidance for the year. Multiple issues surfaced during the earnings report. Management cited: 1) disruption from the expansion of its sales force; 2) channel dynamics including market share losses in the durable medical equipment channel and a revenue per user headwind from Medicare Advantage plans offering pharmacy access to its members; 3) a negative impact from faster-than-anticipated rebate eligibility; and 4) a shortfall in international sales. Some of these issues are temporary and potentially addressable. Others raise questions about DexCom's growth potential. As a result, we exited our investment.

West Pharmaceutical Services, Inc. manufactures components and systems for the packaging and delivery of injectable drugs. Shares fell on lower-than-expected financial results and reduced guidance for the year attributed to ongoing inventory destocking by its pharmaceutical customers.

Post-pandemic, customers continue to use the inventory stockpiled to meet elevated pandemic-era demand. West was also able to shorten the lead time needed to meet new demand, giving customers confidence to safely reduce their inventory levels. We believe the inventory-related issues are temporary, and West remains a dominant player with competitive advantages in the growing market for injectable drugs. Management has stated that end-patient demand is in line with its expectations, market share shift is not occurring, and its win rates on packaging for new molecules remains strong. They expressed confidence that West can return to the long-term financial construct of 7% to 9% revenue growth with 100 basis points of operating margin expansion annually.

PORTFOLIO STRUCTURE

At September 30, 2024, Baron Asset Fund held 52 positions. The Fund's 10 largest holdings represented 49.2% of net assets, and the 20 largest represented 70.7% of net assets. The Fund's largest weighting was in the IT sector at 30.4% of net assets. This sector includes software companies, IT consulting firms, and electronic components companies. The Fund held 20.2% of its net assets in the Health Care sector, which includes investments in life sciences companies, and health care equipment, supplies, and technology companies. The Fund held 18.5% of its net assets in the Industrials sector, which includes investments in research and consulting companies, aerospace and defense firms, and human resources companies. The Fund also had significant weightings in Financials at 13.0% and Consumer Discretionary at 7.8%.

As the chart below shows, the Fund's largest investments all have been owned for significant periods – 7 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 September 30, 2024

	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	39.1	430.9	9.7
IDEXX Laboratories, Inc.	2006	2.5	41.6	261.5	5.9
Guidewire Software, Inc.	2013	2.8	15.2	231.6	5.2
Verisk Analytics, Inc.	2009	4.0	38.2	228.9	5.2
Arch Capital Group Ltd.	2003	0.9	42.1	227.3	5.1
Mettler-Toledo International Inc.	2008	2.4	32.0	225.1	5.1
CoStar Group, Inc.	2016	5.0	30.9	164.6	3.7
Fair Isaac Corporation	2020	12.1	47.7	161.3	3.6
Roper Technologies, Inc.	2011	7.4	59.6	129.8	2.9
Space Exploration Technologies Corp.	2020	47.0	210.2	126.0	2.8

RECENT ACTIVITY

Table V.
Top net purchases for the quarter ended September 30, 2024

	Quarter End Market Cap ($ billions)	Net Amount Purchased ($ millions)
Welltower Inc.	78.0	18.0
Duolingo, Inc.	12.3	6.0
Vulcan Materials Company	33.1	1.3

We initiated a new position in **Welltower Inc.**, which owns and operates senior housing and medical office buildings in the U.S. and internationally. We believe that operating fundamentals in the senior housing industry will continue to be robust, and Welltower is well positioned to capture both a cyclical and secular inflection in growth during the coming years. If occupancy of the company's units were to return to levels achieved before the pandemic, we believe that senior housing cash flow would grow by more than 50%. In addition, we believe that there is further structural upside opportunity to both occupancy and operating margins by enhancing asset management, employing proprietary data analytics, and introducing initiatives such as amenity-based pricing. We recently met with the entire Welltower executive team in our offices and came away encouraged by the multi-dimensional growth opportunities ahead. Welltower has recruited top senior executives from the multi-family housing market to execute and deploy various initiatives that they believe can drive profitability beyond what other industry participants have achieved.

In addition, the broader industry backdrop hasn't been this favorable in many years. Underlying demand is supported by a demographics boom with the over 80 population projected to grow at a 4% to 5% CAGR over the next five years versus annual growth below 2% coming out of the Great Financial Crisis. Supply is expected to remain muted since construction starts are declining rapidly, current developer economics are no longer attractive and entitling and building a new project takes roughly five years. The current financing environment for senior housing remains capital constrained, with loans either coming due and/or interest rate caps coming off assets that were acquired during a period of low interest rates. We believe this should provide an active and growing external acquisition pipeline, where management can invest capital at an attractive "cost basis" below replacement cost. Lastly, we believe that management, led by Shankh Mitra (CEO), John Burkart (COO), Tim McHugh (CFO), and Nikhil Chaudhri (CIO), are astute capital allocators focused on driving accretive value per share. Putting this all together, we see a path for earnings to more than double over the next five years, leading to attractive return prospects for the fund

We also initiated a small position in **Duolingo, Inc.**, the world's leading language learning app with over 100 million monthly active users. The app has achieved remarkable levels of user engagement by effectively "gamifying" the otherwise tedious process of learning a foreign language. The company has maintained impressive levels of user growth (daily average user growth greater than 50%) and revenue growth (40%-plus), executed well against its new product roadmap, and achieved impressive 40%-plus incremental margins. We believe the management team is best in class, very technically capable (CEO and CTO both have PhDs in machine learning from Carnegie Mellon University), and product focused. We imagine several material upcoming catalysts; the broader launch of its AI tier (Max) that allows users to have real-time conversations with AI-based characters, and a substantial improvement of its Advanced English offering. We believe that these two initiatives will allow Duolingo to effectively address the broader worldwide market of 1.8 billion people currently learning English. As these new products rollout, we believe they should allow Duolingo to achieve higher pricing per user and lower customer churn. In addition, we believe there is an opportunity for the company to expand into related educational markets, such as Math and Music.

Table VI.
Top net sales for the quarter ended September 30, 2024

	Quarter End Market Cap or Market Cap When Sold ($ billions)	Net Amount Sold ($ millions)
Fair Isaac Corporation	47.7	26.7
DexCom, Inc.	29.0	25.9
Gartner, Inc.	39.1	25.5
FactSet Research Systems Inc.	17.5	14.3
LPL Financial Holdings Inc.	15.9	11.4

We reduced our position in **Fair Isaac Corporation** as its shares reached new all-time highs. We exited our position in **DexCom, Inc.** for the reasons discussed above. We managed down our investment in **Gartner, Inc.**, the Fund's largest position. We reduced our position in **FactSet Research Systems Inc.** as the sales environment remained challenging among its core financial services customers. We exited our position in **LPL Financial Holdings Inc.** as we evaluate the impact that lower interest rates may have on its business.

Outlook

As discussed, the Fed's decision to begin cutting interest rates spurred a meaningful rotation during the quarter, leading mid-cap stocks to outperform large-cap stocks for only the 4th time in the last 14 quarters. Entering the third quarter, mid-cap stocks had trailed large caps by more than 24% cumulatively over the last 3-plus years. We hope the latest rate cut cycle will mark the beginning of a period of outperformance for mid-cap stocks. In fact, data compiled by Goldman Sachs shows that mid-cap stocks are the best-performing market cap segment when the Fed cuts rates. Going back 40 years, Goldman found that in the year after a rate cutting cycle commences, mid-caps outperform large caps by about 3 percentage points and small caps by about 8 points.

This historic data is consistent with our belief that lower rates should result in the market ascribing a higher valuation to the future earnings streams of all companies. We believe this development would disproportionately benefit the types of businesses we favor – companies that benefit from long-term secular growth drivers with highly visible and growing earnings streams. In addition, we believe these types of companies have been out of favor relative to more speculative businesses, and we are optimistic that this trend will continue to reverse.

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 1-800-99-BARON or visiting BaronCapitalGroup.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. **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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