DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

U.S. equities rose during the fourth quarter, with most of the market's strength coming after Donald Trump was elected President alongside a Republican majority in both chambers of Congress. Investors were enthusiastic about the prospect of the Trump administration lowering taxes, reducing regulation, increasing domestic oil production, and enabling more merger and acquisition activity. Investor euphoria was partially offset by concerns that Trump policies would lead to reaccelerating inflation and rising interest rates – the benchmark 10-year U.S. Treasury yield increased from 3.8% to 4.6% during the quarter.

Following solid outperformance in the prior quarter, Baron Asset Fund® (the Fund) had a difficult fourth quarter, trailing the Russell Midcap Growth Index (the Benchmark) by 818 basis points (Institutional Shares). The relative shortfall was driven by several factors that we believe will prove transitory.

ANDREW PECK

PORTFOLIO MANAGER

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

Table I.
Performance†
Annualized for periods ended December 31, 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]	(0.11)%	(0.04)%	8.14%	2.63%
One Year	10.48%	10.77%	22.10%	23.81%
Three Years	(1.49)%	(1.23)%	4.04%	8.01%
Five Years	7.69%	7.97%	11.47%	13.86%
Ten Years	10.30%	10.59%	11.54%	12.55%
Fifteen Years	12.04%	12.34%	13.31%	13.56%
Since Inception (June 12, 1987)	11.23%	11.35%	10.50%[4]	10.48%

Two software stocks that the Fund did not own, Palantir Technologies Inc. and AppLovin Corporation, each gained more than 100% and accounted for 52% of the Benchmark's gain during the quarter. At year end 2024, Palantir was valued at approximately 200 times its expected 2024 earnings, while AppLovin was valued at 80 times. The market cap of each exceeded $100 billion, and the two stocks represented nearly 8% of the Index. Neither company met our criteria for investment. The total impact on relative performance from Palantir and AppLovin was about 7 times higher than we have seen historically for two securities that are unique to the Benchmark, showing just how unparalleled the event was and something that we believe is unlikely to be repeated.

The Fund's investment style was out of favor. The Fund owns high-quality, competitively advantaged businesses with highly visible long-term revenue and earnings streams. This approach has resulted in a portfolio that is generally less volatile than the Benchmark and that often lags in rapidly rising market environments. During the quarter, the best-performing stocks were those with high Beta and high Residual Volatility, and the Fund remained meaningfully underexposed to stocks with these characteristics.

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 December 31, 2024.

5 Not annualized.

BARON FUNDS 1987

The Fund remained overweight in Health Care, and this sector continued to be out of favor. The Fund has long identified attractive Health Care investments in areas including life sciences tools, veterinary services, contract research organizations, and medical devices. The Health Care sector trailed the broader Benchmark by nearly 1,000 basis points in the fourth quarter (and by approximately 2,400 basis points for calendar year 2024). We believe these stocks suffered from near-term cyclical headwinds that we expect to abate.

These factors were reflected in the Fund's disappointing stock selection during the quarter, particularly in Information Technology (IT). Stock selection in IT accounted for nearly three-quarters of the Fund's overall underperformance, with a portion of the shortfall being driven by modest declines from top positions **Gartner, Inc.** and **Guidewire Software, Inc.** Syndicated research provider Gartner was a top detractor as its core subscription growth remained stable rather than inflecting higher. We believe its sales trends are poised to accelerate over the next several quarters as comparisons ease and business conditions improve. Following a run up during the prior 12 months, shares of Guidewire, a leading software provider to the insurance industry, gave back some gains, possibly because of profit taking.

Weakness in Health Care was driven by double-digit declines from the Fund's sizeable positions in precision instruments provider **Mettler-Toledo International Inc.** and veterinary diagnostics leader **IDEXX Laboratories, Inc.** Mettler reported a solid quarter but its full-year guidance fell short of investor expectations, pressuring the stock. IDEXX was hurt by weak visitation to veterinary clinics, which continued to hamper aggregate revenue growth. We discuss both companies in greater detail below.

The relative deficit in the Financials sector was attributable to poor performance from specialty insurer **Arch Capital Group Ltd.** and a lack of exposure to cryptocurrency exchange Coinbase Global, Inc. (Bitcoin increased 47% during the quarter). Arch was a top detractor given concerns about a cyclical slowdown following several years of favorable insurance market conditions. Wall Street forecast a decline in property catastrophe reinsurance pricing during the January 1, 2025 renewal period, defying earlier hopes for stable pricing.

Somewhat offsetting the above was solid stock selection in Industrials and Consumer Discretionary, where private rocket and spacecraft manufacturer **Space Exploration Technologies Corp.** (SpaceX) and global ski resort operator **Vail Resorts, Inc.** were the top contributors. SpaceX was the largest contributor after the company's shares were revalued sharply higher in the period, as discussed below. Vail's shares were lifted by a 1% increase in season ski pass units and a 7% increase in revenue. The current ski season launched with more favorable mountain snow conditions, leading to visitor bookings in line with last year's levels. We expect that robust earnings growth for 2025 and mid-single-digit free cash flow growth should yield attractive returns for investors. Vail has a healthy balance sheet, pays a generous dividend, and trades at a discount to its long-term average multiple.

Table II.
Top contributors to performance for the quarter ended December 31, 2024

	Year Acquired	Contribution to Return (%)
Space Exploration Technologies Corp.	2020	1.77
X.AI Corp.	2024	0.74
Dayforce, Inc.	2018	0.39
The Charles Schwab Corporation	1992	0.32
Axon Enterprise, Inc.	2023	0.24

Space Exploration Technologies Corp. (SpaceX) is a high-profile private company founded by Elon Musk. Its primary focus is on developing and launching advanced rockets, satellites, and spacecrafts, with the ambitious long-term goal of enabling human colonization of Mars. SpaceX is generating significant value through the rapid expansion of its Starlink broadband Internet service. The company is successfully deploying a vast constellation of Starlink satellites in Earth's orbit, reporting substantial growth in active Starlink customers, and regularly deploying new and more efficient hardware technology. Furthermore, SpaceX has established itself as a leading launch provider by offering highly reliable and cost-effective rocket launches, leveraging the company's reusable launch technology. SpaceX capabilities also extend to strategic services, such as crewed space flights. Moreover, SpaceX is making tremendous progress on its newest rocket, Starship, which is the largest, most powerful rocket ever flown. This next-generation space vehicle represents a significant leap forward in reusability and space exploration capabilities. We value SpaceX using prices of the company's recent financing transactions.

X.AI Corp. is a private company founded by Elon Musk in October 2023 with the goal of developing an AI foundation model and applications aimed at "understanding the true nature of the universe." Grok, its AI model and product, has achieved impressive results compared to more established AI models. X.AI has also begun operations at its Colossus data center, which now houses over 100,000 Graphical Processing Units, making it the largest coherent training center in the world. These early successes showcase X.AI's capacity for rapid innovation and competitive effectiveness. With the upcoming release of Grok 3 – trained on more than 10 times the computational power used for the development of Grok 2 – we expect significant improvement in the capabilities of X.AI's model. We also anticipate the company will substantially expand its monetization strategies after Grok 3 is released. The increase in the stock's value was primarily attributed to a significant transaction that positively impacted valuation.

Shares of **Dayforce, Inc.**, a leader in global payroll and human capital management (HCM) software, contributed positively to performance for the quarter. Dayforce is benefiting from powerful secular trends around the modernization of HCM software and growing adoption of the software-as-a-service business model. We believe that Dayforce can sustain recurring revenue growth around 20%, helped by market share gains, a move "up-market" to larger size customers, compelling new products, and growing success in cross-selling additional functionality to its existing customers. After a multi-year investment cycle, the company is now experiencing significant margin expansion and rapid growth in free cash flow, which management has begun to return to investors.

Table III.
Top detractors from performance for the quarter ended December 31, 2024

	Year Acquired	Contribution to Return (%)
IDEXX Laboratories, Inc.	2006	–1.10
Mettler-Toledo International Inc.	2008	–0.91
Arch Capital Group Ltd.	2003	–0.66
Gartner, Inc.	2007	–0.40
CDW Corporation	2017	–0.39

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc.** detracted as patient visits to veterinary clinics remained weak, after surging during the pandemic. Nevertheless, IDEXX's excellent execution enabled the company to deliver robust financial results during the most recent quarter. We believe the company's competitive position has never been stronger, and we expect its new proprietary in-clinic instruments and ongoing favorable price realization to meaningfully drive growth in 2025. Furthermore, we believe that veterinary visits will inevitably increase, as secular trends around pet ownership and pet care spending have been structurally accelerated. Many of the puppies and kittens acquired during the pandemic will soon be reaching ages when veterinary visits become more frequent. In addition, we expect constraints that have hampered the supply of new veterinarians and veterinary technicians to abate. We expect these improving trends in both demand and supply to allow IDEXX's revenue and earnings growth to return to historic levels.

Mettler-Toledo International Inc. is a leading provider of precision weighing instruments and services for customers in the life sciences, food, and chemical industries. Shares fell after Mettler reported a good quarter but guided to earnings slightly below investor expectations for the fourth quarter and 2025, which it ascribed to continued soft conditions among some healthcare and industrial customers, as well as headwinds from temporary shipment delays. We believe that Mettler's macroeconomic headwinds will prove temporary, and its competitive position remains dominant. We expect the company will soon return to its long-term target of generating mid-teens compounded annual earnings growth.

Shares of specialty insurer **Arch Capital Group Ltd.** fell over concerns about a looming cyclical slowdown following several years of favorable market conditions. The Street has forecast a decline in property catastrophe reinsurance pricing during the January 2025 renewal period, defying investors' previous hopes for stable pricing. Despite solid third quarter earnings, underwriting margins contracted due to a recent acquisition, business mix shifts, and normal quarterly volatility. Additionally, shares were pressured by an unexpected CEO transition. We continue to be optimistic about the stock's prospects, given Arch's strong management team, and a business model that we expect to deliver ongoing long term growth in earnings and book value per share.

Portfolio Structure

At December 31, 2024, the Fund held 50 positions. The Fund's 10 largest holdings represented 48.8% of net assets, and the 20 largest represented 71.0%. The Fund's largest weighting was in the IT sector at 29.5% of net assets. This sector includes software companies, IT consulting firms, and electronic components companies. The Fund held 21.6% 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 held 16.8% 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 also had significant weightings in Financials at 13.1% and Consumer Discretionary at 8.6%.

As the chart below shows, the Fund's largest investments have mostly 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 December 31, 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	37.4	397.4	9.4
Verisk Analytics, Inc.	2009	4.0	38.9	231.1	5.5
IDEXX Laboratories, Inc.	2006	2.5	33.9	214.0	5.1
Space Exploration Technologies Corp.	2020	47.0	349.1	208.2	4.9
Guidewire Software, Inc.	2013	2.8	14.1	205.1	4.9
Arch Capital Group Ltd.	2003	0.9	34.7	185.8	4.4
Mettler-Toledo International Inc.	2008	2.4	25.8	180.0	4.3
Fair Isaac Corporation	2020	12.1	48.5	161.3	3.8
CoStar Group, Inc.	2016	5.0	29.3	156.2	3.7
Roper Technologies, Inc.	2011	7.4	55.7	118.6	2.8

Recent Activity

Table V.
Top net purchases for the quarter ended December 31, 2024

	Quarter End Market Cap ($ billions)	Net Amount Purchased ($ millions)
ServiceTitan, Inc.	9.1	20.4
Procore Technologies, Inc.	11.1	1.7
Welltower Inc.	78.5	1.3

ServiceTitan, Inc. is the leading business management software platform for various "trades" that support the repair, maintenance, and installation of systems within residential and commercial buildings. Key end markets include plumbing, electrical, and landscaping. The platform serves as a system of record offering clients nearly everything necessary to run their business, including customer relationship management (sales enablement, marketing automation, and customer service), field service management (scheduling/dispatching), enterprise resource planning (inventory), human capital management (compensation and payroll), and fintech (payments and consumer financing).

ServiceTitan operates in a large market. In just the U.S. and Canada, the trades are a roughly $1.5 trillion annual industry, and ServiceTitan's current product offerings serve about $650 billion of this spend. We believe this equates to a $30 billion addressable market for the company's software, of which around $13 billion is serviceable today. We believe this industry is resilient, given that over 75% of the jobs being addressed by U.S. residential trades are non-discretionary in nature.

Relative to its competition, ServiceTitan has several notable advantages, including: 1) its market position as the leading end-to-end software platform built specifically for the trades, offering a one-stop-shop for all of a trade's business technology needs; 2) it provides a strong ROI to clients, which is confirmed by its over 95% gross revenue retention; 3) the company's scale provides a big data advantage, enabling ServiceTitan to use its industry-leading data to make continuous improvements to its product offerings and connect previously disparate processes for customers.

We believe ServiceTitan is well positioned to drive at least high teens to 20%-plus organic revenue growth for many years driven by a combination of natural growth by its existing client base, driving increased adoption of add-on products for these existing customers, ongoing new product rollouts (today the company captures about 1% of customer transaction volume with the opportunity to reach approximately 2% if a customer adopts the full suite of solutions), new customer acquisition in existing trades (the platform is currently less than 10% penetrated), and expanding into new trades.

The company has started to increase its margin profile, but we see a long runway left for additional margin expansion from roughly breakeven levels today up to 25%-plus operating margins over time. As the margin ramps, we expect strong free cash flow conversion, bolstering the company's balance sheet and providing flexibility around capital allocation. We believe that ServiceTitan is a high-quality business that should solidly compound its earnings, leading to attractive stock price returns over a multi-year period.

Table VI.
Top net sales for the quarter ended December 31, 2024

	Quarter End Market Cap or Market Cap When Sold ($ billions)	Net Amount Sold ($ millions)
ANSYS, Inc.	29.5	42.7
ICON Plc	16.9	39.1
Aspen Technology, Inc.	15.7	26.2
CDW Corporation	23.2	20.7
Gartner, Inc.	37.4	15.4

We reduced our position in simulation software company **ANSYS, Inc.** as it neared an expected acquisition by Synopsys, Inc., a large-cap leader in electronic design automation and semiconductor intellectual property. We exited our position in **ICON Plc**, a contract research organization, as its growth rate slowed. We sold our investment in **Aspen Technology, Inc.**, as Emerson Electric proposed to purchase the rest of Aspen shares that it did not currently own at an approximate $15 billion valuation. We reduced our position in **CDW Corporation**, a leading distributor of IT hardware, as demand in its end market remained weak. We managed down our position in **Gartner, Inc.**, our largest holding.

Outlook

The recent performance of equity markets has been unusual in several respects. The S&P 500 Index (the Index) just posted annual returns greater than 20% for two consecutive calendar years. This had not occurred since the last 1990s, and it places the Index's two-year performance in the 90th percentile over equivalent periods in the past century. Further, this exceptional performance for the broad market Index was driven by a narrow group of large-cap IT stocks. In 2024, 46% of the Index's return was generated by just five companies with exposure to the "AI theme" (NVIDIA, Apple, Amazon, Alphabet, and Broadcom). As mentioned earlier, the breadth of other indexes, including the Russell Midcap Growth Index, also has been quite narrow and driven by IT stocks. In addition, the Russell Midcap Growth Index has trailed the primary large-cap growth index by 749 basis points compounded annually during the past five years.

The past quarter was also characterized by the continuation of a "risk on" market rally. As discussed, certain perceived AI beneficiaries and cryptocurrencies generated outsized gains. In addition, the two top performing factors for equities (as measured by the MSCI Barra U.S. Total Market Factor Model) were Beta and Residual Volatility. The performance of both factors was greater than one standard deviation above their individual 3-month factor performance movements dating back to 1998.

We believe the prevailing market environment will inevitably shift away from the types of stocks that have outperformed so meaningfully during these past two years. The Fund's portfolio is weighted heavily toward what we believe are low-risk, high-quality companies. We expect these characteristics will benefit the Fund's performance in future market environments. During the last few weeks of the fourth quarter, the overall market dropped and the Beta and Residual Volatility factors both declined from their highs. As we would have expected, the Fund outperformed during this period.

We continue to believe that the types of businesses we favor – high-quality companies that benefit from long-term secular growth drivers with highly visible and growing earnings streams – will once again be favored by investors at the expense of more speculative businesses.

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.

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

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. The **Residual Volatility** factor captures the volatility of the stock specific return component of a security. The stock specific return component tries to describe the idiosyncratic behavior of a company's stock price movements that is not attributable to other factors in the Barra risk model. Positive exposure to this factor indicates high stock specific volatility, while negative exposure indicates low stock specific volatility.

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