DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

After a challenging 2022, U.S. equities posted a second consecutive positive quarter to start 2023. Stocks rose on investors' hopes that moderating inflation and certain weakening economic indicators might lead the Federal Reserve to end its cycle of interest rate increases. The rally was also helped by easing supply-chain constraints, falling energy and commodity prices, and the reopening of the Chinese economy. The rebound stalled in February in the face of resilient economic data and higher-than-expected inflation data. The sudden failures of Silicon Valley Bank (SVB) and Signature Bank further rattled the market, but federal regulators quickly intervened and prevented the contagion from spreading throughout the banking sector. This episode may have resulted in the market's subsequent rebound, based on the belief that the Fed would moderate its pace of future interest rate hikes to reduce the risk of a banking crisis.

As was the case this quarter, the stocks that initially perform best in response to an anticipated reduction or moderation in interest rates tend to be those with a disproportionate amount of their earnings and cash flow expected far in the future. This is because those stocks stand to benefit the most from a reduction in the discount rate (driven by the prevailing level of interest rates) applied to their earnings streams. These include many stocks in the Information Technology (IT) sector, particularly certain software companies, and the Communication Services sector, which includes certain internet services companies. Although Baron Asset Fund® (the Fund) has some exposure to these areas, much of its portfolio is comprised of slightly slower growth, solidly profitable companies in a range of industries.

The strongest performing sectors included IT, Communication Services, and Consumer Discretionary, with all three finishing meaningfully ahead of their counterparts. The principal laggards included Energy, which fell the most as falling oil prices weighed on the sector, while sweeping declines across the banking sector hampered performance in Financials. More defensive-oriented sectors, such as Health Care, Utilities, and Consumer Staples, also struggled.

The Fund appreciated 5.34% (Institutional Shares) in the quarter yet trailed the Russell Midcap Growth Index principally due to stock selection. Style biases also added value, notably the Fund's underexposure to the strong performing Beta and Residual Volatility factors, which outperformed in the *risk-on* market environment.

ANDREW PECK

PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended March 31, 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]	5.27%	5.34%	9.14%	7.50%
One Year	(8.88)%	(8.65)%	(8.52)%	(7.73)%
Three Years	12.29%	12.57%	15.20%	18.60%
Five Years	9.15%	9.43%	9.07%	11.19%
Ten Years	11.19%	11.49%	11.17%	12.24%
Fifteen Years	9.61%	9.88%	10.10%	10.06%
Since Inception (June 12, 1987)	11.17%	11.29%	9.99%[4]	9.93%

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 and the **S&P 500 Index** 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 indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact 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 December 31, 1987 to March 31, 2023.

5 Not annualized.

The Fund's investments in the Financials, IT, Industrials, and Communication Services sectors were largely responsible for the relative shortfall. Within Financials, online brokerage firm **The Charles Schwab Corp.** and banking and wealth management services provider **First Republic Bank** weighed heavily on performance after their shares were negatively impacted by concerns surrounding regional banks and the potential impact on these companies. We remain shareholders in Schwab, but we decided to exit our position in First Republic. There is more information about our rationale below. The Fund's higher exposure to this lagging sector, which was hurt by severe declines among regional banks, also hampered performance.

Weakness in IT and Industrials was driven by declines in two large holdings – syndicated research provider **Gartner, Inc.** and real estate data and marketing platform **CoStar Group, Inc.**, respectively. After outperforming last year, Gartner's shares gave back a modest portion of their gains over concerns about the potential for softening business conditions, as the company's IT vendor customer base is impacted by layoffs and cost reductions across the sector. CoStar fell after its earnings and guidance fell short of expectations because of its ongoing aggressive investment into the residential real estate segment. We remain confident that this investment will generate significant shareholder value. Within Communication Services, lower exposure to this top performing sector coupled with the underperformance of marketing solutions provider **ZoomInfo Technologies Inc.** hampered relative results. ZoomInfo's shares declined as the broader software and technology spending environment, to which the company is disproportionately exposed, continued to weaken. We are closely monitoring its customers' spending patterns.

The Health Care sector experienced sharp gains from veterinary diagnostics leader **IDEXX Laboratories, Inc.** and pharmaceutical packaging manufacturer **West Pharmaceutical Services, Inc.**, offsetting a portion of the above-mentioned losses. IDEXX shares increased in response to its better-than-expected financial results, driven by stabilization in visits to veterinary clinics and ongoing price increases for its products. West's financial results also surpassed expectations, and its management provided solid guidance for fiscal year 2023. Excluding COVID-related product revenue, the company's organic sales growth was 14% in the fourth quarter, and management expects mid-teens base business organic growth in 2023, well ahead of its long-term target.

Table II.
Top contributors to performance for the quarter ended March 31, 2023

	Year Acquired	Percent Impact
IDEXX Laboratories, Inc.	2006	1.45%
ANSYS, Inc.	2009	1.18
West Pharmaceutical Services, Inc.	2014	0.82
Guidewire Software, Inc.	2013	0.63
MarketAxess Holdings Inc.	2016	0.50

IDEXX Laboratories, Inc. is the leading global provider of testing and diagnostic services to veterinarians. After lagging during 2022, the shares contributed meaningfully to performance during the quarter. IDEXX reported financial results that exceeded consensus expectations, and the stock's multiple expanded. Veterinary visits had spiked during the pandemic, creating difficult annual growth comparisons. Investors cheered the apparent stabilization in veterinary visits, which bodes well for the company's overall revenue growth to accelerate. In addition, management has raised prices across the board, which should help the company protect its margins despite the inflationary environment. We believe that trends towards increased pet ownership and pet health care spending have been structurally accelerated, which should help support IDEXX's long-term growth rate and margin profile.

ANSYS, Inc. is a leading provider of physics-based simulation software used across a range of design and manufacturing end markets. After declining significantly alongside many high-growth software stocks in 2022, its shares began to recover following a robust quarterly report. ANSYS has benefited from strong secular trends for simulation software, a broad product line, solid execution, and its strategic relationship with its customers. Together, these attributes helped the company grow its revenue and free cash flow well above analysts' expectations. Despite pockets of general macroeconomic weakness, management described continued traction among many customers and a healthy demand environment, especially in the key verticals of technology, alternative energy, automotive, and aerospace. ANSYS continues to invest in its core technology while adding new capabilities to support future growth initiatives including artificial intelligence and cloud. The company's multi-year transition of its software licensing model should allow for better predictability of growth and further margin expansion in coming years.

West Pharmaceutical Services, Inc. manufactures components and systems for the packaging and delivery of injectable drugs such as rubber stoppers for vials and plungers for prefilled syringes. Shares increased after the company reported financial results that beat analyst expectations and provided solid 2023 guidance. Excluding COVID-related product revenue, which fell considerably in the aftermath of the pandemic, organic sales growth was 14% in the recent quarter, and management expects mid-teens base business organic growth in 2023, well above its long-term target. We believe that West's competitive pricing and favorable product mix, including products used with fast-growing anti-obesity medicines, should help drive future demand. We continue to believe West operates a competitively advantaged business that is well positioned for long-term growth.

Shares of property and casualty (P&C) insurance software vendor **Guidewire Software, Inc.** contributed to performance for the quarter. The company has crossed the midpoint of its transition from an on-premise to a cloud-based software provider, and we believe this should result in more consistent recurring revenue growth and durable gross margin expansion. We believe Guidewire will become the critical software vendor for the global P&C insurance industry, capturing a significant share of a $30 billion addressable market. During the quarter, Guidewire's largest (and, we believe, inferior) competitor was acquired by a private equity firm at a meaningful premium to Guidewire's current valuation. We believe this acquisition will result in a stronger relative competitive position for Guidewire, while also illustrating a significant multiple expansion opportunity embedded in its current share price.

MarketAxess Holdings Inc. operates the leading electronic platform for trading corporate bonds. Shares rose during the quarter following an uptick in trading activity and market share gains across most of its product categories. Average daily trading volume grew 14%, and the company's market share increased 100 basis points to 19%. The company is benefiting from an improving variable fee rate, elevated fixed income market volatility, and inflows into fixed income ETFs, which trade more frequently on electronic platforms. We remain optimistic about MarketAxess over the long term and believe the company will see accelerated growth amid the ongoing secular shift to electronic trading in the corporate bond market.

Table III.
Top detractors from performance for the quarter ended March 31, 2023

	Year Acquired	Percent Impact
The Charles Schwab Corp.	1992	–1.25%
CoStar Group, Inc.	2016	–0.45
First Republic Bank	2010	–0.38
Gartner, Inc.	2007	–0.36
Bio-Techne Corporation	2015	–0.28

Shares of online brokerage firm **The Charles Schwab Corp.** declined during the quarter following the failure of SVB that led to weakness in Financials generally and particularly in regional banks. We do not believe Schwab is at any risk of a potential solvency issue (or *run on the bank*). Despite running a much different business than SVB, Schwab is facing near-term deposit pressure through cash sorting in the wake of SVB's collapse. As interest rates rose, Schwab customers continued to move their uninvested cash balances into higher-yielding money market funds. As cash balances at Schwab decrease, the company may need to raise short-term external funding, which is more costly than the customer cash balances being depleted. This trend has pressured its earnings estimates and contributed to the recent share price weakness. Nevertheless, we retain long-term conviction in the value of Schwab's franchise. Despite dislocation in the financial system, Schwab saw accelerating net inflows year-to-date, gathering over $75 billion in new assets in just the first two months of 2023. We remain encouraged by the firm's exceptional client loyalty levels, robust organic growth, and industry-leading operating expense per client assets. Schwab remains well positioned to retain client assets and increase long-term earnings growth, in our view.

CoStar Group, Inc. is the leading provider of information and marketing services to the commercial real estate industry. After two consecutive quarters of robust performance, its shares fell, likely due to profit taking and concern about its level of internal investment. The company generated strong quarterly financial performance, with net new sales growing 15% and margins expanding by 200 basis points excluding growth investments. We expect the company's core commercial and apartments businesses to continue to benefit from the migration of real estate market spending to online channels. CoStar has begun to invest aggressively to create a residential marketing platform, spending $230 million in 2022 and an estimated $500 million in 2023. We believe the company's proprietary data, broker-oriented approach, and best-in-class management position it to generate an attractive return on this endeavor.

First Republic Bank provides banking and wealth management services primarily to affluent customers in select markets. The company's share price collapsed in the aftermath of the failures of SVB and Signature Bank. Investors feared that First Republic could face a similar fate because a majority of its funding base is in the form of large, uninsured deposits, primarily from wealthy clients and small- and mid-size businesses. Despite a historically loyal customer base that valued the bank's industry-leading customer service culture, we believe many of these deposits were likely withdrawn from the bank following the high-profile turmoil at SVB. These deposits would likely have been replaced with higher-cost funding, leading to significant earnings pressure. We concluded that the bank's competitive position and earnings potential had likely been permanently impaired, so we exited the position.

After meaningfully increasing last year, shares of **Gartner, Inc.**, a provider of syndicated research primarily on the IT sector, ceded some gains in the quarter. Gartner's business conditions have likely softened modestly, as the company's technology vendor customer base has been negatively impacted by layoffs and cost reductions across that sector. Despite this headwind, Gartner is generating attractive double-digit growth in its largely recurring research business. We believe Gartner should benefit from the ongoing ubiquity and complexity of technology facing nearly all types of businesses. We expect sustained revenue growth and renewed focus on cost control to drive margin expansion and enhanced free-cash-flow generation. The company's balance sheet is in excellent shape and can support ongoing repurchases and potential bolt-on acquisitions, in our view.

Bio-Techne Corporation is a leading developer and manufacturer of reagents, instruments, and services for the life sciences research, diagnostics, and bioprocessing markets. The stock detracted from performance following disappointing earnings stemming from temporary headwinds, including weakness in the company's large order consumables business due to reduced biotechnology funding as well as COVID curbs in China. Despite these headwinds, we believe the company is well positioned for long-term growth, with competitive advantages that include a core research reagents business, a rapidly expanding cell and gene therapy manufacturing tools business, and an emerging cancer diagnostics business.

Portfolio Structure

As of March 31, 2023, Baron Asset Fund held 52 positions. The Fund's 10 largest holdings represented 47.0% of assets, and the 20 largest represented 69.8% of assets. The Fund's largest weighting was in the IT sector at 30.6% of assets. This sector includes application software companies, IT consulting firms, and internet services companies. The Fund held 26.9% 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 16.3% of its assets in the Industrials sector, which includes investments in research and consulting companies, aerospace & defense companies, and industrial machinery companies. The Fund also had significant weightings in Financials at 12.8% of assets and Consumer Discretionary at 6.4% of assets.

As the chart below shows, the Fund's largest investments all have been owned for significant periods – 9 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 March 31, 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	$25.8	$414.2	9.1%
IDEXX Laboratories, Inc.	2006	2.5	41.5	336.9	7.4
Mettler-Toledo International, Inc.	2008	2.4	33.8	274.1	6.0
ANSYS, Inc.	2009	2.3	29.0	185.7	4.1
Verisk Analytics, Inc.	2009	4.0	29.7	182.5	4.0
CoStar Group, Inc.	2016	5.0	28.0	168.0	3.7
FactSet Research Systems Inc.	2006	2.5	15.9	153.9	3.4
Arch Capital Group Ltd.	2003	0.9	25.2	149.5	3.3
Vail Resorts, Inc.	1997	0.2	9.4	141.0	3.1
Verisign, Inc.	2013	7.1	22.2	125.1	2.8

Recent Activity

Table V.
Top net purchases for the quarter ended March 31, 2023

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Quanta Services, Inc.	$24.0	$31.1
Repligen Corporation	9.4	31.0
Space Exploration Technologies Corp.	–	12.5
LPL Financial Holdings Inc.	15.9	9.2
ICON Plc	17.5	8.9

We initiated a position in **Quanta Services, Inc.** during the quarter. Quanta is a leading specialized contracting services company for the utility, energy, and communications industries. We think the company is well positioned to benefit from the substantial investment that will be required to build out both the existing electric grid and renewable energy production capacity to meet the country's clean energy goals.

Investment in the electric grid is necessary not only to upgrade aging infrastructure and increase its reliability but also to connect it to sources of renewable energy. The nature of the electric grid is changing. It will increasingly be expected to meet the needs of a diverse energy landscape, as more intermittent renewable energy resources are added and more distributed energy resources, like rooftop solar, are connected. In particular, we believe that widespread adoption of electric vehicles will require substantial investment in the distribution grid. This is because the ensuing load requirements are well in excess of what the existing infrastructure can support, leading to necessary upgrades. The Inflation Reduction Act should accelerate these trends and give more than a decade of visibility into grid-related investments. We believe these drivers create a robust backdrop for Quanta's business.

One of Quanta's core competencies is hiring and training highly skilled workers, which has led to the company's maintaining the largest craft-skilled labor workforce in North America. With labor being fundamentally difficult to scale and hard to find, we think that Quanta is in a highly differentiated portion of the value chain that won't be subject to deflationary pressures or commoditization that exist in other areas of the utility industry's supply chain. Quanta's value to its customers should continue to grow as it adds services, including renewable energy construction, to its offerings.

In order to meet the ambitious net zero goals by 2050, global energy transition spending needs to triple by the end of this decade and quintuple by 2040. The electric grid is a key enabler of the transition. We believe that this places Quanta in a strong position to meet its goals to grow earnings at a 10% to 15% compounded rate over the next five years.

We also initiated a position in **Repligen Corporation**, a life science tools supplier to the bioprocessing industry. The company offers a broad portfolio of tools involved in the production of biologic drugs, including upstream cell culture, downstream chromatography and filtration, and process analytics.

Repligen operates in attractive, fast-growing end markets, historically targeting monoclonal antibodies (10% to 12% market growth) and is currently expanding its presence into cell and gene therapies (over 25% market growth). The company has a demonstrated track record of smart acquisitions and scientific innovation, including the introduction of differentiated filters and the development of in-line process analytics, which enables real-time monitoring of the drug production process.

Bioproduction is a highly regulated industry. As a result, tools suppliers become tightly embedded into client workflows and their products are rarely removed from the production process. Repligen did not have a mature product portfolio when many of the first biologic drugs came to market, which meant that those initial biologics tended to be manufactured on competitors' platforms. As generic versions of these drugs (biosimilars) come to market, Repligen has a unique opportunity to embed its differentiated systems into their drug manufacturing processes. We believe the company is well positioned to benefit from the wave of new biosimilar drugs that is expected after key biologic patents expire starting in 2023. We see the opportunity for Repligen to drive an attractive, recurring consumables stream in an increasing number of commercial processes.

Repligen has laid out a long-term goal of around 20% annual revenue growth over the next five years, while achieving EBITDA margins of approximately 30%. We believe Repligen is a high-quality compounder with a best-in-class mix of growth and profitability.

Table VI.
Top net sales for the quarter ended March 31, 2023

	Amount Sold (millions)
Teleflex Incorporated	$27.9
Fidelity National Information Services, Inc.	25.1
MarketAxess Holdings Inc.	12.2
First Republic Bank	10.2
SBA Communications Corp.	7.7

We exited our position in **Teleflex Incorporated**, which sells single-use medical devices and the UroLift System for treating enlarged prostate glands. UroLift had been an important growth-driver for the business, and we lost conviction in its ability to achieve its targets in the face of a tougher competitive environment. We have owned **Fidelity National Information Services, Inc.** as a result of its acquisition of Vantiv, a payment processor in which we were an investor. The company has recently missed its financial targets and seen some executive departures. The company is in the midst of a turnaround strategy that remains uncertain, and we have significantly reduced our position. We took some profits in **MarketAxess Holdings Inc.**,

an electronic trading exchange for fixed income products, after its shares rose meaningfully during the quarter. As discussed above, we exited our holding in **First Republic Bank** based on concerns that its business model had been permanently impaired. 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.

Outlook

We are encouraged by the second consecutive quarter of strong performance in the equity markets, with growth stocks generally outperforming after a period during which they significantly underperformed value stocks. There are continued signs that many investors and market pundits have been overly pessimistic about the outlook for the U.S. economy and corporate earnings and the potential negative impact of geopolitical events on the stock market. Although we do not base our investments on macroeconomic forecasts, we are encouraged by the growing view that domestic inflation may have peaked, likely leading to an eventual decrease in interest rates. The market also appears to have moved past the widespread fear that the SVB failure could engender a broader contagion in the banking sector, causing potential ripple effects throughout the economy.

As mentioned earlier, the stocks that initially perform best when interest rate expectations moderate are those that have a disproportionate percentage of their earnings and cash flow expected far in the future. By definition, this category includes more speculative businesses with less proven abilities to generate significant cash flows. As the market continues to recover and the economy stabilizes, we expect the types of companies that we favor to outperform – leading companies in their industry that benefit from secular growth drivers, strong competitive positions, and exceptional management teams.

Throughout periods of economic uncertainty, we believe that investors are best served by taking a long-term view of their equity market investments, which have compounded at attractive long-term rates despite periodic market drawdowns. The best time to invest in equities is generally when pervasive fear and pessimism have resulted in, we believe, compelling valuations that should lead to attractive long-term returns. It is also worth noting that the Russell Midcap Growth Index has underperformed its value equivalent by 550 basis points annualized over the past three years, reducing the premium that is generally accorded to faster growing stocks.

Sincerely,

Andrew Peck
Portfolio Manager

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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.

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