

Baron Funds®

December 31, 2018

Quarterly Report

"They don't allow Jews? I'm a Muslim and they allow me! I will never run there again, little brother, I promise you.' And he didn't. That was the Muhammad Ali I will never forget." Billy Crystal. Headline entertainer. 27th Annual Baron Investment Conference. November 9th, 2018. Metropolitan Opera House, NYC.

Billy's storytelling about his close friendship with Muhammad Ali was remarkably on point with the "Values" part of the "Growth + Values" theme of this year's Annual Baron Investment Conference. Once again, more than 5,000 Baron Funds' shareholders, institutional clients of Baron, service providers to our Firm, and executives of businesses in which Baron has invested participated in our annual meeting.

"Growth + Values" was depicted by a colorful, Warhol style series of the Statue of Liberty on our 2018 Conference T-shirts. We chose the theme to remind us that 125 years ago the United States opened Ellis Island in New York Harbor to welcome the immigrant parents and grandparents of many of us reading this letter. We believe that *legal immigrants who have come to America and the values they hold dear are the secret growth engine of our nation's economy*. This year we celebrated those values that we believe have played a critical role in America's dynamic growth.

When choosing investments, we focus on management "values" and corporate culture...*in addition to financial analysis*. We believe this enables us to better judge whether management is likely to take short cuts that could put their entire enterprise at risk or whether a company will realize its long-term growth opportunity.

For two hours beginning at 6 a.m. before our conference, Andrew Ross Sorkin, co-anchor of CNBC's *Squawk Box*, interviewed me and several CEOs of businesses in which Baron has invested. Afterwards, Baron shareholders heard from Matt Desch, CEO of **Iridium Communications Inc.**, Chip Paucek, CEO of **2U, Inc.**, Pat Pacious, CEO of **Choice Hotels International, Inc.**, and Ken Moelis, CEO of **Moelis & Company**. All spoke candidly and answered questions, no holds barred. These companies are important holdings of Baron Funds and most have appreciated

significantly since our purchases...and, we think, will continue to grow substantially. The executives' presentations were streamed live and can still be viewed on our website, www.baronfunds.com. Just click on the 2018 Baron Investment Conference.

Before lunch, we raffled a 2019 Tesla Model 3 to a lucky Baron Funds' shareholder. Michael Hebel, a retired San Francisco police captain and current attorney for that city's police officers' association, was this year's winner. I thought



"It was a 'mahvelous' day at the Met, when Billy met Ron at the November 9th 2018 Baron Investment Conference!"

Michael's "thank you" email perfectly embodied the ideas underlying this year's conference. With his permission, we've reprinted it below.

Dear Mr. Baron:

At about 11:15 a.m. on November 9th, while attending the Baron Investment Conference in New York City, I heard Ron Baron announce "Michael Hebel from San Francisco" as winner of the "electrifying" prize. My wife was sitting next to me and pushed my leg saying that my name had been called as the winner of the prize. I still am in amazement that this actually happened!

I am a retired San Francisco police captain and now an attorney for the San Francisco Police Officers' Association. My wife Gity is self-employed as a property manager.

We thoroughly enjoy the annual investment conferences and are grateful that you sponsor and host them. We especially like listening to CEOs from companies held by the Baron funds, listening

to the comments from the portfolio managers, and of course, the spectacular entertainment that ends the conference. We plan on attending these annual conferences as long as we are physically able.

I am a third-generation Polish-German-Irish American and my wife is a first generation Iranian American, of this we are very proud. Thank you.

Mike & Gity Hebel, San Francisco

Congratulations, Michael and Gity. One more thing. Tesla wants to be sure you know that the Tesla M3 was a prize given and paid for by our privately-owned investment management company, Baron Capital Group, not by Tesla. We also want you to know that this gift, the lunchtime and end of day entertainment, and all other expenses incurred for our annual meeting, were paid for by us, not by you or Baron Funds.

Our special end of the day entertainment draws Baron shareholders from virtually every state...as well as from other countries. The conversations with Baron executives and leaders of businesses in which we invest keep them coming back...even though our entertainment is not exactly chopped liver...as they say...

This year was no exception. During lunch, Baron Funds' shareholders were entertained in three Lincoln Center campus venues. We switched things up from rock and roll and Broadway to 100% comedy this year because we thought we could all use some laughs.

In two lunchtime venues, we produced "FAL," "Live From New York, It's...Friday Afternoon!" – our version of SNL using current SNL stars and alumni. In David Geffen Hall, the hilarious trio of SNL female comics Tina Fey, Amy Poehler and Kate McKinnon had shareholders in stitches. In the Vivian Beaumont Theater, SNL men of comedy entertained with an anything goes panel of Seth Meyers, Kenan Thompson, Michael Che and Darrell Hammond.

In Alice Tully Hall, the legendary comedian who inspired them all, a man who didn't look a day over 2,000, the incomparable producer of



"Growth + Values"

more great laughs than anyone can possibly count, the one and only, Mel Brooks!

...after lunch, our afternoon at The Met was even cooler than usual...if that is possible...

Six-time Tony Award winning actress and singer Kelli O'Hara opened our afternoon program with a spectacular rendition of Leonard Cohen's "Hallelujah." Kelli then concluded with Irving Berlin's "God Bless America," our traditional opening for the conference afternoon session.

A Baron portfolio manager panel moderated by Amy Chasen, Baron's Director of Research, followed. We then debuted a new program, the Baron Executive Women's Panel, featuring five distinguished female executives of Baron, representative of the significant female composition of our Firm. As Linda Martinson, our Firm's President and COO, pointed out, 41% of our Firm's employees are female and a majority (53%) of Baron's group heads are women. This

year's panel was moderated by Linda and featured Peggy Wong, Chief Financial Officer; Emmanuelle St. Louis, Director of Human Resources; Claudia Pagazani, Director of Portfolio and Risk Analytics; and Stephanie Gisriel, Director, National Accounts.

My speech, which highlighted "Growth + Values," was next and is reprinted here following this "Letter from Ron." You can also watch my 22-minute presentation as well as our portfolio manager panel and Linda's Executive Women's Panel at www.baronfunds.com. We are pretty sure you will not find them boring.

Finally, the time came for real comic relief. Our surprise entertainer this year exemplified our "Growth + Values" theme. Born in Long Island to Russian-Austrian parents, our headliner grew up to become a "Yankee-loving City Slicker." He started out in TV as a "Soap" star, but this "Mr. Saturday Night" was destined for SNL and the bright lights of New York City. He performed at

our conference 12 years ago and was so "mahvelous," we just had to invite him back. With hints like these, it became "crystal" clear to Baron shareholders we're talking about the "Harry" who met Sally, the one and only, Billy Crystal!

If you didn't have a chance to join us at our 27th annual conference, we hope you will visit us next fall at our 28th on October 25, 2019. Registration begins on August 5th. Thank you for joining us as fellow shareholders in Baron Funds. We will continue to work hard to justify your confidence in us.

Respectfully,



Ronald Baron
CEO and Chief Investment Officer
January 31, 2019

P.S. While they last...if you're a shareholder and would like a complimentary Baron Fund's "Growth + Values" 2018 conference T-shirt, please call us at 1-800-992-2766 ext 3. Please specify sizes S-2XL. They are great for working out...sleeping...or for a fancy evening out on the town! They look great belted as a dress! It is amazing to me how often I see them in gyms when I am traveling! Not as often as I see Under Armour tee's, but more often than you'd expect for an investment manager. We also have been getting lots of compliments about our tee-shirt designs. They're a team effort with lots of input from lots of people. But, the two people most responsible for their creation and design are Jazmin Jourdain, Director of Shareholder Services, Corporate Projects & Events, and Matt Weiss, research analyst...with me, of course.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: All investments are subject to risk and may lose value.

Portfolio holdings as a percentage of net assets as of December 31, 2018 for securities mentioned are as follows: **Iridium Communications Inc.** - Baron Growth Fund (3.0%), Baron Focused Growth Fund (6.9%); **2U, Inc.** - Baron Growth Fund (0.8%), Baron Small Cap Fund (1.8%), Baron Opportunity Fund (1.1%); **Choice Hotels International, Inc.** - Baron Asset Fund (1.2%), Baron Growth Fund (3.9%), Baron Focused Growth Fund (5.3%); **Moelis & Company** - Baron Growth Fund (0.5%), Baron Small Cap Fund (0.7%); **Tesla, Inc.** - Baron Opportunity Fund (3.8%), Baron Partners Fund (14.5%*), Baron Fifth Avenue Growth Fund (1.3%), Baron Focused Growth Fund (14.7%), Baron Energy and Resources Fund (13.8%), Baron Global Advantage Fund (1.4%).

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

*% of Long Positions.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).



2018 Baron Investment Conference: Left Center Image, Chip Paucek, CEO and Co-Founder, 2U, Inc. Right Center Image, Matthew J. Desch, CEO and Director, Iridium Communications Inc. Clockwise from upper left: He was so "mahvelous" at our conference in 2006, we just had to invite the original City Slicker, Billy Crystal, back for more. Stephanie Gisriel, Director, National Accounts, Baron Capital, Inc., Peggy Wong, CFO and Treasurer, Baron Capital, Inc., Linda Martinson, Chairman, President & COO, Baron Funds, Emmanuelle St. Louis, Director, Human Resources, Baron Capital, Inc., and Claudia Pagazani, Director, Portfolio and Risk Analytics, Baron Capital, Inc. Kenan Thompson brought laughter to shareholders at the 2018 Baron Investment Conference. The incomparable "producer" of more great laughs than anyone can count, the legendary Mel Brooks wowed shareholders at the 2018 Baron Investment Conference. Live from New York...it's Friday afternoon! as SNL female cast members, old and new, Tina Fey, Amy Poehler and Kate McKinnon had shareholders in stitches at the 27th Annual Baron Investment Conference. Amy Chasen, Director of Research, Baron Capital, Inc., Randolph Gwirtzman, Co-Portfolio Manager of Baron Discovery Fund, Alex Umansky, Portfolio Manager of Baron Fifth Avenue Growth Fund, Baron Global Advantage Fund and Baron Durable Advantage Fund, Michael Lippert, Portfolio Manager of Baron Opportunity Fund, Michael Kass, Portfolio Manager of Baron International Growth Fund and Baron Emerging Markets Fund, and James Stone, Portfolio Manager of Baron Energy and Resources Fund. Ken Moelis, Chairman & Chief Executive Officer, Moelis & Company.

"Growth + Values"

2018 Baron Investment Conference: Left Center Image, Kelli O'Hara sings God Bless America at the 2018 Baron Investment Conference. Right Center Image, Ron with Andrew Ross Sorkin, CNBC's Squawk Box Co-Ancor. Clockwise from upper left: It was 'crystal' clear Baron shareholders were in for some serious laughs the moment Ron welcomed Billy back to the Met stage. James Barrett, Head of Institutional Sales, Baron Capital, Inc., Michael Baron, Co-Portfolio Manager, Baron Partners Fund and Asst. Portfolio Manager, Baron Wealthbuilder Fund, and Neal Rosenberg, Co-Portfolio Manager, Baron Growth Fund. Seth Meyers shares his "late night" humor with shareholders at the 2018 Baron Investment Conference. David Baron, Co-Portfolio Manager, Baron Focused Growth Fund. Michael Che performs his stand up comedy routine at the 27th Annual Baron Investment Conference. Linda Martinson, Chairman, President & COO, Baron Funds. Randolph Gwartzman, Co-Portfolio Manager of Baron Discovery Fund, and Laird Bieger, Co-Portfolio Manager of Baron Discovery Fund. Patrick Pacious, President and CEO, Choice Hotels International, Inc.



Introduction to afternoon.



Please be seated...Welcome...Thank you for joining us to celebrate Baron's 36th birthday...and our 27th annual conference.

Sunday is Veteran's Day. Before we begin, I'd like to ask the men and women in our audience who have served in our Armed Forces to please stand so we can honor your patriotism, bravery and sacrifice.

Thank you.

Today we are going to celebrate the values and cultures of our "nation of immigrants." Immigrants' values permeate America's society and, we believe, have played a critical role in our economy's growth.

America's 327 million citizens represent just 5% of planet Earth's population yet our nation produces one fourth of Earth's GDP!

Hence...the Growth + Values theme of the 2018 Baron investment conference.

125 years ago the United States opened Ellis Island in New York Harbor to welcome the immigrant parents and grandparents of many in this room. We think immigrants who have come to America and the values they hold dear are the secret growth engine of our nation's economy.

It is my pleasure to welcome back to our annual meeting Tony award winning Broadway actress and singer Kelli O'Hara. Kelli will begin our afternoon program with Leonard Cohen's haunting "Hallelujah,"

...followed by Irving Berlin's "God Bless America" when we hope you will all stand...

Kelli...

Baron Investment Conference 2018. November 9, 2018. Ron's speech.

I'd like to ask everyone who is an immigrant, the son of an immigrant or daughter or if your grandparents are immigrants, please stand.

Virtually everyone in the audience stood and the room erupted into applause!

America is a nation of immigrants.

When we meet executives of businesses in which we consider investing, I always ask the

same question. "Tell me about your family." Everyone in this room invests with us, so I'd like to start by telling you a little about my family.

SLIDE: Manifest

Mechel Baran, my dad's father, emigrated to America in 1907. He was 17. He journeyed "Beyond the Pale," the only place in Russia where Jews were allowed to live. Mechel traveled "steerage."

SLIDE: Ship

That meant cramped quarters below deck for 40 days. 10% of steerage passengers died in transit. My 5'8", 145 pound, blue-eyed grandfather survived. Max Baran, his Americanized name, Frieda Chapman, my grandmother, my dad and his brother lived in a "railroad flat" in Brooklyn. Max became the foreman of a candle factory.

Alter Lewy, my mom's dad, emigrated to America, also from Russia, in 1910.

SLIDE: Alter Lewy

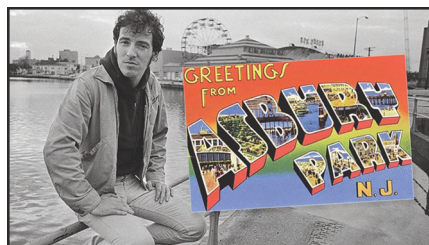


At age 13, he walked across Europe to the port in Rotterdam. He had been studying in Russia to become a rabbi...Max Levy, his Americanized name, became a peddler selling shoes from a push cart on New York's Lower East Side. His family, including my mom, lived in two rooms on the fifth story of a tenement.

SLIDE: Lower East Side Scene

My dad was an Army engineer. My family lived in a small house in *Wanamassa* three blocks outside Asbury Park.

SLIDE: Greetings from Asbury Park



At a recent Springsteen show on Broadway, Bruce spoke about playing in many venues including *The Wanamassa Fire Department* before he became a superstar!



RONALD BARON
CEO AND CHIEF INVESTMENT OFFICER

SLIDE: Fire Department

When Bruce mentioned *Wanamassa* I was the only one in the audience who cheered "Yea!!!" Bruce, surprised, looked up and stared at me for a moment before continuing to tell his story. Judy, embarrassed, kicked me!

MUSIC. Springsteen. (Dancing in the Dark, Born to Run, Thunder Road)

My grandparents were proud my parents joined America's burgeoning "middle class" in the 1950s. It would be unimaginable to them that more than one million individuals have entrusted Baron with \$27.5 billion of their savings.

Film clip. Fiddler on the Roof. Teviah. "If I were a rich man."

It is as implausible to me...and as hopeful for our nation...that Ruth Bader Ginsburg...the Jewish daughter of a Russian immigrant bookkeeper, could become a Supreme Court Justice...and that the Catholic son of a Sicilian immigrant, conservative jurist Antonin Scalia would become the liberal jurist's best friend.

SLIDE: RBG and Scalia on an elephant



Get well soon...please!

Ron's Conference Speech, "Growth + Values"

Alexander Hamilton, Albert Einstein, Elon Musk, Alexander Graham Bell, Sergey Brin, Madeline Albright, Andrew Carnegie and Nikolai Tesla!!!

SLIDE: immigrant faces

...are just a handful of the millions of immigrants who contributed so much to our nation.

Their dreams were attainable not in places like Anatevka...but only in America.

SLIDE: Ali, Robinson, King, Winfrey, Obama



Can you imagine what the ancestors of Muhammad Ali, Jackie Robinson, Martin Luther King, Oprah Winfrey and Michelle Obama...who were brought to America in chains...would say about the success of their progeny...? We live in a great country...

Today I want to discuss three topics.

SLIDE: NAV



Nation of Immigrants.

America's Secret Growth Engine: Immigrants and their values

Values of people in whom Baron invests.

NAV. That's a term in our industry that stands for Net Asset Value...it measures tangible assets of a business. Today, we use NAV to represent what's not on a balance sheet but is arguably more important: culture, people, process and values.

I. America is a nation of immigrants.

SLIDE. President George Washington. "America is open to receive not only the opulent and respectable stranger but the oppressed and persecuted of all nations and religions." - 1783

Why have immigrants come to America even before its founding? Just like the Pilgrims at Plymouth Rock in 1620 or the refugee who landed at JFK this morning...

SLIDE: American swearing in at citizenship ceremony

...fleeing religious persecution is one reason. Seeking safety from violence is another.

On November 9, 1938, exactly 80 years ago today, Kristallnacht, the night of broken glass, took place in Germany.

SLIDE: Kristallnacht



Kristallnacht was the start of the Holocaust. On that evening, Nazis shattered the windows of Jewish shop-owners throughout Germany...destroyed 267 synagogues...and sent 30,000 Jews to concentration camps. The opportunity for Jews to emigrate from Germany to the safety of America ended that night...

In 1941, President Franklin D. Roosevelt stated America's "Four Freedoms," to counter nativist arguments against immigration.

FDR Audio stating 4 freedoms...

"The first is freedom of speech and expression. The second is freedom of every person to worship God in his own way. The third is freedom from want. The fourth is freedom from fear."

SLIDE: Picture Norman Rockwell's "Four Freedoms."

Immigrants come here for those freedoms...and...for opportunities in our Open Society limited only by ability and how hard you work...not by who your parents are. Immigrants risk everything for their children. They do not have a one generation plan!

But...even in America...it hasn't always been easy...

SLIDE: Kennedy Family Photo Album



Rose Kennedy called her young son Bobby playing on their lawn to come inside. She showed him an old family photo album. In the back were "carefully folded, faded newspaper ads. The message on all of them? 'IRISH NEED NOT APPLY.'" "This is who you are," she told him. Prejudice against the Irish and Catholics shaped the Kennedys.

Senator John F. Kennedy wrote in 1958 that America's race and country based quotas needed to be reformed.

SLIDE: JFK Book: "A Nation of Immigrants"

Catholics, Jews, Poles, Irish, Italians and Asians had faced difficulties emigrating to America...just like Central Americans seeking asylum today. President Lyndon Johnson's 1965 Immigration Act made good on Kennedy's promise.

SLIDE: LBJ at Statue of Liberty

II. Immigrant values are American values. They drive our nation's growth.

Optimism. Immigrants are over indexed for optimism...courage...and risk taking ... Imagine the courage it takes to leave the world you know and go to a place you know nothing about...

Sacrifice. Work Ethic. Family. Immigrants are the ultimate long-term investors. They work hard and sacrifice for their children. Tenement families a century ago who could barely afford rent somehow paid for pianos, violins and weekly music lessons.

SLIDE: Tenement sights and sounds



Education. Immigrant parents understand the value of education. Bronx High School of Science and Stuyvesant High School are two of the seven New York City public schools for academically gifted children. In the 1960s, Bronx Science students were 85% Jewish. Among those students was my wife Judy...whose immigrant dad had been a butcher...a construction worker...and a taxi driver...Student bodies in both schools are now predominantly Asian.



Patriotism. In World War I the Germans thought the United States multi-ethnic army of Polish-Americans, Italian-Americans, Irish-Americans and Jewish-Americans would collapse. "Hyphenated-Americans" won that war!

SLIDE: Hyphenated Americans win War.

The Germans were amazed. Immigrant soldiers were just as important in WWII.

I was struck by a recent obituary for Max Fuchs, age 96. Max emigrated to America from Poland in 1934 at age 12 when Hitler came to power. Max returned to Europe on D-Day as an American soldier on Normandy beach, where Allied forces suffered enormous casualties. Five months later, Max led 50 Jewish soldiers in an open-air prayer service broadcast from a German battlefield. Max was true to his new country and to his heritage.

SLIDE: Max Fuchs / Audio

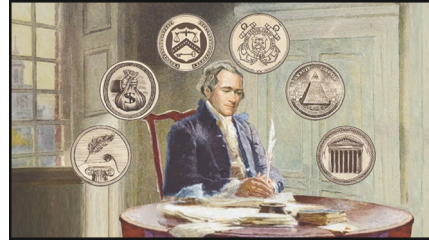


Resourceful. Immigrants are resourceful. They are *twice as likely* as native born Americans to become entrepreneurs. First generation immigrants often work in inherited trades.

SLIDE: Immigrant Trades

Italian cobblers. Jewish tailors. Indian hotel owners. Korean grocers. Chinese restaurants...where Jews go on Christmas...The children of immigrants become our doctors, lawyers, engineers, software developers and investors like me.

Ambition. Immigrants' unrelenting drive is part of our character. **It is in our DNA.** *Andy Grove, the Hungarian immigrant who founded Intel, advises "think like an immigrant."*



Alexander Hamilton was America's only immigrant Founding Father. He established America's credit, currency and **financial markets**. Founding a new company is tough. Founding a new country is tougher.

Immigrants have been and continue to be the **growth engine of our economy**.

SLIDE: Scenes of America's growth

European and Asian immigrants contributed to America's **Industrial Revolution, the settling of the West** and built our **railroads, canals and highways**.

Today, birth rates in our country are declining and more people are retiring than entering our workforce. Legal immigration offsets America's declining birth rate.

For example, due to rapidly advancing **technology**, *Silicon Valley* needs highly educated software engineers from India, China, Eastern Europe, Russia and Israel...and oh yeah, that guy from South Africa.

SLIDE: Elon



III. Values of people in whom Baron invests.

SLIDE: Question Everything

"Tell me about your family." "Where did you come from?" "What did your parents do?" "What do your brothers and sisters do?" "Did your parents get to see how successful you've become?"

How many investors start their management interviews with those questions? That is the Baron process. We assess the character and values of managements and the fundamentals of their businesses.

Marcus Ryu, CEO and Founder of \$7.4 billion Guidewire, told us last year that he only disappointed his Korean immigrant parents twice. Once, when he went to Princeton instead of Harvard, the other when he chose to be a businessman instead of a doctor. I'd be surprised if his parents were still disappointed.

Mark Hoplamazian, CEO of the \$8 billion Hyatt Hotels, often speaks about his summer jobs in his family's landscaping business. That included driving tractors. Mark lost his dad when he was eight, but later found a mentor in Hyatt's founder, Jay Pritzker. When Mark became Hyatt's CEO, he learned that business by asking a lot of "dumb questions." Jay told him there is no such thing as a dumb question. We share a common mentor in Jay Pritzker and agree the only "dumb question" is the one you don't ask.

Jay's son, Tom, Chairman of Hyatt, has been my friend since 1979. Just like his dad, he's a handshake guy. Jay once told me, "*If you need a contract to enforce an agreement, you're doing business with the wrong person.*" Tom is just like his dad. He's a man of his word.

We have been an investor in Choice Hotels since 1985. Stewart Bainum, whose family founded the business, thinks Pat Pacious, Choice CEO, may be their best chief executive yet. I think his story is amazing. Pat's mom was the first woman admitted to Georgetown Medical School. He is the youngest of 11 kids. He paid his way through Duke writing parking tickets at 3 a.m. And, at age 24, he commanded 200 sailors on a Navy ship. I can't wait to see how much he will make for us at Choice. We've already made 30 times our money!

SLIDE: Values

CEOs' values become businesses' values. Without values...and character...that compel an executive to "do what is right, even if it's more costly"...a liability that isn't recorded on a balance sheet has been created.

B. Do the right thing.

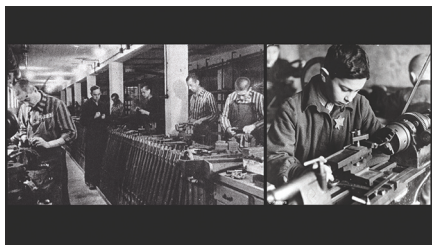
Building a business is expensive. Spending on people, and research and not focusing on short-term profits is why Baron has outperformed. But, the cost of not doing the right thing is extinction. There are no shortcuts.

It is not a good business practice to pollute the air and water...even if it is legal.

Volkswagen...Hitler's car company...was built with slave labor from concentration camps. BMW and Audi too.

Ron's Conference Speech, "Growth + Values"

SLIDE: Slave labor



Which is illustrative of those businesses' cultures and values. It should not be surprising that VW, BMW and Audi developed software enabling their cars to cheat and emit more than permissible hydrocarbons.

SLIDE: Car companies cheating

BP was fined billions for negligence when its Deepwater Horizon rig exploded, lives were lost and Gulf Coast waters were polluted.

SLIDE: BP Deepwater Horizon

It was not a good business practice for banks to make loans to individuals who would unlikely be able to repay them. Banks were fined billions for doing exactly that.

SLIDE: Banks fined

Cigarette companies were fined billions when their executives swore before Congress they were unaware of evidence that proved smoking was harmful and nicotine addictive.

SLIDE: Cigarette execs in Congress

Exxon Mobil whose research proved conclusively that burning hydrocarbons causes climate change, is now being sued for fraudulent misstatements.

SLIDE: Climate change



In 1968, Senator Robert F. Kennedy spoke about his values during his Presidential campaign shortly before he was assassinated.

FILM: RFK speech on what GDP doesn't measure

**Robert F. Kennedy, University of Kansas
March 18, 1968**

Excerpt

"...Our Gross National Product, now, is over \$800 billion dollars a year, but that Gross

National Product – if we judge the United States of America by that – that Gross National Product...does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our devotion to our country, it measures everything in short, except that which makes life worthwhile. And it can tell us everything about America except why we are proud that we are Americans..."



Even in the tumultuous days of 1968, Robert Kennedy found ways to be optimistic.

C. People ask me all the time: "Aren't you worried about the markets?"

"Individuals are genetically programmed to follow the crowd" according to Charlie Munger, the Vice Chairman of Berkshire Hathaway.

SLIDE: Munger

1.8 million years ago, the ancestor of modern man stood on two legs on the plains of the Serengeti. If one of his Neanderthal descendants were in a group that ran in one direction and he ran in the other, he often became the meal of a hungry predator. As a result, his genetic predisposition to make independent decisions is not well represented in our genes.

CLIP: Neanderthal chased by a woolly rhino

Being a good investor is a lot different than trying to survive hungry predators two million years ago. We think you cannot follow the crowd and be a successful investor.

SLIDE: Values

Most investors today focus on breaking news...elections...price of oil...interest rates...trade wars...how many Tesla Model 3s are in a parking lot...next quarters' earnings...

We think that's also a mistake.

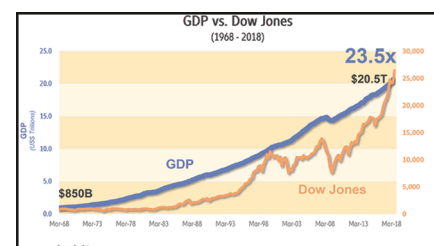
We focus on management "values" and corporate culture...not just financial analysis. We

believe this enables us to better judge whether a company will realize its long-term growth opportunity...or whether its management is likely to take short cuts that could put the entire enterprise at risk...

With so much focus on short-term headlines, it's easy to understand why many have been reluctant to invest.

In a recent survey, 48% of individuals thought the stock market hadn't changed in the ten years since the '08-'09 Financial Panic. The stock market has actually quadrupled!!!

SLIDE: Chart



Stock prices in the long term reflect America's GDP growth. In 1968 America's GDP was \$850 billion. Today it's more than \$20.5 trillion! The Dow Jones in 1968 was 1,000. Today it is 26,000. If the economy continues to grow at that 6.5% annual pace, the Dow Jones could be 500,000 in 2068!!!

Due to advances in technology and greater inflation, we think growth will soon be even faster!!!

Since we invest in companies growing faster than the economy, we expect Baron over the long term to continue to outperform.

SLIDE: Ellis Island



Leo Baron, age 6.
Ari Baron, age 4.

Sounds like two names you might find on a ship's manifest arriving at Ellis Island all those years ago. They are my grandchildren.

SLIDE: Pictures of Ari and Leo



In the 125 years since Ellis Island opened, America's GDP has grown from \$20 billion to \$20 trillion! 1,000 times! Since 1982, Baron investors – Leo and Ari among them, shareholders since birth – have benefitted from America's powerful economic engine and the companies in which we have chosen to invest.

Our market outlook is simple: we are optimists. Optimism is a value I inherited from my parents and grandparents that I have tried to hand down to my sons and grandsons.

In the Jewish tradition, we call that L'dor V'dor, from generation to generation.

I wish for my grandsons what Baron works hard to deliver: decades of growth multiplied by the enduring values of optimism, family, patriotism, sacrifice and hard work.

That is the formula for a life well-lived.



And to me that is the meaning – and the power – of growth plus values.

SLIDE: Growth + Values

Thank you. We'll now take your questions.

The discussion of market trends and companies are not intended as advice to any person regarding the advisability of investing in any particular security. Some of our comments are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change any time based on market and other conditions, and we have no obligation to update them.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Portfolio holdings as a percentage of net assets as of December 31, 2018 for securities mentioned are as follows: **Tesla, Inc.** – Baron Opportunity Fund (3.8%), Baron Partners Fund (14.5%*), Baron Fifth Avenue Growth Fund (1.3%), Baron Focused Growth Fund (14.7%), Baron Energy and Resources Fund (13.8%), Baron Global Advantage Fund (1.4%); **Space Exploration Technologies Corp.** – Baron Partners Fund (5.0%*), Baron Focused Growth Fund (5.0%); **Guidewire Software, Inc.** – Baron Asset Fund (3.3%), Baron Growth Fund (1.7%), Baron Small Cap Fund (4.1%), Baron Opportunity Fund (5.2%), Baron Partners Fund (3.8%*), Baron Focused Growth Fund (4.0%); **Hyatt Hotels Corp.** – Baron Asset Fund (1.1%), Baron Partners Fund (6.9%*), Baron Focused Growth Fund (11.3%), Baron Real Estate Fund (2.2%), **Choice Hotels International, Inc.** – Baron Asset Fund (1.2%), Baron Growth Fund (3.9%), Baron Focused Growth Fund (5.3%).

Portfolio holdings may change over time.

* % of Long Positions

Baron Funds does not currently hold shares of **SolarCity Corp.**

Past performance is no guarantee of future results.