



QUARTERLY LETTER | MARCH 31, 2026

Baron Asset Fund[®]

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



Andrew Peck
Portfolio Manager

Dear Baron Asset Fund[®] Shareholder,

Performance

U.S. equity markets began the year with many Indexes reaching new highs. However, market sentiment shifted in February, as a range of industries, including software, business services, and information services, suffered sharp losses over fears related to theoretical AI-driven disruption. A viral, speculative report from Citrini Research warning of AI-driven white collar job losses, weaker consumption, and private credit stress contributed to the drawdown. Some thoughtful commentators challenged the report by highlighting the historical precedent of technology driving value creation rather than destruction, limited evidence of AI-driven hiring impacts, durable platform/network moats within affected industries, and policy backstops. Nevertheless, the market adopted a “shoot first, ask questions later” mentality, resulting in trillions in losses across various software and services industries. The sell-off worsened after the U.S. and Israel attacked Iran, raising fears about rising oil prices leading to widespread inflation, supply chain disruptions, and reduced economic growth.

Against this backdrop, Baron Asset Fund[®] (the Fund) declined 7.81% (Institutional Shares) in the first quarter, while the Russell Midcap Growth Index (the Index) declined 6.35%. Much of the Fund’s underperformance occurred in the first half of January when the Index rallied more than 3%. The Fund recovered a portion of its losses as the market moved lower over the remainder of the quarter. The Fund’s solid stock selection was negated by industry-specific headwinds. According to MSCI’s Barra factor attribution, the Fund’s overexposure to various software and services related industries weighed heavily on performance, as these segments faced significant selling pressure because of fears surrounding possible AI disruptions to their businesses. The Fund also suffered from its lack of exposure to various Energy-linked industries, which rallied sharply alongside the price of oil during the quarter.

Annualized performance (%) for periods ended March 31, 2026

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2,3}	Russell Midcap Growth Index ¹	Russell 3000 Index ¹
QTD ⁵	(7.87)	(7.81)	(6.35)	(3.96)
1 Year	2.46	2.73	9.56	18.09
3 Years	6.89	7.17	12.74	17.86
5 Years	1.83	2.10	5.37	10.87
10 Years	10.42	10.71	11.69	13.72
15 Years	10.07	10.36	11.12	12.81
Since Inception (6/12/1987)	10.84	10.96	10.20 ⁴	10.46

From a sector perspective, the Fund’s Information Technology (IT) holdings were entirely responsible for the relative shortfall in the period. Most of the losses came from being overexposed to application software and IT consulting & other services stocks, which were pressured by AI disruption concerns.

The software industry has undergone the most dramatic valuation re-rating since the “dot-com bust.” During the quarter ended March 31, 2026, the median public software company declined approximately 25%. Software valuation multiples—both on revenue and free cash flow—have collapsed to 10-year lows.

The catalyst for this sell-off has been fears related to the potential impact of AI on incumbent software companies. As AI models have become dramatically more capable, investors have grown fearful that software may face existential disruption. We agree that AI represents a generational technological shift that will reshape

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of January 28, 2026 was 1.31% 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.

MID CAP

the software landscape. AI coding tools are lowering the marginal cost of software development, agentic AI systems are beginning to automate knowledge work, and new AI-native competitors are emerging across virtually every software category. These developments will, no doubt, create winners and losers.

However, we believe investor selling has been indiscriminate. The market is treating the software industry as a monolith when the reality is far more nuanced - not all software companies face the same degree of AI risk. Some will be disrupted, some will prove resilient, and some will emerge as significant beneficiaries.

This is an exciting and challenging investment environment. Given the extraordinary pace and scope of AI-driven change, any investment approach must account for a wide range of potential outcomes. This requires flexibility, constant oversight, and the willingness to question everything. However, we also firmly believe that skilled investors have significant opportunities. We believe that the software companies we own—defined by their business models, competitive moats, and positioning within the technology stack—will likely prove durable and ultimately benefit from AI tailwinds. Furthermore, given these businesses' near-trough historic valuation levels, we believe they will deliver strong long-term returns for patient investors willing to look through the current market sentiment.

The Fund's Real Estate and Health Care investments also contributed to the relative shortfall in the period. Weaknesses in Real Estate was attributable largely to **CoStar Group, Inc.**, the leading provider of information and marketing services to the commercial and residential real estate industries. CoStar is another holding that was impacted by concerns about AI-driven disruption, as discussed below. Performance in Health Care was hindered by veterinary diagnostics leader **IDEXX Laboratories, Inc.**, whose shares price declined despite reporting better-than-expected financial results. Foot traffic to veterinary clinics in the U.S. remains modestly negative but is poised to recover over the next several years. Even so, IDEXX's excellent execution has enabled the company to continue delivering robust performance. We believe IDEXX's competitive trends are outstanding, and we expect new proprietary innovations—such as InVue, MultiCue, and CancerDX—to be meaningful contributors to growth in the years ahead. We also see increasing evidence that long-term secular trends around pet ownership and pet care spending have structurally accelerated, which should help support IDEXX's long-term growth rate.

Partially offsetting the above was strong stock selection in Industrials coupled with meaningfully higher exposure to this better performing sector. Strength in Industrials was driven by the Fund's sizable positions in **Space Exploration Technologies Corp.**, a high-profile private company founded by Elon Musk, and **Quanta Services, Inc.**, a leading specialty contracting company that provides comprehensive infrastructure solutions for the electric and gas utility, renewable energy, communications, pipeline, and energy industries. We offer additional thoughts on both companies below.

Favorable stock selection in Financials also added value during the period, led by specialty insurer **Arch Capital Group Ltd.** Arch and other property and casualty (P&C) insurance stocks broadly outpaced the market amid heightened volatility. P&C insurance stocks tend to be resilient during turbulent markets and are less exposed to the AI-related concerns weighing on other sectors. In addition, Arch reported better-than-expected quarterly earnings, and management expects a continuation of double-digit growth in book value per share. We continue to own the stock due to Arch's strong management team and our expectation of continued growth in earnings and book value over time.

Top contributors to performance for the quarter

	Year Acquired	Contribution to Return (%)
Space Exploration Technologies Corp.	2020	3.20
Quanta Services, Inc.	2023	0.81
Vertiv Holdings Co	2025	0.64
Equinix, Inc.	2007	0.27
Choice Hotels International, Inc.	1996	0.09

Space Exploration Technologies Corp. (SpaceX) is a high-profile private company founded by Elon Musk. The company's primary focus is on developing and launching advanced rockets, satellites, and spacecrafts, with the ambitious long-term goal of making life multi-planetary. SpaceX is generating significant value with the rapid expansion of its Starlink broadband service. The company is successfully deploying a vast constellation of Starlink satellites in Earth's orbit, reporting substantial growth in active users, 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 launches, leveraging the company's reusable launch technology. SpaceX capabilities extend to strategic services such as human spaceflight missions. Moreover, SpaceX is making tremendous progress on its newest rocket, Starship, which is 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.

Quanta Services, Inc. is a leading specialty contracting company that provides comprehensive infrastructure solutions for the electric and gas utility, renewable energy, communications, pipeline, and energy industries. Quanta's shares rose during the quarter, driven by broad optimism for its ongoing work for AI and data-center-related companies, as well as Quanta's strong quarterly earnings results, which beat Street expectations and demonstrated continued robust demand for its services. Management reiterated its view that the business can grow earnings in the mid-to-high teens or better through at least the end of the decade, supported by secular trends including grid modernization, electrification, transition toward renewable energy sources, industrial reshoring, communications infrastructure upgrades, and more. We believe this level of earnings growth is achievable, and we take further comfort in Quanta's 25% earnings CAGR since 2015, a period

during which the market backdrop was considerably weaker. We remain excited about Quanta's growth prospects and continue to be long-term shareholders.

Vertiv Holdings Co is a leading global provider of critical digital infrastructure solutions for data centers, communication networks, and commercial and industrial environments, with one of the broadest offerings in electrical and thermal management equipment and services within the data center infrastructure industry. Shares increased after Vertiv reported robust quarterly results, with fourth quarter bookings well above expectations, driving backlog meaningfully higher and supporting stronger-than-expected growth into 2027. The company is benefiting from the industry's shift toward integrated and modular solutions, which help alleviate labor constraints and accelerate deployment timelines at data centers. Vertiv is a leading provider of these solutions, backed by industry-leading servicing capabilities, and is also well positioned to support key technology transitions, including liquid cooling and direct current architectures. Combined with the company's internal focus on margin improvement, we believe their positioning should drive better-than-expected earnings growth and continued upside over the coming years.

Top detractors from performance for the quarter

	Year Acquired	Contribution to Return (%)
CoStar Group, Inc.	2016	(1.41)
Gartner, Inc.	2007	(1.41)
Guidewire Software, Inc.	2013	(1.12)
IDEXX Laboratories, Inc.	2006	(0.87)
Fair Isaac Corporation	2020	(0.86)

CoStar Group, Inc. is the leading provider of information and marketing services to the commercial and residential real estate industries. Shares fell due to multiple compression driven by rising fears about the potential impact of AI on the company's business. The market has come to view AI as an existential risk for a growing number of industries—including software, business services, information services, and video games—despite no evidence of any fundamental impact to these sectors. This “shoot first and ask questions later” dynamic has resulted in meaningful share price declines. We continue to own CoStar given its differentiated data assets and significant growth opportunities in providing enhanced real estate information, analytics, and marketplace offerings. CoStar boasts an enviable business model with high levels of recurring revenue and meaningful cash flow generation potential. While near-term cash flow is obscured by elevated investment in its Homes.com unit, we expect this spending to moderate and cash flow to improve over the next several years. The company also maintains a substantial cash balance, which we are hopeful will be used to aggressively repurchase shares at current depressed valuation levels.

Syndicated research provider **Gartner, Inc.** detracted from performance as its valuation multiple compressed amid rising concerns around AI. As discussed above, investors have increasingly

viewed AI as a potential existential risk across a widening range of industries despite no evidence of any fundamental impact to the financial results of most businesses in these sectors. Against this backdrop, shares of Gartner came under pressure after the company reported contract value growth that was just 0.5% below expectations, underscoring the dramatic valuation compression at play. We continue to own Gartner given its large addressable market, significant competitive advantages, and robust free cash flow generation, which we expect management to deploy toward share repurchases at depressed valuation levels. We also view Gartner as an AI beneficiary, as it can leverage emerging tools to extract deeper insights from its vast trove of proprietary data and deliver it to customers in chatbot-type formats that meaningfully enhance its value proposition.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** declined during the quarter amid concerns about the disruptive impact of AI, which weighed broadly on software stocks. We retain conviction in Guidewire and believe its fundamentals remain robust. The company's cloud sales are accelerating, with annual recurring revenue benefiting from new customer wins, expansions, and migrations of its existing customer base. We believe that the ongoing shift away from on-premise software deployments, along with strong customer references from insurers such as Liberty Mutual, The Hartford, and Sampo, should further accelerate customer migration to the cloud. Additionally, Guidewire is ramping investment in product development, which should facilitate cross-selling new functionality into its sticky installed base. We believe that AI should act as a tailwind, helping the company accelerate product releases, create products that were previously out of reach, and reduce the cost of customer implementations (a historical impediment to adoption). We believe these dynamics position Guidewire for sustained growth over the long term.

Portfolio Structure

As of March 31, 2026, the Fund held 50 positions. The Fund's 10 largest holdings represented 60.0% of net assets, and the 20 largest represented 77.6%. The Fund's largest weighting was in the Industrials sector at 42.7% of net assets. This sector includes investments in aerospace & defense firms, research & consulting services businesses, construction & engineering companies, and electrical components & equipment firms. The Fund held 18.3% of its net assets in the IT sector, which includes application software companies, electronic components businesses, and IT consulting firms. The Fund held 11.0% of its net assets in Financials, which includes investments in P&C insurance companies, financial exchanges & data providers, and investment banks. The Fund also had significant weightings in Health Care at 10.4% and Communication Services at 7.7%.

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.

Top 10 holdings

	Year Acquired	Market Cap When Acquired (\$B)	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Space Exploration Technologies Corp.	2020	47.0	1,250.0	844.7	25.5
Amphenol Corporation	2019	26.2	155.3	176.7	5.3
IDEXX Laboratories, Inc.	2006	2.5	44.7	151.2	4.6
Arch Capital Group Ltd.	2003	0.9	34.2	146.2	4.4
Quanta Services, Inc.	2023	21.8	82.1	140.0	4.2
Guidewire Software, Inc.	2013	2.8	12.7	129.0	3.9
Verisk Analytics, Inc.	2009	4.0	26.2	117.9	3.6
Mettler-Toledo International Inc.	2008	2.4	25.5	108.0	3.3
Gartner, Inc.	2007	2.9	11.2	91.2	2.8
The Charles Schwab Corporation	1992	1.0	168.1	81.6	2.5

Recent Activity

Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Forgent Power Solutions, Inc.	8.9	24.8
Vulcan Materials Company	35.5	18.7
Booz Allen Hamilton Holding Corporation	9.4	3.4
LPL Financial Holdings Inc.	24.1	1.5
Verisk Analytics, Inc.	26.2	1.0

Forgent Power Solutions, Inc. is a leading manufacturer of electrical distribution equipment used in data centers, the power grid, and energy-intensive industrial applications. Forgent is a low- and medium-voltage equipment specialist that focuses on custom, “engineered-to-order” products (over 90% of revenue). In contrast, larger industry competitors manufacture primarily higher voltage and standard products. Forgent differentiates itself from competitors by engaging deeply with customers in the design phase and then creating custom products, which competitors would typically require more time to manufacture. They also have a strong, pedigreed management team, which per CEO Gary Niederpruem is “punching above our weight class.”

Electrical equipment, especially power transformers, remains a key bottleneck in the broader buildout of AI data centers. Forgent has nearly completed the manufacturing footprint investment needed to support \$5 billion in revenue, which will result in one of their industry’s largest state-of-the-art manufacturing capabilities. Furthermore, their recent order book, around \$3 billion annualized,

and current backlog, roughly \$1.5 billion as of December 31, 2025, should support impressive revenue growth, and its orders are expected to remain healthy for the foreseeable future. Despite incurring inefficiencies from excess capacity, Forgent already has near best-in-class EBITDA margins, which we expect to continue to expand as the company drives more volume over its large manufacturing footprint. To date, most of its data center business has focused on colicators and neoclouds, and there remain large opportunities to engage with and support hyperscale customers going forward. The CEO’s goal is to be a \$5 billion to \$10 billion over the next 5 to 10 years. We are optimistic that Forgent will succeed in that journey, supported by continued robust grid and data center capex and market share gains from competitors.

Vulcan Materials Company supplies the basic raw materials required for most construction and infrastructure development. Vulcan is the largest producer of construction aggregates in the U.S., generating approximately 90% of its gross profit from mining, processing, and transporting crushed stone, sand, and gravel (collectively, “aggregates”) from quarries that it owns. The balance of its gross profit is derived from strategically located ready-mix concrete and asphalt. Vulcan’s products are sold and utilized in infrastructure projects such as roads, highways and bridges, as well as in residential and non-residential construction.

We believe that aggregates are an attractive business because of the industry’s high barriers to entry and strong pricing trends. Permits to open new quarries are difficult to obtain, and the approval process typically takes 5 to 10 years. This limits new competition and keeps supply constrained, which puts the companies that own existing quarries in an advantageous position. In addition, a high weight-to-price ratio makes transportation expensive relative to the cost of the aggregates, limiting the distance that materials can be shipped economically. As a result, aggregates producers have historically enjoyed significant pricing power. In the last 30 years, pricing of aggregates has increased, on average, 4% per year.

We believe the multi-year growth prospects for Vulcan are attractive. Infrastructure-related spending, which accounts for approximately 40% of Vulcan’s aggregates shipments, continues to grow steadily, driven by favorable federal and state-level infrastructure funding for new and existing infrastructure projects across the company’s footprint. Private construction spending (both non-residential and residential) may accelerate over the next few years as well. Non-residential construction spending is currently being driven by favorable trends in data center construction, reshoring/onshoring of manufacturing and other industrial categories, which we believe can continue for several more years. Residential construction, while muted right now due to elevated mortgage rates and affordability concerns, continues to be set up well over the next several years due to the acute need for more new homes following a period of significant underbuilding relative to the demographic needs of our country.

Pricing power remains robust, and we expect price increases to accelerate above historical averages in the coming years, supported by new tools and data-driven disciplines that management has implemented to optimize pricing. Management also remains

laser-focused on improving productivity and maximizing unit-level profitability, with the goal of further expanding margins. Lastly, M&A has been a core pillar of Vulcan's growth strategy over time, and the company is well positioned today with ample financial flexibility to make strategic and accretive acquisitions. We believe that all of this should contribute to low-to-mid teens annual earnings growth for the business over the next several years, leading to an attractive return on our investment.

Top net sales for the quarter

	Quarter End Market Cap (\$B)	Net Amount Sold (\$M)
Bio-Techne Corporation	8.3	33.7
Morningstar, Inc.	6.4	22.0
IDEXX Laboratories, Inc.	44.7	21.1
Veeva Systems Inc.	28.7	16.1
The Cooper Companies, Inc.	14.0	14.9

Bio-Techne Corporation was sold over concerns about the potential impact of AI on the methods of basic scientific research and the tools used to do research, leading us to not expect a rapid recovery in the company's overall growth rate to levels that we expected when we made the original investment. We sold **Morningstar, Inc.** over concerns about slowing growth and profitability trends in some of their financial data end-markets. We managed down the Fund's weightings in several long-time holdings, including veterinary diagnostics company **IDEXX Laboratories, Inc.**, software provider to the life science industry **Veeva Systems Inc.**, and contact lens manufacturer **The Cooper Companies, Inc.**

Outlook

As discussed above, we believe that several of the Fund's holdings have been unfairly penalized by AI-driven disruption concerns. Fearful investors sold companies across an array of industries that include software, IT consulting, business services, real estate brokerage, insurance brokerage, and wealth management. Against this backdrop, the market has continued to reward disproportionately stocks with near-term momentum, while generally punishing stocks with high profitability and earnings quality characteristics.

We believe this environment resulted in widespread, indiscriminate selling, causing many of the Fund's high-quality businesses to trade at exceptionally attractive valuations. In addition, we remain encouraged by extensive public reports that the Fund's largest position, **Space Exploration Technologies Corp.**, intends to complete an IPO in the next few months at a valuation above its current price.

We remain optimistic that the market will better appreciate and reward the types of high-quality, competitively advantaged businesses that we favor, particularly as financial results attest to their resilience in the face of perceived AI-driven threats. We believe that our businesses' growth opportunities and competitive positions continue to improve, while their absolute and relative valuations continue to become more compelling.

Thank you for your continued confidence and support.

Sincerely,



Andrew Peck
Portfolio Manager

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 largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market, as of the most recent reconstitution. 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.

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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.**

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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