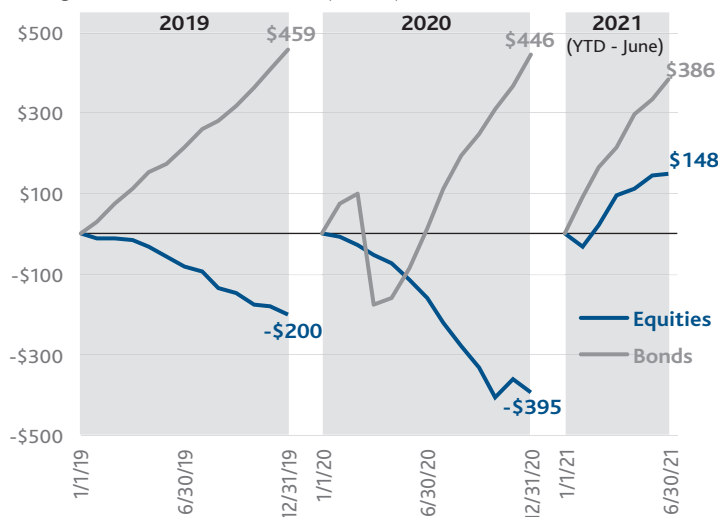


Inflation: It's Complicated

The second quarter of 2021 was the fifth consecutive quarter of solid positive performance for U.S. equities. The S&P 500 Index increased 8.55%, including dividends, and is up over 15% since the start of the year, making the first half of 2021 one of the best first halves for the stock market on record. The wider availability of vaccines and the growing vaccination rates in the U.S. and abroad have accelerated the economic recovery and have pushed investor optimism higher. As a result, net flows in equities have been growing at a robust pace, a notable reversal from the negative trend of the past few years. According to data from the ICI, despite negative net flows in January, nearly \$150 billion poured into U.S. and global equity mutual funds and ETFs year-to-date as of the end of June. At the same time, bond funds received even bigger net inflows—around \$386 billion since the start of the year, as shown on the chart below.

Money Is Flowing Back to Equities

**Cumulative Annual Net Flows
in Long-Term Mutual Funds and ETFs (billions)**



Source: The Investment Company Institute, Combined Estimated Long-Term Fund Flows and ETF Net Issuance report as of 6/14/2021.

Note: Weekly fund flows are estimates based on reporting covering more than 98% of mutual fund and ETF assets, while actual monthly mutual fund net new cash flow and ETF net issuance data are collected and reported separately. Mutual fund data represent net new cash flow, which is new sales minus redemptions combined with net exchanges, while ETF data represent net issuance, which is gross issuance less gross redemptions. The primary difference is that net new cash flow excludes reinvested dividends and new issuance includes reinvested dividends. Data for mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs were excluded from the series.

Despite the strong bond and equity flows and the economic improvement this year, investors remain anxious and cautious. Some fear a new wave of COVID infections and a subsequent economic slowdown. Others are concerned that the economy may improve too fast and overheat, resulting in a new recession. The one thing that seems to be on all investors' minds is inflation.

As long-term investors, we do not focus on inflation or other macroeconomic factors, but inflation is a timely topic, and investors have been asking for our views. We are not economists, and we do not pretend to be, but there is so much discussion about it that we felt it appropriate to address it this quarter.

At the end of June, one-year inflation in the U.S. reached 5.4%¹, the highest level since 2008. Much of this increase happened in 2021, at an accelerating pace. Since high and rising inflation is often interpreted as a sign of economic uncertainty, the inflation level and momentum have become worrisome. Comparisons with the 1970s, when inflation spun out of control, interest rates and unemployment spiked, and the U.S. economy went into a recession, have further added to investor anxiety. It seems everyone wants to know how much higher inflation is going to rise, how long is it going to stay, and what monetary policy actions will follow.

For fixed income investors, higher inflation can be detrimental. Inflation erodes the real value of a bond's face value and diminishes real returns. Inflation can be particularly damaging when it exceeds bond yields, as it currently does, since the real yield for bonds investors becomes negative. Yet, investors may still choose to buy or keep bonds for other reasons, including short-term cash flow management or because they believe inflation is transitory.

For traditional equity investors, the analysis is less straightforward, and there is no definitive rule of thumb. While there is no doubt that inflation affects stock prices, the impact very much depends on what else is going on in the economy and the market. Inflation is only one of many factors that drive the stock market, and its effects on stock prices are hard to isolate or predict. The level and rate of change of inflation affect companies differently, depending on their idiosyncrasies, industry, competitive landscape, and capital structure, among other things. The overall economic environment may also counter or amplify the effects of rising/high inflation. Inflation could increase during times of improving economic conditions or when conditions are worsening. Just because inflation is rising or surpassing a certain level does not mean equity investors should reflexively buy or sell.

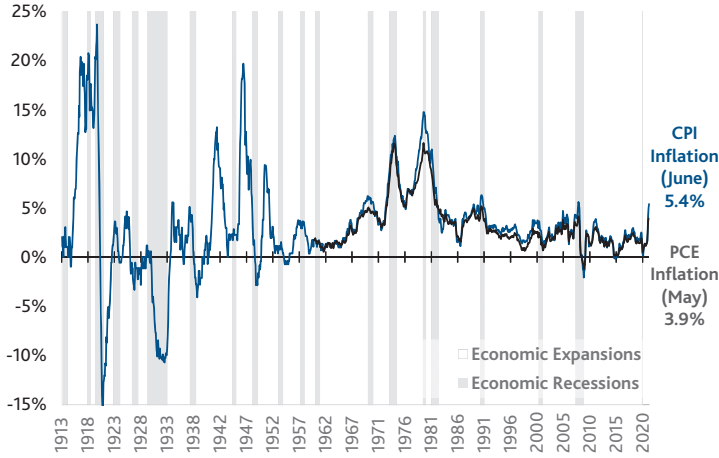
¹ As measured by the Consumer Price Index for All Urban Consumers (CPI-U), published by the Bureau of Labor Statistics.

Baron Perspective

The chart below shows that over the past century inflation, as measured by the two most popular indicators, has increased or declined during periods of both economic expansions and recessions.

Inflation Has Increased During Economic Expansions and Recessions

1-Year CPI and PCE Inflation, 1/31/1913 – 6/30/2021



Sources: CPI inflation data from the U.S. Bureau of Labor Statistics, PCE inflation data from the U.S. Bureau of Economic Analysis, U.S. Business Cycle Expansions and Contractions data from The National Bureau of Economic Research. All data retrieved from the Federal Reserve Bank of St. Louis.

The last time in recent history when inflation rose to a more significant level and lasted was 2002-2005, a period of stable economic expansion and employment growth after the recession in the early 2000s. As the housing market entered a correction in 2006, inflation retracted for about a year before jumping back up when the financial crisis began unfolding.

The table below shows the periods of rising one-year inflation since the '80s and how some key economic variables and the stock market changed during these periods. In our view, there is no obvious pattern behind this data, and any period of rising inflation should be interpreted in context.

Inflation Has Increased in a Variety of Circumstances

Changes in Select Economic Variables and the Stock Market during Rising PCE Inflation Periods

Trough Date	Peak Date	1-Yr PCE Inflation Trough	1-Yr PCE Inflation Peak	10-Yr Treasury Yield Change	Unempl. Rate Change	1-Yr Industrial Production Change	1-Yr Consumer Spending Change	S&P 500 Index Return (cumulative)	S&P 500 Index - 1-Yr Return After Peak
Dec-86	Oct-90	1.57%	5.18%	1.6%	-0.7%	11.3%	29.1%	43.0%	33.5%
Sep-98	Mar-00	0.63%	2.88%	1.5%	-0.6%	7.1%	12.1%	50.2%	-21.7%
Jan-02	Sep-05	0.67%	3.77%	-0.8%	-0.7%	7.7%	23.9%	15.9%	10.8%
Oct-06	Jul-08	1.58%	4.14%	-0.7%	1.4%	0.3%	7.8%	-4.8%	-20.0%
Jul-09	Sep-11	-1.24%	3.06%	-1.6%	-0.5%	10.9%	9.1%	19.8%	30.2%
Sep-15	Jul-18	0.09%	2.45%	0.7%	-1.2%	3.0%	13.3%	55.5%	8.0%
Apr-20	May-21	0.48%	3.91%	1.0%	-9.0%	18.6%	29.3%	47.0%	?

Sources: PCE Inflation and Consumer Spending data from the U.S. Bureau of Economic Analysis, 10-Yr Treasury Yield and Industrial Production data from the Board of Governors of the Federal Reserve System (US), Unemployment Rate data from the U.S. Bureau of Labor Statistics, all retrieved from the Federal Reserve Bank of St. Louis. S&P 500 Index data via FactSet.

Note: The S&P 500 Index performance includes dividends. Total returns were not available in FactSet for the period 12/31/1986 – 1/31/1988; the total returns for the Ibbotson S&BI US Large Stock Index (via Morningstar Direct) were used during this period. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

Inflation Is a Complex Subject

Inflation measures the general increase in prices. While the concept sounds simple, defining inflation is a complicated matter, and there are multiple ways to measure it. The two most popular measures of inflation in the U.S are the Consumer Price Index (CPI) and the Personal Consumption Expenditures Index (PCE). Broadly speaking, the CPI is a reflection of the price changes of what people are buying, while the PCE looks at what businesses are selling. Each index also has a "core" version that excludes food and energy prices, which tend to be more volatile. The Federal Open Markets Committee (FOMC), which sets the Federal Reserve's (the Fed's) monetary policy, primarily references the PCE index when discussing inflation.

CPI inflation is calculated using a fixed-weight basket of goods and services consumed by households. PCE inflation captures a broader picture of spending, including services paid for on behalf of consumers (e.g., Medicare), and can change as people substitute away from some goods and services toward others. Neither index is a perfect representation of the price changes experienced by the population. In fact, since everyone's consumption pattern is different, a single inflation index will always be imperfect because everyone faces his/her own inflation rate. Yet, investors and economists often rely on a single index for decision making. Having a solid understanding of the underlying index methodology and its strengths and weaknesses is important.

When evaluating price index changes, it is also important to consider what subcomponents are driving the movements. The prices of certain items, such as food, vehicles, and motor fuel, tend to be more volatile (flexible) because supply and demand for them is more sensitive to the current economic environment. Others, such as rent, medical services, and education, typically change more slowly over time (sticky) because they are based on perceived longer-term changes in the economy. When overall inflation is driven by an increase in the volatile price items, the increase may be short-lived. On the other hand, when inflation rises due to an increase in the sticky price goods/services, it is likely to be lasting. According to the June 2021 data release from the Federal Reserve Bank of Atlanta², over the past year the sticky-price index increased 2.7%, whereas the flexible-price index increased 12.4%. While it may still be early to draw conclusions from this data, there are indications that some of the overall inflation increase may be permanent, and some may be transitory.

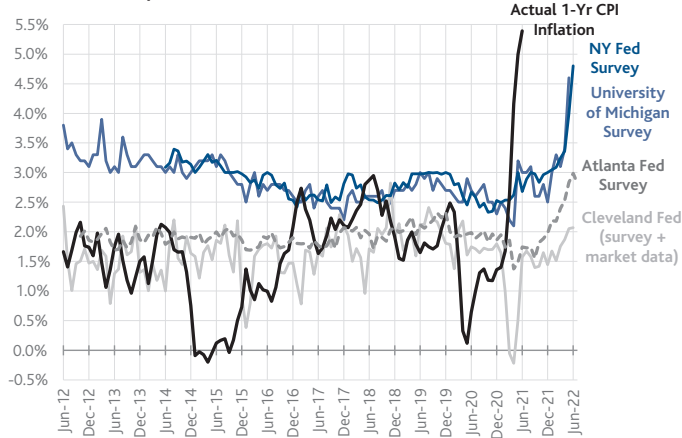
How inflation is interpreted can significantly affect the behavior of investors, businesses, and policymakers and their future inflation expectations. Inflation expectations matter because actual inflation is often driven by actions taken on expectations. Workers may demand higher wages, businesses may hike prices, and the Fed may increase interest rates, depending on what expectations are pointing to.

² <https://www.atlantafed.org/research/inflationproject/stickyprice/>

There are several survey-based measures of expected inflation that are closely followed, some of the popular ones plotted on the chart below. Comparing the forecasts with the actual inflation level shows that it is very difficult to predict inflation consistently. Reminds us that even a broken clock tells the time correctly twice a day.

Inflation Expectations Are Not Always a Reliable Indicator

1-Yr Inflation Expectations vs. Actual 1-Yr CPI Inflation



Sources: CPI Inflation data from the U.S. Bureau of Labor Statistics via the Federal Reserve Bank of St. Louis. University of Michigan Survey via the University of Michigan; NY Fed Survey via the Survey of Consumer Expectations by the Federal Reserve Bank of New York; Atlanta Fed Survey via the Business Inflation Expectations Survey by the Federal Reserve Bank of Atlanta; Cleveland Fed data via the Federal Reserve Bank of Cleveland 1-year expected inflation estimates.

Investors also consider market-based measures of inflation expectations derived from treasury yields. One common metric is the breakeven inflation rate, which is calculated as the difference between the yields of regular and inflation-indexed treasury bonds with the same maturity. As of 7/16/2021, the five-year breakeven inflation rate was at 2.52%, meaning that over the next five years market participants expect inflation to average out to 2.52% per year. The chart below shows that the five-year breakeven inflation rate increased steadily since the start of the pandemic, peaked in mid-May '21 at 2.72% and has declined since, possibly signaling that inflation concerns are easing.

The Market Expects Inflation of Around 2.5% Over the Next Five Years*

5-Year Breakeven Inflation Rate



Source: Federal Reserve Bank of St. Louis.
*annualized average over five years

Another popular market-based measure of inflation expectation is the 5-year, 5-year forward inflation expectation rate, which is an estimate of inflation expectations for the five-year period that begins five years from the present. It is calculated by comparing the yields of treasury inflation-protected securities (TIPS) and nominal treasury yields. While this measure looks at expected levels of inflation far in the future, it is important for policymakers as it reflects the market's confidence today that the central bank will be able to keep the inflation rate within its set target. As of the writing of this letter, the 5-year, 5-year forward inflation expectation rate was 2.14%, down from a recent high of 2.38% and slightly above the Fed's long-term target inflation rate of 2%.

The Market Expects That Long-Run Inflation Will Be Close to the Fed's 2% Target

5-Year, 5-Year Forward Inflation Expectation Rate



Source: Federal Reserve Bank of St. Louis.

Inflation expectations are important, but they are simply a prediction of what may happen and should be considered with caution. Drawing comparisons with historical inflationary periods also has many pitfalls, as every period has its own idiosyncrasies. At any particular moment, inflation is driven by many factors with uneven and changing importance, making it extremely hard for anyone to predict how inflation will shift next. Recently, some economists have been worried that the U.S. may be headed toward a '70s-like period of inflation. While there are some similarities between the '70s and today, we believe that the factors that led to the double-digit inflation back then are unlikely to repeat today.

The excessive expansionary fiscal policy and tax cuts under President Johnson, followed by President Nixon's price control policy in the early '70s and the abandonment of the gold standard (a.k.a. the Nixon Shock), two oil crises, and poor monetary policy decisions by the Fed are among the main factors that came together and drove inflation in the '70s. The Fed's mandate at the time was also quite different than today, and the Fed's institutional knowledge and experience in managing inflation was inferior to that of today's policy makers.

In addition, there are significant structural differences between today's economy and that of the '70s. Economic activity has shifted away from manufacturing and more toward services; unionization and the power of labor unions have declined significantly, limiting potential wage pressures; and businesses have become global and less capital intensive. Given the current demographics and how much more mature the U.S. economy is today, it is hard to imagine that it is subject to the same risks as in the '70s, although the possibility cannot be completely ruled out.

Finally, one of the key challenges when comparing economic data and statistics versus historical periods is the lack of consistent data quality and availability over time, which may lead to misleading comparisons.

Baron Perspective

Inflation or Normalization?

The drivers of today's inflation are a direct consequence of the pandemic. The economic shutdown and subsequent reopening do not have a relevant historical analog, which makes any comparisons with prior inflation periods less applicable.

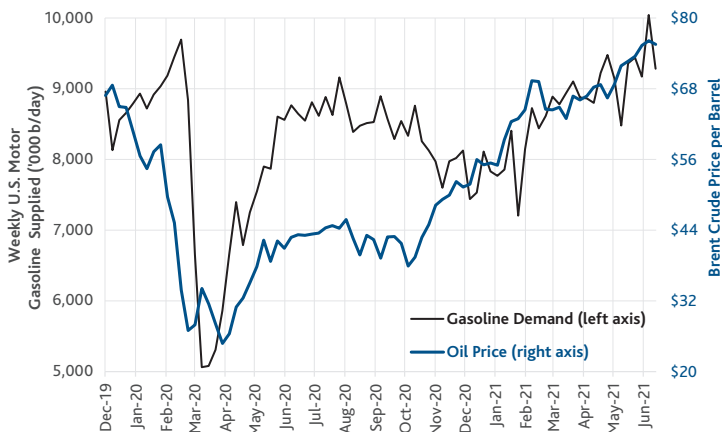
The combination of strong consumer demand for products and services after vaccines became widely available, depleted inventories, crippled supply chains, and worker shortages resulted in sharp price increases in some categories. Used cars and trucks, for example, are 45% more expensive than a year ago since production and deliveries for new vehicles have been delayed and the cost of some raw materials has risen. Shipping costs are also significantly higher than a year ago, driven by high demand, limited shipping capacity, and higher fuel costs.

It is important, however, to keep in mind that some of these price increases follow on the heels of the significant price declines that we experienced last year. While the current percentage increases may be large, they are a result of an anomaly, since the prices of many goods and services reached very low levels due to the sudden lack of demand. This is known as the "base effect" – the base level of prices, against which current prices are compared, is so low that the change appears very significant when expressed in percentage terms. We believe it is critical to consider whether prices increased because of a normalization or because the economy is deteriorating.

For example, at the beginning of 2020 a barrel of oil was trading at around \$70. Once the pandemic lockdowns hit and people stopped travelling, the price fell below \$20. As of 6/30/2021, oil prices had gone up to around \$75, slightly above pre-pandemic levels. The chart below shows a strong relationship between oil price movements and gasoline demand.

Oil Prices Have Recovered as Gasoline Demand Recovered

Weekly Gasoline Demand vs. Brent Crude Oil Prices



Sources: Weekly U.S. Product Supplied of Finished Motor Gasoline via the U.S. Energy Information Administration, Brent Crude Oil prices via FactSet.

While the increase from \$20 to \$75 is significant and would be highly concerning under normal circumstances, we believe that it makes more sense to view this change as price normalization after a remarkable period of demand disruption.

As for the negative price effects from supply-chain and production bottlenecks – we believe that these will likely be temporary, as it takes some time to restart the production and supply processes.

Furthermore, we are not seeing sharp price increases across the board. Rents are up 1.9% over the past year and food is 2.4% higher, which are not unreasonable increases. Some categories, such as drugs and medical care equipment and supplies, which were in high demand last year, are even registering declines in prices.

Overall, higher consumer demand and spending, production normalization, and accelerating economic momentum make us feel optimistic. Judging by labor market improvements, increasing industrial activity, higher consumer spending, improving corporate earnings, among other factors, we believe that the health of the U.S. economy has been improving and that rising inflation is a reflection of this rather than a signal of a growing problem.

Inflation is Not Necessarily a Bad Thing

Since inflation decreases the value of money, having some inflation incentivizes people to do something with their money so it does not lose value. If inflation were zero, there would be less incentive to spend and invest, and the economy would likely grow at a slower pace or not at all. Very high or runaway inflation, which occurs when the prices of most services and goods increase for a prolonged period at an accelerating pace, is damaging for the economy since it erodes purchasing power rapidly, causing instability for consumers and producers. Moderate, controlled inflation should help boost demand and consumption at a reasonable pace, driving sustainable economic growth and employment stability. This is why the long-term inflation target of the Fed is 2% – a moderate pace. This target rate was formally adopted in January 2012 as part of the Fed's mandate to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.

A moderate level of inflation is expected by consumers and market participants and is reflected by asset prices. When inflation levels are in the 0% – 4% range, equities typically perform well and provide inflation protection, since company debt obligations are inflated away and businesses can pass on most of the input price (e.g., raw materials, labor) increases to the consumer. This cost transfer and inflation protection ability decreases for higher levels of inflation, when the economic climate deteriorates.

Regardless of inflation levels, historically equities have delivered strong performance and positive returns most of the time. The charts on the next page examine the forward performance of major asset classes following periods of high (>4%), moderate (2% – 4%), and low (<2%) inflation over the past 50+ years. Each asset class's performance was calculated as the median of the 12-month returns following periods when 1-year PCE inflation was in the respective bucket. For example, in the first chart (left), following periods when inflation was 4% or more the median 12-month performance of U.S. Small Cap Equities was 23.5%. In addition, when inflation was 4% or higher, small caps generated positive returns a year later 82% of the time (chart on the right).

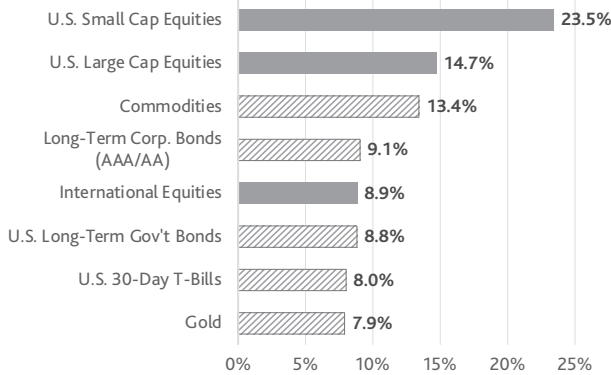
While we acknowledge that this is a simplistic analysis, there is one outcome that stands out: equities have generated strong positive future returns in the majority of time, regardless of inflation levels.

On Average, Equities Have Delivered Strong Results Regardless of Inflation Regimes

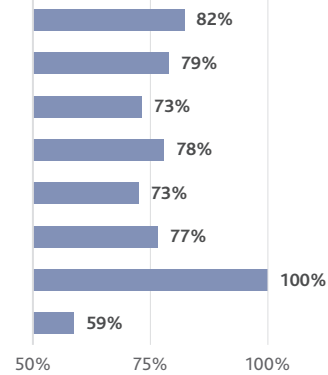
Inflation Regimes vs. 1-Yr. Forward Returns

Based on monthly observations for the period 12/31/1970 – 6/30/2021

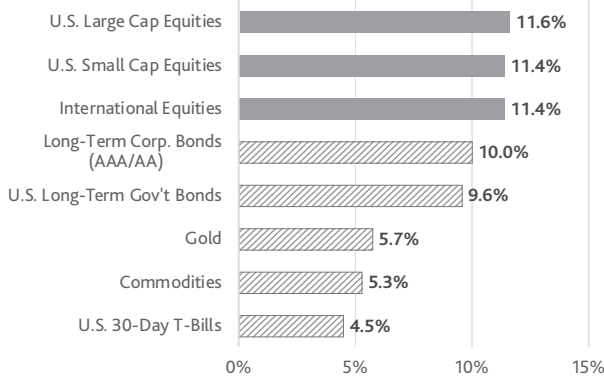
Median 12-Month Forward Returns After Periods When 1-Yr PCE Inflation >4% (175 periods)



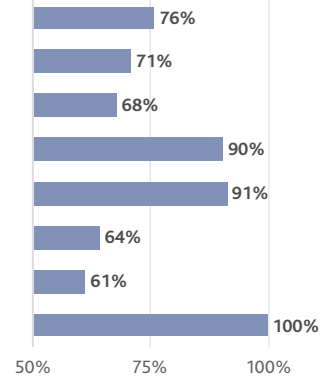
% of Periods with Positive Returns



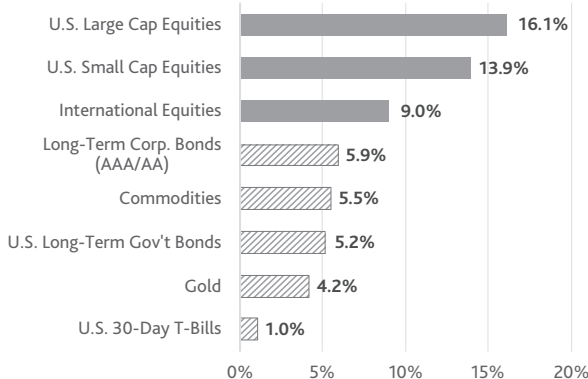
Median 12-Month Forward Returns After Periods When 1-Yr PCE Inflation 2% - 4% (239 periods)



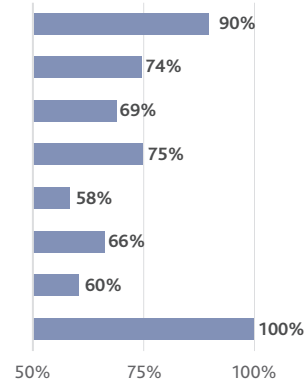
% of Periods with Positive Returns



Median 12-Month Forward Returns After Periods When 1-Yr PCE Inflation <2% (192 periods)



% of Periods with Positive Returns



Sources: FactSet, Morningstar Direct, Federal Reserve Bank of St. Louis, Baron Capital.

Notes: U.S. Small Cap Equities are represented by the Ibbotson® U.S. Small Stock Index; U.S. Large Cap Equities are represented by the Ibbotson® U.S. Large Stock Index; Long-Term Corporate Bonds are represented by the Ibbotson® Long-Term Corporate Bond Index; U.S. Long-Term Gov't Bonds are represented by the Ibbotson® U.S. Long-Term Government Bond Index (approximate bond maturity 21.5 years); U.S. 30-Day T-Bills are represented by the Ibbotson® U.S. 30-Day T-Bill Index; Commodities are represented by the S&P GSCI Index; International Equities are represented by the MSCI EAFE Index (net); and Gold is represented by the London Bullion Market Gold Fixing Price per Troy Ounce in USD. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

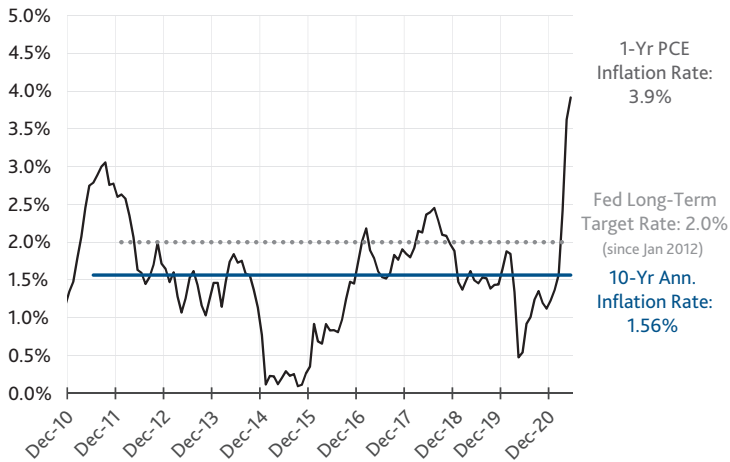
Baron Perspective

Inflation and the Fed

Over the past decade, 1-year PCE inflation has been low and below the Fed's target rate most of the time, as shown in the below chart.

Inflation Has Been Low During the Past Decade

1-Year PCE Inflation Rate, 12/31/2010 – 5/31/2021



Source: U.S. Bureau of Economic Analysis via the Federal Reserve Bank of St. Louis.

Since inflation should average out to about 2% over the long term, we expect that it might run at a pace a little over 2% for some time. The Fed's latest expectation³ is that PCE inflation will be 3.4% for the entire 2021 and much closer to 2% in 2022 and 2023. While the Fed is formally in charge of controlling inflation, it does not over-fixate on the target rate, as it is virtually impossible to control inflation so precisely. Responsible monetary policy requires that all moving pieces are considered carefully and achieve balanced, sustainable results. If inflation runs below or above 2%, the Fed will likely take actions to make up for the miss, but its goal is to do so with low volatility over time.

If the Fed determines that inflation is becoming harmful to the economy, it may reduce or fully eliminate its bond purchasing program and it may decide to increase interest rates so borrowing becomes less attractive and spending slows down. Higher rates are perceived as a negative signal by some equity investors, but the relationship between rates and stock market performance is also very complicated and is a function of many other variables and economic circumstances. Traditional equities can rise in times of increasing rates and in times of decreasing rates. At the risk of repeating ourselves, it is extremely difficult to predict the direction of the stock market based on the gyrations of one single factor.

As inflation concerns have bubbled up in recent months, the Fed has recognized investors' anxiety around the possibility of higher rates and has reassured that any interest rate increases are unlikely before 2023. In his testimony to the House Financial Services panel on 7/14/21, the Fed Chairman Jerome Powell also assured investors that there will be ample notice before any slowdown of the quantitative easing program.

Inflation, or the overall economy for that matter, cannot be managed by a template. The best that policymakers can do is be closely aware of a broad range of factors, developments, and expectations, and actively consider

what the appropriate policy measures are for each specific situation. Currently, there is no unanimous view on inflation among Fed members, which we interpret as a positive sign. While the view of the FOMC is that recent inflation is largely reflecting transitory factors, it is keeping an eye out for any signs of deterioration and has indicated it is ready to act as needed.

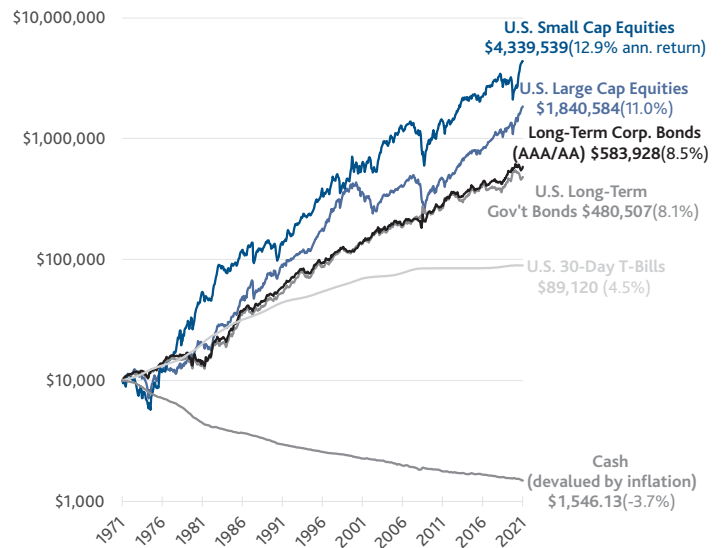
Inflation and Equities

While inflation and the stock market are unpredictable over short periods, there is a consistent historical outcome over the long term: equities have provided solid returns, well in excess of inflation. As the chart below shows, over the past 50 years a hypothetical investment of \$10,000 could have become worth several million dollars if invested in equities or it could have lost 85% of its value if it were held in cash.

Equities Have Provided Solid Returns and Inflation Protection Over the Long Term

Value of \$10,000 Over the Past 50 Years

6/30/1971 – 6/30/2021



Source: Morningstar Direct.

Notes: U.S. Small Cap Equities are represented by the Ibbotson® U.S. Small Stock Index; U.S. Large Cap Equities are represented by the Ibbotson® U.S. Large Stock Index; Long-Term Corporate Bonds are represented by the Ibbotson® Long-Term Corporate Bond Index; U.S. Long-Term Gov't Bonds are represented by the Ibbotson® U.S. Long-Term Government Bond Index (approximate bond maturity 21.5 years); U.S. 30-Day T-Bills are represented by the Ibbotson® U.S. 30-Day T-Bill Index; and the value of Cash (devalued by inflation) was calculated using the Ibbotson® U.S. Inflation Index.

The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

We believe that over the long term, equities will continue to provide the attractive returns and solid inflation protection they have delivered in the past. Of course, equities may underperform on occasion, but we do not think it is possible to time the market and avoid such periods consistently.

While we believe that the recent increase in inflation will prove mostly transitory, our stock selection and portfolio management processes are not

³ Per the Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents from June 16, 2021.

driven by our views on inflation. We monitor inflation and do deep-dives to understand the drivers behind it, but we do not have a hard view of where it is headed, nor do we feel a need to have one.

We are stock pickers and investors, not economists, and we cannot control inflation and other macroeconomic factors. Our focus remains on the things we can control: investing in companies with attractive long-term growth prospects and valuations, strong management teams, and sustainable competitive advantages.

The table below shows Baron’s scorecard over various periods. Our Funds have generated significant positive returns and, with very few exceptions, have outperformed their primary benchmarks over long periods. In addition, during all periods shown in the table, the Baron Funds have provided substantial returns above the CPI inflation rate, which tends to be higher

than the PCE inflation rate. Although we cannot provide any guarantees, we strongly believe that our investment strategy and our active portfolio management style will continue to deliver above-average returns and substantial inflation protection in the future.

Linda S. Martinson
President, and COO

The Baron Funds Have Provided Strong Returns and Inflation Protection

Baron Mutual Funds – Absolute and Relative Performance

as of 6/30/2021 (Institutional Shares)

Asset Class	Fund Name	Fund Total Return (annualized)						Fund Excess Return (annualized, vs. Primary Benchmark)					
		1 Year	3 Years	5 Years	10 Years	20 Years	Since Inception	1 Year	3 Years	5 Years	10 Years	20 Years	Since Inception
Small Cap	Baron Growth Fund	46.19%	21.39%	20.92%	14.92%	11.50%	14.24%	-5.17%	5.45%	2.16%	1.40%	2.51%	5.02%
	Baron Small Cap Fund	47.60%	20.66%	21.50%	14.20%	11.27%	11.65%	-3.76%	4.72%	2.74%	0.68%	2.28%	3.99%
	Baron Discovery Fund	70.06%	27.97%	30.53%			21.55%	18.70%	12.03%	11.77%			8.32%
Small-Mid Cap	Baron Focused Growth Fund	95.00%	39.58%	31.55%	18.44%	14.69%	14.48%	45.37%	19.43%	10.87%	3.61%	4.61%	4.89%
Mid Cap	Baron Asset Fund	36.04%	21.91%	21.70%	15.73%	10.97%	12.56%	-7.73%	-0.48%	1.18%	0.60%	0.75%	1.37%
Large Cap	Baron Fifth Avenue Growth Fund	35.34%	25.94%	27.32%	18.67%		12.25%	-7.16%	0.80%	3.66%	0.80%		-0.17%
	Baron Durable Advantage Fund	36.55%	21.14%				18.93%	-4.24%	2.47%				2.26%
All Cap	Baron Partners Fund	119.55%	47.64%	38.45%	23.88%	16.09%	16.39%	75.78%	25.25%	17.93%	8.75%	5.87%	5.36%
	Baron Opportunity Fund	61.18%	38.62%	35.19%	19.39%	14.12%	11.01%	18.19%	14.15%	11.88%	1.85%	4.40%	4.00%
International	Baron Emerging Markets Fund	42.40%	12.76%	12.66%	7.70%		7.24%	1.50%	1.49%	-0.37%	3.42%		3.08%
	Baron International Growth Fund	44.18%	15.73%	16.50%	9.79%		13.11%	8.46%	6.35%	5.42%	4.34%		4.61%
	Baron Global Advantage Fund	45.78%	34.78%	33.68%			21.07%	6.52%	20.21%	19.07%			9.97%
Sector	Baron Real Estate Fund	61.07%	25.42%	20.49%	16.63%		17.44%	16.80%	11.86%	9.01%	4.52%		4.44%
	Baron Real Estate Income Fund	44.69%	20.18%				17.01%	8.12%	11.35%				9.32%
	Baron Health Care Fund	46.51%	26.81%				27.14%	17.02%	9.06%				9.16%
	Baron FinTech Fund	46.93%					42.27%	6.14%					19.24%
Fund of Funds	Baron WealthBuilder Fund	61.32%	28.45%				26.49%	20.53%	9.78%				9.82%
Other Comparative Benchmarks													
Equity	S&P 500 Index	40.79%	18.67%	17.65%	14.84%	8.61%							
	MSCI EAFE Index	32.35%	8.27%	10.28%	5.89%	5.78%							
Fixed Income	U.S. Long-Term Gov't Bonds	-9.28%	7.65%	2.71%	6.11%	6.56%							
	Long-Term Corp. Bonds (AAA/AA)	0.52%	10.55%	6.07%	7.73%	7.48%							
	U.S. 30-Day T-Bills	0.07%	1.21%	1.06%	0.55%	1.25%							
Commodities	S&P GSCI Index	57.37%	-2.72%	1.73%	-6.48%	-1.53%							
	Gold	-0.73%	12.02%	5.94%	1.54%	9.82%							
Inflation	CPI Inflation	5.39%	2.54%	2.43%	1.87%	2.14%							

Sources: Morningstar Direct, FactSet, U.S. Bureau of Labor Statistics via the Federal Reserve Bank of St. Louis, Baron Capital.

Notes: Excess Returns are calculated versus each Fund’s primary benchmark. Fund Primary Benchmarks: for Baron Growth Fund, Baron Small Cap Fund, and Baron Discovery Fund – Russell 2000 Growth Index; Baron Focused Growth Fund – Russell 2500 Growth Index; Baron Partners Fund and Baron Asset Fund – Russell Midcap Growth Index; Baron Opportunity Fund – Russell 3000 Growth Index; Baron Fifth

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Avenue Growth Fund – Russell 1000 Growth Index; Baron Durable Advantage Fund, Baron WealthBuilder Fund, and Baron FinTech Fund – S&P 500 Index; Baron Emerging Markets Fund – MSCI EM Index; Baron International Growth Fund – MSCI ACWI ex USA Index; Baron Global Advantage Fund – MSCI ACWI Index; Baron Real Estate Fund – MSCI USA IMI Extended Real Estate Index; Baron Real Estate Income Fund – MSCI US REIT Index; Baron Health Care Fund – Russell 3000 Health Care Index. Fund Inception Dates: Baron Growth Fund – 12/31/1994; Baron Small Cap Fund – 9/30/1997; Baron Discovery Fund – 9/30/2013; Baron Asset Fund – 6/12/1987; Baron Focused Growth Fund – 5/31/1996; Baron Partners Fund – 1/31/1992; Baron Opportunity Fund – 2/29/2000; Baron Fifth Avenue Growth Fund – 4/30/2004; Baron Durable Advantage Fund – 12/29/2017; Baron Emerging Markets Fund – 12/31/2010; Baron International Growth Fund – 12/31/2008; Baron Global Advantage Fund – 4/30/2012; Baron Real Estate Fund – 12/31/2009; Baron Real Estate Income Fund – 12/29/2017; Baron Health Care Fund – 4/30/2018; Baron FinTech Fund – 12/31/2019, Baron WealthBuilder Fund – 12/29/2017.

U.S. Long-Term Gov't Bonds are represented by the Ibbotson® U.S. Long-Term Government Bond Index (approximate bond maturity 21.5 years); Long-Term Corporate Bonds are represented by the Ibbotson® Long-Term Corporate Bond Index; U.S. 30-Day T-Bills are represented by the Ibbotson® U.S. 30-Day T-Bill Index; and Gold is represented by the London Bullion Market Gold Fixing Price per Troy Ounce in USD.

Annual expense Ratios for Inst. shares as of 9/30/2020: Baron Asset Fund, 1.05%, Baron Growth Fund, 1.04%, Baron Small Cap Fund, 1.05%, Baron Opportunity Fund, 1.08%, Baron Fifth Avenue Growth Fund, 0.78%, but the net annual expense ratio was 0.75% (net of the Adviser's fee waivers), Baron Discovery Fund, 1.08%, Baron Durable Advantage Fund, 2.40% but the net annual expense ratio was 0.70% (net of the Adviser's fee waivers). Annual expense Ratios for Inst. shares as of 12/31/2020: Baron Partners Fund, 1.30% (comprised of operating expense of 1.05% and interest expense of 0.25%), Baron Focused Growth Fund, 1.07%, Baron International Growth Fund, 1.01%, but the net annual expense ratio was 0.95% (net of the Adviser's fee waivers), Baron Real Estate Fund, 1.08%, Baron Emerging Markets Fund, 1.09%, Baron Global Advantage Fund, 0.92%, but the net annual expense ratio was 0.90% (net of the Adviser's fee waivers), Baron Real Estate Income Fund, 3.45%, but the net annual expense ratio was 0.80% (net of the Adviser's fee waivers), Baron Health Care Fund, 1.45%, but the net annual expense ratio was 0.85% (net of the Adviser's fee waivers), Baron FinTech Fund, 2.43%, but the net annual expense ratio was 0.95% (net of the Adviser's fee waivers), and Baron WealthBuilder Fund, 1.22%, but the net annual expense ratio was 1.11% (includes acquired fund fees and expenses of 1.06%, net of the Adviser's fee waivers).

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 Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2031, unless renewed for another 11-year term and 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.

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Performance for the Institutional Shares prior to 5/29/2009 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 5/29/2009 did not reflect this fee, the returns would be higher.

Discovery Fund's 2Q 2021, YTD, 1-, 3- and 5-year, Global Advantage Fund's YTD, 1-, 3- and 5-year, Opportunity Fund's 3-, 5- and 10-year, and Real Estate Fund's 2Q 2021 historical performance were impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Funds' level of participation in IPOs will be the same in the future.

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

There is no guarantee that the objectives discussed will be met.

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on 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 at any time based on market and other conditions and Baron has no obligation to update them.

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