BARON CAPITAL

Baron Perspective

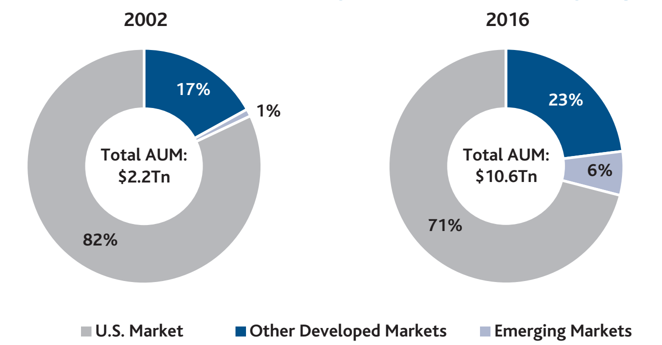
March 31, 2017

Going Global

Baseball is a game driven by statistics, and one of those is relevant to this letter: the number of foreign-born players on MLB rosters. For the 2016 season, about 38% of MLB players were not born in the U.S. More of those players came from the Dominican Republic than any other country. The NBA has about 25% foreign-born players on its rosters, from 41 different countries. And 73% of NHL players were not born in the U.S. No surprise here, but the largest number come from Canada.

American sports teams have recognized the value of going global, and so have American investors. As international capital markets have developed and expanded, and as technologies and communications have advanced, investors have been able to diversify their portfolios and take advantage of investment opportunities across the world. Investments by mutual funds and ETFs in foreign equities have thus increased significantly, as shown in the charts below.

U.S. Investors Have Been Increasing Investments in Foreign Equities



Source: Morningstar Direct and BAMCO, Inc.

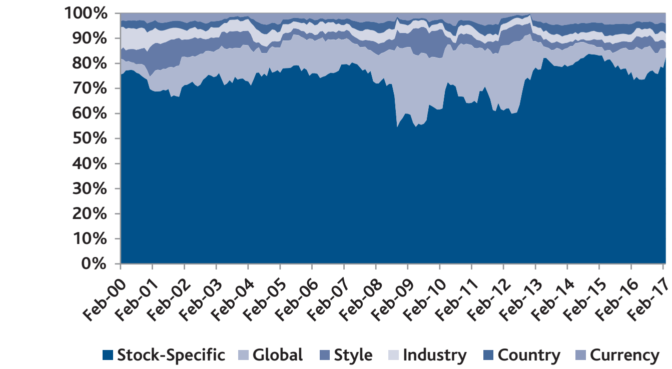
Active vs. Passive in Global Equity Investing

With more than 40,000 publicly traded companies in the world, the choice in front of global equity investors seems immense. About half of these companies are in developing economies (according to MSCI's classification) where the markets are considered inefficient. In the world of asset management, inefficiency translates into an opportunity for active managers with a research edge to capitalize on it.

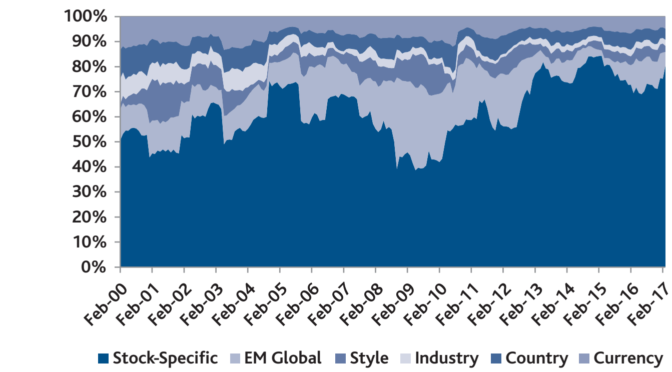
A recent analysis by Deutsche Bank Research showed that currently about three quarters of "the total alpha on the table" available to global and emerging markets investors is expected to come from stock selection while the remaining one quarter is expected to come from top-down factors, such as picking the right countries, industries, and styles. Thus, skilled stock pickers in particular have a significant opportunity to stand out.

Global Stock Pickers Have a Significant Opportunity

Sources of Alpha in the Global Opportunity Set



Sources of Alpha in the Emerging Markets Opportunity Set



Source: Deutsche Bank Markets Research, The Quant View

As investors have been increasing their allocations to foreign equities, it makes sense that active managers would be receiving the lion's share of those flows. After all, they have the potential to provide not only asset class exposure but also positive excess returns. Yet, what has been happening in practice is different – passive products have recently been getting the flows. Just this quarter, passive U.S. funds invested in foreign equities received over $50 billion of net flows while the active funds lost $3.5 billion.

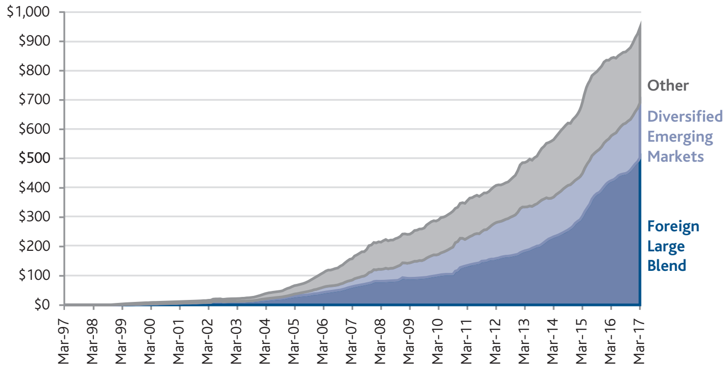
Passive products are a fairly recent option in foreign equity investing. At the end of 2000, just 16 years ago, U.S. investors had a choice of 31 index funds and four ETFs[1] that tracked an international or a global index. As passive investing gained traction, these numbers increased significantly. Flows started becoming meaningful in the mid-2000s, but two categories have been the primary recipients – Foreign Large Blend and Emerging Markets, as shown in the chart below. As of March 31, 2017, the combined assets of the passive funds in these two categories accounted for 74% of the total assets invested in foreign passive equity products.

[1] Source: Morningstar Direct. Excludes products tracking single-country indexes.

Flows into Passive Foreign Equity Products Have Been Rising Steadily

Cumulative Net Flows in Passive U.S. Foreign Equity Products

3/31/1997 – 3/31/2017, in billions



Source: Morningstar Direct and BAMCO, Inc.

"Other" includes the following Morningstar categories: China Region, Diversified Pacific/Asia, Europe Stock, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, India Equity, Japan Stock, Latin America Stock, Miscellaneous Region, Pacific Asia/ex-Japan Stk, and World Stock.

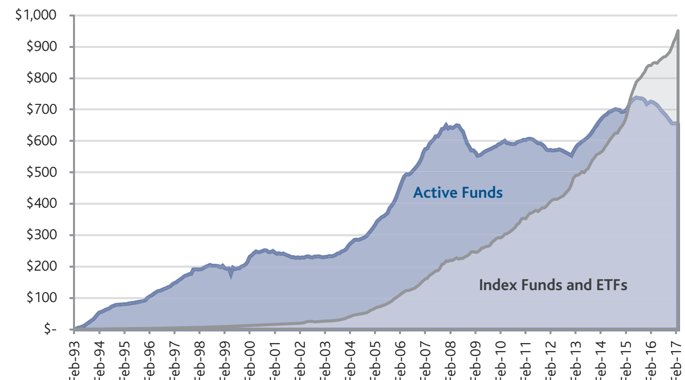
The rising popularity of passive investing in U.S. equities coupled with the need for diversification is one of the big drivers behind the exponential growth of net flows in foreign passive equity products. **However, what is surprising to us is that this expansion has, in large part, come at the expense of active managers despite their strong results and the significant inefficiencies still available in foreign markets.**

After a period of strong growth, the net flows in foreign active equity products slowed down in the first years after the financial crisis. One would think this was only natural since, at the time, investors were flocking toward safer assets after the major indexes dropped by over 60% from their peaks. Well… not entirely so. Flows into index funds and ETFs continued to increase, almost as if nothing had happened. Active products started receiving attention again in 2013, but by 2015 their cumulative inflows since 1993 (when Morningstar's data set starts) had been surpassed by those of passive products. Since mid-2015 investors have been withdrawing funds from active while passive has continued its exponential growth, as seen in the chart below.

Passive Foreign Equity Products Have Become the Preferred Option for U.S. Investors

Cumulative Net Flows in Foreign Equity Products

2/28/1993 – 3/31/2017, in billions



Source: Morningstar Direct and BAMCO, Inc.

Perhaps, because investors have been growing comfortable with passive U.S. equity products, they embraced the passive approach to foreign equities a bit too casually and without considering the value that could be added by active managers. Whatever the reasons behind investors' behavior, we think it is a mistake.

Morningstar data shows that, as of March 31, 2017, nearly half of active foreign equity managers outperformed their primary benchmark* on a three-year basis, by 171 bps on average. The outperformance rates are better over the long-term – 51% outperformed over five and 10 years. The outperformance rates in the two most popular foreign equity categories were similar. These rates of outperformance are between 1.5-2.5 times higher than those of active managers in U.S. equities, as shown in the table below.

A Significant Portion of Active Foreign Equity Managers Have Outperformed

Historical Track Record of Active Managers in Select Equity Categories

as of 3/31/2017

		Foreign Large Blend	Foreign Large Growth	Foreign Large Value	Diversified Emerging Markets	World Stock	All Foreign Funds	All U.S. Funds
Based on 1-Yr Excess Returns	% Active Funds Outperforming	33%	19%	42%	55%	33%	37%	32%
	Average Excess Return – All Active Funds	–1.43%	–3.03%	–0.39%	0.08%	–1.28%	–1.09%	–1.87%
	Average Excess Return – Outperforming Funds	2.16%	2.41%	3.50%	3.89%	3.75%	3.55%	3.19%
Based on 3-Yr Excess Returns	% Active Funds Outperforming	54%	59%	31%	52%	35%	45%	20%
	Average Excess Return – All Active Funds	–0.14%	0.58%	–0.76%	–0.13%	–1.20%	–0.39%	–2.07%
	Average Excess Return – Outperforming Funds	1.17%	1.85%	1.27%	1.66%	1.64%	1.71%	1.30%
Based on 5-Yr Excess Returns	% Active Funds Outperforming	44%	59%	35%	67%	39%	51%	20%
	Average Excess Return – All Active Funds	–0.31%	0.52%	–0.56%	0.54%	–0.66%	–0.01%	–1.66%
	Average Excess Return – Outperforming Funds	1.22%	1.74%	1.07%	1.71%	1.68%	1.70%	1.04%
Based on 10-Yr Excess Returns	% Active Funds Outperforming	45%	79%	35%	41%	47%	51%	34%
	Average Excess Return – All Active Funds	–0.01%	0.81%	–0.53%	–0.34%	–0.26%	0.07%	–0.64%
	Average Excess Return – Outperforming Funds	1.40%	1.22%	0.66%	1.12%	1.24%	1.39%	1.10%

Source: Morningstar Direct and BAMCO, Inc.

The results from our high-level analysis include all active managers, good and bad.

In our opinion, a meaningful percentage of active foreign equity managers have outperformed and delivered significant excess returns. On the other hand, the hundreds of billions of dollars flowing in passive have received only average returns, missing a significant opportunity to outperform and leaving hundreds of basis points of excess return on the table.

Baron's Approach to Foreign Equity Investing

At Baron, we have three funds that have been investing in foreign equities with even more impressive results (see tables on page 7):

- **Baron International Growth Fund**, which invests mainly in non-U.S. growth companies in developed countries
- **Baron Emerging Markets Fund**, which invests mainly in non-U.S. growth companies in developing countries
- **Baron Global Advantage Fund**, which invests in growth companies around the world

Like every Baron product, all three funds invest with a long-term view, and their primary objective is to generate excess returns driven by positive stock selection. To find great companies, their managers leverage Baron's four main bottom-up investment criteria: (i) significant growth opportunities; (ii) sustainable competitive advantages; (iii) strong, visionary management; and (iv) attractive valuations. To further narrow down the vast opportunity set, they apply additional criteria and overlays that are specific for each Fund. While the portfolio managers are mindful of currency fluctuations, none of the Funds use currency hedging, as our objective is to provide full exposure.

Baron International Growth Fund has been managed by Michael Kass since its inception in December 2008. The portfolio typically consists of 65-80 stocks, with the top 10 by weight representing 24% as of March 31, 2017. Michael takes significant active positions and, as a result, the Fund has an active share of 93%[2] and a three-year tracking error of 4.87%[2] against its primary benchmark, the MSCI ACWI ex USA IMI Growth Index. The charts below show the Fund's absolute and relative exposures by sector and geography.

[2] As of 3/31/2017

* The calculations are based on excess returns of each fund's oldest share class vs. the primary prospectus benchmark. For the funds with missing primary prospectus benchmark information, excess returns were calculated vs. the secondary prospectus benchmark. For the funds with missing primary and secondary benchmark information, excess returns were calculated vs. the Morningstar category benchmark.

Baron International Growth Fund is Different from its Benchmark

Baron International Growth Fund vs. MSCI ACWI ex USA IMI Growth Index
as of 3/31/2017

Countries	Portfolio Weight	Benchmark Weight	Underweight | Overweight
China	12.0%	6.3%	5.7%
Israel	6.1%	0.6%	5.5%
United States	4.3%	0.0%	4.3%
Spain	4.0%	1.2%	2.8%
India	4.9%	2.1%	2.8%
Argentina	1.5%	0.0%	1.5%
Panama	1.3%	0.0%	1.3%
Brazil	2.8%	1.7%	1.1%
Norway	1.4%	0.5%	0.9%
Ireland	1.3%	0.6%	0.7%
United Kingdom	12.3%	11.7%	0.6%
Chile	0.8%	0.3%	0.5%
Nigeria	0.4%	0.0%	0.4%
Indonesia	0.9%	0.6%	0.3%
Germany	6.3%	6.3%	0.0%
Russia	0.8%	0.9%	-0.1%
France	4.8%	5.8%	-1.0%
Japan	15.6%	16.9%	-1.3%
Netherlands	1.4%	3.2%	-1.8%
Hong Kong	0.5%	2.3%	-1.8%
Australia	3.2%	5.1%	-1.9%
Canada	4.7%	6.6%	-1.9%
Switzerland	2.1%	8.1%	-6.0%
Other Developed	--	7.6%	-7.6%
Other Emerging	--	11.7%	-11.7%

Baron International Growth Fund vs. MSCI ACWI ex USA IMI Growth Index
as of 3/31/2017

Sector	Portfolio Weight	Benchmark Weight	Underweight | Overweight
Info Tech	24.8%	15.4%	9.4%
Financials	11.6%	7.3%	4.3%
Consumer Disc	17.1%	13.6%	3.5%
Energy	5.5%	3.4%	2.1%
Telecom Servs	4.5%	3.0%	1.5%
Industrials	13.8%	14.4%	-0.6%
Utilities	0.3%	1.8%	-1.5%
Real Estate	0.9%	2.6%	-1.7%
Health Care	10.2%	12.8%	-2.6%
Materials	2.3%	8.5%	-6.2%
Consumer Staples	2.4%	17.2%	-14.8%

Source: MSCI and BAMCO, Inc.

Michael's investment approach is a combination of investment themes and fundamental bottom up stock selection. His search for high-quality growth businesses begins with finding defined, long-term actionable themes. This helps him to simultaneously narrow the broad universe of stocks and identify the opportunities with the highest likelihood of the greatest value creation, in his view.

The themes are based on important changes or trends that suggest the potential for a significant improvement in profitability, return on capital, or growth potential, often for an entire industry or group of companies. They fall into two broad categories. The first involve industry-wide trends, such as a shift toward consolidation or vertical integration or technology-driven transformation. The second category involves region- or country-specific trends or developments, which are most often driven by political developments and/or economic, labor, or other policy reforms that present material opportunities to targeted industries or companies. In addition, Michael factors in global macro-economic developments to better balance opportunities and risk.

One of the current themes in the portfolio is the diminishing pool of cheap labor coupled with increasing demand for manufacturing and business productivity. As global labor costs are rising, manufacturers are increasingly turning to industrial automation and robots to enhance productivity. This is especially true throughout Asia, particularly in China. One of Michael's picks that is, in his view, strongly positioned to benefit from this trend is FANUC Corp., a Japanese leading developer and manufacturer of factory robots and automation equipment. The company's strong R&D capabilities and ability to sell integrated solutions (software and robots) to its customers enable it to stay ahead of competition and maintain over 50% market share. Some of the other themes that are currently incorporated in the portfolio are included in the table below.

Sample Investment Themes in Baron International Growth Fund

Theme	Investment Opportunity
Growing market share of e-commerce	Mobile e-commerce allows merchants to eliminate the most capital intensive element of their business: property investment. Market leaders benefit from platform and scale effects suggesting many years of market share gains.
The growing need for supply chain logistics and distribution	With increasing globalization, superior handling of the logistics of the supply and distribution chain that can stretch across countries and continents can provide a key competitive advantage.
Increased regulation and more consumer demand for safer products	The testing and certification industry is benefiting from secular trends that include more stringent regulation, outsourcing of testing, globalization, and growing consumer demand for safe, high quality, green products.

Finding attractive investment themes is only part of the work toward finding the best long-term opportunities for Baron International Growth Fund. Once Michael has identified companies that could benefit from the themes, he leverages Baron's rigorous bottom-up research process to develop and confirm his investment premises and validate key fundamental criteria. He is particularly focused on finding entrepreneurial managements with significant ownership stakes and strong abilities to allocate capital efficiently. He also looks for companies with high and sustainable operating margins, shareholder-friendly governance, and no direct government control.

This investment approach has delivered consistent, strong results since the inception of the Fund, driven strongly by stock selection. See page 7 of this letter for additional details regarding performance. Michael Kass has been using the same approach to invest in emerging markets, with similar success.

Baron Emerging Markets Fund has been managed by Michael Kass since its inception in December 2010. The portfolio typically consists of 80-100 stocks, with the top 10 by weight representing 21% as of March 31, 2017 Michael takes significant active positions and, as a result, the Fund has an active share of 82%[3] and a 3-year tracking error of 4.82%[3] against its primary benchmark, the MSCI EM IMI Growth Index. The charts below show the Fund's absolute and relative exposures by sector and geography.

Baron Emerging Markets Fund is Different from its Benchmark

Baron Emerging Markets Fund vs. MSCI EM IMI Growth Index

as of 3/31/2017

Countries	Portfolio Weight	Benchmark Weight	Underweight | Overweight
India	15.5%	9.3%	6.2%
Panama	1.7%	0.0%	1.7%
Hong Kong	1.7%	0.0%	1.7%
Argentina	1.7%	0.0%	1.7%
Mexico	5.1%	3.5%	1.6%
Singapore	1.4%	0.0%	1.4%
Philippines	2.3%	1.2%	1.1%
Chile	1.9%	1.1%	0.8%
United Kingdom	0.6%	0.0%	0.6%
United States	0.3%	0.0%	0.3%
Nigeria	0.3%	0.0%	0.3%
Indonesia	2.5%	2.5%	0.0%
China	26.1%	26.7%	-0.6%
Russia	3.0%	3.7%	-0.7%
Thailand	0.7%	2.4%	-1.7%
Malaysia	0.7%	2.5%	-1.8%
Brazil	5.1%	7.0%	-1.9%
South Africa	4.4%	6.6%	-2.2%
Taiwan	8.7%	12.6%	-3.9%
Other Emerging	--	5.5%	-5.5%
Korea	7.6%	15.5%	-7.9%

Baron Emerging Markets Fund vs. MSCI EM IMI Growth Index

as of 3/31/2017

Sector	Portfolio Weight	Benchmark Weight	Underweight | Overweight
Financials	17.2%	12.4%	4.8%
Telecom Servs	5.0%	1.9%	3.1%
Consumer Disc	17.5%	15.0%	2.5%
Energy	4.4%	2.5%	1.9%
Real Estate	2.1%	2.0%	0.1%
Utilities	1.6%	2.1%	-0.5%
Consumer Staples	9.1%	10.5%	-1.4%
Health Care	4.4%	5.9%	-1.5%
Materials	2.8%	5.4%	-2.6%
Industrials	3.4%	6.6%	-3.2%
Info Tech	23.8%	35.5%	-11.7%

Source: MSCI and BAMCO, Inc.

Similarly to Baron International Growth Fund, Michael has been combining investment themes and fundamental bottom up stock picking to manage Baron Emerging Markets Fund. While many of the themes used in these two Funds overlap, there are several specific to emerging markets.

The global policy shift to support domestic consumption and the expansion of the middle class have been changing the consumption patterns and demand for household products, autos, entertainment, travel, and education, among others. One of the Fund's investments that is, in our opinion, positioned to benefit significantly from this secular change is Maruti Suzuki India Ltd., India's largest automobile manufacturer. It has established a leading position, with approximately 47% market share in India. The company has developed strong brand loyalty and distribution and service networks throughout India. As management has increased investment in R&D and production capacity, the company has gained an additional competitive advantage in an industry that is seeing increased demand. We believe this will lead to more than 15% growth in revenues and earnings over the next few years.

Through over 30 years of research and investment experience, Michael has developed a deep understanding of emerging markets and has formed a unique view. As he explains, the first wave of growth and value creation in emerging economies is behind us and we are now in the second stage, which he calls **Emerging Markets 2.0**. From the mid-1980s through 2010, the growth in emerging economies was driven by capital investment in cyclical, commodity-dependent economic sectors. Lending was controlled by governments through state-owned banks while state-owned enterprises held dominant market positions. This resulted in high leverage, inefficient capacity utilization, and declining return on invested capital. The long cycle peaked around 2010, and the aftermath of the financial crisis prompted a wave of policy changes and shift of resources towards the most efficient agents of the emerging economies. This was the beginning of Emerging Markets 2.0, defined by the emphasis on intellectual capital and investment into capital-efficient, productivity-enhancing, and value-creating companies and industries. State sectors have been undergoing reforms, private enterprises have had an increasing role, and capital markets have become a valuable resource for financing. All of these changes should lead to slowing credit creation and rising returns on invested capital. The shift has created multiple new investment themes and opportunities, including the ones listed in the table below.

Sample Investment Themes in Baron Emerging Markets Fund

Theme	Investment Opportunity
Diminishing pool of cheap labor plus increasing demand for manufacturing and business productivity	• Enhanced labor productivity and quality control using robotics in manufacturing processes • Larger players will continue to gain market share with increased scale/ investment in R&D
Increased role of capital markets in allocating capital	• Significant opportunity for private capital to offer underpenetrated consumer finance products/services • Gov't owned entities/banks lack the expertise and capital to service unmet demand
Meaningful government or political reforms	• Implementation of goods & services tax in India will enhance productivity and growth; organized players will gain market share • Increased focus of Chinese gov't to rationalize industrial overcapacity to improve efficiency/ROIC

In our view, this approach has made the Fund highly unique and distinct from peers. What is also important is that it has been highly successful, as you can see in the tables on page 7.

[3] As of 3/31/2017

Baron Global Advantage Fund has been managed by Alex Umansky since its inception in April 2012 and will be five years old in a couple of weeks. The portfolio typically consists of 40-50 positions to avoid over diversification, with the top 10 by weight representing 45% as of March 31, 2017. With an active share of 91%[4] and a three-year tracking error of 8.82%[4], the Fund is highly differentiated from its benchmark, the MSCI ACWI Growth Index. This is as a result of the manager's bottom-up stock selection process and conviction-based weighting, while sector and country weights tend to be an outcome rather than a target.

Baron Global Advantage Fund is Different from its Benchmark

Baron Global Advantage Fund vs. MSCI ACWI Growth Index

as of 3/31/2017

Sector	Portfolio Weight	Benchmark Weight	Underweight | Overweight
Info Tech	48.6%	23.6%	25.0%
Consumer Disc	26.4%	16.9%	9.5%
Financials	7.1%	6.1%	1.0%
Utilities	--	0.9%	-0.9%
Energy	2.3%	3.9%	-1.6%
Telecom Servs	--	1.7%	-1.7%
Real Estate	--	2.6%	-2.6%
Health Care	9.3%	14.2%	-4.9%
Materials	--	5.2%	-5.2%
Industrials	--	12.3%	-12.3%
Consumer Staples	--	12.7%	-12.7%

Baron Global Advantage Fund vs. MSCI ACWI Growth Index

as of 3/31/2017

Countries	Portfolio Weight	Benchmark Weight	Underweight | Overweight
China	17.7%	3.0%	14.7%
Israel	8.0%	0.2%	7.8%
South Africa	4.5%	0.7%	3.8%
India	2.7%	0.9%	1.8%
Argentina	1.7%	0.0%	1.7%
Netherlands	2.2%	1.6%	0.6%
Canada	3.5%	3.0%	0.5%
Brazil	1.1%	0.8%	0.3%
Taiwan	1.1%	1.3%	-0.2%
United Kingdom	1.9%	5.4%	-3.5%
Other Emerging	--	4.1%	-4.1%
United States	48.0%	53.9%	-5.9%
Japan	1.3%	7.5%	-6.2%
Other Developed	--	17.5%	-17.5%

Source: MSCI and BAMCO, Inc.

In Alex's opinion, digitization is the most pervasive shift affecting businesses globally. Information that was previously stored in a variety of formats is being converted into digital so it can be easily analyzed and accessed. The digital transformation has been prompted by meaningful advancements in artificial intelligence and machine learning. Alex believes this transformation will reach a tipping point in the next few years. As digital disruptors increasingly undermine the business models of digital laggards, the pressure on enterprises to undergo a digital transformation is growing.

As businesses are becoming more digitized, their interaction with consumers is fundamentally changing, disrupting existing business models and opening space for brand new ones. The rapidly growing penetration of mobile technologies and the internet is giving companies access to huge and diverse addressable markets, and those that can grasp the opportunity can create significant long-lasting strategic and competitive advantages.

The disruptive rate of digital transformation opens new investment opportunities and closes others. This is very important to understand, especially when investing for the long term. Through 25 years of investment experience, Alex has learned to put a particularly strong emphasis on sustainability of competitive advantages when analyzing current or potential investments. He also focuses on free cash flow yield, returns on invested capital, and management's ability to reinvest excess capital at high rates of return over extended periods of time.

Alex believes that platform companies that are beneficiaries of scalable network effects and have large addressable markets have the best growth opportunities in the world today. Companies such as Alibaba Group Holding Limited and Naspers Limited have built platforms others can use to easily connect their businesses, market and sell their products and services, and co-create value. Alex has a high conviction that platform businesses are among the best positioned to benefit from secular long-term global growth opportunities. However, he makes an important distinction between **emerged** platform companies, which have clear benefits of network effects, and **emerging** companies, which have a significant opportunity to become platforms. The first group includes 16 companies in the portfolio, like Illumina, Inc. and JUST EAT plc, and represents 49% of the Fund's assets[4]. These companies have inherently diversified businesses, which helps to mitigate their risk. The second group also includes over a dozen investments, like Taiwan Semiconductor Manufacturing Company Ltd and Check Point Software Technologies Ltd, and represents 21% of the Fund's assets[4]. These companies tend to be in earlier growth-stages and sometimes experience higher short-term volatility.

While 70% of the Fund's assets are invested in platform companies, this group is also highly diverse in terms of stage of business growth, product type, customer base, and geographic source of revenues, to name a few, which provides an attractive balance of risks and opportunities. Currently, 16 of the Fund's platform businesses are classified in the Information Technology sector and the other 13 are classified in Consumer Discretionary, Health Care, and Financials. In our opinion, this investment approach makes Baron Global Advantage Fund unique among its peer group.

Alex looks for high growth both on a global scale and in local markets, which is another distinctive characteristic of his investment approach. Emerging economies and China in particular offer significant opportunities, in his view. After decades of rapid economic growth (that still continues), today China is the second largest economy in the world, representing 15.5% of the global GDP. At the same time, the economy has been in an ongoing transition from manufacturing-driven to services-driven and governance and reform have been improving steadily. Spending on new infrastructure, like roads and communication networks, has been rising and the quality of education has been improving. All of these have been facilitating the expansion of the middle class which, in turn, has shifted consumer interests and spending patterns.

While some investors may perceive this environment as risky, Alex has identified some attractive opportunities whose potential long-term returns, he believes, outweigh the risks. As a result, nearly 18% of Baron Global Advantage Fund's assets are invested in Chinese companies. Investments include Alibaba Group Holding Ltd. (the Amazon of China), Ctrip.com Intl. (the Priceline of China), and TAL Education Group (a leading, rapidly-expanding K-12 tutoring company). On the other hand, MSCI's index methodology is not designed to reflect a country's economic significance or growth potential and, as a result, China represents only 3% in the MSCI ACWI Growth Index. Thus, the Fund has a significant overweight in this country.

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4 As of 3/31/2017

Track Record of the International Baron Funds

Following their respective investment approaches, the three Baron Funds have generated outstanding excess returns, driven by superior stock selection. The table below shows that we generated significant stock specific returns over the one-, three-, and five-year periods ending March 31, 2017 and since inception.

The International Baron Funds Have Delivered Outstanding Results Due to Stock Selection

Annualized Returns as of 3/31/2017

Fund Name		**Baron International Growth Fund**	**Baron Emerging Markets Fund**	**Baron Global Advantage Fund**
Primary Prospectus Benchmark		MSCI AC World ex USA IMI Growth Index	MSCI EM IMI Growth Index	MSCI All Country World Growth Index
1-Year	Fund Return	13.55%	16.64%	21.94%
	Excess Return vs. Primary Benchmark	4.02%	0.95%	8.95%
	Excess Return From Stock Specific Effect	7.63%	2.27%	13.93%
3-Year	Fund Return	3.02%	2.19%	5.92%
	Excess Return vs. Primary Benchmark	1.33%	0.26%	–0.37%
	Excess Return From Stock Specific Effect	6.93%	2.29%	7.30%
5-Year	Fund Return	6.65%	5.94%	n/a
	Excess Return vs. Primary Benchmark	1.60%	3.49%	n/a
	Excess Return From Stock Specific Effect	5.33%	5.39%	n/a
Since Inception	Fund Return	11.32%	4.01%	10.46%
	Excess Return vs. Primary Benchmark	2.59%	3.56%	1.31%
	Excess Return From Stock Specific Effect	5.29%	4.70%	5.22%

Source: BAMCO, Inc. and MSCI.

The Annual expense ratio for the Institutional Shares as of December 31, 2016 for Baron International Growth Fund was 1.36%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers), for Baron Emerging Markets it was 1.13% and for Baron Global Advantage Fund it was 3.55%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers).

Notes: Fund inception dates: Baron International Growth Fund – 12/31/2008, Baron Emerging Markets Fund – 12/31/2010, Baron Global Advantage Fund – 4/30/2012. Fund returns and excess returns vs. primary benchmark are based on each Fund's Institutional Share class performance. ***Stock specific effects*** *are the result of the Funds' factor-based performance attributions versus their respective benchmarks.* ***Factor-based performance attribution*** *is the process of attributing excess performance to different factors or groups of factors using a multi-factor model (in this case the MSCI Barra GEM2-L model, see page 8 for more information). It allows for the assessment of sources of returns based on several return components, including style return, country return, currency return, industry return, and stock specific returns. The proportion of excess return that is not attributed to these components or common factors (countries, industries, currencies, and styles) is attributed to company-specific sources or events. In this letter, this is referred to as "Excess Return From Stock Specific Effect". The calculations above are transaction-based and are produced from the underlying security-level data.*

In addition, our strong relative results have been highly persistent over time, particularly over the medium and long terms, as shown in the table below.

The International Baron Funds Have Performed Better Than Peer Group Average

Historical Track Record of the International Baron Funds as of 3/31/2017

			Baron International Growth Fund	**Baron Emerging Markets Fund**	**Baron Global Advantage Fund**
1-Year Monthly Rolling Excess Returns	Fund	% of Time Outperformance	82%	78%	56%
		Average Excess Return	2.71%	3.94%	1.37%
	Category Average	% of Time Outperformance	61%	52%	46%
		Average Excess Return	0.44%	–0.10%	–0.03%
3-Year Monthly Rolling Excess Returns	Fund	% of Time Outperformance	100%	95%	67%
		Average Excess Return	2.16%	4.58%	0.56%
	Category Average	% of Time Outperformance	85%	58%	50%
		Average Excess Return	0.73%	0.15%	–0.09%
5-Year Monthly Rolling Excess Returns	Fund	% of Time Outperformance	100%	100%	n/a
		Average Excess Return	2.20%	4.08%	n/a
	Category Average	% of Time Outperformance	100%	81%	n/a
		Average Excess Return	0.73%	0.15%	n/a

Source: Morningstar Direct.

The % of time outperformance rates for each Fund and the corresponding category average are calculated since each Fund's inception date until 3/31/2017. Fund inception dates: Baron International Growth Fund – 12/31/2008; Baron Emerging Markets Fund – 12/31/2010; Baron Global Advantage Fund – 4/30/2012.

Baron International Growth Fund's primary benchmark is the MSCI AC World ex USA IMI Growth Index; Baron Emerging Markets Fund's primary benchmark is the MSCI EM IMI Growth Index; Baron Global Advantage Fund's primary benchmark is MSCI All Country World Growth Index. Baron International Growth Fund's Morningstar category is US Fund Foreign Large Growth; Baron Emerging Markets Fund's Morningstar category is US Fund Diversified Emerging Mkts; Baron Global Advantage Fund's Morningstar category is US Fund World Stock.

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 has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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.

We think investors are selling themselves short when they invest in passive products, especially in the foreign asset classes. There are many inefficiencies which can be capitalized on by skilled active managers. Since the inception of our international Funds, our investment team has been uncovering inefficiencies and achieving strong results as evidenced by the Funds' superior batting averages, as shown in the table above.

Linda S. Martinson
President and COO

Inside the Baron Funds Investor, Spring 2017

In our latest Baron Investor piece, Baron Asset Fund Portfolio Manager Andrew Peck describes his distinctive approach to investing in mid-cap growth companies. To read, please go to www.BaronFunds.com.

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.

Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. In addition to the general stock market risk that securities may fluctuate in value, investments in developing countries may have increased risks due to a greater possibility of: settlement delays; currency and capital controls; interest rate sensitivity; corruption and crime; exchange rate volatility; and inflation or deflation.

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.

Baron Global Advantage Fund's historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

Portfolio holdings as a percentage of net assets as of March 31, 2017 for securities mentioned are as follows: **FANUC Corp.** – Baron International Growth Fund (1.9%); **Maruti Suzuki India Ltd.** – Baron International Growth Fund (1.1%), Baron Emerging Markets Fund (1.4%); **Alibaba Group Holding Limited** – Baron Opportunity Fund (2.1%), Baron Fifth Avenue Growth Fund (6.6%), Baron International Growth Fund (2.1%), Baron Emerging Markets Fund (3.5%), Baron Global Advantage Fund (6.4%); **Naspers Limited** – Baron Fifth Avenue Growth Fund (2.8%), Baron Global Advantage Fund (4.5); **Illumina, Inc**. – Baron Asset Fund (2.2%), Baron Opportunity Fund (1.4%), Baron Fifth Avenue Growth Fund (3.5%), Baron Global Advantage Fund (2.1%); **JUST EAT plc.** – Baron International Growth Fund (0.7%), Baron Global Advantage Fund (1.9%), Baron Discovery Fund (2.1%); **Taiwan Semiconductor Manufacturing Company Ltd.** – Baron Emerging Markets Fund (2.1%), Baron Global Advantage Fund (1.1%); **Check Point Software Technologies Ltd.** – Baron International Growth Fund (1.6%), Baron Global Advantage Fund (1.2%); **Ctrip.com International, Ltd.** – Baron Opportunity Fund (1.5%), Baron Fifth Avenue Growth Fund (3.0%), Baron International Growth Fund (1.0%), Baron Emerging Markets Fund (1.4%), Baron Global Advantage Fund (4.4%); **TAL Education Group** – Baron International Growth Fund (1.3%), Baron Emerging Markets Fund (1.6%), Baron Global Advantage Fund (3.6%).

Portfolio holdings may change over time.

The Fund may not achieve its objectives. Current and future portfolio holdings are subject to risk.

Definitions (provided by BAMCO, Inc.): **MSCI ACWI ex USA IMI Growth Index** is an unmanaged, free float-adjusted market capitalization weighted index. It measures the performance of large, mid, and small-cap growth securities across developed and developing markets, excluding the U.S**. MSCI EM IMI Growth Index** is a free float-adjusted market capitalization index designed to measure equity market performance of large, mid and small-cap securities exhibiting overall growth characteristics across 23 Emerging Markets countries. The index returns reflect the reinvestment of dividends and other earnings, which positively impact performance results. **MSCI ACWI Growth Index** is unmanaged free float-adjusted market capitalization weighted index designed to measure the performance of large- and mid-cap securities classified as growth in the developed and emerging markets. **Active Share** a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management. **Tracking Error** measures how closely a fund's return follows the benchmark index returns. It is calculated as the annualized standard deviation of the difference between the fund and the index returns. **Alpha** measures the difference between a fund's actual return and its expected performance, given it's level of risk as measured by beta. **MSCI Barra's GEM2-L model:** The Barra Global Equity Model 2 – Long (GEM2-L) is a multi-factor regression model that decomposes local excess stock returns into a systematic component (due to factors) and a stock-specific component. The model covers about 45,000 stocks across all geographies (including U.S. stocks). A factor is any characteristic of a stock (such as its size or its forecast earnings growth) that explains its risk and expected return. The equity factor set in GEM2-L includes a world market factor, 55 country factors, 34 industry factors, and 8 style factors (growth, value, financial leverage, size, size non-linearity, volatility, momentum, and liquidity). Factor returns can be estimated on a daily, weekly, or monthly basis.

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We offer thirteen mutual funds in retail, institutional, and R6 share classes, collective investment trusts, separately managed accounts, sub-advisory services and an offshore fund.

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BARON EMERGING MARKETS STRATEGY
BARON ENERGY & RESOURCES STRATEGY
BARON FOCUSED GROWTH STRATEGY
BARON FOCUSED HIGH GROWTH STRATEGY
BARON GLOBAL ADVANTAGE STRATEGY
BARON HIGH GROWTH STRATEGY
BARON INTERNATIONAL GROWTH STRATEGY
BARON LARGE CAP GROWTH STRATEGY
BARON MID CAP GROWTH STRATEGY
BARON REAL ESTATE STRATEGY
BARON SMALL CAP GROWTH STRATEGY
BARON SMALL TO MID CAP GROWTH STRATEGY

MUTUAL FUNDS

BARON ASSET FUND
BARON DISCOVERY FUND
BARON EMERGING MARKETS FUND
BARON ENERGY AND RESOURCES FUND
BARON FIFTH AVENUE GROWTH FUND
BARON FOCUSED GROWTH FUND
BARON GLOBAL ADVANTAGE FUND
BARON GROWTH FUND
BARON INTERNATIONAL GROWTH FUND
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