BARON FUNDS

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INVESTOR

VOLUME 13/NO. 2 • SUMMER 2016

Baron Fifth Avenue Growth Fund

A Distinctive Approach to Large Cap Growth Investing

The large cap equity market is widely viewed as a bulwark of every well-balanced investment portfolio. The thinking among investors is that a large cap allocation functions as ballast, given the perceived relative stability inherent in most big, well-established companies. This reasoning, combined with the belief that the efficiency of this asset category makes it especially challenging for active managers to beat the benchmark, tends to steer many large cap investors toward passive investment vehicles.

While we understand the thinking behind passive investing in the large cap category, its emphasis is on the lower-growth, dividend-generating stocks that dominate the space. For a smart, targeted approach to growth investing in large cap equities, we believe an actively managed fund such as Baron Fifth Avenue Growth Fund is the better choice.

The large cap category contains some of the world's most successful companies. Consider that Google parent **Alphabet, Inc.** has a market cap of $470 billion,[1] nearly 100 times the size of the smallest large cap companies.[2] To uncover these large cap growth opportunities, portfolio manager Alex Umansky looks for big ideas in fast growing markets with the potential to become mega markets of unprecedented size.

We employ a margin of safety, investing only when the company is trading at a price at least 20% below our estimate of intrinsic value. Our adherence to this principle means that we look for companies we believe are still early in the growth stage of their life cycle. It also differentiates us from many others who described themselves as growth investors.

We manage a high conviction portfolio of just 30 to 40 stocks, compared with a peer average of 288 securities.[3] The Fund has low turnover – 14.54%, compared with an average of 64.59% for its peer group.[3] Weightings reflect our level of conviction, rather than the conviction of the Fund's benchmark, the Russell 1000 Growth Index, and our top 10 holdings represent more than 50% of the portfolio. We have a long-term perspective, with an average holding period of more than five years over the past three year period.

Alex Umansky
Portfolio Manager

We look for specific characteristics in the companies in which we invest. Many of our holdings are high quality platform companies. In particular, we emphasize the following:

Platform companies

- economies of scale
- network effect

leading to

- barriers to entry
- long tails

High quality businesses

- organic revenue growth
- pricing power
- low capital intensity
- high/rising returns on invested capital
- recurring revenues
- diverse customer base
- optionality

We also look for companies we consider "mispriced" as a result of market biases or inefficiencies. Examples of these biases include

- an over-emphasis on short-term results
- the lack of an easily understood "comparable," where the traditional means of assessing a company do not translate well
- the use of conventional valuation metrics such as P/E ratios
- confusing sell-side analyst coverage
- a mischaracterization of the company's business

1 All data is as of June 30, 2016 unless otherwise noted.

2 There is no full consensus agreement about the exact cut offs for different market cap categories. Currently, the cut off for inclusion in the large cap S&P 500 Index is $5.3 billion.

3 As of March 31, 2016.

Finally, we favor businesses that we believe are benefiting from dominant secular trends that carry the potential for a significant increase in growth and profitability, often for an entire industry or group of companies. Below are some examples where we are taking advantage of market biases to invest in what we consider to be underappreciated opportunities.

IT Sector Misfits

According to the MSCI GICS industry classification, roughly 40% of the Fund's assets are invested in the Information Technology sector. Alphabet, **Facebook, Inc.**, **Alibaba Group Holding Ltd.**, **MasterCard, Inc.**, and **Visa, Inc.**, represent the majority of the Fund's holdings classified as IT. We do not consider these companies to be true IT businesses. None of them sell software, servers, or semiconductor chips to companies, governments or consumers. Consequently, their fundamentals do not correlate with what are traditionally considered the drivers of growth in IT – corporate technology refresh cycles or government budget flushes and IT infrastructure upgrades.

We think Alphabet, Facebook, and the others in this group are part of the digital revolution, a long-term megatrend that is transforming virtually all aspects of modern life. Digitization – the shift to online, networked, computer-supported processes – is opening the door to what we believe are attractive opportunities for investors who appreciate just how transformational this trend is.

Alphabet is the world's dominant search engine. In our view, Alphabet also happens to be one of the most innovative companies on Earth, with a vast array of initiatives and businesses ranging from YouTube to Calico (its foray into longevity). The company's core business is a powerful platform that benefits from the network effect, economies of scale, and formidable barriers to entry. Most advertisers want to work with Alphabet. Data is becoming increasingly important, and Alphabet owns the most data of any company we know. We believe the value of that data and its monetization opportunities will become more apparent over time. The company is the Fund's second largest holding, and the value of our investment has doubled in the time we have owned it. As big as it has become, we think Alphabet has a long and robust growth trajectory ahead.

Facebook, the world's largest social network, in our view is the largest beneficiary of the shift in consumer engagement to mobile. Mobile is no longer a device or an application. It has become a way of life. About four years ago, we participated in Facebook's IPO at $38 per share. As user engagement transitioned from desktop to mobile, growth slowed and the stock collapsed. We thought Facebook was a unique company with real competitive advantages and viewed mobile monetization as a question of "when" rather than "if." Market overemphasis on short-term results allowed us to build our position at an average cost of $26 per share. Facebook is currently trading at $114, or three times our initial investment.

We think Facebook will continue to grow. It is using its leadership position to offer targeted advertising capabilities at scale. The company is in the early stages of monetizing online video and Instagram, which have begun to contribute to incremental revenue growth. WhatsApp and Oculus provide additional avenues for potential growth opportunities.

We think of Visa and MasterCard, two of the largest global payment networks, as digital railroad companies, laying down the virtual tracks along which consumers and businesses conduct transactions. Together, they command more than 90% of market share. In addition to their dominant positions in the U.S., they have significant exposure to international markets, where the adoption rate of electronic payments is rising rapidly. Visa and MasterCard enjoy high barriers to entry as a result of their strong, well-established brands, large merchant acceptance networks, and extensive banking relationships. We also view them as an excellent hedge against inflation, since they charge a flat percentage of the money involved in the transactions they handle.

Market Capitalization: Amazon vs. Walmart

Source: FactSet

Not the Online Walmart

Ask your typical investor to name the Walmart online, and many will reflexively say **Amazon.com, Inc.** In one very narrow sense, we agree with that description. Amazon has been successful at attaining its original goal. Last year, it became the fastest company to reach $100 billion in annual sales, and it is now the world's largest online retailer. But we think of Amazon as much more than that.

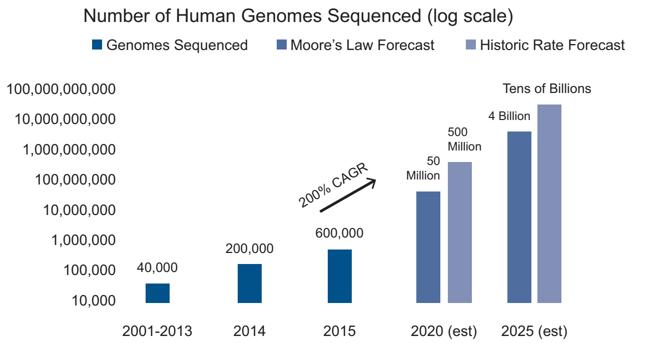
Take, for instance, Amazon Web Services, the cloud computing business that reached $10 billion in annual sales last year – a pace faster than the original Amazon. There's also Amazon Prime, with 60 to 80 million members, the Kindle and other electronic devices, streaming videos with proprietary original content, and an online marketplace used by more than 70,000 third-party sellers. Amazon Logistics Services is starting to compete in the trillion-dollar freight industry. Most recently, it introduced its grocery delivery service AmazonFresh. Practically every month, it seems, Amazon unveils a new innovation, product, or service.

So what, exactly, is Amazon? We think Amazon has built an online/digital service platform enabled by massively scalable IT and an unparalleled logistics infrastructure. This infrastructure enables Amazon to be not only the biggest online retailer, but also the largest public cloud service provider, a leading streaming service provider and digital content seller, and a major provider of fulfillment (and advertising) services to third-party retailers.

In addition to the lack of an obvious comparable and the mischaracterization of its business, Amazon's stock has been subject to an over-emphasis on short-term results. We invested in Amazon in 2009, when the company had never turned a profit, because it was reinvesting in future growth. Amazon ignored its critics (as it always has) and continued to innovate, experiment, and place large bets against conventional wisdom. The stock has increased more than two and a half times since we first invested. Amazon remains our highest conviction investment idea.

The True Platform Company

Many of the Fund's holdings are in platform companies, which we think offer some of the biggest growth opportunities in the large cap market today. These companies have built a platform others can use to connect their businesses, sell products and services, market, and co-create value. Although "platform" has become a buzzword, especially in technology, we think few businesses have earned the term. As a result of power law distribution effects, in which one or two providers will end up monopolizing an industry, the economies of scale, network effect, and barriers to entry that characterize the platform company can lead to dominance within its vertical market. While many platform companies are classified as IT, we have found platform companies in other sectors as well.



Source: National Human Genome Research Institute (NHGRI), ARK Investment Management LLC

Illumina, Inc. is a health care company that is the leader in platforms used for DNA sequencing, the process of determining the precise order of nucleotides with a DNA molecule. Illumina provides the tools used for over 90% of the world's sequencing output. Illumina is benefiting from a major shift into personalized medicine driven by DNA sequencing. It is already becoming common practice to sequence a cancerous tumor and prescribe drugs targeting the genetic mutations specific to that cancer. In the reproductive health arena, DNA sequencing is being used to help identify chromosomal abnormalities early in a pregnancy.

When we bought Illumina in 2011, the stock had been decimated by two missed quarters, reduced guidance, and the threat of a government shutdown (at the time, roughly one-third of revenue was from academic research, which relies on federal funding). None of this had to do with Illumina's competitive advantages or potential growth opportunities. We took advantage of the selloff to establish a position. The stock has appreciated more than 300% in the time we have owned it.

The Priceline Group, Inc. is a Consumer Discretionary company that provides online platforms connecting retailers in the travel space – hoteliers, airlines, rental cars, restaurants – with consumers. Priceline first became known for its "Name Your Own Price" system, where travelers would name their price for airline tickets and other travel services. The company has since grown to become the global leader among online travel agencies, operating in more than 200 countries through six primary brands: Booking.com, priceline.com, agoda.com, KAYAK, Rentalcars.com, and OpenTable. The stock has more than doubled in the time we have owned it. We think Priceline has a long runway for growth, especially in emerging markets, where industry penetration levels are still much lower than in developed countries.

Equinix, Inc., the leading provider of Internet Business Exchanges, is an example of a platform company in the Financials sector. Early on, Equinix employed its scale and "network neutral" policy, which allows customers to connect with one another, to attract large telecom networks. Once Equinix established its leading market position, other telecoms, major enterprises, and e-commerce and cloud computing companies felt compelled to join the Equinix "ecosystem" to easily and efficiently access these networks.

Equinix is a beneficiary of continued growth in Internet traffic, globalization of financial markets, IT outsourcing, cloud computing, and mobility. It converted to a REIT in 2015 (and was moved from the IT to the Financials sector – another example of miscategorization). Earlier this year, Equinix acquired TelecityGroup, making it the largest European data center provider. It also acquired a Japanese data center provider and a firm with technical expertise in migrating customers from legacy data center infrastructure to a hybrid one in which Equinix acts as the intermediary between the enterprise IT shop and the cloud.

Conclusion

The large cap category is a reflection of the strength of the U.S. economy. The Russell 1000 Index, which is comprised of 1,000 of the largest companies in the U.S. equity markets and is considered a bellwether index for large cap investing, represents more than 90% of the total market capitalization of all listed U.S. stocks. The interrelationship between the markets and the economy is where we, as long-term investors in growth, we believe have an advantage. We expect the markets to continue to exhibit short-term volatility as it overreacts to Brexit, Fed policy, China's economy, energy prices, geopolitics and other uncertainty-generating events. History suggests that most of these challenges will prove temporary or manageable. Over the long term, we believe the U.S. economy, and by extension, the large cap growth businesses in which we invest, will continue along the path of improvement and expansion.

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. 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. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. The expenses of the Fund are 0.84%.

Performance as of June 30, 2016*

INSTITUTIONAL SHARES	Average Annualized Returns 1-Year	5-Year	10-Year	Since Inception Annualized	Cumulative	Inception Date	Expense Ratio	Ticker
Small Cap								
Baron Growth Fund	-3.96%	9.22%	7.19%	12.74%	1217.00%	12/31/94	1.04%[1]	BGRIX
Baron Small Cap Fund	-7.01%	7.34%	6.83%	9.16%	416.92%	9/30/97	1.04%[1]	BSFIX
Baron Discovery Fund	-14.10%	N/A	N/A	6.77%	19.74%	9/30/13	1.25%/1.10%[1]	BDFIX
Small-Mid Cap								
Baron Focused Growth Fund[2]	-7.83%	6.64%	7.09%	10.58%	654.12%	5/31/96	1.09%[3]	BFGIX
Mid Cap								
Baron Asset Fund	-2.75%	10.06%	6.99%	11.05%	2003.00%	6/12/87	1.04%[1]	BARIX
Large Cap								
Baron Fifth Avenue Growth Fund	-6.71%	10.61%	6.24%	6.59%	117.45%	4/30/04	0.84%[1]	BFTIX
All Cap								
Baron Opportunity Fund	-9.64%	5.44%	7.65%	4.51%	105.62%	2/29/00	1.10%[1]	BIOIX
Baron Partners Fund[2]	-7.48%	10.85%	7.01%	12.33%	1609.35%	1/31/92	1.26%[3†]	BPTIX
International								
Baron Emerging Markets Fund	-6.31%	2.95%	N/A	2.54%	14.82%	12/31/10	1.20%[3]	BEXIX
Baron Global Advantage Fund	-10.64%	N/A	N/A	7.49%	35.13%	4/30/12	2.89%/1.25%[3]	BGAIX
Baron International Growth Fund	-5.40%	3.47%	N/A	10.91%	117.47%	12/31/08	1.31%/1.25%[3]	BINIX
Specialty								
Baron Energy and Resources Fund	-24.62%	N/A	N/A	-4.84%	-20.03%	12/30/11	1.29%/1.10%[3]	BENIX
Baron Real Estate Fund	-8.87%	12.89%	N/A	15.16%	150.27%	12/31/09	1.06%[3]	BREIX

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.

* For Retail shares, visit www.BaronFunds.com/performance

For Baron Discovery Fund, Baron Opportunity Fund and Baron Fifth Avenue Growth Fund, the Adviser has contractually agreed that for so long as it serves as the Adviser to these Funds to reduce its fee, to the extent required to limit the net annual operating expense ratio (excluding portfolio transaction costs, interest, dividend and extraordinary expenses) to 1.10%, 1.25% and 0.85% of average daily net assets of the Institutional Shares, respectively. For Baron Focused Growth Fund, Baron Partners Fund, Baron Emerging Markets Fund, Baron Global Advantage Fund, Baron International Growth Fund, Baron Energy and Resources Fund and Baron Real Estate Fund, the Adviser has contractually agreed that for so long as it serves as the Adviser to these Funds to reduce its fee, to the extent required to limit the net annual operating expense ratio (excluding portfolio transaction costs, interest, dividend and extraordinary expenses) to 1.10%, 1.20%, 1.25%, 1.25%, 1.25%, 1.10% and 1.10% of average daily net assets of the Institutional Shares, respectively.

† Total expense ratio shown for Baron Partners Fund was comprised of operating expenses of 1.06% and interest expense of 0.20%.

1 As of September 30, 2015 for Baron Asset, Baron Growth, Baron Small Cap, Baron Opportunity, Baron Fifth Avenue Growth and Baron Discovery Funds. For Baron Discovery Fund, the total expense ratio was 1.25%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

2 Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee. The predecessor partnerships' performance is only for periods before the Funds' registration statements were effective (4/30/03 for BPF and 6/30/08 for BFGF). During those periods, the predecessor partnerships were not registered under the Investment Company Act of 1940 and were not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if they were, might have adversely affected their performance.

3 As of December 31, 2015 for Baron Partners, Baron Focused Growth, Baron International Growth, Baron Real Estate, Baron Emerging Markets, Baron Energy and Resources and Baron Global Advantage Funds. For Baron International Growth Fund, the total expense ratio was 1.31%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). For Baron Energy and Resources Fund, the total expense ratio was 1.29%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). For Baron Global Advantage Fund, the total expense was 2.89%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers).

For updated performance for all Baron mutual funds, please visit www.BaronFunds.com.

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

Portfolio holdings as a percentage of net assets as of June 30, 2016 for securities mentioned are as follows: **Alphabet, Inc.** - 6.6%; **Facebook, Inc.** - 5.0%; **Alibaba Group Holding Limited** - 5.0%; **MasterCard, Inc.** - 3.8%; **Visa, Inc.** - 4.1%; **Amazon.com, Inc.** - 14.0%; **Illumina, Inc.** - 3.2%; **The Priceline Group, Inc.** - 3.6%; **Equinix, Inc.** - 5.1%.

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

S&P 500 Index measures the performance of 500 widely held large-cap companies. Russell 1000® Growth Index measures the performance of large-sized U.S. companies that are classified as growth. Russell 1000® Index measures the performance of large-sized U.S. companies.

The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. The Fund may not achieve its objectives.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Fifth Avenue Growth Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.