

Baron Partners Fund

A High Conviction Approach to Investing

During the past decade, increasing numbers of mutual fund investors have reallocated assets from actively managed products into passive equity strategies such as index funds and ETFs. There are several driving forces behind this trend, including the increasing variety of passive products available for investment, particularly ETFs. But the primary driver behind the movement of assets into passive investment strategies appears to be a generalized view that active managers, more often than not, underperform their benchmarks.

Such a blanket statement glosses over the fact that not all active managers are created equal. We believe that active managers with the skill, experience, diligence, and passion to establish, develop, and maintain a consistent, alpha-generating investment process have the potential to outperform their benchmarks over the long term.

Moreover, among the many styles of active management, studies have found that the most successful managers tend to share certain characteristics. Stock pickers – managers with high active share, which measures how different a portfolio is from a benchmark, and moderate tracking error, which measures the volatility of the portfolio's returns – tend to be among the most successful active managers.¹ In addition, a study found that investment managers who are highly active and patient – trading infrequently and taking a long-term approach – tend to outperform their benchmarks.²

At Baron, we have always managed highly active portfolios that we build stock by stock for the long term. Baron Partners Fund exemplifies our approach. The Fund is a focused, all-cap portfolio that holds equities in which we have our highest level of conviction. It is managed by Ron Baron, who has more than 45 years of research experience and has managed the Fund since its launch in 1992. The number of holdings typically ranges from 15 to 30, and its top 10 holdings represent a high percentage of total assets. As of September 30, 2016, the Fund held 30 securities, with the top 10 holdings representing 64.8% of Fund assets. Staying true to the Fund's long-term approach – its investment horizon is typically four to five years – its three year average turnover of 24.2%

is well below the industry average. This low turnover helps contribute to cost and tax efficiency. It is an actively managed portfolio, with active share as of September 30, 2016 of 95.2%. The Fund can also use leverage as a strategy to enhance returns. As of September 30, the Fund was 136.3% invested.

As with all Baron investment strategies, Baron Partners Fund invests for the long term in high quality companies with open-ended growth potential, sustainable competitive advantages, and strong management, at an attractive valuation. It is an all-cap portfolio, with a focus on small-to-mid-cap companies, leveraging Ron Baron's extensive experience in managing portfolios of this size.

Emphasis on research

Conviction in the holdings in the portfolio is driven by our fundamental research and long experience as investors. We believe that, through our own exhaustive research efforts, we can identify companies with superior long-term prospects that are not necessarily reflected in historical results or short-term earnings results. Our disciplined research and investment process is repeatable and time-tested, having been developed and honed by Ron Baron and the Baron equity research team over decades of investing in equities.

We believe our independent research analysis gives us a competitive advantage. We have 35 analysts (including our portfolio managers, all of whom are also analysts), representing roughly 25% of all Baron employees.

We conduct original, proprietary, fundamental research. We do not use brokerage firm research or quantitative screens. New ideas are a result



Ronald Baron
CEO and Portfolio Manager

Past performance is no guarantee of future results.

1 Petajisto, Antti, Active Share and Mutual Fund Performance (January 15, 2013). Original working paper circulated in 2010.

2 Cremers, Martijn and Pareek, Ankur, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently (December 2015). Original working paper circulated in 2013.

of a continual search for investment opportunities by our analysts. We start by qualitatively analyzing individual companies and then quantitatively valuing their businesses. On-site visits to factories, headquarters, and other facilities and meetings with management are integral to our process. We also conduct a thorough analysis of the competitive landscape. In these ways, we find companies that we believe meet the qualifications we require. For all of our holdings, during the period we are invested, we continue to conduct extensive research and test our investment premises to ensure that we retain conviction.

Baron Partners Fund
Top 10 Holdings as of September 30, 2016*

Company	% of Total Assets	Years Held	Cumulative Return	Annualized Return
CoStar Group, Inc.	10.6%	11.6	466.8%	16.1%
Tesla Motors, Inc.	10.1%	2.6	14.4%	5.2%
Arch Capital Group Ltd.	8.5%	14.2	890.8%	17.5%
Vail Resorts, Inc.	6.5%	8.6	314.0%	18.0%
Hyatt Hotels Corp.	5.7%	6.9	75.8%	8.5%
FactSet Research Systems, Inc.	5.6%	9.7	228.6%	13.0%
IDEXX Laboratories, Inc.	5.0%	3.4	159.1%	32.0%
Zillow Group, Inc.	4.6%	1.1	34.8%	30.5%
Under Armour, Inc.	4.1%	0.4	2.1%	2.1%
Manchester United plc	4.1%	2.2	0.4%	0.2%
Total	64.8%			

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

A stock by stock approach

We invest in companies as owners of a business rather than as holders of its stock. This approach is in keeping with our long-term mindset and focus on the fundamentals of each business and its continuing growth prospects. We make investment decisions based on multiple data points, not on short-term macro influences.

We are bottom-up investors, building the portfolio stock by stock. As growth investors, we look for businesses that are investing in long-term growth, often at the expense of short-term profits. These businesses are investing in order to become much larger, more profitable businesses in the future. Virtually all of the companies that the Fund owns are making such capital commitments. As long-term investors who hold stocks for an average of nearly four years, we expect to benefit from these expenditures.

The Fund's biggest position, **CoStar Group, Inc.**, is an information and marketing services provider to the commercial real estate industry. The company has built a proprietary database through primary research and data collection research over a 20-year period, creating high barriers to entry. We believe its investments in R&D and a doubling of the sales force will help increase customer penetration. In addition, CoStar has made two key strategic acquisitions – Apartments.com and

ApartmentFinder – that we believe offer cross-sell synergies and will accelerate growth in the vast multi-family market. CoStar currently has retention rates in the low 90% range, giving great visibility into the future earnings stream. We believe margins will improve toward 50% given the high operating leverage.

Our second largest position is electric vehicle company **Tesla Motors, Inc.** The company is run by someone we believe to be a true visionary, Elon Musk. We think Tesla has first mover advantage, the best talent pool in the industry, scale, and brand.

While paving the way for transformation of the automotive industry in areas like electrification, safety, self-driving, connectivity, and more, Tesla has built an impressive brand awareness that will serve it for years to come, in our view. Tesla has invested in highly automated manufacturing facilities for its cars and batteries, innovations such as automated driving technology and a networked fleet, and other key initiatives aimed at building the world's leading electric vehicle company. We believe that over the next decade, electric vehicles will be cheaper, better, and safer. Tesla is enabling the ride to this future; and with its first mover advantage, human capital, and a visionary leader, we believe it will take a significant share of the secular shift from gas-powered to electric vehicles.

Top 10 holding **IDEXX Laboratories, Inc.** is the leading provider of diagnostics to the veterinary industry. The company spends six times more on R&D annually than all its competitors combined. As a result, it has continuously improved its menu of diagnostics, which we believe is unsurpassed in the industry. IDEXX is benefiting from secular growth spending on pets, driven by favorable demographics, increased use of diagnostics, and an increasing focus on preventative care. The company's products are sold via a razor/razorblade model, which produces high retention rates and incremental margins. We think that IDEXX's direct go-to-market model coupled with meaningful R&D-driven product enhancements will continue to boost revenue and earnings growth over time.

Another top 10 holding is ski resort company **Vail Resorts, Inc.** Vail has been upgrading its properties to offer new and higher quality services and amenities, which should help attract more visitors and allow it to increase lift ticket prices. It is also starting to offer more recreational summer activities, such as zip lines, mountain coasters, hiking, and biking tours, that should help reduce seasonal losses.

Vail is also focused on increasing season pass sales. Currently, roughly 40% of Vail's lift ticket revenue is from season passes, which helps immunize it from poor snowfall seasons. It has been aggressively acquiring ski resorts, which helps enhance the attractiveness of its multi-resort season passes. Resorts it has added to its network in the last several years include Park City in Utah (at a distressed sale price), Perisher in Australia, and, most recently, Whistler Blackcomb in Canada, the biggest ski area in North America. Vail is leveraging its expanding

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. As of September 30, 2016, Fund expenses were 1.26%, comprised of operating expenses of 1.06% and interest expense of 0.20%.

network of resorts to increase the number of season passes it sells by offering the option of multi-mountain passes. We believe Vail continues to enjoy exceptional competitive advantages and strong growth prospects because management remains focused on improving the customer experience and investing in the business.

From time to time, we have opportunities to purchase stocks of businesses that we have researched extensively when the stock is mispriced due to a temporary issue, in our view. Athletic apparel company **Under Armour, Inc.** is one such example. The Fund recently took advantage of a weak share price to opportunistically re-initiate a position in the company. Various Baron Funds have owned Under Armour since its initial public offering in 2005. We believe the company's strong brand resonates with consumers, its ability to drive innovation in performance apparel will lead to a growing category and increased market share, and the opportunities in its nascent footwear business and international markets are substantial.

The company's share price came under pressure due to the bankruptcy of Sports Authority, an important third-party distributor. We think this headwind is temporary, and consumers will shift their buying to online and other outlets. The bankruptcy also created an opportunity for Under Armour to sell more products directly to consumers through its website and company stores. We see a long runway of continued growth for Under Armour through these and other initiatives.

We recently added to our existing position in **Zillow Group, Inc.** on a dip in the stock price following a disappointing earnings report, due in part to legal fees tied to a lawsuit with a competitor and in part to higher charges following the merger with one-time rival Trulia. We believed these headwinds were short-term and took the opportunity to increase our stake in the company. Zillow is the leading online real estate site in the U.S., offering information on homes for sale and rent through its various residential real estate-related websites. Given that its combined companies captures less than 5% of the \$112 billion that real estate professionals spend on marketing each year, we think there is ample room for growth.

Use of leverage

The Fund may use leverage, with a mandate that allows it to take on debt up to one-third of its total assets. Since the Fund was converted to a mutual fund in 2003, average annualized leverage is 17.8%.

The use of leverage in the Fund is strategic, not tactical. At times, we use leverage to increase exposure to certain high conviction names. We have also employed leverage as a means to gain broad exposure to stocks on a gross basis. We take a long term view of the markets and believe we can add value with a long-only approach to investing. Historically, the value added by the use of leverage in the Fund has been greater than the cost, and as long as we believe that will continue to be the case, we are not likely to change how we use leverage.

A leveraged, high conviction strategy adds a level of risk, which we seek to manage by investing in businesses that we believe are conservatively financed with high barriers to entry. Our proprietary research into long-

term growth opportunities, competitive advantages, management teams and risks determines how much we allocate to individual securities. We also seek to invest in different industries that are affected differently in the short term by unpredictable events, in an effort to construct a portfolio of investments with risks that are not correlated.

The amount of leverage may rise or fall depending on flows or risk issues, as leverage raises the risk profile of the Fund. We do not increase or decrease the leverage on the portfolio based on our view of current or future interest rates. That said, given that interest rates are still near historical lows and that the Fund seeks investments that we believe have the potential to increase by double digits, we believe even a moderate increase in interest rates would not have a materially adverse impact on the alpha generating potential of the Fund.

Although we believe in using leverage, some risks may include increased volatility of the Fund's returns and exposure of the Fund to greater potential for loss in any given period. Other risks may include the potential for losses to scale up, as losses may encompass not only the initial investment in a stock but also any interest or other expenses associated with holding leveraged positions.

Conclusion

Currently, we are in the eighth year of the bull market that began in the aftermath of the Great Recession. This market has proved exceptionally challenging for active managers. We have been in a market characterized by low dispersion, in which investors treat all stocks more or less the same, regardless of qualities or fundamentals. A market in which low dispersion dominates means that stock selection matters less, since investors are disinclined to differentiate between low and high quality stocks. Several factors seem to be at play, including the prolonged low interest rate environment, which has allowed even low quality, riskier companies to participate in stock buybacks, which helps boost stock price. In addition, high inflows into passive products and higher dividend payouts (at unsustainable rates), has led to higher capital inflows into lower quality companies.

We do not believe these trends are sustainable over the long term. Since reaching a low point in 2014, dispersion has been gradually increasing, and we expect this movement to continue. We believe fundamentals will again be important, and quality differences among stocks will matter once more to market participants.

We remain steadfast in our view that the investment process we have developed over the years, and that has served our investors well over time, is sustainable. While we are mindful of recent volatility, we try to look past the noise and short-term imbalances when evaluating our investment theses and buying opportunities. We remain focused on the things we can control – our research – and not those we cannot: what the markets will do tomorrow, next week, or next month. We believe the growth prospects for the businesses in which Baron Partners Fund has invested are favorable and improving. As always, we remain focused on the long term.

Performance as of September 30, 2016*

INSTITUTIONAL SHARES								
	Average Annualized Returns			Since Inception		Inception Date	Expense Ratio	Ticker
	1-Year	5-Year	10-Year	Annualized	Cumulative			
Small Cap								
Baron Growth Fund	7.88%	14.21%	7.76%	12.72%	1251.16%	12/31/94	1.04% ¹	BGRIX
Baron Small Cap Fund	13.21%	14.10%	7.63%	9.39%	450.52%	9/30/97	1.04% ¹	BSFIX
Baron Discovery Fund	23.58%	N/A	N/A	11.38%	38.16%	9/30/13	1.25%/1.10% ¹	BDFIX
Small-Mid Cap								
Baron Focused Growth Fund ²	8.02%	11.21%	7.10%	10.50%	662.04%	5/31/96	1.09% ³	BFGIX
Mid Cap								
Baron Asset Fund	11.44%	15.61%	7.51%	11.15%	2111.26%	6/12/87	1.04% ¹	BARIX
Large Cap								
Baron Fifth Avenue Growth Fund	14.74%	16.90%	6.96%	7.29%	139.55%	4/30/04	0.84% ¹	BFTIX
All Cap								
Baron Opportunity Fund	9.44%	11.06%	8.06%	4.84%	118.93%	2/29/00	1.10% ¹	BIOIX
Baron Partners Fund ²	7.23%	17.26%	7.28%	12.36%	1672.85%	1/31/92	1.26% ^{3†}	BPTIX
International								
Baron Emerging Markets Fund	17.28%	8.20%	N/A	3.70%	23.23%	12/31/10	1.20% ³	BEXIX
Baron Global Advantage Fund	21.46%	N/A	N/A	9.63%	50.10%	4/30/12	2.89%/1.25% ³	BGAIX
Baron International Growth Fund	13.13%	9.76%	N/A	11.60%	134.16%	12/31/08	1.31%/1.25% ³	BINIX
Specialty								
Baron Energy and Resources Fund	19.29%	N/A	N/A	-2.68%	-12.12%	12/30/11	1.29%/1.10% ³	BENIX
Baron Real Estate Fund	3.39%	18.55%	N/A	14.93%	155.80%	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 total investments as of September 30, 2016 for securities mentioned are as follows: **CoStar Group, Inc.** – 10.6%; **IDEXX Laboratories, Inc.** – 5.0%; **Tesla Motors, Inc.** – 10.1%; **Vail Resorts, Inc.** – 6.5%; **Under Armour, Inc.** – 4.1%; **Zillow Group, Inc.** – 4.6%.

Specific risks associated with non-diversification and leverage include increased volatility of the Fund's returns and exposure of the Fund to greater risk of loss in any given period. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. The Fund may not achieve its objectives.

Active Share is 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.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

Beta measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition.

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

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