



INVESTOR

Baron Discovery Fund

Investing in Earlier Stage Small Cap Growth Companies

Baron Capital got its start investing in small cap stocks and currently has three small cap Funds. We launched our newest offering, Baron Discovery Fund, in September 2013 to cover stocks with market caps typically at or below the weighted average of the Russell 2000 Growth Index (now under \$2.4 billion).

The Fund is co-managed by Randy Gwartzman and Laird Bieger. Prior to the Fund's launch, Randy and Laird worked at Baron for 12 and 13 years, respectively, as research analysts focused on small cap growth stocks. Over the years in their role as research analysts, Randy and Laird had come across many promising companies in earlier stages of development, in industries in which other portfolio managers had less comfort investing, or with market caps below the level at which Baron's other small cap Funds typically invest. Both felt that many of these companies could become pioneers in their markets with long runways for growth. Baron Discovery Fund was launched as a vehicle to capture these opportunities.

We approach the earlier stage small cap space with the same Baron investment process used with all of our Funds, employing fundamental, bottom-up research to discover and invest for the long term in companies with, in our view, strong management, sustainable competitive advantages, and open-ended growth opportunities, at an attractive valuation.

In addition, we emphasize fast growing areas of the economy such as cybersecurity, software-as-a-service, semiconductors, and the internet within the Information Technology sector; and medical devices, pharmaceutical, and biotechnology within the Health Care sector. We seek to manage risk in the volatile small cap category by balancing

the portfolio among three growth profiles and across sectors and sub-industries with uncorrelated drivers of growth.

As seen in the chart below, this approach has produced outstanding results in the three-plus years since we launched the Fund. As of 6/30/17, based on total returns, Morningstar has ranked the Fund in the 1st percentile in its Small Growth Category for the 1-year time period and the 14th percentile for the 3-year time period. Its active share of 95.6% is among the highest in its category.



Randy Gwartzman and Laird Bieger
Co-Portfolio Managers

Performance as of 6/30/2017 (annualized)

	1 year	3 year	Since inception*
Baron Discovery Fund**	43.85%	10.00%	15.60%
Russell 2000 Growth Index	24.40%	7.64%	8.95%
Morningstar US Fund Small Growth Category Average	23.12%	6.67%	7.74%

* 9/30/2013

** Institutional shares. For Retail and R6 shares, visit www.BaronFunds.com

Performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

Annual expense ratio as of 9/30/16 was 1.49%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers, which the adviser has contractually agreed to for as long as it serves as the adviser to the Fund).

The 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.

Baron Discovery Fund Institutional Share Class is in the Morningstar US Fund Small Growth Category. The Category is not weighted and represents the straight average of annualized returns of each of the funds in the Small-Cap Growth Category. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of 6/30/17, the category consisted of 678 and 599 funds for the 1-year and 3-year time periods.

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Top 10 Holdings as of June 30, 2017

Company	% of Net Assets
MACOM Technology Solutions Holdings, Inc.	4.1
Qualys, Inc.	3.2
General Communication, Inc.	3.1
Teladoc, Inc.	2.9
Novanta Inc.	2.9
Myriad Genetics, Inc.	2.7
The Trade Desk	2.7
Mercury Systems, Inc.	2.6
Liberty Expedia Holdings, Inc.	2.4
Red Rock Resorts, Inc.	2.3
Total	28.9

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

we believe Wingstop will be highly capital efficient, eventually allowing management to return significant amounts of capital to shareholders.

Growth These are companies that typically have revenue growth of 15%-20% that we think will lead to significant future earnings growth. These companies are generally more established than the higher growth companies in which we invest. An example is **MACOM Technology Solutions Holdings, Inc.**, a high performance analog semiconductor company. MACOM sells its semiconductors, components, and subsystems to the communications, aerospace/defense, and industrial (including medical) markets. MACOM's engineered analog chips are valuable IP-protected products. Their value is borne out by high operating margins of 23% (which we believe can expand to 40%). We believe the company can triple its revenues to \$1.5 billion over the next five years, and increase profits even faster. We think its addressable market is \$9.5 billion.

Ballast These companies are typically more yield or asset oriented than businesses in the other two categories, generating solid growth in free cash flow. This category also includes special situations where we see a possible valuation upside as the company is new to the market as the result of a spinoff or IPO, or is a "fallen angel" with a strong business that is currently impaired but capable of repair. We regard our investments in this group as "ballast" for the portfolio as they typically have lower betas than those of the higher growth portions of the portfolio, which helps to dampen volatility.

Focus on Sub-industries

While we are focused on the fastest growth areas in the economy, we also seek to manage risk by diversifying the portfolio across sectors and sub-industries with uncorrelated drivers of growth. The Fund currently has investments across nine sectors and numerous sub-industries.

The following are some examples of sub-industries in which we are finding promising investment opportunities.

Biotech/pharma These sub-industries have been a market favorite for some time, which can make it challenging to find stocks with attractive valuations. Investors in this category must also contend with the

We believe the earlier stage small cap space offers a compelling opportunity for a skilled active growth manager to deliver alpha. With roughly 3,300 listed U.S. stocks (excluding penny stocks), this category offers plentiful companies to analyze. At the same time, Wall Street analyst coverage of small caps in general is relatively sparse, resulting in less efficiency in the space. On average, a large cap company is covered by 25 analysts, compared with six for the average small cap. This number is even lower for the types of companies in which Baron Discovery Fund invests.

The primary goal of active management is to add value by capitalizing on market inefficiencies. As one of the most inefficient equity segments, small caps can be especially rewarding for active managers. When compared to large caps, stock returns of smaller companies are more driven by company-specific events and less so by industry and market events.¹ This means the skilled stock picker who is able to understand and evaluate the idiosyncrasies of companies has more opportunities in the small cap space.

We use our industry expertise and extensive research experience and capabilities to source a select number of investment opportunities for the Fund. Because we seek to invest only in stocks in which we have strong conviction, the number of holdings is relatively low when compared to peer funds, with 61 names in the portfolio vs. a category average of 224 stocks. Over the long term, we are looking for annual appreciation of 15% on a stock-specific basis.

Three Growth Profiles

While we don't manage to particular weightings, we seek to include some less volatile and/or more cash-flow-oriented positions in the Fund to help manage risk. Assets are typically allocated as follows: 40-45% high growth, 40-45% growth, and 10-20% ballast.

High growth These are higher risk/return companies typified by revenue growth of 20% or more that we believe will lead to dramatic earnings growth in the future. This category includes newer businesses with novel products or services. Yet these companies are not venture businesses. An example is **Glaukos Corporation**, a medical device company that sells a stent used to treat glaucoma, a disease that damages the optic nerve due to fluid buildup inside the eye. Glaukos' first generation device, which is inserted into the eye during cataract surgery, has been proven to decrease intraocular pressure. Glaukos also has a promising product pipeline that includes next generation stents for stand-alone glaucoma procedures and an injectable drug delivery implant. The company has a two-year lead over its competitors, patent protection, and strong clinical data. We believe the addressable market exceeds \$5 billion.

Another example of a high growth company is **Wingstop Inc.**, a franchisor of Wingstop fast-casual restaurants, which offer a chicken wing-based menu. Wingstop offers franchisees high returns on new units at a relatively low initial investment. This attractive feature, combined with innovative marketing, has driven industry-leading unit and same-store-sales growth over the past few years, which we believe can continue for several more years. With 98% of its units franchised,

¹ A recent Deutsche Bank Research publication concluded that about 85% of small-cap stock returns are driven by stock-specific events compared to only about 60% in the large cap space. Source: Bloomberg Financial LP, Compustat, IBES, MSCI, Russell, S&P, Thomson Reuters, Worldscope, Deutsche Bank

possibility of binary outcomes, as a biotech or drug company can either see its share price soar if its drug receives FDA approval or plummet if approval is denied. Yet we believe it is worth investing in biotech pharma because of the high growth potential of many of these companies. We think we are able to navigate successfully around the potential pitfalls of bio-pharma investing because of our in-depth understanding of the FDA approval process and the science behind pharmaceutical compounds.

Our general focus in this space is on companies with either approved drugs or large pipelines addressing multi-billion dollar clinical market opportunities. Examples include **TherapeuticsMD, Inc.**, which makes hormone replacement drugs for menopause and other conditions, and **Flexion Therapeutics Inc.**, which makes long lasting injectable pain relief drugs for arthritis.

Other companies we favor have wrapped intellectual property around an already proven pharmaceutical to create a new, protected franchise. The risk of not receiving approval for such products is significantly lower than for a typical bio-pharma investment. An example is **Pacira Pharmaceuticals, Inc.**, whose FDA-approved medication is comprised of the pain killer bupivacaine combined with proprietary IP called Depo-Foam that enables its timed release. The product is appealing as it can in many cases eliminate the need for post-operative opiates and result in a shorter hospital stay.

Software-as-a-service We view IT as one of our most fertile hunting grounds for emerging growth stocks. IT is an industry that has seen phenomenal growth over the past few decades, and in the course of its growth, irreversibly altered our way of life. We see no signs of this growth trajectory slowing down. Although it may seem as if everything has become digitized, there are many areas that IT has just begun to penetrate. At Baron, we think about which areas are transforming, and where we see the best opportunities for sustainable growth.

We believe that, as a group, software-as-a-service (SaaS) businesses are benefiting from a generational change in computing. SaaS companies license centrally hosted software on a subscription basis to customers who access the software via the internet. This lease arrangement allows customers to outsource support costs to the SaaS provider, and to make

smaller recurring payments rather than a large lump sum purchase. These companies are typified by recurring revenue streams with high cash flow growth potential, high margins, and large market opportunities.

Amber Road, Inc. is a SaaS business that enables some of the world's largest companies to navigate difficult trade regulation environments. Given a trade environment that we think will continue to increase in complexity, we believe that Amber Road is uniquely well positioned to help its customers.

Cybersecurity Cybersecurity is another IT area in which we are finding promising investment opportunities, although the intense competition in this space means it is important to be selective. **Qualys, Inc.** is a cloud-based cybersecurity services provider to large corporate clients that specializes in assessing software vulnerabilities of hardware attached to internet networks. Qualys is accelerating its growth and continues to trade at what we believe is a reasonable multiple of real free cash flow, whereas many of its peers are still losing money. It's a fully subscription-based business, which leads to high revenue visibility.

Other sub-industries While many of our investments are in IT and Health Care, our research is far ranging, and the portfolio has holdings across nine different sectors and many sub-industries. For instance, in Materials, the Fund owns **Flotek Industries, Inc.**, a manufacturer of innovative, eco-friendly citrus-oil-based chemicals used to increase recoverable reserves from shale oil and gas wells in North America.

Conclusion

Because the majority of earlier stage growth stocks garner little attention from Wall Street, finding the most promising companies requires intensive, in-depth research. We invest in this deep level of research because we believe these companies have the capacity to grow in ways that are not possible for larger businesses. Our long-term mindset means that we take the time to realize the full potential of growth opportunities overlooked by investors focused on short-term performance. We believe our research-intensive, bottom up approach combined with our long-term perspective is the key to our outstanding performance to date, and will continue to generate significant alpha over time, although there are no guarantees.

Performance as of June 30, 2017*

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	20.05%	13.43%	7.61%	13.05%	1481.01%	12/31/94	1.05% ¹	BGRIX
Baron Small Cap Fund	25.11%	13.11%	7.31%	9.91%	546.73%	9/30/97	1.06% ¹	BSFIX
Baron Discovery Fund	43.85%	N/A	N/A	15.60%	72.24%	9/30/13	1.49%/1.10% ¹	BDFIX
Small-Mid Cap								
Baron Focused Growth Fund ²	20.00%	11.83%	7.09%	11.01%	804.98%	5/31/96	1.13%/1.10% ³	BFGIX
Mid Cap								
Baron Asset Fund	24.85%	15.81%	7.69%	11.49%	2525.66%	6/12/87	1.04% ¹	BARIX
Large Cap								
Baron Fifth Avenue Growth Fund	29.03%	15.49%	7.53%	8.15%	180.58%	4/30/04	0.85% ¹	BFTIX
All Cap								
Baron Opportunity Fund	28.34%	12.04%	7.95%	5.76%	163.88%	2/29/00	1.13% ¹	BIOIX
Baron Partners Fund ²	33.43%	18.58%	8.33%	13.09%	2180.86%	1/31/92	1.52% ^{3†}	BPTIX
International								
Baron Emerging Markets Fund	18.50%	8.91%	N/A	4.85%	36.06%	12/31/10	1.13% ³	BEXIX
Baron Global Advantage Fund	30.19%	13.92%	N/A	11.55%	75.92%	4/30/12	3.55%/1.10% ³	BGAIX
Baron International Growth Fund	19.06%	9.58%	N/A	11.84%	158.91%	12/31/08	1.36%/1.10% ³	BINIX
Specialty								
Baron Energy and Resources Fund	-1.75%	-2.06%	N/A	-4.29%	-21.43%	12/30/11	1.46%/1.10% ³	BENIX
Baron Real Estate Fund	18.41%	14.43%	N/A	15.59%	196.36%	12/31/09	1.07% 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 and R6 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 1.09% and interest expense of 0.43%.

¹ As of September 30, 2016 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 1.49%, 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, 2016 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 Focused Growth Fund, the total expense ratio was 1.13%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). For Baron International Growth Fund, the total expense ratio was 1.36%, but the net annual expense ratio was 1.10% (restated to reflect current fee waivers). For Baron Energy and Resources Fund, the total expense ratio was 1.46%, 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 3.55%, but the net annual expense ratio was 1.10% (restated to reflect current 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 June 30, 2017 for securities mentioned are as follows: **Glaukos Corporation** – 2.3%; **Wingstop Inc.** – 1.7%; **MACOM Technology Solutions Holdings, Inc.** – 4.1%; **TherapeuticsMD, Inc.** – 2.2%; **Flexion Therapeutics Inc.** – 2.1%; **Pacira Pharmaceuticals, Inc.** – 1.5%; **Amber Road, Inc.** – 0.8%; **Qualys, Inc.** – 3.2%; **Flotek Industries, Inc.** – 0.9%.

The Funds may not achieve their objectives. Portfolio holdings may change over time.

The Russell 2000 Growth Index is an unmanaged index that measure the performance of small-sized U.S. companies that are classified as growth.

The Russell 2000 Growth Index and Baron Discovery Fund returns reflect the reinvestment of dividends and other earnings which positively impact performance results.

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.

Upside capture explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

Downside capture measures how well a fund performs in time periods where the benchmark's returns are less than zero.

Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has greatest conviction. This could increase volatility of the Fund's returns.

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 Discovery Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.