INSIDE THE BARON FUNDS

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Baron Small Cap Fund

Investing for Lower Risk Long-Term Growth in a Volatile Asset Class

Compared to large-cap stocks, the landscape of small-cap stocks is broader, less well-known, and more volatile. While these aspects of the small-cap space may cause some investors to steer clear, it has its distinct advantages. Historically, small caps have outperformed large caps while providing investors with diversification. We also believe that, given current market conditions, now may be an opportune time in which to invest in small cap stocks. This equity asset class tends to outperform large caps in a rising interest rate environment. In addition, small-caps are typically less exposed to foreign exchange headwinds generated by a strong dollar and a strengthening U.S. economy.

Baron Capital got its start investing in small-cap stocks. We believe that the vastness, diversity, and relative lack of coverage of this equity asset class is tailor made for the acumen and selectivity of a skilled active manager. These factors distinguishing the small cap space create opportunities for active investors who engage in comprehensive, hands-on research to discover stocks that may have been overlooked by other investors.

In-depth research can also help separate the wheat — the higher quality stocks we favor — from the lower quality chaff. Because the latter group may cause much of the volatility in the small cap space, an active portfolio that avoids these companies can be a smart way to help balance risk and reward. In contrast, a passive vehicle does not have the option to exclude underperforming stocks.

Top Ten Holdings as of December 31, 2015

Company	% of Net Assets	Years Held	Cumulative Return	Annualized Return
Gartner, Inc.	4.3	8.4	320.99%	18.60%
TransDigm Group, Inc.	4.2	9.8	1688.11%	34.20%
Acuity Brands, Inc.	4.2	4.7	330.69%	36.27%
Bright Horizons Family Solutions, Inc.	3.8	2.9	209.65%	47.02%
SBA Communications Corp.	3.2	11.6	2549.39%	32.72%
The Ultimate Software Group, Inc.	3.1	7.3	570.55%	29.40%
Waste Connections, Inc.	3.0	6.9	196.86%	17.00%
On Assignment, Inc.	2.5	3.3	162.17%	33.90%
IDEXX Laboratories, Inc.	2.3	7.2	343.72%	23.07%
Guidewire Software, Inc.	2.2	3.6	123.92%	24.82%
Total	32.8			

Cliff Greenberg
Portfolio Manager

Baron Small Cap Fund

Baron Small Cap Fund is an actively managed Fund that seeks to leverage the advantages of the small cap universe while minimizing its potential disadvantages. The Fund was launched in 1997 with Cliff Greenberg as portfolio manager. Cliff is a veteran investor with more than 30 years of experience through multiple market cycles and investment environments.

The Fund differs from classic small cap growth funds in a number of important respects, including its approach to investing and portfolio management, the types of names it favors, the number of stocks it holds, and the length of time it holds them.

We combine fundamental, bottom-up research with a long-term perspective to find companies with significant growth opportunities, sustainable competitive advantages, and visionary management, at an attractive valuation. We prefer companies 1) that are able to show significant organic revenue growth (usually 5–20% per year), which can increase margins so profits are growing faster than revenues; 2) that can supplement this with accretive acquisitions, debt repayment or share repurchases, so that per-share earnings grow even faster; and 3) where trading multiples can (ideally) expand or maintain present levels. We think this approach is key to investing in small cap companies, whose future tends to be less secure than their larger counterparts.

The soundness of our approach is demonstrated by the performance of many of our long-term holdings. We currently hold 17 stocks in the portfolio that have more than tripled since we first invested in them.

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 above. 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. As of September 30, 2014, Fund expenses were 1.04%.

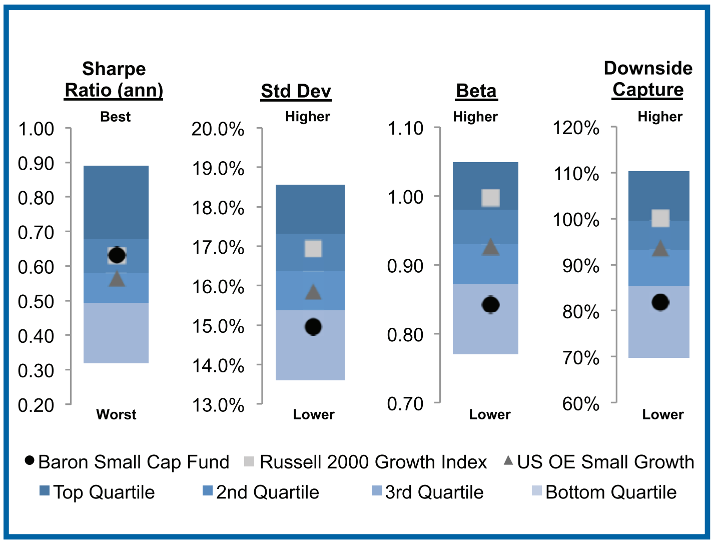
The holding periods for these stocks range from 3 to 12 years, and the average annualized return is 32.0%. Together, these holdings comprise about one-third of the portfolio's assets.

We hold another 16 stocks that have more than doubled in the time we have owned them. Combined, these stocks comprise about a quarter of the portfolio and have produced an average annualized return of 35.1%.

It is stocks like these on which we are focused and in which we are investing.

Return and Risk Characteristics

Baron Small Cap Fund Institutional Shares Trailing 5 years as of 12/31/2015



The Fund has many attractive features for small-cap investors. As seen in chart above, over the five years ended December 30, 2015, the Fund had outstanding downside performance relative to its peers and the index during periods in which Russell 2000 Growth Index returns have been negative. The Fund has lower beta and standard deviation of returns than its peers and the index. It also has better risk-adjusted performance, as measured by its Sharpe ratio, than its peers.

Our goal for Baron Small Cap Fund is to continue to offer investors a lower risk product with better relative performance. Our past performance, although not a guarantee of future performance, testifies to the soundness of this investment strategy. Based on five-year monthly rolling returns 9/30/1997 to 9/30/2015, the Fund's performance has been in the top quartile of the Morningstar Small Growth Category average close to half the time, the top half 87% of the time, and never in the bottom quartile. It has also outperformed its peer group, as measured by the Morningstar Small Growth Category average, 97% of the time.

Finding and Watering Winners

As Cliff likes to say, "We water our winners and trim our weeds before the world knows they are weeds." We use our experience to resist the urge to sell when a stock takes a hit for non-fundamental reasons, such as market or sector volatility. On the other hand, we will not hold a stock indefinitely, but strive to maintain a healthy sell discipline, based on a periodic conviction check to ensure that the growth opportunity, in our view, remains intact (or not).

One of our top ten holdings is aircraft parts manufacturer **TransDigm Group, Inc.** While TransDigm earns a modest return on original equipment parts, it earns far larger margins on after-market replacement parts for airframes that remain in service for decades. This creates recurring cash flow that it uses for acquisitions and shareholder dividends. When we first bought TransDigm in 2006, it had $411 million in revenues. Today, annual revenues are up to $2.7 billion.

We also own **Acuity Brands, Inc.**, which provides LED lighting systems for commercial real estate facilities. After our initial purchase in 2011, the stock dropped off sharply after an earnings miss. We used the weakness to significantly increase our position. At the time of purchase, Acuity's revenues were $1.7 billion. Annual revenues have since grown. to $2.7 billion. With its strong brands, extensive network, and expertise in complex lighting schemes, we think Acuity will benefit from the construction trend in energy-smart buildings and the growing number of buildings being retrofit with energy efficient lighting systems.

We invested in **Waste Connections, Inc.**, a solid waste collection and disposal service, in 2009. At the time, revenues were $1.1 billion. Today, revenues have nearly doubled to $2.1 billion. The company enjoys a monopoly in the majority of the regions in which it operates due to high barriers to entry and avoidance of high-competition urban markets, and volumes are increasing through steady organic growth augmented by strategic acquisitions.

We have owned Information Technology (IT) company **Gartner, Inc.** since 2007. The company is the leader in IT research and analysis, with a highly valued brand in the IT community. Since our initial purchase, Gartner's annual revenues have grown from $1.1 billion to $2.1 billion today. Gartner's market is vast and its penetration rate is less than 3%. The industry is rapidly evolving and growing in importance, leading users to turn to third-party providers such as Gartner for insights into trends.

We do not typically invest in biotech or drug companies, as the binary nature of these stocks runs counter to the lower risk profile of the Fund. We do like a number of health care companies that are involved in distribution, packaging, and other services, which tend to be lower risk, and less volatile than the development companies.

One such category we like is Contract Research Organizations (CROs), which provide clinical drug development to pharma and biotech companies. We have invested in CROs for some time, and currently own three: **ICON plc**, **INC Research Holdings, Inc.**, and **PRA Health Services, Inc.** According to industry experts, about 40% of all clinical compounds are developed by third parties, and this percentage is expected to grow to at least 60%.

Another health care holding, **DexCom, Inc.**, sells a continuous glucose monitoring system for diabetics. Although this is an unusual investment for the portfolio because of its extended trading multiple, we think DexCom's fundamentals justify our investment. Over the last three years, DexCom has launched a series of new products driving a dramatic acceleration in revenue growth. We believe the company's new product pipeline remains robust and will lead to further adoption among the growing population of diabetics.

Top 10 holding **IDEXX Laboratories, Inc.** is a leader in veterinary diagnostics. The company is benefiting from secular growth spending on pets, driven by favorable demographics, increased use of diagnostics, and an increasing focus on preventative care. It has had much success placing its proprietary testing instrument in clinics, and has a deep pipeline of tests and products. Its razor/razorblade model results in high retention rates and incremental margins. IDEXX is transitioning to all-direct distribution, which we expect will further enhance margins and future growth.

Consumer Discretionary companies no longer dominate the Fund given the current hyper-competitive retail landscape. However, we still hold a number of stocks in the sector, including **Bright Horizons Family Solutions, Inc.**, the leader in corporate-sponsored childcare in the U.S. and U.K. The company is benefiting from growing numbers of working women and dual income households. Its business model is characterized by high revenue and earnings visibility, low capital intensity, superior return on investment, and high cash flows. We expect continued strong compound growth, driven by additional childcare centers and back up services, accretive acquisitions in a highly fragmented market, geographic expansion, and cross selling of new, higher margin services.

New Holdings

It has been a challenging market in which to find promising new investments for small cap investors. Companies experiencing robust organic growth are scarce, and those that are growing tend to trade at multiples that are too high for us to be able to justify. That said, we are always looking for new names to add to the portfolio, because, although past performance is not a guarantee of future performance, we firmly believe that, over the long term, we can replicate the success we have had with past and existing investments in companies that have demonstrated dramatic growth and become worth substantially more over time, generating impressive compound returns for our investors.

In mid-2015, we initiated a position in **Press Ganey Holdings, Inc.**, the leading provider of patient satisfaction surveys, management reports, and national comparative databases for health care providers, with more than 65% market share. Press Ganey's foundation is a vast proprietary data set, which it collects from government-mandated surveys and then analyzes and standardizes to provide clients with findings and actionable recommendations. We think Press Ganey is positioned to benefit from the shift toward a more patient-centric health care marketplace. Its massive database gives it a significant competitive advantage, and it sells its services on a recurring revenues model, with a 97% client retention rate.

Another recent purchase is **Houghton Mifflin Harcourt Co.**, a leader in K-12 educational content and services. It has globally recognized brands; rich, iconic and proven content; a reputation as an educational innovator; and a deep competitive moat around its franchise. After going through a pre-packaged bankruptcy in 2012, the company has brought in new management to lead the transition to a business model that incorporates digital instructive content. We think Houghton will benefit from a large and growing market, as educational budgets are augmented and the business relationship shifts from a lumpy textbook adoption cycle to a more sustainable digital subscription-based model.

A Note on Recent Performance

Like most actively managed small cap portfolios, the Baron Small Cap Fund did not fare well against its benchmark recently. Our type of fund often doesn't participate in surging markets because we eschew high multiple, low quality, and "flavor of the day" stocks, which often are the leaders in strong bull markets in the small cap space. In addition, as a function of its long-term approach, the Fund includes some securities that have grown beyond their market cap at the time of our initial investment. As a result, the composition of the Fund can look very different than its benchmark. We seek to manage the portfolio's average market cap size by harvesting gains in our larger companies to fund our purchases of new small-cap companies. Last year, the average market cap of new purchases was $1.9 billion (as of 9/30/2015).

In addition, we believe these recent less-than-optimal results were likely a function of an outlier market that behaved in a way that disfavored our Fund and, in fact, most active managers. Stocks that did well tended to fall into one or more of two categories: 1) momentum driven stocks for which nothing went wrong; and 2) non-earning biotech and high multiple technology stocks. Many stocks that did well became market favorites, trading at lofty valuations with which we are not comfortable, or at revenue multiples or other concoctions, which tend not to hold up well when the market corrects. On the flip side, if a company missed earnings, or was subject to any bad news whatsoever, its stock tended to decline further and for a longer period of time than usual.

We believe this outlier market is at or nearing the end of its run, and that the market is reverting to more normal conditions. As disciplined long-term investors, we strive to look past short-term market aberrations. We invest in high quality businesses that we believe can continue to significantly grow their profits and value over time. We believe this is the correct positioning over the long term. We also continue to discover exciting new companies to add to the portfolio, building toward our goal of providing our investors with a lower risk product that will potentially generate solid relative performance.

Performance as of December 31, 2015*

INSTITUTIONAL SHARES								
	Average Annualized Returns			Since Inception		Inception	Expense	
	1-Year	5-Year	10-Year	Annualized	Cumulative	Date	Ratio	Ticker
Small Cap								
Baron Growth Fund	-4.06%	10.54%	7.52%	12.87%	1170.00%	12/31/94	1.04%[1]	BGRIX
Baron Small Cap Fund	-5.01%	9.31%	6.92%	9.29%	406.18%	9/30/97	1.04%[1]	BSFIX
Baron Discovery Fund	-14.53%	N/A	N/A	5.79%	13.50%	9/30/13	1.91%/1.10%[1]	BDFIX
Small-Mid Cap								
Baron Focused Growth Fund[2]	-2.12%	7.77%	8.06%	10.84%	650.16%	5/31/96	1.09%[3]	BFGIX
Mid Cap								
Baron Asset Fund	0.20%	11.50%	7.54%	11.21%	1977.43%	6/12/87	1.04%[1]	BARIX
Large Cap								
Baron Fifth Avenue Growth Fund	6.61%	13.17%	6.74%	7.34%	128.44%	4/30/04	1.08%/1.05%[1]	BFTIX
All Cap								
Baron Opportunity Fund	1.45%	8.15%	8.25%	4.97%	115.50%	2/29/00	1.08%[1]	BIOIX
Baron Partners Fund[2]	-2.43%	11.98%	7.96%	12.58%	1600.42%	1/31/92	1.26%[3†]	BPTIX
International								
Baron Emerging Markets Fund	-10.97%	1.68%	N/A	1.68%	8.66%	12/31/10	1.27%/1.25%[3]	BEXIX
Baron Global Advantage Fund	-1.51%	N/A	N/A	9.75%	40.65%	4/30/12	2.92%/1.25%[3]	BGAIX
Baron International Growth Fund	1.48%	3.72%	N/A	11.68%	116.64%	12/31/08	1.34%/1.25%[3]	BINIX
Specialty								
Baron Energy and Resources Fund	-31.73%	N/A	N/A	-8.19%	-28.94%	12/30/11	1.52%/1.10%[3]	BENIX
Baron Real Estate Fund	-4.42%	15.48%	N/A	17.31%	160.58%	12/31/09	1.06%[3]	BREIX

* 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 1.05% 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, 2014 for Baron Asset, Baron Growth, Baron Small Cap, Baron Opportunity, Baron Fifth Avenue Growth and Baron Discovery Funds. For Baron Fifth Avenue Growth Fund, the total expense ratio was 1.08%, but the net annual expense ratio is 1.05% (net of the Adviser's fee waivers). For Baron Discovery Fund, the total expense ratio was 1.91%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). For Baron Discovery Fund, Baron Opportunity Fund and Baron Fifth Avenue Growth Fund, the Adviser has contractually agreed 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 1.05% of average daily net assets of the Institutional Shares, respectively.

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, 2014 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 1.34%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). For Baron Emerging Markets Fund, the total expense ratio was 1.27%, 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 1.52%, 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 2.92%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). 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 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.

Portfolio holdings as a percentage of net assets as of December 31, 2015 for securities mentioned are as follows: **TransDigm Group, Inc.** - Baron Small Cap Fund (4.2%); **Acuity Brands, Inc.** - Baron Small Cap Fund (4.2%); **Gartner, Inc.** - Baron Asset Fund (5.5%), Baron Partners Fund (2.4%*), Baron Growth Fund (3.9%*), Baron Small Cap Fund (4.3%), Baron Opportunity Fund (4.5%*); **ICON plc** - Baron Small Cap Fund (1.9%); **INC Research Holdings, Inc.** - Baron Small Cap Fund (1.7%), Baron Discovery Fund(1.2%); **PRA Health Sciences, Inc.** - Baron Small Cap Fund (1.2%); **DexCom, Inc.** - Baron Small Cap Fund (2.1%); **IDEXX Laboratories, Inc.** - Baron Asset Fund (4.6%), Baron Partners Fund (3.1%*), Baron Growth Fund (2.0%*), Baron Small Cap Fund (2.3%); **Bright Horizons Family Solutions, Inc.** - Baron Growth Fund (2.3%*), Baron Small Cap Fund (3.8%); **Press Ganey Holdings Inc.** - Baron Small Cap Fund (1.6%), Baron Discovery Fund(4.3%); **Houghton Mifflin Harcourt Company** - Baron Small Cap Fund (0.9%).

* % of Long Positions

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

Baron Small Cap Fund invests in small-sized companies with market capitalizations up to the largest market cap stock in the Russell 2000 Growth Index at reconstitution, or companies with market capitalizations up to $2.5 billion, whichever is larger. Prior to 2/20/2015 the Fund Invested in stocks with market capitalizations under $2.5 billion.

The **Russell 2000® Growth Index** is an unmanaged index that measures the performance of small-sized U.S. companies that are classified as growth. The Russell 2000 Growth Index and Baron Small Cap Fund returns reflect the reinvestment of dividends and other earnings, which positively impact performance results.

The **Morningstar US OE Small Growth Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the Small Growth category. The Fund's Retail Shares have been included in the category since inception and the Fund's Institutional Shares since 5/29/2009. As of 12/31/2015, the category consisted of 588 funds for the 5-year time period.

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

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

Sharpe Ratio is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance.

Standard Deviation (Std. Dev.) measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk).

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 the greatest conviction. This could increase volatility of the Fund's returns. This 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 Small Cap Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

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.