BARON FUNDS

INSIDE THE BARON FUNDS

INVESTOR

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Congratulations to the Baron Global Advantage Fund on its Three-Year Anniversary

Finding Global Growth Opportunities

With close to 45,000 publicly traded companies in the world, the global equity market is massive. Until we colonize Mars and set up a stock exchange there, no bigger investment universe exists. Where to begin?

We begin at the bottom. For Baron Global Advantage Fund, as with all of our Funds, we apply a research-intensive, bottom-up investment approach to find opportunities throughout the globe. Our goal is to invest in what we believe are the best growth companies anywhere in the world, period.

While the approach and the goal may sound simple, the challenge lies in the execution. Our research process is exhaustive. We seek to gain information through myriad sources and perspectives, tapping our network of industry participants and experts, attending industry events, visiting companies, and meeting with management. Of course, plenty of fund managers claim the same. We think our real competitive advantage lies in our passion, lateral thinking, and creativity. Passion for investing, which makes us work hard. Lateral thinking, meaning that we use reasoning that is not immediately obvious to look for the drivers of change, determine whether it is real and sustainable, and identify implications. Finally, and most importantly, our ability to think creatively and independently often leads us to unique insights and perspectives.

So far, our approach is serving the Fund, and our investors, well. We are pleased to report that since its inception on April 30, 2012, Baron Global Advantage Fund, with Portfolio Manager Alex Umansky at the helm, has returned 51.21% on a cumulative basis, net of all fees and expenses, compared to 40.93% and 37.88%, respectively for its two benchmarks, the MSCI ACWI Growth and MSCI ACWI Indexes.

A Distinct Approach to Global Investing

Baron Global Advantage Fund takes a different approach to investing in the global markets.

Alex Umansky
Portfolio Manager

First, the portfolio has just 40 to 50 stocks, to avoid over-diversification. Because we have a long-term mindset, we are less concerned about reducing short-term volatility through diversification. We believe over-diversification inevitably results in lost opportunities to generate alpha because one is forced to allocate assets away from one's highest conviction ideas. As of June 30, 2015, the top 10 positions represented 46.5% of the portfolio, and the top 20 were 71.8%.

Second, we are benchmark agnostic. We believe value-added investment results can be achieved more consistently through bottom-up analysis and judgment than through top-down forecasting. Our belief is that a company that meets our fundamental investment criteria ultimately will outperform over time, irrespective of industry, country, region, or size. As a result, sector and country weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or negative view.

Currently, about 44% of the Fund is invested in Information Technology and 20% in Consumer Discretionary, with the rest spread across various other sectors. Geographically speaking, close to half of the Fund is invested in U.S. stocks, about 30% in emerging markets, and the rest in other developed countries. We have generally been bullish on certain emerging market countries where the emergence of the middle class has allowed them to develop their own economic eco-systems. These countries also tend to have younger populations, high local savings rates, and a need for new (not replacement) infrastructure. We think all of this bodes well for

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 Adviser has reimbursed certain fund expenses for 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. As of December 31, 2014, Fund expenses were 2.92% total and 1.25% net of the Adviser's fee waivers.

Top Ten Holdings as of June 30, 2015

Company	Percent of Net Assets
Amazon.com, Inc.	7.6%
SunEdison, Inc.	5.6
JUST EAT plc	5.2
Facebook, Inc.	4.5
Illumina, Inc.	4.2
TerraForm Global, Inc.	4.1
Alibaba Group Holding Ltd.	4.1
Sarana Menara Nusantara Tbk PT	3.8
Mellanox Technologies, Ltd.	3.7
Google, Inc.	3.7

competitively advantaged companies that can benefit from these long-term trends.

Third, we are long-term, bottom-up investors. We do not trade on short-term geopolitical, economic, or market events. To us, the development of insights and perspectives is more important than a short-term focus on incremental information and events. Of course, we are aware of, and continually monitor, events or developments that may impact our portfolio holdings. In addition, there are many regions across the globe in which we are not and likely will not invest anytime soon, because conditions are hostile to the types of companies we look for. In countries and regions where we do have holdings, we manage the risk associated with geopolitical and other conditions primarily through position size, not by short-term trading.

Focus on Platform Companies

As a Firm, we look for unique companies with sustainable competitive advantages that we believe have the ability to redeploy capital at high rates of return. We also like management that has a proven track record of value creation and a long-term ownership mindset.

In Baron Global Advantage Fund, our primary focus is on platform companies. We think that as a group, platform companies offer the biggest growth opportunities in the global market today. Overall, close to 40% of the Fund is invested in platform businesses, including six of our top ten holdings by percent of net assets, and nine of our top ten holdings by equity market cap.

Platform companies have built a platform others can use to easily connect their businesses, market and sell their products and services, and co-create value. For example, **Amazon.com**, which started as a distribution channel selling products, has shifted a large part of its business to an engagement platform connecting third-party retailers with customers.

"Platform" has become a buzzword for a lot of businesses, especially in technology. We think few of these companies have earned the term. True platform companies – **Alibaba** or **Google**, for example – benefit from economies of scale, the network effect, and formidable barriers to entry. Most users, sellers, providers, and/or advertisers want to work with them, which in time should lead to better monetization opportunities.

A great way to find hidden value is to look for companies that are underappreciated due to market inefficiencies. Many of the platform companies in the Fund fall into this category, undervalued as a result of conventional valuation, lack of easily understood "comparables," and/or the market's short-term bias.

Most of these businesses are relatively new, built around an Internet-based platform. They may lack an offline counterpart – think of Google, **Facebook**, or **Priceline** – making it tricky to assess them using traditional means. As a result, we have found that conventional valuations will frequently underestimate the true growth potential of these businesses.

With all of our companies, platform or otherwise, we ask ourselves how big they can be at maturity. The Internet offers a virtually open-ended growth opportunity for online businesses. If they dominate their category, even better. For example, the world's largest retailer, Wal-Mart, has a market cap of $228 billion, while Alibaba, China's online retail powerhouse with 80% of the market, has a market cap of $207 billion. (The Fund is not invested in Wal-Mart; Alibaba is a top ten holding.) Wal-Mart's market penetration is high and likely near saturation, and its growth in recent years has been virtually flat. In contrast, China's online retail has experienced explosive growth – close to 50% in 2014 – but still accounts for just 11% of total retail value in that country. Moreover, China's retail market is expanding at a rate of 14% a year, while the U.S. market is basically flat. Alibaba is riding this growth, and we think the company will continue to grow in a highly profitable manner for years to come. We believe that, in time, the dominant online retailers like Alibaba and Amazon.com will be far larger than the Wal-Marts of today.

Given the difficulty in applying conventional valuations to these companies, the share price of platform businesses can be quite volatile as the market reacts to short-term events. Because we believe in the fundamental long-term potential of our investments, we think of this volatility as an opportunity. For instance, we participated in Facebook's IPO in May 2012. As users shifted from desktop to mobile, Facebook's growth slowed, and in three months the stock lost more than half its value. We thought it was a unique company with significant competitive advantages and viewed mobilization monetization as a question of "when," not "if." We took advantage of the selloff to add to our position. Since then, our investment in Facebook has more than doubled in value, and the stock is our fourth largest holding. We think it has plenty of growth potential ahead.

While some of our platform companies are familiar names, others are less well known. For instance, we recently took a position in **Naspers**, a South Africa-based conglomerate with assets in Internet services, print, television, and digital media, as well as other technology services. Among its impressive portfolio is a 34% stake in China's Instant Messaging leader, Tencent, and a 29% stake in Russian Internet holding company Mail.ru. All in all, Naspers owns part or all of another 140-plus Internet assets. Most of the handful of analysts covering Naspers have focused on Tencent and Mail.ru, with little or no attention paid to the rest of Naspers' portfolio, including its core business of pay-TV and print media. While we think Tencent may be close to fairly valued and an appropriate holding company discount should apply, we think the optionality offered by Naspers' other investments is enormous, and we are not paying much to own them.

Other Growth Opportunities We Like

In addition to platform companies, we invest in a number of other growth opportunities that we find compelling, including the following:

Renewable Energy We own three renewable energy companies: **SunEdison**, **TerraForm Power**, a yieldco created and majority owned by SunEdison, and **TerraForm Global**, another SunEdison yieldco in which we have invested through a private placement deal ahead of its IPO. When taken together, they are the Fund's largest investment, accounting for 12.5% of net assets.

We are a big believer in renewable energy – solar in particular – and in these three companies in particular. We think renewable energy is one of the most significant growth opportunities in energy today. Two major trends are driving the adoption of solar: (1) the increasing cost-competitiveness of solar as a source of electricity (grid parity); and (2) increasing consumer and geopolitical desire to reduce pollution, which encourages the use of renewables.

As the world's largest renewable energy development company, we think SunEdison, TerraForm Power, and TerraForm Global are well positioned to participate in the growth of renewable energy. With both TerraForm companies, SunEdison is using an innovative financing model called a yieldco to significantly reduce the cost of capital, increase the retained value of its renewable projects, and provide value to its shareholders through cash dividends and enhanced stock value. Late last year, SunEdison and TerraForm Power announced a joint acquisition of First Wind for $2.4 billion, making the combined company one of the largest producers and operators of wind projects as well as solar. In the less-than-a-year that we have owned them, SunEdison has appreciated by 79% and TerraForm Power by 52%, and we think they're just getting started. TerraForm Global provides us with a vehicle to invest in renewable energy plants in emerging markets, which, in our view, represent a virtually open-ended growth opportunity.

DNA Sequencing With DNA sequencing, a new era of personalized medicine is underway. DNA sequencing, which is the process of determining the precise order of nucleotides within a DNA molecule, opens the door to tailored medical treatments based on the individual's unique genetic profile. It is already becoming common medical practice to sequence a cancerous tumor and prescribe drugs targeting the genetic mutations specific to that cancer. In the field of reproductive health, DNA sequencing is being used to identify chromosomal abnormalities early in a pregnancy. We see myriad other ways in which DNA sequencing can advance the practice of medicine.

We are invested in this area through **Illumina**, a top 10 holding of the Fund. Over 90% of the world's sequencing output is produced on Illumina's instruments. When we bought Illumina in 2012, the stock was still suffering from the negative impact of a missed quarter and reduced guidance combined with the threat of a government shutdown (at the time, about a third of revenue came from academic research, which depends heavily on federal funding). None of this had anything to do with Illumina's competitive advantages or the massive growth opportunities in the DNA testing market, in our view. As others ran for the exits, we took advantage of the selloff to establish a position. The stock has appreciated by almost 400% since.

Cybersecurity We think a seismic shift is potentially underway in the cybersecurity area. Ten years ago, cybercrime was largely limited to email scams and the occasional mischievous – but not truly malicious – virus. Today, cybercrime costs are close to $100 billion a year in the U.S. and almost half a trillion dollars worldwide. Every month seems to bring news of yet another massive cyberattack. As the necessity of protection becomes more and more apparent, we are confident that the penetration of cybersecurity solutions will expand significantly over time. Israel-based **Check Point Software Technologies** is the largest pure-play security vendor globally, with products across the security landscape (network, applications, mobile, and malware, for example). We see Check Point's focus and expertise as a competitive advantage, and we believe it will be able to monetize this competitive advantage through its profitable and recurring revenue from thousands of customers around the globe.

Conclusion

A global fund will always be subject to short-term volatility. While we have been gratified by the upward trajectory of the holdings mentioned above (and others), other investments are not as impressive. . . yet. We are confident that, over time, they will catch up (of course, there are no guarantees). We believe there is a lot of positive optionality for the patient global investor. Over the last 50 years, average global income per capita has tripled, life expectancy has risen by a third, and child mortality is down 70%. People are healthier, smarter, and more prosperous than they have ever been. Despite disasters and reverses, quality of life, wealth, and prosperity have continued to increase, and we think that is unlikely to change.

Performance as of June 30, 2015*

INSTITUTIONAL SHARES								
	Average Annualized Returns 1-Year	5-Year	10-Year	Since Inception Annualized	Cumulative	Inception Date	Net Expense Ratio	Ticker
Small Cap								
Baron Growth Fund	7.51%	17.39%	8.63%	13.62%	1271.28%	12/31/94	1.04%[1]	BGRIX
Baron Small Cap Fund	4.31%	16.72%	8.39%	10.15%	455.90%	9/30/97	1.04%[1]	BSFIX
Baron Discovery Fund	7.73%	N/A	N/A	20.90%	39.40%	9/30/13	1.10%[1]	BDFIX
Small-Mid Cap								
Baron Focused Growth Fund[2]	6.96%	14.88%	9.83%	11.64%	718.16%	5/31/96	1.09%[3]	BFGIX
Mid Cap								
Baron Asset Fund	9.73%	17.57%	9.02%	11.58%	2062.56%	6/12/87	1.04%[1]	BARIX
Large Cap								
Baron Fifth Avenue Growth Fund	13.11%	18.04%	7.61%	7.87%	133.08%	4/30/04	1.05%[1]	BFTIX
All Cap								
Baron Opportunity Fund	6.22%	15.34%	10.28%	5.51%	127.56%	2/29/00	1.08%[1]	BIOIX
Baron Partners Fund[2]	6.38%	20.25%	9.84%	13.26%	1747.46%	1/31/92	1.26%[3†]	BPTIX
International								
Baron Emerging Markets Fund	-3.96%	N/A	N/A	4.62%	22.56%	12/31/10	1.25%[3]	BEXIX
Baron Global Advantage Fund	4.93%	N/A	N/A	13.95%	51.21%	4/30/12	1.25%[3]	BGAIX
Baron International Growth Fund	-0.05%	10.81%	N/A	13.66%	129.88%	12/31/08	1.25%[3]	BINIX
Specialty								
Baron Energy and Resources Fund	-26.42%	N/A	N/A	1.71%	6.10%	12/30/11	1.10%[3]	BENIX
Baron Real Estate Fund	7.56%	22.76%	N/A	20.16%	174.62%	12/31/09	1.06%[3]	BREIX

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

† 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 June 30, 2015 for securities mentioned are as follows: **Amazon.com, Inc.** - Baron Opportunity Fund (2.0%), Baron Fifth Avenue Growth Fund (8.5%), Baron Global Advantage Fund (7.6%); **Alibaba Group Holdings Ltd.** - Baron Opportunity Fund (1.9%), Baron Fifth Avenue Growth Fund (4.0%), Baron International Growth Fund (1.4%), Baron Emerging Markets Fund (1.8%), Baron Global Advantage Fund (4.1%); **Google, Inc.** - Baron Opportunity Fund (1.0%), Baron Fifth Avenue Growth Fund (4.6%), Baron Global Advantage Fund (3.7%); **Facebook, Inc.** - Baron Opportunity Fund (2.7%), Baron Fifth Avenue Growth Fund (5.2%), Baron Global Advantage Fund (4.5%); **The Priceline Group, Inc.** - Baron Asset Fund (1.4%), Baron Opportunity Fund (1.7%), Baron Fifth Avenue Growth Fund (3.3%), Baron Global Advantage Fund (2.0%); **Naspers Limited** - Baron Fifth Avenue Growth Fund (1.5%), Baron Global Advantage Fund (2.0%); **SunEdison, Inc.** - Baron Opportunity Fund (2.5%), Baron Fifth Avenue Growth Fund (2.0%), Baron Energy and Resources Fund (3.5%), Baron Global Advantage Fund (5.6%); **TerraForm Power, Inc.** - Baron Asset Fund (1.3%), Baron Opportunity Fund (1.4%), Baron Focused Growth Fund (2.0%), Baron Energy and Resources Fund (1.9%), Baron Global Advantage Fund (2.8%); **TerraForm Global, Inc.** - Baron Opportunity Fund (1.1%), Baron Fifth Avenue Growth Fund (1.9%), Baron International Growth Fund (1.1%), Baron Emerging Markets Fund (1.0%), Baron Energy and Resources Fund (3.0%), Baron Global Advantage Fund (4.1%); **Illumina, Inc.** - Baron Asset Fund (4.2%), Baron Partners Fund (4.3%**), Baron Opportunity Fund (3.3%), Baron Fifth Avenue Growth Fund (6.2%), Baron Global Advantage Fund (4.2%); **Check Point Software Technologies Ltd.** - Baron International Growth Fund (2.6%), Baron Global Advantage Fund (3.3%).

** % of Long Positions.

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

The Adviser has reimbursed certain Fund expenses for Baron Opportunity Fund, Baron Fifth Avenue Growth Fund, Baron Focused Growth Fund, Baron International Growth Fund, Baron Real Estate Fund, Baron Emerging Markets Fund, Baron Energy and Resources Fund, Baron Global Advantage Fund and Baron Discovery Fund (by contract as long as BAMCO, Inc. is the adviser to the Funds).

Growth stocks can react differently to issuer, political, market, and economic developments than the market as a whole. Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets, resulting in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Global Advantage 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.