Letter from Linda

For more than two years, the world has been living with the COVID pandemic and its effects on lives, livelihoods, and lifestyles globally. And just when we thought the pandemic was waning and we could start to return to normality, a new crisis shook the globe: Russia invaded Ukraine.

Baron Capital stands in support of Ukraine, Ukrainian refugees, and all those needlessly uprooted from their homes and separated from loved ones due to Russia's attack on Ukraine. Baron Capital has committed to divesting from all Russian securities as soon as possible. As of March 31, 2022, the total percentage of Russian securities owned across all Baron Funds constituted 0.003% of assets.

Acts of war are incredibly costly, chiefly for the parties directly involved but also indirectly for many others. For Ukraine, the loss of many lives, the destroyed future of an entire generation, the devastation of cities and infrastructure, and the loss of sense of freedom and security are the real tragedy. But there are also significant lasting economic repercussions that both Ukraine and Russia will face, which will also affect many other economies, including the U.S. We are already feeling the pain of rising oil and gas prices due to the disruption of global supply. Other commodity prices are rising too and news about a resurgence of COVID, including, the shutdown of Shanghai, may further affect global supply chains, adding to already strong inflation pressures.

Besides the war, inflation remains top of mind for investors. Nine months ago, when we wrote about inflation[1], the general view of market participants and Fed officials was that high inflation was largely a result of the post-pandemic normalization and was going to be short-lived. Yet, inflation has only accelerated since and expectations have changed, which is why we thought it is timely to provide an update on our thoughts.

In the first half of last year, as global economies were recovering from the pandemic, it was reasonable to expect that, with the restoration of production capacities and supply chains, price pressures would subside, and inflation would soon begin to trend down. After annual consumer inflation peaked at 5.4% in June 2021, it moderated over the next two months. However, prices started climbing back up in the fall as supply chains remained under pressure and shortages persisted.

In November, Fed Chairman Jerome Powell appeared in front of the Senate Banking Committee and suggested that the term "transitory" should no longer be used to describe inflation. This was a key moment that increased inflation expectations and changed the market's perception of the Fed's future monetary and interest rate policy.

Nearly three months later, Russia's invasion of Ukraine instantly added significant cost pressures to the already existing ones. Ukraine and Russia's temporary removal from commodities markets is likely going to cause significant lasting shortages and supply chain strains around the world, resulting in prolonged inflation and lower economic growth. This does not necessarily mean that inflation is likely to increase significantly above the current level of 8.5% per year. Yet, in our view, it seems highly likely that it will remain above the Fed's 2.0% target level for the next few years.

LINDA MARTINSON
CHAIRMAN, PRESIDENT AND COO

The economic pressures that many countries are experiencing as a result of the pandemic and the war have caused governments and corporations to rethink their dependence on international trading partners. Discussions about deglobalization have become more frequent in recent months. While it is still early to tell whether and to what degree there may be shifts from global to local, a secular deglobalization shift is likely to put additional pressure on prices, since cost efficiencies may have to be sacrificed in exchange for more economic independence.

Recent data has indicated that the U.S. has been experiencing robust economic health. Unemployment is currently at 3.6%, close to its lowest point in 60 years; industrial activity is growing; and real gross domestic product recorded a 37-year high of 5.6% in 2021. However, such indicators are a reflection in the rear-view mirror, and what lies ahead may not be as positive. A full labor market, for example, could lead to growing wage pressures, which could further exacerbate inflation. At the same time, wages have grown, but the prices of many goods and services have grown faster, which will eventually result in weaker demand and slower economic activity.

The mounting concerns over inflation, slowing growth, the Fed's monetary policy, and the war have weighed on consumer and investor sentiment in recent months. Many investors are wondering how to position their portfolios to protect against inflation or a potential global economic slowdown.

Just like the pandemic, macroeconomic factors such as inflation and geopolitical events are outside of our control. We do not try to time or predict their course. Nevertheless, we actively monitor ongoing developments, and, as we receive new information, we test our investment theses. For our domestic non-specialty Funds, we may make some marginal changes. For our international and specialty Funds, we may make more material adjustments, depending on the specific risks to which these portfolios are exposed. In all cases, our focus remains on the long-term potential of our investments, and we continue to believe that our portfolios have attractive long-term growth potential.

[1] *See Linda's Letter from 6/30/2021*

Inflation Is a Complex Subject

Inflation measures the general increase in prices. As we have written previously[2], while the concept sounds simple, defining inflation is a complicated matter, and there are multiple ways to measure it. The two most popular measures of inflation in the U.S are the Consumer Price Index (CPI) and the Personal Consumption Expenditures Index (PCE). Broadly speaking, the CPI reflects the price changes of what people are buying, while the PCE looks at price changes of what businesses are selling. Each index also has a "core" version that excludes food and energy prices, which tend to be more volatile. The Federal Open Markets Committee (FOMC), which sets the Federal Reserve's (the Fed's) monetary policy, primarily references the PCE index when discussing inflation.

CPI inflation is calculated using a fixed-weight basket of goods and services consumed by households. PCE inflation captures a broader picture of spending, including services paid for on behalf of consumers (e.g., Medicare), and can change as people substitute away from some goods and services toward others. Neither index is a perfect representation of the price changes experienced by the population. In fact, since everyone's consumption pattern is different, a single inflation index will always be imperfect because everyone faces his/her own inflation rate. Yet, investors and economists often rely on a single index for decision making. Having a solid understanding of the underlying index methodology and its strengths and weaknesses is important when making investment decisions. We discussed this point in greater detail in Linda's Letter from 6/30/2021.

What Does Higher Inflation Mean for Investors?

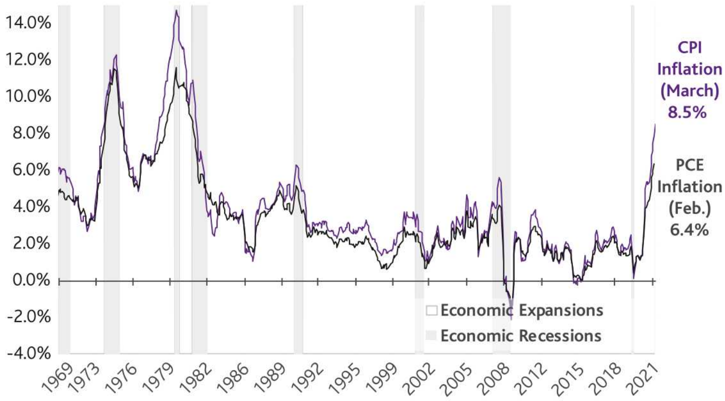
For fixed income investors, higher inflation can be detrimental. Inflation erodes the real value of a bond's face value and diminishes real returns. Inflation can be particularly damaging when it exceeds bond yields, as it currently does, since the real yield for bonds investors becomes negative. Yet, investors may still choose to buy or keep bonds for other reasons, including short-term cash flow management or because they believe inflation is transitory.

For traditional equity investors, the analysis is less straightforward, and there is no definitive rule of thumb. While there is no doubt that inflation affects stock prices, the impact very much depends on what else is going on in the economy and the market. Inflation is only one of many factors that drive the stock market, and its effects on stock prices are hard to isolate or predict. The level and rate of change of inflation affect companies differently, depending on their idiosyncrasies, industry, competitive landscape, and capital structure, among other things. The overall economic environment may also counter or amplify the effects of rising/high inflation. Inflation could increase during times of improving economic conditions or when conditions are worsening. Just because inflation is rising or surpassing a certain level does not mean equity investors should reflexively buy or sell.

The chart below shows that over the past 50-plus years inflation, as measured by the two most popular indicators, has increased or declined during periods of both economic expansions and recessions.

Inflation Has Increased During Economic Expansions and Recessions

1-Year CPI and PCE Inflation, 12/31/1969 – 3/31/2022



Sources: CPI inflation data from the U.S. Bureau of Labor Statistics, PCE inflation data from the U.S. Bureau of Economic Analysis, U.S. Business Cycle Expansions and Contractions data from The National Bureau of Economic Research. All data retrieved from the Federal Reserve Bank of St. Louis.

At the end of March 2022, one-year CPI inflation in the U.S. stood at 8.5%, the highest level in over 40 years. One-year PCE inflation increased to 6.4% in February, also a 40-year high, and is expected to reach 6.5% by the end of March[3].

The last time in recent history when inflation rose to a more significant level and lasted was 2002-2005, a period of stable economic expansion and employment growth after the recession in the early 2000s. As the housing market entered a correction in 2006, inflation retracted for about a year before jumping back up when the financial crisis began unfolding.

The table on the next page shows the periods of rising one-year inflation since the '70s and how some key economic variables and the stock market changed during these periods. In our view, there is no obvious pattern behind this data, and any period of rising inflation should be interpreted in context.

[2] *See Linda's Letter from 6/30/2021*

[3] *According to the inflation expectation from the Federal Reserve Bank of Cleveland as of 4/11/2022.*

Inflation Has Increased in Different Economic Environments

Changes in Select Economic Variables and the Stock Market during Rising PCE Inflation Periods

Trough Date	Peak Date	1-Yr PCE Inflation Trough	1-Yr PCE Inflation Peak	1-Yr PCE Inflation Change	10-Yr Treasury Yield Change	Unempl. Rate Change	1-Yr Industrial Production Change	1-Yr Consumer Spending Change	S&P 500 Index Return (cumulative)	S&P 500 Index - 1-Yr Return After Peak
Jun-72	Oct-74	3.01%	11.58%	8.57%	1.6%	0.3%	9.0%	25.9%	–25.1%	26.0%
Nov-76	Mar-80	5.06%	11.59%	6.53%	5.6%	–1.5%	14.3%	43.7%	18.8%	40.1%
Dec-86	Oct-90	1.57%	5.17%	3.60%	1.4%	–0.7%	11.3%	29.1%	43.1%	33.5%
Sep-98	Mar-00	0.63%	2.93%	2.30%	1.6%	–0.6%	7.1%	12.1%	50.2%	–21.7%
Jan-02	Sep-05	0.67%	3.83%	3.16%	–0.7%	–0.7%	7.7%	23.9%	15.9%	10.8%
Oct-06	Jul-08	1.68%	4.14%	2.46%	–0.6%	1.4%	0.3%	8.4%	–4.8%	–20.0%
Jul-09	Sep-11	–1.47%	3.02%	4.49%	–1.6%	–0.5%	10.9%	9.1%	19.8%	30.2%
Sep-15	Jul-18	0.08%	2.44%	2.36%	0.9%	–1.2%	3.0%	13.0%	55.5%	8.0%
Apr-20	Mar-22	0.41%	6.54%	6.13%	1.8%	–11.1%	23.0%^	38.2%^	60.3%	?

Sources: PCE Inflation and Consumer Spending data from the U.S. Bureau of Economic Analysis, except for March 2022 where the PCE inflation level is represented by the inflation expectation from the Federal Reserve Bank of Cleveland as of 4/11/2022. The actual PCE data for March 2022 will be released by the U.S. Bureau of Economic Analysis on 4/29/2022. 10-Yr Treasury Yield and Industrial Production data from the Board of Governors of the Federal Reserve System (US); Unemployment Rate data from the U.S. Bureau of Labor Statistics; S&P 500 Index data via FactSet and Morningstar Direct.

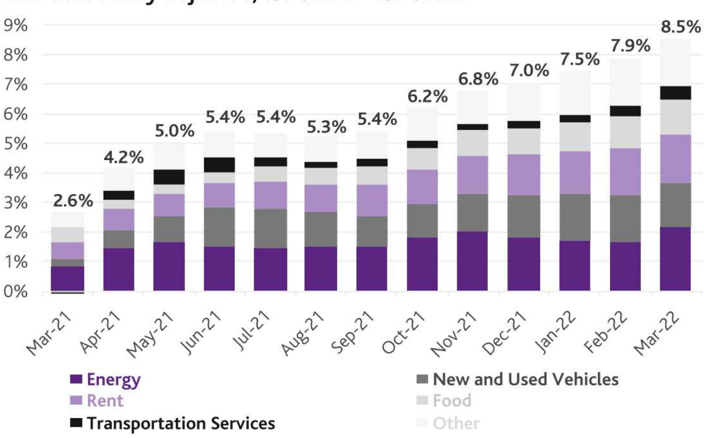
Note: The S&P 500 Index performance includes dividends. Total returns were not available in FactSet for the period 6/30/1972 – 1/31/1988; the total returns for the Ibbotson SBBI US Large Stock Index (via Morningstar Direct) were used during this period. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

^ Data as of 2/28/2022, the most recent available data at the time of this publication.

As we discussed earlier, the recent increase in consumer inflation has been broadbased. The chart below shows how major categories have been contributing to one-year CPI inflation over the past year.

The Increase in Inflation Has Been Broadbased

Contributions to year-over-year % change in CPI, non-seasonally adjusted, 3/31/2021 – 3/31/2022



Source: U.S. Bureau of Labor Statistics.

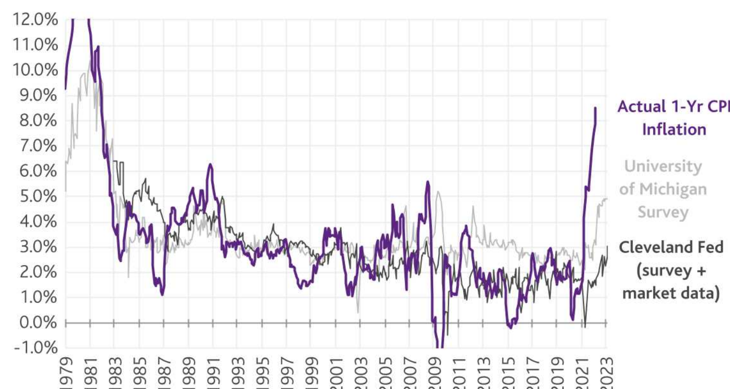
Virtually every major category has experienced higher prices and, as a result, contributed more to inflation. For prices to stabilize or decline, one or more of these groups will have to see a change in current price trends. It seems likely that energy prices will remain elevated or rise further in the near term because of the war. Vehicle prices also seem likely to remain high or increase, due to the rising costs of raw materials and wages, as well as continued supply-chain issues. With the rising prices of real estate, rent prices also don't seem likely to decline; and, when they do, it typically happens slowly, so it does not seem likely that they will be the driver of lower inflation.

Even though this may sound logical, it is hard to assess with accuracy how prices overall or for particular categories may evolve. A comparison of historical inflation expectations and actual inflation levels confirms this. There are several survey-based measures of expected inflation that are closely followed, some of the popular ones are plotted on the chart below. The data clearly shows that it is very difficult to predict inflation consistently. Reminds us that even a broken clock tells the time correctly twice a day.

Inflation Expectations Are Not Always a Reliable Indicator

1-Yr Inflation Expectations vs. Actual 1-Yr CPI Inflation

1/31/1979 – 3/31/2022



Sources: CPI Inflation data from the U.S. Bureau of Labor Statistics via the Federal Reserve Bank of St. Louis. University of Michigan Survey via the University of Michigan; Cleveland Fed data via the Federal Reserve Bank of Cleveland 1-year expected inflation estimates.

Investors also consider market-based measures of inflation expectations derived from treasury yields. One common metric is the breakeven inflation rate, which is calculated as the difference between the yields of regular and inflation indexed treasury bonds with the same maturity. As of 3/31/2022, the five-year breakeven inflation rate was at 3.34%, meaning that over the next five years market participants expect inflation to average out to 3.34% per year.

Letter from Linda

The chart below shows that the five-year breakeven inflation rate increased steadily since the start of the pandemic and had two notable jumps in late 2021 and at the start of the war.

The Market Expects Inflation of Around 3.3% Over the Next Five Years*

5-Year Breakeven Inflation Rate

Source: Federal Reserve Bank of St. Louis.

**annualized average over five years*

Inflation expectations are important, but they are simply a prediction of what may happen and should be considered with caution.

Regardless of inflation levels, historically equities have delivered strong performance and positive returns most of the time. The charts below examine the forward performance of major asset classes following periods of high (>4%), moderate (2% – 4%), and low (<2%) inflation over the past 50-plus years. Each asset class's performance was calculated as the median of the 12-month returns following periods when 1-year PCE inflation was in the respective bucket. For example, in the first chart (left), following periods when inflation was 4% or more, the median 12-month performance of U.S. Small Cap Equities was 23.5%.

In addition, when inflation was 4% or higher, small caps generated positive returns a year later 82% of the time (chart on the right). For most of the periods where inflation was 4% or higher, it tended to last longer than 12 months and was not transitory. The majority of these datapoints were in the '70s and the '80s.

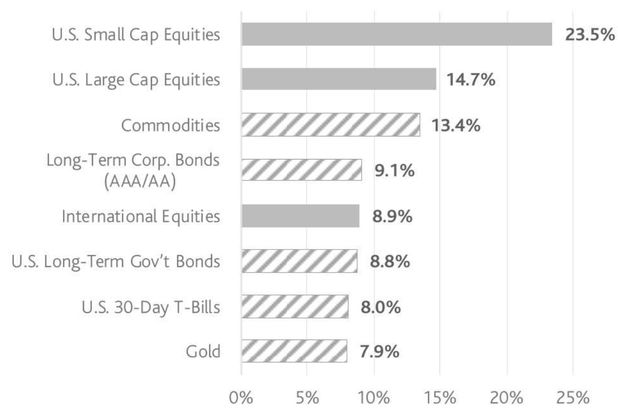
While we acknowledge that this is a simplistic analysis, there is one outcome that stands out: equities have generated strong positive future returns a majority of the time, regardless of inflation levels.

On Average, Equities Have Delivered Strong Returns Regardless of Inflation Regimes

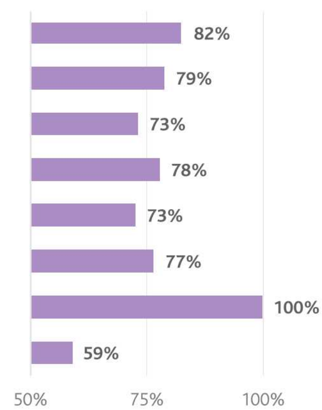
Inflation Regimes vs. 1-Yr. Forward Returns

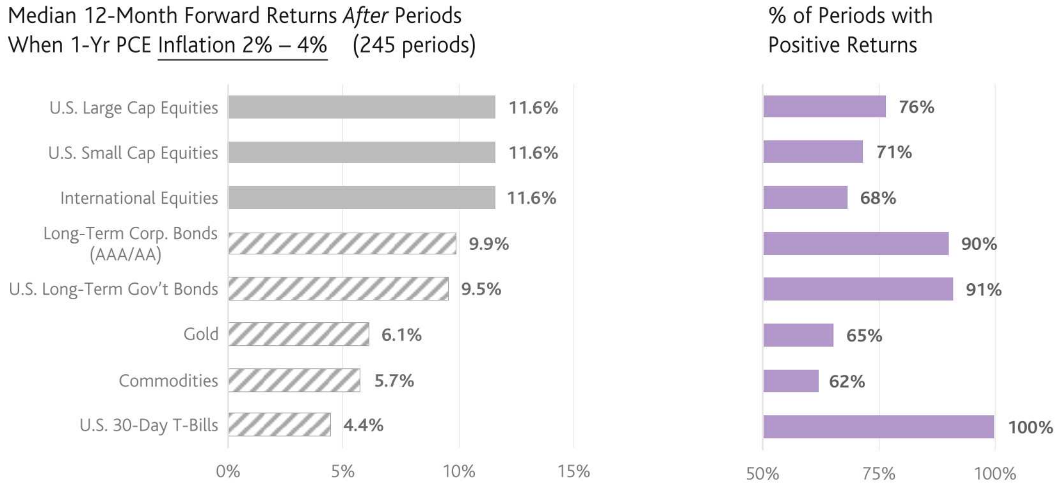
Based on Monthly Observations for the Period 12/31/1970 – 3/31/2022

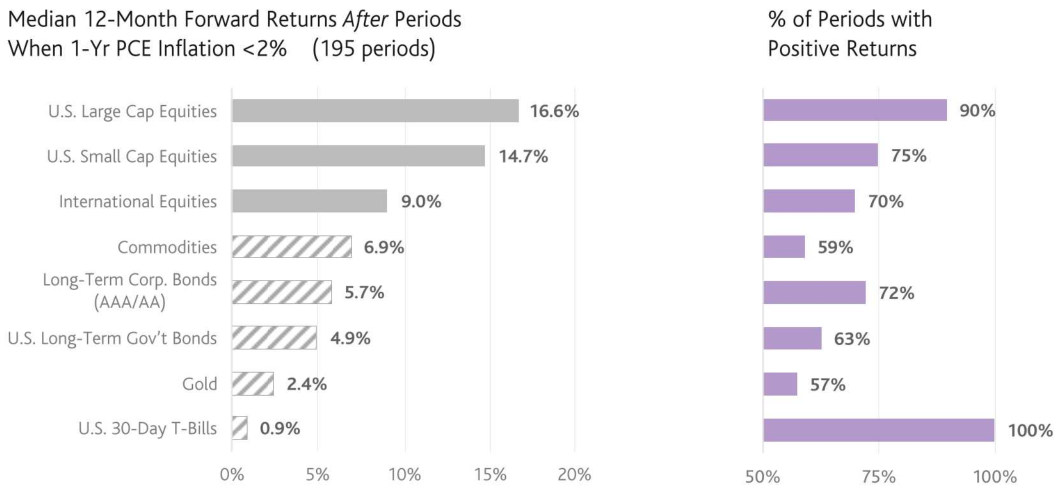
Median 12-Month Forward Returns *After* Periods When 1-Yr PCE Inflation >4% (175 periods)



% of Periods with Positive Returns







Sources: FactSet, Morningstar Direct, Federal Reserve Bank of St. Louis, Baron Capital.
Notes: U.S. Small Cap Equities are represented by the Ibbotson® U.S. Small Stock Index; U.S. Large Cap Equities are represented by the Ibbotson® U.S. Large Stock Index; Long-Term Corporate Bonds are represented by the Ibbotson® Long-Term Corporate Bond Index; U.S. Long-Term Gov't Bonds are represented by the Ibbotson® U.S. Long-Term Government Bond Index (approximate bond maturity 21.5 years); U.S. 30-Day T-Bills are represented by the Ibbotson® U.S. 30-Day T-Bill Index; Commodities are represented by the S&P GSCI Index; International Equities are represented by the MSCI EAFE Index (net); and Gold is represented by the London Bullion Market Gold Fixing Price per Troy Ounce in USD. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

The high and rising concerns around inflation have prompted the Fed to take action. As we have discussed before[4], although it is virtually impossible to control inflation precisely, the Fed can guide inflation to some degree through monetary policy. Achieving long-term price stability and an inflation level of around 2% is one of the Fed's main objectives. By raising interest rates, for example, the Fed can make borrowing less appealing, which in turn would reduce demand for goods and services and bring down their prices. Higher rates can be an effective tool to lower inflation, but lower demand will slow the economy and may even result in a recession. The Fed understands this needs to be done carefully, like pitching to Aaron Judge.

In the past few months, and most recently during its mid-March meeting, the Fed has unequivocally signaled that it is planning to increase interest rates several times this year in an effort to tame persistent inflation. Market participants expect that the Fed Funds Rate reaches around 2% by year-end from its current target range of 0.25% – 0.50%. During its March discussion, Fed officials also revised their 2022 real GDP growth expectations from 4.0% to 2.8% and expected PCE inflation was revised higher for the year, to 4.3%.

Rising interest rates may slow down prices, but some equity investors may see a material downside as well. Many businesses rely on borrowing to fund and grow their activities. Even companies with no debt on their balance sheets can be affected by changing rates, due to the broad impact on the economy. Conventional wisdom dictates that higher interest rates should translate into higher operating costs for companies, thus lower business values and stock prices. Similarly, if we think about the value of a business as the sum of its discounted cash flows, higher rates should lead to lower valuations. While this makes sense, it is not always what happens.

[4] *See Linda's Letter from 6/30/2021, section Inflation and the Fed*

Similar to inflation, interest rates are only one of many factors that move company stock prices. Companies will be impacted differently depending on their idiosyncrasies, industry, competitive landscape, and capital structure, among other things. The relationship between interest rates and equities is complex, and oversimplifying may lead to misleading advice and negative investment implications. The table below shows that the S&P 500 Index generated positive returns in 11 of the 13 rising rate periods since 1967, a remarkable record.

Stocks Tend to Increase in Rising Rate Periods

		10-Yr Treasury Rate					S&P 500 Index Return
From	To	Start	End	Change	PCE Inflation (cumulative)	PCE Inflation (annualized)	(cumulative)
3/31/67	5/31/70	4.50%	7.95%	3.45%	14.17%	4.28%	–6.08%
10/31/71	9/30/75	5.87%	8.48%	2.61%	30.76%	7.11%	2.68%
12/31/76	9/30/81	6.81%	15.84%	9.03%	47.91%	8.61%	38.26%
4/30/83	5/31/84	10.27%	13.91%	3.64%	4.39%	4.04%	–3.89%
8/31/86	9/30/87	6.95%	9.63%	2.68%	3.94%	3.65%	31.57%
9/30/93	11/30/94	5.40%	7.91%	2.51%	2.62%	2.25%	2.15%
12/31/95	8/31/96	5.58%	6.96%	1.38%	1.47%	2.21%	7.45%
9/30/98	1/31/00	4.44%	6.68%	2.24%	2.67%	1.99%	39.44%
5/31/03	6/30/06	3.37%	5.14%	1.77%	9.11%	2.88%	39.33%
12/31/08	3/31/10	2.06%	3.84%	1.78%	2.46%	1.97%	33.28%
7/31/12	12/31/13	1.47%	2.97%	1.50%	2.35%	1.65%	38.34%
7/31/16	10/31/18	1.45%	3.15%	1.70%	4.54%	2.00%	30.50%
6/30/20	3/31/22	0.55%	2.32%	1.77%	9.04%*	5.08%*	50.00%

Sources: FactSet, Board of Governors of the Federal Reserve System (U.S.), Federal Reserve Bank of Cleveland.

** Calculated using the March 2022 PCE inflation expectation from the Federal Reserve Bank of Cleveland (0.75% m/m as of 4/11/2022). The actual PCE data for March 2022 will be released by the U.S. Bureau of Economic Analysis on 4/29/2022.*

The S&P 500 Index performance includes dividends. Total returns were not available in FactSet for the period 3/31/1967 – 1/31/1988; the total returns for the Ibbotson SBBI US Large Stock Index (via Morningstar Direct) were used during this period. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

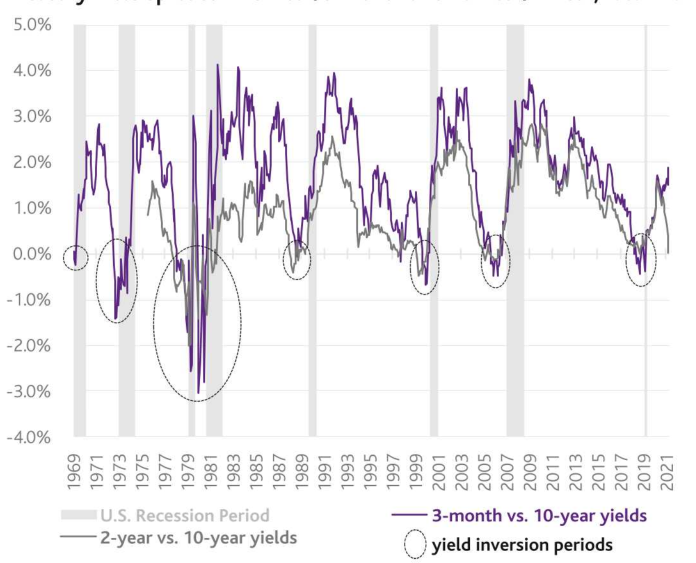
Over very short periods, like a single day, when the 10-Year rate changes significantly, the stock market tends to change significantly too. These changes would more often than not tend to be in the same direction, although there have been multiple instances when the rate moved significantly up or down and stocks moved in the opposite direction. While a highly skilled (and lucky) day trader may benefit from this, such information should not be relevant to long-term investors as it pertains to market timing rather than investing.

As a result of the shifting expectations for higher interest rates in the near term, shorter-dated Treasury yields rose notably, and the spread between the 10-Year Treasury yield and 2-Year Treasury yield narrowed. When short-term interest rates exceed long-term interest rates, a phenomenon known as yield curve inversion, short-term borrowing becomes more expensive than long-term borrowing which many economists and investors interpret as a sign of near-term turbulence. Higher near-term rates are also likely to put pressures on bank profitability, which in turn may result in constrained lending, further impacting economic growth.

Most often, investors gauge the likelihood of a near-term recession by the difference between 10-Year and 2-Year yields. Nevertheless, research has shown that the 10-Year/3-Month relationship has been a better predictor of economic downturns[5]. The chart below shows both sets of yield differences and their relationship to recessions. In both cases, the data suggests that it takes months, sometimes over a year, from yield curve inversion until the beginning of a recession. Currently, the 10-Year/3-Month yield difference remains strongly positive, not necessarily signaling trouble ahead. The 10-Year/2-Year yield difference is close to zero and not clearly indicating an immediate recession. The low level, however, is flashing warning signs, and time will tell how things evolve.

An Inverted Yield Curve Has Often Preceded Recessions

Treasury Yield Spreads – 10-Year/3-Month and 10-Year/2-Year, 1969 – 2022



Source: FactSet, Board of Governors of the Federal Reserve System (U.S.), National Bureau of Economic Research.

While yield curve inversions may be a good predictor of recessions, they have not been a reliable predictor of stock market downturns. With the risk of repeating ourselves, the market is a complicated machine that is driven by a multitude of factors and interest rate movements alone cannot be relied on to consistently predict which directions stocks may go.

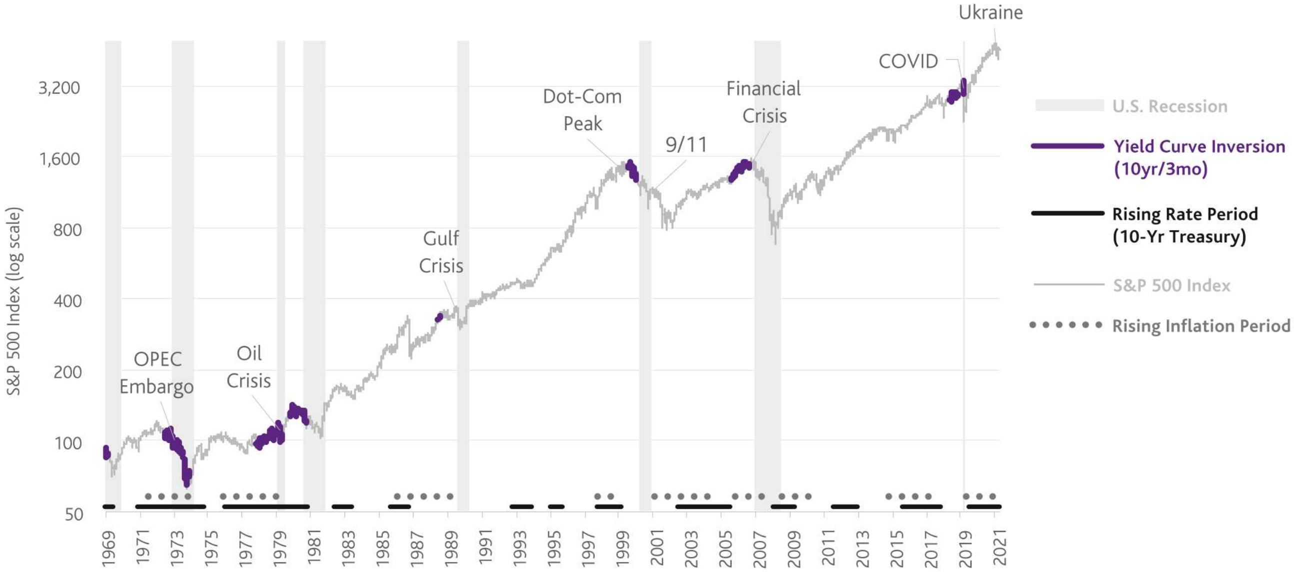
Notwithstanding the turbulence of macroeconomic and geopolitical events, some of which we have described above, the stock market has consistently gone up over the long term, generating significant returns for investors who stayed invested. Over the past 50 years, there have been eight recessions, eight yield curve inversions, 12 rising rates periods, nine periods of rising inflation, and several global crises, as shown in the next chart. Yet, the stock market, as measured by the S&P 500 Index, was up 4,821%, or 7.74% annualized. When we add dividends, these figures increase to 22,276% and 10.91%, respectively.

[5] *Federal Reserve Bank of New York, The Yield Curve as a Leading Indicator: Frequently Asked Questions, A. Estrella, 10/2005*

U.S. Equities Have Increased Over the Long Term Despite Various Crises

S&P 500 Index

12/31/1969 – 3/31/2022



Sources: FactSet, Board of Governors of the Federal Reserve System (U.S.), National Bureau of Economic Research, U.S. Bureau of Economic Analysis.

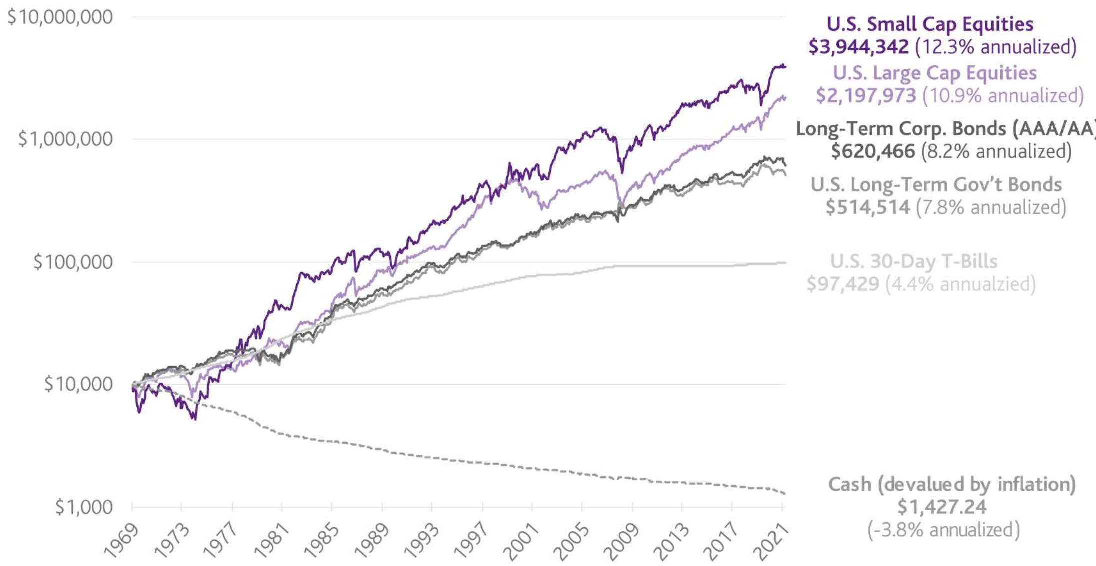
The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

Stay Invested, Stay Active

While macroeconomic factors and the stock market are unpredictable over short periods, there is a consistent historical outcome over the long term: equities have provided solid returns, well in excess of inflation. The chart below shows that since the beginning of the 1970s a hypothetical investment of $10,000 could have turned into several million dollars if invested in equities or it could have lost 85% of its value if it were held in cash.

Value of $10,000 Over Time

12/31/1969 – 3/31/2022



Source: Morningstar Direct.

Notes: U.S. Small Cap Equities are represented by the Ibbotson® U.S. Small Stock Index; U.S. Large Cap Equities are represented by the Ibbotson® U.S. Large Stock Index; Long-Term Corporate Bonds are represented by the Ibbotson® Long-Term Corporate Bond Index; U.S. Long-Term Gov't Bonds are represented by the Ibbotson® U.S. Long-Term Government Bond Index (approximate bond maturity 21.5 years); U.S. 30-Day T-Bills are represented by the Ibbotson® U.S. 30-Day T-Bill Index; and the value of Cash (devalued by inflation) was calculated using the Ibbotson® U.S. Inflation Index. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

We believe that over the long term, equities will continue to provide the attractive returns and solid inflation protection they have delivered in the past. Of course, equities may underperform on occasion, but it is virtually impossible to trade around those periods profitably. We do not think it is possible to time market swings, yet sitting on the sidelines is also not a good strategy. In our view, staying invested throughout uncertain times is the most effective approach for long-term investors.

The elevated uncertainty over the past six months has been unexpected, but it has not affected Baron's long-term views, stock selection, and portfolio management strategies. While we see elevated risks in the near term, we remain optimistic about the long-term prospects of the economy and stock market and continue to position our portfolios to potentially benefit from the secular growth trends we have identified. Our objective remains delivering exceptional long-term performance.

As an active manager, we are able to construct and manage our portfolios to be less exposed to downward market pressures. As the table below shows, 11 out of the 15 Baron Funds with at least three-year track records have achieved a downside capture lower than 100%. In addition, the majority of the Baron Funds have achieved strong upside/downside capture ratios over shorter- and longer-term periods. The upside/downside capture ratio is a rough estimate of the Fund's historical performance during up and down markets.

Baron Funds Have Delivered Strong Up/Down Capture Ratios

Upside and Downside Capture Ratios Over Various Periods

as of 3/31/2021

	3 Years ended 3/31/2022					5 Years ended 3/31/2022					10 Years ended 3/31/2022				
Fund Name	# Up Months Fund / Bench.	# Down Months Fund / Bench.	Fund Up Capture	Fund Down Capture	Fund Up/Down Ratio	# Up Months Fund / Bench.	# Down Months Fund / Bench.	Fund Up Capture	Fund Down Capture	Fund Up/Down Ratio	# Up Months Fund / Bench.	# Down Months Fund / Bench.	Fund Up Capture	Fund Down Capture	Fund Up/Down Ratio
Baron Growth Fund	22 / 23	14 / 13	96%	71%	1.35	40 / 40	20 / 20	100%	75%	1.34	80 / 79	39 / 41	89%	69%	1.29
Baron Small Cap Fund	23 / 23	13 / 13	100%	84%	1.19	41 / 40	19 / 20	100%	82%	1.22	80 / 79	40 / 41	92%	81%	1.14
Baron Discovery Fund	23 / 23	13 / 13	112%	96%	1.16	40 / 40	20 / 20	117%	96%	1.23					
Baron Focused Growth Fund	21 / 24	13 / 12	161%	94%	1.71	37 / 42	21 / 18	139%	89%	1.56	78 / 82	40 / 38	112%	88%	1.27
Baron Partners Fund	22 / 23	14 / 13	211%	125%	1.68	38 / 41	22 / 19	177%	125%	1.42	79 / 77	41 / 43	153%	125%	1.23
Baron Asset Fund	22 / 23	14 / 13	101%	104%	0.97	41 / 41	19 / 19	102%	102%	1.01	81 / 77	39 / 43	103%	101%	1.01
Baron Opportunity Fund	21 / 24	15 / 12	106%	91%	1.16	40 / 44	20 / 16	113%	91%	1.24	77 / 81	42 / 39	110%	118%	0.94
Baron Fifth Avenue Growth Fund	21 / 24	15 / 12	83%	107%	0.78	39 / 43	21 / 17	92%	102%	0.90	73 / 80	45 / 40	98%	112%	0.87
Baron Durable Advantage Fund	26 / 24	10 / 12	103%	98%	1.05										
Baron Emerging Markets Fund	21 / 21	15 / 15	103%	109%	0.94	35 / 35	25 / 25	98%	104%	0.94	70 / 68	50 / 52	93%	83%	1.12
Baron International Growth Fund	22 / 22	14 / 14	109%	96%	1.13	34 / 39	26 / 21	109%	94%	1.17	70 / 73	49 / 47	101%	84%	1.19
Baron Global Advantage Fund	21 / 24	15 / 12	105%	92%	1.15	37 / 43	23 / 17	123%	90%	1.37					
Baron Real Estate Fund	23 / 26	12 / 10	116%	75%	1.55	40 / 44	19 / 16	114%	89%	1.28	77 / 85	42 / 35	110%	95%	1.16
Baron Real Estate Income Fund	26 / 25	10 / 11	102%	54%	1.89										
Baron Health Care Fund	23 / 20	12 / 16	110%	82%	1.34										

Source: Morningstar Direct, Baron Capital.

Note: The upside and downside captures were calculated using monthly data for the institutional shares of the Baron Funds. Morningstar's calculation of Down Capture compounds all returns during down periods for the Fund and for the benchmark; the Down Capture is the ratio of these compounded returns. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

As of 3/31/2022, the annualized 1-, 5-, and 10-year (or since inception, for the Funds that do not have a 5-year track record or 10-year track record) performance of the Institutional Shares of the Funds shown in the chart above was as follows: **Baron Growth Fund**: 3.17%, 16.93%, and 14.35%, respectively; **Baron Small Cap Fund**: -4.87%, 15.10%, and 12.92%, respectively; **Baron Discovery Fund**: -18.31%, 17.76%, and 15.86% since inception, respectively; **Baron Focused Growth Fund**: 9.47%, 31.02%, and 19.00%, respectively; **Baron Asset Fund**: -1.34%, 15.60%, and 14.14%, respectively; **Baron Partners Fund**: 24.51%, 39.02%, and 25.80%, respectively; **Baron Opportunity Fund**: -6.52%, 27.19%, and 17.26%, respectively; **Baron Fifth Avenue Growth Fund**: -10.75%, 17.15%, and 14.48%, respectively; **Baron Durable Advantage Fund**: 15.07% for the 1-year and 15.81% since inception; **Baron Emerging Markets Fund**: -19.20%, 4.68%, and 5.31%, respectively; **Baron International Growth Fund**: -8.35%, 10.23%, and 8.42%, respectively; **Baron Global Advantage Fund**: -20.62%, 20.20%, and 15.26% since inception, respectively; **Baron Real Estate Fund**: -0.09%, 17.08%, and 15.14%, respectively; **Baron Real Estate Income Fund**: 16.97% for the 1-year and 15.86% since inception; **Baron Health Care Fund**: 3.62% for the 1-year and 19.20% since inception.

Fund Primary Benchmarks: *for Baron Growth Fund, Baron Small Cap Fund, and Baron Discovery Fund – Russell 2000 Growth Index; Baron Focused Growth Fund – Russell 2500 Growth Index; Baron Partners Fund and Baron Asset Fund – Russell Midcap Growth Index; Baron Opportunity Fund – Russell 3000 Growth Index; Baron Fifth Avenue Growth Fund – Russell 1000 Growth Index; Baron Durable Advantage Fund – S&P 500 Index; Baron Emerging Markets Fund – MSCI EM Index; Baron International Growth Fund – MSCI ACWI ex USA Index; Baron Global Advantage Fund – MSCI ACWI Index; Baron Real Estate Fund – MSCI USA IMI Extended Real Estate Index; Baron Real Estate Income Fund – MSCI US REIT Index; Baron Health Care Fund – Russell 3000 Health Care Index.* ***Fund Inception Dates:*** *Baron Growth Fund – 12/31/1994; Baron Small Cap Fund – 9/30/1997; Baron Discovery Fund – 9/30/2013; Baron Asset Fund – 6/12/1987; Baron Focused Growth Fund – 5/31/1996; Baron Partners Fund – 1/31/1992; Baron Opportunity Fund – 2/29/2000; Baron Fifth Avenue Growth Fund – 4/30/2004; Baron Durable Advantage Fund – 12/29/2017; Baron Emerging Markets Fund – 12/31/2010; Baron International Growth Fund – 12/31/2008; Baron Global Advantage Fund – 4/30/2012; Baron Real Estate Fund – 12/31/2009; Baron Real Estate Income Fund – 12/29/2017; Baron Health Care Fund – 4/30/2018.*

Continued from previous page.

Annual expense Ratios for Inst. shares as of 9/30/2021: Baron Asset Fund, 1.03%, Baron Growth Fund, 1.03%, Baron Small Cap Fund, 1.03%, Baron Opportunity Fund, 1.05%, Baron Fifth Avenue Growth Fund, 0.75%, Baron Discovery Fund, 1.05%, Baron Durable Advantage Fund, 1.48% but the net annual expense ratio was 0.70% (net of the Adviser's fee waivers). Annual expense Ratios for Inst. shares as of 12/31/2021: Baron Partners Fund, 1.11% (comprised of operating expense of 1.05% and interest expense of 0.06%), Baron Focused Growth Fund, 1.05%, Baron International Growth Fund, 0.96%, but the net annual expense ratio was 0.95% (net of the Adviser's fee waivers), Baron Real Estate Fund, 1.05%, Baron Emerging Markets Fund, 1.08%, Baron Global Advantage Fund, 0.90%, Baron Real Estate Income Fund, 1.08%, but the net annual expense ratio was 0.80% (net of the Adviser's fee waivers), Baron Health Care Fund, 0.89%, but the net annual expense ratio was 0.85% (net of the Adviser's fee waivers).

As we have written in previous letters, we are equity investors, not economists. We cannot control inflation and other macroeconomic and geopolitical developments. Our focus remains on the things we can control: investing in companies with strong growth prospects and attractive valuations, exceptional management teams, and durable competitive advantages. Independently of where the market goes, we believe there will always be attractive investment opportunities.

The markets may bounce up tomorrow or may remain volatile for a while – no one knows, but we are confident that they will reach new peaks in the future.

Over the 40-year history of Baron Capital, we have witnessed multiple crises, market shocks, and unprecedented global events. When you are in the middle of one of those events, it is hard to see where and how it ends. Speaking from experience, our best advice to other long-term investors is: keep your focus on the big picture, stay invested, and stay active.

Sincerely,

Linda S. Martinson
Chairman, President, and COO

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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2032, unless renewed for another 11-year term 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.

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

Performance for the Institutional Shares prior to 5/29/2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to 5/29/2009 did not reflect this fee, the returns would be higher.

Baron Asset Fund's 1-year, **Baron Discovery Fund**'s 3- and 5-year, **Baron Fifth Avenue Growth Fund**'s 1- and 3-year, **Baron Global Advantage Fund**'s 3- and 5-year, **Baron Health Care Fund**'s 1-year, **Baron Opportunity Fund**'s 1-, 3-, 5- and 10-year and **Baron Real Estate Fund**'s 1-year historical performance were impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Funds' level of participation in IPOs will be the same in the future.

Risks: All investments are subject to risk and may lose value.

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The index and the Funds include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The index is unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).