

Small Cap Investing at Baron

Baron Capital got its start investing in small cap stocks. Today, we have 13 Funds across all asset classes, including three small cap Funds. The investment approach is the same, grounded in our long-established, consistently applied methodology developed by founder Ron Baron. We combine fundamental, bottom-up research with a long-term perspective to find companies with open-ended growth opportunities, sustainable competitive advantages, and visionary management, at an attractive valuation.

Our three small cap Funds, Baron Growth Fund, Baron Small Cap Fund, and Baron Discovery Fund, are each managed by a different portfolio manager. From our decades of researching small cap companies, we have learned to identify what we believe are businesses with unique opportunities for growth. Many of these businesses are run by executives with a significant personal stake, and who are typically eager to meet with us to explain their strategy for growth and to allow us to judge them and their ability to attract and retain exceptional employees. We also think that there are more hidden gems in the small cap space, since these stocks typically are not widely covered on Wall Street.

We employ a consistent investment approach in researching and managing all of our Funds. At the same time, each of our small cap Funds has distinct characteristics. As of June 30, 2014, overlap in the holdings among the three funds ranged from 8% to 23%.

Baron Growth Fund

Baron Growth Fund is managed by Ron Baron, who has been at the helm since its December 1994 inception. Ron brings 44 years of research experience to his investments in the small cap growth category. We build the portfolio one stock at a time, looking for businesses with the potential to double in size over the next four

to five years. We favor companies that generate free cash flow, which they then re-invest in their businesses. We also tend to prefer companies that grow organically rather than by acquisition.

The portfolio holds roughly 100 stocks, with the top ten holdings typically comprising about 25% of the Fund. To dampen volatility, we diversify the portfolio among industries that are impacted by non-correlated fundamentals. We focus on companies with a market cap of \$2.5 billion or less, although once we have found a great stock, we like to keep it as long as its fundamentals remain strong, even if it becomes a mid-cap company. We will start selling when the market cap reaches about \$10 billion. The Fund's turnover is low, averaging just 11.1% over the last three years, compared with the typical small cap mutual fund with a three year average turnover of 91%.*

For the 12-month period ended June 30, 2014, Baron Growth Fund established new positions in 21 companies, representing about 10% of the portfolio. For example, we invested in **Iridium Communications Inc.**, which operates satellites used for voice and data communication via handheld satellite phones and other transceivers. Iridium is developing the world's first satellite-based global air traffic surveillance system, which we think has the potential for transformational improvements in flight safety, control and efficiencies. As of June 30, 2014, the stock was up nearly 40% since our initial investment in early May 2014.

Another newer holding, **RSP Permian, Inc.**, is an oil and gas exploration & production company in the Permian



Ron Baron
CEO, CIO &
Portfolio Manager
Baron Growth Fund



Cliff Greenberg
Director of Research &
Portfolio Manager
Baron Small Cap Fund



Randy Gwartzman and
Laird Bieger, Portfolio Managers,
Baron Discovery Fund

Top Ten Holdings as of June 30, 2014

Baron Growth Fund

Inception Date: December 31, 1994

Company	Percent of Net Assets	Years Held	Cumulative Return	Annualized Return
Under Armour, Inc.	3.0%	8.6	1,769.05%	40.45%
ITC Holdings Corp.	2.9%	8.9	403.44%	19.83%
Arch Capital Group Ltd.	2.8%	12.2	574.97%	16.86%
The Middleby Corp.	2.5%	3.4	184.18%	36.02%
Genesee & Wyoming, Inc.	2.5%	10.1	633.95%	21.80%
Gartner, Inc.	2.4%	6.9	218.00%	18.39%
FactSet Research Systems, Inc.	2.3%	7.7	168.89%	13.78%
Dick's Sporting Goods, Inc.	2.3%	9.9	245.61%	13.36%
Colfax Corp.	2.1%	3.1	236.33%	47.09%
Targa Resources Corp.	2.0%	3.6	604.44%	72.83%

Baron Small Cap Fund

Inception Date: September 30, 1997

Company	Percent of Net Assets	Years Held	Cumulative Return	Annualized Return
SBA Communications Corp.	3.6%	10.1	2,477.00%	38.07%
TransDigm Group, Inc.	2.8%	8.3	1,206.40%	36.29%
Gartner, Inc.	2.8%	6.9	227.20%	18.68%
FleetCor Technologies, Inc.	2.2%	3.5	510.53%	66.56%
Waste Connections, Inc.	2.1%	5.4	151.88%	18.58%
Berry Plastics Group, Inc.	2.0%	1.7	62.80%	32.29%
Acuity Brands, Inc.	2.0%	3.2	153.43%	33.55%
Targa Resources Corp.	1.8%	3.6	574.33%	70.73%
Gaming and Leisure Properties, Inc.	1.8%	0.7	0.88%	N/A
Bright Horizons Family Solutions, Inc.	1.8%	1.4	99.06%	61.87%

Baron Discovery Fund

Inception Date: September 30, 2013

Company	Percent of Net Assets	Years Held	Cumulative Return
Flotek Industries, Inc.	4.6%	0.7	39.52%
Pacira Pharmaceuticals, Inc.	4.6%	0.7	88.99%
The Spectranetics Corp.	3.8%	0.7	34.65%
Rose Rock Midstream, L.P.	3.5%	0.3	42.53%
BioScrip, Inc.	3.3%	0.7	-6.49%
Foundation Medicine, Inc.	2.8%	0.7	-22.75%
RSP Permian, Inc.	2.7%	0.4	59.12%
Qualys, Inc.	2.6%	0.7	23.21%
eHealth, Inc.	2.5%	0.3	-5.17%
Amber Road, Inc.	2.5%	0.3	24.16%

Basin in West Texas. RSP has an experienced management team with an excellent track record. Its key acreage position gives it an additional competitive advantage, since this is where the most productive wells are likely to be drilled. As of June 30, 2014, the stock has climbed 58.6% since we initiated our position in January 2014.

Among our longer term holdings, 12 positions, representing about 15.1% of the portfolio, have been held for over 10 years. On average, these investments increased almost six-fold in the time we have held them. Holdings include **Arch Capital Group Ltd.**, an insurance and reinsurance company that excels at writing specialized policies and has a long, successful track record across numerous insurance cycles. In the 12 years we have owned Arch Capital, its market cap has grown from \$0.4 billion to more than \$7.7 billion today.

Baron Small Cap Fund

In 1997, we launched Baron Small Cap Fund with Cliff Greenberg at the helm. Cliff is a veteran investor with more than 30 years of experience. Like Baron Growth, Baron Small Cap holds about 100 stocks. The investment approach of the two Funds is substantially the same, although Baron Small Cap aims for slightly faster returns – 50% growth in two to three years – and is more price sensitive as a result. In addition to core growth stocks, Baron Small Cap invests in fallen angels and special situations that are more value oriented. Turnover has averaged 23.5% in the past three years, significantly lower than the average.

Clean Harbors, Inc., and **Waste Connections, Inc.**, are two examples of classic growth stocks in the portfolio. Clean Harbors is a leading provider of environmental and hazardous waste management services. In addition to its market leadership position, it has many attributes we like, including a stable and recurring revenue base, and high barriers to entry created by permitting and regulatory hurdles and the high capital cost of waste management facilities. Waste Connections provides solid waste services in non-urban U.S. markets. It has a monopoly in many areas due to high barriers to entry, and derives more than half of its revenue from long-term, exclusive agreements. We have held these two stocks for seven and five years, respectively, during which periods our investments have more than doubled.

Special situations are companies that are new to the market as the result of a spinoff, IPO, or special purpose acquisition company (SPAC), or that present an opportunity due to lack of investor awareness. For example, Baron Small Cap owns several Master Limited Partnerships, which are typically formed through a split-off of midstream energy assets by an oil or gas refiner. Examples include **Tesoro Logistics LP**, **Valero Energy Partners LP**, and **Western Refining Logistics LP**.

Acuity Brands, Inc., which provides LED lighting systems for commercial real estate facilities, typifies our fallen angel investments. After our initial purchase in 2011, the stock dropped off sharply in reaction to an earnings miss. We used the weakness to significantly increase our position in Acuity. Since then, the stock has more than doubled. The company has an extensive distribution network and expertise in complex

lighting schemes that is unparalleled in the industry, and we think it will continue to take market share in the growing number of commercial buildings being retrofit with energy efficient lighting systems.

Baron Discovery Fund

Our newest fund, Baron Discovery Fund, focuses on high growth companies in earlier stages of growth than those in our other small cap Funds. To use a baseball analogy, if our Baron Growth and Baron Small Cap Funds concentrate on companies in the fourth or fifth inning of their life cycle, Baron Discovery is willing to invest in the second or third inning. There are roughly 3,300 listed U.S. stocks with market caps under \$1.5 billion, providing us with a lot of businesses to analyze and consider for investment. Baron Discovery portfolio managers Randy Gwirtzman and Laird Bieger apply the Baron investment strategy to “discover” and invest for the long term in companies with the attributes we favor at Baron.

Because the Fund focuses on innovative and dynamic companies, we have found many of our investments in the Information Technology (IT) and Health Care sectors. However, our research is far ranging, and the portfolio has holdings across eight sectors and numerous sub-industries. For instance, in the Energy sector, Baron Discovery 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.

Revance Therapeutics, Inc., exemplifies the Fund’s investments in biotechnology. Revance’s initial product is a gel that the company is positioning as the first FDA-approved non-injectable form of Botox. We think many patients and doctors will prefer the gel over injectable Botox. In addition, its market is large and growing, especially internationally. (Allergan, which derives 80% of its revenue from sales of Botox, recently rejected a \$53 billion takeover offer.) Product launch is scheduled for 2017 or earlier, and we expect that over time, Revance will capture 20-25% of the market.

Amber Road, Inc., is in the Internet software & services sub-industry, where we have found a number of companies we like. We participated in Amber Road’s IPO in March 2014 and added to our position in May 2014. The company has a unique product: a proprietary database developed over the past decade that tracks the complex issues involved in international trade, including worldwide import/export controls, tariff rules, restricted party lists, and sailing schedules, in over 20 languages. It has a high quality customer base and subscription-based revenue model that provides transparency into the company’s financial health.

Conclusion

Because most small cap stocks garner little attention from Wall Street, finding the right

ones takes intensive, hands-on research. We invest in this level of research in part because we believe that small cap stocks have the ability to grow in ways that are not possible for larger companies. At one time, **The Charles Schwab Corp., BlackRock, Inc., American Tower, Inc., and CME Group, Inc.** – all large cap stocks today (and thus no longer held in our small cap Funds) – were small cap stocks. That was when we first invested in them. ■

*Morningstar Small Growth Average. ©2013 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar and /or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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 for Baron Discovery Fund (by contract as long as BAMCO, Inc. is the adviser to the Fund) and the Funds’ 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. Performance results of other securities in the Funds will vary.

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.



Jeffrey Kolitch
Vice President, Portfolio
Manager, M.B.A.

Baron Real Estate Fund wins 2014 Lipper Fund Award for Best Real Estate Fund over Three Years*

Jeffrey Kolitch has been portfolio manager of the Baron Real Estate Fund since its inception in December 2009, and has 22 years of research experience. He joined the firm in 2005 as a research analyst specializing in real estate. Previously, Jeffrey was with Goldman Sachs & Co. from 1995 to 2005, where in 2002 he was named a managing director of its Equity Capital Markets group. Jeffrey graduated from the Wharton School, University of Pennsylvania with a B.S. in Economics in 1990, and from the Kellogg Graduate School of Management, Northwestern University with a Masters of Management in 1995.

* Baron Real Estate Fund is in the Lipper Real Estate Funds category (with 189 funds in the category for the three year period as of 12/31/2013). The Lipper Fund Awards program highlights funds that have excelled in delivering consistently strong risk-adjusted performance relative to peers. The awards are given to funds in 23 countries in Asia, Europe and North America. Lipper designates award-winning funds in most individual classifications for the three-, five- and 10-year periods and fund family awards covering three years. Lipper Fund Awards are based on Lipper’s Consistent Return calculation. Lipper scores for Consistent Return reflect funds’ historical risk-adjusted returns relative to funds in the same Lipper classification and include each fund’s expenses and reinvested distributions, but exclude sales charges. Consistent Return values are calculated with all eligible share classes for each eligible classification. The highest Lipper Leader for Consistent Return value within each eligible classification determines the fund classification winner over three, five, or 10 years. Lipper, a Thomson Reuters company, is a leading global provider of mutual fund information and analysis to fund companies, financial intermediaries and media organizations. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time.



Performance as of June 30, 2014

RETAIL SHARES									
		Average Annualized Returns			Since Inception		Inception Date	Expense Ratio	Ticker
		1-Year	5-Year	10-Year	Annualized	Cumulative			
Small Cap	Baron Growth Fund	20.73%	19.58%	9.65%	13.87%	1158.84%	12/31/94	1.30% ¹	BGRFX
	Baron Small Cap Fund	22.55%	19.61%	9.45%	10.42%	426.11%	9/30/97	1.31% ¹	BSCFX
	Baron Discovery Fund	N/A	N/A	N/A	N/A	29.20%	9/30/13	3.25%/1.35% ²	BDFFX
Smid Cap	Baron Focused Growth Fund³	18.29%	17.14%	11.12%	11.83%	655.57%	5/31/96	1.42%/1.35% ⁴	BFGFX
Mid Cap	Baron Asset Fund	25.87%	19.09%	9.62%	11.60%	1844.56%	6/12/87	1.32% ¹	BARAX
	Baron Opportunity Fund	20.31%	18.53%	10.12%	5.36%	111.30%	2/29/00	1.37% ¹	BIOPX
Large Cap	Baron 5th Ave. Growth Fund	31.71%	17.83%	7.35	7.24%	103.49%	4/30/04	1.47%/1.30% ¹	BFTHX
All Cap	Baron Partners Fund³	34.48%	23.62%	11.65%	13.51%	1613.76%	1/31/92	1.38%/0.29% ⁴	BPTRX
	Baron Emerging Markets Fund	23.62%	N/A	N/A	6.98%	26.63%	12/31/10	1.90%/1.50% ¹	BEXFX
	Baron Global Advantage Fund	34.65%	N/A	N/A	18.10%	43.40%	4/30/12	5.51%/1.50% ⁴	BGAFX
Int'l	Baron Int'l Growth Fund	24.64%	15.44%	N/A	16.07%	127.00%	12/31/08	1.74%/1.50% ⁴	BIGFX
	Baron Energy and Rsrcs Fund	43.24%	N/A	N/A	15.50%	43.38%	12/30/11	2.25%/1.35% ⁴	BENFX
Specialty	Baron Real Estate Fund	27.11%	N/A	N/A	22.86%	152.53%	12/31/09	1.35% ⁴	BREFX
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	21.05%	19.89%	9.79%	13.95%	1175.52%	12/31/94	1.05% ¹	BGRIX
	Baron Small Cap Fund	22.88%	19.90%	9.59%	10.51%	432.93%	9/30/97	1.05% ¹	BSFIX
	Baron Discovery Fund	N/A	N/A	N/A	N/A	29.40%	9/30/13	3.00%/1.10% ²	BDFIX
Smid Cap	Baron Focused Growth Fund³	18.60%	17.43%	11.26%	11.91%	664.89%	5/31/96	1.12%/1.10% ²	BFGIX
Mid Cap	Baron Asset Fund	26.21%	19.41%	9.77%	11.65%	1870.86%	6/12/87	1.05% ¹	BARIX
	Baron Opportunity Fund	20.68%	18.86%	10.27%	5.46%	114.25%	2/29/00	1.11% ¹	BIOIX
Large Cap	Baron 5th Ave. Growth Fund	32.03%	18.13%	7.49%	7.37%	106.07%	4/30/04	1.18%/1.05% ¹	BFTIX
All Cap	Baron Partners Fund³	34.80%	23.95%	11.80%	13.58%	1636.66%	1/31/92	1.11%/0.30% ⁴	BPTIX
	Baron Emerging Markets Fund	23.91%	N/A	N/A	7.21%	27.61%	12/31/10	1.80%/1.25% ⁴	BEXIX
	Baron Global Advantage Fund	34.93%	N/A	N/A	18.37%	44.10%	4/30/12	4.91%/1.25% ⁴	BGAIX
Int'l	Baron Int'l Growth Fund	25.01%	15.73%	N/A	16.35%	130.00%	12/31/08	1.37%/1.25% ⁴	BINIX
	Baron Energy and Rsrcs Fund	43.63%	N/A	N/A	15.77%	44.20%	12/30/11	2.84%/1.10% ⁴	BENIX
Specialty	Baron Real Estate Fund	27.45%	N/A	N/A	23.16%	155.32%	12/31/09	1.09% ⁴	BREIX

Baron Growth, Baron Small Cap and Baron Discovery Funds invest primarily in small-cap securities, **Baron Asset Fund** in mid-cap securities, **Baron Focused Growth Fund** and **International Growth Fund** in both. Small and mid-cap securities may be thinly traded and more difficult to sell during market downturns. **Baron Opportunity Fund** emphasizes mid-sized companies that we believe will benefit from innovations and advances in technology, which present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. **Baron Partners, Focused Growth, Baron Real Estate and Baron Energy and Resources Funds** are non-diversified and **Baron Partners Fund** uses leverage, which increase volatility of the Funds' returns and expose the Funds to greater loss in any given period. In addition, the value of **Baron Real Estate Fund** is affected by the strength of the real estate markets. **Baron Fifth Avenue Growth Fund** invests primarily in large-cap securities, which like all equities are subject to price fluctuations in the stock market. **Baron International Growth, Baron Emerging Markets and Baron Global Advantage Funds** invests primarily in non-U.S. securities, which 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. These risks are heightened for the **Baron Emerging Markets Fund**. **Baron Energy and Resources Fund** invests in energy companies, which can be affected by fluctuations in energy prices and supply and demand of energy fuels, and in resources industries, which can be affected by international political and economic developments, the success of exploration projects, and meteorological events.

¹ As of September 30, 2013 for Baron Asset, Baron Growth, Baron Small Cap, Baron Opportunity and Baron Fifth Avenue Growth Funds. For Baron Fifth Avenue Growth Fund, the total expense ratio was 1.47% for the Retail share class and 1.18% for the Institutional share class, but the net annual expense ratio is 1.30% for the Retail share class and 1.05% for the Institutional share class (net of the Adviser's fee waivers).

² For Baron Discovery Fund, the estimated total expense ratio is 3.25% for the Retail share class and 3.00% for the Institutional share class, but the estimated net annual expense ratio is 1.35% for the Retail share class and 1.10% for the Institutional share class (net of the Adviser's fee waivers).

³ 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.

⁴ As of December 31, 2013 for Baron Partners, Baron Focused Growth, Baron International Growth, Baron Real Estate, Baron Emerging Markets, Baron Energy and Resources and Baron Global Advantage Funds. Total expense ratio shown for Baron Partners Fund was comprised of operating expenses of 1.38% and interest expense of 0.29% for the Retail share class and 1.11% and 0.30%, respectively, for the Institutional share class. For Baron Focused Growth Fund, the total expense ratio was 1.42%, but the net annual expense ratio was 1.35% for the Retail share class and 1.12% and 1.10%, respectively, for the Institutional share class (net of the Adviser's fee waivers). For Baron International Growth Fund, the total expense ratio was 1.74%, but the net annual expense ratio was 1.50% for the Retail share class and 1.37% and 1.25%, respectively, for the Institutional share class (net of the Adviser's fee waivers). For Baron Emerging Markets Fund, the total expense ratio was 1.90%, but the net annual expense ratio was 1.50% for the Retail share class and 1.80% and 1.25%, respectively, for the Institutional share class (net of the Adviser's fee waivers). For Baron Energy and Resources Fund, the total expense ratio was 2.25%, but the net annual expense ratio was 1.35% for the Retail share class and 2.84% and 1.10%, respectively, for the Institutional share class (net of the Adviser's fee waivers). For Baron Global Advantage Fund, the total expense was 5.51%, but the net annual expense ratio was 1.50% for the Retail share class and 4.91% and 1.25%, respectively, for the Institutional share class (net of the Adviser's fee waivers).

Portfolio holdings as a percentage of net assets as of June 30, 2014 for securities mentioned are as follows: Clean Harbors, Inc. - Baron Small Cap Fund (1.3%); Flotek Industries, Inc. - Baron Small Cap Fund (0.9%); Foundation Medicine, Inc. - Baron Growth Fund (0.0%*); Gaming and Leisure Properties, Inc. - Baron Growth Fund (1.4%); Genesee & Wyoming, Inc. - Baron Small Cap Fund (1.5%); Iridium Communications, Inc. - Baron Growth Fund (1.0%); Baron Discovery Fund (1.2%); ITC Holdings Corp. - Baron Small Cap Fund (0.4%); Revance Therapeutics, Inc. - Baron Discovery Fund (1.9%); RSP Permian, Inc. - Baron Growth Fund (0.5%); Tesoro Logistics LP - Baron Small Cap Fund (0.5%); Valero Energy Partners LP - Baron Small Cap Fund (0.6%); Western Refining Logistics, LP - Baron Small Cap Fund (0.6%).

*Represents less than 0.05%.

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.

If the Funds' historical performance was impacted by gains from IPOs and/or secondary offerings, there is no guarantee that these results can be repeated or that the Funds' level of participation in IPOs and secondary offerings will be the same in the future.

The Fund may not achieve its 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).

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