BARON PERSPECTIVE
June 30, 2015

Stay Active

LINDA MARTINSON
CHAIRMAN, PRESIDENT AND COO

Think about the greatest professional athletes with long careers. They train constantly, they usually supplement their training with long stints in the gym, and they always push themselves to do better. How do we measure their success?

LeBron James, arguably one of the best basketball players ever, has a career field goal percentage of .496 (.535 for two-pointers and .342 for three-pointers). On average, he makes less than half of his field goal attempts.

Ty Cobb has (still) the best career batting average in baseball. His career spanned 24 years, and he finished with a career average of .366. Some other notable hitters: Babe Ruth at .342 (over 22 years), and Hank Aaron at .305 and third on the home run list (23 years). The 2014 batting title was won by Justin Morneau in the National League, with a .319 average for the season. The American League winner was Jose Altuve, with a higher average for the season of .341. To be outstanding in baseball means you get a hit only about a third of the time you are at bat. The best of the best fail two times out of three.

No one succeeds 100% of the time in sports. No one in the investment world gets it right all the time either. Bernie Madoff showed strong returns for an extended period of time, but, of course, he fabricated those results.

2014 was disappointing for most active investment managers, including Baron. Most, but not all, of our Funds underperformed their respective benchmarks. We have analyzed the reasons for our underperformance carefully, but we are not overly concerned with those shorter-term results given the market environment. We understand that we will not be right all of the time. We will get our share of hits, but we will not get on base at every at-bat. We do believe that, over the long term, we can get it right more often than not. Our investment process focuses on investing for the long term in businesses we believe have significant opportunities for growth, are run by strong management, have competitive advantages, and are at the right price. We spend a lot of time understanding the fundamentals of the businesses in which we invest.

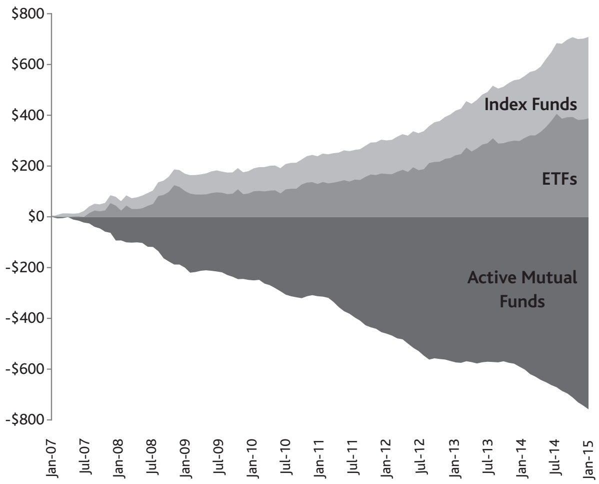
Cyclicality of Active Performance

According to our analysis using data from Morningstar, fewer than 20% of all large cap active managers (normally the toughest category to outperform due to the high market efficiency in the large cap space) outperformed the Russell 1000 Index in 2014. Looking at the relative performance since the bottom of the crisis in 2009 until June 30, 2015, the statistic does not improve significantly – only 19% of managers beat the benchmark.

These are not very impressive numbers and certainly not ones that help promote the merits of active management. Pundits of passive investing have taken advantage of the situation to make their case; some even rushed to declare a permanent demise for active. Many mutual fund investors lost conviction and have reallocated their investments to passively managed products. Since 2007, actively managed equity funds have experienced consistent net outflows, totaling, approximately $700 billion as of June 30, 2015 according to data from Morningstar. Some of these negative flows seem to have been directed into passive equity strategies, particularly into ETFs, as evidenced in the following chart.

Money Has Been Steadily Flowing To Passive and Out of Active

Cumulative Net Flows in U.S. Equity Products since 2007
(in $ billions)



Source: Morningstar Direct. Data includes obsolete funds.

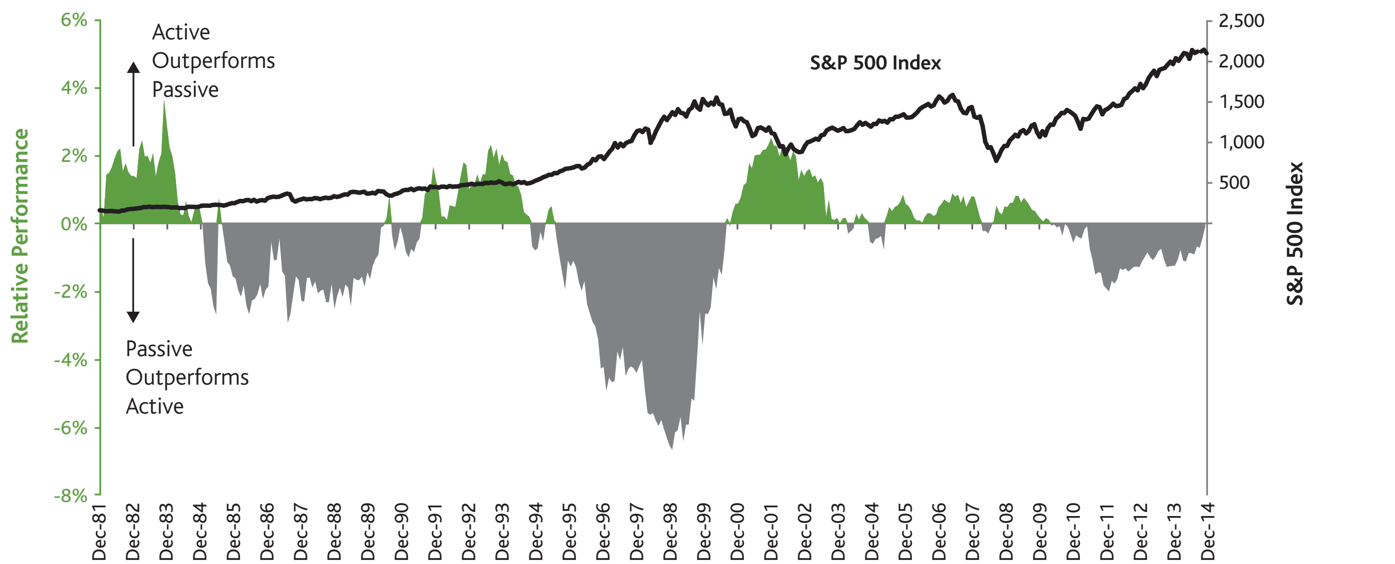
In our opinion, many investors who have opted for passive products are exhibiting recency bias, focusing only on the latest results. While we were not satisfied with the relative performance of most of our Funds last year, there are multiple arguments that keep us convinced of the future success of active management.

As we do with our investments, we take a long-term view on the asset management industry. Historically, the performance of active managers has tended to be cyclical. The chart below shows several distinct periods in the past when actively managed funds outperformed and underperformed passive products.

BARON FUNDS

The Performance of Active and Passive Managers Has Been Cyclical

Difference in Performance Between Large Cap Active and Passive Funds



Source: Morningstar Direct, Baron Capital
The analysis is based on monthly rolling 3-year returns for the period 12/31/1981 to 6/30/2015.
Large cap funds include all share classes in Morningstar US OE Large Growth, US OE Large Value and US OE Large Blend categories. The performance of passive funds is calculated as the average 3-year performance of all index fund share classes. The performance of active funds is calculated as the average 3-year performance of all non-index fund share classes.

A closer look at the data shows that active managers tend to fall behind during periods of strong market performance. In periods when the market returns were closer to historical averages or when the market was down, active funds have fared better than passive funds, on average.

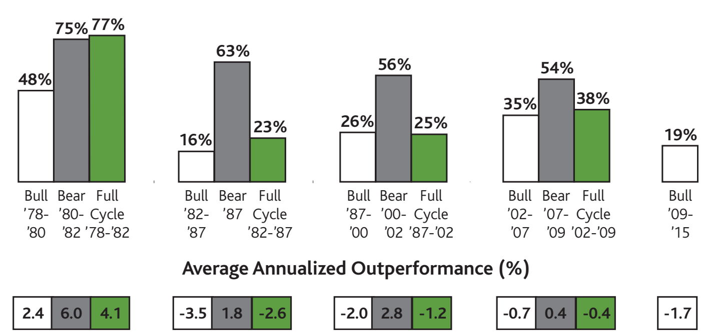
Currently, we are in the seventh year of the bull market that began after the Great Recession. In five of these six years, the Russell 1000 Index returned double-digit percentages and, as of June 30, 2015, the streak had compounded to 256%, or 22.3% per year, including dividends. Running at almost double the long-term annualized rate of 11.9%, this has been one of the strongest bull markets in U.S. history. Few active managers outperformed during this period. From a historical perspective, this is not a completely unexpected outcome.

We define a full market cycle as a bull market followed by a bear market. We define bull markets as those with an increase of at least 20% after a trough, and bear markets as those with a decline of at least 20% after a peak.

The following chart shows that over the last four market cycles, active large cap managers have fared worse during bull periods than during bear periods. We found similar results for active small cap managers.

Active Managers Tend to Outperform in Bear Markets

% Of Active Large Cap Managers Outperforming the Russell 1000 Index



Source: Morningstar Direct, Baron Capital.
Active large cap managers include all share classes in Morningstar's US OE Large Value, US OE Large Core and US OE Large Growth categories. The analysis includes obsolete funds. Each cycle's statistics are based only on share classes that had available returns during the entire cycle

The performance of active managers in previous bull markets was not much different than in today's. For example, in the bull market from late 1987 until late 2000, the Russell 1000 Index climbed at a staggering

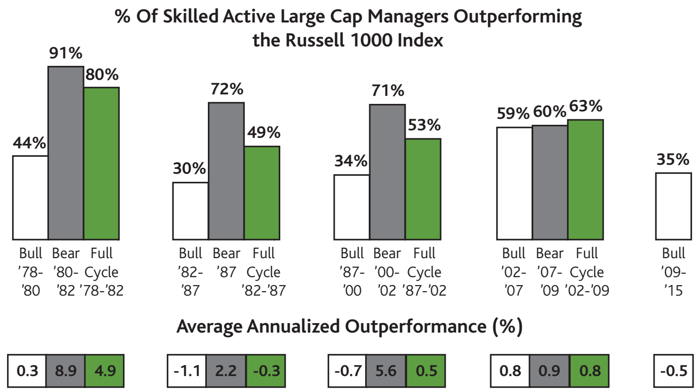
19% per year (including dividends), and a mere 26% of large cap active managers outperformed. The second half of that bull market, which coincides with the dot-com bubble, was particularly strong and an even lower percentage of active managers outperformed. However, during the subsequent bear market (2000 – 2002) the situation reversed, and the majority of active managers generated positive excess return, 2.8% on average. Active funds lagged once more in the 2002-2007 bull market, and once more they came back stronger in the 2007-2009 market crash when the Russell 1000 Index lost more than half of its value.

The chart on page 2 (Active Managers Tend to Outperform in Bear Markets) shows a significant correlation between the performance of active managers and up/down markets. However, the average large cap active manager did not outperform in the past three full market cycles because down market performance did not offset the lost ground in the preceding up markets.

While we are strong advocates of active management, we do not live with the illusion that every active manager is a good manager. We believe that it takes tremendous effort, skill, and experience to establish, develop, and maintain a solid alpha-generating investment process that can work for a long period of time. Many active managers lack consistently strong results, and this weighs negatively on the average statistics for all active managers.

When we weed out the poor active managers, even with a simplistic filter, the results become much more encouraging. While following a similar pattern of performance in bull and bear markets, skilled active managers tend to generate, on average, positive excess returns over complete market cycles. The exception is the 1982-1987 cycle, when the bear market lasted just three months and the result was only slightly negative (30 bps). We define skilled active managers as those whose rolling three-year returns ranked in the top half of all large cap managers at least 60% of the time over the long term. The results are in the chart below, and the tables in the appendix to this letter provide some additional details, including results for small cap managers. When we reviewed the performance for small cap managers, we found similar patterns in performance.

Skilled Managers Tend to Deliver Positive Excess Returns Over Full Market Cycles



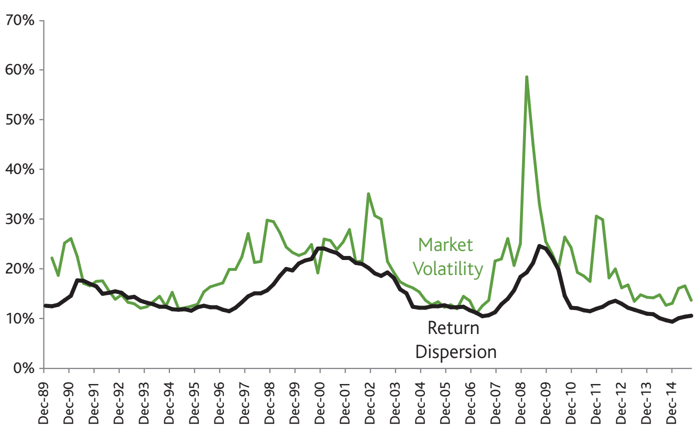
Source: Morningstar Direct, Baron Capital.
Active large cap managers include all share classes in Morningstar's US OE Large Value, US OE Large Core and US OE Large Growth categories. Skilled active managers are defined as the managers who ranked in the top half of all large cap active managers at least 60% of the time, based on 3-year returns rolling monthly from 12/29/1978 until 6/30/2015. The analysis includes obsolete funds. Each cycle's statistics are based only on share classes that had available returns during the entire cycle.

There is nothing in this picture that suggests to us that active management will not succeed in the future. On the contrary, we believe that market returns will eventually revert to their long-term averages and more active managers will start outperforming. The U.S. stock market has been gradually tapering for the past few months – the Russell 1000 Index was up just 1.71% in the first half of 2015. Our analysis shows that 49% of all active large cap managers and 56% of skilled active managers outperformed during this period.

An explanation for the cyclicality in the performance of active managers is dispersion. Return dispersion measures the degree of variation of the returns of the constituents of a portfolio or a universe over a period. In times when more stocks move in the same direction and by similar percentages, the dispersion of stock returns is low. This usually occurs in low volatility environments. In times of higher market volatility, when there is a larger disparity between stock performances, dispersion is high. The chart below shows that over the long term, dispersion moves in cycles and tends to go up and down with market volatility.

Market Volatility and Return Dispersion Correlate

Market Volatility vs. Return Dispersion
(quarterly, Dec. '89 - Jun. '15)

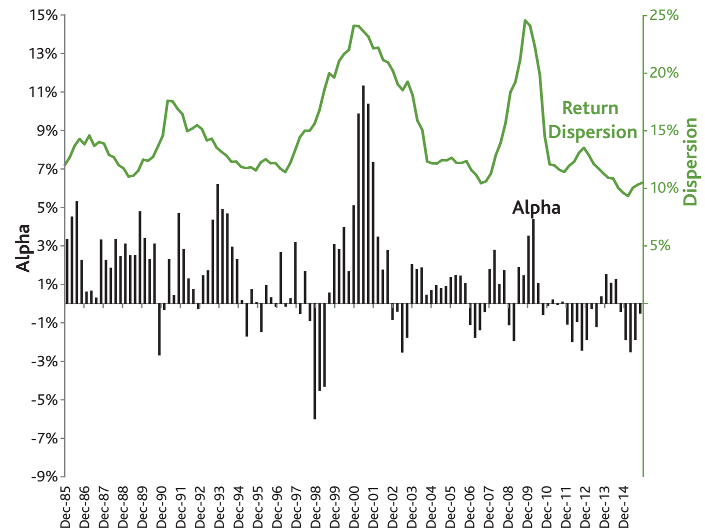


Sources: FactSet, Morningstar Direct, Baron Capital.
Market Volatility is represented by the CBOE VIX Index (each data point is the average of the daily values during a quarter).
Dispersion is represented by the cross-sectional standard deviation of the quarterly returns of the stocks in the S&P 500 Index.

More recently, we have been in an environment of declining and low dispersion. Low dispersion implies that investors are treating all stocks more or less the same rather than discerning between them. Thus, in low dispersion environments stock selection matters less, and it becomes difficult even for the best active managers to find stocks that outperform the market. While high dispersion does not always mean a higher likelihood of outperformance for the average active manager, when dispersion increases, skilled stock pickers face a better opportunity to stand out and outperform. The chart below shows that over the past 30 years, the alpha generated by the skilled large cap active managers and stock market dispersion have largely moved similarly. At times when dispersion was at a low, like during the mid-90s, late 2006, and 2014, the skilled managers usually struggled to generate alpha. When dispersion was high, they tended to generate positive alpha.

Even Skilled Managers Struggle When Dispersion is Low

Average 1-Year Alpha vs. Return Dispersion
Of Skilled Active Large Cap Managers
(quarterly, Dec '85 - Jun '15)



Sources: FactSet, Morningstar Direct, Baron Capital.
Active large cap managers include all share classes in Morningstar's US OE Large Value, US OE Large Core and US OE Large Growth categories. Skilled active managers are defined as the managers who ranked in the top half of all large cap active managers at least 60% of the time, based on 3-year performance rolling monthly from 12/29/1978 until 6/30/2015. The analysis includes obsolete funds.
Alpha is represented by the average 1-year alpha vs. the Russell 1000 Index.
Return dispersion is represented by the trailing 4-quarter average cross-sectional standard deviation of the quarterly returns of the stocks in the S&P 500 Index in each period.

Dispersion has been low since 2010 and dipped to its lowest point in 2014. We do not believe that low dispersion is sustainable for the long term. We believe that because businesses are not the same, their fundamental differences eventually will be recognized by market participants.

Passive Investing is Not Risk Free

Investing in the stock market is risky. Many investors believe that investing in passive products mitigates some of that risk. We believe many investors underestimate the risks inherent in passive products.

Passive Equity Investors are 100% Exposed to the Market Downside

Passive managers do not have the flexibility to react timely in deteriorating markets or avoid over-heated areas. Having the ability to even slightly mitigate the downside when the market is declining can make a big difference for long-term excess returns. When the index declines by, for example, 20%, an active manager who is able to mitigate the drop to 17% in his/her portfolio would need to increase by 20.5% to recover, while the index would need to increase by 25% to come back. The 3% saved on the way down would translate into a 4.5% advantage later. Limited by design, index funds and ETFs will simply follow an index's path, leaving investors always 100% exposed to the downside.

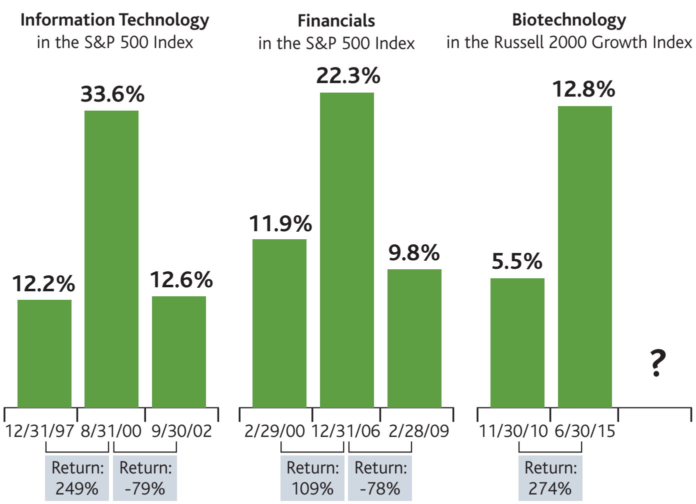
While nothing guarantees that an active manager will be able to limit the downside, active managers are well equipped to play defense. Cash, for one, is a good weapon. Almost all active managers maintain some cash position while their index benchmarks don't. In a down market, cash will not lose its nominal value and will provide a cushion for performance. It also gives portfolio managers the flexibility to calibrate existing positions and the option to add new ones at favorable prices.

Passive Equity Investors are 100% Exposed to Market Bubbles

Furthermore, while no manager has perfect foresight, experience, skill, and logic can sometimes help avoid stepping in _____. Active managers typically invest and manage their portfolios based on conviction and forward-looking beliefs. Conversely, index funds and ETFs are backward looking strategies that do not discern between poor and strong stock fundamentals. As many indexes allocate weights based on market capitalizations, the stocks and industries that performed best in the past will automatically carry the largest weights, which is not significantly different from a momentum strategy.

As stocks and industries in vogue become larger, a broad index like the S&P 500 Index will become more heavily weighted in a few names or in certain areas, exposing investors to larger unmanaged risks. As of June 30, 2015, the 10 largest names in the index (2% of all the constituents in the index) had a combined weight of *17.3%*. If even one of these stocks gives back some of the gains or gets hit by negative news, the index's performance may be hurt significantly. Similarly, a passive strategy tracing the S&P 500 Index could not have avoided the dot-com bubble in 2000 or the crash in financials in 2008, leaving investors fully exposed to the downside. When an industry expands out of proportion, like Information Technology did in 2000, active managers at least have the ability to question how reasonable this is and limit their exposure to it. More recently, investors have questioned the expansion of biotech, which has grown, in the small cap space, from a 5.5% weighting in late 2010 to almost 13% as of June 30, 2015. This is the fifth year of biotech's strong outperformance, which far exceeds the typical biotech cycle of 1.5 years on average. The charts below show examples of sectors and industries that rose and fell significantly in the past.

Industry Weightings Can Expand Out of Proportion



Source: FactSet.

Passive Products are Designed to Underperform

Perhaps the biggest consideration for passive investors is that, by design, passive products cannot outperform the market, and they will always deliver average returns, over time. The general belief is that ETFs and index funds a) are low fee products, and b) track an index very closely. While this may be valid for some passive funds, it is surely not true for all. Some ETFs are less efficiently managed than others, which may translate into higher costs for investors. This is particularly true for non-U.S. equity products, where tracking errors reach double digits and fees can be significant. The table below shows how wide the differences can be among some of the most popular products.

Some ETFs Can Be Inefficient

as of 6/30/15

Name	Ticker	Annual Report Gross Expense Ratio	Tracking Error vs. Primary Prospectus Benchmark
iShares Russell 2000	IWM	0.20%	0.62%
iShares Russell 2000 Growth	IWO	0.25%	0.69%
iShares Core S&P Mid-Cap	IJH	0.13%	0.46%
SPDR® S&P MidCap 400 ETF	MDY	0.25%	7.95%
SPDR® S&P 500 ETF	SPY	0.11%	0.19%
iShares Russell 1000 Growth	IWF	0.20%	0.61%
iShares MSCI Emerging Markets	EEM	0.68%	10.42%
Vanguard Total World Stock ETF	VT	0.17%	4.77%
iShares MSCI ACWI	ACWI	0.33%	1.50%
iShares US Real Estate	IYR	0.43%	1.28%
Vanguard Energy ETF	VDE	0.12%	1.01%
iShares North Am. Natural Resources	IGE	0.48%	0.25%

Source: Morningstar Direct.

We do recognize the value that passive products offer some investors, particularly those who are focused on delivering returns that are close to those of the index. Those investors are afraid of underperforming, but they are also removing the possibility of outperforming the index. In a strong bull market, that isn't so bad, but when the bears take over, it might prove less attractive.

Some may be very satisfied with average. Not us. Some may target higher job security by not being too far away from the benchmark. Not us, either. Our view is that there is, and there will always be, plenty of inefficiencies in the market that will give investors the chance to do better than average. As long as this opportunity exists, there will be active managers who outperform.

The Baron Funds Have Delivered Consistent Outperformance Over the Long Term

As an active manager, we understand we will not outperform all of the time. However, we have outperformed more often than not. While other managers may shift their style as a result of pressure from the length and strength of the current bull market, we have stayed true to our investment philosophy and process.

We have managed to take advantage of market inefficiencies, and our results, over shorter and longer periods, attest to our success. All of our Funds with one exception have consistently ranked in the top half or better of their respective categories and have on average delivered significant positive excess returns over three, five, and ten-year periods. With respect to the Fund that is the exception, we replaced the manager; and since the new manager came on board, that Fund has been in the top half of the category 89% of the time. The table below shows the actively managed Baron Funds versus passive alternatives. The passive alternatives aren't winning any batting titles.

The Baron Funds Can Hit

Baron Funds vs. ETFs
Batting Averages, Rankings, and Excess Returns as of 6/30/2015[1]

		10-Year Returns				5-Year Returns				3-Year Returns			
	Name	Periods Outperforming[2]		% Time In Top Half[3]	Average Excess Return[2]	Periods Outperforming[2]		% Time In Top Half[3]	Average Excess Return[2]	Periods Outperforming[2]		% Time In Top Half[3]	Average Excess Return[2]
BARON FUNDS	Baron Small Cap Fund	84/94	89%	93%	**3.22%**	107/154	69%	88%	**3.71%**	117/178	66%	85%	**3.88%**
	Baron Growth Fund *in Baron Adj. Small Growth Category*	118/127	93%	96%	**3.49%**	135/187	72%	90%	**5.22%**	152/211	72%	84%	**5.14%**
	Baron Growth Fund	118/127	93%	94%	**3.49%**	135/187	72%	78%	**5.22%**	152/211	72%	76%	**5.14%**
	Baron Focused Growth Fund	101/110	92%	98%	**3.77%**	119/170	70%	78%	**0.43%**	118/194	61%	61%	**3.23%**
	Baron Asset Fund	151/217	69%	80%	**0.51%**	127/277	46%	53%	**0.44%**	161/301	53%	61%	**0.04%**
	Baron Partners Fund	158/162	98%	98%	**2.63%**	144/222	65%	66%	**2.75%**	169/246	69%	71%	**3.05%**
	Baron Opportunity Fund	65/65	100%	100%	**5.13%**	107/125	86%	88%	**5.17%**	109/149	73%	77%	**5.26%**
	Baron Fifth Avenue Growth Fund	0/15	0%	0%	**-1.22%**	1/75	1%	18%	**-2.18%**	22/99	22%	35%	**-1.80%**
	Baron Fifth Avenue Growth Fund *with the new manager since Nov '11*	—/—	—	—	—	—/—	—	—	—	6/9	67%	89%	**0.36%**
	Baron International Growth Fund	—/—	—	—	—	19/19	100%	100%	**2.67%**	43/43	100%	88%	**2.30%**
	Baron Emerging Markets Fund	—/—	—	—	—	—/—	—	—	—	19/19	100%	100%	**6.22%**
	Baron Global Advantage Fund	—/—	—	—	—	—/—	—	—	—	3/3	100%	100%	**2.69%**
	Baron Real Estate Fund	—/—	—	—	—	7/7	100%	100%	**6.02%**	31/31	100%	100%	**7.76%**
	Baron Energy and Resources Fund	—/—	—	—	—	—/—	—	—	—	5/7	71%	100%	**1.10%**
PASSIVE	*iShares Russell 2000 Growth ETF*	*9/60*	*15%*	—	***-0.06%***	*44/120*	*37%*	—	***-0.06%***	*61/144*	*42%*	—	***-0.06%***
	iShares Russell Midcap Growth ETF	*0/48*	*0%*	—	***-0.23%***	*0/108*	*0%*	—	***-0.23%***	*0/132*	*0%*	—	***-0.23%***
	SPDR S&P 500 ETF	*0/150*	*0%*		***-0.11%***	*0/210*	*0%*		***-0.12%***	*0/234*	*0%*	—	***-0.13%***
	iShares Russell 1000 Growth ETF	*0/62*	*0%*		***-0.19%***	*0/122*	*0%*		***-0.19%***	*0/146*	*0%*	—	***-0.19%***
	iShares MSCI Emerging Markets ETF	—/—	—	—	—	—/—	—	—	—	*20/111*	*18%*	—	***-0.76%***
	iShares MSCI ACWI ETF	—/—	—	—	—	*10/28*	*36%*	—	***-0.02%***	*20/52*	*38%*	—	***-0.03%***
	iShares North American Natural Resources ETF	—/—	—	—	—	—/—	—	—	—	*0/129*	*0%*	—	***0.00%***
	iShares US Real Estate ETF	—/—	—	—	—	*0/121*	*0%*	—	***-0.44%***	*7/145*	*5%*	—	***0.00%***

Source: Morningstar Direct, Baron Capital.
[1] *Statistics are based on monthly rolling returns. Average excess return figures are annualized.*
[2] Versus primary prospectus benchmark.
[3] *% Time In Top Half measures the fraction of time a fund ranked in the 50th percentile or better in its respective Morningstar category.*

Team success is not just a result of high batting averages. Teams also have to play good defense. But the best defense won't win games; teams still need good offense. Having the right balance between the two is critical for long term success. In the investment world, a good balance is reflected in an upside/downside capture ratio of one or better, and the game consists of a full market cycle. The table below shows that all of our Funds have achieved this since their respective inceptions. Some of our Funds have played better offense than defense, and some the reverse. All have shown a strong balance between the two.

At Baron Funds we are not focused on where the markets are heading. We are keeping our eye on the ball and our analysts in the batting cages, making sure we are always prepared, and looking to get hits and play good defense no matter which way the wind blows.

The Baron Funds Play Both Offense and Defense

Baron Funds - Upside and Downside Capture Since Inception
as of 6/30/2015

Name	Inception Date	Primary Benchmark	Fund Upside Capture	Fund Downside Capture	Fund Capture Ratio
Baron Small Cap Fund	9/30/1997	Russell 2000 Growth Index	84%	68%	1.2
Baron Growth Fund	12/30/1994	Russell 2000 Growth Index	82%	61%	1.4
Baron Focused Growth Fund	5/31/1996	Russell 2500 Growth Index	90%	76%	1.2
Baron Asset Fund	6/12/1987	Russell Mid Cap Growth Index	92%	83%	1.1
Baron Partners Fund	1/31/1992	Russell Mid Cap Growth Index	116%	107%	1.1
Baron Opportunity Fund	2/29/2000	Russell 3000 Growth Index	140%	129%	1.1
Baron Fifth Avenue Growth Fund	4/30/2004	Russell 1000 Growth Index	101%	106%	1.0
Baron Fifth Avenue Growth Fund *with the new manager since Nov '11*	11/1/2011	Russell 1000 Growth Index	109%	113%	1.0
Baron International Growth Fund	12/31/2008	MSCI ACWI Ex USA IMI Growth Index	97%	81%	1.2
Baron Emerging Markets Fund	12/31/2010	MSCI EM IMI Growth Index	87%	67%	1.3
Baron Global Advantage Fund	4/30/2012	MSCI ACWI Growth Index	106%	89%	1.2
Baron Real Estate Fund	12/31/2009	MSCI USA IMI Extended Real Estate Index	108%	85%	1.3
Baron Energy and Resources Fund	12/30/2011	S&P North American Nat. Resources Index	100%	96%	1.0

Source: Morningstar Direct.
All downside and upside captures are based on monthly returns.

Sincerely,

Linda S. Martinson

Appendix:

Performance Of Active Large Cap Managers During Market Cycles

Cycle #	Market Environment	From	To	Duration (years)	Performance of the Russell 1000 Index (Price)	% Of All Active Large Cap Managers Outperforming the Russell 1000 Index	% Of Skilled Active Large Cap Managers Outperforming the Russell 1000 Index	Average Outperformance of All Active Large Cap Managers	Average Outperformance of Skilled Active Large Cap Managers
1	Bull	Dec-78	Nov-80	1.9	24.31%	48%	44%	2.35%	0.32%
	Bear	Nov-80	Jul-82	1.7	-15.98%	75%	91%	5.95%	8.85%
	Full Cycle	***Dec-78***	***Jul-82***	***3.6***	***3.60%***	***77%***	***80%***	***4.09%***	***4.88%***
2	Bull	Jul-82	Aug-87	5.1	23.64%	16%	30%	-3.49%	-1.09%
	Bear	Aug-87	Nov-87	0.2	-30.00%	63%	72%	1.75%	2.18%
	Full Cycle	***Jul-82***	***Nov-87***	***5.3***	***14.51%***	***23%***	***49%***	***-2.61%***	***-0.32%***
3	Bull	Nov-87	Aug-00	12.8	16.04%	26%	34%	-1.97%	-0.65%
	Bear	Aug-00	Sep-02	2.1	-26.03%	56%	71%	2.78%	5.64%
	Full Cycle	***Nov-87***	***Sep-02***	***14.8***	***8.94%***	***25%***	***53%***	***-1.21%***	***0.46%***
4	Bull	Sep-02	Oct-07	5.1	14.03%	35%	59%	-0.72%	0.82%
	Bear	Oct-07	Feb-09	1.3	-43.06%	54%	60%	0.42%	0.92%
	Full Cycle	***Sep-02***	***Feb-09***	***6.4***	***-1.25%***	***38%***	***63%***	***-0.41%***	***0.84%***
5	Bull	Feb-09	Jun-15	6.3	18.20%	19%	35%	-1.71%	-0.53%

Source: Morningstar Direct, Baron Capital.
Active large cap managers include all share classes in Morningstar's US OE Large Value, US OE Large Core and US OE Large Growth categories. Skilled active managers are defined as the managers who ranked in the top half of all large cap active managers at least 60% of the time, based on 3-year returns rolling monthly from 12/29/1978 until 6/30/2015. The analysis includes obsolete funds. Each cycle's statistics are based only on share classes that had available returns during the entire cycle. Performance numbers are annualized for periods larger than one year.

Performance Of Active Small Cap Managers During Market Cycles

Cycle #	Market Environment	From	To	Duration (years)	Performance of Russell 2000 Index (Price)	% Of All Active Small Cap Managers Outperforming the Russell 2000 Index	% Of Skilled Active Small Cap Managers Outperforming the Russell 2000 Index	Average Outperformance of All Active Small Cap Managers	Average Outperformance of Skilled Active Small Cap Managers
1	Bull	Aug-98	Feb-00	1.5	42.95%	49%	35%	13.11%	-0.29%
	Bear	Feb-00	Sep-01	1.6	-20.21%	55%	77%	5.76%	17.96%
	Full Cycle	***Aug-98***	***Sep-01***	***3.1***	***5.97%***	***71%***	***94%***	***4.14%***	***7.73%***
2	Bull	Sep-01	Apr-02	0.6	26.11%	38%	60%	-3.57%	0.25%
	Bear	Apr-02	Feb-03	0.8	-29.40%	59%	75%	1.06%	3.25%
	Full Cycle	***Sep-01***	***Feb-03***	***1.4***	***-7.86%***	***50%***	***74%***	***-0.97%***	***2.96%***
3	Bull	Feb-03	May-07	4.3	22.25%	31%	56%	-1.30%	0.74%
	Bear	May-07	Feb-09	1.7	-35.95%	50%	61%	0.07%	1.08%
	Full Cycle	***Feb-03***	***Feb-09***	***6.0***	***1.28%***	***36%***	***60%***	***-0.81%***	***0.86%***
4	Bull	Feb-09	Apr-11	2.2	44.65%	51%	59%	0.55%	2.54%
	Bear	Apr-11	Sep-11	0.4	-25.56%	56%	66%	0.34%	0.98%
	Full Cycle	***Feb-09***	***Sep-11***	***2.6***	***21.52%***	***52%***	***68%***	***0.53%***	***2.34%***
5	Bull	Sep-11	Jun-15	3.7	19.45%	36%	50%	-1.28%	-0.34%

Source: Morningstar Direct, Baron Capital.
Active small cap managers include all share classes in Morningstar's US OE Small Value, US OE Small Core and US OE Small Growth categories. Skilled active managers are defined as the managers who ranked in the top half of all small cap active managers at least 60% of the time, based on 3-year returns rolling monthly from 12/29/1978 until 6/30/2015. The analysis includes obsolete funds. Each cycle's statistics are based only on share classes that had available returns during the entire cycle. Performance numbers are annualized for periods larger than one year.

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.

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Baron Asset Fund's annualized returns as of June 30, 2015: 1-year, 9.73%; 5-years, 17.57%; 10-years, 9.02%. Annual expense ratio for the Institutional Shares as of September 30, 2014 was 1.04%. **Baron Growth Fund's** annualized returns as of June 30, 2015: 1-year, 7.51%; 5-years, 17.39%; 10-years, 8.63%. Annual expense ratio for the Institutional Shares as of September 30, 2014 was 1.04%. **Baron Small Cap Fund's** annualized returns as of June 30, 2015: 1-year, 4.31%; 5-years, 16.72%; 10-years, 8.39%. Annual expense ratio for the Institutional Shares as of September 30, 2014 was 1.04%. **Baron Opportunity Fund's** annualized returns as of June 30, 2015: 1-year, 6.22%; 5-years, 15.34%; 10-years, 10.28%. Annual expense ratio for the Institutional Shares as of September 30, 2014 was 1.08%. **Baron Partners Fund's** annualized returns as of June 30, 2015: 1-year, 6.38%; 5-years, 20.25%; 10-years, 9.84%. Annual expense ratio for the Institutional Shares as of December 31, 2014 was 1.26% (comprised of operating expenses of 1.06% and interest expense of 0.20%). **Baron Fifth Avenue Growth Fund's** annualized returns as of June 30, 2015: 1-year, 13.11%; 5-years, 18.04%; 10-years, 7.61%. As of September 30, 2014, annual operating expense ratio for the Institutional Shares was 1.08%, but the net annual expense ratio was 1.05% (net of the Adviser's fee waivers). **Baron Focused Growth Fund's** annualized returns as of June 30, 2015: 1-year, 6.96%; 5-years, 14.88%; 10-years, 9.83%.* As of December 31, 2014, annual operating expense ratio for the Institutional Shares was 1.09%. **Baron International Growth Fund's** annualized returns as of June 30, 2015: 1-year, (0.05)%; 5-years, 10.81%; Since Inception (12/31/08), 13.66%. As of December 31, 2014, annual operating expense ratio for the Institutional Shares was 1.34%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). **Baron Real Estate Fund's** annualized returns as of June 30, 2015: 1-year, 7.56%; 5-years, 22.76%; Since Inception (12/31/09), 20.16%. Annual expense ratio for the Institutional Shares as of December 31, 2014 was 1.06%. **Baron Emerging Markets Fund's** annualized returns as of June 30, 2015: 1-year, (3.96)%; Since Inception (12/31/10), 4.62%. As of December 31, 2014, annual operating expense ratio for the Institutional Shares was 1.27%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). **Baron Energy and Resources Fund's** annualized returns as of June 30, 2015: 1-year, (26.42)%; Since Inception (12/30/11), 1.71%. As of December 31, 2014, annual operating expense ratio for the Institutional Shares was 1.52%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). **Baron Global Advantage Fund's** annualized returns as of June 30, 2015: 1-year, 4.93%; Since Inception (4/30/12), 13.95%. As of December 31, 2014, annual operating expense ratio for the Institutional Shares was 2.92%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). **Baron Discovery Fund's** total return as of June 30, 2015: 1-year, 7.73%; Since Inception (9/30/13), 20.90%. As of September 30, 2014, annual operating expense ratio for the Institutional Shares was 1.91%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

*Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees for the years the predecessor partnership charged a performance fee, the returns would be higher. The Fund's shareholders will not be charged a performance fee. The predecessor partnership's performance is only for periods before the Fund's registration statement was effective, which was June 30, 2008. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

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

Index performance is not fund performance; one cannot invest directly into an index.

The **Morningstar US OE Mid-Cap Growth Average** is not weighted and represents the straight average of annualized returns of each of the funds in the Mid-Cap Growth category. As of June 30, 2015, the category consisted of 756, 585 and 451 funds for the 1-, 5-, and 10-year periods. Morningstar ranked **Baron Asset Fund** Retail Share Class in the 47th, 40th and 54th percentiles, respectively, and ranked Baron Asset Fund Institutional Share Class in the 44th, 34th and 49th percentiles, respectively, in the category. Morningstar ranked **Baron Growth Fund** Retail Share Class in the 68th, 43rd and 65th percentiles, respectively, and ranked Baron Growth Fund Institutional Share Class in the 64th, 37th and 61st percentiles, respectively, in the category. Morningstar ranked **Baron Partners Fund** Retail Share Class in the 79th, 6th and 34th percentiles, respectively, and ranked Baron Partners Fund Institutional Share Class in the 76th, 4th and 30th percentiles, respectively, in the category. Morningstar ranked **Baron Opportunity Fund** Retail Share Class in the 80th, 81st and 25th percentiles, respectively, and ranked Baron Opportunity Fund Institutional Share Class in the 78th, 78th and 22nd percentiles, respectively, in the category. Morningstar ranked **Baron Focused Growth Fund** Retail Share Class in the 73rd and 85th percentiles, for the 1- and 5-year periods, and ranked Baron Focused Growth Fund Institutional Share Class in the 71st and 83rd percentiles, respectively, in the category.

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. Morningstar moved **Baron Growth Fund** from the Small Growth Category effective May 31, 2011 to the Mid-Cap Growth Category. The Fund's investment mandate has been and continues to be investing in small cap growth stocks for the long term. We intend to continue to provide comparative performance data for the Small Growth Category because we strongly disagree with Morningstar's reclassification of the Fund. As of June 30, 2015, the Baron-Adjusted Morningstar Small Growth Category consisted of 735, 593 and 417 funds for the 1-, 5- and 10-year periods. **Baron Growth Fund** Retail Share Class ranked in the 70th, 62nd and 67th percentiles, respectively, and Baron Growth Fund Institutional Share Class ranked in the 68th, 57th and 67th percentiles, respectively, in the category. As of June 30, 2015, the category consisted of 733, 588 and 413 funds for the 1-, 5- and 10-year time periods. Morningstar ranked **Baron Small Cap Fund** Retail Share Class in the 90th, 72nd and 73rd percentiles, respectively, and ranked Baron Small Cap Fund Institutional Share Class in the 89th, 68th and 69th percentiles, respectively, in the category. As of June 30, 2015, the cetegory consisted of 706 funds for the period Since Inception of Baron Discovery Fund (September 30, 2013). Morningstar ranked **Baron Discovery Fund** Retail Share Class in the 68th and 1st percentiles for the 1-year time period and Since Inception, respectively, and ranked Baron Discovery Fund Institutional Share Class in the 65th and 1st percentiles, respectively, in the category.

The **Morningstar US OE Large Growth Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the Large Growth category. As of June 30, 2015, the category consisted of 1,697, 1,317 and 918 funds for the 1-, 5-, and 10-year periods. Morningstar ranked **Baron Fifth Avenue Growth Fund** Retail Share Class in the 17th, 36th and 71st percentiles, respectively, and ranked Baron Fifth Avenue Growth Fund Institutional Share Class in the 15th, 30th and 67th percentiles, respectively, in the category.

The **Morningstar US OE Real Estate Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the Real Estate category. As of June 30, 2015, the category consisted of 274, 199, and 188 funds for the 1-, 5-year periods and Since Inception (December 31, 2009). Morningstar ranked **Baron Real Estate Fund** Retail Share Class in the 5th, 1st, and 1st percentiles, respectively, and ranked Baron Real Estate Fund Institutional Share Class in the 4th, 1st, and 1st percentiles, respectively, in the category.

The **Morningstar US OE Diversified Emerging Markets Average** is not weighted and represents the straight average of annualized returns of each of the funds in the Diversified Emerging Markets category. As of June 30, 2015, the category consisted of 814 and 403 funds for the 1-year period and Since Inception (December 31, 2010). Morningstar ranked **Baron Emerging Markets Fund** Retail Share Class in the 29th and 1st percentiles, respectively, and ranked Baron Emerging Markets Fund Institutional Share Class in the 27th and 1st percentiles, respectively, in the category.

The **Morningstar US OE World Stock Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the category. As of June 30, 2015, the category consisted of 1,216 and 932 funds for the 1-year period and Since Inception (April 30, 2012). Morningstar ranked **Baron Global Advantage Fund** Retail Share Class in the 20th and 15th percentiles, respectively, and ranked Baron Global Advantage Fund Institutional Share Class in the 19th and 14th percentiles, respectively, in the category.

The **Lipper International Multi-Cap Growth Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the category. As of June 30, 2015, the category consisted of 379, 311, and 282 funds for the 1-, 5-year periods and Since Inception (December 31, 2008). Lipper ranked **Baron International Growth Fund** Retail Share Class in the 30th, 28th, and 8th percentiles, respectively, and ranked Baron International Growth Fund Institutional Share Class in the 29th, 25th, and 8th percentiles, respectively, in the category.

The **Lipper Global Natural Resources Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the category. As of June 30, 2015, the category consisted of 123 and 112 funds for the 1-year period and Since Inception (December 30, 2011). Lipper ranked **Baron Energy and Resources Fund** Retail Share Class in the 54th and 20th percentiles, respectively, and ranked Baron Energy and Resources Fund Institutional Share Class in the 53rd and 19th percentiles, respectively, in the category.

Source: Lipper Analytical Services, Inc.

Morningstar and Lipper rankings are based on total returns for the 1-year, 5-year, 10-year and Since Inception periods ended June 30, 2015.

About Risk: The value of investments in equity securities is subject to unpredictable declines in the value of individual securities and periods of below average performance in individual securities and the equity market as a whole. Growth stocks are generally more sensitive to market movements than other types of stocks primarily because their stock prices are based heavily on future expectations. If our assessment of the prospects for a company's growth is wrong, or if our judgment of how other investors will value the company's growth is wrong, then the price of the company's stock may fall or not appreciate as we expect.

Definitions (provided by BAMCO, Inc.): The **S&P 500 Index** measures the performance of 500 widely held large cap U.S. companies. 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 2500™ Growth Index** measures the performance of small to medium-sized companies that are classified as growth. The **Russell Midcap® Growth Index** is an unmanaged index of those Russell Midcap medium-sized companies that are classified as growth companies. The **Russell 1000® Growth Index** is an unmanaged index that measures the performance of large-sized U.S. companies classified that are classified as growth. The **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The **MSCI ACWI ex USA IMI Growth Index Net USD** is an unmanaged, free float-adjusted market capitalization weighted index. It measures the performance of large, mid, and small cap growth securities across developed and developing markets, excluding the U.S. The **MSCI USA IMI Extended Real Estate Index** is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. The **MSCI EM (Emerging Markets) IMI Growth Index Net USD** is a free float-adjusted market capitalization index designed to measure equity market performance of large, mid and small cap securities in the emerging markets. The MSCI EM IMI Growth Index Net screens for growth-style securities. The index returns reflect the reinvestment of dividends and other earnings, which positively impact performance results. The **MSCI ACWI Growth Index Net USD** measures the equity market performance of large and mid cap growth securities across developed and emerging markets. The **S&P MidCap 400® Index** is an unmanaged float-adjusted market capitalization index designed to measure the performance of 400 mid-sized U.S. companies. The **MSCI Emerging Markets Index** is an unmanaged float-adjusted market capitalization index designed to measure equity market performance of large and mid cap securities in the emerging markets. The **MSCI USA Energy IMI 25/50 Index** is an unmanaged float-adjusted market capitalization index designed to measure the performance of the large, mid and small cap U.S. securities classified in the Energy sector according to the Global Industry Classification Standard (GICS®). The index also applies certain investment limits to help insure diversification – Limits that are imposed on regulated investment companies, or RICs, under the current US Internal Revenue Code. The **FTSE Global All Cap Index** is an unmanaged market capitalization weighted index representing the performance of the large, mid and small cap stocks globally covering Developed and Emerging Markets. The **Dow Jones U.S. Real Estate Index** is unmanaged float-adjusted market capitalization index designed to measure the performance of Real Estate Investment Trusts (REIT) and other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. The **Morningstar US OE Foreign Small/Mid Growth Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the Foreign Small/Mid Growth category. The **Morningstar US OE Equity Energy Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the category. © 2015 Morningstar, Inc. All Rights Reserved. **Alpha:** measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta:** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **Upside Capture Ratio** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture Ratio** explains how well a fund performs in time periods where the benchmark's returns are less than zero.

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