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INVESTOR

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Baron Asset Fund

The Advantages of Mid-Cap Stocks

Mid-cap stocks have been described as the "sweet spot" for investing in the equity markets. We agree. We launched our mid-cap growth fund, Baron Asset Fund, nearly 28 years ago, when few other investment managers were focused on mid-caps.* In our experience, mid-cap stocks tend to offer higher growth opportunities than their large-cap counterparts and less risk than their small-cap peers. For these reasons and others, we think the mid-cap universe presents compelling investment opportunities, particularly in today's volatile markets. Advantages include:

- Outperformance compared with other major asset classes
- Lower volatility than small-cap stocks
- More growth opportunities than large-cap stocks
- Less analyst coverage than large-cap stocks

Over the past 25 years, mid-cap growth stocks, as measured by the Russell Midcap Growth Index, have consistently outperformed both large- and small-cap growth stocks, as shown in the chart to the right.

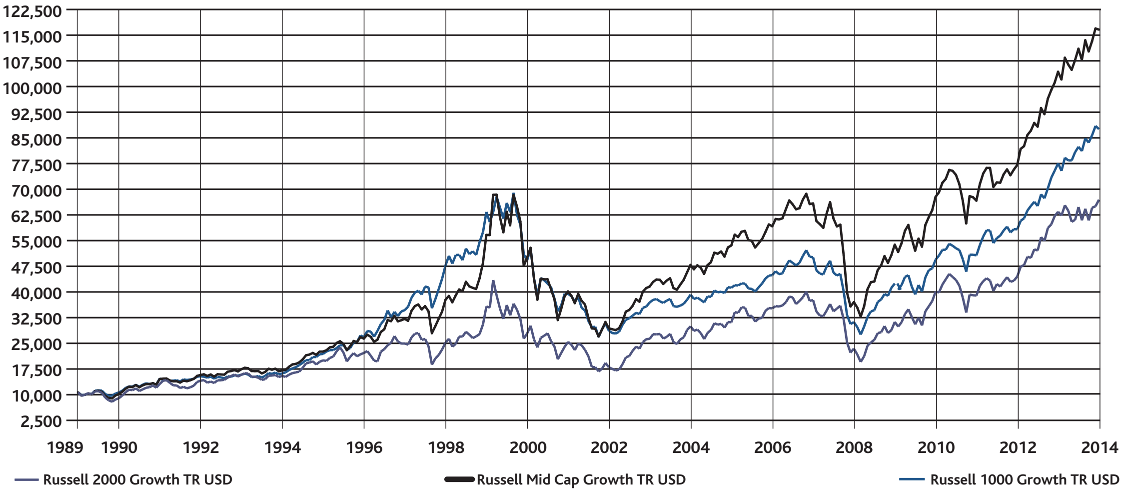
In addition to delivering superior performance, mid-cap growth stocks have had a consistently higher Sharpe Ratio, which measures risk-adjusted returns, than small-cap growth stocks, and the same Sharpe Ratio as large-cap growth stocks.

Andrew Peck
Portfolio Manager

We think several factors play into the favorable risk/reward characteristics of mid-cap stocks. We believe mid-cap businesses offer the greatest growth potential at time of purchase, having developed beyond their initial, usually riskier, start-up phase, but not yet having reached the more mature stage of their life-cycle. When compared to small-caps, mid-cap companies typically have better balance sheets, readier access to capital, lower cost of capital, more stable revenues and earnings, and accelerating cash flows to reinvest back into their businesses. When compared to large-cap companies, mid-caps tend

Mid-Caps Outperform Other Asset Classes

25 Years Investment Growth of $10,000 as of 12/31/2014



** We define mid-sized companies as those, at the time of purchase, with market capitalizations above $2.5 billion or the smallest market cap stock in the Russell Midcap Growth Index at reconstitution, whichever is larger, and below the largest market cap stock at reconstitution. At the last reconstitution on June 30, 2014, the market cap range in the Russell Midcap Growth Index was $1.63 billion to $29.87 billion.*

The indexes are unmanaged. The Russell 2000 Growth Index measures the performance of small-sized U.S. companies that are classified as growth. The Russell Midcap Growth Index measures the performance of medium-sized U.S. companies that are classified as growth. The Russell 1000 Growth Index measures the performance of large-sized U.S. companies that are classified as growth. The indexes are with dividends, with positively impact the performance results. Index performance shown in the table above is not fund performance; one cannot invest directly in an index.

to be more nimble, deploy resources more quickly, and have more avenues for rapid, sustained growth. A mid-cap company is also more likely than a large-cap company to be targeted for acquisition.

We think certain market factors also benefit mid-caps.

First, simply because they are situated in the middle of the market cap universe, mid-cap stocks have a relatively broader pool of prospective buyers. As a group, large-cap growth managers have approximately 11% of their portfolios invested in mid-cap growth stocks. The percentage of small-cap growth portfolios invested in mid-caps is even greater – about 21%.

Second, many mid-cap stocks are not extensively covered on Wall Street, especially when compared to large-cap stocks. For instance, while some 49 analysts cover Apple, Inc., and 47 follow Intel Corp., 11 analysts currently cover **FleetCor Technologies, Inc.,** a large holding in Baron Asset Fund whose stock has climbed almost 500% in the past three years. This relative lack of coverage gives experienced portfolio managers like Baron the opportunity to identify and invest in companies with favorable long-term growth prospects at attractive valuations.

As a firm, we look for what we believe are well-managed businesses with significant competitive advantages and strong long-term growth potential, and we try to buy these businesses at valuations we consider attractive. As fundamental, research-based investors, we dedicate significant time researching the industries and businesses in which we invest, and continue this research process over the life of each investment.

We believe the depth and breadth of knowledge and experience of our 29 research analysts and portfolio managers is the key to what differentiates us from other actively managed funds. We take a long-term perspective, and as is typical of our portfolios, Baron Asset Fund has a lower turnover than many of its peers (12.43% three-year average, vs. 72.20%).

Baron Asset Fund, which is managed by Andrew Peck, invests in companies that we believe have sustainable competitive advantages – something that differentiates their product or service from what competitors can provide, while also discouraging new entrants into their markets.

Some of the advantages that we believe our investments possess include proprietary databases or analytical capabilities, industry-leading platform companies, or long-established and well-regarded consumer brands.

Investments with proprietary databases or analytical capabilities typically have attractive business models, characterized by highly recurring subscription-based revenue streams, high incremental operating margins, and significant free cash flow. Examples in the Fund include **Nielsen N.V., FactSet Research Systems, Inc., Gartner, Inc.,** and **Verisk Analytics, Inc**. While targeting different industries, these companies play a critical role in their respective clients' daily workflow, creating great customer loyalty and high switching costs.

Nielsen, a global information and measurement company that has been in business for almost 100 years, illustrates the advantages of a proprietary database and sophisticated analytics. Its "Watch" ratings are the currency on which television advertising is sold in the U.S., and its "Buy" data is a critical planning tool for consumer packaged goods companies. It has stayed relevant and profitable through a strategic growth plan focused on building out additional analytic capabilities in complementary areas, such as digital and radio.

FactSet, a data and analytics provider to the financial industry, is a second example. The company has retention rates of over 95% and continues to take market share by offering broader data sets and more advanced portfolio analytics than its competitors.

A razor/razor blade business model is another way to generate recurring revenue. When coupled with a dominant market position, this type of business model can create a formidable competitive advantage.

One of our highest conviction holdings, **Illumina, Inc.,** is built on a razor/razor blade model. The company, which is the recognized leader in next generation DNA sequencing platforms, supplies machines as well as the single-use products, such as testing kits, that are used with its machines. Illumina dominates DNA sequencing at a time when the market is accelerating, and it maintains its edge through innovation, with an R&D spend that significantly higher, percentage-wise, than that of its peers.

Similar to Illumina, **IDEXX Laboratories, Inc.,** which supplies diagnostics products to the veterinary industry, features a razor/razor blade business model, a dominant market position, a focus on innovation as reflected in its high R&D spend, and strong secular growth in its market.

We also like platform companies, which benefit from economies of scale and a network effect, where growth in the number of users in turn attracts more users. This leads to dominance within a company's vertical market, which typically can be extended across geographies.

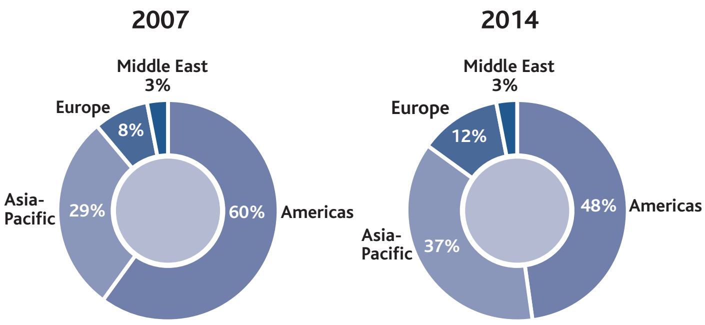
An example is **Equinix, Inc.,** the leading provider of Internet Business Exchanges (IBXs). Early on, Equinix employed its scale and "network neutral" policy, which allows its customers to connect with one another, to attract large telecom networks as customers. Once Equinix established its leading market position, other telecom networks, major enterprises, web commerce companies, and cloud computing companies were compelled to join the Equinix "ecosystem" in order to easily and efficiently access these networks.

Another example is **The Priceline Group, Inc.** Travelers gravitate to the company's various websites because they offer access the Internet's largest inventory of available rooms. Hotel owners gravitate to Priceline's websites to access the Internet's largest group of potential travelers. **HomeAway, Inc.** offers similar advantages to owners and travelers in the market for second home vacation rentals. Once a platform company has established itself as the leader in its market, it is difficult for competitors to reclaim market share. A disproportionate percentage of the market's revenues accrue to the market leader, typically at high incremental margins.

Other companies we own are building a platform to complement their core business. For example, **The Charles Schwab Corp.** has leveraged its existing securities brokerage business to build out an online platform for independent RIAs and financial advisors. The Schwab Advisor Center provides RIAs with a full array of products, services and support needed to maintain and grow their businesses. Schwab's advisor business has had strong growth in recent years, with fees increasing at a 4-year CAGR of 17.2% (2011–2014). As more RIAs leave wirehouses to set up their own shops, we think Schwab's advisor business will continue to expand alongside this growing demand.

Well-regarded consumer brands, particularly among luxury goods purveyors, take many years and many millions of dollars in advertising and favorable public relations to establish. But once these brands are well established, they offer large opportunities for companies to extend them both into adjacent product categories and into international markets. Examples include **Tiffany & Co.,** best known for its jewelry and iconic blue box, and **Ralph Lauren Corp.,** known for apparel, sheets, towels, furniture, and even paint. Both companies are well-established U.S. luxury brands that have embarked on ambitious international growth strategies. Both brands have demonstrated their appeal to overseas consumers, especially the status conscious – and rapidly growing – middle and upper classes in emerging market regions.

Tiffany is Expanding its Overseas Market



Source: Tiffany.com, bidnessetc.com

When a company has sustainable competitive advantages, it is positioned to protect its profitability from competition. Such companies will typically have steadier sales growth, stable profit margins, and the ability to raise prices, resulting in higher returns on invested capital. Strong, financially sound, high quality companies are less sensitive to market conditions and macro-economic events. While a higher quality stock may lag in market rallies where business fundamentals are less important, it may also weather downturns better than lower quality stocks.

Conclusion

We believe Baron's emphasis on research creates an informational advantage in the mid-cap space. Because mid-caps are less thoroughly covered by analysts, Baron's research team can take advantage of this void to identify and track opportunities that we believe can produce outsized returns over time. We think our long-term approach and intense research process positions our mid-cap strategy for excellent long-term results for our investors. Of course, we may not achieve our objectives.

Securities issued by medium sized companies may be thinly traded and may be 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. The Fund may not achieve its objectives. Current and future portfolio holdings are subject to risk. All performance and performance-related calculations are based on the Institutional share class.

Performance as of March 31, 2015*

INSTITUTIONAL SHARES								
	Average Annualized Returns			Since Inception		Inception		
	1-Year	5-Year	10-Year	Annualized	Cumulative	Date	Expense Ratio	Ticker
Baron Growth Fund	9.35%	15.99%	8.92%	13.87%	1286.61%	12/31/94	1.04%[1]	BGRIX
Baron Small Cap Fund	8.76%	15.31%	8.89%	10.38%	463.30%	9/30/97	1.04%[1]	BSFIX
Baron Discovery Fund	11.39%	N/A	N/A	26.22%	41.80%	9/30/13	1.91%/1.10%[1]	BDFIX
Baron Focused Growth Fund[2]	6.57%	12.80%	9.45%	11.62%	693.09%	5/31/96	1.12%/1.10%[2]	BFGIX
Baron Asset Fund	12.88%	15.30%	9.23%	11.66%	2046.29%	6/12/87	1.04%[1]	BARIX
Baron Opportunity Fund	3.48%	12.76%	10.53%	5.40%	121.14%	2/29/00	1.08%[1]	BIOIX
Baron Fifth Avenue Growth Fund	13.35%	14.17%	7.97%	7.71%	125.02%	4/30/04	1.08%/1.05%[1]	BFTIX
Baron Partners Fund[2]	7.59%	17.30%	10.06%	13.26%	1688.55%	1/31/92	1.11%/0.30%[3]	BPTIX
Baron Emerging Markets Fund	1.55%	N/A	N/A	4.72%	21.64%	12/31/10	1.80%/1.25%[3]	BEXIX
Baron Global Advantage Fund	6.71%	N/A	N/A	13.96%	46.41%	4/30/12	4.91%/1.25%[3]	BGAIX
Baron International Growth Fund	-0.87%	7.69%	N/A	13.41%	119.62%	12/31/08	1.37%/1.25%[3]	BINIX
Baron Energy and Resources Fund	-16.42%	N/A	N/A	1.78%	5.90%	12/30/11	2.84%/1.10%[3]	BENIX
Baron Real Estate Fund	16.48%	N/A	N/A	22.08%	185.05%	12/31/09	1.09%[3]	BREIX

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

Performance data represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted above. For the most recent performance, visit www.BaronFunds.com or call 1-800-99Baron.

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.

[1] As of September 30, 2014 for Baron Asset, Baron Growth, Baron Small Cap, Baron Opportunity, Baron Fifth Avenue Growth and Baron Discovery Funds. For Baron Fifth Avenue Growth Fund, the total expense ratio was 1.08%, but the net annual expense ratio is 1.05% (net of the Adviser's fee waivers). For Baron Discovery Fund, the total expense ratio was 1.91%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers).

[2] Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee. The predecessor partnerships' performance is only for periods before the Funds' registration statements were effective (4/30/03 for BPF and 6/30/08 for BFGF). During those periods, the predecessor partnerships were not registered under the Investment Company Act of 1940 and were not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if they were, might have adversely affected their performance.

[3] As of December 31, 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 1.11% and 0.30%, respectively. For Baron Focused Growth Fund, the total expense ratio was 1.12%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). For Baron International Growth Fund, the total expense ratio was 1.37%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). For Baron Emerging Markets Fund, the total expense ratio was 1.80%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers). For Baron Energy and Resources Fund, the total expense ratio was 2.84%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). For Baron Global Advantage Fund, the total expense was 4.91%, but the net annual expense ratio was 1.25% (net of the Adviser's fee waivers).

Portfolio holdings as a percentage of net assets as of March 31, 2015 for securities mentioned are as follows: **FleetCor Technologies, Inc.** - Baron Asset Fund (3.2%), Baron Small Cap Fund (2.1%); **Gartner, Inc.** - Baron Asset Fund (4.7%), Baron Growth Fund (2.9%), Baron Small Cap Fund (3.1%), Baron Opportunity Fund (4.0%), Baron Partners Fund (2.3%*); **Verisk, Inc.** - Baron Asset Fund (3.4%), Baron Opportunity Fund (3.0%), Baron Partners Fund (4.6%*), Baron Fifth Avenue Growth Fund (1.7%), Baron Focused Growth Fund (3.0%); **Nielsen N.V.** - Baron Asset Fund (2.0%); **FactSet Research Systems, Inc.** - Baron Asset Fund (2.8%), Baron Growth Fund (3.1%), Baron Partners Fund (5.3%*), Baron Focused Growth Fund (5.9%); **Illumina, Inc.** - Baron Asset Fund (3.5%), Baron Partners Fund (1.8%*), Baron Opportunity Fund (3.0%), Baron Fifth Avenue Growth Fund (5.8%), Baron Global Advantage Fund (3.8%); **IDEXX Laboratories, Inc.** - Baron Asset Fund (4.4%), Baron Partners Fund (3.5%*), Baron Growth Fund (1.7%), Baron Small Cap Fund (1.9%); **Equinix, Inc.** - Baron Asset Fund (1.3%), Baron Small Cap Fund (1.5%), Baron Opportunity Fund (2.9%), Baron Fifth Avenue Growth Fund (2.4%), Baron Real Estate Fund (2.9%); **The Priceline Group, Inc.** - Baron Asset Fund (1.4%), Baron Opportunity Fund (1.7%), Baron Fifth Avenue Growth Fund (3.7%), Baron Global Advantage Fund (2.7%); **HomeAway, Inc.** - Baron Asset Fund (0.8%), Baron Small Cap Fund (1.0%), Baron Opportunity Fund (1.5%); **The Charles Schwab Corp.** - Baron Asset Fund (2.8%), Baron Opportunity Fund (0.9%), Baron Partners Fund (5.0%*); **Tiffany & Co.** - Baron Asset Fund (1.1%); **Ralph Lauren Corp.** - Baron Asset Fund (0.9%).

*% of Long Positions.

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

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

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

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