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Trump's Surprising Win and the Market's Reaction

The initial response to Donald Trump's surprising presidential victory was extreme, with the futures markets falling precipitously as early returns showed Trump ahead. Investors were plainly caught off guard by Trump's victory, marking the second time this year the markets miscalculated the outcome of a vote in one of the world's largest economies. The first time was Brexit.

As with the U.K.'s decision to exit the E.U. in June, the immediate reaction to Trump's election was negative and acute. Yet the markets quickly recovered from Brexit, and we think it likely that the same will happen with this election. In fact, all the major U.S. indices are moving higher as we write this. Uncertainty drives away investors, who then digest news, adjust expectations, and move ahead.

In the course of Baron's 30-plus years of investing, we have witnessed innumerable instances of panic-inducing macroeconomic events. While we are certainly aware of short-term events and monitor them closely, as long-term investors, they are not our focus. We do not engage in short-term trading, or change our investment strategy or portfolios to reflect our view of macroeconomic events. This is

because we regard such developments and their impact on the markets as largely unpredictable. We invest in businesses, not stocks.

What we are focused on is the long-term growth prospects of our investments and the markets. In this regard, we are optimistic. The U.S. economy is in good shape and getting better. Unemployment is down, wages are increasing, and consumer spending is up. Energy prices have stabilized. Interest rates remain at historical lows and we believe the pace of interest rate increases will be gradual.

We are evaluating possible wider implications of a Trump presidency for the particular businesses in which we invest to be certain the long-term growth prospects of these businesses are unchanged. In the meantime, we will continue to do what we have always done, with success: find and invest for the long term in companies with significant competitive advantages, open-ended growth opportunities, and experienced, visionary management, at what we believe to be an attractive valuation.

Past performance is no guarantee of future results.

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.

The discussion of market trends and companies throughout this report are not intended as advice to any person regarding the advisability of investing in any particular security. Some of our comments are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time of the publication of this report and are subject to change any time based on market and other conditions, and we have no obligation to update them.