Baron Perspective

March 31, 2019

Why Active Management

The greatest professional athletes didn't start out as the greatest. They train constantly, they usually supplement their training with long stints in the gym, and they always push themselves to do better. It would be a mistake to conclude that all people who train hard become successful athletes. Being a successful athlete requires a variety of different characteristics, including good coordination, being a team player, being well-conditioned, having good technical skills, being mentally tough, and being able to repeat successes.

Focusing on a single characteristic, and generalizing about it, is often a mistake. For example, it would be a mistake to say that because they are tall, all men over 6′ 5″ must be great basketball players. It would similarly be a mistake to decide that all men under 6′ 1″ *can't play* professional basketball. See, for example, Chris Paul (6′ 0″), Isaiah Thomas (5′ 9″), and Ty Lawson (5′ 11″), Nate Robinson (5′ 9″ and a three-time winner of the slam-dunk contest), and Muggsy Bogues (5′ 3″ and a first round draft pick).

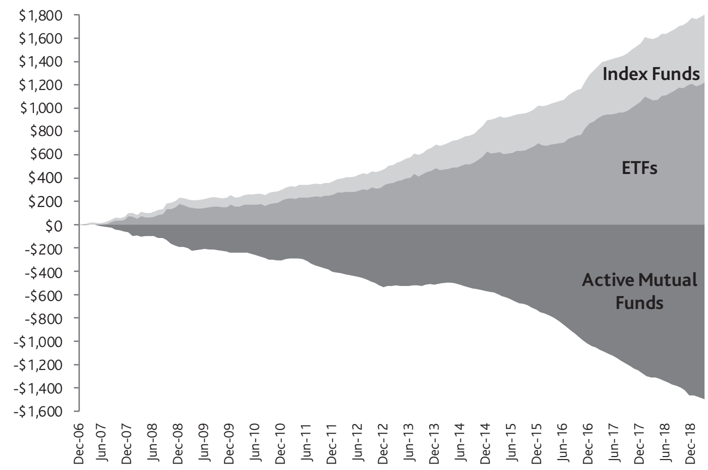
Conclusions about broad samples extrapolated from a single characteristic are often wrong and misleading. It is a combination of characteristics that result in success. This is also true in the investment world. The past decade has been challenging for many active managers. It would be a mistake to generalize that as a result, all active managers underperform all of the time. While it is certainly true that there are active managers who do not beat the averages, there are also top performing managers who do, over time.

Many mutual fund investors lost conviction and have reallocated their investments to passively managed products. Since 2007, actively managed U.S. equity funds have experienced consistent net outflows, totaling approximately $1.5 trillion as of March 31, 2019 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 chart to the right.

Money Has Been Steadily Flowing to Passive and Out of Active

Cumulative Net Flows in U.S. Equity Products since 2007

(in $ billions, as of 3/31/2019)



Source: Morningstar Direct. Data includes obsolete funds.

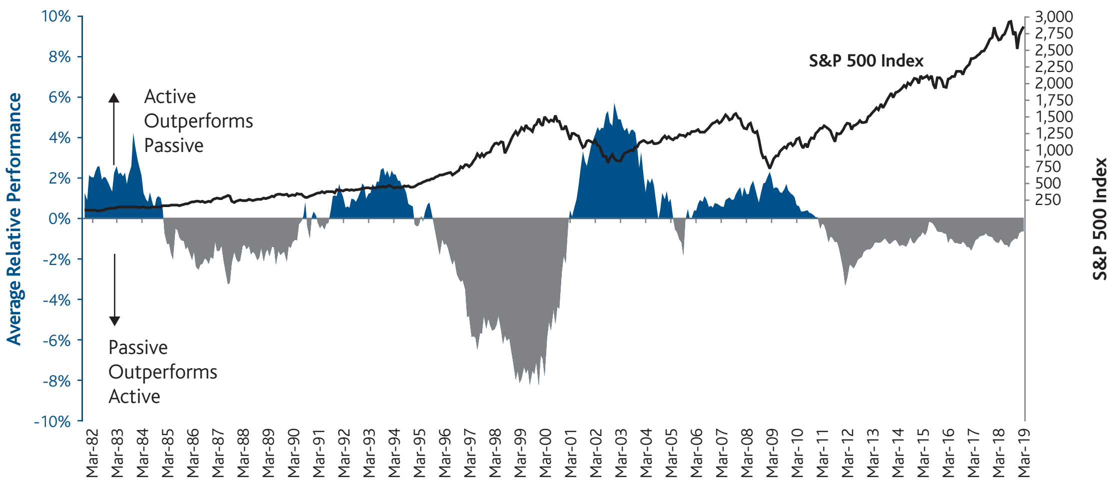
There are multiple arguments that keep us convinced of the future success of active management.

Cyclicality of Active Performance

Historically, the performance of active managers has tended to be cyclical. The chart below shows several distinct periods when Large Cap actively managed funds outperformed or underperformed passive products.

The Performance of Active and Passive Managers Has Been Cyclical

Difference in Average 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 3/31/1982 to 3/31/2019.

The performance of active funds is calculated as the average 3-year performance of all share classes of open-end non-index funds in Morningstar's US Fund Large Growth, US Fund Large Value, and US Fund Large Blend categories.

The performance of passive funds is calculated as the average 3-year performance of all share classes of open-end index funds in Morningstar's US Fund Large Growth, US Fund Large Value, and US Fund Large Blend categories.

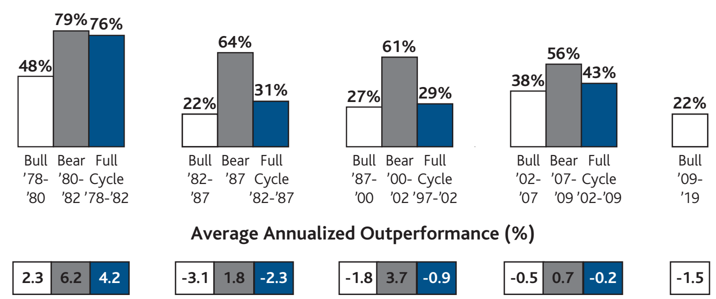
A closer look at the data shows that active managers tend to fall behind during strong bull markets. In periods when the market returns were closer to historical averages or when the market was down, active funds fared better than passive funds, on average.

Currently, we are in the 11th year of the bull market that began after the Great Recession. In seven of the first nine years, the Russell 1000 Index returned double-digit percentages and, as of March 31, 2019, the streak had compounded to 423%, or 17.9% per year, including dividends. Few active managers outperformed during this period. From a historical perspective, this is not a completely unexpected outcome.

The chart below shows a correlation between the performance of active managers and up/down markets. However, the average large-cap active manager underperformed in the past three full market cycles because down market performance did not offset the lost ground in the preceding up markets. Our analysis focuses on large-cap managers, since large cap is normally the toughest category to outperform due to its high market efficiencies. When we reviewed the performance for small-cap managers, we found similar patterns in performance.

The Majority of Active Managers Have Outperformed 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 of non-index open-end funds in Morningstar's US Fund Large Value, US Fund Large Blend, and US Fund 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.

Bull markets are defined as those with an increase of at least 20% after a trough, and bear markets are those with a decline of at least 20% after a peak, based on monthly data. A full market cycle is defined as a bull market followed by a bear market.

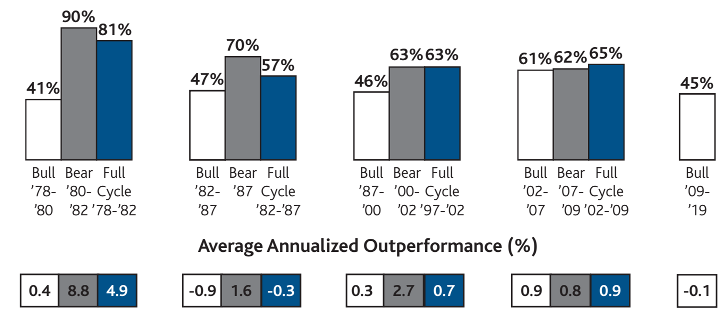
Not All Active Managers Are Equal

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. In our filter, we track the performance of active managers with consistent and above average past performance, namely, rolling three-year returns ranked in the top half of all managers in their respective peer groups at least 60% of the time over the long term. While following a similar pattern of performance in bull and bear markets, these 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). The results for these top performing large-cap managers are shown in the chart below.

Top Performing Active Managers Have Delivered Positive Excess Returns Over Full Market Cycles

% Of Top Performing Active Large-Cap Managers Outperforming the Russell 1000 Index



Source: Morningstar Direct, Baron Capital.

Active large-cap managers include all share classes of non-index open-end funds in Morningstar's US Fund Large Value, US Fund Large Blend, and US Fund Large Growth categories. Top performing active managers are defined as the managers who ranked in the top half of all large-cap managers at least 60% of the time, based on 3-year performance rolling monthly from 12/29/1978 until 3/31/2019. The analysis includes obsolete funds. Each cycle's statistics are based only on share classes that had available returns during the entire cycle.

Within the broad group of active managers, there are sub-groups that tend to outperform frequently. Over the past decade, several researchers have concluded similarly and have tried to identify the combination of characteristics of successful managers. In a 2009 publication[1] M. Cremers and A. Petajisto introduced active share, a quantitative measure of how different a portfolio is from a benchmark. Active share ranges between 100%, which means the portfolio has no common holdings with its benchmark, and 0% which means a complete overlap between the two.

The two finance professors showed that the label "active" should not be uniformly applied across all U.S. equity mutual funds, as performance varies significantly with the level of active share. They found that the managers with the highest active share added the most value to investors, outperforming by 1.13% per year after expenses, on average. The funds with the lowest active share, also labeled "closet indexers," underperformed by 1.42%. The average fund in the study underperformed its benchmark by 0.43%, a result significantly skewed by the poor performance of the lower active share funds.

Cremers and Petajisto narrowed their analysis and found that combining active share and tracking error can help identify the most successful active managers. This point was later explored in more depth by Petajisto in a 2013 publication[2] where he defined five different groups of active managers. His results showed that *stock pickers*, characterized by high active share and moderate tracking error, tend to do best, and this was the only group to outperform the benchmark both before and after fees. The table on the next page summarizes the results for all five groups for the period 1990-2009.

1 Cremers, Martijn and Petajisto, Antti, How Active is Your Fund Manager? A New Measure That Predicts Performance (March 31, 2009) Original working paper circulated in 2006.

2 Petajisto, Antti, Active Share and Mutual Fund Performance (January 15, 2013). Original working paper circulated in 2010.

High Active Share + Moderate Tracking Error = Positive Alpha

Average Characteristics by Fund Type

1990 – 2009

Label	Description	Active Share (AS)	Tracking Error (TE)	Number of Stocks	Turnover	Net Annualized Alpha
Stock Pickers	High AS, Low/Moderate TE	97%	8.5%	66	83%	1.26%
Concentrated	High AS, High TE	98%	15.8%	59	122%	-0.25%
Factor Bets	Low/Moderate AS, High TE	79%	10.4%	107	104%	-1.28%
Moderately Active	Moderate AS, Moderate TE	83%	5.9%	100	84%	-0.52%
Closet Indexers	Low AS, Low/Moderate TE	59%	3.5%	161	69%	-0.91%
Average Fund		*81%*	*7.1%*	*104*	*87%*	*-0.41%*

Source: Petajisto (2013), Tables III and V.

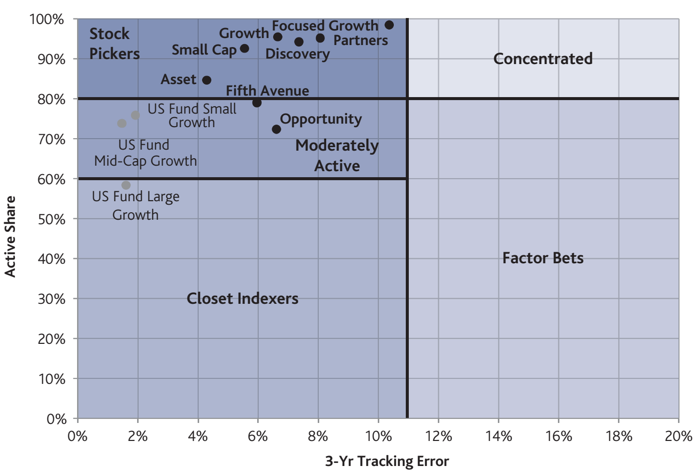
High Active Share and High Tracking Error are represented by funds in the top active share quintile and top tracking error quintile in the study, respectively. Low Active Share and Low Tracking Error are represented by the respective bottom quintiles. See definitions on page 7.

At Baron, we have always managed highly active portfolios that we build one stock at a time. As a result, our domestic funds (excluding specialty funds) with at least three years of track record have high active shares and moderate tracking errors, as shown in the chart below, which clearly puts us in the stock pickers category.

Baron Managers Are Stock Pickers

Baron Funds: Active Share and Tracking Error*

as of 3/31/2019



Source: Morningstar Direct.

** Only domestic Baron Funds with at least three years of track record. Fund statistics are versus each Fund's primary benchmark. The statistics for the US Fund Small Growth, US Fund Mid-Cap Growth, and US Fund Large Growth categories are versus the Russell 2000 Growth Index, Russell Midcap Growth Index, and Russell 1000 Growth Index, respectively.*

High active share alone is not sufficient to identify top performing active managers. Using a basketball example, it would be a huge mistake to conclude that all basketball players who made more money than Stephen Curry for the 2016/17 season must be better than Curry (30.1 points per game in 2016 and the unanimous MVP). In the 2016/17 season, Curry was the 73rd highest paid player, in terms of salary. A list of players who made more than Curry includes Timofy Mozgov (6.3 ppg), Evan Turner (10.5 ppg), and Solomon Hill (4.2 ppg). Not all basketball contracts accurately reflect who is the most top performing.

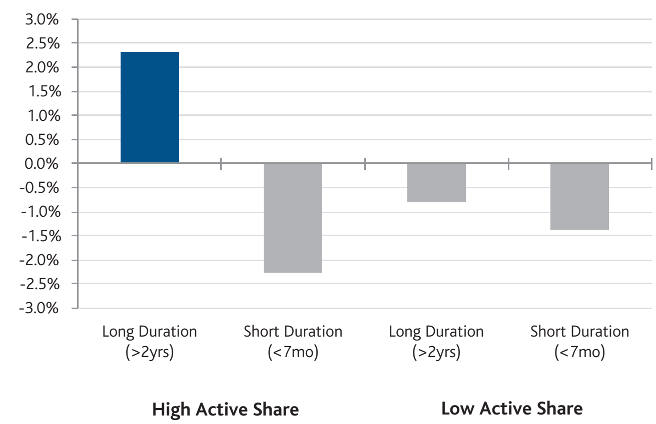
We believe that picking great stocks and being different from the benchmark are not sufficient conditions to achieve above-average excess returns. We have always invested with a long-term perspective, as we believe that creating and realizing value takes time and patience.

Patience Is Key

Research[3] by M. Cremers and A. Pareek provided evidence that investment managers who are not only highly active but also patient and trade infrequently are the ones to outperform their benchmarks significantly, on average. The study was carried out over a large sample of active U.S. mutual funds over the period 1990 – 2013 and explored how different holding horizons combine with active share to identify the most top performing managers. The authors used three proxies to assess patient investing: fund turnover rates, fund holdings turnover, and fund duration. All these metrics attempt to measure the patience of a manager; however, they all use different methodologies. Turnover rate is the lesser of sales or purchases of portfolio securities divided by the portfolio's average month-end value. Fund duration measures the weighted-average length of time that a fund has held $1 of equities in its portfolio. The authors concluded that combining fund duration and active share is the best predictor of outperformance. The results below show that only the managers who were most active (top 20%) and had a long duration (above two years) were able to outperform their benchmarks net of fees, on average.

High Active Share + Long Duration = Positive Alpha

Net Average Annualized Alpha



Source: Cremers and Pareek (2015), table 3, panel D.

High Active Share is represented by funds in the top active share quintile in the study.

Low Active Share is represented by the bottom quintile. See definition of High and Low Active Share on page 9.

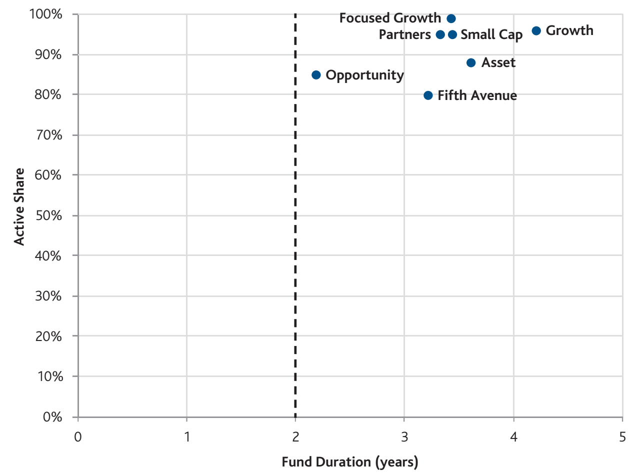
The authors used five-year duration, assuming that few funds hold stocks for longer than five years. At Baron we invest for the long term, often holding stocks beyond five years. We identify companies we believe have great future growth opportunities. As a result of our investment process and philosophy, our Funds have high active share, long duration, and low turnover; and the charts on the next page confirm that.

[3] Cremers, Martijn and Pareek, Ankur, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently (December 2015). Original working paper circulated in 2013.

Baron Funds Invest for the Long Term

Baron Funds: Active Share and Five-Year Fund Duration*

as of 12/31/2016



Source: Morningstar Direct, activeshare.info.

** Only domestic Baron Funds with at least five years of track record as of 12/31/2016.*

Average Fund Turnover and Implied Holding Period*

as of 12/31/2018

Fund Name	3-Year Average Turnover	Implied Holding Period (yrs)	5-Year Average Turnover	Implied Holding Period (yrs)
Baron Discovery Fund	67.1%	1.5	87.1%	1.1
Baron Small Cap Fund	17.5%	5.7	15.9%	6.3
Baron Growth Fund	3.3%	30.0	6.0%	16.6
Baron Asset Fund	10.3%	9.7	11.3%	8.8
Baron Focused Growth Fund	9.2%	10.9	15.4%	6.5
Baron Partners Fund	16.6%	6.0	19.6%	5.1
Baron Opportunity Fund	31.3%	3.2	38.7%	2.6
Baron Fifth Ave Growth Fund	12.4%	8.1	13.7%	7.3

Source: Baron Capital.

** Measures the number of years held in the portfolio. It is calculated as one divided by the turnover rate.*

In addition to the results above, the authors showed that the outperformance of the highly active/long-duration managers did not happen consistently over time. Such managers added more value during periods of significant market downturns, such as the dot-com crash and the financial crisis. This result is consistent with our earlier finding that top performing managers tend to fare better during bear markets.

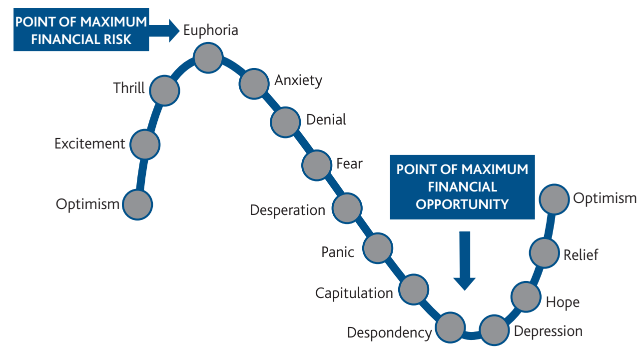
Investors' Impatience Can be Costly

One of the conclusions of Cremers and Pareek (2015) was that there are relatively few highly active managers who hold stocks for long periods, as such strategies have higher hurdles to execute and not many managers have the skill to be patient. Yet, patience is not a rare virtue only among investment managers. As the authors pointed out, "investing in patient and active managers generally also requires that investors themselves be patient."

Investors often attempt to time the market. To our knowledge, no one has ever been able to do this successfully with consistency. At other times, investors get in "herd mode" and simply follow the actions of other market participants. The biggest difference between successful and unsuccessful investors is rational behavior. As noted investor Benjamin Graham said, "People don't need extraordinary insight or intelligence. What they need most is the character to adopt simple rules and stick to them." We agree: discipline and patience are key to achieving top performing results in anything you do.

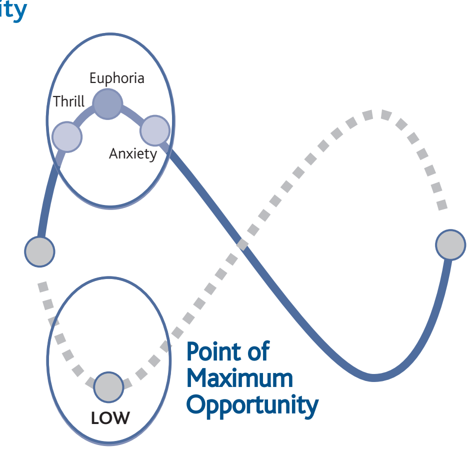
It takes time to achieve top performing results. Few investors realize how important this is. Instead, they focus on the short term, listen to market noise, and seek out schemes for quick profits. As a result, they can make irrational decisions. We have seen a great deal of irrational behavior in the markets lately. The market and investor emotions fluctuate in tandem. As the stock market rises, investor optimism builds to euphoria, only to come crashing down through anxiety, fear, panic, and, eventually, despondency. It then builds again, through hope and renewed optimism, getting back to where we started.

The Stock Market and the Cycle of Emotional Investing



We believe that the stock market and investor emotions are currently around their high point. On the other hand, we think active management is at the point of maximum financial opportunity.

Active Management Is at the Point of Maximum Financial Opportunity



Here is why. The performance of the markets is cyclical, and so is the performance of active and passive products. The average active manager tends to perform better during gradual uptrends and down markets – and tends to lag when the market is spiking high (see chart on page 1).

For over ten years we have been through one of the strongest bull markets in history. As a result, passive has attracted a lot of attention – and assets. We believe that many investors who are switching from active to passive are victims of biases. Some are swayed by recent performance, some are just doing what others do, some are trying to time the market. Perhaps, because they face so many options, investors choose a simple solution – passive. Although passive offers certainty, you pay a big price. What you get is mediocrity: average returns.

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

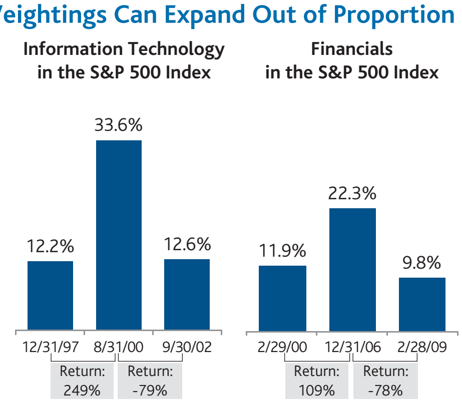
Passive managers do not have the flexibility to react timely in deteriorating markets or avoid over-heated areas. Limited by design, index funds and ETFs will simply follow an index's path, leaving investors always 100% exposed to the downside. Active managers have the ability to calibrate existing positions, add new ones at favorable prices, and maintain a cash position, but there is no guarantee that active managers can avoid the effects of market downside.

Passive Equity Investors Are 100% Exposed to Market Bubbles

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. 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, although there is no guarantee they can avoid the effects of market bubbles. The charts below page 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 Have Liquidity Risks

ETFs are only as liquid as their underlying portfolios. In certain market conditions there could be a disconnect between the net asset value of the portfolio versus the market price of the ETF. This occurred in August of 2015 when trading halts in eight S&P 500 stocks negatively impacted sellers who had to accept a significant discount to the value of the underlying holdings.

Passive Products Are Designed to Underperform

Perhaps the biggest consideration for passive investors is that, by design, passive products do not outperform the market, and they will always deliver average returns, over time.

The Baron Funds Have Delivered Consistent Outperformance Over the Long Term

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.

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. The majority of our Funds 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 10-year periods. With respect to Baron Fifth Avenue Growth Fund, we replaced the manager; and since the new manager came on board, the Fund has been in the top half of the category 89% of the time based on three-year returns and 100% of the time based on five-year returns.

As an active manager watching money pour into passive products, we want to make sure that investors don't assume, based on generalizations, that passive is better than active. We think investors should take a more comprehensive view of a manager, evaluating both quantitative and qualitative skills. The table on the next page also shows the actively managed Baron Funds versus the category averages of passive alternatives, as of March 31, 2019.

We believe our long-term success, like Stephen Curry's, is due to a well-balanced combination of skills, training, and process. We have followed a consistent approach to investing for more than three decades.

We believe that actively building a portfolio stock by stock, looking at the long-term growth opportunities, and patiently holding those stocks is the best way to achieve strong results over the long term.

Linda S. Martinson
President and COO

The Baron Funds "Score Board" vs. Passive Opponents

Baron Funds (Active Investing) vs. ETFs (Passive Investing)
Batting Averages, Rankings, and Excess Returns as of 3/31/2019 (1)

			Annualized Performance				10-Year Returns			5-Year Returns			3-Year Returns		
	Name	Comparative ETF Peer Group	1-Year	5-Year	10-Year	Since Inception	% Outperforming (3)	% Time In Top Half (4)	Average Excess Return (3)	% Outperforming (3)	% Time In Top Half (4)	Average Excess Return (3)	% Outperforming (3)	% Time In Top Half (4)	Average Excess Return (3)
BARON FUNDS	Baron Discovery Fund	Small Growth	22.02%	12.18%	—	15.99%	—	—	—	100	100%	5.41%	89	100%	5.01%
	Baron Small Cap Fund	Small Growth	11.20%	9.45%	16.37%	10.24%	64	71%	1.98%	56	71%	2.60%	58	72%	2.92%
	Baron Growth Fund *in Baron Adj. Small Growth Category*	Small Growth	15.57%	9.94%	16.92%	13.23%	78	85%	3.70%	64	82%	4.10%	62	73%	4.11%
	Baron Growth Fund	Mid-Cap Growth	15.57%	9.94%	16.92%	13.23%	78	88%	3.70%	64	76%	4.10%	62	71%	4.11%
	Baron Focused Growth Fund		15.45%	8.50%	14.63%	11.16%	68	76%	2.53%	56	59%	1.88%	51	54%	2.05%
	Baron Asset Fund	Mid-Cap Growth	15.17%	12.16%	17.51%	11.70%	59	74%	0.44%	48	59%	0.45%	56	64%	0.16%
	Baron Partners Fund	Mid-Cap Growth	10.88%	10.06%	18.15%	12.87%	82	92%	2.52%	69	70%	2.52%	68	74%	2.72%
	Baron Opportunity Fund	Large Growth	20.46%	12.27%	17.99%	7.26%	67	88%	2.78%	64	68%	2.74%	62	72%	3.34%
	Baron Fifth Avenue Growth Fund	Large Growth	12.04%	13.91%	17.33%	9.38%	2	32%	-1.45%	16	47%	-1.41%	30	50%	-1.24%
	Baron Fifth Avenue Growth Fund *with the new manager since Nov '11*	Large Growth	12.04%	13.91%	—	14.18%	—	—	—	60	100%	0.24%	54	89%	0.03%
	Baron International Growth Fund	Foreign Large Growth	-5.80%	5.52%	11.98%	10.94%	100	100%	2.80%	100	97%	3.26%	100	75%	3.31%
	Baron Emerging Markets Fund	Diversified EM	-9.51%	3.91%	—	4.62%	—	—	—	100	100%	3.97%	87	88%	3.96%
	Baron Global Advantage Fund	World Large Stock	13.73%	13.09%	—	14.41%	—	—	—	100	100%	5.06%	82	94%	4.12%
	Baron Real Estate Fund	Real Estate	-1.85%	5.01%	—	13.11%	—	—	—	78	85%	1.13%	51	64%	1.56%
PASSIVE	*Morningstar US ETF Small Growth Peer Group**		6.87%	8.68%	17.18%	—	14	—	-0.30%	4	—	-0.52%	5	—	-0.62%
	*Morningstar US ETF Mid-Cap Growth Peer Group**		-0.56%	9.18%	16.31%	—	0	—	-0.42%	2	—	-0.44%	9	—	-0.36%
	*Morningstar US ETF Large Growth Peer Group**		11.00%	11.66%	17.75%	—	0	—	-0.21%	9	—	-0.27%	23	—	-0.20%
	*Morningstar US ETF Foreign Large Growth Peer Group**		-3.04%	2.37%	9.51%	—	0	—	-0.73%	0	—	-0.93%	11	—	-0.95%
	*Morningstar US ETF Diversified Emerging Mkts Peer Group**		-6.59%	1.72%	7.67%	—	14	—	-0.44%	14	—	-0.52%	12	—	-0.57%
	*Morningstar US ETF World Large Stock Peer Group**		3.81%	5.98%	11.13%	—	0	—	-3.62%	18	—	-4.11%	26	—	-4.03%
	*Morningstar US ETF Real Estate Peer Group**		15.83%	9.43%	17.09%	—	0	—	-0.36%	0	—	-0.40%	8	—	-0.40%

Source: Morningstar Direct, Baron Capital.

** Not all ETFs are passive investments. The analysis of the performance of the ETFs in the table above excludes active ETFs.*

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

Annual expense Ratios for Inst. shares as of 9/30/2018: Baron Asset Fund, 1.04%, Baron Growth Fund, 1.03%, Baron Small Cap Fund, 1.04%, Baron Opportunity Fund, 1.11%, Baron Fifth Avenue Growth Fund, 0.82%, but the net annual expense ratio was 0.75% (restated to reflect current expense waivers), Baron Discovery Fund, 1.12%, but the net annual expense ratio was 1.10% (net of the Adviser's fee waivers). Annual expense Ratios for Inst. shares as of 12/31/2018: Baron Partners Fund, 1.77% (comprised of operating expense of 1.06% and interest expense of 0.71%), Baron Focused Growth Fund, 1.09%, Baron International Growth Fund, 1.07%, but the net annual expense ratio was 0.95% (net of the Adviser's fee waivers), Baron Real Estate Fund, 1.06%, Baron Emerging Markets Fund, 1.10%, Baron Global Advantage Fund, 1.18%, but the net annual expense ratio was 0.90% (net of the Adviser's fee waivers).

* 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.

** Alex Umansky became the portfolio manager of the Fund on November 1, 2011.

Unless otherwise noted, all performance and performance related calculations are based on the Institutional Shares. 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 prior to 5/29/2009 did not reflect this fee, the returns would be higher. For periods prior to 5/29/2009, ranking data is based on the performance of the Retail Shares.

(1) Statistics are based on monthly rolling Morningstar Extended Performance. Average excess return figures are annualized.

(2) Inception Dates of Baron Discovery Fund - 9/30/13; Baron Small Cap Fund - 9/30/1997; Baron Growth Fund - 12/30/1994; Baron Focused Growth Fund - 5/31/1996; Baron Asset Fund - 6/12/1987; Baron Partners Fund - 1/31/1992; Baron Opportunity Fund - 2/29/2002; Baron Fifth Avenue Growth Fund - 4/30/2004; Baron International Growth Fund - 12/31/2008; Baron Emerging Markets Fund - 12/31/2010; Baron Global Advantage Fund - 4/30/2012; Baron Real Estate Fund - 12/31/2009.

(3) For the Baron Funds, based on each Fund's institutional share class versus primary benchmark, as follows: for Baron Discovery Fund and Baron Small Cap Fund and Baron Growth Fund - Russell 2000 Growth Index; for Baron Asset Fund and Baron Partners Fund - Russell Mid Cap Growth Index; for Baron Focused Growth Fund - Russell 2500 Growth Index; for Baron Opportunity Fund - Russell 3000 Growth Index; for Baron Fifth Avenue Growth Fund - Russell 1000 Growth Index; for Baron International Growth Fund - MSCI ACWI ex USA Index; for Baron Emerging Markets Fund - MSCI EM Index; for Baron Global Advantage Fund - MSCI ACWI Growth Index; for Baron Real Estate Fund - MSCI USA IMI Extended Real Estate Index. For the ETF's - outperformance is calculated using each of the ETF's primary benchmark.

(4) % Time In Top Half measures the fraction of time a fund ranked in the 50th percentile or better in its respective category based on total returns for the respective period. Baron Discovery Fund and Baron Small Cap Fund - Morningstar US Fund Small Growth; Baron Growth Fund - Baron Adj. Small Growth Category and Morningstar US Fund Mid-Cap Growth; Baron Focused Growth Fund, Baron Asset Fund, Baron Partners Fund, Baron Opportunity Fund - Morningstar US Fund Mid-Cap Growth; Baron Fifth Avenue Growth Fund - Morningstar US Fund Large Growth; Baron International Growth Fund - Morningstar US Fund Foreign Large Growth; Baron Emerging Markets Fund - Morningstar US Fund Diversified Emerging Mkts; Baron Global Advantage Fund - Morningstar US Fund World Stock; Baron Real Estate Fund - Morningstar US Fund Real Estate.

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 minimum investment in Institutional Shares is $1,000,000. Institutional Shares are intended for certain financial intermediaries that offer shares of the Baron Funds® through fee-based platforms, retirement platforms or other platforms for which the financial intermediary provides services and is not compensated by the Baron Funds® for those services.

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.

Ranking information provided is calculated for Institutional Share Class and is as of 3/31/2019.

For Baron Growth Fund in the Morningstar US Fund Mid-Cap Growth Category, as well as all Funds' since inception time periods, the number of share classes in each category may vary depending on the date that Baron made the calculation.

Morningstar moved Baron Growth Fund from the **Small Growth Category** effective 5/31/2011 to the **Mid-Cap Growth Category**. The Fund's investment mandate has been, and continues to be, to invest in small-cap growth stocks for the long term. Because of its long-term approach, the Fund could have a significant percentage of its assets invested in securities that have appreciated beyond their market capitalization at the time of the Fund's initial investment. As a result, we provide comparative performance data for the Morningstar Mid-Cap Growth Category and the Baron-Adjusted Morningstar Small Growth Category, created to include Baron Growth Fund's Retail, Institutional, and R6 shares.

Morningstar calculates its category averages using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

The 10-yr Morningstar percentile ranking is not available for the Institutional Shares due to a change to Morningstar's ranking methodology.

The **Morningstar US Fund Mid-Cap Growth Category** consisted of 615 and 495 share classes for the 1- and 5-year periods, respectively. Morningstar ranked **Baron Asset Fund** in the 10th, 11th, and 17th percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 366 share classes). Morningstar ranked **Baron Growth Fund** in the 8th, 35th, and 28th percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 366 share classes). Morningstar ranked **Baron Partners Fund** in the 32nd, 33rd, and 6th percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 366 share classes). Morningstar ranked **Baron Focused Growth Fund** in the 8th, 65th, and 77th percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 366 share classes).

The **Morningstar US Fund Small Growth Category** consisted of 679 and 522 share classes for the 1- and 5-year periods, respectively. Morningstar ranked **Baron Small Cap Fund** in the 28th, 32nd, and 51st percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 398 share classes). Morningstar ranked **Baron Discovery Fund** in the 5th, 7th, and 2nd percentiles, respectively, in the category for the 1- and 5-year, and since inception (9/30/2013) periods (consisted of 504 share classes).

The **Baron-Adjusted Morningstar Small Growth Category** is not a Morningstar category. As of 3/31/2019, the **Baron-Adjusted Morningstar Small Growth Category** consisted of 682 and 525 share classes for the 1- and 5-year periods, respectively. **Baron Growth Fund** would have ranked in the 13th and 25th percentiles, respectively.

The **Morningstar US Fund Large Growth Category** consisted of 1,397 and 1,114 share classes for the 1- and 5-year periods, respectively. Morningstar ranked **Baron Fifth Avenue Growth Fund** in the 38th, 15th, and 29th percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 835 share classes). Morningstar ranked **Baron Opportunity Fund** in the 3rd, 41st, and 21st percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 835 share classes).

The **Morningstar US Fund Foreign Large Growth Category** consisted of 442 and 314 share classes for the 1- and 5-year periods, respectively. Morningstar ranked **Baron International Growth Fund** in the 78th, 18th, and 5th percentiles, respectively, in the category for the 1- and 5-year, and since inception (5/29/2009) periods (consisted of 242 share classes).

The **Morningstar US Fund Real Estate Category** consisted of 251 and 198 share classes for the 1- and 5-year periods, respectively. Morningstar ranked **Baron Real Estate Fund** in the 100th, 98th, and 4th percentiles, respectively, in the category for the 1- and 5-year, and since inception (12/31/2009) periods (consisted of 144 share classes).

The **Morningstar US Fund Diversified Emerging Markets Category** consisted of 833 and 553 share classes for the 1- and 5-year periods, respectively. Morningstar ranked **Baron Emerging Markets Fund** in the 55th, 22nd, and 1st percentiles, respectively, in the category for the 1- and 5-year, and since inception (12/31/2010) periods (consisted of 293 share classes).

The **Morningstar US Fund World Large Stock Category** consisted of 900 and 617 share classes for the 1- and 5-year periods, respectively. Morningstar ranked **Baron Global Advantage Fund** in the 2nd, 1st, and 1st percentiles, respectively, in the category for the 1- and 5-year, and since inception (4/30/2012) periods (consisted of 490 share classes).

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

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.

An **ETF**, or exchange traded fund, is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an **ETF** trades like a common stock on a stock exchange. **ETFs** experience price changes throughout the day as they are bought and sold.

Active Share a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management.

Tracking Error measures how closely a fund's return follows the benchmark index returns. It is calculated as the annualized standard deviation of the difference between the fund and the index returns.

The Cremers/Pareek study explains **High Active Share** and **Low Active Share** as follows: "The median active share of mutual funds equals 79% in our sample. Funds in the bottom Active Share quintile generally have an Active Share below 60% and can thus be considered 'closet index funds.' Funds in the top Active Share quintile portfolio have an Active Share of at least 90%, and are thus quite distinct from their benchmarks."

According to Petajisto (2013), equity mutual funds with tracking error in the bottom quintile are characterized as having "Low Tracking Error", funds with tracking error in the top quintile are characterized as having with "High Tracking Error", and funds with tracking error in the second, third, and fourth quintiles are characterized as having "Moderate Tracking Error". For additional details, please refer to Petajisto (2013), table 3.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

Correlation is a statistical measure of how two securities move in relation to each other.

Definitions (provided by BAMCO, Inc.): The S&P 500 Index measures the performance of 500 widely held large-cap U.S. companies. **The Russell 1000® Growth Index** measures the performance of large-sized U.S. companies that are classified as growth. 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 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 **Russell Midcap® Growth Index** is an unmanaged index of those Russell Midcap medium-sized companies that are classified as growth companies. **MSCI ACWI Growth Index** is unmanaged free float-adjusted market capitalization weighted index designed to measure the performance of large- and mid-cap securities classified as growth in the developed and emerging markets. 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) 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. **MSCI ACWI ex USA Index Net USD** is an unmanaged, free float-adjusted market capitalization weighted index. It measures the performance of large and mid-cap securities across developed and developed and emerging markets, excluding the U.S. **Chicago Board Options Exchange (CBOE) Volatility Index** shows the market's expectation of 30-day volatility. It is widely used to measure market risk, often referred to as the "investor fear gauge." It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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

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- BARON SMALL TO MID CAP GROWTH STRATEGY
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- BARON DURABLE ADVANTAGE STRATEGY
- BARON LARGE CAP GROWTH STRATEGY
- BARON ALL CAP GROWTH STRATEGY
- BARON HIGH GROWTH STRATEGY
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