BARON FUNDS

INSIDE THE BARON FUNDS

INVESTOR

VOLUME 13/NO. 1 • SPRING 2016

Baron International Growth Fund

Investing in the International Equity Markets

With approximately 75% of the world's publicly traded companies located outside the U.S.,[1] the international equity markets offers a vast universe of investment opportunities. The fastest growing economies in the world are outside the U.S. In 2001, the U.S. accounted for 33% of global GDP; by 2014, this figure had declined to just 22%.[2] At the same time, these markets operate within a constantly shifting matrix of economic, industrial, political, and financial forces that add layers of complexity to the investment process.

We view the magnitude and intricacy of the international equity markets as a compelling opportunity for an active growth manager to help deliver performance through a targeted, intelligent, informed approach to finding the most promising companies across the globe.

For the Baron International Growth Fund, portfolio manager Michael Kass, backed by a core group of five research analysts, combines fundamental, bottom-up company-specific research with compelling investable themes. His approach enables him to navigate the international equities landscape and uncover opportunities that he believes have a strong likelihood of attractive growth and value creation.

Performance as of 3/31/2016 (annualized)

	1 Year	3 Years	5 Years	Since Inception*
Baron International Growth Fund**	(2.88)%	5.47%	3.34%	11.01%
MSCI ACWI ex USA IMI Growth Index	(5.10)%	2.29%	1.77%	8.62%
MSCI ACWI ex US Index	(9.19)%	0.33%	0.31%	7.16%
Lipper International Multi-Cap Growth Category Average	(5.94)%	2.54%	2.34%	8.10%

* 12/31/2008

** Institutional shares. For Retail shares, visit www.BaronFunds.com

Michael Kass
Portfolio Manager

As seen in the chart on the left, this differentiated strategy has produced outstanding results in the seven years since we launched the Fund. In the period since inception, the Fund ranks in the 13th percentile against its international multi-cap growth equity peer group as defined by Lipper. The Fund's upside capture of 97% and downside capture of 83% is among the largest spreads in its category. It is a truly differentiated Fund, with an active share of 95.2% that is also among the highest in its category.

As with all Baron investment strategies, the Fund invests for the long term in high quality companies with open-ended growth potential, revenue visibility and profit margin stability, sustainable competitive advantages, strong management, and attractive valuations. In addition, within the international equity markets, we emphasize the following:

Entrepreneurial management

- Founders with significant ownership stakes
- Leaders with strategic vision and financial sophistication
- Management that thinks and acts as an "owner"

Capital efficiency

- High return on invested capital
- Asset-light business models

Shareholder-friendly governance

- Alignment of interests between management and minority equity shareholders
- Independent directors

[1]Source: FMRCo, FactSet, using MSCI ACWI IMI data as of 6/30/2015

[2]Source: World Bank

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. Current performance may be lower or higher than the performance data quoted above. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON. The Adviser has reimbursed certain expenses for the Fund 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. The expenses of the Fund are 1.25%.

Performance for the Institutional Shares prior to May 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 May 29, 2009 did not reflect this fee, the returns would be higher.

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 March 31, 2016, the category consisted of 418, 381, 344, and 301 funds for the 1-, 3-, 5-year and since inception periods. Lipper ranked Baron International Growth Fund Institutional Share Class in the 22nd, 14th, 30th, and 13th percentiles, respectively, in the category. The number of funds in the category may vary depending on when Baron made the calculation.

Compared to the United States, entrepreneurs in Europe generally have fewer opportunities to enter markets. There are a number of reasons observers cite for this phenomenon, including a larger government role in the economy, stricter regulatory requirements and labor laws, harsh bankruptcy laws, lack of venture capital and other available funding, and a risk averse culture that dates back to the devastation wrought by two world wars.[1] Japan is also a market where entrepreneurial access and activity is relatively low. As we believe successful long-term value creation is more likely to occur at the hands of a private sector entrepreneur, we believe our emphasis on such companies affords us opportunities to differentiate and help outperform.

The relative dearth of entrepreneurial companies creates both challenges and opportunities for growth investors like us. Given the breadth of the international equity universe, we often begin by seeking defined, long-term investment themes. Put simply, we are looking for the highest likelihood of the greatest value creation, and themes are mechanisms to do so. Our themes are based on important changes or trends that suggest the potential for a significant improvement in profitability, return on capital, or growth potential, often for an entire industry or group of companies. Our themes fall into two broad categories. The first involve industry-wide trends, such as a shift toward consolidation or vertical integration or technology-driven transformation. The second category involves region- or country-specific trends or developments, which are most often driven by political developments and/or economic, labor, or other policy reforms that present material opportunities to targeted industries or companies. Themes allow us to narrow our universe of stocks while focusing our research process and concentrating our invested capital on promising opportunities.

Following are some examples of our integrated thematic and bottom-up investment approach.

Testing and Certification

The testing and certification industry is benefiting from a confluence of favorable secular global trends, including more stringent government regulation; increasing consumer demand for safe, high quality, and environmentally friendly products; outsourcing of testing; and globalization.

Years of high-profile food-related illness outbreaks and import safety problems have prompted stricter food and product safety regulations in the U.S., China, and elsewhere. In 2011, the United States passed the FDA Food Safety Modernization Act, with the goal of enabling the FDA to focus more on prevention of food safety problems rather than reaction to problems after they occur. Four years later, in 2015, China passed significant revisions to its Food Safety Law that have the potential to materially strengthen regulation of food companies in China. These stricter regulations translate into potential opportunities for testing and certification companies.

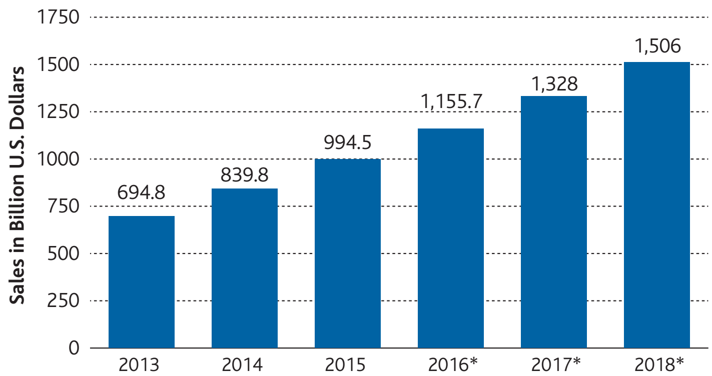
In addition to regulation, consumer demand is driving growth. Especially in emerging market countries, testing and certification companies are benefiting from increasing awareness of safety and environmental issues, as well as rising local consumption as a result of the expanding middle class. Small local brands that have historically competed mainly on price against better-known foreign imports can raise their credibility through testing and certification as an effective way to grow market share. For larger companies, outsourcing the testing and certification function can provide an enhanced level of credibility and integrity of their products and brands.

We own two testing and certification companies: **Intertek Group plc** and **Eurofins Scientific.** U.K.-based Intertek is one of three global industry leaders, with an emphasis on consumer markets, while France-based Eurofins focuses on food, pharmaceutical, and environmental testing. Both companies have strong competitive moats created by huge scale and the high level of investment in laboratories and equipment necessary to do business. They have relatively secure recurring revenue streams and reasonable pricing power, as clients are incentivized to avoid manufacturing disruption and the reputational damage possible in the case of a failed testing/certification process. Both companies have also taken advantage of a fragmented, decentralized industry to expand into new markets through an active acquisition strategy.

Mobile e-Commerce

The Internet has fundamentally transformed virtually every aspect of modern life. Within the Internet sector, we believe that a powerful secular investment theme, with a long runway for multi-year growth, is the global mobile e-commerce trend.

Global e-Commerce Sales
2013 - 2018*



* forecast
Sources: A.T. Kearney, Euromonitor

As seen in the chart above, by 2018, e-commerce sales are projected to more than double from 2013 levels. Currently, about 7.3% of global retail sales are online. This percentage is projected to increase to 12.4% by 2019. A significant portion of this growth is expected to come from the fast-growing Asia-Pacific region. Within the region, much of the growth is projected to come from consumers in rural areas making purchases through their mobile phones.

Online aggregators A number of our e-commerce holdings operate as virtual marketplaces, offering a one-stop-shop online platform for consumers and merchants. We find the virtual marketplace business model compelling because it eliminates the most capital intensive element of traditional commerce – the property investment – and leverages the Internet's ability to connect buyers and sellers to a degree that is unparalleled in the bricks-and-mortar world. Consumers are drawn to the convenience, choice, and competitive pricing that these virtual marketplaces offer. Merchants appreciate the opportunity to reach consumers wherever they may be located, with minimal

[1]This phenomenon is well documented. See, e.g., European Entrepreneurs: Les Miserablés, The Economist, July 28, 2012.

upfront expense. The virtual marketplace is asset-light, generating revenue largely through advertising, transaction fees and shipping and logistics services without the need to maintain its own inventory.

Online marketplaces held in the Fund include China-based **Alibaba Group Holding Limited**, the world's largest e-commerce company by gross merchandise value. Alibaba's dominant franchise benefits from massive scale and powerful network effects; a rapidly expanding e-commerce market even with the recent slowdown in China; and an advertising-centric, asset-light business model that produced strong profit margins. Further, in many of China's Tier II and III cities, Alibaba is enabling commerce as bricks and mortar competitors are often scarce.

The Fund also has a position in **Rakuten, Inc.**, Japan's largest e-commerce site, offering more than 95 million products from about 40,000 merchants. Rakuten also operates an Internet finance business that includes banking, brokerage, and credit card services. The stock has been weighed down by aggressive M&A, but we think overseas losses will mitigate as investments like Viber (mobile messaging app), Kobo (e-books), and Ebates (shopper loyalty) deliver strategic value.

The concept of mobile e-commerce aggregation is expanding to vertical industries. For instance, we have invested in **JUST EAT plc**, the dominant online/mobile restaurant delivery aggregator/platform in the United Kingdom and Western Europe. The company generates a 10-13% commission on gross food sales ordered via its websites and mobile apps. JUST EAT benefits from its leading position in a winner-take-most/all industry that is rapidly shifting from over-the-phone to online ordering.

We also recently established a position in **Ctrip.com International, Ltd.**, China's leading online travel platform. The company recently secured a dominant competitive position via a savvy acquisition of a controlling interest in Qunar, its principal competitor. We have been following Ctrip for some time, looking for an opportune time to invest. We believe this transaction finally ends a price war, and thus potentially opens the door to several years of profitable growth.

Other investments We are participating in the secular shift to digital commerce through other investments as well. Our holding **AO World plc** is the U.K.'s leading online retailer of major domestic appliances (e.g., refrigerators, ovens, and dishwashers). We think AO derives its competitive advantage from a unique supply chain and customized software. We believe the company can be several times larger over the next several years given its expansion into new product categories and into continental Europe.

We also have a position in Japan-based **MonotaRO Co., Ltd.**, an online distributor of machine tools, engine parts and consumables for maintenance, repair, and operations (MRO) and a strategic supply chain partner to Japanese businesses. U.S.-based W.W. Grainger is the company's majority owner. MonotaRO's online model avoids the fixed costs that store-based competitors bear, and passes on cost savings to its customers. We expect MonotaRO to grow its share of the Japanese MRO segment, and will successfully expand and compete in other large markets such as South Korea.

Most recently, we participated in the successful IPO of **Worldpay Group plc**, a U.K.-based provider of technology solutions that enable merchant customers to accept digital payments. We particularly like Worldpay's strategic positioning in the complex and fast-growing niche of multi-currency, e-commerce transactions. The company is a leader in Europe, serving approximately 400,000 merchants across a variety of end-markets, sizes and geographies.

Low Cost European Airlines

Collectively, the total profits of all European airlines are less than one third of the profits of North American airlines. Europe is also the most decentralized airline region in the world, a legacy of a time when each country (a total of 50) had its own flag carrier. As the industry consolidates, it has opened opportunities for new, well-managed, low-cost entrants to take market share from legacy carriers saddled with an inefficient cost structure.

We have positions in two of these low-cost airlines: **Ryanair Holdings plc** and **easyJet plc.** Ryanair operates over 300 aircraft and flies over 90 million passengers per year in Europe and Morocco. It generally uses lower-cost regional airports that facilitate quicker turnarounds, so per passenger costs remain low and per passenger profit is the highest in the industry. Ryanair has also been entering into low-cost traffic deals with European airports that we believe will create significant earnings growth over time. EasyJet has 240 aircraft, flying roughly 69 million passengers per year into mostly high-demand airports on short-haul routes. As consumers opt for its lower fares, easyJet has entered high-yield routes across the region, taking market share from the incumbents.

A Note on Recent Market Conditions

Events of the past several months have led to increased volatility in the international equity markets.

As long-term investors, we are not particularly driven by short-term macro events and do not attempt to time the market. We believe current conditions in international markets favor long-term, fundamental investors such as ourselves, as we can remain grounded in the conviction afforded by our process, themes, and company-specific due diligence.

Of course, we are closely watching current events, which we regard as fluid and largely policy driven in recent quarters. In our opinion, the key variables are the Chinese economy, policy and the RMB; the slope and duration of tightening by the U.S. Federal Reserve; the outlook for oil and commodity prices; and the geopolitical implications of sectarian tensions in the Middle East.

Over the past several years, we have consistently questioned whether global monetary authorities had, as desired, engineered a sustainable reflation of asset values and credit growth, not to mention "escape velocity" for economic and job growth. As such, we were not entirely surprised by developments over the past nine months or so. Quantitative easing (QE) in Japan and Europe, when combined with the end of QE in the U.S., has led to a strong dollar and placed tremendous pressure on China, whose economy had already begun to experience a significant slowdown. China's currency devaluation, which began last August, sends a signal to the U.S. and Europe that it is no longer able or willing to act as the world's shock absorber. We continue to monitor global credit conditions and the stability of the Chinese RMB as key barometers of the global financial and equity market outlook.

The challenging macroeconomic environment continues to weigh on emerging market equities, and more recently, developed world equities. The silver lining is that much damage has already been done in the emerging and commodity-sensitive markets, while much of the developed world continues to exhibit reasonable economic growth and momentum.

Baron Sales & Relationship Management

INSTITUTIONAL

JAMES BARRETT	VP, Head of Institutional Sales, 212-583-2076, jbarrett@baronfunds.com
DAVID KAPLAN	VP, Senior Director, Institutional Sales, 212-583-2033, dkaplan@baronfunds.com
MEETA SINGAL	VP, Director, Institutional Sales, 212-583-2055, msingal@baronfunds.com
JENNIFER NIGRO	VP, Director, Institutional Sales, 212-583-2101, jnigro@baronfunds.com

FINANCIAL INSTITUTIONS

CARLA F. AVILA	VP, Head of Financial Institutions, 212-583-2056, cavila@baronfunds.com
ROGER MACK	Director, Financial Institutions, 212-583-2131, rmack@baronfunds.com
CHELSEA M. AMEEN	Director, Financial Institutions, 212-583-2158, cameen@baronfunds.com

RIA AND FAMILY OFFICE GROUP

FRANK MAIORANO	VP, Head of RIA and Family Office Group, 212-583-2183, fmaiorano@baronfunds.com
ROBIN THURAU	VP, Regional Director, RIA and Family Office Group – Northeast and Georgia, 212-583-2083, rthurau@baronfunds.com
LIZ CASSAL	VP, Regional Director, RIA and Family Office Group – West, 212-583-2138, lcassal@baronfunds.com
SETH DUNLAP	Regional Director, RIA and Family Office Group – Midwest, 212-583-2167, sdunlap@baronfunds.com
SAMANTHA RODE	Regional Director, RIA and Family Office Group – East, 212-583-2079, srode@baronfunds.com

INTERMEDIARY

DAVID JUDICE	VP, Head of Intermediary Sales and National Accounts, 212-583-2034, djudice@baronfunds.com
GLENN SMITH	National Sales Manager, 212-583-2007, gsmith@baronfunds.com
STEPHANIE GISRIEL	National Account Manager, 212-583-2187, sgisriel@baronfunds.com
BILL ZOROVICH	Regional Director – Northeast, 646-556-5473, bzorovich@baronfunds.com
BRIAN CULLEN	Regional Director – Mid-Atlantic, 917-715-9605, bcullen@baronfunds.com
BRIAN McNAMARA	Regional Director – Midwest, 773-718-7444, bmcnamara@baronfunds.com
CHARLES KRUGER	Regional Director – Southwest, 917-882-2095, ckruger@baronfunds.com
JENNIFER ROMMEL	Regional Director – Central, 773-450-7495, jrommel@baronfunds.com
MARK J. WHITEHOUSE	Regional Director – New England, 603-661-8887, mwhitehouse@baronfunds.com
RON STANKIEWICZ	Regional Director – NY Metro, 917-287-7248, rstankiewicz@baronfunds.com
SCOTT KOZIOL	Regional Director – Southeast, 404-433-6137, skoziol@baronfunds.com
WAYNE OUIMETTE	VP, Regional Director – West, 310-292-6255, wouimette@baronfunds.com

CLIENT SERVICE

JANET LAM CHEN	Director, Client Service, 212-583-2162, jchen@baronfunds.com

For updated performance for all Baron Mutual Funds, Please visit www.BaronFunds.com.

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.

Portfolio holdings as a percentage of net assets as of March 31, 2016 for securities mentioned are as follows: **Intertek Group plc** – 2.2%; **Eurofins Scientific SE** – 3.2%; **Alibaba Group Holding Limited** – 1.5%; **Rakuten, Inc.** – 1.2%; **JUST EAT plc** – 0.5%; **Ctrip.com International, Ltd.** – 1.7%; **AO World plc** – 1.2%; **MonotaRO Co., Ltd.** – 1.5%; **Worldpay Group plc** – 1.6%; **Ryanair Holdings plc** – 2.5%; **easyJet plc** – 1.3%.

Portfolio holdings may change over time. The Fund may not achieve its objectives.

The 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 the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

The MSCI ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI ACWI ex USA IMI Growth Index Net USD measures the equity market performance of large, mid and small cap growth securities across developed and emerging markets, excluding the United States. The MSCI ACWI ex USA Index Net USD measures the equity market performance of large and mid cap securities across developed and emerging markets, excluding the United States. The indexes and Baron International Growth Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets. This may result in greater share price volatility. Specific risks associated with investing in small and medium-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Current and future portfolio holdings are subject to risk.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron International Growth Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

Upside Capture explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

Downside Capture measures how well a fund performs in time periods where the benchmark's returns are less than zero.

Active Share is 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.

PRODUCTS WE OFFER

We offer thirteen mutual funds in retail, institutional, and R6 share classes, collective investment trusts, separately managed accounts, sub-advisory services and an offshore fund.

STRATEGIES

BARON ALL CAP GROWTH STRATEGY
BARON DISCOVERY STRATEGY
BARON EMERGING MARKETS STRATEGY
BARON ENERGY & RESOURCES STRATEGY
BARON FOCUSED GROWTH STRATEGY
BARON FOCUSED HIGH GROWTH STRATEGY
BARON GLOBAL ADVANTAGE STRATEGY
BARON HIGH GROWTH STRATEGY
BARON INTERNATIONAL GROWTH STRATEGY
BARON LARGE CAP GROWTH STRATEGY
BARON MID CAP GROWTH STRATEGY
BARON REAL ESTATE STRATEGY
BARON SMALL CAP GROWTH STRATEGY
BARON SMALL TO MID-CAP GROWTH STRATEGY

MUTUAL FUNDS

BARON ASSET FUND (BARAX, BARIX, BARUX)
BARON DISCOVERY FUND (BDFFX, BDFIX)
BARON EMERGING MARKETS FUND (BEXFX, BEXIX, BEXUX)
BARON ENERGY AND RESOURCES FUND (BENFX, BENIX)
BARON FIFTH AVENUE GROWTH FUND (BFTHX, BFTIX, BFTUX)
BARON FOCUSED GROWTH FUND (BFGFX, BFGIX)
BARON GLOBAL ADVANTAGE FUND (BGAFX, BGAIX)
BARON GROWTH FUND (BGRFX, BGRIX, BGRUX)
BARON INTERNATIONAL GROWTH FUND (BIGFX, BINIX)
BARON OPPORTUNITY FUND (BIOPX, BIOIX)
BARON PARTNERS FUND (BPTRX, BPTIX)
BARON REAL ESTATE FUND (BREFX, BREIX, BREUX)
BARON SMALL CAP FUND (BSCFX, BSFIX, BSCUX)

BARON CAPITAL, INC.
767 FIFTH AVENUE
NEW YORK, NY 10153
1-800-99BARON OR
1-212 583-2000
www.BaronFunds.com

BARON