

INVESTOR

Finding Long-Term Growth in Innovation

iOpportunity Knocks

Twitter or a steel tower. Which one may take the most advantage of developing technology? *The next dot com or a health-care company.* Over the next five years, which one may

be the better investment?

The answers, which may surprise you, can be found in Baron iOpportunity Fund. Managed by Michael Lippert, iOpportunity invests in companies with long-term growth prospects driven by innovative applications of the Internet and information technology. Unlike many tech funds, which invest in companies that develop, manufacture and market high-tech products, the iOpportunity Fund is diversified across industrial sectors that include Consumer Discretionary,

Financials, Health Care and Industrials in addition to Information Technology and Telecommunication Services.

Take steel towers, for example. "Twitter may be generating headlines, but it's not making money. Steel towers may be boring," says Michael, "but we think the insatiable demand for wireless services, driven by iPhone applications, YouTube videos, messaging, audio and mapping, will keep demand for additional space on cellular towers growing for a number of years." iOpportunity Fund has investments in cell-tower operators American Tower and SBA Communications (4.0% and 4.6% of the Fund as of 5/31/2009).

"For much the same reason," Michael says, "we're as likely to invest in an on-going health-care business, advertising firm or financial services firm than the next dot com. We've invested in WebMD (2.0%), which provides online medical information and health-related tools to consumers and physicians. Today, less than 3% of all pharmaceutical advertising is spent online. We think that creates a significant growth opportunity for WebMD with little incremental cost."

Michael views technology investing no differently than other investing at Baron. "Unlike the dot-com boom of the late '90s, when investors poured money into businesses that had never generated a profit, all of the companies in Baron iOpportunity Fund are profitable and are generating real cash flow," he says.

"Michael is a very sound investor," says Ron Baron. "He is driven and hard working. Although I had largely avoided investing in technology before we launched Baron

continued on page 2



Michael Lippert

Introducing Institutional Shares

Baron Funds has introduced an Institutional share class for each of its eight mutual funds. The Institutional Shares have a lower expense ratio than the Retail Shares and require a minimum investment of \$1 million per Fund. Like the Baron Funds' Retail Shares, the Institutional Shares are available directly from Baron as well as through the major mutual fund supermarkets, wirehouses and independent registered investment advisors. Please visit www.BaronFunds.com or call 800-99-BARON for additional information.

iOpportunity Fund in 2000, we have since found many exciting opportunities and have even added some to our other funds as well.”

Many investors view technology investments as short-term, Michael says. The pace of innovation often leads to short product lifecycles and rapid obsolescence. “But that’s not the way we invest. We look for long-term opportunities in companies that we think have sustainable competitive advantages and will benefit from technology. Today, that universe is much broader than it was five years ago. And we expect that it will continue to grow over time.”

Five years ago, the Fund’s investments were concentrated in technology. Today, almost a third of the Fund is invested in other industries. Strayer Education (1.5%) provides adult, career-oriented secondary education and is growing its business with on-line courses. National Cinemedia (1.1%) is an advertising firm that distributes digital custom advertising content and other programs to theaters. Enernoc (1.4%) is a provider of electricity demand-response services. Utilities pay businesses to use Enernoc’s service and reduce demand during periods of peak usage.

In other respects, the investment process for Baron iOpportunity Fund is similar to that of other Baron Funds. “We’re looking for companies with a unique product or service, a significant barrier to competition and smart, talented and driven management. We visit companies and spend time with management. We do our own modeling and project earnings and cash flow at least five years ahead. We’re looking for companies that we think can double in four years.”

Technology and related companies have done well this year, says Michael. “Many of them were beaten up last year and early this year along with everything else, but have since rebounded as investors realized that these continue to be sound businesses offering long-term growth. The companies that we invest in have sound balance sheets and their products and services are in strong demand.”

As the economy emerges from this recession, Michael says, the most successful companies will be those that take advantage of innovations in technology to operate more efficiently and create exciting new products and services. “While we can’t guarantee that we’ll be successful with our investments,” Michael says, “we think the conditions are favorable now for continued growth in tech-driven businesses.” 🏰

Baron iOpportunity Fund Portfolio Holdings

(As of May 31, 2009)

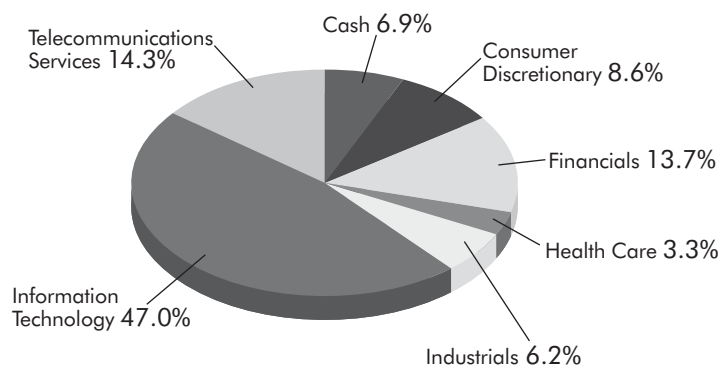
TOP TEN HOLDINGS

Holding	Industry	% of Portfolio
Equinix, Inc.	Information Technology	5.8
SBA Comm. Corp.	Telecommunication Services	4.6
American Tower Corp.	Telecommunication Services	4.0
NII Holdings, Inc.	Telecommunication Services	3.7
Research In Motion, Ltd.	Information Technology	3.6
Apple, Inc.	Information Technology	3.3
MSCI, Inc.	Financials	3.0
IHS, Inc.	Industrials	2.6
Activision Blizzard, Inc.	Information Technology	2.4
Charles Schwab Corp.	Financials	2.4
Total		35.4

Portfolio holdings are subject to change

SECTOR BREAKDOWN (% of Portfolio)

(As of May 31, 2009)



Portfolio holdings are subject to change

The Fund generally uses Global Industry Classification Standard (“GICS”) to determine industry classifications. GICS was developed by and is the exclusive property and a service mark of MSCI, Inc. (“MSCI”) and Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”). GICS is provided “as is” without warranty and excludes all warranties of Merchantability and Fitness for a Particular Use. S&P and its licensors disclaim all liability associated with GICS to the extent permitted by law. GICS presents industry classification as a series of levels (i.e. sector, industry group, industry, and sub-industry). Allocations shown are at the sector or sub-industry group level. The Adviser may reclassify a company into an entirely different sub-industry if it believes that the GICS classification for a specific company does not accurately describe the company. If there is no GICS classification for a certain security, the Adviser will provide a classification.