

Baron Growth Fund

DEAR BARON GROWTH FUND SHAREHOLDER:

PERFORMANCE

Table I.
Performance (Retail Shares)[†]
Annualized for periods ended December 31, 2011

	Baron Growth Fund ^{1,2}	Russell 2000 Growth Index ¹	S&P 500 Index ¹
Three Months ³	12.31%	14.99%	11.82%
One Year	1.24%	-2.91%	2.11%
Three Years	19.01%	19.00%	14.11%
Five Years	1.79%	2.09%	-0.25%
Ten Years	6.92%	4.48%	2.92%
Since Inception (December 31, 1994)	12.81%	5.79%	8.09%

During the past decade, Baron Growth Fund increased its asset value per share by 95.17%. This compares to a 55.00% increase in value by its benchmark, the small cap Russell 2000 Growth Index. The large cap S&P 500 Index increased in value 33.41% during the period. As you can see from the table above, Baron Growth Fund's performance during the past five years has not contributed significantly to these results. We hope to significantly improve the Fund's absolute and relative performance in 2012, and over the coming decade, although we cannot assure you that will be the case.

The objective of Baron Growth Fund is to approximately double its value per share every five or six years. Our strategy to accomplish this is by investing for the long term in a diversified portfolio of appropriately capitalized, well-managed small cap businesses at attractive prices. We also attempt to invest in a portfolio of about one hundred businesses diversified by GICS sectors, that is approximately 80% as volatile as the market. The exceptions, of course, are during those short time frames when computer driven trading enables markets to soar or crash and virtually all stock prices are correlated.

We think the businesses in which Baron Growth Fund has invested have the potential to double in size within approximately four or five years and then,

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of September 30, 2011 was 1.32%. *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 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.*

[†] If 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.

¹ The Russell 2000 Growth Index and the S&P 500 Index are unmanaged. The Russell 2000 Growth Index measures the performance of 2,000 small U.S. companies classified as growth. The S&P 500 Index measures the performance of large cap U.S. equities in the stock market in general. These indexes and the Baron Growth Fund are with dividends, which positively impact the performance results.

² The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

³ Not annualized.



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CEO AND PORTFOLIO MANAGER

hopefully, double again in the next four or five years. These well-managed businesses usually have significant barriers to competitors in addition to having strong growth opportunities. Considering current stock price valuations, we believe we have the opportunity to meet our objectives during the next decade, although there is no guarantee that we will do so.

To protect against uncertain economic times and world developments, we choose to invest in publicly-owned growth businesses that have what Warren Buffett and Ben Graham before him have called a "margin of safety" in their businesses. This means that we think not only will our businesses become much larger over the long term, but also they will survive unforeseen, difficult, economic circumstances. These businesses are not only subjectively, i.e., in our opinion, better managed than most businesses, but past analysis of Morningstar data suggests that we invest in more companies with stronger competitive advantages than those owned by most other mutual funds and our benchmark constituents (67% with economic moats versus 44% for the benchmark).^{*} (See endnote on Page 20.) Further, FactSet data suggests, the businesses in which Baron Growth Fund has invested have faster growth rates (historical 5 year EPS growth rate of 20.14% versus 9.30% for the benchmark); higher profit margins (EBITDA margin of 24.70% versus 14.88% for the benchmark); better returns on capital (ROIC 12.91% versus 5.34% for the benchmark); and employ similar leverage than the companies in the benchmark index.

Further, since a large portion of Baron Growth Fund's investments have significant recurring revenues, it is not surprising that the volatility of their earnings is about half that of the broad benchmark index. It logically follows that Baron Growth Fund's net assets, which are diversified principally among Consumer Discretionary (23.6%), Consumer Staples (4.1%), Energy (10.6%), Financials (12.3%), Health Care (13.2%), Industrials (14.7%) and Information Technology (17.1%) businesses, are less volatile than the Fund's benchmark indexes as well. Our allocations among GICS industries are based upon opportunities we find in individual businesses and are significantly different than the benchmark index.



Table II.
Top contributors to performance for the quarter ended December 31, 2011

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
AMERIGROUP Corp.	2002	\$0.6	\$2.8	0.86%
Core Laboratories N.V.	2006	1.2	5.3	0.62
Generac Holdings, Inc.	2010	0.9	1.9	0.54
Panera Bread Co.	2002	1.0	4.2	0.54
Genesee & Wyoming, Inc.	2004	0.5	2.6	0.54

Medicaid managed-care HMO **AMERIGROUP Corp.**'s shares rose 51.4%. Medical costs remained in check, and investors anticipated more than 40% revenue growth in 2012 on new business and an increased presence in New York, the result of a \$1 billion Medicaid plan acquisition. We think AMERIGROUP has a significant growth opportunity in managed Medicaid as states seek ways to control their spending and budgets. (Susan Robbins)

Core Laboratories N.V. is the leading provider of core and reservoir fluid analysis to the global oil & gas industry. The company has continued to post strong and steady growth, along with peer-leading returns on capital and equity. Its shares rose during the fourth quarter, as energy stocks rebounded from a third quarter selloff that was related to concerns about the U.S. and global economies. Core's shares performed well on a relative basis, as investors capitalized on an opportunity to purchase the shares at attractive valuations. (Jamie Stone)

Generac Holdings, Inc. is a leading manufacturer of standby and portable generators for residential, industrial, and commercial markets. The shares gained 49.0% in the quarter, as the company had strong sales driven by severe power outages caused by seasonal storms. With 70% market share in the residential standby generator market and only 2% market penetration, we believe that Generac has significant room to grow. (Rebecca Ellin)

Table III.
Top detractors from performance for the quarter ended December 31, 2011

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Diamond Foods, Inc.	2009	\$0.5	\$0.6	-0.99%
Anhanguera Educacional Participações SA	2009	1.8	1.6	-0.23
Dole Food Co., Inc.	2009	1.1	0.8	-0.10
ITC Holdings Corp.	2005	0.8	3.9	-0.08
Intrepid Potash, Inc.	2010	2.3	1.7	-0.04

Diamond Foods, Inc., a manufacturer and distributor of snack products, declined significantly. Questions have surfaced regarding the company's accounting for payments to walnut farmers, a main ingredient in some of the firm's products. Some believe that the company falsely postponed accounting for payments, thus misrepresenting current margins and profits. These accusations have resulted in a delay and potential cancellation of

Diamond's acquisition of Pringles. An internal accounting investigation has been launched to determine if any improprieties occurred. We have sold this investment. (Michael Baron)

Anhanguera Educacional Participações SA's shares declined 16.3%. The leading private, post-secondary education company in Brazil, Anhanguera recently completed the largest acquisition in its history. While the acquisition will further consolidate this highly fragmented market and provide further scale for Anhanguera in the Sao Paulo region, the company will suffer from short-term margin compression as the acquiree's less-efficient operation is absorbed by the company. (Kyuhey August)

Shares of **Dole Foods Company, Inc.**, a grower and distributor of fruits and vegetables, declined 13.5%. The company suffered as unfavorable weather adversely affected the harvest. A recent strong crop coupled with lower demand has led to oversupply of its core banana products and has driven down prices and profitability. Distribution costs have also increased and caused margins to fall. (Michael Baron)

RECENT ACTIVITY

Table IV.
Top net purchases for the quarter ended December 31, 2011

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
Booz Allen Hamilton Holding Corp.	2010	\$2.3	\$2.5	\$29.0
Better Place, Inc.	2011	2.0	2.0	21.8
Cymer, Inc.	2011	1.3	1.5	19.6
Athenahealth, Inc.	2011	1.9	1.7	14.9
Strayer Education, Inc.	2003	0.7	1.2	14.7
CARBO Ceramics, Inc.	2009	1.5	2.8	13.3
Manning & Napier, Inc.	2011	0.2	0.2	7.5
Community Health Systems, Inc.	2004	2.4	1.6	7.5
Advent Software, Inc.	2008	1.1	1.2	6.7
Agrinos AS	2011	0.3	0.2	5.0

Better Place, Inc. has created a unique, recurring revenue model that addresses the key concerns people have with electric vehicles (EVs): cost, range and reliability. The company's vision is to create a network based on EVs that have swappable batteries. Because the batteries are swappable, they can be owned by the company as opposed to the customer, making the car less expensive to buy and easing concerns about expensive battery replacement costs. In return, the customer buys an annual charging plan (like a cell phone plan) which enables BP to earn ongoing profits. The EVs, which have a 100 mile range, can be charged at home overnight (via a charge spot that each subscriber will have), or the battery may be swapped out in under five minutes at automated "battery swap stations" in the customer's service area. This ensures that customers will never be stranded. Networks will be rolled out in Israel and Denmark this year. (Randy Gwartzman, Gilad Shany)

Cymer, Inc. is an innovative industrial laser company that specializes in components that enable semiconductor chip manufacturing. Unlike its peers, Cymer realizes the majority (two-thirds) of its revenues from recurring maintenance and spares. This is driven by Cymer's On-Pulse service, an innovative way to automatically track customer product usage in order to

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provide timely predictive maintenance. The company is on the cutting edge of technology, and it is working on a new type of laser called extreme ultraviolet (EUV), which will allow manufacturers to make chips with dramatically smaller circuit width sizes. We believe that the market for EUV lasers could be very large and will drive multi-year growth for the company. (Randy Gwartzman)

PORTFOLIO STRUCTURE

Table V.
Top 10 holdings as of December 31, 2011

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Dick's Sporting Goods, Inc.	2004	\$1.4	\$4.5	\$184.4	3.2%
ITC Holdings Corp.	2005	0.8	3.9	170.4	2.9
Core Laboratories N.V.	2006	1.2	5.3	158.2	2.7
Arch Capital Group Ltd.	2002	0.4	5.0	156.4	2.7
Mettler-Toledo International, Inc.	2008	2.4	4.7	144.0	2.5
FactSet Research Systems, Inc.	2006	2.5	3.9	141.8	2.4
AMERIGROUP Corp.	2002	0.6	2.8	141.8	2.4
DeVry, Inc.	1995	0.4	2.6	139.4	2.4
MSCI, Inc.	2007	1.8	4.0	137.0	2.3
ANSYS, Inc.	2009	2.3	5.3	128.9	2.2

Thank you for investing in Baron Growth Fund.

Thank you for joining us as fellow shareholders in Baron Growth Fund. We believe the growth prospects for the businesses in which Baron Growth Fund has invested continue to be favorable. Of course, there is no guarantee this will be the case.

We are continuing to work hard to justify your confidence and trust in our stewardship of your family's hard-earned savings. We are also continuing to provide you with information that I would like to have if our roles were reversed. This is so you will be able to make an informed judgment about whether Baron Growth Fund remains an appropriate and attractive investment for your family. Thank you, again, for your long-term support.

Respectfully,



Ronald Baron
CEO and Portfolio Manager
January 18, 2012

For more information about this Fund please scan this QR code with any bar code reader on your mobile device.



* Every stock covered by Morningstar receives an economic moat rating, which measures the company's competitive position. According to Morningstar, companies with the ability to withstand the competition for a long time receive Wide moat ratings, companies with moderate ability to withstand competitive pressures receive Narrow moat ratings, and companies without meaningful competitive advantages receive None moat ratings.

The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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