

DEAR BARON PARTNERS FUND SHAREHOLDERS:

PERFORMANCE

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

| | Baron Partners Fund ^{1,2,3} | Russell Midcap Growth Index ² | S&P 500 Index ² |
|------------------------------------|--------------------------------------|--|----------------------------|
| Three Months ⁴ | 13.99% | 11.24% | 11.82% |
| One Year | -5.74% | -1.65% | 2.11% |
| Three Years | 16.70% | 22.06% | 14.11% |
| Five Years | -1.15% | 2.44% | -0.25% |
| Since Conversion (April 30, 2003) | 11.33% | 9.29% | 5.82% |
| Ten Years | 7.52% | 5.29% | 2.92% |
| Since Inception (January 31, 1992) | 11.70% | 8.14% | 7.95% |

During the past decade, Baron Partners Fund increased its net asset value per share 106.47%. This compares to a 67.41% increase in value by its benchmark, the Russell Midcap Growth Index. The S&P 500 Index, a large cap index, increased in value only 33.41% during the period. As you can see from the table above, Baron Partners Fund's disappointing performance during the past five years has had a negative impact on its performance during the past decade. The Fund underperformed its benchmark indexes during the last five years. 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 we will be able to do so.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of December 31, 2010 was 1.71% (comprised of operating expenses of 1.37% and interest expense of 0.34%). *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 expenses 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 monthend, 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 Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 20% performance fee after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees for the years the predecessor partnership charged a performance fee, the returns would be higher. The Fund's shareholders will not be charged a performance fee. The predecessor partnership's performance is only for periods before the Fund's registration statement was effective, which was April 30, 2003. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

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

³ 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.

⁴ Not annualized.



RONALD BARON
PORTFOLIO MANAGER AND CHIEF INVESTMENT OFFICER

The objective of Baron Partners Fund is to approximately double its value per share every five or six years. From the date of the Fund's inception as a partnership almost twenty years ago through December 31, 2011, the Fund's compounded rate of return was 11.70%. This means we have doubled our net asset value per share approximately every six years. We have fallen short of our long-term objective because we failed to make progress during the past five years. We have been working hard to improve Baron Partners Fund's performance. We hope that in the not distant future we will again be a top performing mutual fund.

What are we doing to improve our results? Baron Partners Fund held 65 portfolio investments at the end of 2007. We have gone "back to basics." We reduced Baron Partners Fund's holdings to 27 businesses that we believe are exceptionally well-managed and have unusually strong long-term growth opportunities and competitive advantages. When the Fund significantly outperformed during its 20 year history, it usually did so when it held more than 50% of its assets in 10 stocks and the balance in 20-25 stocks that we hoped would perform so well they would become top 10 stocks. Baron Partners Fund's portfolio is again structured similarly to periods during which it outperformed.

The strategy we continue to use to accomplish our performance objectives is to invest for the long term in a non-diversified portfolio of appropriately capitalized, well-managed businesses at what we think are attractive prices. We also attempt to invest this focused portfolio in about 30 businesses, principally mid-cap companies. We think the Fund's portfolio investments diversified by GICS sectors will be approximately 90% as volatile as the market. We are not attempting to match any index with our allocations to GICS sectors. The exceptions to our attempt to create a less volatile portfolio occur during brief, unanticipated time periods when news and computer driven trading cause markets to soar or crash. At such times, virtually all stock prices are correlated.

Baron Partners Fund

We think the businesses in which Baron Partners Fund has invested have the potential to double in size within approximately four years. These well-managed businesses usually have significant barriers to competition and strong growth opportunities. 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 (41.38% with Wide economic moats v. 15.28% for the benchmark).* (See endnote on Page 32.)

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” built into 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.

We believe businesses in which Baron Partners Fund invests are better managed than most businesses. We also regard the businesses owned by Baron Partners Fund as being higher quality than businesses in our benchmark index. Although this is a subjective judgment, among the quantitative measures that we consider to determine quality are operating margins (22.56% vs. 16.82% for the Russell Midcap Growth Index), return on capital employed (14.88% vs. 12.64%), projected three–five year earnings per share growth (16.11% vs. 14.64%) and whether businesses employ leverage (total debt to market cap; 20.37% vs. 22.64%).

The businesses in which Baron Partners Fund has invested in many instances have significant recurring revenues such as service businesses like proprietary insurance, healthcare and mortgage database **Verisk Analytics, Inc.**, benchmark index and risk management provider **MSCI, Inc.**, financial services tools provider **FactSet Research Systems, Inc.**, industrial equipment auctioneer **Ritchie Bros. Auctioneers, Inc.**, and global information and market measurement company **Nielsen Holdings N.V.** They may also be fast growing, leading service providers with a relatively small share of a large, growing market like “asset light” transportation provider **C.H. Robinson Worldwide, Inc.**, industrial fastener distributor **Fastenal Co.** and sporting goods store and on-line retailer **Dick’s Sporting Goods, Inc.** We have also invested in businesses that have substantial and growing asset values like **Concho Resources, Inc.**, **Hyatt Hotels Corp.**, **Vail Resorts, Inc.**, and **Starwood Hotel & Resorts Worldwide, Inc.** Not surprisingly, since we think Baron Partners Fund’s investments are less subject to economic cycles than the benchmark, the earnings growth of our businesses has a lower standard deviation than the benchmark (62.91% vs. 93.50%). It is better to have a lower rather than a higher standard deviation (less volatility).

Of all categories of benchmark equity indexes monitored by financial services provider FactSet, the index with the most attractive financial characteristics is the Russell Midcap Growth Index. Accordingly, that index is historically the best performing index and the one that is most difficult to beat. Regardless, that is our goal and, over the long term, we have achieved it. Considering current stock valuations, we believe we have the opportunity to meet our objectives to double our investment value within the next five or six years and double it again before the end of the next decade. Of course, there can be no assurance that we will achieve our goal.

Table II.

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

| | Year Acquired | Market Cap When Acquired (billions) | Quarter End Market Cap (billions) | Percent Impact |
|-------------------------|---------------|-------------------------------------|-----------------------------------|----------------|
| Fastenal Co. | 2006 | \$6.8 | \$12.9 | 3.11% |
| Hyatt Hotels Corp. | 2009 | 4.2 | 6.2 | 1.59 |
| Arch Capital Group Ltd. | 2002 | 0.6 | 5.0 | 1.37 |
| Concho Resources, Inc. | 2009 | 2.6 | 9.7 | 1.01 |
| Verisk Analytics, Inc. | 2009 | 4.0 | 6.6 | 0.93 |

Shares of **Fastenal Co.**, the leading industrial supplies distributor, performed well, rising 31.6% as demand from manufacturing and commercial construction clients improved. Sales across the company’s 2,500 branches strengthened throughout 2011. This broad-based strength is indicative of a growing rebound in factory production, new initiatives such as automated vending taking hold, and market share gains out of the 2008–2009 downturn. Fastenal’s customers are relying on the company increasingly to save costs, cut working capital and improve productivity. Fastenal is converting this renewed demand into faster profit growth, a result of strong leverage on occupancy and overhead. (Matt Weiss)

Shares of **Hyatt Hotels Corp.**, an owner, manager and franchisor of hotels, increased 20.0% as the company continues to generate strong results with improvements in both revenue per available room and margins. Hyatt has achieved this despite a lackluster economy both domestically and abroad. Hyatt continues to use its industry-leading balance sheet to expand its brands, as the company remains underpenetrated in many markets. We believe this expansion effort, combined with continued improvement in its current portfolio, and little industry supply growth offer this business strong growth prospects over the next few years. (David Baron)

Shares of Bermuda-based reinsurer **Arch Capital Group Ltd.** rose 13.9% despite major industry losses from large catastrophes (Thailand floods being the biggest). Investors believe that, as a result of the losses incurred in 2011, property & casualty (P&C) insurance prices will rise industry-wide in 2012. As a result, almost all P&C insurers performed well during the quarter. We continue to like Arch because its long-term view on managing through a rate cycle matches our long-term investing view. (Rob Susman)

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 |
|---|---------------|-------------------------------------|---|----------------|
| ITC Holdings Corp. | 2005 | \$0.9 | \$3.9 | –0.32% |
| Anhanguera Educacional Participações SA | 2010 | 3.2 | 1.9 | –0.15 |
| Six Flags Entertainment Corp. | 2011 | 1.6 | 2.0 | –0.14 |
| Arcos Dorados Holdings, Inc. | 2011 | 4.5 | 4.3 | –0.12 |
| TOTVS SA | 2011 | 3.2 | 2.8 | –0.10 |

Despite its strong yearly performance, shares of **ITC Holdings Corp.**, the nation's only publicly-traded independent transmission company, declined 1.5% in the fourth quarter. In December, ITC announced that Entergy will divest its electric transmission business and merge it into ITC. We think that the regulatory process associated with the approval of this transformational deal will serve to validate ITC's business model. With management expecting earnings per share growth between 15% and 17% each year, ITC continues to remain a core holding. (Rebecca Ellin)

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)

Arcos Dorados Holdings, Inc. is the exclusive McDonald's franchisee of South and Latin America. Its share price fell despite reporting 16% growth in same-store sales and continued unit expansion. Investors became concerned that the weaker currency in the company's operating countries may drive down margins and profitability if operating expenses and debt payments are not better aligned. Additionally, high inflation in these countries may pressure its labor expense. (Michael Baron)

RECENT PORTFOLIO ADDITIONS

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) |
|------------------------------|---------------|-------------------------------------|-----------------------------------|-------------------|
| CarMax, Inc. | 2011 | \$6.1 | \$6.9 | \$29.5 |
| Arcos Dorados Holdings, Inc. | 2011 | 4.5 | 4.3 | 17.2 |
| Edwards Lifesciences Corp. | 2007 | 2.9 | 8.1 | 1.7 |
| Hyatt Hotels Corp. | 2009 | 4.2 | 6.2 | 1.7 |

CarMax, Inc. is the largest retailer of used cars in the country, with an emphasis on late model, low mileage vehicles. We have been investors in the company in Baron Asset Fund since 2004, after several visits to the company's headquarters and being impressed with the management team and growth drivers. We used recent weakness in the stock, owing to short-term sales volatility, as an opportunity to build a position for Baron Partners Fund. We believe CarMax possesses double-digit growth prospects for several years to come from a base of just 100 superstores today and single digit share of a \$300 billion market. Over the next decade, we believe CarMax can triple its store base and market share nationally. We are also constructive on the company's wholesale auction business, nearly 17% of revenues, where the company has grown to become the third largest auto auctioneer in the country. Through this channel, the company is able to efficiently divest appraisal inventory that does not meet its strict retail criteria, while generating higher margins than its core business. Finally, we believe the current value-orientation of consumers, combined with the increasing age of

cars on the road, now approaching 11 years, creates pent-up demand for CarMax's unique 30,000 vehicle inventory. (Matt Weiss)

In the late 1960's, McDonald's attempted to own and operate its restaurant in South America. However, the company's lack of local knowledge led to subpar performance and a financial drain for the organization. It subsequently turned to Woods Stanton and his **Arcos Dorados** firm to become the exclusive McDonald's franchisee of Latin America and the Caribbean. Today, the company is approaching 1,800 restaurants and represents approximately 7% of McDonald's global revenue.

The food service industry in Latin America is a fraction of its potential. The \$22 billion quick service restaurant sector has continued to gain share in the region due to its standardized menus and quality controls. The fast food market has increased with a continuous annual growth rate of 14% over the last five years compared with only 3% growth in the mature U.S. market. Arcos Dorados should participate meaningfully in the expected continued sector growth, as the IPO enabled the firm to expand its store base, we believe, in excess of its stated goal of 250 store openings by 2013. Additionally, it plans to deploy excess capital into store remodels that have shown a sustained sales lift and a new Pan American advertising campaign, both of which should drive additional store traffic. A rapidly expanding middle class in this populous region, along with current transaction sizes that are a significantly smaller than the mature U.S. market should lead to same store sales remaining above 10% for the foreseeable future. Finally, we believe the company is in the early stages of improving profitability at its lower margin northern region through pricing and traffic driving initiatives. We believe these factors should, in our opinion, lead to significant earnings growth over the next few years despite near term wage and commodity cost pressures. (Michael Baron)

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 Total Investments |
|--------------------------------|---------------|-------------------------------------|-----------------------------------|---|------------------------------|
| Fastenal Co. | 2006 | \$6.8 | \$12.9 | \$130.8 | 9.8% |
| ITC Holdings Corp. | 2005 | 0.8 | 3.9 | 113.8 | 8.6 |
| Arch Capital Group, Ltd. | 2002 | 0.6 | 5.0 | 111.7 | 8.4 |
| FactSet Research Systems, Inc. | 2007 | 2.5 | 3.9 | 104.7 | 7.9 |
| Hyatt Hotels Corp. | 2009 | 4.2 | 6.2 | 96.0 | 7.2 |
| Dick's Sporting Goods, Inc. | 2005 | 1.6 | 4.5 | 88.5 | 6.7 |
| Verisk Analytics, Inc. | 2009 | 4.0 | 6.6 | 74.2 | 5.6 |
| MSCI, Inc. | 2008 | 3.0 | 4.0 | 60.6 | 4.6 |
| C.H. Robinson Worldwide, Inc. | 2003 | 3.2 | 11.5 | 55.8 | 4.2 |
| The Charles Schwab Corp. | 1992 | 1.0 | 14.3 | 50.7 | 3.8 |

Baron Partners Fund

Thank you for investing in Baron Partners Fund.

Thank you for joining us as fellow shareholders in Baron Partners Fund. We believe the growth prospects for the businesses in which Baron Partners Fund has invested are favorable and improving. Since, in our opinion, the share prices of our businesses do not reflect their prospects, we believe their stock prospects remain favorable. Of course, there can be 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 also remain dedicated to continuing to provide you with the information I would like to have about your investments in Baron Partners Fund if our roles were reversed. This is so you will be able to make an informed decision about whether this

Fund remains an appropriate investment for you and 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 using non-diversification and leverage, but there also is more risk. Specific risks associated with non-diversification and leverage include increased volatility of the Fund's returns and exposure of the Fund to greater loss in any given period. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and made difficult to sell during market downturns. Leverage is the degree to which an investor or business is utilizing borrowed money. 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 is 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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