

# Baron Asset Fund

## DEAR BARON ASSET FUND SHAREHOLDER:

### PERFORMANCE

Baron Asset Fund's (the "Fund") Retail Shares gained 14.31% during the three-month period ended March 31, 2012. The Russell Midcap Growth Index gained 14.52% and the S&P 500 Index gained 12.59% during this same period.

The steep stock market rally that began last quarter continued throughout the beginning of 2012. The market's upward move appears to have been driven by continually improving domestic economic data, ongoing signs that the European debt crisis is being addressed and contained, healthy corporate profits, and the relative attractiveness of equities when interest rates remain near historically-low levels.

**Table I.**  
**Performance (Retail Shares)**  
Annualized for periods ended March 31, 2012

	Baron Asset Fund <sup>1,2</sup>	Russell Midcap Growth Index <sup>1</sup>	S&P 500 Index <sup>1</sup>
Three Months <sup>4</sup>	14.31%	14.52%	12.59%
One Year	3.77%	4.43%	8.54%
Three Years	25.59%	29.16%	23.42%
Five Years	2.37%	4.44%	2.01%
Ten Years	6.18%	6.92%	4.12%
Since Inception (June 12, 1987)	11.00%	9.40% <sup>3</sup>	8.85%

**Table II.**  
**Top contributors to performance for the quarter ended March 31, 2012**

	Year Acquired	Percent Impact
Equinix, Inc.	2007	1.47%
priceline.com, Inc.	2009	1.08
Gartner, Inc.	2007	0.89
Fastenal Co.	2006	0.86
Ralph Lauren Corp.	1997	0.76

Amidst the market's strong upward move, the Fund's best-performing holdings were generally those with the highest near-term earnings growth. These included many of the Fund's Information Technology and

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 1.33%. *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](http://www.BaronFunds.com) or call 1-800-99BARON.*

<sup>1</sup> The Russell Midcap Growth Index and the 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 Index measures the performance of large cap U.S. equities in the stock market in general. The indexes and the Baron Asset Fund are with dividends, which positively impact the performance results.

<sup>2</sup> 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.

<sup>3</sup> For the period June 30, 1987 to March 31, 2012.

<sup>4</sup> Not annualized.



ANDREW PECK  
PORTFOLIO MANAGER

Telecommunication sector investments, such as **Equinix, Inc.**, **Gartner, Inc.**, **LinkedIn Corp.** and **SBA Communications Corp.** The Health Care sector was also an important contributor, led by **Mettler-Toledo International, Inc.**, a leading manufacturer of weighing instruments, and **IDEXX Laboratories, Inc.**, a diagnostic and testing company focused on the veterinary market. After a long period of underperformance, the Fund's Financial Sector investments, notably **The Charles Schwab Corp.**, contributed positively, as rising equity markets and modestly higher interest rates improved its earnings outlook. The three most significant contributors to performance are discussed in more detail below.

**Equinix, Inc.**, a leading data-center operator, saw its shares increase 55% in the quarter, as its leasing and pricing trends remained strong, and management began to discuss the possibility of converting its corporate structure to a real estate investment trust ("REIT"). Comparable data-center REITs trade at dramatically higher multiples, and accordingly, investors have begun to revalue Equinix's shares to close that valuation gap. We continue to see meaningful upside in the shares through both further valuation expansion and continued organic growth.

**priceline.com, Inc.** is the largest online travel agency, operating websites that span most of the world's important travel destinations. Its sites include [booking.com](http://booking.com), [priceline.com](http://priceline.com), [rentalcars.com](http://rentalcars.com), and [agoda.com](http://agoda.com). The company's shares rose 53% in the quarter following the release of strong fourth-quarter 2011 results. We believe that [priceline.com](http://priceline.com) is an exceptionally well-managed company that still has a large global opportunity to capitalize on the growth in online travel. Its penetration of the European market, the largest contributor to its current profits, is still well below 10%, giving the company an opportunity to significantly expand its European [booking.com](http://booking.com) brand. We also believe that the company's Asian market opportunity is in its infancy, offering years of future growth.

Shares of **Gartner, Inc.** gained almost 23%, boosted by solid financial results. The company, which provides research on the Information Technology sector, continued to generate record



bookings in its core research business. Research contract value, a key revenue metric, increased 14% during 2011. We expect the company to show continued sales momentum during 2012 and beyond as it adds capacity to its sales force, raises its prices, and leverages its global sales network to cost-effectively distribute research from recent acquisitions AMR and Burton. We believe that conditions also remain favorable for growth and margin expansion in the company's market-leading events segment, which operates specialized conferences for technology users around the world.

**Table III.**  
Top detractors from performance for the quarter ended March 31, 2012

	Year Acquired	Percent Impact
C.H. Robinson Worldwide, Inc.	2003	-0.20%
Gentex Corp.	2011	-0.19
CARBO Ceramics, Inc.	2011	-0.18
DeVry, Inc.	1991	-0.18
Deckers Outdoor Corporation	2012	-0.11

Although the large majority of the Fund's holdings moved higher, there were several laggards. These were generally companies whose recent earnings reports did not match Wall Street's expectations. In addition, the Fund's Energy sector investments lagged, as underlying commodity prices moved largely sideways or down during the quarter. The three most significant detractors from performance are discussed in more detail below.

Shares of **C.H. Robinson Worldwide, Inc.**, the leading U.S. truck broker, detracted from performance after the company reported disappointing earnings. While truckload freight volumes improved, the company experienced margin pressure as its costs increased faster than the rates it charges shippers. We believe this issue will self-correct as gross volumes accelerate. Longer-term, we expect the company to continue to gain share and benefit as transportation outsourcing to well-established logistics firms continues to grow. Shippers increasingly rely on brokers such as C.H. Robinson for their expansive carrier network and spot market intelligence to insure optimal pricing and movement of their freight.

Shares of **Gentex Corp.** declined in the quarter, and the Fund exited its investment. Gentex specializes in the application of electro-chromatic technology, used to produce windows, mirrors and lenses that automatically dim under varying light conditions. The shares fell when the Department of Transportation inexplicably deferred finalizing regulations on automotive rear-camera integration until December 2012. By delaying the rulemaking process until December, DoT effectively punted the decision to the next administration, and this significantly lowered Gentex's prospective earnings power on rear-camera displays.

**CARBO Ceramics, Inc.** is the leading supplier of ceramic proppant used by oil and gas companies in their hydraulic fracturing operations. CARBO's share price was volatile in the quarter and has suffered since the company announced lower fourth-quarter 2011 earnings. The company warned that a rapid rotation from gas to oil drilling in the U.S. was leading to significant logistics and cost challenges. The shares partially recovered as it became clear that its challenges are related to logistics rather than end-market demand or competition. However, it will be several quarters before these concerns dissipate, at which time we are hopeful that CARBO shares will begin to perform well once again.

## PORTFOLIO STRUCTURE

At March 31, 2012, Baron Asset Fund held 63 positions. The Fund's 10 largest holdings represented 32.7% of assets, and the twenty largest represented 53.3% of assets. Relative to the Russell Midcap Growth Index, the Fund was overweight in the Consumer Discretionary sector at 26.0% of assets. This sector includes the Fund's investments in retailers, casinos, hotels and resorts, broadcasters and for-profit education firms. The Fund was also overweight in the Financials sector at 13.0% of assets. This area includes brokerage firms, asset managers, insurers and REITs. The Fund was underweight in the Information Technology sector at 16.9% of assets, the Materials sector at 1.6% of assets, and the Consumer Staples sector, in which it had no investments.

## RECENT ACTIVITY

During the past quarter, the Fund established three new positions and added to six others. The Fund also sold one position and reduced its holdings of 27 others.

**Table IV.**  
Top net purchases for the quarter ended March 31, 2012

	Quarter End Market Cap (billions)	Amount (millions)
Netflix, Inc.	\$6.4	\$24.4
FleetCor Technologies, Inc.	3.2	23.8
Colfax Corp.	3.0	17.2
Roper Industries, Inc.	9.6	13.1
CBRE Group, Inc.	6.5	10.3

**Colfax Corp.** was formed in 1995 by Mitchell and Steven Rales, the billionaire founders of Danaher Corporation, with the intention to acquire, manage, and create a world-class manufacturing company. The company differentiates itself through its rigorous commitment to the Colfax Business System (CBS), a disciplined management methodology designed to achieve excellence and world class operational and financial performance. Colfax introduces CBS into acquired business as a tool to drive revenue growth and improvement in operating margin and cashflow generation that is greater than would have otherwise been realized. We believe this approach is similar to the highly successful strategy the Rales implemented in turning Danaher into an industrial conglomerate with a market capitalization greater than \$35 billion.

Colfax began as a fluid-handling business comprised of a portfolio of premium, specialty products with dominant market share in infrastructure related end-markets. In September 2011, Colfax announced the acquisition of Charter International PLC, a leading global manufacturer of welding and cutting equipment and air and gas handling solutions, for \$2.4 billion. This deal transformed Colfax into a multi-platform enterprise, and we believe that this deal is just the first step towards the realization of the Rales Brothers' vision of growing Colfax into a multi-platform, multi-billion dollar enterprise with a strong global footprint. Concurrent with this deal and subsequent equity raise, Colfax entered our mid-cap universe. We used this opportunity to begin a position in this company with a distinct heritage, which we believe will continue to execute on its long-term growth strategy. (Rebecca Ellin)

# Baron Asset Fund

**Table V.**  
**Top net sales for the quarter ended March 31, 2012**

	<b>Amount (millions)</b>
C.H. Robinson Worldwide, Inc.	\$-24.4
Gentex Corp.	-19.3
Tiffany & Co.	-18.9
Vail Resorts, Inc.	-17.3
Concho Resources, Inc.	-16.4

As discussed, the Fund sold its position in Gentex Corp. during the quarter. In addition, we trimmed the Fund's holdings in C.H. Robinson Worldwide, Inc. and **Tiffany & Co.** in response to the companies' slowing business trends.

## OUTLOOK

**Table VI.**  
**Top 10 holdings as of March 31, 2012**

	<b>Year Acquired</b>	<b>Market Cap When Acquired (billions)</b>	<b>Quarter End Market Cap (billions)</b>	<b>Amount (millions)</b>	<b>Percent of Net Assets</b>
Gartner, Inc.	2007	\$2.9	\$ 4.0	\$102.3	4.2%
IDEXX Laboratories, Inc.	2006	2.5	4.8	94.0	3.8
Equinix, Inc.	2007	2.7	7.3	92.1	3.7
Fastenal Co.	2006	5.8	16.0	89.3	3.6
Ralph Lauren Corp.	1997	1.6	16.1	76.7	3.1
Verisk Analytics, Inc.	2009	4.0	7.7	75.2	3.1
SBA Communications Corp.	2007	3.8	5.6	73.7	3.0
priceline.com, Inc.	2009	6.8	35.7	68.2	2.8
Mettler-Toledo International, Inc.	2008	2.4	5.8	67.4	2.7
Arch Capital Group Ltd.	2003	0.9	5.0	67.0	2.7

As we have stated previously, despite the well-known challenges facing the global economy and the recent uptick in the equity markets, we believe that stocks remain inexpensive. Interest rates, and the income stream associated with most bonds, remain near historically-low levels, yet investors continue to purchase bonds while spurning stocks. Since 2009, U.S. investors have purchased nearly \$700 billion of fixed-income mutual funds and withdrawn nearly \$300 billion from domestic equity funds.

We continue to believe that our diversified portfolio of high-quality, competitively advantaged, well-managed and well-financed businesses should prosper going forward.

### Thank you for investing in Baron Asset Fund.

Our entire firm and our research department, in particular, are committed to justifying your ongoing confidence and support. I remain a significant investor in the Fund alongside you.

Sincerely,



Andrew Peck  
Portfolio Manager  
May 17, 2012

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



*The Adviser believes that there is more potential for capital appreciation in mid-sized companies, but there also may be more risk. Specific risks associated with investing in mid-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Prior to February 15, 2007, the Fund's strategy was to invest primarily in small and mid-sized growth companies. Since then, the Fund's investment strategy has shifted to mid-sized companies. 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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