Dear Baron Focused Growth Fund Shareholder:

Performance

Baron Focused Growth Fund performed well in both the three months ended December 31, 2012 as well as during 2012. The benchmark index against which we compare the Fund's results also performed well during both periods. Baron Focused Growth Fund gained 5.83% in the quarter ended December 31. This compares to the 1.78% gain for the Fund's benchmark Russell 2500 Growth Index. For all of 2012, Baron Focused Growth Fund gained 15.96% compared to the Russell 2500 Growth Index's increase of 16.13%. These returns were achieved despite the uncertainty engendered by a Presidential election and what seemed to be an endless stream of negative news about our nation's slowing economic growth, persistently high unemployment and whether we would escape falling off the fiscal cliff because of dysfunctional executive and legislative branches of government. We think these results demonstrate the futility of attempting to "trade the news" rather than attempting to invest in well-managed, competitively advantaged, growing businesses for the long term.

RONALD BARON
CEO AND PORTFOLIO MANAGER

Retail shares: BFGFX
Institutional Shares: BFGIX

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

	Baron Focused Growth Fund[1,2,3]	Russell 2500 Growth Index[2]	S&P 500 Index[2]
Three Months[4]	5.83%	1.78%	–0.38%
One Year	15.96%	16.13%	16.00%
Three Years	12.69%	13.78%	10.87%
Five Years	3.13%	4.07%	1.66%
Ten Years	14.11%	10.55%	7.10%
Fifteen Years	9.64%	5.77%	4.47%
December 31, 1999 - December 31, 2012. "The Bad Times."	7.09%	2.88%	1.66%
May 31, 1996 - December 31, 1999 "The Good Times."	27.87%	17.60%	26.58%
Since Inception (May 31, 1996) "All the Times."	11.28%	5.90%	6.59%

Performance listed in the above table is net of annual operating expenses. As of the last fiscal year ended December 31, 2011, annual operating expense ratio for the Retail Shares was 1.48%, but the net annual expense ratio was 1.35% (net of the Adviser's fee waivers). 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 Adviser has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) for 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. 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.

1 Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 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 performance is only for the periods before the Fund's registration statement was effective, which was June 30, 2008. 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 indexes are unmanaged. The Russell 2500™ Growth Index measures the performance of small to medium-sized companies that are classified as growth and the S&P 500 Index of 500 widely held large-cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results.

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

4 Not annualized.

Baron Focused Growth Fund invests in small and mid-cap companies. Its portfolio held only 27 securities at the end of the year. We believe risk associated with such a non-diversified portfolio is mitigated by the intense research effort conducted on each business in which we invest. Also mitigating risk is our management style, which is mindful of sector diversification and position limits of no more than 10% of portfolio assets. In addition, the Fund does not borrow to buy stock. Investments are benchmark agnostic and dictated solely by our fundamental research and analysis. When evaluating businesses, we focus on open-ended growth opportunities, sustainable competitive advantages and visionary management teams capable of inspiring their fellow employees to help them achieve their long-term goals. We attempt to only purchase securities when they are appropriately financed and attractively priced. This is although we are willing to pay some premium for growth prospects, unusual competitive advantage and exceptional management. We subscribe to The Carlyle Group's CIO Bill Conway's recent comment to our analyst, Michael Baron, that "the success or failure of an investment has never been the result of whether we paid $900 million, $1 billion or $1.1 billion for the business."

Each company in which we invest is closely monitored by Baron Capital's 27 person staff of research professionals who place a major emphasis on company, supplier, customer and competitor relationships in assessing the company's ability to achieve our return hurdles, a double in value over five years. We believe it is this long-term integrated research and portfolio management process that has enabled us to achieve strong historical results that we think should be repeatable.

Our investment process has enabled us to build a portfolio with higher operating margins, greater returns on equity and lower debt to market capitalization levels than its benchmark. These results were also achieved with a lower volatility as measured by Beta of 0.87 compared to the index of 1.00. Interestingly, the free cash flow margin associated with our investments is lower than the benchmark, in our opinion, since our companies are reinvesting in their businesses to hopefully become much larger businesses.

In 2012, 65.1% of Baron Focused Growth Fund's managed assets were invested in businesses that achieved double digit returns including 17 stocks whose share prices increased from 17.56% to 82.05% last year; 14.2% were invested in businesses that achieved single digit returns; and 16.4% were invested in businesses whose stocks fell in value. Businesses that had fallen in value during the year represented 8.6% of managed assets at year end. This was after we realized losses on several smaller positions to reinvest in businesses whose prospects we felt were stronger.

Baron Focused Growth Fund's investment returns in 2012 were helped by two takeovers. Medicaid insurer **AMERIGROUP Corp.** increased 82.05% and laser manufacturer **Cymer, Inc.** increased 46.44% when offers were made to aquire both businesses. The Fund's performance was also helped by two restructurings. Short line railroad **Genessee & Wyoming, Inc.** acquired RailAmerica, its largest competitor, and increased 25.30%. **Colfax Corp.** acquired Charter, a 99 year old, leading European, industrial welding and gas handling business. Colfax anticipates significant cost reductions and substantial earnings growth associated with this acquisition; Colfax increased 54.88%. The Fund's performance was also helped by large special dividends paid by **Choice Hotels International, Inc.**, $10.41 per share, **Booz Allen Hamilton Holding Corp.**, $6.50 per share, and **Dick's Sporting Goods, Inc.**, $2 per share.

We expect the businesses in which the Fund has invested whose stocks performed well during 2012 to continue to perform well in 2013, although in many instances obviously not as well as in 2012. However, five of our favorite investments, including industrial supplier **Fastenal Co.**, electricity transmission business **ITC Holdings Corp.**, hotelier **Hyatt Hotels Corp.**, and financial services provider **FactSet Research Systems, Inc.** achieved modest gains in 2012 or, in the case of index provider **MSCI, Inc.** a 6.85% loss for the year. We expect all of those businesses to perform well in 2013 and their stocks to do better as well. Electricity transmission business ITC Holdings announced a proposed merger with Entergy's transmission business, a merger of "equals" that could take place in late 2013. ITC shares increased in value 3.10% in 2012.

We try to explain securities price changes in the fourth quarter in the sections titled "Top Contributors" and "Top Detractors." Regardless, in many instances, we regard gains and losses in the short term as "random."

The competitive advantage of Baron, our business, is our group of talented stock pickers and analysts. Our growing research team, using a consistent investment process, has been able to discover well managed businesses with terrific long-term growth prospects and competitive advantages…and buy them at attractive prices when markets give us opportunities to do so. The New York Stock Exchange's motto used to be "investigate and then invest" before computer trading became the rage. That old fashioned aphorism still works!

From the inception of Baron Focused Growth Fund as a private partnership on May 31, 1996 through December 31, 2012, the Fund earned 11.28% per year and gained 488.09%, more than 5.8 times! The Russell 2500 Growth Index, the benchmark against which we compare this Fund's performance, increased 158.54%, 2.5 times, or 5.90% per year! The S&P 500 Index increased 188.30%, 6.59% annualized.

Further, from the peak before the Internet bubble burst in 2000 through December 31, 2012, the worst period for investment returns in the history of our nation, Baron Focused Growth Fund earned 7.09% per year and increased in value about 143.72% per share. The Russell 2500 Growth Index increased in value about 44.61%, 2.88% per year, during the same period. The large cap S&P 500 Index gained 23.90% over the period, 1.66% per year! Considering current stock price valuations and the growth prospects of the businesses in which Baron Focused Growth Fund has invested, we believe Baron Focused Growth Fund has an opportunity to double its net asset value per share within the next five years. Of course, there can be no assurance that we will achieve our goals.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Cymer, Inc.	2012	$1.9	$2.8	76.6%	2.74%
CarMax, Inc.	2011	5.7	8.6	32.7	1.20
Genesee & Wyoming, Inc.	2007	1.1	3.6	13.8	0.84
Airgas, Inc.	2011	5.3	7.1	11.4	0.51
Colfax Corp.	2012	2.4	3.8	10.0	0.50
Fastenal Co.	2007	6.4	13.8	10.4	0.38
Verisk Analytics, Inc.	2009	5.0	8.5	7.1	0.38
Helmerich & Payne, Inc.	2007	3.7	5.9	17.8	0.31
Eaton Vance Corp.	2008	2.0	3.7	15.1	0.31
Mettler-Toledo International, Inc.	2009	1.6	5.9	13.2	0.30

Cymer, Inc., the leading provider of photolithography light sources for semiconductor manufacturing, increased significantly (up 77.1% this quarter) after it was announced that Cymer was being acquired by its largest customer, ASML. This validated our multi-year growth thesis, centered on the uptake of next-generation extreme ultra-violet (EUV) lasers. (Randy Gwirtzman)

With $11 billion in annual sales, **CarMax, Inc.** is the nation's largest retailer of used cars. Shares performed well in the fourth quarter, rising 32.7%, on momentum in sales and earnings growth. Several positive drivers are coming together in CarMax's favor that set the stage for a strong 2013. These include: a significantly improved supply of late model vehicles, which will allow CarMax to lower prices and drive traffic; accelerating same store sales from newer stores entering the base; and pent-up demand from an unsustainably high average age of cars on the road. (Matt Weiss)

Shares of **Genesee & Wyoming, Inc.**, the leading short-line railroad, continued to rise in the fourth quarter after announcing a transformational acquisition in July of its primary competitor. The combined entity makes Genesee & Wyoming the dominant regional operator in the U.S., diversifying its mix and cementing barriers to entry. Private equity firm The

Carlyle Group acted as a strategic equity partner for this transaction, making a $350 million investment at $58 per share and agreeing to advise on future acquisitions. We expect the deal to be accretive given the low cost of financing and significant synergies. (Matt Weiss)

Table III.
Top contributors to performance for the year ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Total Return	Percent Impact
AMERIGROUP Corp.	2011	$2.1	$4.3	82.1%	2.52%
Cymer, Inc.	2012	1.9	2.8	46.4	2.30
Colfax Corp.	2012	2.4	3.8	54.9	2.14
Genesee & Wyoming, Inc.	2007	1.1	3.6	25.3	1.59
Verisk Analytics, Inc.	2009	5.0	8.5	27.1	1.48
Dick's Sporting Goods, Inc.	2005	1.6	5.6	30.2	1.39
Booz Allen Hamilton Holding Corp.	2012	2.5	2.0	34.2	1.32
Choice Hotels International, Inc.	2010	1.9	2.0	18.8	0.98
CarMax, Inc.	2011	5.7	8.6	22.8	0.95
Airgas, Inc.	2011	5.3	7.1	19.0	0.85

Table IV.
Top detractors from performance for the quarter ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Total Return	Percent Impact
MSCI, Inc.	2008	$3.3	$3.8	–14.4%	–0.69%
MICROS Systems, Inc.	2011	3.7	3.2	–18.7	–0.49
Dick's Sporting Goods, Inc.	2005	1.6	5.6	–8.2	–0.37
Pegasystems, Inc.	2010	1.0	0.8	–23.4	–0.31
FactSet Research Systems, Inc.	2008	2.5	3.9	–8.4	–0.21

MSCI, Inc. shares declined in the fourth quarter as a result of Vanguard changing a subset of its ETF benchmarks from MSCI to FTSE and CRSP. In response to Vanguard's decision to move to FTSE and CRSP, Vanguard's rival ETF iShares reaffirmed its commitment to MSCI as its primary benchmark provider for international and cross border ETFs. Despite the Vanguard decision, we remain optimistic about the long-term prospects for MSCI, and believe the unique and defensible aspects of its business are underappreciated by investors. (Neal Rosenberg)

MICROS Systems, Inc. underperformed in the fourth quarter due to uncertainty around how iPads could impact sales of MICROS' point of sale (POS) terminals. We believe that the company's proprietary hardware offers restaurant customers key advantages, including durability, extended useful life, and best in class support. MICROS proprietary software and services are hardware-agnostic, so customers can purchase licenses regardless of the POS system being used. (Neal Rosenberg)

Dick's Sporting Goods, Inc., the country's largest sporting goods retailer, declined 8.2% in the fourth quarter, though the stock performed well for the year. The company has grown sales consistently through strong new store productivity, positive same store sales, and improved e-commerce business. Margins have also expanded. However, investors became concerned about the Christmas season and discounting during this period. With substantial private label and private brand business, we believe Dick's margins will remain strong despite discounting. (Michael Baron)

Table V.
Top detractors from performance for the year ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Total Return	Percent Impact
Netflix, Inc.	2012	$4.3	$3.2	–33.5%	–1.14%
SM Energy Co.	2010	3.6	3.2	–32.8	–0.96
Ceres, Inc.	2012	0.3	0.2	–33.8	–0.53
CARBO Ceramics, Inc.	2011	2.7	2.3	–18.0	–0.42
C.H. Robinson Worldwide, Inc.	2003	3.2	10.2	–7.6	–0.40

Recent Purchases

Table VI.
Top net purchases for the quarter ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
Manchester United plc	2012	$2.1	$2.3	$2.3
MSCI, Inc.	2008	3.3	3.8	1.8
Booz Allen Hamilton Holding Corp.	2012	2.5	2.0	1.6
Penn National Gaming, Inc.	2012	3.7	3.8	1.2
Hyatt Hotels Corp.	2009	4.2	6.3	1.0

Manchester United plc is an English Premier League professional sports team. The business had three principal segments: Commercial, Broadcasting and Matchday. The team is a global brand, with a proven history of success, having won 12 of the last 20 Premier League Titles. Soccer is now the second most popular sport among the 12-24 age group in the U.S., and Manchester United is among the most popular soccer teams globally. Manchester United has over 500 million fans world-wide and we think is well positioned to benefit from greater broadcast fees and higher sponsorship and merchandising revenue over the next several years. The increase in broadcast, licensing and merchandising related revenues should generate substantially more cash flow and drive greater value to shareholders over the next several years. (Ashim Mehra)

We opportunistically purchased shares of **MSCI, Inc.** during the quarter when they declined on Vanguard's decision to migrate some ETF benchmarks to FTSE and CRSP. Despite the Vanguard news, we remain optimistic about the long-term prospects for MSCI, and believe the unique and defensible aspects of its business are underappreciated by investors. MSCI's core benchmarking business remains the gold standard for cross-border institutional investing. We are excited about MSCI's multi-asset class risk offerings, which are experiencing secular growth due to the financial crisis, more stringent reporting requirements, and advances in risk modeling. Additionally, we believe that MSCI's margin profile and cash flow generation potential remains structurally high. Finally, while MSCI's recent gross sales performance and retention rates have been hampered by lackluster end markets, we are confident these will ultimately improve, leading to accelerating growth and multiple expansion for the best-in-class vendors that serve these markets. (Neal Rosenberg)

Booz Allen Hamilton Holding Corp. is a provider of high-end government IT services. In fiscal 2013 (ending March 2013), Booz Allen should acheive $5.6 billion in revenues through its 24,000 employee base. Key areas of focus for Booz Allen include cyber-security, high-end systems integration and government efficiency programs. Despite the turmoil surrounding the federal defense budget and the risk of the fiscal cliff, we think Booz Allen will generate adjusted earnings growth at a low single digit rate in fiscal 2013 and will create significant free cash flow. During calendar year 2012, Booz Allen returned a large amount of cash to shareholders through $8 per share in special dividends. We believe that Booz Allen shares have an opportunity to continue to appreciate in price, as the company is expanding into commercial and foreign markets, and since industry multiples should expand once a deal is reached on the federal budget. (Randy Gwirtzman)

Portfolio Structure

The objective of Baron Focused Growth Fund is to double its value per share within five years. Our strategy to accomplish this is to invest for the long term in a concentrated portfolio of appropriately capitalized, well-managed, small and mid-cap businesses at attractive prices. We attempt to create a portfolio of less than thirty businesses diversified by GICS sectors that will be approximately 90% as volatile as the market.

We think the businesses in which Baron Focused Growth Fund has invested have the potential to double in size within approximately five years and double again in the next five years. We think these well-managed businesses have significant barriers to competitors and strong growth opportunities. Considering current stock price valuations, we believe we have the opportunity to meet our performance goals 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 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 that they will also survive unforeseen, difficult, economic circumstances. These businesses are subjectively better managed than most businesses. 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.* Further, FactSet data suggests, the businesses in which Baron Focused Growth Fund has invested have higher growth rates and are more profitable as measured by higher profit margins, better returns on capital and higher returns on equity than companies in the benchmark index. Not surprisingly, Baron Focused Growth Fund's investments are less volatile than those in their benchmark indexes as well.

As of December 31, 2012, Baron Focused Growth Fund held 27 investments. The median market capitalization of those small and mid-sized growth companies was $4.83 billion. According to FactSet's Fundamental and Estimates data, Baron Focused Growth Fund's competitively advantaged, small and mid-sized growth stock, investment portfolio is expected to achieve annual 14% earnings per share growth for the next three to five years. It sells for 14.9 times last twelve months earnings per share. There is no guarantee, however, that the portfolio will perform this way.

Table VII.
Top 10 holdings as of December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)	Percent of Net Assets
Hyatt Hotels Corp.	2009	$4.2	$6.3	$7.7	6.5%
Genesee & Wyoming, Inc.	2007	1.1	3.6	7.6	6.4
Verisk Analytics, Inc.	2009	5.0	8.5	6.5	5.5
Colfax Corp.	2012	2.4	3.8	6.4	5.3
Airgas, Inc.	2011	5.3	7.1	5.5	4.6
ITC Holdings Corp.	2008	2.2	4.0	5.4	4.5
CarMax, Inc.	2011	5.7	8.6	5.3	4.4
Booz Allen Hamilton Holding Corp.	2012	2.5	2.0	5.2	4.4
Cymer, Inc.	2012	1.9	2.8	5.1	4.3
Choice Hotels International, Inc.	2010	1.9	2.0	5.0	4.2

Outlook

During the past 13 years, U.S. stock markets have changed little while businesses have increased their earnings and improved their balance sheets substantially. Stocks' price earnings ratios, as a result, have fallen from more than 30 times in 1999 to 13 times currently. The peak valuation in 1999 occurred in the midst of the "Internet bubble" and was the highest in the history of U.S. markets. The valuation of publicly owned businesses today is below the 15.5 times median valuation that has prevailed both in modern times since 1960 as well as for the past hundred years. Stock valuations during that time have rarely risen above 20 times or fallen below 10 times.

As a result of investor fears regarding the European debt crisis; the fiscal cliff in America; the inability of Congress to legislate; and concerns regarding slowing growth in our economy; stocks are valued for less than their historic median valuations. We think these valuations do not take into account what we believe is the likelihood that U.S. economic growth will likely soon improve. This is for several reasons. A large percentage of the job losses America has experienced during the past five years has been in the housing and automotive industries. Automobile sales have improved substantially during the past two years and are continuing to increase. Housing is now beginning to improve significantly. These developments should create a lot more jobs than most seem to expect. Even more importantly, in our opinion, energy costs in America are no longer increasing. Oil and gas production in our country has been rising and energy use has been stable or falling in part due to rising CAFÉ standards, which we expect to be the case for a long time. Natural gas in America is currently priced for about one third the world price. This offers significant profit and investment opportunity for many businesses that have energy as an important input. In addition, electricity costs, as a result of low natural gas costs, are about half the cost in the rest of the world. This also offers investment opportunity for job creating businesses in our country. Considering what we think are favorable growth prospects for businesses in which Baron Focused Growth Fund has invested and the current cost of capital, in our opinion, Baron Focused Growth Fund's investments remain attractively priced.

Thank you for investing in Baron Focused Growth Fund.

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 try to provide you with information I would like to have if our roles were reversed. This is so you can make an informed judgment about whether Baron Focused Growth Fund remains an appropriate investment for your family.

Respectfully,

Ronald Baron
CEO and Portfolio Manager
January 8, 2013

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

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The Baron Family of Funds is described in prospectuses which contain this and other information about the Funds. You should carefully read the prospectus before investing. You can obtain a copy of the prospectus by contacting the Funds' distributor, Baron Capital, Inc., at 767 Fifth Avenue, New York, New York, 10153, or by calling 1-800-99BARON, or by going to our website at www.BaronFunds.com.

* 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 small and medium-sized companies and using non-diversification, but there also may be more risk. Specific risks associated with non-diversification include increased volatility of the Fund's returns and exposure of the Fund to greater risk of loss in any given period. Securities of small and medium-sized companies 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 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.

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