

Baron International Growth Fund

DEAR BARON INTERNATIONAL GROWTH FUND SHAREHOLDER:

PERFORMANCE

The Baron International Growth Fund (the "Fund") appreciated 1.14%, while our principal benchmark index, the MSCI ACWI ex USA IMI Growth Index, declined 3.20% for the second quarter of 2013. During the quarter, as we had anticipated, the global equity markets exhibited increased volatility, in our view driven largely by shifting perceptions of future global central bank policy, and by developing short-term concerns over the economic and policy outlook in China. As we noted last year, the U.S. economy continues to stand as a pillar of strength given the rebound in housing activity and prices, resilient consumer spending, and the deferral of fiscal adjustments. Japan also deserves mention as the top-performing major equity market year-to-date. We believe the market-friendly political, financial and economic change occurring in Japan is likely to continue for the foreseeable future. While we address the key factors we see impacting the markets worldwide in further detail in the Outlook section of this letter, as mentioned last quarter, we maintain that a more risk conscious environment would likely favor our investment approach, which is focused

Table I.
Performance (Retail Shares)[†]
Annualized for periods ended June 30, 2013

	Baron International Growth Fund ^{1,2}	MSCI ACWI ex USA IMI Growth Index ¹	MSCI ACWI ex USA Index ¹
Three Months ³	1.14%	-3.20%	-3.08%
Six Months ³	2.83%	1.35%	-0.04%
One Year	11.97%	14.31%	13.63%
Three Years	9.90%	8.77%	7.99%
Since Inception (December 31, 2008)	14.25%	11.74%	10.77%

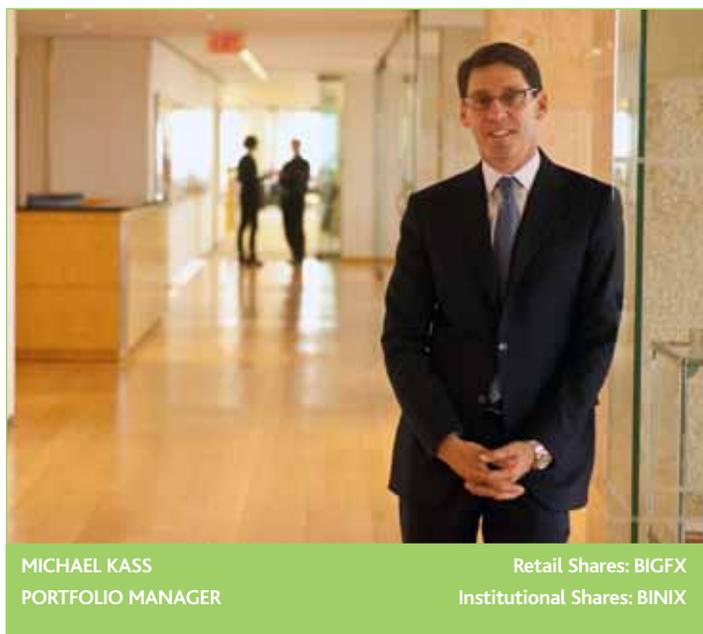
Performance listed in the above table is net of annual operating expenses. As of the last fiscal year ended December 31, 2012, annual operating expense ratio for the Retail Shares was 1.78%, but the net annual expense ratio was 1.50% (net of the Adviser's fee waivers). *The performance data quoted represents 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) 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.*

[†] 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 MSCI ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI ACWI ex USA IMI Growth Index Net USD measures the equity market performance of large, mid and small cap growth securities across developed and emerging markets, excluding the United States. The MSCI ACWI ex USA Index Net USD measures the equity market performance of large and mid cap securities across developed and emerging markets, excluding the United States. The indexes and Baron International Growth Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

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

³ Not annualized.



MICHAEL KASS
PORTFOLIO MANAGER

Retail Shares: BIGFX
Institutional Shares: BINIX

on higher quality, capital-efficient growth companies driven by strong and entrepreneurial management teams.

We were pleased with our second quarter relative performance, and remain confident in the long-term outlook for our strategy and the companies in which we are invested. We note that, while by design we maintain broad diversification by country and sector, overall we have also maintained a developing world bias, given superior growth and, in our opinion, value creation potential. During the second quarter, developing world equities continued to noticeably underperform as a group – with many major emerging market indexes down solid double digits in U.S. dollar terms. However, unlike the first quarter, our strong stock selection far exceeded any negative impact from our modest overweight in developing markets. Such stock selection was widespread, led by **SodaStream International Ltd.** in Israel, **Ryanair Holdings plc**, **Opera Software ASA** and **Ingenico SA** in Europe, **Kakaku.com, Inc.**, and **Softbank Corp.** in Japan, and **Sina Corporation** and **21Vianet Group, Inc.** in China. Overall, such positions drove noticeable relative outperformance in the Information Technology, Industrials, and Consumer Discretionary sectors. Our largest area of underperformance was the Health Care sector, where positions such as **Eurofins Scientific SE**, **Qiagen N.V.** and **Grifols SA** consolidated prior gains and retreated during the quarter. In addition, **Radware Ltd.** and **TOTVS SA** announced disappointing financial results during the quarter, leading to more significant stock price declines. Finally, our relative performance for the quarter was again helped by our limited exposure to the Materials sector.

Table II.
Top contributors to performance for the quarter ended June 30, 2013

	Percent Impact
SodaStream International Ltd.	0.92%
Ryanair Holdings plc	0.69
Softbank Corp.	0.62
Kakaku.com, Inc.	0.34
Sina Corporation	0.30

SodaStream International Ltd. develops, manufactures, distributes, and markets a home carbonation system for making seltzer and soda. During the second quarter, the stock continued to perform well as the company hosted its first analyst day, reiterated strong momentum, and set up a long-term goal of \$1 billion in revenue by 2016. In addition, rumors about a potential buyout by Coke or Pepsi fueled enthusiasm for the stock. (Gilad Shany)

Shares of **Ryanair Holdings plc** increased 23.3% during the second quarter, after reporting a large aircraft order and a share buyback program. Ryanair is Europe's "ultra low cost" airline, flying 80 million passengers per year with 15% market share. (Aaron Wasserman)

Softbank Corp. is a leading provider of mobile communications and broadband Internet access in Japan. It also owns significant stakes in Internet-related businesses throughout the world. Softbank shares were strong during the second quarter, rising 27.2%, as investors gained comfort that its proposed acquisition of Sprint Nextel would be completed at a reasonable price. Further supporting the shares was the general strength of the Japanese economy and stock market, as well as an increased likelihood of an IPO of the leading Chinese e-commerce player, Taobao, which is 33% owned by Softbank. (Michael Kass)

Kakaku.com, Inc. shares continued to rise through the second quarter after a nearly 70% rise in Q1. The operator of several websites in Japan, Kakaku is on the cusp of monetizing Tabelog.com, a Japanese equivalent of OpenTable.com. With a sharp rise in the number of users and restaurants, we expect Kakaku's fee revenue from Tabelog.com to become a significant contributor to total revenue going forward. (Kyuhey August)

Sina Corporation was up 14.7% in the second quarter. Sina operates the leading Internet portal in China and also owns Sina Weibo, the largest Twitter-like service in China. Outperformance in the second quarter was due to an alliance with Alibaba Group, which paid \$586 million for an 18% stake in Sina Weibo. Alibaba operates the largest C2C and B2C sites in China. We continue to like Sina's prospects for monetizing Sina Weibo after this deal. (Catherine Chen)

Table III.
Top detractors from performance for the quarter ended June 30, 2013

	Percent Impact
Radware Ltd.	-0.49%
TOTVS SA	-0.36
Standard Chartered PLC	-0.28
Intertek Group plc	-0.23
DEN Networks Ltd.	-0.20

Radware Ltd. manufactures integrated networking solutions for application performance optimization and security. Radware's stock detracted after the

company missed its first quarter guidance due to poor sales execution in Europe. We continue to believe in Radware's ability to grow its share in the U.S. application delivery controller market due to its high performance virtual product, and we view its security offering (around Denial of Service attacks) as differentiated and a potentially significant growth avenue. (Gilad Shany)

Shares of **TOTVS SA**, which develops and markets software solutions and services to small- and medium-sized businesses throughout Latin America, declined during the second quarter, as the company announced results that were below expectations. TOTVS' results were negatively impacted by slower growth in Brazil, which dampened new license sales as well as pricing power for the portion of its business that is tied to client revenue. At the same time, Brazilian wage inflation resulted in a net increase in costs, causing TOTVS' margins to compress. Compressing multiples across emerging markets also weighed on TOTVS' performance in the second quarter. (Neal Rosenberg)

Standard Chartered PLC is an international commercial and investment bank with a principal focus on developing countries in Asia, Africa, and the Middle East. Although recent results have been generally in-line with management and market expectations, deteriorating financial conditions in several of the company's markets have weighed on the stock price during the second quarter. While we anticipate that non-performing loans are likely to rise somewhat, Standard Chartered has one of the best long-term records of credit allocation and management performance among all global banks. (Josh Saltman)

Shares of **Intertek Group plc** detracted from performance in the second quarter. Intertek provides testing, inspection, and certification services to help customers ensure the quality and safety of their products, processes, and systems. The company's organic revenue growth slowed in the first four months of 2013 to 7%, slightly below Wall Street estimates, due to a sharp decline in the minerals business, which led to pressure on its operating profit margin. Management also provided guidance for flat margins for the full year, which was lower than Wall Street estimates. (Neal Kaufman)

Shares of **DEN Networks Ltd.** declined 11.6% in the second quarter. The company is one of India's largest cable TV providers and is currently benefiting from digitization of cable systems as mandated by the government of India. The underperformance during the second quarter was largely attributable to the recent sell-off in Indian mid-cap stocks, along with devaluation of the Indian Rupee. We retain conviction in the name due to the expected multi-fold increase in subscription revenue/earnings post-digitization. (Anuj Aggarwal)

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of June 30, 2013 - Developed Countries

	Percent of Net Assets
Ryanair Holdings plc	3.8%
Eurofins Scientific SE	3.2
Softbank Corp.	3.0
SodaStream International Ltd.	2.7
Mitsui Fudosan Co. Ltd.	2.5
Compagnie Financiere Richemont SA	2.2
FANUC Corp.	2.1
Agilent Technologies, Inc.	2.1
Kakaku.com, Inc.	2.1
Symrise AG	1.9

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Table V.

Top five holdings as of June 30, 2013 - Developing Countries

	Percent of Net Assets
Sina Corporation	2.6%
Kroton Educacional SA	1.7
NQ Mobile, Inc.	1.6
Financial Technologies Ltd.	1.6
KT Skylife Co. Ltd.	1.4

Exposure by Country: At the end of the second quarter of 2013, the Fund was invested approximately 74.5% in developed countries and 22.6% in developing countries, with the remaining 2.9% in cash. The Fund seeks to maintain broad diversification by country at all times. A detailed review of the Fund's holdings by country is available at the back of this Baron Funds Quarterly Report.

Table VI.

Percentage of securities in developed markets as of June 30, 2013

	Percent of Net Assets
Japan	17.2%
Germany	8.5
United Kingdom	8.2
Switzerland	6.4
Israel	5.9
France	4.9
United States	4.4
Norway	4.3
Ireland	3.8
Canada	3.6
Australia	2.9
Hong Kong	1.5
Spain	1.4
Italy	0.8
Sweden	0.7

Table VII.

Percentage of securities in developing markets as of June 30, 2013

	Percent of Net Assets
China	8.1%
India	5.4
Brazil	3.9
Russia	1.6
Korea	1.4
Indonesia	1.4
Mexico	0.8

The Fund may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. As of June 30, 2013, the Fund's median market cap was \$3.7 billion, and, excluding cash, we were invested approximately 39.1% in large/giant cap companies, 34.3% in mid cap companies and 19.8% in small cap companies, as defined by Morningstar.

RECENT ACTIVITY

During the second quarter, consistent with the outlook discussed below, we further moderated our exposure to developing world equities, largely in Brazil, Indonesia, Korea and Russia; on the margin, we increased exposure in Japan, China and select European countries. We established a new position in **Inchcape plc**, an automotive dealer and supply chain/logistics expert that allows leading OEMs to access several countries efficiently worldwide, with particular expertise in the developing world. We also initiated positions in **Brenntag AG** of Germany, another logistics-based distributor focused on chemicals worldwide, and **Credit Suisse Group**, a diversified global investment and private bank that we believe is well-positioned as European financial conditions stabilize. Last, we note a new position in **Haitong Securities Co., Ltd.**, a leading Chinese securities industry firm that we believe will benefit greatly in coming years due to the significant reforms taking place across China's financial sector. During the quarter, we also sold positions where poor execution or deteriorating fundamentals caused us to reassess our expectations for value creation; such positions include **conwert Immobilien Invest SE**, a German residential real estate company, **Daum Communications Corp.**, a Korean Internet portal and search engine, **Luk Fook Holdings (International) Ltd.**, a Hong Kong-based retailer of gold and jewelry, and **Qualicorp SA**, a Brazilian managed care services provider.

OUTLOOK

"Taper Tantrum." Last quarter, we highlighted several risks to equity markets in the short term, particularly the emerging markets, posed by developments in China and Japan and the weakness in commodity prices. More recently, concerns over the likelihood and timing of the Federal Reserve (the "Fed") tapering its government bond purchases emerged with sudden impact to equity, bond, currency and commodity markets worldwide. While we recognize that "tapering" is not an explicit monetary tightening, we do believe that this recent signal to the markets is meaningful and likely suggests that the point of maximum credit easing has passed. The good news is that the Fed would not likely send such a signal without confidence in the improving domestic economy; however, at a minimum, we believe we are entering a period of increased volatility and note that recent market activity may reflect unintended consequences related to quantitative easing on a grand scale.

With regard to the recent Fed communication, many pundits suggest that markets overreacted. Our view is that, while this may be the case broadly, some of the assets most positively impacted by recent easing likely became overvalued – driven higher by excess liquidity and momentum. In our opinion, high on such a list would be emerging market and high yield bonds, and while the recent selloff was swift and severe, we would not expect a recovery in such assets to prior levels any time soon. However, if bond prices, currencies and economic growth continue to stabilize from here, we do believe global equities likely represent the preferred asset class in which to invest.

In our view, in addition to Fed communication, China stood out in recent months as a second critical driver of global capital markets. We have remarked at length about the consequence of the leadership transition in China last fall; however, in recent weeks, there has been growing evidence that key reforms are actually likely to be implemented. Previously, most

China observers suggested such reforms were strong talk but likely to be severely weakened and overwhelmed by the status quo of government stimulus and largesse. Paradoxically, the recent weakness in China's growth expectations, stock market and global commodity prices is being driven by the new leadership's apparent resolve to "do the right thing" for the long-term in China! Of course, this suggests tough medicine in the near-term, as reforms include vigilance against corruption, a slowdown in credit growth, controls on shadow finance, and increased flexibility of interest rate and currency movements; basically, a shift from a command system with government bureaucrats at the core towards a more market driven economy and credit allocation system. We believe this is a favorable and necessary adjustment, and would also likely present many new investable themes; however, in the very short-term, such a shift presents increased risk of turbulence to global capital markets, evidenced by the recent government-created and managed liquidity crisis in China's banking system. While we believe risks here remain, we continue to hold several Chinese investments, many of which have performed quite well so far this year. While the slowdown in China has had broad impact on markets, such as Brazil, and across commodities, on a currency-adjusted basis the Chinese equity market has actually outperformed many of the major emerging markets despite widespread bearishness and pessimism. Given that the China CSI 300 Index, a proxy for the China "A Share" markets, has retreated roughly 40% since the post-crisis peak in August of 2009, it would appear that much of the bad news has already been priced in.

In Europe, financial conditions remained fairly stable subsequent to the bailout of Cyprus, while discussions on banking and fiscal union progressed slowly. We believe the major unresolved policy decisions will remain largely in a holding pattern until after the upcoming German elections in late September. However, with progress made to date, we believe Europe remains an attractive region for new investment ideas. Notwithstanding a significant correction beginning in late May, Japan remained the top performing major equity market in the world for the year-to-date. We believe that Prime Minister Abe's radical shift in policy is likely to show increased signs of success in coming months, and we expect more specifics

on important reforms subsequent to parliamentary elections in July. We remain enthusiastic regarding our investments in Japan, and as we believe it is likely to exhibit strong relative returns going forward, we continue to look for opportunities to increase our investments there. We note that the Bank of Japan is now by far the most aggressive central bank in the world, and there are increasing signs of improving consumer confidence and industrial activity.

As fundamentals and policy continue to evolve and deviate across many countries and markets, we would characterize recent market behavior as a mean reversion in capital flows and wealth from the developing world to the developed world, and from commodity producers to commodity consumers. A key signpost of this trend is the rising U.S. dollar, which we expect to continue in the near term; as mentioned last quarter, the ongoing slowdown in China and potential inflection point in Fed behavior both suggest such a phenomenon. As a consequence of this shift, in recent months we have on the margin increased exposure to several companies and countries that we view as beneficiaries, and likewise have reduced our holdings in companies where we perceive increased risk. On balance, we remain quite enthusiastic over our portfolio of investments and the fundamentals of the underlying companies, and we reiterate that in the longer-term, the developing world, and particularly the developing world consumer, remains the primary engine of global growth.

Thank you for investing in the Baron International Growth Fund.

Sincerely,

Michael Kass
Portfolio Manager
July 23, 2013

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



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