

DEAR BARON PARTNERS FUND SHAREHOLDERS:

OUTLOOK

"That's one in a row." Ron Taylor. Former CEO. DeVry Institutes. March 2012.

United States' stock markets achieved strong gains during the first quarter of 2012. When Ron Taylor, DeVry Institute's former CEO, and I were recently discussing our respective basketball skills, he described to me how he felt after making a foul shot. I thought the analogy to his "that's one in a row" remark was relevant to the strong quarter stocks just experienced. Since

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

|   | Baron Partners Fund <sup>1,2,3</sup> | Russell Midcap Growth Index <sup>2</sup> | S&P 500 Index <sup>2</sup> |
|---|--------------------------------------|--|----------------------------|
| Three Months <sup>4</sup>                               | 13.87%                               | 14.52%                                   | 12.59%                     |
| One Year  | 0.18%                                | 4.43%                                    | 8.54%                      |
| Three Years   | 26.80%                               | 29.16%                                   | 23.42%                     |
| Five Years  | 0.88%                                | 4.44%                                    | 2.01%                      |
| Since Conversion (April 30, 2003)                       | 12.62%                               | 10.69%                                   | 7.07%                      |
| Ten Years   | 8.48%                                | 6.92%                                    | 4.12%                      |
| December 31, 1999 - March 31, 2012. "The Bad Times."    | 6.15%                                | 2.49%                                    | 1.52%                      |
| January 31, 1992 - December 31, 1999. "The Good Times." | 22.45%                               | 19.26%                                   | 20.21%                     |
| Since Inception (January 31, 1992) "All the Times."     | 12.27%                               | 8.77%                                    | 8.48%                      |

"Little Progress"

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of December 31, 2011 was 1.71% (comprised of operating expenses of 1.35% and interest expense of 0.36%). *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 month-end, visit [www.BaronFunds.com](http://www.BaronFunds.com) or call 1-800-99BARON.*

<sup>1</sup> 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.

<sup>2</sup> 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 Index 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.

<sup>3</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>4</sup> Not annualized.



RONALD BARON  
PORTFOLIO MANAGER AND CHIEF INVESTMENT OFFICER

stocks remain at such historically attractive levels relative to earnings, interest rates, growth prospects, corporate balance sheets and ten year interest rates while investors remain unusually cautious, we expect a lot more "one in a row" periods like this one during the next ten years.

*December 31, 1999 through December 31, 2011 was the worst period for stocks in U.S. history!*

Stocks strong performance during the quarter ended March 31, 2012 followed a 12 year period that was the most difficult for equity investors in the entire 235 year history of the United States! Returns for our stock markets during the first 12 years of this new millennium were worse than during the Depression in the 1930s and the prolonged stagflation during the 1970s amidst the failed presidency of Jimmy Carter.

The poor returns for U.S. stock markets for the 12 years after December 31, 1999 were partly due to unusually high price/earnings valuations and great investor optimism at the start of the period. As Warren Buffett has remarked, "you pay a high price for optimism." In December 1999, stocks in general were valued for more than 30 times earnings. This was just before the "Internet Bubble" burst. Such optimistic pricing for stocks did not presage the possibility for a decade of adversity like we just experienced. Equity pricing in 1999 compares to an historically "normal" 15.5 times market p/e ratio. Stock markets in the United States financial history on occasion have exceeded valuations above 20 times earnings. On rarer instances, they briefly fell below 10 times earnings. U.S. stocks began 2012 valued for 12 times estimated earnings. At the end of a strong first quarter 2012, U.S. stocks remain valued for a below average 13.5 times FactSet's compilation of Wall Street analysts' 2012 earnings estimates. Publicly held businesses increased their earnings on average 15% last year. Analysts expect them to increase earnings per share more than 10% this year. Baron Partners Fund's investments increased their earnings on average more than 20% last year. Our firm's analysts expect Baron Partners Fund's businesses to increase their earnings more than 15% in 2012.



# Baron Partners Fund

## PERFORMANCE

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*Whether times are good or bad, over the long term Baron Partners Fund has substantially outperformed U.S. stock markets.*

*"The Bad Times." December 31, 1999 through March 31, 2012.*

Baron Partners Fund increased its net asset value per share 107.74%, 6.15% annualized, from December 31, 1999 through March 31, 2012. That was the worst 12 and a quarter year period in our country's financial history. The Russell MidCap Growth Index, the benchmark index against which we measure our performance, increased 35.10%, 2.49% annualized, during the period. The S&P 500 Index gained 20.25%, 1.52% annualized, during the period.

*"The Good Times." January 31, 1992 (Inception) through December 31, 1999.*

During the almost eight years from Baron Partners Fund's inception on January 31, 1992 through December 31, 1999, an unusually strong period for U.S. stocks, Baron Partners Fund increased in value 396.85% per share, 22.45% annualized. The Russell Midcap Growth Index, our benchmark index, increased in value 303.16%, 19.26% annualized during the period. The large cap S&P 500 Index increased 329.45%, 20.21% annualized during the same period.

Baron Partners Fund has achieved the 12.27% annualized gains from the Fund's inception more than 20 years ago. This compares to 8.77% annualized for the Russell Midcap Growth Index and 8.48% annualized for the S&P 500 Index. Baron Partners Fund, like all Baron Funds, is not trying to replicate the performance of an index. As a result, when certain GICs industry sectors in which the Index is more heavily weighted than Baron Partners Fund, outperform or underperform during finite periods, Baron Partners Fund is likely to outperform or underperform during those periods.

*We believe Baron Partners Fund's investment strategy will allow it to continue to outperform over the long term. There is no guarantee we will achieve our objectives.*

Although we have not made significant progress increasing Baron Partners Fund's per share net asset value during the past five years, we hope to significantly improve Baron Partners Fund's absolute and relative performance during the coming decade.

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 over 20 years ago through March 31, 2012, the Fund's compounded rate of return was 12.27%. This means we have doubled our net asset value per share approximately every six years. This is although 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 Baron Partners Fund 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 19 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. That is again the case. At the end of the March 31, 2012 period, Baron Partners Fund held 77.55% of its total investments in 10 stocks. It held the balance in nine investments that we hope will perform so well they will also become top 10 stocks. Baron Partners Fund's portfolio is again structured similarly to periods during which it outperformed. Of course, non-diversification is a more risky investment strategy with increased volatility to the Fund and exposure of the Fund to greater loss in any given period.

We continue 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 expect to invest this focused portfolio in less than 30 businesses, principally mid-cap companies. We think the Fund's portfolio investments diversified by GICs sectors will be less volatile than the market. We are not attempting to match any index with our allocations to GICs sectors.

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 (37% with wide economic moats vs. 15% for the benchmark).\* (See endnote on Page 35.)

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" to protect against uncertain economic times and world developments. This should permit our businesses to become much larger over the long term and 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 (22.31% vs. 16.89% for the Russell Midcap Growth Index), return on invested capital (15.02% vs. 12.81%), and whether businesses employ leverage (total debt to market cap 22.41% vs. 25.39%). Further, the growth businesses in which we invest have significantly greater percentage of their income from recurring revenues than businesses included in the benchmark index. This means that the standard deviation of their earnings is less (a good thing) than the index, 56.83% vs. 89.15%, which we think will likely result in lower stock price volatility (also a good thing).

**Baron Partners Fund's long term investments positively impact performance in quarter.**

BAMCO Inc. ("BAMCO"), the investment manager of Baron Partners Fund, develops investment ideas from its proprietary research in growth

companies. BAMCO has made and continues to make significant investments in its research effort. Our research has been able to identify a large number of businesses that have increased significantly in size over several years. We believe shareholders of Baron Partners Fund, which invests for the long term in those businesses rather than trades their stocks, benefit from this research through the long term investments of Baron Partners Fund.

Baron Partners Fund had annual average turnover of its portfolio for the last three years of 18.07% per year. This means Baron Partners Fund holds its investments for an average of about six years! The average mutual fund that invests principally in mid cap, growth stocks turns over its entire portfolio approximately every 10 months!

As you can see from Table II, the investments that have made the largest contribution to Baron Partners Fund's performance in the this quarter were purchased from 1992 through 2009. Of the top 10 holdings in Baron Partners Fund at the end of the March quarter, the two most recent purchases were made in 2009.

My clients and I as a young analyst invested in hotel owner/operator **Hyatt Hotels Corp.** for the first time in 1976. We about tripled our money when in 1979 the Pritzker family in Chicago "brought Hyatt private." Baron Partners Fund invested in Hyatt in 2009 when it once more became a publicly owned business. We have since earned a return of about 50% on that investment and hope to earn a lot more. We will see. Hyatt is now experiencing strong occupancies and is significantly increasing its room rates. We also invested in **Verisk Analytics, Inc.** in 2009 and have since earned more than 70% on that investment. We expect to earn a lot more on this investment as well. Verisk's unique data helps property and casualty insurers underwrite their policies better. It is also helping ferret out fraudulent mortgage and healthcare claims. It is beginning to benefit from an increasingly "hard" (strong) insurance market. During a recent meeting with executives from that business it was mentioned to us that another large Verisk shareholder, Warren Buffett, advised them to continue to build their competitive barriers.

The performance we are currently achieving is the result of successful investments made five or six or seven years ago that are now maturing. The performance we expect to achieve for Baron Partners Fund in five or six or seven years from now are those investments we are making today and have made during the past few years like Verisk and Hyatt.

During the first quarter, 75.45% of Baron Partners Fund's assets were invested in businesses that achieved double digit returns; 33.88% achieved single digit returns; and, 11.73% had negative returns. Several among our long term investments whose prospects continue to seem quite favorable to us, had either nominal gains or modest losses during the quarter. Several had performed strongly last year. Among the modest stock price gains were achieved by independent power transmission business **ITC Holdings Corp.**, leading ski resort **Vail Resorts, Inc.**, and property and casualty insurer **Arch Capital Group Ltd.** The business with a modest loss that we think will be reversed at some point is leading horizontal drilling business **Helmerich &**

**Payne, Inc.**, which should benefit from exploitation of massive shale energy reserves in our country.

During the first quarter among the strongest performing stocks were companies we regard as "lower quality", businesses with the highest beta (greatest volatility); lowest S&P credit ratings; non earners; and cyclical businesses that have the highest standard deviation of earnings. This is the exact opposite of what happened during 2011. We think when markets rebound after performing poorly, it is often businesses with most favorable prospects whose shares are least volatile begin to outperform after the initial surge upward. We will see if that continues to be the case.

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

|                                | Year Acquired | Market Cap When Acquired (billions) | Quarter End Market Cap (billions) | Percent Impact |
|--------------------------------|---------------|-------------------------------------|-----------------------------------|----------------|
| Fastenal Co.                   | 2006          | \$6.8                               | \$16.0                            | 3.01%          |
| Dick's Sporting Goods, Inc.    | 2005          | 1.6                                 | 5.8                               | 2.83           |
| The Charles Schwab Corp.       | 1992          | 1.0                                 | 18.3                              | 1.51           |
| Hyatt Hotels Corp.             | 2009          | 4.2                                 | 7.1                               | 1.37           |
| FactSet Research Systems, Inc. | 2007          | 2.5                                 | 4.5                               | 1.27           |

Shares of **Fastenal Co.**, the leading industrial supplies distributor, gained 24.5%, as demand from manufacturing and commercial construction clients continued to improve. Sales across the company's 2,500 branches have continued to show healthy comparative sales increases, even at stores more than 10 years old. 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 increasingly relying on the company to save them costs, cut working capital and improve productivity. (Matt Weiss)

Shares of **Dick's Sporting Goods Inc.**, the country's largest sporting goods retailer, increased 30.7% in the quarter. Sales beat expectations despite a difficult winter selling season. The company was able to achieve a higher average purchase by successfully raising prices on its apparel and footwear products. New-store productivity remained strong as the company opened 36 locations for the year. New-store openings remain on track for 2012, with another 40 stores planned. Gross margins also continued to rise. E-commerce sales rose 52% and should, in our view, remain a driver of top-line growth as new initiatives are implemented in 2012 and 2013. (Michael Baron)

Shares of **The Charles Schwab Corp.**, an online broker, gained 28.2%. After a rough 2011, Schwab is up strongly as investors start to price in the possibility that interest rates may rise sooner than 2014 as promised by the Federal Reserve. Rising rates should help raise Schwab's net interest margin, reduce fee waivers and boost earnings power. We like Schwab because of its best-in-class platform and its effort to move investors' assets into higher-fee, longer-duration active management. (Rob Susman)

# Baron Partners Fund

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

|                                     | Year Acquired | Market Cap When Acquired (billions) | Quarter End Market Cap or Market Cap When Sold (billions) | Percent Impact |
|-------------------------------------|---------------|-------------------------------------|---|----------------|
| C.H. Robinson Worldwide, Inc.       | 2003          | \$3.2                               | \$10.7  | -0.35%         |
| DeVry, Inc.                         | 2008          | 2.9                                 | 2.3   | -0.31          |
| Helmerich & Payne, Inc.             | 2006          | 2.6                                 | 5.8   | -0.20          |
| Kerzner International Holdings Ltd. | 2006          | 1.5                                 | 0.1   | -0.15          |
| Arcos Dorados Holdings, Inc.        | 2011          | 4.5                                 | 4.3   | -0.15          |

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 are improving, the company is experiencing temporary margin pressure as its costs increase faster than its rates. 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. (Matt Weiss)

The stock price of **DeVry, Inc.**, a provider of diversified postsecondary education emphasizing business, technology and healthcare, declined after reporting that it missed both top- and bottom-line estimates in the fourth quarter. DeVry also lowered 2012 guidance, and now anticipates an earnings decline year over year. DeVry's enrollment softened, due to continued economic weakness and disruptions sustained as it adapts to regulatory changes. The Fund exited this position in the quarter. (Susan Robbins)

**Helmerich & Payne, Inc.** is a leading land-drilling contractor in the U.S. and has the highest proportion of new-generation land rigs among its major competitors. Helmerich & Payne shares declined amid concerns that decade-low gas prices would result in lower overall drilling activity. Helmerich & Payne has the lowest exposure to gas drilling among its peers, which we believe should enable it to weather the transition from gas drilling to oil drilling that is now underway in the U.S. Further, demand for its high technology, highly efficient rigs remains strong, leading to premium margins and continued interest in new builds by its customers. (Jamie Stone)

## RECENT PORTFOLIO ADDITIONS

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

|                    | Year Acquired | Market Cap When Acquired (billions) | Quarter End Market Cap (billions) | Amount (millions) |
|--------------------|---------------|-------------------------------------|-----------------------------------|-------------------|
| CarMax, Inc.       | 2011          | \$6.1                               | \$7.9                             | \$1.6             |
| Vail Resorts, Inc. | 2008          | 1.6                                 | 1.6                               | 0.2               |

**CarMax, Inc.** With \$10 billion in sales, CarMax is the nation's largest retailer of used cars—selling over 400,000 vehicles annually at its

nation-wide superstores. Since its founding, CarMax has transformed the used car buying experience, providing customers with an unmatched selection of high quality, reconditioned vehicles in a transparent sales environment. We have been investors in the company since 2004 and took advantage of recent weakness to build a position for Baron Partners Fund. We believe the company possesses double-digit growth prospects from a base of just 100 stores and single-digit share of a \$300B market. We are also excited about the prospects for CarMax's wholesale business, which has grown to 17% of sales and the third largest auto auction house in the country. This division enables CarMax to self-source its own inventory, giving the company's buyers the 'green light' to buy any vehicle they appraise. The company conducts over two million appraisals a year and hosts regular auctions at its sites for those vehicles that do not meet strict retail requirements. CarMax is currently benefitting from recovering same store sales and record high levels of used car prices – due to reduced supply as owners have held onto vehicles longer – which we believe will lead to substantial pent-up demand. These high used car prices are benefitting profit margins at both the company's retail and wholesale divisions. (Matt Weiss)

## PORTFOLIO STRUCTURE

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

|                                | 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                               | \$16.0                            | \$121.7                                 | 10.5%                        |
| ITC Holdings Corp.             | 2005          | 0.8                                 | 4.0                               | 115.4                                   | 9.9                          |
| Hyatt Hotels Corp.             | 2009          | 4.2                                 | 7.1                               | 106.8                                   | 9.2                          |
| Arch Capital Group Ltd.        | 2002          | 0.6                                 | 5.0                               | 105.2                                   | 9.0                          |
| Dick's Sporting Goods, Inc.    | 2005          | 1.6                                 | 5.8                               | 104.6                                   | 9.0                          |
| FactSet Research Systems, Inc. | 2007          | 2.5                                 | 4.5                               | 99.0                                    | 8.5                          |
| Verisk Analytics, Inc.         | 2009          | 4.0                                 | 7.7                               | 77.5                                    | 6.7                          |
| The Charles Schwab Corp.       | 1992          | 1.0                                 | 18.3                              | 64.7                                    | 5.6                          |
| MSCI, Inc.                     | 2008          | 3.0                                 | 4.5                               | 55.2                                    | 4.7                          |
| C.H. Robinson Worldwide, Inc.  | 2003          | 3.2                                 | 10.7                              | 52.4                                    | 4.5                          |

## 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  
May 17, 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.

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