

DEAR BARON FIFTH AVENUE GROWTH FUND SHAREHOLDER:

My name is Alex Umansky.

I have been managing the Baron Fifth Avenue Growth Fund since November 1, 2011. Instead of focusing on reviewing 2011, (the market was up a bit, and we were down a bit) or on the outlook for 2012 (I don't really have one), I thought I would take this opportunity to introduce myself and describe the investment philosophy and process that we will implement in investing your money.

I joined Baron Capital from Morgan Stanley Investment Management where I spent 19 years as a research analyst and a Portfolio Manager of various Technology, Small Cap, Large Cap, Global, and International growth portfolios. While it's only been two months, the team at Baron has proven to be even more passionate, creative, and thoughtful than I had expected and I am thrilled to be a part of it.

Philosophically, we believe that value-added investment results can be achieved more consistently through bottom-up analysis and judgment than through top-down forecasting. Baron's long-term ownership mindset provides the foundation for our investment philosophy.

Our investment process focuses on identifying unique companies with sustainable competitive advantages and the ability to redeploy capital at high rates of return. Fundamentally, we believe that development of insights is more important than "incremental" information and overemphasis of short-term events or results. We will invest in companies that we believe to be underappreciated by the market and that sell at a significant discount to our estimate of their intrinsic values. Quality of ideas, rather than benchmarks, will dominate portfolio construction with conviction level and margin of safety the highest determinants in position weights.

Conventional measures of risk, such as tracking error, which measure volatility, will be an outcome rather than a target. We define risk as

Performance listed in the table is net of annual operating expenses. Annual operating expense ratio for the Retail Shares as of September 30, 2011 was 1.59%, but the net annual expense ratio is 1.30% (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 for Baron Fifth Avenue Growth 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 S&P 500 Index is an unmanaged index. The S&P 500 Index measures the performance of large cap U.S. equities in the stock market in general. The index and the Baron Fifth Avenue Growth Fund are with dividends, which positively impact the performance results.

² 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.

³ Not annualized.



ALEX UMANSKY
PORTFOLIO MANAGER

permanent loss of capital and will manage it by focusing on business risk (competition, mismanagement, regulations), valuation risk (purchase price did not provide large enough margin of safety), financial risk (leveraged capital structure), and analysis risk (our assumptions prove incorrect). Rather than trying to predict the direction of the market and attempt to "position" the portfolio one way or another, we believe the best way to manage market risk is by investing in unique companies that sell into different end markets and different geographies.

PERFORMANCE

While the Fund had strong absolute performance during the quarter, the results lagged the benchmark by 235 basis points.

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

	Baron Fifth Avenue Growth Fund ^{1,2}	S&P 500 Index ¹
Three Months ³	9.47%	11.82%
One Year	-2.58%	2.11%
Three Years	12.20%	14.11%
Five Years	-1.84%	-0.25%
Since Inception (April 30, 2004)	2.35%	3.78%

Shares of **Google, Inc.** rose 25.4% on the back of a strong third quarter. Google remains the dominant search engine globally and the largest enabler of online advertising. The company grew revenue 33% year over year and provided the second quarter in a row where financial performance exceeded expectations. The company invests in several incremental growth opportunities including YouTube, Android, Chrome and Google+. We continue to believe that Google's leadership, market opportunity, and valuation provide a compelling investment opportunity. (Ashim Mehra)

Baron Fifth Avenue Growth Fund

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Google, Inc.	\$209.7	0.92%
Kansas City Southern	7.6	0.92
Fastenal Co.	12.9	0.73
Intuitive Surgical, Inc.	18.1	0.66
YUM! Brands, Inc.	27.2	0.56

Shares of **Kansas City Southern** advanced after reporting robust freight volumes and pricing trends. KSU is the smallest of the seven North American Class 1 Railroads. KSU has a unique network running from the Midwest down to the Gulf States, Texas and into Mexico. The outlook for domestic freight haulage remains bright given a stable U.S. economy and the share gains and pricing power of rail over truck transportation. KSU is also advantaged by its cross-border trade opportunity with Mexico, which is fueling much of its rapid growth. (Matt Weiss)

Shares of **Fastenal Co.**, the leading industrial supplies distributor, performed well, rising 31.6% as demand from manufacturing and commercial construction clients improved. Sales across the company's 2,500 branches strengthened throughout 2011. Fastenal's customers are relying on the company increasingly to save costs, cut working capital and improve productivity. Fastenal is converting this renewed demand into faster profit growth, a result of strong leverage on occupancy and overhead. (Matt Weiss)

Shares of **Intuitive Surgical, Inc.** gained 27.1% in the December quarter. Intuitive Surgical manufactures and markets the da Vinci robotic surgical system. Procedure growth exceeded Wall Street expectations, driven by gynecology, general surgery, urology, thoracic and head/neck procedures. The company received FDA approval to market single-site instruments for laparoscopic cholecystectomy procedures, opening up a potentially large new market opportunity. We believe that Intuitive Surgical will continue to gain traction in new procedures and has a long runway for growth. (Neal Kaufman)

YUM! Brands, Inc., the owner of the Taco Bell, KFC and Pizza Hut brands, did well in the quarter due to strong growth in its China operations. China continues to be the main growth driver for the company and is projected to contribute close to half the company's total profits in 2012. We like the long-term growth prospects of the company. (Laird Beiger)

Table III.
Top detractors from performance for the quarter ended December 31, 2011

	Quarter End Market Cap (billions)	Percent Impact
Amazon.com, Inc.	\$78.7	-0.77%
Molycorp, Inc.	2.0	-0.49
Red Hat, Inc.	8.0	-0.31
Baidu, Inc.	40.7	-0.23
salesforce.com, inc.	13.8	-0.22

Shares of **Amazon.com, Inc.** declined 19.9%. Investors were concerned that the company's gross margins would contract as it continued to invest in new fulfillment centers. Additionally, Amazon's new tablet, the Kindle Fire, received less than glowing reviews. We believe Kindle Fire results will exceed initial expectations. We think Amazon represents an outstanding opportunity to invest in the long-term transition of commerce from stores to online, which today stands at only 5% of total sales. (Ashim Mehra)

Molycorp, Inc. is the owner of the largest rare earth deposit outside of China. Rare earth prices have continued to fall from summer highs, directly impacting the company's profit and its shares, which declined 27.0% in the quarter. China's recently released 2012 export policy for rare earths was not beneficial to Molycorp. Given the now more opaque supply/demand picture, we have significantly reduced our position. (David Goldsmith)

Red Hat, Inc. develops and supports Linux and open source software solutions. The company's shares were down slightly in the quarter, as the growth of its billings dropped into the low 20% range. We believe Red Hat has an open-ended growth opportunity. (Gilad Shany)

Shares of **salesforce.com, inc.**, a provider of cloud-based customer resources management services, declined due to disappointing bookings and concerns over spending on enterprise software. We attribute slower-than-expected bookings to a combination of minor events rather than any change in the trajectory of salesforce's business, and we expect the company to show improved results next quarter. We believe Oracle's acquisition of RightNow and SAP's acquisition of SuccessFactors validate the growing importance of cloud computing, and we view salesforce as the most visionary player in the cloud. (Neal Rosenberg)

PORTFOLIO STRUCTURE

At December 31, 2011, Baron Fifth Avenue Growth Fund held 43 positions. The Fund's 10 largest holdings represented 36.6% of assets, and the 20 largest represented 61.5% of assets.

RECENT ACTIVITY

We have initiated a number of new positions or added to existing ones since taking over management of the Fund.

Baidu, Inc. is the largest Internet search provider in China with over 90% market share of all search queries. While the advertising market in China is continuing to grow faster than the GDP, we believe Baidu to be one of the primary beneficiaries of increasing share of online advertising as a percent of total advertising spend. We expect rapidly rising numbers of Internet users in China and increased relevancy of ads and coverage to drive higher numbers of advertisers to the auction bidding platform for keywords (as we witnessed with Google), leading to higher ASPs and improved monetization. Additional optionality exists as Baidu leverages its dominance in search by expanding into large verticals, such as Travel and On Demand Video streaming, through its majority stake purchases in Qunar and Qiyi.com.

Monsanto Co. is the leading provider of agricultural productivity products. We believe the company's intellectual property portfolio in the area of biotechnology traits gives the company a meaningful and sustainable competitive advantage. Monsanto's traits allow farmers to significantly improve yields by offering superior protection against insects and weeds, while using less fertilizer and water.

Amazon.com is the largest online retailer in the world. With over 135 million active customers Amazon has become the hub of choice and a favorite destination of shoppers everywhere. We believe Amazon is the best positioned company to capitalize on continued growth of online commerce, which today is less than 5% penetrated. The company's technological innovations, such as AWS, the Kindle tablet, and the recommendation engine, give investors additional monetization opportunities, which we think could prove significant over time.

New Oriental Education & Technology Group is the largest private education company in China with the strongest brand, most extensive program offerings and broadest geographic reach. The company will benefit as disposable income in China continue to rise, leading to increased spending on education in a furiously competitive environment for access to higher education where the acceptance rate into universities is among the lowest in the world. We expect enrollments to continue to grow double digits with the company maintaining its ability to raise prices at rates higher than inflation. We also expect significant operating margin improvement over time as the utilization rates in company's newer schools and learning centers improve.

Table IV.
Top net purchases for the quarter ended December 31, 2011

	Quarter End Market Cap (billions)	Amount (millions)
Baidu, Inc.	\$40.7	\$1.1
Monsanto Co.	37.5	1.1
Amazon.com, Inc.	78.7	0.9
CME Group, Inc.	16.2	0.9
New Oriental Education & Technology Group	3.8	0.9
Mead Johnson Nutrition Co.	14.0	0.9
Verisk Analytics, Inc.	6.6	0.8
Expeditors International of Washington, Inc.	8.7	0.8
Cognizant Technology Solutions Corp.	19.4	0.8
Red Hat, Inc.	8.0	0.7

Table V.
Top net sales for the quarter ended December 31, 2011

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount (millions)
Kansas City Southern	\$ 7.6	\$-1.3
Danaher Corp.	30.7	-1.1
American Tower Corp.	22.7	-1.0
Nielsen Holdings N.V.	10.3	-1.0
FedEx Corp.	26.1	-1.0
Tyco International Ltd.	21.5	-1.0
ANSYS, Inc.	5.4	-0.9
Potash Corp. of Saskatchewan, Inc.	36.3	-0.9
eBay, Inc.	38.5	-0.8
American Express Co.	54.8	-0.8

OUTLOOK

We are excited about the long-term prospects of the companies that comprise this portfolio. We invest no time in trying to figure out what the GDP growth will be next year, whether China will have a hard or a soft landing or whether Greece will remain part of the Euro currency block. We believe the best strategy for long-term appreciation is to collect a mix of unique companies that sell into different end markets and different geographies. We will continue to focus on identifying and investing in companies with sustainable competitive advantages and ability to reinvest excess capital at high rates of return.

Table VI.
Top 10 holdings as of December 31, 2011

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Google, Inc.	\$209.7	\$1.9	5.4%
Apple, Inc.	376.4	1.9	5.2
Amazon.com, Inc.	78.7	1.7	4.8
Visa, Inc.	82.5	1.3	3.5
Fastenal Co.	12.9	1.1	3.0
Brookfield Asset Management, Inc.	17.2	1.1	3.0
MasterCard, Inc.	47.3	1.1	3.0
Monsanto Co.	37.5	1.1	3.0
YUM! Brands, Inc.	27.2	1.0	2.9
Baidu, Inc.	40.7	1.0	2.8

Thank you for investing in Baron Fifth Avenue Growth Fund.

Sincerely,



Alex Umansky,
Portfolio Manager
January 18, 2012

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



The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. 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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