

DEAR BARON GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron Growth Fund performed well during 2012. The Fund gained 16.43% per share for the year. U.S. stock markets also performed well during 2012. The Russell 2000 Growth Index, the benchmark small company growth index against which we compare Baron Growth Fund's performance, gained 14.59% during the year. This is despite the uncertainty engendered by a Presidential election and what seemed to be a stream of relentless negative news about our nation's slow economic growth, persistently high unemployment, whether we could escape falling off the fiscal cliff because of the dysfunctional executive and legislative branches of our government and a budget deficit, which due to the Republican Party's unwillingness to raise taxes and the Democrats' unwillingness to cut the expenses of what seem unaffordable entitlements, endures. This demonstrates the futility, in our opinion, of attempting to "trade the news" rather than attempting to invest in businesses for the long term. We discuss our outlook at the end of this letter, which we think you may guess is unusually favorable. This is since stocks are valued below their median valuations for the past century, businesses are growing and stocks historically have provided better returns than other asset classes.

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

	Baron Growth Fund ^{1,2}	Russell 2000 Growth Index ¹	S&P 500 Index ¹
Three Months ³	2.06%	0.45%	-0.38%
One Year	16.43%	14.59%	16.00%
Three Years	13.49%	12.82%	10.87%
Five Years	3.60%	3.49%	1.66%
Ten Years	9.99%	9.80%	7.10%
Fifteen Years	8.79%	4.04%	4.47%
December 31, 1999 - December 31, 2012 "The Bad Times."	7.11%	1.73%	1.66%
December 31, 1994 - December 31, 1999 "The Good Times."	29.90%	18.99%	28.56%
Since Inception (December 31, 1994) "All the Times."	13.01%	6.26%	8.51%

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of September 30, 2011 was 1.32%. *The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.*

¹ The indexes are unmanaged. The Russell 2000® Growth Index measures the performance of small-sized U.S. 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.

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.



RONALD BARON
CEO AND PORTFOLIO MANAGER

Retail Shares: BGRFX
Institutional Shares: BGRIX

Following U.S. stocks' strong performance during the first three months of 2012, weak results during the second quarter and strong results for the third quarter, stock prices changed little during the quarter ended December 31, 2012. Baron Growth Fund outperformed in the period, as you can see from Table I. 2012 was the second consecutive year that Baron Growth Fund has outperformed its benchmark index. This follows a four year period from 2007 through 2010 when the Fund trailed its benchmark. During that period, however, Baron Growth Fund beat the large cap S&P 500 Index performance substantially, i.e., by more than 11%! This is though we do not try to construct our portfolios to match any index, hoping in the long run to beat them all! Of course, we cannot guarantee we will meet our objectives.

Baron Growth Fund has achieved 675 basis points average annual outperformance relative to its benchmark index since its inception on December 31, 1994. We advise our friends that if they want to achieve performance for their investments *almost as good* as the market over the long term, they should invest in a low cost index fund. Historically, that return approximates 7% per year, which considering how poorly stocks have performed in the past 13 years, we think may now be easily achievable. If our friends want to try to do better than that, they should try to invest with an active manager whose process makes sense to them and who has outperformed over the long term. One way you can test whether a manager's process makes sense is to get a list of a fund's top 10 holdings, send for the annual reports of those businesses and read them to see if those investments make sense to you. Of course, you cannot rely on past performance to project future results. You can be certain, however, that we have not changed our investment process.

We are proud of Baron Growth Fund's performance from its inception on December 31, 1994 through December 31, 1999, in what we call the "Good Times." We are equally proud of Baron Growth Fund's performance record during the past 13 years, the most difficult period for financial markets in the history of America.

After the Internet bubble burst in early 2000, stock markets and our benchmark index fell about 50% through 2002. This decline was so dramatic since stocks in 1999 had been accorded historically high valuations, i.e., over 30 times



Baron Growth Fund

earnings per share when the norm for more than a century was 10-20 times! Baron Growth Fund's net asset value per share was nearly unchanged during that two year period. This is because Baron Growth Fund had not invested in highly valued, not very profitable, Internet businesses. When markets subsequently doubled in price from 2002 through Fall 2007, Baron Growth Fund slightly outperformed. When markets crashed from their peak in 2007 through the trough in the first quarter of 2009, the prices of virtually all publicly traded stocks were highly correlated. Baron Growth Fund fell a little less than the decline of its benchmark. When markets again doubled, Baron Growth Fund and the benchmark index were virtually the same.

Following these gyrations, the benchmark index has changed little from December 31, 1999 through present day. Baron Growth Fund has since increased about 144.3%, 7.1% per year. Baron Growth Fund's share price is now more than 12% higher than the peak price per share it achieved in October 2007. The Fund's primary benchmark index, the Russell 2000 Growth Index, has risen 11% during the period.

During 2012, although top performing stocks were on average cyclical, lower rated by S&P, less competitively advantaged and more leveraged than businesses in which Baron Growth Fund typically invests, Baron Growth Fund still outperformed. 66.7% of our investments achieved double digit returns; 12.3% achieved single digit returns; and 17.8% had negative returns. In addition to the businesses in which we have invested continuing to perform well, our performance in 2012 was helped by several takeovers, restructurings and the payment of several extraordinary, one time dividends.

Now the more difficult investment discipline. Selling. When we believe we have been mistaken about the prospects for a business or misjudged its management talent or if its market capitalization has grown too large for us to remain comfortable with that investment in a small cap portfolio, we sell.

After the sale of businesses where we think we have been wrong, like payments processor **Green Dot Corp.**, electronic medical records business **Allscripts Healthcare Solutions, Inc.**, medical information web site **WebMD Health Corp.** and outsourced Internet connection service provider **Synchronoss Technologies, Inc.**, businesses in which we have lost money in 2012 currently represent 12.3% of the Fund's assets under management. Included in that category are businesses whose long term prospects appear to us very strong like shale oil and gas horizontal drilling service provider **Helmerich & Payne, Inc.**, oil service provider **Core Laboratories N.V.**, which analyzes rock to determine if it contains oil and gas, leading international investment benchmark index provider as well as provider of risk management tools **MSCI, Inc.**, oil service vessel provider **SEACOR Holdings, Inc.**, and **Advent Software Inc.**, a financial services provider to investment firms. In addition to businesses in which we have lost money in 2012, two of our largest investments, electricity transmission business **ITC Holdings Corp.** and financial services data provider **FactSet Research Systems, Inc.** achieved only modest gains in 2012. We expect both to perform much better in 2013, although we obviously cannot guarantee that will be the case.

During the December 2012 quarter, 23.2% of our investments increased in value by double digit percentages; 34.7% of our investments increased in value by single digit percentages; and 39.3% of our investments made a negative contribution to our results. The Fund's performance was helped by takeover offers for Cymer, Inc., Ameristar Casinos, Inc. and Jefferies Group, Inc. at substantial premiums during the period. We try to explain some stock price movements during the period in the sections "Top Contributors" and "Top Detractors." Regardless, in many instances, we often regard gains and losses in the short term as "random." To give you a feeling of how random, several investments that fell in value during the period are among businesses with long-term prospects we continue to think are most favorable.

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.	2011	\$1.3	\$2.8	77.1%	1.11%
Generac Holdings, Inc.	2010	0.9	2.3	49.9	0.70
LKQ Corp.	2007	1.2	6.3	14.1	0.39
Genesee & Wyoming, Inc.	2004	0.5	3.6	13.8	0.32
Penn National Gaming, Inc.	2008	2.5	3.8	13.9	0.30
Ameristar Casinos, Inc.	2011	0.6	0.9	48.4	0.30
Mettler-Toledo International, Inc.	2008	2.4	5.9	13.1	0.22
Middleby Corp.	2011	1.6	2.4	10.9	0.19
Arch Capital Group Ltd.	2002	0.4	6.0	5.6	0.18
Colfax Corp.	2011	1.0	3.8	10.0	0.15

Cymer, Inc., the leading provider of photolithography light sources for semiconductor manufacturing jumped dramatically (up 77.1% this quarter) after it was announced it 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)

Generac Holdings, Inc. is a leading designer and manufacturer of standby and portable generators for the residential, industrial, and commercial markets. Generac outperformed in the fourth quarter, as the company is expected to benefit from the sustained power outages related to Hurricane Sandy. Blackouts create awareness for temporary power solutions and drive adoption as people realize they cannot be without power. (Rebecca Ellin)

LKQ Corp., the country's largest distributor of alternative vehicle parts, rose 14.2% in the quarter. Alternative parts continue to gain market share from

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.	2002	\$0.6	\$4.3	82.1%	1.32%
Equinix, Inc.	2004	0.4	8.5	71.2	1.19
Cymer, Inc.	2011	1.3	2.8	80.6	1.11
Community Health Systems, Inc.	2004	2.4	2.8	77.2	1.06
Dick's Sporting Goods, Inc.	2004	1.4	5.6	30.1	1.02
LKQ Corp.	2007	1.2	6.3	40.3	0.91
Generac Holdings, Inc.	2010	0.9	2.3	63.0	0.76
Lumber Liquidators Holdings, Inc.	2010	0.6	1.4	198.3	0.73
Under Armour, Inc.	2005	1.0	5.1	35.2	0.64
MAXIMUS, Inc.	2011	1.2	2.2	54.0	0.62

original equipment manufacturers in both North America and the UK, while LKQ is growing faster than competitors due to its national distribution footprint. (Michael Baron)

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Better Place, Inc.	2011	\$2.0	\$0.0	-99.1%	-0.38%
Under Armour, Inc.	2005	1.0	5.1	-13.1	-0.35
MSCI, Inc.	2007	1.8	3.8	-13.6	-0.33
Dick's Sporting Goods, Inc.	2004	1.4	5.6	-8.2	-0.31
ANSYS, Inc.	2009	2.3	6.2	-8.4	-0.24

Better Place, Inc. is the first private global end-to-end electric vehicle (EV) infrastructure provider with operating networks in Israel and Denmark. We invested in Better Place in 2011, ahead of its commercial launch, with the hope to attract EV drivers and increase EV adoption in Denmark and Israel. Our expectations were not met, and execution was above budget and behind schedule. This, plus a recent management change and a working capital shortfall, caused us to write off our investment nearly entirely. (Gilad Shany)

Under Armour, Inc., a manufacturer, marketer, and distributor of performance apparel, declined 13.1% in the fourth quarter, although it performed well for the year. Sales were weaker in the most recent reporting period despite initiatives in women's products and footwear. Investors were concerned about the Christmas season, and some observed discounting at key distributors. We believe margins will remain strong due to good inventory control. (Michael Baron)

MSCI, Inc. shares declined in the fourth quarter as a result of Vanguard changing a subset of its ETF benchmarks from MSCI to competitors FTSE and CRSP. In response to Vanguard's decision to move to FTSE and CRSP, rival 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)

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
DeVry, Inc.	1995	\$0.4	\$1.5	-38.1%	-0.96%
CARBO Ceramics, Inc.	2009	1.5	1.8	-36.3	-0.87
SM Energy Co.	2009	2.1	3.4	-29.8	-0.44
Better Place, Inc.	2011	2.0	0.0	-99.1	-0.38
Green Dot Corp.	2010	2.3	0.4	-69.5	-0.37

Baron Growth Fund took advantage of several opportunities to add to its investments in businesses whose share prices we believed did not reflect their favorable prospects. The Fund also sold or reduced investments whose

prospects we think are less favorable or whose market capitalizations have increased dramatically.

The competitive advantage of Baron, our business, is our group of talented stock pickers and analysts. We think 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!

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	\$2.0	\$2.3	\$36.7
LaSalle Hotel Properties	2010	1.5	2.2	17.5
Booz Allen Hamilton Holding Corp.	2010	2.3	2.0	5.1
The Boston Beer Co., Inc.	2012	1.4	1.7	4.3
MPLX LP	2012	2.0	2.3	3.0

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 amongst the most popular soccer teams globally. Manchester United has over 500 million fans world-wide and 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)

MPLX LP is a master limited partnership formed by Marathon Petroleum Corp. (MPC) to own, operate, develop and grow its midstream fee based assets. It owns and operates a network of pipeline systems that include approximately 962 miles of common carrier crude oil pipelines and approximately 1,819 miles of common carrier product pipelines, five storage facilities (Crude oil and product) and a barge dock in nine states. Based on our analysis, MPLX can grow its footprint substantially (3-5 times) over the next five plus years though accretive acquisitions from its parent company MPC, organic growth projects around existing footprint and new projects' development. In addition, MPLX structures its contracts on a fee basis and strips out commodity pricing exposure from its cash flow. Hence, we believe that MPLX represents an attractive growth opportunity at a relatively low risk. (Gilad Shany)

We initiated a new position during the quarter in **The Boston Beer Company, Inc.** best known for its Samuel Adams brand. Founded in 1984 by sixth generation brewer Jim Koch, Boston Beer is the largest craft brewer in the United States, selling approximately three million barrels annually and generating \$600 million in sales. Craft beer represents just 7% of the U.S. beer industry volume today, but is the fastest growing segment, taking

Baron Growth Fund

share from 'big beer' brands: Budweiser, Miller and Coors, as well as wine and spirits. This shift is occurring as consumers seek out more variety, more flavor and better quality from their beers, similar to what the wine industry experienced several decades before. Boston Beer remains the clear innovator and leader within a category that we expect to double in size over the next five years. Boston Beer boasts the broadest portfolio in its industry, with fifty different varieties of Samuel Adams beer as well as recent introductions into hard cider and malt beverages. Though they are the largest craft player, Boston Beer has just 1% of the overall U.S. beer market by volume, representing a major opportunity as they gain wider distribution across the country and reap the benefits of recent investments in sales and marketing. The company generates high returns on capital at its three brewing facilities, significant free cash flow and maintains a debt free balance sheet. (Matt Weiss)

PORTFOLIO STRUCTURE AND STRATEGY

The objective of Baron Growth Fund is to double its value per share within four or five years. Our strategy to accomplish this is to invest for the long term in a diversified portfolio of appropriately capitalized, well-managed, small cap businesses at attractive prices. We attempt to create a portfolio of about one hundred businesses diversified by GICS sectors that will be approximately 80% as volatile as the market.

We think the businesses in which Baron Growth Fund has invested have the potential to double in size within approximately four or five years and double again in the next four or five years. These well-managed businesses usually have significant barriers to competitors in addition to having strong growth opportunities. Considering current stock price valuations, we believe we have the opportunity to meet our objectives 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" in their businesses. This means that we think our businesses will become much larger over the long term, and they will survive unforeseen, difficult, economic circumstances. These businesses are better managed than most businesses, in our opinion. Further, analysis of 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 Growth Fund has invested have faster historical growth rates; higher profit margins; better returns on capital; and employ similar leverage as the companies in the benchmark index.

Further, since a large portion of Baron Growth Fund's investments have significant recurring revenues, the volatility of their earnings is about half that of the broad benchmark index (standard deviation 97.8% versus 204.0%). It follows that Baron Growth Fund's portfolio will likely be less volatile than the benchmark index as well. That is generally the case. The five year beta, a measure of portfolio volatility for the past five years, is 0.79 compared to 1.00 for the benchmark Russell 2000 Growth Index. Lower volatility is generally considered to mean that a portfolio is less "risky."

Baron Growth Fund also has a high "active share." This means it is dissimilar to the benchmark index against which the Fund is being measured. The "active share" of Baron Growth Fund is 94%. This means Baron Growth Fund is in the top 21% of small cap growth mutual funds most dissimilar to its

benchmark. We believe that a portfolio of investments diversified among several industries all of which are dependent upon different, non-correlated fundamentals will likely reduce portfolio volatility. Our allocations among GICS industries codes are based upon opportunities we believe are present stock by stock.

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
Dick's Sporting Goods, Inc.	2004	\$1.4	\$5.6	\$186.5	3.3%
Arch Capital Group Ltd.	2002	0.4	6.0	181.6	3.2
LKQ Corp.	2007	1.2	6.3	176.7	3.1
ITC Holdings Corp.	2005	0.8	4.0	172.7	3.0
Genesee & Wyoming, Inc.	2004	0.5	3.6	152.2	2.7
ANSYS, Inc.	2009	2.3	6.2	143.1	2.5
FactSet Research Systems, Inc.	2006	2.5	3.9	140.9	2.5
Gartner, Inc.	2007	2.3	4.3	131.2	2.3
Penn National Gaming, Inc.	2008	2.5	3.8	131.1	2.3
Under Armour, Inc.	2005	1.0	5.1	127.4	2.2

OUTLOOK

During the past 13 years, U.S. stock markets have changed modestly 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. This 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, which we expect to be the case for a long time. Natural gas in America is currently about one third of 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 incurred 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 Growth Fund has invested and the current cost of capital, in our opinion, Baron Growth Fund's investments remain attractively priced.

Thank you for investing in Baron Growth Fund.

Thank you for joining us as fellow shareholders in Baron Growth Fund. We believe the growth prospects for the businesses in which Baron Growth Fund has invested continue to be favorable. Of course, there is 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 are also continuing to

provide you with information that I would like to have if our roles were reversed. This is so you will be able to make an informed judgment about whether Baron Growth Fund remains an appropriate and attractive 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 smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities 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 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.

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