

DEAR BARON GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron Growth Fund underperforms benchmark in second quarter... outperforms over long-term.

Baron Growth Fund advanced 1.78% during the June 2013 quarter. This gain trailed the benchmark Russell 2000 Growth Index, which was up 3.74%, over the same period. After a strong March quarter in which Baron Growth Fund performed in-line with the benchmark, the Fund underperformed in the June quarter.

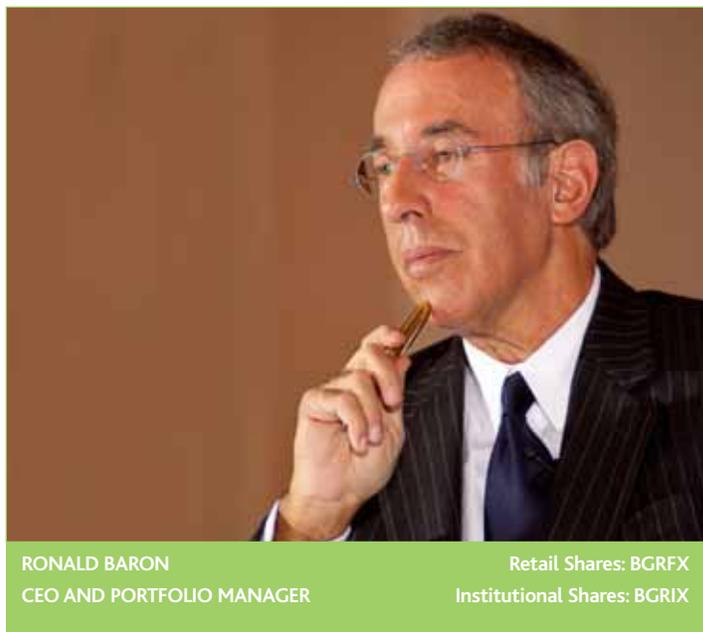
This relative underperformance during the past three months was driven by stock selection. In the early stages of an improving economy, "lower quality" firms tend to have stronger stock price performance. These businesses, which may not have survived in a less favorable part of the cycle, have a greater chance of success when access to low-cost capital is widely available and when the overall tide is rising. This is what took place during the second quarter of 2013. During the quarter, companies with lower market capitalizations, lower returns on equity and less durable

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

	Baron Growth Fund ^{1,2}	Russell 2000 Growth Index ¹	S&P 500 Index ¹
Three Months ³	1.78%	3.74%	2.91%
Six Months ³	15.39%	17.44%	13.82%
One Year	24.83%	23.67%	20.60%
Three Years	19.34%	19.97%	18.45%
Five Years	8.67%	8.89%	7.01%
Ten Years	10.02%	9.62%	7.30%
Fifteen Years	9.49%	4.79%	4.24%
December 31, 1999 – June 30, 2013 "The Bad Times."	7.98%	2.89%	2.58%
December 31, 1994 – December 31, 1999 "The Good Times."	29.90%	18.99%	28.56%
Since Inception (December 31, 1994) "All the Times."	13.51%	7.01%	9.03%

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of September 30, 2012 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

"moats" advanced more rapidly than more stable and higher quality firms.* Baron Growth Fund tends to avoid the former types of companies and instead invests in businesses that typically possess higher credit quality; high returns on capital; wide moats; and that can thrive in a variety of economic conditions.

Overall, the majority of stocks in the Fund performed well in the period. Over 28% of our investments increased in value by double digit percentages, while 22% increased in value by single digit percentages. We try to explain meaningful stock price movements, both up and down, in the "Top Contributors" and "Top Detractors" sections. In many instances, we regard gains and losses in the short term as random. We continue to believe all the businesses in which we have invested have the potential to double in size during the next four or five years. As a result, we believe stocks that have recently underperformed will achieve above average returns and contribute positively to the Fund's performance in coming quarters. Of course, we obviously cannot guarantee that will be the case.

Baron Growth Fund does not try to mirror an index. Baron Growth Fund has significantly larger investments in Financials, Utilities, and Consumer Discretionary businesses than the Russell 2000 Growth Index. The Fund's investments in Health Care are weighted significantly less than the Index. During the June quarter, the Fund's investments in Energy and Utilities substantially outperformed the Index, while the Fund's investments in Consumer Discretionary and Health Care significantly underperformed the Index. Biotech health care stocks were star performers in the period. Baron Growth Fund does not hold any biotech stocks.

Although Baron Growth Fund trailed its benchmark's results in the most recent quarter, the Fund has outperformed its benchmark by 650 basis points per year on average since its inception on December 31, 1994. You cannot rely on past performance to project future results. You can be certain, however, that we have not changed our research intensive investment process.



Baron Growth Fund

REVIEW AND OUTLOOK

After an exceptionally strong start to the year, U.S. stock markets experienced greater volatility and achieved more modest gains beginning late in the second quarter. We believe this was a result of investor concerns over rising ten year interest rates and fears that the Federal Reserve would abruptly reverse its highly accommodative policies, if it did so, it would likely dampen U.S. economic growth.

As a result, the second quarter of 2013 was a tale of two halves. Equity markets rallied strongly from March 31 through May 21. During that time, the Russell 2000 Growth Index advanced 5.28%, while Baron Growth Fund gained 4.65%. On May 22, the minutes from the Federal Reserve's latest meeting were released which immediately altered Wall Street sentiment. Traders then began to perceive the Fed's bond buying program, known as Quantitative Easing or QE, could slow as early as June. From May 21 through the end of the quarter, the Russell 2000 Growth Index declined 1.47% and Baron Growth Fund declined 2.75%.

In our view, a view also held by former Treasury Secretary Tim Geithner, interest rates are likely to remain at historically low levels for the foreseeable future. Further, we think any slowing of the government's bond buying program would be the result of our economy exhibiting strong improvement, which would obviously be good for businesses and stocks.

At Baron Funds, we think efforts to "trade the news" rather than invest in growth businesses for the long term, will not likely be successful. Our outlook for stocks for the long term remains favorable. This is because stocks remain attractively valued, trading at their median valuations for the past century of approximately 15x earnings; businesses are growing; and stocks historically have provided better returns and better protection against inflation than other asset classes.

Additionally, we believe the outlook for businesses is improving. U.S. economic data is showing broad signs of growth and improvement, including gains in housing prices, starts and existing sales; increased industrial production; strong auto sales; rising consumer confidence; and lower unemployment claims. This trend of "better data" makes an increase in still historically low interest rates less of a headwind for stocks. Lower energy prices, a result of massive new domestic shale energy discoveries, also have a positive effect on both businesses (lower input costs) and consumers (lower prices at the pump).

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 1/2 years, the most difficult period for financial markets in the history of America.

After the Internet bubble burst in early 2000, our benchmark index fell about 50% through 2002. This decline was so dramatic because stocks in 1999 had been accorded historically high valuations, i.e., over 30 times 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 three year period. This is because Baron Growth Fund had not invested in highly valued, not very profitable, Internet businesses. Following the gyrations of the past 13 1/2 years, the benchmark index has increased 2.89% per year, including dividends, from

December 31, 1999 through present day. By contrast, Baron Growth Fund has increased about 182% or nearly 8% per year.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
LKQ Corp.	2007	\$1.2	\$7.7	18.34%	0.51%
Booz Allen Hamilton Holding Corp.	2010	2.3	2.5	30.05	0.37
Generac Holdings, Inc.	2010	0.9	2.5	19.30	0.33
Under Armour, Inc.	2005	1.0	6.3	16.63	0.31
CoStar Group, Inc.	2004	0.7	3.7	17.92	0.29

LKQ Corp., a distributor of alternative replacement vehicle parts, rose 18.3% in the second quarter. In our opinion, LKQ is in an exciting growth mode, with the increase in salvage vehicle purchases, market share gains resulting from its distribution network, and steady growth in the heavy duty truck business. The company's European business continued to grow rapidly. It announced an acquisition in Europe, its first on the continent. We think ultimately LKQ will have an opportunity to sell car parts from Europe in America and expand its salvage business in Europe. (Michael Baron)

Booz Allen Hamilton Holding Corp.'s share price increased from \$13.36 to over \$17.38 during the second quarter. The company benefitted by the general news environment highlighting cyber security as a key concern for government and corporate clients. It also beat earnings estimates in the quarter and grew its backlog by nearly 10%, surprising investors who have been concerned about government budget cut-backs. (Randy Gwirtzman)

Generac Holdings, Inc. manufactures standby and portable generators for the residential, commercial, and industrial markets. The company performed well in the second quarter, as it announced a recapitalization and, concurrently, completed the refinancing of its debt and paid shareholders a \$5 per share special dividend. Generac's strong sales, margins, and cash flow enabled this return of capital to shareholders for the second year in a row. (Rebecca Ellin)

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
TOTVS SA	2010	\$2.0	\$2.5	-24.13%	-0.28%
ANSYS, Inc.	2009	2.3	6.8	-10.22	-0.27
Genesee & Wyoming, Inc.	2004	0.5	4.5	-8.88	-0.25
Copart, Inc.	2005	2.1	3.9	-10.15	-0.20
CARBO Ceramics, Inc.	2009	1.5	1.6	-25.94	-0.17

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 period. (Neal Rosenberg)

Shares of **ANSYS, Inc.**, the market leader in simulation-driven product development, declined during the quarter after reporting first quarter results that were negatively impacted by slower end market demand. Despite the near term headwind, we believe that ANSYS is the dominant global provider of simulation software, and will benefit from long-term secular adoption of its simulation tools. We also believe that ANSYS' management will increasingly deploy cash to accelerate the pace of share repurchases. (Neal Rosenberg)

Shares of **Genesee & Wyoming, Inc.**, a leading short-line railroad, declined in the second quarter, despite reporting robust volume and pricing trends after its transformational acquisition of competitor RailAmerica. The deal has been highly accretive given the low cost of financing and significant synergies. The combined entity makes Genesee the dominant regional operator in the U.S., adding revenue diversity and cementing barriers to entry. We see no fundamental reason for the decline. (Matt Weiss)

RECENT PURCHASES

Table IV.

Top net purchases for the quarter ended June 30, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
Bright Horizons Family Solutions, Inc.	2013	\$1.8	\$2.2	\$50.5
Pinnacle Entertainment, Inc.	2013	0.9	1.1	26.1
The Boston Beer Company, Inc.	2012	1.4	2.2	24.8
The Advisory Board Company	2013	1.8	1.9	21.9
CaesarStone Sdot-Yam Ltd.	2012	0.4	0.9	18.6

Bright Horizons Family Solutions, Inc. is the leading provider of high quality corporate sponsored childcare in the U.S., where it is 5 times the size of its next largest competitor and is #2 in the U.K. The company was public for ten years before being taken private in 2008 by Bain Capital. The company has a strong track record with 15 years of uninterrupted revenue and earnings growth, even during the financial crisis. Bright Horizons has an attractive business model characterized by high revenue and earnings visibility, low capital intensity, and superior ROI and cash flows. We think Bright Horizons should benefit from demographic trends of more women and dual income families in the workplace. Multiple growth avenues include additional centers and back up services for new and existing clients, greater center utilization, the accretive acquisition or assumption of established centers in a highly fragmented market, international expansion and the expansion and cross selling of new higher margin services. (Susan Robbins)

We increased our position in **Pinnacle Entertainment, Inc.** in the quarter, as we remain excited by the company's prospective closing of its Ameristar

acquisition. We believe the company will do what is necessary to receive FTC approval and close this transaction. We think the combined company should generate significant revenue and cost synergies that we think are not currently reflected in its stock price. These synergies combined with the company's current expansion projects of its own should generate significant cash flow growth in the years ahead. Management has indicated it will use this cash to quickly pay down debt and add significant value for shareholders. (David Baron)

During the second quarter, we added to our position in **The Boston Beer Company, Inc.**, best known for its Sam Adams brand. Founded in 1984 by sixth generation brewer Jim Koch, Boston Beer is the largest craft brewer in the United States, selling three million barrels annually and generating close to \$700 million in sales. While craft beer represents just 7% of the U.S. beer industry by volume, it is one of the fastest and most exciting growth segments in the beverage space. More flavorful and exotic brews are rapidly taking share from 'big beer' brands such as Budweiser and Miller and increasingly even wine and spirits. This is occurring as consumers seek out more variety, more flavor and better quality ingredients from their beers, similar to what the wine industry experienced several decades ago. We believe Boston Beer remains the clear innovator and leader in this category with the broadest portfolio and frequent new product introductions. Though they have the largest share of craft, Boston Beer represents just a little over 1% of the overall U.S. beer market, offering meaningful opportunities to leverage its infrastructure and gain wider distribution across the country. (Matt Weiss)

PORTFOLIO STRUCTURE AND STRATEGY

Baron Growth Fund owns about 100 stocks. Its top 10 holdings comprise approximately 27% of the Fund. We believe this diversified Fund offers investors potentially better than market returns with less than market volatility. Our strategy to accomplish this is to invest for the long term in a diversified portfolio of appropriately capitalized, well-managed, growing, small cap businesses at attractive prices. We think these businesses have the potential to double in size within five years. 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. In addition, many of the companies in which the Fund invests have significant recurring revenue, which makes our portfolio businesses' earnings less volatile than the Russell 2000 Growth Index. We find these businesses through our dedicated research effort.

These well-managed businesses also have significant barriers to competitive threats. These barriers tend to give our companies pricing power. Most of our companies produce significant cash flows that are often reinvested in their businesses to increase their revenues and margins over the long term. We believe the Fund has an opportunity to meet its objectives, although there is no guarantee that it will do so.

We think the financial characteristics of the businesses in which the Fund has invested for the long term, on average seven years, are demonstrably superior to its benchmark. According to FactSet, our businesses have faster historical growth rates, higher profit margins, and higher returns on capital and less volatile earnings and share prices than the composite of companies in the benchmark index. We believe these characteristics should offer investors significant excess returns over time, although we obviously cannot guarantee it.

Baron Growth Fund

Table V.
Top 10 holdings as of June 30, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)	Percent of Net Assets
LKQ Corp.	2007	\$1.2	\$7.7	\$215.7	3.1%
Arch Capital Group Ltd.	2002	0.4	6.8	212.1	3.1
Dick's Sporting Goods, Inc.	2004	1.4	6.2	205.2	3.0
ITC Holdings Corp.	2005	0.8	4.8	205.0	3.0
Community Health Systems, Inc.	2004	2.4	4.4	187.5	2.7
Genesee & Wyoming, Inc.	2004	0.5	4.5	169.7	2.5
FactSet Research Systems, Inc.	2006	2.5	4.5	163.1	2.4
Gartner, Inc.	2007	2.3	5.3	162.4	2.4
ANSYS, Inc.	2009	2.3	6.8	155.3	2.3
The Middleby Corp.	2011	1.6	3.2	144.6	2.1

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 we 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
July 23, 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.

*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.

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