

Baron Emerging Markets Fund

DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:

PERFORMANCE

The Baron Emerging Markets Fund (the "Fund") appreciated 2.29%, while our principal benchmark index, the MSCI EM IMI Growth Index, declined 0.17% for the first quarter of 2013. During the quarter, the international equity markets remained firm into the new year, driven by ongoing financial stabilization in Europe, economic stability in China, and continued extraordinary monetary support in the developed world. While we remain encouraged by the fundamental outlook and reasonable valuations for the companies in which we are invested, we do note that certain divergences suggest to us a potential pause in the strong equity performance of the past six months. First, emerging market equities and commodity prices have recently lagged, and several EM currencies have weakened amidst still solid demand for emerging markets debt. Second, European credit spreads and peripheral sovereign bond yields have begun to reflect risk moderation, exacerbated by the recent bank restructuring in Cyprus. Last, Chinese authorities have introduced tightening measures designed to curb real estate speculation, political corruption, and unofficial, non-bank lending. While such events may spark increased market volatility in coming months, we do not believe they threaten the moderate global economic expansion underway. Further, we suggest that a more risk conscious environment would likely favor our investment approach, which is focused on higher quality, capital-efficient growth companies driven by strong and entrepreneurial management teams.

Table I.
Performance (Retail Shares)
Annualized for periods ended March 31, 2013

	Baron Emerging Markets Fund ^{1,2}	MSCI EM IMI Growth Index ¹	MSCI EM IMI Index ¹
Three Months ³	2.29%	-0.17%	-0.95%
One Year	9.07%	5.74%	2.78%
Since Inception (December 31, 2010)	1.83%	-1.63%	-2.42%

Performance listed in the above table is net of annual operating expenses. As of the last fiscal year ended December 31, 2011, the annual operating expense ratio for the Retail Shares was 4.49% but the net annual expense ratio was 1.50% (net of the Adviser's fee waivers). *The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.*

¹ The MSCI EM (Emerging Markets) IMI indexes cited are unmanaged, free float adjusted market capitalization weighted indexes reflected in U.S. dollars. The MSCI EM (Emerging Markets) IMI Growth Index Net USD and the MSCI EM (Emerging Markets) IMI Index Net USD are designed to measure equity market performance of large-, mid- and small-cap securities in the emerging markets. The MSCI EM (Emerging Markets) IMI Growth Index Net USD screens for growth-style securities. The indexes and Baron Emerging Markets Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

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

³ Not annualized.



MICHAEL KASS
PORTFOLIO MANAGER

Retail Shares: BEXFX
Institutional Shares: BEXIX

While emerging market equities overall were roughly flat for the quarter, we were pleased with our absolute and relative performance, which comfortably exceeded our benchmark. Driving our performance was our significant exposure to companies in the ASEAN countries of Indonesia, Thailand and the Philippines, which were the standout emerging markets in the quarter. We attribute this to the fact that these countries are financially conservative and, by and large, have domestically driven economies that are generally insulated from Chinese economic volatility and/or weak demand from Europe. In addition, our strong stock selection in China and Taiwan contributed to relative performance. **NQ Mobile, Inc.**, the world's leading mobile security provider, **Biostime International Holdings Ltd.**, a leading Chinese infant formula distributor, and **Ginko International Co. Ltd.**, a Taiwanese contact lens supplier with a growing market share in mainland China, all warrant particular mention. On the negative side, the largest detractor from relative performance in the quarter was stock selection in India. While the positions representing our India media theme largely consolidated strong fourth quarter gains, one position, **Financial Technologies Ltd.**, suffered a more meaningful correction in response to the surprise imposition of a new commodity trading tax. We, nonetheless, remain enthusiastic over the long-term appeal of FT India. Last, difficulties in collecting accounts receivable at **Agrinos AS** resulted in poor stock selection in our Mexico holdings, though we continue to believe in the company's potential to dramatically improve agricultural yield worldwide.



Table II.

Top contributors to performance for the quarter ended March 31, 2013

	Percent Impact
L.P.N. Development PCL	0.52%
NQ Mobile, Inc.	0.51
Biostime International Holdings Ltd.	0.51
Universal Robina Corp.	0.50
Ginko International Co. Ltd.	0.48

L.P.N. Development PCL is a leading homebuilder and condominium developer in Thailand with an impressive track record of growth, profitability, cash generation and return on capital. The stock was strong during the first quarter, as management revealed plans to increase condo launches this year by 50% over the prior year's level. In addition, real estate related stocks across Southeast Asia were strong given downward pressure on bond yields globally. (Michael Kass)

NQ Mobile, Inc. was up 49.2% in the first quarter. NQ Mobile is the #1 mobile security provider in China and has a growing international presence, with over 50% of its revenues now from outside of China. Performance in the first quarter was driven by a large deal with America Movil, the 4th largest telecom provider in the world, with over 250 million subscribers in Latin America. NQ Mobile also reported strong fourth quarter results, with year-over-year revenue growth of 134%. We continue to hold NQ Mobile because we believe mobile security is vastly underpenetrated and will rise as smartphone proliferation grows. (Catherine Chen)

Shares of **Biostime International Holdings Ltd.** rose sharply in the first quarter. As a fast growing player in China's baby care industry, the company is benefiting from increased sales of infant baby formula. The outperformance during the quarter can be attributed to above consensus financial performance as well as speculation regarding the easing of China's one child policy. We believe Biostime is well positioned to double earnings in the next 3 years. We retain conviction in the name due to its strong brand positioning and ability to gain market share in tier II and III cities. (Anuj Aggarwal)

Universal Robina Corp. is a leading packaged food and beverage company based in the Philippines. During the first quarter, the company's shares rose 35.6% after reporting strong earnings driven by the reacceleration in its domestic consumer products business. The company also benefited from margin expansion due to benign prices of soft commodities, its main inputs. (Kyuhey August)

Ginko International Co. LTD was up 47.4% in the first quarter. Ginko is a Taiwanese contact lens maker with the #1 market share in China. Performance in the first quarter was driven by a strong finish to 2012, where both revenues and profits grew 25%, as well as a robust outlook for 2013, bolstered by Ginko's capacity expansion plans. We continue to hold shares as we think the penetration of contact lenses will rise as disposable income in China grows. We also think Ginko has sustainable competitive advantages when it comes to localization of product and distribution against its primary competitors Johnson & Johnson and Bausch & Lomb. (Catherine Chen)

Table III.

Top detractors from performance for the quarter ended March 31, 2013

	Percent Impact
Financial Technologies Ltd.	-1.23%
Delta Corp. Ltd.	-0.57
Agrinos AS	-0.56
Exillon Energy plc	-0.31
Velti plc	-0.26

Shares of **Financial Technologies Ltd.** declined 36.4% in the first quarter, retracing after more than doubling in the prior year. The stock was adversely affected by the imposition of a commodity transaction tax by the government. As a creator and operator of financial exchanges and other related services, the company is a beneficiary of the growth in multi-asset exchanges and trading activity in emerging markets. We retain conviction in the company due to its recurring revenue model and ability to generate high returns on capital. (Anuj Aggarwal)

Delta Corp Ltd., an operator of casinos in India, was a detractor in the first quarter. The company continued to make progress on the construction and openings of its casinos in Daman and Goa; however, the macro environment in India has deteriorated, which presents a headwind to profit growth. We still like the long-term prospects for the company, and we believe its profit growth will noticeably improve when its two new casinos are operating. (Laird Bieger)

Agrinos AS declined 46.3% in the first quarter. Agrinos is a green technology company with a unique microbial product that significantly enhances crop yields. Performance in the first quarter was weak because a delay in receivables collection led to a change in accounting policy. We continue to hold Agrinos because we believe it has disruptive technology and exciting long-term growth prospects. (Catherine Chen)

Exillon Energy plc is a London based E&P company with all of its operations in two regions in Russia. The company's shares underperformed in the first quarter, largely due to concerns revolving around an activist shareholder whose credibility was questionable and whose proposals were rejected, which then prompted concern about a share overhang. Late in the quarter, Exillon shares also appear to have been impacted by uncertainty related to the Cyprus banking crisis. (Jamie Stone)

Velti plc is a leading global mobile marketing company. Shares of Velti were down substantially in the first quarter due to the company missing fourth quarter expectations and reducing its 2013 outlook. Since the fourth quarter report, the company has brought on the experienced and well known former CFO of Sybase. The company is focused on improving free cash flow generation in 2013, but it will take two more quarters before the company passes its low point on cash generation. While we believe the company's asset value is above the current share price, we sold our position during the quarter due to a lack of cash flow visibility. (Ashim Mehra)

Baron Emerging Markets Fund

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of March 31, 2013

	Percent of Net Assets
Kroton Educacional SA	2.5%
Financial Technologies Ltd.	2.3
Bank Rakyat Indonesia (Persero) Tbk PT	2.1
Sarana Menara Nusantara Tbk PT	2.0
DEN Networks Ltd.	2.0
NQ Mobile, Inc.	1.9
Zee Entertainment Enterprises Ltd.	1.9
Universal Robina Corp.	1.8
KT Skylife Co. Ltd.	1.8
KIA Motors Corp.	1.8

EXPOSURE BY COUNTRY

Table V.
Percentage of securities by country as of March 31, 2013

	Percent of Net Assets
India	15.1%
Brazil	14.5
China	12.5
Indonesia	10.9
Philippines	5.5
Taiwan	5.2
Korea	5.0
Thailand	3.8
Hong Kong	3.2
Russia	3.2
Mexico	3.2
Chile	2.5
Norway	1.2
South Africa	1.0
Singapore	0.8
United Arab Emirates	0.7
Canada	0.6

Exposure by Market Cap: The Fund may invest in companies of any market capitalization, though we have generally focused on mid- and smaller-cap companies, as we believe such companies often have more attractive growth potential. At the end of the first quarter of 2013, the Fund's median market cap was \$2.1 billion, and we were invested approximately 38.4% in large/giant cap companies, 33.4% in mid-cap companies and 15.0% in small-cap companies as defined by Morningstar.

RECENT ACTIVITY

Given our outlook discussed below, during the quarter, we took advantage of a significant capital inflow to rebalance our country exposure. On balance, we added to our holdings in China, Taiwan and Korea, which we see as beneficiaries of a modest recovery in Chinese consumption and a weaker long-term commodity outlook, and conversely reduced our weighting in

Brazil. New positions established in the quarter include **KIA Motors Corp.**, a leading Korean automobile manufacturer with a 34% domestic share and a growing international and export presence. KIA has been one of the fastest growing global auto OEMs due to its consistent share gains in many international markets, particularly the U.S., Europe and China. While the company's valuation is comparable to other global OEMs, it achieves superior return on invested capital, has no net debt and generates substantial free cash flow. We believe the company is well positioned to continue increasing its global share due to its solid cost position, improving quality and brand recognition, and a strong slate of new and updated models to be launched in coming quarters. We also initiated a position in **Biostime International Holdings Ltd.**, a leading premium pediatric nutrition and infant formula supplier in China. The company has grown revenues over 50% per annum over the past five years, expanding its share of the infant formula market from low to mid-single digits. Further, over this period, operating leverage has driven cash flow margin expansion from the mid-teens to over thirty percent. We believe share gains can continue due to Biostime's high quality reputation and strong distribution and marketing prowess. During the quarter, we sold positions where a deteriorating fundamental outlook caused us to lose conviction, notably **Shandong Weigao Group Medical Polymer Co. Ltd.**, a Chinese medical consumables manufacturer, Brazilian retailer **Cia. Hering SA**, and **LG Household and Healthcare Ltd.** of Korea.

OUTLOOK

Last quarter, we remarked on the positive effects of various important international developments: progress towards fiscal and banking union in Europe and the related stabilization of the EU financial system; clear signs of a bottoming in China's economic cycle; and the likely impact of a greater level of developed world quantitative easing, particularly in Japan subsequent to an abrupt shift in political leadership. These trends, which support both international and emerging market equities, remained largely in place through much of the first quarter of 2013; however, late in the quarter, as signs of policy backtracking emerged, many international markets began to underperform.

In particular, Chinese authorities introduced several measures designed to curb speculation in real estate and slow lending in the lightly regulated "wealth management" markets. While not unexpected, we believe the markets are now looking for confirmation that prescribed economic growth can withstand measures intended to slow speculative activity and temper Party favoritism and excess. We currently believe such confirmation is likely. In addition, India's finance minister disappointed market expectations for business-friendly fundamental reforms in unveiling a populist-leaning fiscal budget, leading to a complete reversal of the stock market's fourth quarter gains. We fully expect India's complex political fabric to drive this sort of "two steps forward, one step back" progress, and we remain enthusiastic towards our varied investments in unique and entrepreneurial Indian companies. In Europe, the bailout of Cyprus bears particular mention given the precedent set regarding uninsured bank depositors. While Cyprus is indeed a special case and the financial impact itself is not significant, we will monitor the potential resumption of deposit and capital flight, as greater stress in the EU financial system would ultimately impact emerging market economies and capital flows.

Japan had the standout international equity market during the first quarter, as a new head of the Bank of Japan was confirmed and expectations for aggressive quantitative easing and a weaker yen continued to build. It appears domestic consumption is already picking up, as psychology shifts to embrace the likelihood of rising prices and wages. While this policy shift has benefitted Japanese equities, Japan's gain does represent a loss of export competitiveness for many neighboring Asian countries and companies, particularly in a relatively slow growth global economy. We believe recent events in Japan are at least partially responsible for the relative weakness in certain emerging market equities, though our relative performance has benefitted as we favor companies driven by local consumption rather than export-driven businesses. A good example is our significant exposure to consumer and domestic driven companies in the ASEAN countries of Indonesia, Thailand and the Philippines. These companies are largely insulated from Japanese yen depreciation, Chinese economic volatility and weak European demand and, as a group, were very strong performers in the first quarter.

Last, we note the unusual divergence between global equity and commodity prices. This trend, if sustained, signals a potential peak in the global

commodity cycle, which would have lasting implications for future value creation. In effect, such a peak would favor commodity consuming countries (and industries), such as the U.S., China, India and Japan, while creating headwinds for notable exporters such as Australia, Brazil/Latin America and Russia. We believe the shift in China from an investment-led to a consumption-led economy, as well as the firming U.S. dollar, support such a phenomenon. Given our general lack of exposure to commodity driven or cyclical businesses, we further believe the Fund would be well positioned over the long-term for such a scenario.

Thank you for investing in the Baron Emerging Markets Fund.

Sincerely,

Michael Kass
Portfolio Manager
April 9, 2013

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



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In addition to the general stock market risk that securities may fluctuate in value, investments in developing countries may have increased risks due to a greater possibility of: settlement delays; currency and capital controls; interest rate sensitivity; corruption and crime; exchange rate volatility; and inflation or deflation. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and 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.

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