

# Baron Partners Fund

## DEAR BARON PARTNERS FUND SHAREHOLDER:

### PERFORMANCE

Baron Partners Fund performed well during the first quarter of 2013. The Fund gained 18.65%. U.S. stock markets also performed well during the period. The Russell Midcap Growth Index, the benchmark against which we compare the performance of this Fund, gained 11.51%. The better known S&P 500 Index that measures the performance of large cap companies gained 10.61% in the quarter. The Lipper Index, measuring the performance of all United States' open end, mid-cap growth mutual funds, gained 10.80% for the three months.

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

	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>	18.65%	11.51%	10.61%
One Year	21.29%	12.76%	13.96%
Three Years	15.90%	14.23%	12.67%
Five Years	6.28%	7.98%	5.81%
Since Conversion (April 30, 2003)	13.46%	10.89%	7.74%
Ten Years	14.26%	11.53%	8.53%
December 31, 1999 – March 31, 2013. "The Bad Times."	7.22%	3.23%	2.41%
January 31, 1992 – December 31, 1999. "The Good Times."	22.45%	19.26%	20.21%
Since Inception (January 31, 1992) "All the Times."	12.68%	8.95%	8.73%

*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 indexes are unmanaged. The Russell Midcap™ Growth Index measures the performance of medium-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 Russell Midcap Growth Index, the S&P 500 Index and the 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**  
CEO AND PORTFOLIO MANAGER

Retail Shares: BPTRX  
Institutional Shares: BPTIX

These strong equity returns were achieved despite uncertainty engendered by an unusual number of negative news stories. The quarter began with investor concerns about whether our economic recovery would come to an end if Congress and the President could not agree on how to prevent our economy from falling over a "fiscal cliff." We next were told "sequestration" would slow our growth materially. Finally, concerns about the impact from the default of tiny European nation Cyprus filled the media in March. We think this demonstrates the futility of attempting to "trade the news" rather than investing in businesses for the long term.

Our outlook for stocks remains favorable. This is because stocks continue to be valued for less than their median valuations for the past century; businesses are growing; and stocks provide protection against inflation and have historically provided better returns than other asset classes.

Baron Partners Fund's strong results during the period were the result of consistent favorable returns throughout its investment portfolio. Sixteen of the Fund's twenty-one investments representing 81.2% of its total investments, achieved double digit returns in the quarter. Approximately two thirds of Baron Partners Fund's investments had returns in excess of the Russell Mid Cap Growth Index' 11.51% gain in the period. Only one investment, C.H. Robinson Worldwide, Inc., a transportation business that represented only 2.0% of the Fund's total assets had a negative return, (5.36%).

A common theme for Baron Partners Funds' investments is one of businesses investing in themselves, often at the expense of short-term profits. This is in order to become much larger, more profitable businesses in the future. Virtually all the businesses in which we have invested are making such capital commitments. Verisk Analytics, Inc.'s startup investments in health care and real estate data services; CarMax, Inc.'s startup new store expenses coupled with



efforts to grow sales in existing stores; and Hyatt Hotels Corp.'s hotel renovations and efforts to expand in Asia are especially noteworthy in this regard. As a long-term investor in these businesses who holds stocks an average of about seven years, we expect to benefit from these expenditures. In contrast, most mutual funds are more trading oriented and turnover their portfolios on average every seven months. Those investors, in general, will not care about or benefit from such long-term, strategic investments by businesses. Therefore, they generally accord little or no value to such investments allowing us to invest in those businesses at prices we feel are especially attractive.

Baron Partners Fund has significant interests in growing "c" corporations like Penn National Gaming Inc., Vail Resorts, Inc., Hyatt and ITC Holdings Corp., whose shares are undervalued when compared to similar REITs or MLPs. The Fund's investments in alternative investment money managers, The Carlyle Group and Oaktree Capital Group, LLC and financial intermediary The Charles Schwab Corp. are benefiting from increased interest in equities.

Our proprietary research regarding businesses' long-term growth opportunities, competitive advantages, management teams and risks determines how much we allocate to individual securities. Our goal is to invest in businesses that we think can double in size within five years. We invest in different industries that are affected by different factors to attempt to achieve a portfolio of investments with risks that are not correlated. This is part of our effort to reduce risks of managing a focused portfolio. Baron Partners Fund currently has significantly larger investments in Financials, Utilities, Industrials and Consumer Discretionary businesses than the Russell Midcap Growth Index. The Fund's investments in Information Technology are weighted similarly to the Index. The Fund does not have investments in Health Care, Materials, Telecommunication Services and Consumer Staples. The Fund's investments in Financials and Utilities outperformed the Index in the period. Its investments in Consumer Discretionary and Industrial businesses approximated the performance of the benchmark. Our small investment in Energy underperformed.

Baron Partners Fund's four investments that had single digit returns during the period, leading market index provider MSCI, Inc., a gain of 9.49%, contract energy driller Helmerich and Payne, Inc., 8.62%, financial services provider FactSet Research Systems, Inc., 5.49%, and leading sporting goods retailer Dick's Sporting Goods, Inc., 4.24%, "detracted" from Baron Partners Fund's relative results in the period. We believe all of these businesses have the potential to double in size during the next five years. As a result, we believe their stocks will achieve above average returns and begin to "catch up" to our other investments in coming quarters. FactSet and MSCI will, we think, benefit from the recovery in U.S. financial markets; Helmerich and Payne from the exploitation of our nation's enormous shale oil and gas reserves; and Dick's Sporting Goods from the continuing nationwide expansion of its sporting goods stores and an increasing contribution to its results derived from Internet sales.

Table II.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap Sold (billions)	Total Return	Percent Impact
Arch Capital Group Ltd.	2002	\$0.6	\$7.0	19.42%	2.55%
ITC Holdings Corp.	2005	0.8	4.7	16.59	2.22
Verisk Analytics, Inc.	2009	4.0	10.4	20.84	2.15
The Charles Schwab Corp.	1992	1.0	22.6	23.63	1.50
Hyatt Hotels Corp.	2009	4.2	7.0	12.08	1.39
CoStar Group, Inc.	2005	0.7	3.1	22.48	1.17
The Carlyle Group	2012	0.7	1.3	19.29	1.13
Fastenal Co.	2006	6.8	15.2	10.20	1.12
Vail Resorts, Inc.	2008	1.6	2.2	15.60	0.97
Discovery Communications, Inc.	2009	6.2	18.5	24.04	0.94

**Arch Capital Group Ltd.** is a specialty insurance and reinsurance company. The stock rose during the first quarter due to better than expected earnings results and an improving insurance market. Arch also announced an acquisition that would allow it to enter what we believe to be an attractive new business line, mortgage insurance, under attractive terms. (Josh Saltman)

**ITC Holdings Corp.** is the nation's largest independent energy transmission company. The company outperformed in the first quarter, as investor concerns regarding a potential dividend tax hike and changes in ITC's regulatory structure began to subside. This led to multiple expansion as ITC's superior growth prospects relative to other regulated utilities became increasingly apparent. (Rebecca Ellin)

Shares of **Verisk Analytics, Inc.**, which provides information about risk to companies in the insurance, health care, and mortgage industries, outperformed the market as the company announced better than expected earnings for the fourth quarter. For the first quarter, the company grew earnings 26%, deriving particularly robust results from the company's expanding portfolio of health care-related analytical and fraud prevention tools. We believe that increasing insurance rates, coupled with product enhancements and extensions, will help accelerate revenue growth from Verisk's insurance customers over the next few years. (Neal Rosenberg)

Table III.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
C.H. Robinson Worldwide, Inc.	2003	\$3.2	\$9.6	-5.36%	-0.18%

# Baron Partners Fund

Shares of the leading U.S. truck broker, **C.H. Robinson Worldwide, Inc.** detracted from performance during the first quarter, declining 5.4% after reporting disappointing earnings. Although truckload freight volumes are improving, C.H. Robinson is experiencing temporary margin pressure as its cost of capacity increases faster than its ability to pass along pricing to shippers. We believe this issue will be resolved as 2013 unfolds and gross volumes accelerate. (Matt Weiss)

## RECENT PORTFOLIO ADDITIONS

**Table IV.**  
Top net purchases for the quarter ended March 31, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
Ryanair Holdings plc	2012	\$9.0	\$12.2	\$5.9

**Ryanair Holdings plc** is an airline that flies 80 million passengers per year in Europe. Unlike other European airlines that operate “hub-and-spoke” models from large airports to capture international travelers, Ryanair has a low cost “point-to-point” model to and from secondary airports. This allows Ryanair to fly more passengers and generate economies of scale. During 2012, the European airline landscape continued to change, as national airlines like Spainair (Spain) and Malev (Hungary) shut down, while other airlines cut capacity (Air Berlin, Iberia). We believe these cuts are permanent and will likely continue, allowing Ryanair to steal market share with lower ticket prices and lower operating costs. In March, Ryanair secured an aircraft deal with Boeing that will allow Ryanair to grow its fleet from 300 to 375 aircraft by 2018. We believe that Ryanair paid an attractive price for these aircraft. This is because Ryanair is the largest active buyer of the Boeing 737-800 model. We also believe Ryanair has the potential to increase its market share to more than 20% of European passengers over the next decade while improving profits per passenger at a double digit annual rate. (Aaron Wasserman)

## PORTFOLIO STRUCTURE

The strategy we use to accomplish our performance objectives is to invest for the long term in a non-diversified portfolio of competitively advantaged, well-managed, growing businesses at what we think are attractive prices. The Fund’s average portfolio turnover for the past three years was 15.04%. This means the Fund had an average holding period for its investments during that time period of almost 7 years. The average mid-cap growth fund holds its investments for seven months.

Baron Partners Fund’s non-diversified portfolio is currently invested in 21 businesses, principally mid-cap companies. The median market capitalization of our portfolio investments is \$5.8 billion.

We also strive to create a portfolio with lower volatility than our benchmark. Many regard volatility as “risk.” We think the Fund’s portfolio investments will be approximately 90% as volatile as the market. This is in part because the underlying businesses in which the Fund has invested have less volatile earnings than the index. It is also because we attempt to invest in as many businesses as possible for a focused portfolio with fundamentals

that are not correlated. 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 five years. We think their unusual competitive advantages mean it would either take many years or cost a lot of money and therefore not be economic for new entrants to compete against those businesses. These barriers enable our companies to generate strong returns on capital and provide them with the ability to grow consistently over the long term.

**Table V.**  
Top 10 holdings as of March 31, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)	Percent of Total Investments
Arch Capital Group Ltd.	2002	\$0.6	\$7.0	\$132.7	10.7%
ITC Holdings Corp.	2005	0.8	4.7	131.7	10.6
Hyatt Hotels Corp.	2009	4.2	7.0	108.1	8.7
Verisk Analytics, Inc.	2009	4.0	10.4	101.7	8.2
Fastenal Co.	2006	6.8	15.2	92.4	7.5
Dick’s Sporting Goods, Inc.	2005	1.6	5.8	76.9	6.2
FactSet Research Systems, Inc.	2007	2.5	4.1	74.1	6.0
Vail Resorts, Inc.	2008	1.6	2.2	67.7	5.5
Charles Schwab Corp.	1992	1.0	22.6	61.9	5.0
CoStar Group, Inc.	2005	0.7	3.1	54.7	4.0

## 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.

Respectfully,



Ronald Baron  
CEO and 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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*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](http://www.BaronFunds.com).*

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.