

DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:

PERFORMANCE

The Baron Emerging Market Fund (the "Fund") declined 1.65%, while our principal benchmark index, the MSCI ACWI ex USA IMI Growth Index, declined 6.53% for the second quarter of 2013. For the year-to-date, the Fund has appreciated 0.60%, while the comparable index has declined 6.69%. During the quarter, as we had anticipated, the global equity markets exhibited increased volatility, in our view driven largely by shifting perceptions of future global central bank policy, and by developing short-term concerns over the economic and policy outlook in China. As we noted last quarter, the U.S. economy continues to stand as a pillar of strength given the rebound in housing activity and prices, resilient consumer spending, and the deferral of fiscal adjustments. Japan also deserves mention as the top-performing major equity market year-to-date. Within the developing world during the quarter, many of the more commodity-centric markets of Latin America, as well as the Southeast Asian markets, which, in the first quarter, were the strongest performers, suffered solid double digit declines of 12-25% in U.S. dollar terms. Korea also declined markedly, in our opinion, partially due to the declining Japanese yen. While we address the key factors we see impacting the markets worldwide in further detail in the "Outlook" section of this letter, as mentioned last quarter, we maintain 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 June 30, 2013

	Baron Emerging Markets Fund ^{1,2}	MSCI EM IMI Growth Index ¹	MSCI EM IMI Index ¹
Three Months ³	-1.65%	-6.53%	-8.01%
Six Months ³	0.60%	-6.69%	-8.89%
One Year	15.75%	7.44%	3.66%
Since Inception (December 31, 2010)	0.97%	-4.10%	-5.40%

Performance listed in the above table is net of annual operating expenses. As of the last fiscal year ended December 31, 2012, the annual operating expense ratio for the Retail Shares was 4.01% 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

We were quite pleased with our second quarter relative performance, and remain confident in the long-term outlook for our strategy and the companies in which we are invested. We note that, by design, we maintain broad diversification by country and sector, though often can shift exposure on the margin given our perception of the balance of risk and opportunity. During the second quarter, developing world equities continued to noticeably underperform as a group – with most emerging market indexes down solid double digits in U.S. dollar terms; however, our strong stock selection significantly moderated the impact of poor-performing developing world equities. Such stock selection was widespread and most positive in China, Brazil and Korea. By sector, our mobile Internet theme led to strong relative performance in Information Technology, led by **Sina Corporation** and **21Vianet Group, Inc.** in China, **Yandex N.V.** in Russia, and **Opera Software ASA**, which is based in Norway but largely serves emerging market subscribers. Our Brazil post-secondary education theme again drove outperformance in Consumer Discretionary, including **Kroton Educacional SA**, **Anhanguera Educacional Participações** and **Estácio Participações SA**. Finally, our Indian generic pharmaceutical investments **Lupin Ltd.** and **Torrent Pharmaceuticals Ltd.** drove solid outperformance in the Health Care sector. On the negative side, a consolidation in our Indonesian tower investments, **Sarana Menara Nusantara Tbk PT** and **Tower Bersama Infrastructure Tbk PT**, resulted in poor relative performance in the Telecommunications sector. In addition, significant declines in commodity-related holdings **Agrinos AS**, **Sociedad Química y Minera de Chile SA** and **Grupo Mexico S.A.B. de C.V.** resulted in poor stock selection effect in the Materials sector. Further, our relative performance for the quarter benefitted from our larger than normal cash position, which we hope to deploy on an opportunistic basis.



Baron Emerging Markets Fund

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

	Percent Impact
Sina Corporation	0.39%
Yandex N.V.	0.28
Opera Software ASA	0.26
21Vianet Group, Inc.	0.26
Great Wall Motor Co. Ltd.	0.25

Sina Corporation was up 14.7% in the second quarter. Sina operates the leading Internet portal in China and also owns Sina Weibo, the largest Twitter-like service in China. Outperformance in the second quarter was due to an alliance with Alibaba Group, which paid \$586 million for an 18% stake in Sina Weibo. Alibaba operates the largest C2C and B2C sites in China. We continue to like Sina's prospects for monetizing Sina Weibo after this deal. (Catherine Chen)

Yandex N.V. is the leading Internet search company in Russia. Outperformance in the second quarter was due to strong first quarter results, where management raised full-year guidance expectations to 30-35% revenue growth. We continue to hold Yandex due to its dominant market position, high growth end markets, plentiful cash on its balance sheet, and prospects for expanding its presence into areas like e-commerce. (Catherine Chen)

Shares of **Opera Software ASA**, an industry leading developer of web browsers for desktop, mobile and other electronic devices, performed well in the quarter. Shares were up over 20% in the second quarter, due to strong first quarter results and annual guidance provided by the company. Investor interest has also been stimulated by the incremental growth opportunity arising from Opera's acquisition of Skyfire, a private technology company providing mobile operators with network capacity management software. (Ashim Mehra)

21Vianet Group, Inc. is the largest carrier-neutral Internet data center provider in China. Since its IPO, 21Vianet has outpaced Wall Street's growth expectations, which at certain periods reduced profitability and cash flows. Management has indicated that margins and utilization have troughed and margins should improve. The stock performed well as investors became more comfortable with the demand for this massive build out. We continue to hold 21Vianet for the exposure it provides to the exponential growth of Internet and mobile traffic and services in China. (Gilad Shany)

Great Wall Motor Co. Ltd. is a leading automotive OEM in China and is the largest domestic player in the popular SUV segment. Great Wall's shares remained strong through the second quarter as the company reported solid financial results and generated enthusiasm over new model introductions. We remain impressed by the company's consistent execution and market share gains. (Michael Kass)

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

	Percent Impact
Grupo México S.A.B de C.V.	-0.31%
Sociedad Química y Minera de Chile SA	-0.31
TOTVS SA	-0.30
DEN Networks Ltd.	-0.29
Haitong Securities Co., Ltd.	-0.27

Grupo México S.A.B de C.V. operates copper mines, railroads, and infrastructure projects in Latin America. The stock fell during the second quarter due to a 10% decline in the price of copper and an 5% depreciation of the Mexican peso against the U.S. dollar. Copper production was weak due to temporarily low ore grades, and railroad volumes were down due to last year's drought. We are cautious about the price of copper, but we continue to believe all three segments should experience significant growth over the next several years. (Josh Saltman)

Sociedad Química y Minera de Chile SA is a Chilean producer of fertilizers and specialty chemicals. Underperformance in the second quarter was driven by declining potash prices (despite increasing volumes) and lower sales volumes in its lithium and iodine businesses (despite stable prices). We continue to hold shares in Sociedad Química y Minera de Chile due to its leading market positions and its superior reserve base that gives it the ability to increase capacity over the long term, a competitive advantage relative to its peers. (Catherine Chen)

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 second quarter. (Neal Rosenberg)

Shares of **DEN Networks Ltd.** declined 11.6% in the second quarter. The company is one of India's largest cable TV providers and is currently benefiting from digitization of cable systems as mandated by the government of India. The underperformance during the second quarter was largely attributable to the recent sell-off in Indian mid-cap stocks, along with devaluation of the Indian Rupee. We retain conviction in the name due to the expected multi-fold increase in subscription revenue/earnings post-digitization. (Anuj Aggarwal)

Haitong Securities Co., Ltd. is engaged in securities and futures brokerage, investment banking, asset management, direct investment, and proprietary trading in China. The stock fell after we acquired shares this quarter, along with the rest of the Shanghai Composite Index, as Chinese economic indicators were worse than Wall Street expected. We believe the company is well-positioned to benefit from financial services reform and further development of China's capital markets. (Josh Saltman)

PORTFOLIO STRUCTURE

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

	Percent of Net Assets
Sina Corporation	3.1%
KT Skylife Co. Ltd.	2.6
Financial Technologies Ltd.	2.6
KIA Motors Corp.	2.3
Yandex N.V.	2.1
Biostime International Holdings Ltd.	2.0
Kroton Educacional SA	2.0
NQ Mobile, Inc.	1.8
DEN Networks Ltd.	1.8
Zee Entertainment Enterprises Ltd.	1.8

EXPOSURE BY COUNTRY

Table V.

Percentage of securities by country as of June 30, 2013

	Percent of Net Assets
China	17.0%
India	14.6
Brazil	9.1
Korea	7.5
Indonesia	7.4
Taiwan	6.0
Philippines	5.0
Hong Kong	3.8
Russia	3.1
Thailand	3.0
Mexico	3.0
Chile	1.9
Malaysia	1.8
Norway	1.6
South Africa	1.0
Singapore	0.9
United Arab Emirates	0.8
Canada	0.6

Exposure by Market Cap: The Fund may invest in companies of any market capitalization, and we have generally been broadly diversified across large-, mid- and smaller-cap companies, as we believe developing world companies of all sizes often exhibit attractive growth potential. At the end of the second quarter of 2013, the Fund's median market cap was \$2.5 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

During the second quarter, consistent with the outlook discussed below, we further moderated our exposure to Brazil and Indonesia; on the margin, we increased exposure in China, Korea, Taiwan and Malaysia. We established a notable new position in **Haitong Securities Co., Ltd.**, a leading securities industry firm in China that we believe will benefit greatly in coming years due to the significant reforms taking place across China's financial sector. We also purchased a position in **WeMade Entertainment Co., Ltd.**, a Korean mobile game developer that, in our opinion, is well-positioned for the coming proliferation and monetization of mobile game platforms on smartphones throughout Asia. Further, we initiated several positions in leading, entrepreneurial companies with significant exposure to U.S. dollar income, including **WuXi PharmaTech (Cayman) Inc.**, a leading contract research organization servicing global pharmaceutical companies, **Hartalega Holdings Bhd** and **Top Glove Corporation Bhd**, both manufacturers of safety gloves for health care and industrial applications, and **Man Wah Holdings Ltd.**, a Hong Kong and China based furniture manufacturer that in recent years has gained leading market shares in the U.S. and China. During the quarter, we also sold positions where poor execution, deteriorating fundamentals or adverse regulatory developments caused us to reassess our expectations for value creation; such positions include **Delta Corp. Ltd.**, the leading casino operator in India, **SouFun Holdings Ltd.**, a leading Internet-based real estate services firm in China, **Qualicorp SA**, a Brazilian managed care services provider, and Brazilian homebuilder **Even Construtora e Incorporadora SA**.

OUTLOOK

"Taper Tantrum." Last quarter, we highlighted several risks to equity markets in the short-term, particularly the emerging markets, posed by developments in China and Japan and the weakness in commodity prices. More recently, concerns over the likelihood and timing of the Federal Reserve (the "Fed") tapering its government bond purchases emerged with sudden impact to equity, bond, currency and commodity markets worldwide. While we recognize that "tapering" is not an explicit monetary tightening, we do believe that this recent signal to the markets is meaningful and likely suggests that the point of maximum credit easing has passed. The good news is that the Fed would not likely send such a signal without confidence in the improving domestic economy; however, at a minimum, we believe we are entering a period of increased volatility and note that recent market activity may reflect unintended consequences related to quantitative easing on a grand scale.

With regard to the recent Fed communication, many pundits suggest that markets overreacted. Our view is that, while this may be the case broadly, some of the assets most positively impacted by recent easing likely became overvalued – driven higher by excess liquidity and momentum. In our opinion, high on such a list would be emerging market and high yield bonds, and while the recent selloff was swift and severe, we would not expect a recovery in such assets to prior levels any time soon. However, if bond prices, currencies and economic growth continue to stabilize from here, we do believe global equities likely represent the preferred asset class in which to invest.

In our view, in addition to Fed communication, China stood out in recent months as a second critical driver of global capital markets. We have remarked at length about the consequence of the leadership transition in China last fall; however, in recent weeks, there has been growing evidence that key reforms are actually likely to be implemented. Previously, most China observers suggested such reforms were strong talk but likely to be severely weakened and overwhelmed by the status quo of government stimulus and largesse. Paradoxically, the recent weakness in China's growth expectations, stock market and global commodity prices is being driven by the new leadership's apparent resolve to "do the right thing" for the long-term in China! Of course, this suggests tough medicine in the near-term, as reforms include vigilance against corruption, a slowdown in credit growth, controls on shadow finance, and increased flexibility of interest rate and currency movements; basically, a shift from a command system with government bureaucrats at the core towards a more market driven economy and credit allocation system. We believe this is a favorable and necessary adjustment, and would also likely present many new investable themes; however, in the very short-term, such a shift presents increased risk of turbulence to global capital markets, evidenced by the recent government-created and managed liquidity crisis in China's banking system. While we believe risks here remain, we continue to hold several Chinese investments, many of which have performed quite well so far this year. While the slowdown in China has had broad impact on markets, such as Brazil, and across commodities, on a currency-adjusted basis the Chinese equity market has actually outperformed many of the major emerging markets despite widespread bearishness and pessimism. Given that the China CSI 300 Index, a proxy for the China "A Share" markets, has retreated roughly 40% since its post-crisis peak in August of 2009, it would appear that much of the bad news has already been priced in.

Baron Emerging Markets Fund

As fundamentals and policy continue to evolve and deviate across many countries and markets, we would characterize recent market behavior as a mean reversion in capital flows and wealth from the developing world to the developed world, and from commodity producers to commodity consumers. A key signpost of this trend is the rising U.S. dollar, which we expect to continue in the near term; as mentioned last quarter, the ongoing slowdown in China and potential inflection point in Fed behavior both suggest such a phenomenon. As a consequence of this shift, in recent months, we have on the margin increased exposure to several companies and countries that we view as beneficiaries, and likewise have reduced our holdings in companies where we perceive increased risk. On balance, we remain quite enthusiastic over our portfolio of investments and the fundamentals of the underlying companies, and we reiterate that in the longer term, the developing world,

and particularly the developing world consumer, remains the primary engine of global growth.

Thank you for investing in the Baron Emerging Markets Fund.

Sincerely,



Michael Kass
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.



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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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