

DEAR BARON ASSET FUND SHAREHOLDER:

PERFORMANCE

U.S. market indexes advanced again during the second quarter. Investors' confidence continued to improve, as their focus remained on generally positive corporate earnings results and reasonable equity valuations. The greatest source of market uncertainty remained the conditions under which the Federal Reserve will eventually end its Quantitative Easing policy, which has intentionally depressed interest rates. In anticipation of this event, interest rates moved up throughout the quarter, and it was an encouraging sign that stocks advanced despite this unsettled backdrop. The perception that the long-running advance in bonds might be ending led investors to continue shifting assets into stocks, which we believe has positive implications for stocks' ongoing performance.

After a strong first quarter, Baron Asset Fund (the "Fund") trailed indexes to which its performance is sometimes compared. The Fund gained 0.68% during the three-month period ended June 30, 2013. The Russell Midcap Growth Index gained 2.87% and the S&P 500 Index gained 2.91% during this same period. During the first quarter, stocks within the Russell Midcap Growth Index considered high quality by Morningstar outperformed companies considered low quality. During the second quarter, the opposite occurred, as lower quality stocks outperformed. The Fund is disproportionately invested in high quality stocks, and we believe this resulted in a headwind to performance during the quarter.

Increased interest rates resulted in winners and losers during the quarter. As discussed below, **The Charles Schwab Corp.** benefitted from the potential for a meaningful increase in the management fees it receives on its money

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

	Baron Asset Fund ^{1,2}	Russell Midcap Growth Index ¹	S&P 500 Index ¹
Three Months ⁴	0.68%	2.87%	2.91%
Six Months ⁴	14.98%	14.70%	13.82%
One Year	23.53%	22.88%	20.60%
Three Years	17.19%	19.53%	18.45%
Five Years	6.62%	7.61%	7.01%
Ten Years	9.85%	9.94%	7.30%
Since Inception (June 12, 1987)	11.08%	9.55% ³	9.08%

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 1.33%. *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 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 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 For the period June 30, 1987 to June 30, 2013.
⁴ Not annualized.



ANDREW PECK
PORTFOLIO MANAGER

Retail Shares: BARAX
Institutional Shares: BARIX

market funds. Real estate investment trusts (REITs) fell on concerns that rising rates would make their large dividend yields appear relatively less attractive. This impacted **Alexander's, Inc.**, a REIT that owns New York properties, and **Equinix, Inc.**, which is considering a conversion to the REIT structure. **CBRE Group, Inc.**, the world's largest commercial real estate services firm, also fell on concerns that higher rates would negatively impact the market for commercial property sales. Good performers included companies that achieved accelerating revenue growth, despite pockets of weakness in their international end markets. These included DNA sequencing company **Illumina, Inc.** and online travel agency **priceline.com, Inc.** **Tractor Supply Co.** and **CarMax, Inc.** also gained. Both are retailers with large opportunities to open additional stores that posted strong comparable stores sales results. Hotel companies **Choice Hotels International, Inc.** and **Hyatt Hotels Corp.** underperformed, as industry data indicated a modest slowing in travel demand. In the Energy sector, services firms **Core Laboratories N.V.**, whose products provide reservoir description services, and driller **Helmerich & Payne, Inc.** performed well, while **Concho Resources, Inc.**, an exploration and production company focused on the Permian Basin, fell on disappointing production growth and price realizations.

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

	Year Acquired	Percent Impact
Illumina, Inc.	2012	0.59%
The Charles Schwab Corp.	1992	0.54
priceline.com, Inc.	2009	0.42
FactSet Research Systems, Inc.	2006	0.22
Colfax Corp.	2012	0.21

Illumina, Inc. is the leading manufacturer of instruments and consumables used by scientists engaged in researching applications for 'next generation' DNA sequencing. Illumina's products have been at the forefront of huge recent advances in technology that have brought the cost of sequencing a human genome



Baron Asset Fund

from roughly \$1 billion 23 years ago, when the Human Genome Project was launched, to \$3,000 today (and still declining rapidly). The company reported quarterly revenue and earnings growth ahead of Wall Street estimates, driven by strength across its entire product portfolio. We believe these results were driven by both growing end markets and market share gains, which may have accelerated after the company's main competitor announced it was considering selling itself.

The Charles Schwab Corp., the well-known brokerage firm, benefited from rising equity markets and increased interest rates. Rising equity markets resulted in higher assets under management, on which Schwab earns fees. Higher interest rates benefited the company in several ways, including less need for Schwab to waive management fees on clients' money market funds. These increased sources of revenues carry especially high incremental profit margins. In addition, client trading activity increased, as retail investors continued to re-engage with the stock market.

priceline.com, Inc. is the leading online travel agency, operating websites across the world, including booking.com, priceline.com and agoda.com. The company's shares rose after reporting good results that highlighted its many opportunities to expand in fast-growing overseas markets, where the offline-to-online shift in hotel bookings continued. In addition, investors became less concerned that competition with other players in the online travel sector would lead to higher marketing costs and reduced profit margins. Finally, the company has had early success growing its booking.com business outside of its existing core European markets.

FactSet Research Systems, Inc. provides financial information and analytics to the global investment community. Shares rose on optimism that rising equity markets will lead to more hiring by asset management firms, which likely would lead to more customers for the company's core equity databases. We believe that FactSet serves a market worth \$11-\$16 billion annually, or approximately 14-20 times larger than its current revenue base, leaving room for many years of attractive growth.

Colfax Corp. is a diversified global industrial manufacturing and engineering company that provides gas and fluid handling technology products. Shares of Colfax increased given investors' growing confidence that the company will, in fact, recognize significant synergies from its recent acquisition of Charter International plc. We believe these financial synergies will be achieved despite the challenging near-term outlook for organic growth in Charter's welding and gas handling markets. In addition, Colfax recently completed a small secondary equity offering, which indicated that the company may pursue another attractive acquisition.

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

	Year Acquired	Percent Impact
Fastenal Co.	2006	-0.30%
ANSYS, Inc.	2009	-0.27
Equinix, Inc.	2007	-0.25
MRC Global, Inc.	2012	-0.20
CBRE Group, Inc.	2005	-0.17

Shares of industrial distributor **Fastenal Co.** detracted from performance, as the company's sales decelerated slightly given volatile order trends from its

manufacturing and commercial construction customers. We remain confident that new initiatives, such as installing vending machines at customers' sites and international expansion, will drive accelerated market share gains and higher margins for Fastenal as the economic recovery gains steam.

ANSYS, Inc., the market leader in simulation-driven product development software, declined after reporting quarterly results that were negatively impacted by slower end market demand. Despite the near-term headwind, we believe that ANSYS remains the dominant global provider of simulation software and that the company stands to benefit from the ongoing adoption of its simulation tools. We also believe that ANSYS will increasingly use its cash to repurchase its shares, which we believe will generate additional shareholder value.

Equinix, Inc. is a leading Internet exchange service provider, serving communications, content and enterprise customers in state-of-the-art data centers. Equinix also offers interconnection services to customers seeking to connect directly with other Equinix customers. We believe that this "tethering" of customers in a network neutral environment creates important competitive barriers that distinguish Equinix from other data center business models. Last year, management indicated its intention to convert the company to a REIT. Shares were pressured this quarter, as the market grew concerned about the company's ability to make this REIT conversion. In addition, REIT shares themselves were under pressure on concerns that rising interest rates would depress their relative valuations in the stock market. We believe that Equinix remains an attractive investment, whether or not a REIT conversion eventually occurs.

PORTFOLIO STRUCTURE

At June 30, 2013, the Fund held 63 positions. The Fund's 10 largest holdings represented 31.4% of assets, and the 20 largest represented 54.1% of assets. The Fund's largest weighting was the Consumer Discretionary sector at 26.6% of assets. This sector includes the Fund's investments in retailers, gaming companies, hotels, cruise lines and broadcasters. The Fund held 20.2% of its assets in the Industrials sector, which includes investments in manufacturers, distributors, and information services firms. The Fund also had significant weightings in Information Technology at 16.0% of assets and Financials at 13.2% of assets.

Table IV.
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
Gartner, Inc.	2007	\$2.9	\$5.3	\$96.9	4.2%
Verisk Analytics, Inc.	2009	4.0	10.1	89.6	3.8
IDEXX Laboratories, Inc.	2006	2.5	4.9	76.3	3.3
Arch Capital Group Ltd.	2003	0.9	6.8	75.8	3.3
The Charles Schwab Corp.	1992	1.0	27.2	71.7	3.1
SBA Communications Corp.	2007	3.8	9.5	70.4	3.0
Ralph Lauren Corp.	1997	1.6	15.8	69.5	3.0
Discovery Communications, Inc.	2009	6.2	18.2	61.8	2.6
Vail Resorts, Inc.	1997	0.2	2.2	61.5	2.6
FleetCor Technologies, Inc.	2012	2.9	6.6	58.9	2.5

RECENT ACTIVITY

During the past quarter, the Fund established one new position and added to eight others. The Fund also sold one position and reduced its holdings of 18 others.

Table V.
Top net purchases for the quarter ended June 30, 2013

	Quarter End Market Cap (billions)	Amount (millions)
Quintiles Transnational Holdings, Inc.	\$4.9	\$11.9
The Middleby Corp.	3.2	10.8
Universal Health Services, Inc.	6.5	6.4
Pall Corp.	7.4	5.4
MRC Global, Inc.	2.8	4.1

During the quarter, we added to our position in **The Middleby Corp.**, a manufacturer of baking ovens that traces its history to 1888. Under its current CEO, Selim Bassoul, the company has grown from \$100 million in sales in 2000 to more than \$1.3 billion currently. Middleby has grown organically and through acquisitions to become a leading provider of commercial restaurant equipment and food processing equipment. In fact, Middleby is the first or second largest company in the majority of its markets, including restaurant equipment for pizza chains, convenience stores and steakhouses. Its client list includes many familiar names, such as McDonald's, Pizza Hut, Dunkin' Donuts, among many others.

Customers purchase Middleby's equipment for its superior technology. The company is keenly focused on innovation and disruptive product introductions within a generally staid industry. Recently, Middleby partnered with restaurateur Brinker to implement the "kitchen of the future" at its Chili's chain. The retrofit using Middleby's CTX oven allowed Brinker to reduce energy costs, increase kitchen productivity, and increase food quality at its restaurants. Given the multiple benefits of its restaurant products, we believe Middleby will continue to win important contracts at other casual dining chains.

A key to the company's growth has been its strong track record of identifying and integrating acquisitions. At the end of 2012, Middleby announced its acquisition of Viking Range, the well-known consumer brand, for \$380 million. This deal marked Middleby's expansion into residential cooking, a large, complementary market in which the company had no presence. We expect the acquisition to create substantial value for shareholders, as Middleby restructures Viking's operations and introduces new products, including high-end refrigerators and dishwashers.

We continue to be excited about Middleby's prospects, given its superior products, exposure to fast growing international markets, strong customer relationships, and the company's large opportunity in the consumer market.

As a result of these factors, we believe the company has the ability to double its earnings during the next four years.

Table VI.
Top net sales for the quarter ended June 30, 2013

	Amount (millions)
Equinix, Inc.	\$-12.3
SBA Communications Corp.	-11.6
Airgas, Inc.	-11.2
The Charles Schwab Corp.	-7.6
Whiting Petroleum Corp.	-7.0

The Fund continued to reduce its stake in a few of its largest holdings, such as **Equinix, Inc.**, **SBA Communications Corp.**, and **The Charles Schwab Corp.** These sales were generally made after the stocks had appreciated considerably from their initial purchase price in order to maintain appropriate position sizes. The Fund also pared its investment in **Airgas, Inc.** after the company's valuation approached our near-term price objective.

OUTLOOK

We are encouraged that stock prices have remained resilient despite a steep rise in interest rates since early May. We believe that investors are focused on reasonable stock market valuations against the backdrop of a continually improving domestic economy. We believe that ongoing strength in new housing starts and domestic automobile production, in particular, are positive economic indicators. We believe that investors will continue to redeploy some of their funds back into equities, which should be positive for stock market valuations. We believe that the Fund will continue to benefit in a market environment that we believe will continue to reward high-quality companies with predictable and fast-growing earnings streams.

Thank you for investing in Baron Asset Fund.

Our entire firm and our research department, in particular, are committed to justifying your ongoing confidence and support. I remain a significant investor in the Fund alongside you.

Sincerely,



Andrew Peck
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.



Baron Asset Fund

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.

The Adviser believes that there is more potential for capital appreciation in mid-sized companies, but there also may be more risk. Specific risks associated with investing in mid-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Prior to February 15, 2007, the Fund's strategy was to invest primarily in small and mid-sized growth companies. Since then, the Fund's investment strategy has shifted to mid-sized companies. 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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