

DEAR BARON FOCUSED GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron Focused Growth Fund performed well during the first quarter of 2013. The Fund gained 10.92%. U.S. stock markets also achieved strong performance during the period. The Russell 2500 Growth Index, the mid-cap benchmark against which we compare the performance of this Fund, gained 12.20%. The better known S&P 500 Index gained 10.61% for the three months. The Fund was ranked #11 out of 376 Mid-Cap Growth Funds according to Lipper for the one year period ended 3/31/13 based on total return.\*

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

	Baron Focused Growth Fund <sup>1,2,3</sup>	Russell 2500 Growth Index <sup>2</sup>	S&P 500 Index <sup>2</sup>
Three Months <sup>4</sup>	10.92%	12.20%	10.61%
One Year	17.72%	13.69%	13.96%
Three Years	14.57%	14.95%	12.67%
Five Years	6.94%	9.02%	5.81%
Ten Years	15.41%	12.19%	8.53%
Fifteen Years	9.52%	5.83%	4.27%
December 31, 1999 – March 31, 2013.			
"The Bad Times."	7.79%	3.72%	2.41%
May 31, 1996 – December 31, 1999			
"The Good Times."	27.87%	17.60%	26.58%
Since Inception (May 31, 1996)			
"All the Times."	11.79%	6.53%	7.13%

Performance listed in the above table is net of annual operating expenses. As of the last fiscal year ended December 31, 2011, annual operating expense ratio for the Retail Shares was 1.48%, but the net annual expense ratio was 1.35% (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) for 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](http://www.BaronFunds.com) or call 1-800-99BARON.

\* Institutional share class ranked #11 and the Retail share class ranked #12 in the Lipper Mid-Cap Growth Fund Category. Lipper Analytical Services, Inc. rankings of fund performance do not reflect sales charges and are based on total return, including reinvestment of dividends and capital gains for the stated periods. Lipper does not provide a ranking for the period when the Fund was a partnership.

<sup>1</sup> Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 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 performance is only for the periods before the Fund's registration statement was effective, which was June 30, 2008. 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 2500™ Growth Index measures the performance of small to medium-sized 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.

<sup>3</sup> The performance data 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: BFGFX  
Institutional Shares: BFGIX

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 nation's growth materially. Finally, concerns about the impact from the default of tiny European nation Cyprus filled the media in March. We think the contrast between negative news and positive equity performance demonstrates the futility of attempting to "trade the news" rather than attempting to invest 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 have historically provided protection against inflation and better returns than other asset classes.

Baron Focused Growth Fund's strong results during the period were the result of consistent and strong returns throughout its investment portfolio. 17 of the Fund's 28 investments, representing 62.9% of its ending assets, achieved double digit returns in the quarter. Only four investments, American Campus Communities, Inc., Booz Allen Hamilton Holding Corp., C.H. Robinson Worldwide, Inc. and Agrinos AS had negative returns in the period. We believe the long-term growth prospects for those businesses remain favorable and they continue to represent 7.5% of the portfolio.

However, in this period of very strong returns for U.S. stocks, Baron Focused Growth Fund's return was 1.28% less than its benchmark. We believe occasional underperformance in a relatively short period of time is to be expected for a focused fund, and we do not anticipate this underperformance continuing over the long term. We believe our benchmark exceeding returns since the inception of this Fund (shown in Table I) validate this argument.

Baron Focused Growth Fund is a focused portfolio with 28 holdings as of March 31, 2013. While these holdings span a variety of sectors, the fundamentals of which, in our opinion, are largely uncorrelated, our industry weightings do not mimic the benchmark's. As a result of



## Baron Focused Growth Fund

this variance in weightings and the Fund's short-term, above average cash holdings due to the takeover of Cymer, a significant holding, the Fund slightly underperformed this period. Only two sectors, Materials and Information Technology, had stock selections that meaningfully led to lower sector returns (rather than the previously mentioned sector weighting allocations). Additionally, each of these underperforming sectors was the result of a single stock's poor returns. A very small investment in materials stock Agrinos AS, a maker of technologies to improve crop yields, fell 46.3% after an accounting policy change. Information Technology firm Booz Allen Hamilton Holding Corp., a government services provider, fell 2.8% due to uncertainty surrounding impact of sequestration on the defense budget. The Department of Defense is an important consulting client of Booz Allen Holding Corp. Booz has cut costs during the past year, and its efforts in healthcare and cyber security offer it significant growth opportunities.

Interestingly, our two highest weighted sectors, Consumer Discretionary and Industrials (22.9% and 22.3%, respectively), had the greatest outperformance due to stock selection. Unlike the sector detractors, which only consisted of one company per sector leading to the poor relative performance, the outperformance relative to the benchmark in both these sectors was the result of multiple companies' strong relative performance. Genesee & Wyoming, Inc., Verisk Analytics, Inc. and Colfax Corp. all exceeded the Industrials sector's return, while Choice Hotels International, Inc., Manchester United plc and Hyatt Hotels Corp. beat their Consumer Discretionary benchmark returns. Railroad operator Genesee & Wyoming rose 22.4% after its acquisition of a competitor resulted in substantial revenue and cost synergies as well as a more diversified footprint and client base. The acquisition also positions the company better for future expansion. Choice Hotels rose 26.4% after the company signed additional franchisee contracts.

A common theme for Baron Focused Growth Fund's investments is one of businesses investing in themselves, often at the expense of short-term profits, in order to become much larger, more profitable businesses in the future. A large percentage of the businesses in which we have invested are making such capital commitments. Verisk Analytics, Inc.'s investments in health care and real estate data services; CarMax, Inc.'s new store startup expenses and its efforts to grow sales in existing stores, and Hyatt'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 more than three years, we expect to benefit from these expenditures. In contrast, most mutual funds are more trading oriented and turn over 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.

Baron Focused Growth 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 asset manager The Carlyle Group and Eaton Vance 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.

**Table II.**

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Genesee & Wyoming, Inc.	2007	\$1.1	\$4.4	22.38%	1.39%
Verisk Analytics, Inc.	2009	5.0	10.4	20.84	1.09
Choice Hotels International, Inc.	2010	1.9	2.5	26.41	1.03
ITC Holdings Corp.	2008	2.2	4.7	16.44	0.85
Hyatt Hotels Corp.	2009	4.2	7.0	12.02	0.79
Colfax Corp.	2012	2.4	4.4	15.34	0.76
Eaton Vance Corp.	2008	2.0	5.0	31.22	0.73
Arch Capital Group Ltd.	2003	0.9	7.0	19.42	0.66
The Carlyle Group LP	2012	0.9	1.3	19.29	0.59
Church & Dwight Co.	2007	3.0	8.9	21.21	0.45

Shares of **Genesee & Wyoming, Inc.**, a leading short line railroad, rose 22.4% during the first quarter, after completing a transformational acquisition of its primary competitor for \$2 billion. The combined entity makes Genesee & Wyoming the dominant regional rail operator in the U.S., adding revenue diversity and cementing barriers to entry. In addition, private equity firm The Carlyle Group acted as a strategic equity partner, making a \$350 million investment and advising on future acquisitions. (Matt Weiss)

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's earnings increased 26%. It reported particularly robust results from its 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 to accelerate revenue growth from Verisk's insurance customers over the next few years. (Neal Rosenberg)

**Choice Hotels International, Inc.**, the largest hotel franchisor in the U.S., increased 26.4% in the first quarter as a result of the company's strong pipeline of new domestic hotel contracts. These contracts were enabled by an improving economy and improved financing. We believe increased unit growth, combined with fewer discounted royalty rates and continued improvement in RevPAR, should result in stronger revenue and margin growth in the future. (David Baron)

**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
Agrinos AS	2012	\$0.3	\$0.2	-46.32%	-0.54%
Booz Allen Hamilton Holding Corp.	2012	2.5	2.0	-3.03	-0.19
C.H. Robinson Worldwide, Inc.	2003	3.2	9.6	-5.36	-0.08
American Campus Communities, Inc.	2012	2.9	4.7	-1.02	-0.01

**Agrinos AS** shares declined 46.3% in the first quarter. Agrinos is a green technology company with a unique microbial product that enhances crop yields. Its share price performance in the first quarter was weak because a delay in receivables collections led to a change in accounting policy, with no revenue booked for Mexico in the fourth quarter. We continue to hold Agrinos because we believe it has disruptive technology and exciting long-term growth prospects. (Catherine Chen)

Shares of **Booz Allen Hamilton Holding Corp.** fell slightly in the quarter given the confusion surrounding the current defense budget. Near the end of the quarter, the company completed an \$154 million acquisition of a small division of another defense contractor specializing in high-end engineering and prototyping. Its most recent earnings report beat expectations, as the company managed its workforce around shifting demand for particular services and new opportunities. (Randy Gwirtzman)

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

## RECENT PURCHASES

**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)
FactSet Research Systems, Inc.	2008	\$2.5	\$4.1	\$5.6
ITC Holdings Corp.	2008	2.2	4.7	2.0
Hyatt Hotels Corp.	2009	4.2	7.0	1.6
Manchester United plc	2012	2.1	2.7	1.6
Vail Resorts, Inc.	2013	2.3	2.2	1.3

We added to our holdings in **FactSet Research Systems, Inc.** during the first quarter. FactSet is a leading provider of integrated financial information and analytics to the global investment community, offering a best in class product at what we believe is a compelling price point. The company's end market conditions have been challenging since the Great Recession due to tight client budgets and persistent sell side layoffs. Despite slow end markets, the company has been able to grow revenue and earnings at attractive rates by taking market share and increasing its own share of wallet within clients. The company serves an addressable market worth \$11-\$16 billion, or 14-20 times larger than its current business, which has helped the company sustain growth. We believe share gains will persist as FactSet expands its product portfolio and focuses on new classes of clients. We expect growth to accelerate significantly as end markets inevitably stabilize and return to growth. (Neal Rosenberg)

**ITC Holdings Corp.** is the nation's largest independent transmission company. Baron has been an investor in ITC since the company's initial public offering in 2005. We continue to believe that ITC is a highly differentiated way to invest in the need to upgrade aging U.S. infrastructure and the electric grid in particular. We also continue to like ITC because the company has been granted an attractive regulatory rate of return and capital structure to incent it to invest in and upgrade our electricity grid. As a result, ITC is able to earn a favorable return on equity on incremental investment. We took advantage

of price weakness in the quarter to add to our position in ITC. ITC is currently in the process of buying Entergy's transmission business, and we are positive on the deal as we think it will allow ITC to bring its operating expertise to an even larger service territory as well as enhance the company's prospects for earnings growth for many years to come. (Rebecca Ellin)

We increased our position in **Hyatt Hotels Corp.** in the quarter as the company began to see an improvement in its group business and increased corporate rates on bookings, which comprise close to half of the company's business. In addition, management has started to see an increase in developer contracts for the company's brands, which gives the company a strong base to grow. We think this unit growth combined with continued improvement in RevPAR should result in stronger future cash flows, which management has indicated they will use to invest in its brand growth and continue to repurchase shares. The stock continues to trade at a large discount to replacement cost and we believe its public market value does not accurately portray the value of its assets if they were sold. (David Baron)

## PORTFOLIO STRUCTURE

The objective of Baron Focused Growth Fund is to double its value per share within five years. Our strategy to accomplish this is to invest for the long term in a focused portfolio of appropriately capitalized, well-managed, small and mid-cap businesses at attractive prices. We attempt to create a portfolio of less than thirty businesses diversified by GICS sectors that will be approximately 80% as volatile as the market. These businesses are identified by our firm's proprietary research.

We think the businesses in which Baron Focused Growth Fund has invested have the potential to double in size within approximately five years and double again over the subsequent five years. We think these well-managed businesses have sustainable competitive advantages and strong, long-term growth opportunities. Considering current stock price valuations, we believe we have the opportunity to meet our performance goals during the next decade, although there is no guarantee that we will do so.

To protect against turbulent economic times and uncertain geopolitical developments, we choose to invest in publicly-owned growth businesses that have a "margin of safety" built into their businesses. These businesses generally have greater levels of visibility, higher barriers to entry, and subjectively better management teams than their competitors. Morningstar data suggests that we invest in more companies with stronger competitive advantages than those owned by most other mutual funds and our benchmark constituents.\* Further, FactSet data suggests the businesses in which Baron Focused Growth Fund has invested are substantially more profitable than companies in the benchmark index as measured by higher profit margins, better returns on capital and higher returns on equity. Their earnings are also less volatile than that of the composite benchmark index. Not surprisingly, Baron Focused Growth Fund's investments are less volatile than those in their benchmark indexes as well.

As of March 31, 2013, Baron Focused Growth Fund held 28 investments. The median market capitalization of those small- and mid-sized growth companies was \$4.89 billion. According to FactSet's Fundamental and Estimates data, Baron Focused Growth Fund's competitively advantaged, small- and mid-sized growth stock investment portfolio is expected to achieve annual 14.2% earnings per share growth for the next three to five years. It sells for 21.5 times last twelve months earnings per share. There is no guarantee, however, that the portfolio will perform this way.

# Baron Focused Growth Fund

**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 Net Assets
Hyatt Hotels Corp. Genesee & Wyoming, Inc.	2009	\$4.2	\$7.0	\$10.4	7.2%
ITC Holdings Corp.	2008	2.2	4.7	8.5	5.9
FactSet Research Systems, Inc.	2008	2.5	4.1	8.3	5.8
Verisk Analytics, Inc.	2009	5.0	10.4	7.9	5.5
Colfax Corp.	2012	2.4	4.4	7.4	5.1
Choice Hotels International, Inc.	2010	1.9	2.5	6.3	4.4
Airgas, Inc.	2011	5.3	7.5	5.9	4.1
CarMax, Inc.	2011	5.7	9.5	5.8	4.1
Dick's Sporting Goods, Inc.	2005	1.6	5.8	5.7	4.0

## Thank you for investing in Baron Focused Growth Fund.

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 try to provide you with information I would like to have if our roles were reversed. This is so you can make an informed judgment about whether Baron Focused Growth Fund remains an appropriate investment for 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



*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).*

\* Every stock covered by Morningstar receives an economic moat rating, which measures the company's competitive position. 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 small and medium-sized companies and using non-diversification, but there also may be more risk. Specific risks associated with non-diversification include increased volatility of the Fund's returns and exposure of the Fund to greater risk of loss in any given period. Securities of small and medium-sized companies 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 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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Focused Growth Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.