

Classic Mid-Cap Growth Baron Asset Fund



Andrew Peck,
Portfolio Manager

Baron Asset Fund (BARAX, BARIX) invests in mid-cap companies that we believe have an opportunity to grow substantially. We think mid-cap stocks are particularly interesting because many of these businesses are in the most compelling part of their growth trajectory.

Baron Asset Fund considers a mid-cap stock to be those with market capitalizations between \$1.5 billion and \$12 billion.



* For illustration purposes only. This S-Curve conceptually shows the relationship between growth of a company (e.g. sales or earnings) and its market capitalization.

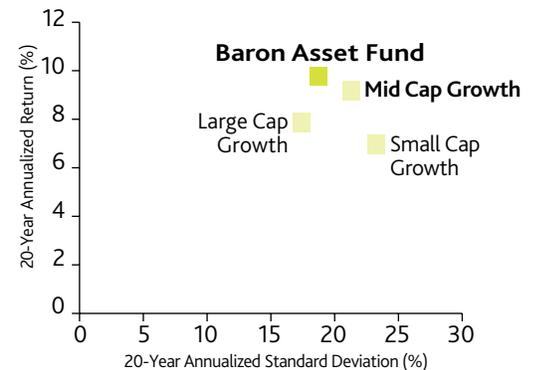
What is mid-cap? Mid-cap businesses are those that have matured beyond their initial, often riskier, start-up phase and that have not yet reached the more mature part of their life-cycle. These businesses tend to be more financially stable than smaller cap companies and generate a meaningful amount of cash that can be reinvested in their businesses for future growth. As shown in the chart above, we think these businesses offer the greatest growth potential at the time of purchase.

Why mid-cap growth? We think mid-cap stocks have higher growth opportunities than large-cap stocks and are less risky than small-cap stocks. Mid-cap companies typically have advantages over smaller

cap stocks, including better balance sheets, better access to capital, lower cost of capital, more stable revenues and earnings, and accelerating cash flow to reinvest in their businesses. Mid-cap companies also have advantages over large-cap stocks in their opportunity to grow at faster rates, their ability to deploy resources faster, and their capacity to move more nimbly. Mid-cap companies are also more likely to be acquisition targets than large-cap companies.

Because of these characteristics, over the past 20 years, as shown in the chart below, mid-cap

**20-Year Annualized Return vs.
20-Year Annualized Standard Deviation
As of 6/30/2013**



Asset Class	20-Year Annualized Return	20-Year Standard Deviation	20-Year Sharpe Ratio
Large Cap Growth	7.84	17.41	0.28
Mid Cap Growth	9.20	21.33	0.29
Small Cap Growth	6.95	23.22	0.17
Baron Asset Fund	9.78	18.76	0.36

Large Cap=Russell 1000 Growth Index, Mid Cap=Russell Midcap Growth Index, Small Cap=Russell 2000 Growth Index. Performance shown is not representative of the performance of any particular investment. It is not possible to invest directly in an index.

For the period ending June 30, 2013, the one-, five-, ten-year and since inception (6/12/87) annualized total returns for Baron Asset Fund's retail share class were 23.53%, 6.62%, 9.85%, and 11.08%, respectively. As of September 30, 2012, the total expense ratio was 1.33%. 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. Current performance may be lower or higher than the performance data quoted above. For performance information for the most recent month end, visit www.BaronFunds.com or call 1-800-99Baron. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower.

growth stocks have had superior risk-adjusted returns than those of larger or smaller cap growth stocks.

While mid-cap growth stocks offer better risk-adjusted returns than large or small cap stocks, mid-cap growth stocks have, in our opinion, an advantage over mid-cap value and mid-cap core stocks. Today, mid-cap growth stocks are more attractively valued. As of May 31, 2013, mid-cap growth stocks traded

Current Last Twelve Month P/E Ratio Compared to 20-Year Average Last Twelve Month P/E Ratio As of 5/31/2013

	Value	Blend	Growth
Large	13.4x 13.9x	14.8x 16.6x	16.6x 20.8x
Mid	14.7x 13.9x	16.3x 16.2x	18.6x 21.4x
Small	15.3x 14.1x	17.0x 16.8x	19.1x 20.6x

Current Last Twelve Month P/E Ratio as % of 20-Year Average Last Twelve Month P/E Ratio As of 5/31/2013

	Value	Blend	Growth
Large	97%	89%	80%
Mid	105%	101%	87%
Small	108%	101%	93%

Source: Russell Indexes: 1000 Value, 1000, 1000 Growth, Mid Cap Value, Mid Cap, Mid Cap Growth, 2000 Value, 2000, 2000 Growth.

at a larger discount to historical valuations than their mid-cap value or core peers.

Why Baron Asset Fund? Portfolio Management. Baron Asset Fund is an actively managed portfolio, which means our goal is to generate higher returns than the benchmark (the Russell Midcap Growth Index). To accomplish this, we look for what we think are the best stocks and build the portfolio stock by stock, taking positions that do not mirror the benchmark. The Fund is managed by long-tenured manager Andrew Peck and is supported by Baron's experienced analyst team.

Research. Baron Asset Fund invests in a variety of businesses that we think have strong long-term growth potential. We dedicate significant time researching every business we invest in before we initiate a position in the stock,

and we continue to do research over the life of each investment. We think the depth, knowledge, and experience of our research analysts is what makes our product different from those of other mutual funds.

What we look for. We invest in companies with market capitalizations between \$1.5 and \$12 billion that have competitive advantages that we think are sustainable. Our research is focused on what makes it difficult for other companies to compete, what unique product or service differentiates a particular business. Management's ability to maintain this competitive advantage to protect long-term profitability and market share is critical to our analysis of an opportunity. Also important is how we value the opportunity. It is important for us to invest in a company at an attractive valuation so we have the ability to make the returns we anticipate.

We particularly like companies with subscription-based business models such as Gartner, Inc., the leading independent provider of research and analysis on the information technology industry, and Verisk Analytics, Inc., which provides information about risk to companies in the insurance, healthcare, and mortgage industries. These businesses have proprietary data and analytics that are extremely hard to replicate, highly recurring revenue streams, and a demonstrated ability to raise their prices each year.

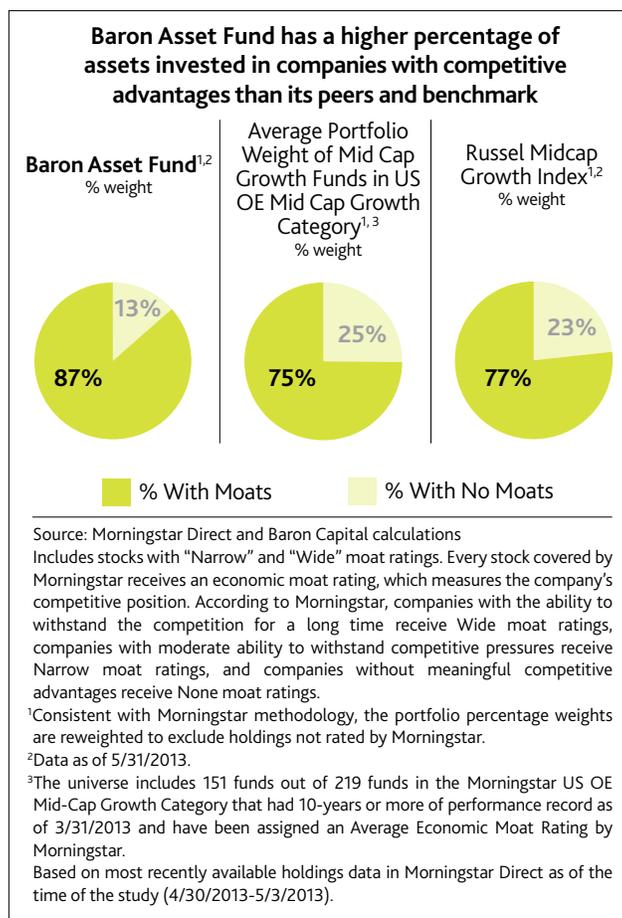
We look for companies that can scale revenue from unique or special assets. Examples include SBA Communications Corp., one of the largest owners of wireless towers in the U.S., with a growing presence in Canada, Central America, and Brazil; and Vail Resorts, Inc., the largest operator of ski resorts in North America. These businesses benefit from zoning

and licensing obstacles that prevent new entrants into their markets.

Another favorite is platform-oriented businesses, particularly Internet businesses, benefit from a "network effect" whereby a rapid growth in users leads to an accompanying increase in listings and advertisers. Advertisers tend to prefer dominant websites in different vertical markets. Examples include LinkedIn Corp., the world's largest online professional network, and priceline.com, Inc., an online travel agent specializing in hotel bookings through two primary websites, booking.com and Agoda.com.

Powerful brands also create an inherent competitive advantage. The blue Tiffany's box and the Ralph Lauren polo pony are classic and established, and with minimal fashion risk, large opportunities to expand in fast-growing emerging markets, and secure positions in developed markets.

We think when a company has competitive advantages that are sustainable, it is positioned to protect its profitability from



Quality Characteristics – Five-Year Averages As of 5/31/2013

	Historical Growth			Profitability			Leverage	Earnings Stability	Volatility
	Sales Growth %	EPS Growth %	Gross Margin %	EBITDA Margin %	FCF Margin %	ROIC %	Debt to Market Cap %	Standard Deviation of YoY EPS Growth %	Beta
Baron Asset Fund	10.4	12.8	43.1	27.0	11.4	14.9	21.8	91.1	0.98
Russell Midcap Growth Index	8.3	11.5	40.2	23.1	8.1	13.1	24.8	90.2	0.98
Morningstar US OE Mid-Cap Growth Category	10.3	11.8	40.2	22.7	9.2	10.7	27.4	110.6	1.00

Source: Compustat and FactSet. Portfolio quality characteristics for the Fund, its category, and its respective benchmark represent the weighted averages of each individual stock's characteristic, if available, using the interquartile method to eliminate outliers. Statistics are historical and calculated using the most recent 5 fiscal-year-end GAAP results with the exception of the Earnings Stability metric, which uses quarterly trailing 12-months results.

competition, without which profitability might erode. Sustainable competitive advantages provide a business with steadier sales growth and stable profit margins and the ability to raise prices, which in turn result in higher returns on invested capital and financial strength. Strong, financially sound, high quality companies are less sensitive to market conditions and macro-economic events. While a higher quality business may weather economic storms better than a lower quality business, its stock price might lag in market rallies where business fundamentals are less important.

The table above includes portfolio-based characteristics using five-year averages, for Baron Asset Fund, its benchmark, and the Morningstar category average. These characteristics are commonly used as a measure of quality. As of June 30, 2013, the Fund's holdings compare favorably, evidencing its higher quality bias.

Time horizon. We invest for the long term. This means we get to understand the company well over the life of our investment as we continue to meet with management

and perform due diligence on the investment. It also means we have our own perspective about the investment: we are not focused on short-term noise and results, but look to see what the business can become over a longer time horizon. There are often good reasons why a growth company misses Wall Street estimates. While other investors may see the "miss" as a sell trigger, we might see this as an opportunity to add to a position if our longer-term outlook for the company is strong.

We think Baron Asset Fund is advantaged by investing in high quality mid-cap companies. Those companies typically have more consistent and stronger growth, more experienced management to steer that growth, and better access to capital than smaller-cap companies. Mid-cap companies also are more nimble, can deploy their resources more efficiently, and have more focused business strategies than larger cap companies.

We believe Baron's thorough research process creates an information advantage. Mid-cap companies are less thoroughly covered by Wall Street sell-side analysts, and this provides

Baron's deep and experienced research team the opportunity to take advantage of this void. Our analysts are organized by sector and industry verticals, and they have an expertise in understanding how a company is positioned versus its competitors, and how a company can grow. Our in-depth proprietary research allows us to identify and follow opportunities that we believe can produce excellent returns for Baron Asset Fund's shareholders over time. While we may not always get it right, we think our long-term approach and intense research process positions the Fund for good long-term results for our shareholders. ■

Securities issued by medium sized companies may be thinly traded and may be more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. The Fund may not achieve its objectives. Current and future portfolio holdings are subject to risk. All performance and performance related calculations are based on the Fund's Retail Shares.

Baron Events

Baron Investment Conference

Our 22nd Annual Baron Investment conference will be held **Friday, November 8, in New York City at the Metropolitan Opera House, Lincoln Center.** Advance registration is required and seating is first come, first served. For your free registration, visit www.BaronFunds.com/register.

Or call **800-99-BARON, option 1.** Our conference features guest speakers from the companies in which we invest and our own portfolio managers. Seating is limited. Preferred seating is available to those who qualify.

Please read our registration requirements before registering.

Performance as of June 30, 2013¹

RETAIL SHARES										
		YTD	Average Annualized Returns			Since Inception		Inception	Expense Ratio	Interest
			1-Year	5-Years	10-Years	Annualized	Cumulative	Date		Expense
Small Cap	Baron Growth Fund	15.39%	24.83%	8.67%	10.02%	13.51%	942.69%	12/31/94	1.32% ¹	
	Baron Small Cap Fund	14.45%	23.89%	9.39%	9.77%	9.69%	329.29%	9/30/97	1.31% ¹	
Smid Cap	Baron Focused Growth Fund ³	8.61%	24.42%	6.82%	13.42%	11.47%	538.76%	5/31/96	1.48%/1.35% ²	
Mid Cap	Baron Asset Fund	14.98%	23.53%	6.62%	9.85%	11.08%	1444.88%	6/12/87	1.33% ¹	
	Baron Opportunity Fund	13.51%	18.48%	8.87%	11.83%	4.31%	75.63%	2/29/00	1.39% ¹	
Large Cap	Baron 5 th Ave. Growth Fund	6.99%	13.99%	5.46%	N/A	4.86%	54.50%	4/30/04	1.55%/1.30% ¹	
All Cap	Baron Partners Fund ³	20.78%	32.07%	7.07%	12.40%	12.62%	1174.33%	1/31/92	1.40% ²	0.34% ²
	Baron Emerging Markets Fund	0.60%	15.75%	N/A	N/A	0.97%	2.44%	12/31/10	4.01%/1.50% ²	
	Baron Global Advantage Fund	2.31%	16.14%	N/A	N/A	5.55%	6.50%	4/30/12	8.35%/1.50% ²	
Int'l	Baron Int'l Growth Fund	2.83%	11.97%	N/A	N/A	14.25%	82.12%	12/31/08	1.78%/1.50% ²	
	Baron Energy and Rsrcs Fund	5.81%	14.93%	N/A	N/A	0.07%	0.10%	12/30/11	9.07%/1.35% ²	
Specialty	Baron Real Estate Fund	9.36%	32.35%	N/A	N/A	21.67%	98.67%	12/31/09	1.76%/1.35% ²	
INSTITUTIONAL SHARES										
		YTD	Average Annualized Returns			Since Inception		Inception	Expense Ratio	Interest
			1-Year	5-Years	10-Years	Annualized	Cumulative	Date		Expense
Small Cap	Baron Growth Fund	15.54%	25.16%	8.90%	10.14%	13.57%	953.69%	12/31/94	1.06% ¹	
	Baron Small Cap Fund	14.58%	24.18%	9.61%	9.88%	9.76%	333.69%	9/30/97	1.05% ¹	
Smid Cap	Baron Focused Growth Fund ³	8.81%	24.62%	7.03%	13.53%	11.53%	544.95%	5/31/96	1.16%/1.10% ²	
Mid Cap	Baron Asset Fund	15.13%	23.87%	6.85%	9.97%	11.13%	1461.57%	6/12/87	1.06% ¹	
	Baron Opportunity Fund	13.64%	18.80%	9.11%	11.95%	4.40%	77.54%	2/29/00	1.13% ¹	
Large Cap	Baron 5 th Ave. Growth Fund	7.11%	14.29%	5.67%	N/A	4.98%	56.08%	4/30/04	1.26%/1.05% ¹	
All Cap	Baron Partners Fund ³	20.98%	32.44%	7.31%	12.52%	12.68%	1188.36%	1/31/92	1.13% ²	0.35% ²
	Baron Emerging Markets Fund	0.70%	15.97%	N/A	N/A	1.18%	2.98%	12/31/10	3.37%/1.25% ²	
	Baron Global Advantage Fund	2.50%	16.47%	N/A	N/A	5.80%	6.80%	4/30/12	7.33%/1.25% ²	
Int'l	Baron Int'l Growth Fund	2.88%	12.25%	N/A	N/A	14.51%	83.99%	12/31/08	1.40%/1.25% ²	
	Baron Energy and Rsrcs Fund	5.91%	15.14%	N/A	N/A	0.27%	0.40%	12/30/11	8.65%/1.10% ²	
Specialty	Baron Real Estate Fund	9.52%	32.63%	N/A	N/A	21.96%	100.33%	12/31/09	1.44%/1.10% ²	

Baron Growth Fund and **Small Cap Fund** invest primarily in small-cap securities, **Baron Asset Fund** in mid-cap securities, **Baron Focused Growth Fund** and **International Growth Fund** in both. Small and mid-cap securities may be thinly traded and more difficult to sell during market downturns. **Baron Opportunity Fund** emphasizes mid-sized companies that we believe will benefit from innovations and advances in technology, which present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. **Baron Partners Fund**, **Focused Growth Fund**, **Baron Real Estate Fund** and **Baron Energy and Resources Fund** are non-diversified and **Baron Partners Fund** uses leverage, which increase volatility of the Funds' returns and expose the Funds to greater loss in any given period. In addition, the value of **Baron Real Estate Fund** is affected by the strength of the real estate markets. **Baron Fifth Avenue Growth Fund** invests primarily in large-cap securities, which like all equities are subject to price fluctuations in the stock market. **Baron International Growth Fund**, **Baron Emerging Markets Fund** and **Baron Global Advantage Fund** invests primarily in non-U.S. securities, which involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets. These risks are heightened for the **Baron Emerging Markets Fund**. **Baron Energy and Resources Fund** invests in energy companies, which can be affected by fluctuations in energy prices and supply and demand of energy fuels, and in resources industries, which can be affected by international political and economic developments, the success of exploration projects, and meteorological events.

¹As of September 30, 2012 for Baron Asset, Baron Growth, Baron Small Cap, Baron Opportunity and Baron Fifth Avenue Growth Funds. For Baron Fifth Avenue Growth Fund, the total expense ratio was 1.55% Retail share class and 1.26% Institutional share class, but the net annual expense ratio is 1.30% Retail and 1.05% Institutional (net of the Adviser's fee waivers).

²As of December 31, 2012 for Baron Partners, Baron Focused Growth, Baron International Growth, Baron Real Estate and Baron Emerging Markets Funds. Total expense ratio shown for Baron Partners Fund was comprised of operating expenses of 1.40% and interest expense of 0.34% for the Retail share class and 1.13% and 0.35% respectively for the Institutional share class. For Baron Focused Growth Fund, the total expense ratio was 1.48%, but the net annual expense ratio was 1.35% for the Retail share class and 1.16% and 1.10% respectively for the Institutional share class (net of the Adviser's fee waivers). For Baron International Growth Fund, the total expense ratio was 1.78%, but the net annual expense ratio was 1.50% for the Retail share class and 1.40% and 1.25% respectively for the Institutional share class (net of the Adviser's fee waivers). For Baron Real Estate Fund, the total expense ratio was 1.76% but the net annual expense ratio was 1.35% for the Retail share class and 1.44% and 1.10% respectively for the Institutional share class (net of the Adviser's fee waivers). For Baron Emerging Markets Fund, the total expense ratio was 4.01%, but the net annual expense ratio was 1.50% for the Retail share class and 3.37% and 1.25% respectively for the Institutional share class (net of the Adviser's fee waivers). For Baron Energy and Resources Fund, the total expense ratio was 9.07%, but the net annual expense ratio was 1.35% for the Retail share class and 8.65% and 1.10% respectively for the Institutional share class (net of the Adviser's fee waivers). For Baron Global Advantage Fund, the total expense was 8.35%, but the net annual expense ratio was 1.50% for the Retail share class and 7.33% and 1.25% respectively for the Institutional share class (net of the Adviser's fee waivers).

³Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee. The predecessor partnerships' performance is only for periods before the Funds' registration statements were effective (4/30/03 for BPF and 6/30/08 for BFGF). During those periods, the predecessor partnerships were not registered under the Investment Company Act of 1940 and were not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if they were, might have adversely affected their performance.

The Adviser has reimbursed certain Fund expenses for Baron Focused Growth, Opportunity, Fifth Avenue Growth, Emerging Markets, Global Advantage, International Growth, Energy and Resources, and Real Estate Funds (by contract as long as BAMCO, Inc. is the adviser to the Funds).

Portfolio holdings as a percentage of net assets as of 3/31/13 for securities mentioned and top ten holdings: Gartner, Inc. – 4.1%; Verisk Analytics, Inc. – 3.9%; SBA Communications Corp. – 3.4%; Vail Resorts, Inc. – 2.6%; LinkedIn Corp. – 1.6%; priceline.com, Inc. – 2.3%; Tiffany – 1.5%; Ralph Lauren Corp. – 3.0%; Arch Capital Group Ltd – 3.3%; IDEXX Laboratories, Inc. – 3.1%; Fastenal Co. – 3.1%; Discovery Communications, Inc. – 2.9%; The Charles Schwab Corp. – 2.8%; Mettler-Toledo International, Inc. – 2.7%.

Definitions (provided by BAMCO, Inc.): **The Russell Midcap™ Growth Index** measures the performance of medium-sized U.S. companies that are classified as growth. The index and the Fund are with dividends, which positively impact the performance results. **The Morningstar US OE Mid-Cap Growth Category 5-Year Average** is not weighted. The Fund's Retail Shares have been included in the category since April 1, 1999. As of 5/31/13, the category consisted of 561 funds for the 5-year period. © 2013 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Standard Deviation:** measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk). **Price/Earnings Ratio (trailing 12-months):** is a valuation ratio of a company's current share price compared to its actual earnings per share over the last twelve months. **Sales Growth:** This is calculated as the 5-year compound annual growth rates of sales. **Gross Margin:** This is calculated as sales minus the sum of cost of goods sold and depreciation & amortization expense, divided by sales, multiplied by 100. **EBITDA Margin:** The earnings before interest, taxes, depreciation and amortization is calculated as EBITDA (operating income plus D&A) divided by sales, multiplied by 100. **FCF Margin:** This is calculated as free cash flow divided by sales, multiplied by 100. **FCF** is calculated as net cash flow from operations minus the sum of the following if available: capital expenditures from the cash flow statement (CF) and common & preferred cash paid dividends (CF). **ROIC:** Return on invested capital is calculated as net income divided by average invested capital multiplied by 100. **Debt to Market Cap:** This is calculated as total debt divided by market cap, multiplied by 100. Total debt is calculated as the sum of total short-term debt and total long-term debt. If total short-term debt is not available, zero will be substituted. **Standard Deviation of YoY EPS Growth:** This is calculated by taking the 5-year standard deviation of year-over-year LTM EPS growth. **Beta:** measures a fund's sensitivity to market movements. The beta of the market (Russell Midcap Growth) is 1.00 by definition. **EPS Growth:** This is calculated as the 5-year compound annual growth rates of earnings per share. The EPS Growth rate does not forecast the Fund's performance.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The Baron Funds' prospectuses contain this and other information about the Funds. Please read it carefully before investing. You can obtain one from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com.