

Baron Opportunity Fund

DEAR BARON OPPORTUNITY FUND SHAREHOLDER:

PERFORMANCE

The Fund had a solid start to the year in the context of a strong market environment. The Fund finished the quarter up 16.89%, ahead of the Russell Midcap Growth Index, which rose 14.52%, as well as the broader market indexes, including the S&P 500 Index, which finished the quarter up 12.59%.

Table I.
Performance (Retail Shares)
Annualized for periods ended March 31, 2012

	Baron Opportunity Fund ^{1,2}	Russell Midcap Growth Index ¹	S&P 500 Index ¹
Three Months ³	16.89%	14.52%	12.59%
One Year	2.46%	4.43%	8.54%
Three Years	29.73%	29.16%	23.42%
Five Years	6.65%	4.44%	2.01%
Ten Years	11.18%	6.92%	4.12%
Since Inception (February 29, 2000)	3.92%	0.92%	2.13%

OUTLOOK

The market opened the year with a very strong first quarter. This followed a lackluster 2011, when corporate earnings increased significantly (on average more than 15%), but stock prices ended the year almost perfectly flat. The catalysts for the first quarter rally included improved economic conditions in the United States, as the unemployment rate continued to decline and consumer spending and confidence improved; a lessening of financial stresses in Europe following the European Central Bank's injection of liquidity; and continued strong corporate earnings. For the time being at least, the market seems to have turned its eye towards business fundamentals, rewarding, in particular, those companies capable of delivering healthy top line growth rates.

The Fund, too, had a solid first quarter, outperforming the Russell Midcap Growth Index as well as the broader market averages. The overarching theme driving our investments continues to be growth. We remain focused on finding those unique businesses possessing long-term secular, open-ended growth opportunities. In a world challenged for growth, we have no shortage of good ideas in companies that we believe can deliver sustainable long-term growth of twenty percent or more. We believe the best growth companies are

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of September 30, 2011 was 1.41%. *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 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 Russell Midcap Growth Index and the S&P 500 Index are unmanaged. The Russell Midcap Growth Index measures the performance of medium-sized companies that are classified as growth. The S&P 500 Index measures the performance of large cap U.S. equities in the stock market in general. The Indexes and the Baron Opportunity 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 Not annualized.



MICHAEL A. LIPPERT
PORTFOLIO MANAGER

innovators or uniquely positioned to benefit from innovation. According to a new book called "Why Nations Fail," coauthored by an M.I.T. economist and a Harvard political scientist, "[s]ustained economic growth requires innovation," and "innovation cannot be decoupled from creative destruction, which replaces the old with the new in the economic realm...." We invest for the long term in many growth themes we believe to be pioneering, transformative and disruptive. These include electrification of the automotive fleet; cloud computing; on-demand software; mobile devices, applications and advertising; digital media; unconventional oil and gas; computer simulation; real-time medical diagnostics; minimally invasive surgical procedures; electronic medical records; social media; e-commerce; big data; agricultural yield improvement; electronic payments; and renewable energy.

Some of these themes played out particularly well during the quarter, as the Fund's performance was led by its Information Technology and e-commerce investments. Notable contributors included **Equinix, Inc.** whose global interconnection platform provides critical on and off-ramps to public and private clouds alike; **priceline.com, Inc.**, a leading online travel agency, who surprised the market (positively) with data showing that its penetration rates in its core European market remains very low; **Apple, Inc.** whose early iPhone 4S sales blew away most forecasts; and **Velti plc**, a leader in mobile marketing who grew its business over 50% last year. Despite the Fund's strong start to the year, we believe the portfolio still possesses a great deal of "dry powder," as some of our highest conviction ideas – including ceramic proppant leader **CARBO Ceramics, Inc.**, lithium ion battery separator manufacturer **Polypore International, Inc.** and multi-family housing software provider **RealPage, Inc.** – all lagged in the quarter. We took advantage of weakness to add to each of these holdings during the period.

In light of the favorable market conditions, the first quarter was a busy period for initial public offerings. We participated selectively, investing only when we identified business that met all of our normal criteria of secular growth, sustainable competitive advantages, strong management teams and attractive valuations. Indeed, of the top 10 IPOs of the period, we only participated in two, **Bazaarvoice, Inc.** and **Proto Labs, Inc.**, passing on a number of "hot" deals that did not satisfy our requirements.

Table II.

Top contributors to performance for the quarter ended March 31, 2012

	Percent Impact
Equinix, Inc.	1.99%
Velti plc	1.52
Apple, Inc.	1.07
priceline.com, Inc.	1.02
Millennial Media, Inc.	0.82

Shares of **Equinix, Inc.** increased 55.3% in the quarter, as data-center business trends remained strong, and management began to explore converting the company's structure to a REIT. Comparable data-center REITs trade at dramatically higher multiples, and accordingly, investors have begun to revalue Equinix's shares to close that gap. We continue to see meaningful upside in the shares, through both further valuation expansion and continued growth. (Rich Rosenstein)

Velti plc is a leading mobile marketing company. Shares of Velti recovered strongly in the quarter and were up 99.3% as the company reported fourth-quarter results that were ahead of expectations. The company's outlook for 2012 included robust growth and profitability. Concern over the company's exposure to Europe waned. The company has improved its ability to explain its business to investors, has made positive changes in management, and has increased traction in the U.S. market. (Ashim Mehra)

Shares of **Apple, Inc.** gained sharply following the January release of its strong fourth-quarter results. Apple's revenue grew 73% to over \$46 billion, beating its own guidance by over \$9 billion, and its earnings more than doubled year over year. The story of Apple's quarter was the iPhone, which sold 37 million units, more than twice the prior quarter's sales numbers. The iPad was also strong, selling over 15 million units, up over 100% from the prior year. The quarter ended with Apple's release of the 3rd generation iPad, which sold more than three million units over its launch weekend. (Michael Lippert)

priceline.com, Inc. is a leading online travel agency that operates several online sites including Booking.com, priceline.com, RentalCars.com, and Agoda.com. Shares of priceline.com were up 53.4% in the quarter following the release of strong fourth-quarter results. We believe priceline.com is a well-managed company that still has a large global opportunity in online travel. Its penetration of the European market is still well below 10%, giving it an opportunity to significantly expand its booking.com brand. (Ashim Mehra)

Table III.

Top detractors from performance for the quarter ended March 31, 2012

	Percent Impact
RealPage, Inc.	-0.56%
Deckers Outdoor Corporation	-0.43
CARBO Ceramics, Inc.	-0.38
Polypore International, Inc.	-0.35
Blue Nile, Inc.	-0.30

Shares of **RealPage, Inc.**, which markets a comprehensive suite of property management software and analytical tools for the rental housing industry, declined 24.1%. Fourth-quarter results showed an unexpected decline in rental apartment move-outs. With rents climbing and occupancy rates high, tenants are electing to renew existing leases rather than search for new apartments, leading to a modest reduction in RealPage's transaction-based revenue. Customers using RealPage's Yield Star tool did not see this anomaly, as the software encouraged them to raise rents on renewals in line with rents charged to new tenants. We believe that this anomaly is temporary and will reverse. Over the long term, we think the company will continue to generate organic growth of 20% to 25% coupled with sustained margin expansion. (Neal Rosenberg)

Shares of **Deckers Outdoor Corporation** declined when the company issued guidance that was below Street expectations. Deckers, the manufacturer of UGG boots, continues to face severe headwinds from the significant increase in the cost of sheepskin and one of the warmest winters on record. We believe sheepskin prices are peaking and will decline in 2013, giving a boost to 2013 earnings. We also believe weather patterns will eventually revert to the mean. (Laird Bieger)

CARBO Ceramics, Inc. is the leading supplier of ceramic proppant used in hydraulic fracturing. CARBO's share price was volatile in the quarter and has suffered since the company announced lower fourth-quarter earnings. The company warned that a rapid rotation from gas to oil drilling in the U.S. was leading to significant logistics and cost challenges, and lower volumes of proppant sales. The shares partially recovered as it became clear that its challenges are related to logistics rather than end-market demand or competition. As these concerns begin to dissipate, we believe CARBO's proppant volumes will ramp back towards full capacity levels, and that CARBO shares will begin to recover as well. (Jamie Stone)

Shares of **Polypore International, Inc.** declined 20.1% as management lowered expectations for the quarter. The company cited sluggish sales of certain electric vehicles (the Nissan Leaf and Chevy Volt), which will adversely affect lithium-ion separator sales, and some temporary weather-related issues in the lead-acid separator business. We think the stock sell-off was extreme, and believe that the current valuation places minimal value on a potentially exciting electric-vehicle business, and undervalues the company's solid core separator business. Based on our research, we continue to view the future for electric drive vehicles (hybrids, plug-in hybrids and fully electric cars) as one of those inevitable trends. To be sure, at a recent investor presentation, Polypore management noted that if just 5% of the automobile market becomes conventional hybrids – not to mention the other types – it more than doubles the size of the lithium separator market and Polypore (and the industry) hasn't built nearly enough capacity. We added to our Polypore position on weakness. (Randy Gwirtzman)

PORTFOLIO STRUCTURE

Baron Opportunity Fund had \$361.0 million of assets under management as of March 31, 2012. The Fund had investments in 64 securities, including one private equity investment. The top 10 positions accounted for 29.1% of the portfolio and the Fund's cash position was 1.1% at quarter end. We have no shortage of good ideas for the Fund; our challenge remains prioritizing among them.

Baron Opportunity Fund

Table IV.
Top 10 holdings as of March 31, 2012

	Quarter End Investment Value (millions)	Quarter End Market Cap (billions)	Percent of Net Assets
Equinix, Inc.	\$14.8	\$7.3	4.1%
Gartner, Inc.	12.3	4.0	3.4
SBA Communications Corp.	11.0	5.6	3.0
RealPage, Inc.	10.8	1.4	3.0
CARBO Ceramics, Inc.	10.2	2.4	2.8
CoStar Group, Inc.	10.1	1.8	2.8
priceline.com, Inc.	9.9	35.7	2.7
Polypore International, Inc.	9.5	1.6	2.6
Velti plc	8.7	0.8	2.4
ANSYS, Inc.	8.3	6.0	2.3

The Fund emphasizes themes and individual businesses that we believe will experience significant secular growth rates. As a result, the Fund's sector weights are an output of our process, not an input. As compared to the Russell Midcap Growth Index, we have historically favored the Information Technology sector and have underweighted Industrials, Materials, and Consumer Staples. In our opinion, several of our investments categorized in the Information Technology sector by GICs are more properly viewed as Consumer Discretionary companies – indeed, GICs assigns traditional media/advertising companies to the Consumer Discretionary Sector but online and mobile media/advertising businesses to the IT sector – and we therefore consider our Consumer Discretionary weighting to be in line to overweight. More importantly, not only do we continue to believe the Fund's IT sector holdings are well diversified across a number of distinct secular themes and end market exposures, but that our investments are differentiated and high quality. Indeed, approximately 70% of our IT-sector holdings receive at least two-thirds of their revenues from recurring sources, such as subscriptions, royalties, transactions, term licenses or maintenance agreements.

The median market cap of the Fund was \$2.4 billion at the end of the quarter.

RECENT ACTIVITY

Table V.
Top net purchases for the quarter ended March 31, 2012

	Quarter End Market Cap (billions)	Amount (millions)
Deckers Outdoor Corporation	\$2.4	\$6.5
RealPage, Inc.	1.4	6.2
Shutterstock, Inc.	1.1	5.3
Netflix, Inc.	6.4	5.2
HomeAway, Inc.	2.1	4.8

The Adviser believes that there is more potential for capital appreciation in securities of high growth businesses benefiting from innovation through development of pioneering, transformative or technologically advanced products or services, but there also is more risk. Companies propelled by innovation, including technological advances and new business models, may present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. Securities issued by medium sized companies may be thinly traded and 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 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.

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

During the quarter we re-invested in **Shutterstock, Inc.** (the global leader in personalized photo-related products), **Netflix, Inc.** (the global leader in online TV and movie content streaming) and **HomeAway, Inc.** (operator of the global leading online sites for vacation rentals) at what we believe are attractive valuations as each company saw their stocks pull-back from recent highs.

As mentioned above, we added significantly to our RealPage position on weakness, making RealPage a top 10 position for the first time.

We also established a new position in Deckers Outdoor, after the stock pulled back do to the issues discussed above.

Table VI.
Top net sales for the quarter ended March 31, 2012

	Market Cap When Sold (billions)	Amount (millions)
Allscripts Healthcare Solutions, Inc.	\$3.5	\$-5.7
QUALCOMM, Inc.	111.8	-5.4
Google, Inc.	196.9	-4.5
Pegasystems, Inc.	1.4	-4.1
Molycorp, Inc.	2.5	-3.8

We sold all of our **Allscripts Healthcare Solutions, Inc.** shares, essentially swapping our position in Allscripts for new positions in **Athenahealth, Inc.** and **Cerner Corp.**, which we determined were better ways to invest in the electronic medical records theme. We sold **QUALCOMM, Inc.**, **Google, Inc.** and **Pegasystems, Inc.** on valuation and to fund the purchases of other positions. We think all three possess solid secular growth characteristics and would consider owning them again at more attractive valuations. We sold **Molycorp, Inc.** for fundamental reasons associated with the timing and cost of the ramp up of the company's Mountain Pass facility.

Thank you for your support and for trusting us with your assets. We look forward to updating you in future letters.

Sincerely,



Michael A. Lippert
Portfolio Manager
May 17, 2012

For more information about this Fund
please scan this QR code with any
bar code reader on your mobile device.

