

DEAR BARON INTERNATIONAL GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron International Growth Fund appreciated 2.89%, while our principal benchmark index, the MSCI AC World-ex USA IMI Growth Index Net, returned 3.72% for the fourth quarter of 2011. For the full year, the Fund declined 16.35%, trailing the benchmark index decline of 14.66%. During the fourth quarter, the global equity market stabilized and began to recover earlier losses, which we attributed largely to escalating concerns over credit conditions in Europe and a deteriorating outlook for global economic growth. Emerging market equities underperformed the developed world for the year, particularly in U.S. dollar terms, as investors discounted slower growth, rising liquidity strains and related risk premiums. The silver lining is that during the fourth quarter, government and monetary authorities around the world began an increasingly aggressive easing cycle, which has the potential to improve global financial conditions and economic prospects. We are encouraged that the European sovereign credit markets and various measures of market liquidity have recently stabilized and now offer tentative signs of improvement. In our view, as stated in our third

Table I.
Performance (Retail Shares)[†]
Annualized for periods ended December 31, 2011

	Baron International Growth Fund ^{1,2}	MSCI AC World ex USA IMI Growth Index Net ¹	MSCI AC World ex USA Index Net ¹
Three Months ³	2.89%	3.72%	3.72%
One Year	-16.35%	-14.66%	-13.71%
Three Years and Since Inception (December 31, 2008)	14.56%	11.70%	10.70%

Performance listed in the above table is net of annual operating expenses. As of the last fiscal year ended December 31, 2010, annual operating expense ratio for the Retail Shares was 1.76%, 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 for Baron International Growth 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.*

[†] If the Fund's historical performance was impacted by gains from IPOs and/or secondary offerings, there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

¹ The MSCI AC World ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI AC World ex USA IMI Growth Index Net measures the equity market performance of large, mid and small cap growth securities across developed and emerging markets, excluding the United States. The MSCI AC World ex USA Index Net measures the equity market performance of large and mid cap securities across developed and emerging markets, excluding the United States. The indexes and Baron International Growth 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

quarter letter, stabilization of such factors and further monetary easing would likely lead to positive equity returns, as most stocks were already discounting some likelihood of a second global financial crisis during much of the second half of 2011.

For the quarter, our relative performance modestly trailed the benchmark, as the Fund's sector weightings and cash position detracted from relative results, while favorable stock selection contributed positively. On a sector basis, the Fund's investments in Consumer Discretionary, Financials, Industrials and Energy were the largest contributors to relative results. Stock selection effect was highest in Consumer Discretionary, led by outperformance from the Fund's casino and gaming investments, **bwin.party digital entertainment plc** and **Wynn Macau Ltd.** In particular, shares of **bwin.party**, an online gaming operator specializing in Internet poker, casino, and sports betting, increased markedly as investors looked favorably on the company's chances of renewing on-line gaming operations in the United States. Another significant contributor in the sector was **Domino's Pizza Enterprises Ltd.**, the master franchiser of the Domino's brand in Australia, New Zealand and parts of Europe. With the company's focus on health and wellness and gourmet toppings, its products are seen as high quality at a value price, and sales often perform well during periods of economic slowdown such as occurred in 2011. The Fund's underweighting in Financials, a laggard in the benchmark, also contributed to relative performance, while three financial holdings of the Fund, **Julius Baer Group Ltd.**, **Itaú Unibanco Holding SA** and **Arch Capital Group Ltd.** delivered solid absolute returns. Within the Industrial sector, the Fund's business and consumer services holdings, led by **Experian plc**, **Qualicorp SA** and **Intertek Group plc** posted solid double digit gains; in addition, our Japanese industrial automation investments, **FANUC Corp.** and **THK Co. Ltd.**, also contributed.

The Fund's largest detractor from relative performance for the quarter was the Information Technology sector. The Fund's significant overweight in this sector, a laggard in



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the benchmark, negatively impacted relative results. Stock selection in this sector was also considerably negative due to a decline in the shares of several software driven business, which are viewed as particularly vulnerable to a slowdown on corporate spending. Laggards in this area included **Financial Technologies Ltd.**, **Kingdee International Software Group Co. Ltd.** and **RIB Software AG**. Financial Technologies Ltd., the Fund's largest overall detractor, provides IT platforms to create financial markets across all asset classes and has launched trading exchanges in India, Africa, the Middle East, and Southeast Asia. During the past quarter, the company's trading volumes contracted in response to deteriorating financial conditions.

For the full year 2011, the Fund modestly trailed its benchmark index. Our underweight position in Materials and Financials, the two worst performing sectors in the index, was a source of relative contribution. Strong stock selection in Materials, Financials, Industrials, Consumer Discretionary and Information Technology sectors also contributed to relative performance. Conversely, poor stock selection in the Health Care, Telecommunication Services and Consumer Staples sectors was a significant detractor. Further, as developed world equities outperformed the emerging markets for the year 2011, our bias towards rising consumption in the emerging markets, including companies in the developed world with significant growth potential in the developing world, detracted from our relative performance. We note that this phenomenon represented a reversal from the positive effect for the Fund in the prior two years.

Table II.
Top contributors to performance for the quarter ended December 31, 2011

	Percent Impact
bwin.party digital entertainment plc	0.74%
Lundin Petroleum AB	0.57
Experian plc	0.43
Julius Baer Group Ltd.	0.41
Symrise AG	0.37

Shares of **bwin.party digital entertainment plc**, an online gaming operator specializing in Internet poker, casino, and sports betting, increased 33.4% as investors looked favorably on the company's chances of renewing operations in the United States. The Department of Justice made public a legal opinion clarifying its stance on Internet gaming, stating that the Wire Act applies only to sporting events and that Internet poker and casinos are legal. The opinion allows states to legalize intrastate Internet gaming, which would be beneficial to the company. (David Baron)

Lundin Petroleum AB is an independent oil & gas company with operations primarily in the Norwegian sector of the North Sea and Asia. Late in the third quarter, the company and its partners announced two significant oil discoveries on adjacent blocks in the Norwegian sector of the North Sea that significantly exceeded analysts' expectations. The company revised upwards the estimated potential recovery of these fields, adding to Lundin's performance in the fourth quarter. The discoveries reaffirmed the technical capabilities of Lundin as an explorer and resulted in a significant increase in the company's book value. (Jamie Stone)

Shares of credit-rating agency **Experian plc** climbed 21.1%, driven by a strong semi-annual report, in which nearly all divisions (credit, analytics

and marketing) and all regions reported strong results. We think Experian is well positioned to take advantage of the internationalization of credit penetration around the world. (Rob Susman)

Shares of **Julius Baer Group Ltd.**, a Swiss private banking firm, increased 17.0% in the fourth quarter. With strong sales in European markets, net new assets increased 6%, which compares favorably against its competitors. Margins rose in the period, mainly due to changes in foreign exchange rates. Going forward, planned cost savings should lead to more sustainable growth in profits. (Michael Baron)

One of the largest flavor and fragrance companies in the world, **Symrise AG** has been a core position for several years. Symrise shares appreciated 15.5% in the fourth quarter following share weakness during the middle of the year caused by concern over raw material costs. Such costs, however, stabilized in the second half of the year and Symrise posted quarter-over-quarter margin improvement. We believe that the company will reach its goal of a 20% EBITDA margin soon. (Kyuhey August)

Table III.
Top detractors from performance for the quarter ended December 31, 2011

	Percent Impact
Financial Technologies Ltd.	-0.83%
Ecosynthetix, Inc.	-0.44
NII Holdings, Inc.	-0.38
Kingdee International Software Group Co. Ltd.	-0.37
Anhanguera Educacional Participações SA	-0.33

Financial Technologies Ltd. provides IT platforms to create financial markets across all asset classes. The company has launched trading exchanges in India, Africa, the Middle East, and Southeast Asia. FT India's trading volumes contracted in response to deteriorating financial conditions. Despite the uncertainty and the poor current trading conditions, which, in our opinion, is well-reflected in the current valuation, we continue to believe FT India is well positioned to benefit from a long-term expansion of capital markets activities. (Michael Kass)

Shares of **Ecosynthetix, Inc.**, which uses proprietary technology to produce bio-based alternatives to petroleum-derived feedstock, declined 32.0%. Paper manufacturers, a large consumer of such feedstock, cut back purchases as the paper industry began to shed capacity. We believe the company offers its customers a lower-cost, greener product that will replace more of the conventional petroleum-based feedstock over time. The company also has exciting potential applications for other markets, including personal care and building products. (David Goldsmith)

NII Holdings, Inc.'s shares were weak during the quarter, as a confluence of concerns outweighed what has generally been solid operating performance in local currency terms. The key concerns are the rollout and financing of 3G services across the company's markets, the competitive landscape in 3G, and how the company can grow until the 3G transition is complete. What has been in the company's control has generally been good – the company successfully acquired spectrum inexpensively, and appears to be building out its networks in Mexico and Brazil. Assuming 3G delivers the accelerating trends expected, we think both growth and multiple expansion should drive share price appreciation. (Rich Rosenstein)

Kingdee International Software Group Co. Ltd. is one of the top three enterprise resource planning (ERP) solution providers in China, focusing primarily on the small to medium-sized enterprises (SME). The shares declined 28.2% over the last quarter mainly due to fear that China's macro economy is slowing down, and that government policy tightening will hurt SMEs. We remain optimistic on Kingdee because the company has built a strong franchise in the SME space, and we believe its partnership with IBM to provide ERP solutions to traditionally untapped blue-chips will provide additional growth. (Siming Yang)

Anhanguera Educacional Participações SA's shares declined 16.3% in the fourth quarter. The leading private, post-secondary education company in Brazil, Anhanguera recently completed the largest acquisition in its history. While the acquisition will further consolidate this highly fragmented market and provide greater scale for Anhanguera in the Sao Paulo region, the company will suffer from short-term margin compression as the acquiree's less-efficient operation is absorbed by the company. (Kyuhey August)

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of December 31, 2011 - Developed Countries

	Percent of Net Assets
Eurofins Scientific SE	3.1%
bwin.party digital entertainment plc	3.0
Bridgestone Corp.	2.7
Julius Baer Group Ltd.	2.6
Symrise AG	2.5
Experian plc	2.4
Opera Software ASA	2.3
FANUC Corp.	2.3
Compagnie Financière Richemont SA	2.2
Kirkland Lake Gold, Inc.	2.2

Table V.
Top five holdings as of December 31, 2011 - Developing Countries

	Percent of Net Assets
TOTVS SA	2.1%
Cia. Hering SA	1.7
Anhanguera Educacional Participações SA	1.5
Net 1 UEPS Technologies, Inc.	1.5
Itaú Unibanco Holding SA	1.4

Exposure by Country: At the end of the fourth quarter of 2011, the Fund was invested approximately 71.1% in developed countries and 23.2% in developing countries, with the remaining 5.7% in cash. The Fund seeks to maintain broad diversification by country at all times. A detailed review of the Fund's holdings by country is available at the back of this Baron Funds Quarterly Report.

Exposure by Market Cap: The Fund may invest in companies of any market capitalization, though we generally focus on mid and smaller cap

companies, as we believe such companies often have more attractive growth potential. At the end of the fourth quarter of 2011, the Fund's median market cap was \$2.2 billion, and, excluding cash, we were invested approximately 26.4% in large cap companies over \$10 billion, 25.8% in mid cap companies between \$2.5 – \$10 billion and 41.4% in small cap companies under \$2.5 billion.

RECENT ACTIVITY

During the fourth quarter, we made several adjustments to the portfolio in response to changing company fundamentals as well as the deteriorating financial and liquidity conditions transpiring in the global capital markets. In general, our goal was to move further up the quality ladder, with a preference for strongly capitalized companies with a likelihood of significant cash generation in the near to mid-term. In addition, we added to several positions on market weakness where we continue to believe the long-term fundamental outlook remains compelling. In general, we have also on the margin favored mid to larger capitalization companies given the current environment, which has resulted in a modest increase in our median market capitalization across the Fund. We note that the recent poor performance in most emerging market countries has triggered several new investment candidates in companies we have admired, though we never felt offered a compelling investment return. As we move into 2012, we are increasingly enthusiastic about potential new investments and we are diligently moving forward with such research.

OUTLOOK

Last quarter, we commented that it was critical that the evolving European sovereign debt and bank funding crisis stabilize in order to calm markets and allow fundamental value to be restored in equities. After several trial balloons during the quarter, European authorities finally delivered details of a compromise plan in December, and while we applaud the significant progress, we caution that it likely falls somewhat short of the "fiscal union" that could mark a definitive turning point in the crisis. Germany offered the weaker sovereign nations a stick without the carrot – new procedures for enforcing austerity commitments without compromise on a direct role for the European Central Bank ("ECB") or the introduction of Eurobonds to support sovereign debt. Thus, for now, we conclude it remains politically unacceptable for the ECB, and by default, Germany, to act as a backstop in the event of a default or bailout of a weaker Euro sovereign. The ECB did agree to offer unlimited lending at very favorable terms to European banks, which should, at a minimum, stabilize the bank funding crisis. However, the question remains whether this strategy can also lead to declining sovereign borrowing rates and greater demand from private market and bank investors. Further, we note that the individual European countries will hold referendums or elections in coming months to ratify new commitments and terms. These are the key variables we will be monitoring to determine if the European crisis is indeed fading as we move into 2012.

China is the other key variable to monitor as it often acts as a leading indicator of global economic and market conditions. Though recent developments have not been confidence inspiring, as evidenced by weak exports, capital outflows, signs of a property market correction and

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declining equities, we note that such weakness has sparked the beginning of an easing campaign. If the financial stress related to Europe improves and China signals a greater commitment to ease lending conditions, we would anticipate a noticeably more favorable investment environment in the year ahead. Indeed, the global easing cycle, which clearly began in the fourth quarter in response to the European crisis has already been an important support for equities. As always, we approached the recent market volatility opportunistically to add to existing positions and to initiate new investments in **SodaStream International Ltd., Ubiquiti Networks Inc., Agrinos AS, APR Energy plc** and **AsialInfo-Linkage, Inc.** We look forward to our next quarterly update.

Thank you for investing in the Baron International Growth Fund.

Sincerely,



Michael Kass
Portfolio Manager
January 18, 2012

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



Non-U.S. investments may 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. This may result in greater share price volatility. Specific risks associated with investing in small and medium-sized companies include that the securities 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 portfolio holdings are subject to risk.

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