

DEAR BARON INTERNATIONAL GROWTH FUND SHAREHOLDER:

PERFORMANCE

The Baron International Growth Fund appreciated 15.91%, while our principal benchmark index, the MSCI ACWI ex USA IMI Growth Index, returned 11.89% for the first quarter of 2012. During the first quarter, the global equity market staged an impressive rally, as several risks which had been troubling the market began to stabilize. Particularly, the funding crisis and forced selling of sovereign debt by European banks subsided as a result of over 1.0 trillion euro of low-cost, LTRO financing from the ECB. Further, during the quarter, a restructuring of Greek sovereign debt was finally completed. Market performance was led by the more cyclical and higher beta shares such as technology, consumer discretionary, financials and selected industrials, as investors discounted improving growth potential and risk conditions. The first quarter rally was consistent with our suggestion at year end that if the financial stress related to Europe improved and/or if China signaled a greater commitment to ease credit conditions, we could expect a noticeably



MICHAEL KASS
PORTFOLIO MANAGER

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

	Baron International Growth Fund ^{1,2}	MSCI ACWI ex USA IMI Growth Index ¹	MSCI ACWI ex USA Index ¹
Three Months ³	15.91%	11.89%	11.23%
One Year	-3.21%	-6.53%	-7.17%
Three Years	23.06%	19.66%	19.12%
Since Inception (December 31, 2008)	18.64%	14.65%	13.50%

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 1.73%, 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, 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 MSCI ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI ACWI ex USA IMI Growth Index Net USD measures the equity market performance of large, mid and small cap growth securities across developed and emerging markets, excluding the United States. The MSCI ACWI ex USA Index Net USD 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.

more favorable investment environment in 2012. While we are encouraged by recent gains, we anticipate some ongoing volatility attributable to shifting fiscal, monetary and macro expectations, therefore, we continue to believe our focus on high quality, capital efficient growth companies driven by strong and entrepreneurial management remains a sturdy approach.

For the quarter, we were pleased with our performance, which exceeded our benchmark. While our overweight position in Information Technology and underweight exposure in Consumer Staples both contributed to our relative returns, as usual, the principal driver of our relative return was stock selection. Within the Technology sector, we had many stocks appreciate over 35% for the quarter, led by **Velti plc** up 99%, **Ubiquiti Networks, Inc.** up 74%, and **Opera Software ASA**, one of our top positions by size, up 38%. Overall, our theme related to broadband Internet penetration enabling connectivity and transparency was a major driver of our outperformance in the quarter. All three of these companies are excellent examples of beneficiaries of the theme. Stock selection was also strong within Healthcare, led by an approximate 50% gain in our largest single position, **Eurofins Scientific SE**, the world leader in food testing and certification; during the quarter, the company reported solid progress in integrating a recent acquisition and raised guidance due to strong underlying operating performance. Finally, solid performance in the Consumer Discretionary sector was largely attributable to our developing world consumer theme. Notable examples here include Brazilian retailer **Cia. Hering SA**, up 48%, and **Hathway Cable & Datacom Ltd.**, the leading cable MSO in India, up nearly 56%. Modestly offsetting the positive factors noted above, poor stock selection in the Energy and Financial sectors detracted from relative performance. Within Energy, company specific disappointments at three of our exploration and production investments led to quarterly declines. Last, our low-beta approach and lack of exposure to credit-sensitive, developed world financial stocks resulted in relative underperformance in the Financials sector during the recent "risk-on" quarter.



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Table II.

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

	Percent Impact
Eurofins Scientific SE	1.42%
Velti plc	1.36
Cia. Hering SA	0.85
Opera Software ASA	0.82
AsialInfo-Linkage, Inc.	0.80

Eurofins Scientific SE provides analytical testing services to clients in the food, pharmaceutical and environmental industries. Its shares increased 49.6%, the result of the company's overall strong 2011 financial results, aided by organic growth accelerating in the fourth quarter. We believe the company's growth prospects remain strong, driven by increasing regulation related to food safety and the environment as well as the outsourcing of non-core activities by pharmaceutical companies. (Neal Kaufman)

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)

Cia. Hering SA is a leading apparel retailer in Brazil. The company operates a unique, asset-light business model, which has allowed it to produce higher-than-average industry margins and returns. Based on the success of its flagship Hering brand, the company has been incubating a kids clothing concept over the last two years. Its recently announced kids store expansion plan reinvigorated the share price, resulting in a 48.4% gain. We believe that the kids concept has even greater market potential and, hence, believe there is further upside to the shares. (Kyuhey August)

Shares of **Opera Software ASA** appreciated 38.2%. Opera is the fifth leading web browser for PCs and the leading browser worldwide for mobile devices. The stock reacted favorably to an improved macroeconomic outlook and a 31% fourth-quarter earnings increase year over year. Investors are also excited about the prospects for the company's next phase of growth, mobile publishing/advertising, which accounted for approximately 15% of sales in the fourth quarter. We continue to hold shares of Opera because we like its leading market positions in emerging markets and believe it can further monetize its data compression technology and large user base. (Catherine Chen)

AsialInfo-Linkage, Inc. is China's largest telecommunication IT service provider with approximately 70% market share. The company provides a full range of software solutions, including network infrastructure, operations support and billing, and implementation services. The stock price rose 62.6% after CITIC Capital, a Chinese private-equity firm, offered to acquire the company at an undisclosed price. AsialInfo is now soliciting offers from additional private equity firms. We believe the company is presently undervalued and has the potential to grow significantly in the years ahead. (Michael Kass)

Table III.

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

	Percent Impact
Kakaku.com, Inc.	-0.43%
Exillon Energy plc	-0.36
Niko Resources Ltd.	-0.25
Lundin Petroleum AB	-0.23
NII Holdings, Inc.	-0.20

Shares of **Kakaku.com, Inc.** declined after its fiscal third-quarter report revealed slowing user growth and rising costs in its core business. Kakaku.com operates Japan's leading e-commerce price-comparison web site along with several other online businesses including the leading restaurant review and reservations website, Tablelog. While we believe a portion of the poor results and guidance can be attributed to disruption from last year's earthquake and to specific changes in pricing policies, we are concerned about the slowdown in core activities. We have trimmed our position pending further data since we do not currently believe the positive operating momentum in Tablelog will offset deterioration at Kakaku.com. (Michael Kass)

Exillon Energy plc is an independent Oil & Gas company with all of its operations in two large basins in Russia. Exillon's shares were under pressure as operating challenges in Russia have lowered production expectations and raised operating costs. Since Russian companies pay a high tax rate when oil prices are above a certain level, Exillon's stock price did not benefit from sharply higher oil prices. The shares are trading at a wide discount to our expected value, and we still see strong upside potential in the shares. (Jamie Stone)

Niko Resources Ltd. is an international Exploration & Production company with operations in India and a massive inventory of exploration prospects throughout India, Southeast Asia, and Trinidad. Niko shares have been pressured by production declines at the D6 field in India. The drop-off in production is prompting a re-evaluation of the field's geological model that will likely reduce estimated reserves. The D6 news has driven recent share underperformance, and we chose to exit our position during the quarter. (Jamie Stone)

Lundin Petroleum AB is an independent Oil & Gas company with operations primarily in the Norwegian sector of the North Sea and Asia. Lundin shares rose strongly in the fourth quarter 2011 following the discovery of one of the biggest new oil fields in Norway in decades. In January Lundin announced an unsuccessful appraisal well in that field, causing concern that field reserves might be lower than anticipated, and resulting in a drop in Lundin's shares. We think the company maintains an active and attractive exploration and development program that should generate gains over the next several years. (Jamie Stone)

Shares of **NII Holdings, Inc.** declined when it became apparent that the company's long-awaited 3G network deployments in Mexico and Brazil would be delayed by three to six months. While new network deployment delays are not uncommon, the company's transition has long been viewed as risky, even though its track record has been good. The delays, while disappointing, don't necessarily undermine NII's long-term plans to

dramatically expand its subscriber base, revenues and profits over the next several years. (Rich Rosenstein)

PORTFOLIO STRUCTURE

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

	Percent of Net Assets
Eurofins Scientific SE	4.0%
Opera Software ASA	2.7
Velti plc	2.5
Bridgestone Corp.	2.5
SoftBank Corp.	2.4
Julius Baer Group Ltd.	2.3
Compagnie Financière Richemont SA	2.3
Ryanair Holdings plc	2.3
FANUC Corp.	2.3
bwin.party digital entertainment plc	2.3

Table V.
Top five holdings as of March 31, 2012 - Developing Countries

	Percent of Net Assets
Cia. Hering SA	2.1%
TOTVS SA	1.9
Anhanguera Educacional Participações SA	1.4
AsialInfo-Linkage, Inc.	1.4
Financial Technologies Ltd.	1.4

Exposure by Country: At the end of the first quarter of 2012, the Fund was invested approximately 70.7% in developed countries and 25.7% in developing countries, with the remaining 3.6% 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.

Table VI.
Percentage of securities in developed markets as of March 31, 2012

	Percent of Net Assets
Japan	12.2%
United Kingdom	11.3
Switzerland	6.5
United States	6.4
France	5.9
Germany	4.8
Ireland	4.8
Canada	3.4
Australia	3.3
Israel	3.3
Norway	2.7
Hong Kong	2.1
Spain	1.6
Sweden	1.4
Italy	1.0

Table VII.
Percentage of securities in developing markets as of March 31, 2012

	Percent of Net Assets
Brazil	9.0%
China	6.7
India	3.1
Korea	2.3
Indonesia	1.8
South Africa	1.3
Russia	0.8
Mexico	0.7

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 first quarter of 2012, the Fund's median market cap was \$2.7 billion, and, excluding cash, we were invested approximately 28.5% in large cap companies over \$10 billion, 26.2% in mid cap companies between \$2.5 - \$10 billion and 41.1% in small cap companies under \$2.5 billion.

RECENT ACTIVITY

Last quarter, we remarked that the decline in global equities in late 2011 presented several new investment opportunities. During the first quarter, notable new positions include **Tower Bersama Infrastructure Tbk PT** and **Media Nusantara Citra Tbk PT**, both Indonesian media and communications investments. We believe that Indonesia has several attractive investment merits, particularly related to the domestic consumption theme that we have espoused across most emerging market countries. Tower Bersama is one of two independent wireless communications tower companies, and we believe the build out of 3G/4G networks and the explosion of wireless data demand bode well for future growth; further, as Indonesia is an archipelago with limited tower locations, and the major wireless carriers are just beginning to outsource tower development and pursue a co-location strategy, we believe barriers to entry, margin potential and return on capital are poised to rise for independent operators such as Tower Bersama.

Media Nusantara Citra is the country's leading traditional television broadcaster. With advertising spend to GDP in Indonesia at very low levels, we believe rising consumer incomes will drive advertising growth for years to come. Further, we suspect Media Nusantara's significant investment in local programming content will pay off with strong ratings and future cash flow margin expansion. We note that Saban Capital Group, a savvy U.S.-based international media investor, recently made a significant strategic investment in Media Nusantara, which we believe supports our thesis.

We also initiated a position in **21Vianet Group, Inc.**, a leading carrier neutral Internet infrastructure company in China. We believe rising broadband Internet penetration and the spread of Internet video, e-commerce, social networking and cloud services in China is driving explosive demand for data center and related Internet infrastructure services, and we see 21Vianet as one of the best-positioned companies to benefit. Vianet's key customers are the "who's who" of China's Internet industry, and we believe the company's pricing power and value proposition are on the rise. During the quarter, we also took advantage of the

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market's surge to exit small, underperforming positions such as **Vero Energy Inc.**, **Ecosynthetix, Inc.**, **Niko Resources Ltd.** and **THK Ltd.**

OUTLOOK

Last quarter, we suggested that if the financial stress related to Europe improved and/or if China signaled a greater commitment to ease credit conditions, we could expect a noticeably more favorable investment environment in 2012. Indeed, with the European Central Bank's successful implementation of two rounds of LTRO financing, the funding crisis in the European banking system has subsided. As undercapitalized banks accessed the ECB's three year funding on very attractive terms, the forced selling of sovereign bonds abruptly ended and most sovereign debt yields have declined. With the likelihood of a near-term, crisis-induced global economic contraction all but eliminated, equities have returned to more normalized multiples. Further encouraging the equity markets was the complex and painstaking restructuring of Greek sovereign debt. While there are lingering uncertainties that will likely lead to market volatility at some point in the future, for now, the European situation appears stable. We would not be surprised to see an eventual re-shaping of the European Union, with perhaps several countries defaulting and exiting, though we believe the LTRO program buys critical time and further facilitates a more orderly unwind at a future date. While large pockets of Europe will still experience recession or suboptimal growth in 2012, the global markets had previously expected much worse, and hence the strong rally in global equities in early 2012.

China remains the other key variable to monitor as it often acts as a leading indicator of global economic and market conditions. We believe the recent improvement in inflation indicators provides cover for authorities to signal incremental easing measures, and we would suggest that the year to date rally in emerging markets can be partially attributed to this expectation. However, we are somewhat troubled by clear signs of weaker economic activity subsequent to the Chinese New Year, juxtaposed with what appears an increasingly volatile political showdown in the months leading up to the transfer of power to a new regime. This political uncertainty reduces the likelihood of a clear and strong policy response to deteriorating domestic economic conditions in China. We have largely avoided investing in

companies directly tied to the investment cycle in China; namely, local real estate and banks, or global industrials and commodities.

We would like to point out what appears an intriguing inflection point in Japan. The recent communication of a pro-inflationary bias is a potential sea change that we believe could bode well for many Japanese equities. This pocket of the global equity market has underperformed for years under a deflationary bias, and we are currently doing our homework on specific companies that meet the Baron investment criteria and benefit from our principal investment themes.

The Fund is shaped by our principal investment themes relating to 1) exploding middle class and rising domestic consumption in the developing world, 2) related increasing credit availability and capital markets activity, 3) increasing demand for manufacturing and business productivity, 4) increasing need for agricultural yield and energy efficiency, and 5) rising broadband internet penetration driving connectivity and transparency while opening new markets. As such, our country and sector/industry exposures are similarly shaped. With much of the world as our investment universe, we invest where we find the prevalence of visionary entrepreneurs leading what we believe to be quality businesses with strong growth prospects and an appreciation for capital efficiency and corporate governance. We are pleased with our progress since launching the Fund just over three years ago and are excited by the prospects we envision for the companies in which we have invested.

Thank you for investing in the Baron International Growth Fund.

Sincerely,



Michael Kass
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.



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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