

DEAR BARON GROWTH FUND SHAREHOLDER:

OUTLOOK

"That's one in a row." Ron Taylor. Former CEO. DeVry Institutes. March 2012.

United States' stock markets achieved strong gains during the first quarter of 2012. When Ron Taylor, DeVry Institute's former CEO, and I were recently discussing our respective basketball skills, he described to me how he felt after making a foul shot. I thought the analogy to his "that's one in a row" remark was relevant to the strong quarter stocks just experienced. Since stocks remain at such historically attractive levels relative to earnings, interest rates, growth prospects, corporate balance sheets and 10 year interest rates while investors remain unusually cautious, we expect a lot more "one in a row" periods like this one during the next 10 years.

December 31, 1999 through December 31, 2011 was the worst period for stocks in U.S. history!

Stocks strong performance during the quarter ended March 31, 2012 followed a 12 year period that was the most difficult for equity investors

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

	Baron Growth Fund ^{1,2}	Russell 2000 Growth Index ¹	S&P 500 Index ¹
Three Months ³	9.02%	13.28%	12.59%
One Year	0.92%	0.68%	8.54%
Three Years	25.66%	28.36%	23.42%
Five Years	3.00%	4.15%	2.01%
Ten Years	7.37%	6.00%	4.12%
December 31, 1999 - March 31, 2012. "The Bad Times."	6.99%	1.75%	1.52%
December 31, 1994 - December 31, 1999. "The Good Times."	29.90%	18.99%	28.56%
Since Inception (December 31, 1994) "All the Times."	13.18%	6.47%	8.71%

"Little Progress"

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 1.32%. *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 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 2000 Growth Index and the S&P 500 Index are unmanaged. The Russell 2000 Growth Index measures the performance of small U.S. companies classified as growth. The S&P 500 Index measures the performance of large cap U.S. equities in the stock market in general. These indexes and the Baron Growth 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.



RONALD BARON
CEO AND PORTFOLIO MANAGER

in the entire 235 year history of the United States! Returns for our stock markets during the first 12 years of this new millennium were worse than during the Depression in the 1930s and the prolonged stagflation during the 1970s amidst the failed presidency of Jimmy Carter.

The poor returns for U.S. stock markets for the 12 years after December 31, 1999 were partly due to unusually high price/earnings valuations and great investor optimism at the start of the period. As Warren Buffett has remarked, "you pay a high price for optimism." In December 1999, stocks in general were valued for more than 30 times earnings. This was just before the "Internet Bubble" burst. Such optimistic pricing for stocks did not presage the possibility for a decade of adversity like we just experienced. Equity pricing in 1999 compares to an historically "normal" 15.5 times market p/e ratio. Stock markets in the United States financial history on occasion have exceeded valuations above 20 times earnings. On rarer instances, they briefly fell below 10 times earnings. U.S. stocks began 2012 valued for 12 times estimated earnings. At the end of a strong first quarter 2012, U.S. stocks remain valued for a below average 13.5 times FactSet's compilation of Wall Street analysts' 2012 earnings estimates. Publicly held businesses increased their earnings on average 15% last year. Analysts expect them to increase earnings per share more than 10% this year. Baron Growth Fund's investments increased their earnings on average more than 20% last year. Our firm's analysts expect Baron Growth Fund's businesses to increase their earnings more than 15% in 2012.

PERFORMANCE

Whether times are good or bad, over the long term Baron Growth Fund has substantially outperformed U.S. stock markets.

"The Bad Times." December 31, 1999 through March 31, 2012.

Baron Growth Fund increased its net asset value per share 128.73%, 6.99% annualized, from December 31, 1999



Baron Growth Fund

through March 31, 2012. That was the worst 12 and a quarter year period in our country's financial history. The Russell 2000 Growth Index, the benchmark index against which we measure our performance, increased 23.63%, 1.75% annualized, during the period. The S&P 500 Index gained 20.25%, 1.52% annualized, during the period.

"The Good Times." December 31, 1994 (Inception) through December 31, 1999.

During the five years from Baron Growth Fund's inception on December 31, 1994 through December 31, 1999, an unusually strong period for U.S. stocks, Baron Growth Fund increased in value 269.91% per share, 29.90% annualized. The Russell 2000 Growth Index, our benchmark index, increased in value 138.54%, 18.99% annualized during the period. The large cap S&P 500 Index increased 251.12%, 28.56% annualized during the same period.

Baron Growth Fund has achieved the 13.18% annualized gains from the Fund's inception more than 17 years ago. This compares to 6.47% annualized for the Russell 2000 Growth Index and 8.71% annualized for the S&P 500 Index. Baron Growth Fund, like all Baron Funds, is not trying to replicate the performance of an index. As a result, when certain GICs industry sectors in which the index is more heavily weighted than Baron Growth Fund, outperform or underperform during finite periods, Baron Growth Fund is likely to outperform or underperform during those periods. Although Baron Growth Fund has outperformed benchmark indexes significantly, as noted, over the long term, during approximately 39% of the quarter periods during the past 17 and a quarter years, Baron Growth Fund has underperformed.

We believe Baron Growth Fund's investment strategy will allow it to continue to outperform over the long term. There is no guarantee we will achieve our objectives.

Although we have not made significant progress increasing Baron Growth Fund's per share net asset value during the past five years, we hope to significantly improve Baron Growth Fund's absolute and relative performance during the coming decade.

The objective of Baron Growth Fund is to approximately double its value per share every five or six years with less than market volatility. Our strategy to accomplish this is by investing for the long term in a diversified portfolio of appropriately capitalized, small cap, competitively advantaged, well managed, fast growing businesses at attractive prices. Considering current stock price valuations, we believe we have an opportunity to meet our objectives during the next decade. There is obviously no guarantee we will continue to achieve our goals.

The Fund's portfolio of about 100 businesses is diversified by GICS sectors and is approximately 80% as volatile as the market. The exceptions to this have taken place during short time frames within the last five years when computer driven trading enabled markets to soar or crash and virtually all stock prices were highly correlated.

To protect against uncertain economic times and world developments, we choose to invest in publicly-owned growth businesses that have what Warren Buffett and Ben Graham before him have called a "margin of safety" in their businesses. This means that we think not only will our businesses

become much larger over the long term, but also they will survive unforeseen, difficult, economic circumstances. These businesses are not only subjectively, i.e., in our opinion, better managed than most businesses, but past analysis of 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 (65% with economic moats versus 47% for the benchmark).* (See endnote on Page 23.) Further, FactSet data suggests the businesses in which Baron Growth Fund has invested have faster growth rates (historical five year EPS growth rate of 14.01% versus 9.86% for the benchmark); higher profit margins (EBITDA margin of 23.42% versus 15.21% for the benchmark); better returns on capital (ROIC 13.83% versus 5.97% for the benchmark); and employ similar leverage to the companies in the benchmark index.

Further, since a large portion of Baron Growth Fund's growth company investments have significant recurring revenues, it should not be surprising that the volatility of their earnings is about half that of the benchmark index (standard deviation 102.6% vs 213.0%). It logically follows that Baron Growth Fund's net assets, which are diversified principally among Consumer Discretionary (22.6%), Consumer Staples (4.4%), Energy (10.3%), Financials (12.4%), Health Care (12.5%), Industrials (14.3%) and Information Technology (18.8%) businesses, are less volatile than the Fund's benchmark indexes as well. Our allocations among GICs sectors are based upon opportunities we find in individual businesses and are significantly different than the benchmark index.

Baron Growth Fund's long-term investments positively impact performance in quarter.

BAMCO, Inc. ("BAMCO"), the investment manager of Baron Growth Fund, develops investment ideas from its proprietary research in small growth companies. BAMCO has made and continues to make significant investments in its research effort. Our research has been able to identify a large number of businesses that have increased significantly in size over several years. We believe shareholders of Baron Growth Fund, which invests for the long term in those businesses rather than trading their stocks, benefit from this research through the long term investments of Baron Growth Fund.

Baron Growth Fund had annual average turnover of its portfolio for the last three years of 13.49% per year. This means Baron Growth Fund holds its investments for on average more than seven years! The average mutual fund that invests in small cap growth stocks turns over its entire portfolio, approximately every 10 months!

Baron Growth Fund's largest investments have become our largest investments because they have been successful investments, not because we initially invested a large percentage of our assets in those businesses. As a result, not surprisingly, investments made several years ago have had the largest impact on Baron Growth Fund's performance in the period. As you can see from Table II, the investments that have made the largest contribution to Baron Growth Fund's performance in the March quarter were purchased from 2004 through 2008. Of the top 15 contributors to Baron Growth Fund's performance in the March quarter, only one, **Colfax Corp.**, was purchased in the past year. As a result, the performance we are currently achieving is the result of successful investments made five or six or seven years ago that are now maturing. The performance we expect to

achieve for Baron Growth Fund in five or six or seven years from now will come from those investments we are making today.

During the first quarter, 47.79% of Baron Growth Fund's assets were invested in businesses that achieved double digit returns; 31.57% achieved single digit returns; and, 18.86% had negative returns. Several among our long-term investments whose prospects continue to seem quite favorable to us, had either modest losses or only nominal gains during the quarter. Several had performed strongly last year. Among them short line railroad **Genesee and Wyoming, Inc.**; independent power transmission business **ITC Holdings Corp.**; moderately priced hotel franchisor **Choice Hotels International, Inc.**; property and casualty insurer **Arch Capital Group Ltd.**; and replacement heart valve business **Edwards Lifesciences Corp.** This is consistent with our observation that during the quarter among the strongest performing stocks were companies with the highest beta (greatest volatility); lowest S&P credit ratings; non earners; and cyclical businesses that have the highest standard deviation of earnings. This is the exact opposite of what happened during 2011. We think it is because when markets rebound after performing poorly, it is often businesses with most favorable prospects whose shares are least volatile that begin to outperform after the initial surge upward. We will see if that continues to be the case.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Percent Impact
Dick's Sporting Goods, Inc.	2004	\$1.4	\$5.8	0.96%
Equinix, Inc.	2004	0.4	7.3	0.82
Mettler-Toledo International, Inc.	2008	2.4	5.8	0.60
Under Armour, Inc.	2005	1.0	4.9	0.50
Core Laboratories N.V.	2006	1.2	6.3	0.40

Shares of **Dick's Sporting Goods Inc.**, the country's largest sporting goods retailer, increased 30.7% in the quarter. Sales beat expectations despite a difficult winter selling season. The company was able to achieve a higher average purchase by successfully raising prices on its apparel and footwear products. New-store productivity remained strong as the company opened 36 locations for the year. New-store openings remain on track for 2012, with another 40 stores planned. Gross margins also continued to rise. E-commerce sales rose 52% and should, in our view, remain a driver of top-line growth as new initiatives are implemented in 2012 and 2013. The company has an opportunity to more than double the number of its very profitable stores. It can also increase its sales of very profitable private label and private brand products which should boost margins over time. It is less vulnerable to competition over the Internet than many retailers since the vast majority of its sales are either "fair traded" brands or private label or private brands which are not available on the Internet at lower prices. (Michael Baron)

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)

Shares of **Mettler-Toledo International, Inc.**, a leading provider of weighing instruments (such as balances and scales) used in laboratory, industrial and food retailing applications, gained 25.1%. The stock benefited from improving global macroeconomic conditions. The Chinese government began to adopt policies to stimulate economic growth, and China represents a key growth driver for Mettler, accounting for roughly 16% of company sales. We continue to believe Mettler has solid long-term growth prospects. (Neal Kaufman)

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Percent Impact
CARBO Ceramics, Inc.	2009	\$1.5	\$2.4	-0.29%
WebMD Health Corp.	2007	1.6	1.5	-0.26
DeVry, Inc.	1995	0.4	2.2	-0.25
Genesee & Wyoming, Inc.	2004	0.5	2.3	-0.19
Generac Holdings, Inc.	2010	0.9	1.7	-0.18

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. The shares partially recovered as it became clear that its challenges are related to logistics rather than end-market demand or competition. However, it will be several quarters before these concerns dissipate, at which time we believe CARBO shares will begin to perform well once again. (Jamie Stone)

Shares of **WebMD Health Corp.**, a leading provider of online health information through WebMD.com, Medscape.com, and other owned and operated websites, declined 31.9%. In January 2012, WebMD announced the termination of discussions with potential acquirers of the company and the resignation of the company's CEO. The company's recent financial results have been disappointing due to cuts in pharmaceutical company marketing spending. Despite challenging near-term trends, the company has a strong balance sheet and recently announced a tender offer for roughly 11% of the company's outstanding shares. (Neal Kaufman)

The stock price of **DeVry, Inc.**, a provider of diversified postsecondary education emphasizing business, technology and healthcare, declined 11.9% after reporting that it missed both top- and bottom-line estimates in the fourth quarter. DeVry also lowered 2012 guidance, and now anticipates an earnings decline year over year. DeVry's enrollment softened, due to continued economic weakness and disruptions sustained as it adapts to regulatory changes. Long term, we remain positive on DeVry given its solid history of graduate placement and its focus on areas that should experience sustainable job creation. (Susan Robbins)

Baron Growth Fund

RECENT PURCHASES

During the three month period ended March 31, 2012, Baron Growth Fund invested \$240.2 million in new and existing portfolio holdings. The average market capitalization of these small cap businesses was \$1.5 billion. This is in keeping with our strategy of investing in small growth companies having market capitalizations of less than \$2.5 billion at the time of purchase and holding those investments as long as their prospects remain favorable until they reach market capitalizations of \$10 billion. At that point, we reduce or sell those investments and reinvest the proceeds in smaller companies. While the Fund currently has approximately 60% of its assets invested in businesses with market capitalizations greater than \$2.5 billion, that is because many of the Fund's fast growing businesses are becoming successful and investors are beginning to recognize those businesses' favorable long term prospects. None of those investments were purchased or added to when their market capitalizations were above \$2.5 billion. That is the level that for many years we have defined as "small cap."

Of Baron Growth Fund's investments in this quarter, \$83.7 million was invested in six businesses that were purchased for the first time; \$156.5 million was invested in 17 businesses where we added to existing holdings.

RECENT ACTIVITY

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
Halcon Resources Corp.	2012	\$1.1	\$0.9	\$45.0
United Natural Foods, Inc.	2011	1.8	2.3	38.0
Cymer, Inc.	2011	1.3	1.5	27.8
Booz Allen Hamilton Holding Corp.	2010	2.3	2.4	21.1
Ceres, Inc.	2012	0.3	0.4	15.0

Halcon Resources Corp. is an independent exploration and production company that was recently recapitalized through a merger between a private company (Halcon) that was founded by the former management team of Petrohawk Energy and a small public company Ram Energy. This team started Halcon shortly after the close of the sale of Petrohawk to BHP Billiton for \$15 billion. The focus of the recapitalization was to gain access to public markets and capital to enable Halcon to reposition Ram's asset into a handful of emerging unconventional and conventional oil plays in the U.S. We believe that the current management and technical team at Halcon can replicate the successes they had at Petrohawk and several other predecessor entities through aggressive leasing and development. As a result, Halcon could produce substantial growth in oil/liquids production, cash flow and shareholder value over the next several years. (Jamie Stone)

United Natural Foods is the largest distributor of natural, specialty and organic grocery products in the United States. With \$4.5 billion in sales,

United Natural Foods (UNFI) is the low-cost leader in a rapidly growing market. The company supplies over 60,000 products to a variety of customers, including large chains such as Whole Foods, as well as independent health food stores and conventional supermarkets. UNFI competes in an \$80 billion natural and organics market, where growth from healthy lifestyle brands such as Kashi, Fage Yogurt, and Amy's Organic are outpacing conventional foodstuffs by a factor of four. This is being fueled by consumers' increasing shift toward healthier eating as well as greater awareness of food quality and sustainability. UNFI helps customers better manage and merchandise the flow of natural food categories within their stores. Supermarkets increasingly rely on UNFI to manage these 'slower-moving' SKU's for them, as it reduces the grocer's working capital and allows them to be ahead of any new food trends, such as gluten-free and coconut waters. We believe UNFI is well positioned to grow share meaningfully from 5% today, both within established accounts like Whole Foods — which is adding 20 stores per year — as well as new accounts at large grocery chains, such as Safeway, which are increasing their allocation to these categories. (Matt Weiss)

Cymer, Inc. manufactures and sells highly engineered laser products into the semiconductor capital equipment (SCE) industry. The ultra-violet (UV) lasers that Cymer sells are used for photolithography which effectively prints circuits on substrate wafers to produce computer chips. Roughly two-thirds of the company's business is in recurring revenue services and parts. This is the reverse of Cymer's SCE competitors. The service segment is integrated into Cymer's customers' work processes, which allows for increased system utilization and creates a stickiness for Cymer's products. The company is also developing an important new UV laser product called EUV which we believe has the potential to double Cymer's revenues over the next few years. As the EUV technology is proven out, we believe that Cymer's earnings will increase dramatically. (Randy Gwirtzman)

PORTFOLIO STRUCTURE

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Dick's Sporting Goods, Inc.	2004	\$1.4	\$5.8	\$233.2	3.7%
Core Laboratories N.V.	2006	1.2	6.3	174.3	2.8
ITC Holdings Corp.	2005	0.8	4.0	172.7	2.8
FactSet Research Systems, Inc.	2006	2.5	4.5	160.9	2.6
AMERIGROUP Corp.	2002	0.6	3.2	159.8	2.5
Arch Capital Group Ltd.	2002	0.4	5.0	156.4	2.5
Mettler-Toledo International, Inc.	2008	2.4	5.8	152.4	2.4
MSCI, Inc.	2007	1.8	4.5	147.2	2.3
ANSYS, Inc.	2009	2.3	6.0	146.3	2.3
Equinix, Inc.	2004	0.4	7.3	137.8	2.2

Thank you for investing in Baron Growth Fund.

Thank you for joining us as fellow shareholders in Baron Growth Fund. We believe the growth prospects for the businesses in which Baron Growth Fund has invested continue to be favorable. Of course, there is no guarantee this will be the case.

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 provide you with information that I would like to have if our roles were reversed. This is so you will be able to make an informed judgment about whether Baron Growth Fund remains an appropriate and

attractive investment for your family. Thank you, again, for your long-term support.

Respectfully,



Ronald Baron
CEO and 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.



** 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 smaller companies, but there also may be more risk. Specific risks associated with investing in smaller 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.

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.

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