

Baron Focused Growth Fund

DEAR BARON FOCUSED GROWTH FUND SHAREHOLDER:

PERFORMANCE

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

	Baron Focused Growth Fund ^{1,2,3}	Russell 2500 Growth Index ²	S&P 500 Index ²
Three Months ⁴	13.83%	13.51%	11.82%
One Year	-1.42%	-1.57%	2.11%
Three Years	18.18%	21.57%	14.11%
Since Conversion (June 30, 2008)	2.87%	3.83%	1.75%
Five Years	3.00%	2.89%	-0.25%
Ten Years	11.44%	5.23%	2.92%
Since Inception (May 31, 1996)	10.98%	5.27%	6.02%

During the past decade, Baron Focused Growth Fund nearly tripled its asset value per share. It increased its asset value per share 195.50%. This compares to a 66.44% increase in value by its benchmark, the small cap and mid-sized Russell 2500 Growth Index. The S&P 500 Index, a large cap index, increased in value 33.41% during the period. As you can see from the table above, the past five years have not contributed significantly to this performance. We hope to

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 1.47%, but the net annual expense ratio was 1.35% (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 the 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 Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees for the years the predecessor partnership charged a performance fee, the returns would be higher. The Fund's shareholders will not be charged a performance fee. The performance is only for the periods before the Fund's registration statement was effective, which was June 30, 2008. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

² The Russell 2500 Growth Index and S&P 500 Index are unmanaged. The Russell 2500 Growth Index measures the performance of 2,500 small and 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. These indexes and Baron Focused Growth Fund are with dividends, which positively impact the performance results.

³ The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

⁴ Not annualized.



RONALD BARON
CEO AND PORTFOLIO MANAGER

significantly improve the Fund's absolute and relative performance in 2012, although we cannot assure you that we will be able to do so.

The objective of Baron Focused Growth Fund is to approximately double its value per share every five or six years. Our strategy to accomplish this is by investing for the long term in a non-diversified portfolio of appropriately capitalized, well-managed businesses that we think are at attractive prices. We also attempt to invest in a focused portfolio of about thirty businesses diversified by GIC sectors that is approximately 90% as volatile as the market. The exceptions, of course, are during those short time frames when computer driven trading enables markets to soar or crash and virtually all stock prices are correlated. We think the businesses in which Baron Focused Growth Fund has invested have the potential to double in size within approximately five years. These well-managed businesses usually have significant barriers to competitors in addition to having strong growth opportunities. Considering current stock price valuations, we believe we have the opportunity to meet our objectives during the next decade.

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" built into their businesses. This means that we think not only will our businesses become much larger over the long term, but that they will also survive unforeseen, difficult, economic circumstances. These businesses are not only subjectively, i.e., in our opinion, better managed than most businesses, but 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 (68% with economic moats versus 58% for the benchmark).^{*} (See endnote on Page 38.) Further, FactSet data suggests, the businesses in which Baron Focused Growth Fund has invested have higher growth rates (historical 5 year EPS of 14.29% versus 10.63% for the benchmark); higher profit margins (EBITDA margin of 25.65% versus 18.34% for the benchmark); better returns on capital (ROIC 15.20% versus 8.64% for the benchmark); and are less leveraged (total debt to market cap 15.48% versus 23.02% for the benchmark) than the companies in the

benchmark index. Not surprisingly, I guess, Baron Focused Growth Fund's investments are less volatile than their benchmark indexes as well.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Percent Impact
Genesee & Wyoming, Inc.	2007	\$1.1	\$2.6	1.64%
Hyatt Hotels Corp.	2009	4.2	6.2	1.26
Fastenal Co.	2007	6.5	12.9	1.24
Choice Hotels International, Inc.	2010	1.9	2.3	1.18
AMERIGROUP Corp.	2011	2.1	2.8	1.17

Shares of **Genesee & Wyoming, Inc.**, a leading short-line railroad, advanced 30.2% after reporting double-digit growth and a large new acquisition. We believe Genesee is well positioned to surpass its railroad peers with unique access to emerging markets as well as several natural resource projects in North America. The company recently closed on the \$300 million acquisition of an Australian railroad poised to benefit from mining projects tied to export trade with China. The new line boosts international revenue to roughly one-third, offering diversity and access to secular growth drivers in Asia. (Matt Weiss)

Shares of **Hyatt Hotels Corp.**, an owner, manager and franchisor of hotels, increased 20.0% as the company continues to generate strong results with improvements in both revenue per available room and margins. Hyatt has achieved this despite a lackluster economy both domestically and abroad. Hyatt continues to use its industry-leading balance sheet to expand its brands, as the company remains underpenetrated in many markets. We believe this expansion effort, combined with continued improvement in its current portfolio, and little industry supply growth offer this business strong growth prospects over the next few years. (David Baron)

Shares of **Fastenal Co.**, the leading industrial supplies distributor, performed well, rising 31.6% as demand from manufacturing and commercial construction clients improved. Sales across the company's 2,500 branches strengthened throughout 2011. This broad-based strength is indicative of a growing rebound in factory production, new initiatives such as automated vending taking hold, and market share gains out of the 2008-2009 downturn. Fastenal's customers are relying on the company increasingly to save costs, cut working capital and improve productivity. Fastenal is converting this renewed demand into faster profit growth, a result of strong leverage on occupancy and overhead. (Matt Weiss)

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Diamond Foods, Inc.	2011	\$1.2	\$1.0	-0.29%
Anhanguera Educacional Participações SA	2010	1.8	1.9	-0.16
ITC Holdings Corp.	2008	2.2	3.9	-0.09
Pegasystems, Inc.	2010	1.0	1.1	-0.07
Green Mountain Coffee Roasters, Inc.	2011	8.0	8.8	-0.07

Diamond Foods, Inc., a manufacturer and distributor of snack products, declined significantly. Questions have surfaced regarding the company's accounting for payments to walnut farmers, a main ingredient in some of the firm's products. Some believe that the company falsely postponed accounting for payments, thus misrepresenting current margins and profits. These accusations have resulted in a delay and potential cancelation of Diamond's acquisition of Pringles. An internal accounting investigation has been launched to determine if any improprieties occurred. We have sold this investment. (Michael Baron)

Anhanguera Educacional Participações SA's shares declined 16.3%. 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 further 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)

Despite its strong yearly performance, shares of **ITC Holdings Corp.**, the nation's only publicly-traded independent transmission company, declined 1.5% in the fourth quarter. In December, ITC announced that Entergy will divest its electric transmission business and merge it into ITC. We think that the regulatory process associated with the approval of this transformational deal will serve to validate ITC's business model. With management expecting earnings per share growth between 15% and 17% each year, ITC continues to be a core holding. (Rebecca Ellin)

RECENT ACTIVITY

Table IV.
Top net purchases for the quarter ended December 31, 2011

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
MICROS Systems, Inc.	2011	\$3.7	\$3.7	\$2.8
AMERIGROUP Corp.	2011	2.1	2.8	2.5
CarMax, Inc.	2011	5.7	6.9	2.0
CARBO Ceramics, Inc.	2011	2.7	2.8	1.7
Strayer Education, Inc.	2004	1.5	1.2	0.6
Hyatt Hotels Corp.	2009	4.2	6.2	0.3
Edwards Lifesciences Corp.	2007	2.8	8.1	0.3

The Fund initiated a position in **MICROS Systems, Inc.**, the leading provider of technology systems to the hotel, restaurant and retail markets. MICROS' key hotel offerings are its property management systems, which are used to manage reservations, rates, customer profiles, front desk functions, rooms, and labor scheduling. MICROS' restaurant offerings include software and hardware to automate the front and back end of restaurants.

We believe that MICROS is the largest player in vast addressable markets. On the hotel side, we estimate that there are approximately 450,000 hotels globally. MICROS has 28,000 hotels on its platform, implying aggregate penetration of just 6%. However, MICROS is already approximately 10 times larger than its nearest competitor. We estimate there are two million restaurants globally in MICROS' addressable market. MICROS currently has approximately 300,000 restaurant customers, implying penetration of just 15%, but MICROS' installed base is similarly two times larger than its nearest competitor. (Neal Rosenberg)

Baron Focused Growth Fund

PORTFOLIO STRUCTURE

Table V.
Top 10 holdings as of December 31, 2011

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percentage of Net Assets
Hyatt Hotels Corp.	2009	\$4.2	\$6.2	\$6.0	6.6%
Genesee & Wyoming, Inc.	2007	1.1	2.6	5.5	5.9
Verisk Analytics, Inc.	2009	5.0	6.6	5.1	5.6
Airgas, Inc.	2011	5.3	5.9	4.7	5.1
Fastenal Co.	2007	6.5	12.9	4.4	4.7
Choice Hotels International, Inc.	2010	1.9	2.3	4.2	4.6
MSCI, Inc.	2008	3.3	4.0	4.0	4.3
Arch Capital Group Ltd.	2003	0.9	5.0	3.7	4.1
Dick's Sporting Goods, Inc.	2005	1.6	4.5	3.7	4.0
AMERIGROUP Corp.	2011	2.1	2.8	3.5	3.9

Thank you for investing in Baron Focused Growth Fund.

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 try to provide you with information I would like to have if our roles were reversed. This is so you can make an informed judgment about whether Baron Focused Growth Fund remains an appropriate investment for your family. Thank you again for your long-term support.

Respectfully,



Ronald Baron
CEO and 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.



* 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 small and medium-sized companies and using non-diversification, but there also may be more risk. Specific risks associated with non-diversification include increased volatility of the Fund's returns and exposure of the Fund to greater loss in any given period. Securities of small and medium sized companies 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.

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