

DEAR BARON OPPORTUNITY FUND SHAREHOLDER:

PERFORMANCE

As described more fully below, the Fund lagged a strong market during the fourth quarter. The Fund finished the quarter up 5.69%, but this trailed the Russell Midcap Growth Index, which rose 11.24%, as well as the broader market indexes, including the S&P 500 Index, which finished the quarter up 11.82%. The Fund also lagged for the full year, with all of that underperformance occurring in the fourth quarter.

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

	Baron Opportunity Fund ^{1,2}	Russell Midcap Growth Index ¹	S&P 500 Index ¹
Three Months ³	5.69%	11.24%	11.82%
One Year	-6.16%	-1.65%	2.11%
Three Years	23.95%	22.06%	14.11%
Five Years	4.46%	2.44%	-0.25%
Ten Years	8.75%	5.29%	2.92%
Since Inception (February 29, 2000)	2.64%	-0.21%	1.16%

OUTLOOK

The market ended 2011 almost exactly where it began, but it was certainly a turbulent year. Just a few of the economic and political shocks included the earthquake and tsunami in Japan, revolutions in the Arab world, the European sovereign debt crisis and the S&P's downgrade of the U.S. credit rating.

Given these events, late 2011 was marked by both unprecedented market volatility and elevated correlations among financial assets. The chief explanation seems to be the great uncertainty facing investors – mainly over the Euro zone crisis, but also the weak U.S. economic recovery and the deep structural imbalances and political dysfunction on both sides of the Atlantic.

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.*

[†] 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 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

The market reacted wildly to every bit of news – rising (“risk on”) with any glimmer of hope the next European summit would put an end to the crisis, or falling (“risk off”) with each negative economic data point or increase in European sovereign yields.

We held steady to our long-term investment philosophy, refusing to alter our approach to match swings in market sentiment. While the Fund lagged in the fourth quarter, we find no pattern in our underperformance. We simply had several positions that didn't participate in the rally. We retain long-term conviction in many of the investments that hurt us during the period, and added to several on weakness. **Amazon.com, Inc.** was a weak performer, as the company sacrificed short-term profits to make sizable investments in its digital media (launching the Kindle Fire) and cloud computing platforms. Another was **NII Holdings, Inc.** which, a few short months away from rolling out a 3G network in its top markets, spent on its network and brand ahead of the launch. Our worst performer, **Polypore International, Inc.**, which has experienced a step-change in growth due to budding adoption of electric vehicles (EVs), fell significantly as market sentiment concerning EVs wavered during the quarter.

Amazon founder Jeff Bezos titled his first shareholder letter, in 1997, “It's all about the long term.” Jeff believes Amazon's long-term thinking limits competition because few companies are willing to invest with more than a three-year time horizon, like Amazon. Indeed, Amazon has delivered significant shareholder returns investing in things it believes to be “inevitable” – like e-books and cloud computing – but take many years to play out. We see the world the same way.

We believe the best growth companies are innovators or uniquely positioned to benefit from innovation. According to the late Steve Jobs, innovation is synonymous with leadership. Successful innovators must be patient and allow “inevitable” trends to find market acceptance. We invest for the long term in many growth themes we believe to be inevitable, like electric vehicles. And we favor companies run by management teams with the foresight and patience to see these trends to fruition. In the “no growth” world we live in, we

Baron Opportunity Fund

have no shortage of good ideas in companies we believe can deliver sustainable long-term growth of 20 percent or more. Some of the themes and trends we continue to focus on – several of which we added to during the quarter in an attempt to capitalize on market volatility – include cloud computing; cyber security; mobile devices, applications and advertising; electric vehicles; unconventional oil and gas; simulation-driven product development; real-time medical diagnostics; minimally invasive surgical procedures; electronic medical records; renewable energy; social media; e-commerce; big data; agricultural yield improvement; and electronic payments.

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

	Percent Impact
Bankrate, Inc.	0.89%
SBA Communications Corp.	0.74
CARBO Ceramics, Inc.	0.64
Golar LNG Ltd.	0.58
CoStar Group, Inc.	0.58

Shares of **Bankrate, Inc.** rose 41.4% in the quarter. Bankrate operates an Internet-based business that provides consumers with financial information on its own website and those of its partners. We were investors in Bankrate prior to the company going private in 2009, and stayed in touch with senior management over the last few years. We participated in the company's public offering during the second quarter of 2011 and purchased additional shares when the stock sold off on lock-up expiration. The business and stock has performed well since the IPO. Third-quarter revenues grew 43% year-over-year on an organic basis and EBITDA grew 55%. The company has expanded into the insurance vertical market over the last two years. We think Bankrate remains well-positioned to benefit from the ongoing transition of the financial services sector from offline to online offerings. (Ashim Mehra)

Shares of cellular tower provider **SBA Communications Corp.** were strong. Concerns about carrier consolidation faded as the AT&T-Mobile merger was challenged, then aborted. Major carriers took steps to add spectrum to enhance their 4G rollouts – notably, Sprint extended its commitment to Clearwire, and Verizon acquired spectrum held by cable companies. Consumers' demand for mobile broadband services has remained insatiable, with smartphone sales rising yet again, and a range of new tablets coming out – notably, the Kindle Fire from Amazon and the Nook from Barnes and Noble. Fundamentally, tower leasing demand has remained solid. (Rich Rosenstein)

CARBO Ceramics, Inc. is the leading supplier of ceramic proppant to the oil industry. Proppant is a key component of the hydraulic fracturing process. The share price rose sharply in the fourth quarter, as energy stocks recovered on improved economic prospects and higher oil prices. In addition, CARBO continued to post strong earnings growth, prompting further increases in earnings estimates during the quarter. The company successfully started its new production facility and we think should benefit from higher volumes in 2012. We continue to favor CARBO for its long-term growth potential. (Jamie Stone)

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

	Percent Impact
Polypore International, Inc.	-0.86%
Shutterfly, Inc.	-0.51
NII Holdings, Inc.	-0.43
Crocs, Inc.	-0.42
Green Mountain Coffee Roasters, Inc.	-0.40

Shares of **Polypore International, Inc.** declined 22.2% in the quarter. Third-quarter earnings were fine, and management indicated that the growth of the lithium-ion battery separator business (the company's chief growth engine) is continuing on track. However, as mentioned above, a number of market developments have spooked investors, including a fire in a GM Volt battery after a severe crash test. Based on our research, we continue to view the future for electric drive vehicles as one of those "inevitable" trends, which should significantly benefit Polypore. 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 plug-in hybrids or fully-electric vehicles – 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. As of this writing, Polypore is up 22% year to date. (Randy Gwartzman)

Shares of **Shutterfly, Inc.**, the U.S. leader in online photobooks and photocards, declined 44.7% as the company confronted increased competition. With some competitors pricing their products below cost in the key fourth-quarter season, Shutterfly lowered its revenue and earnings expectations. While we believe that, over the long term, Shutterfly is best positioned to consolidate the sector, that the addressable market opportunity remains large, and that the senior management team is strong, we decided to sell our shares and go to the sidelines during the quarter. We plan to continue to stay close to the Shutterfly story and may consider re-investing at some point in the future. (Ashim Mehra)

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 of 3G services across the company's markets, how the company will finance this buildout, 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 is in the process of 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)

PORTFOLIO STRUCTURE

Baron Opportunity Fund had \$302.5 million of assets under management as of December 31, 2011. The Fund had investments in 60 securities. The top 10 positions accounted for 30.3% of the portfolio and the Fund's cash position was 4.2% at quarter end. We have no shortage of good ideas for the Fund; our challenge remains prioritizing the very best ideas for inclusion in the Fund.

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

	Quarter End Investment Value (millions)	Quarter End Market Cap (billions)	Percent of Net Assets
Equinix, Inc.	\$11.8	\$ 4.8	3.9%
SBA Communications Corp.	11.1	4.7	3.7
Gartner, Inc.	10.0	3.3	3.3
Polypore International, Inc.	9.7	2.0	3.2
CARBO Ceramics, Inc.	8.9	2.8	2.9
Bankrate, Inc.	8.4	2.1	2.8
MSCI, Inc.	8.4	4.0	2.8
Discovery Communications, Inc.	7.9	10.4	2.6
CoStar Group, Inc.	7.7	1.7	2.6
ANSYS, Inc.	7.5	5.3	2.5

The Fund emphasizes sectors and individual businesses that we believe will experience significant secular growth rates. As compared to the Russell Midcap Growth Index, we have 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, and we therefore consider our Consumer Discretionary weighting to be in line. We do have a higher concentration in the Telecommunication Services sector than the midcap index. But this is not because we are making a Telecommunications "bet." Rather, we simply have high conviction in our two investments in the space, **SBA Communications Corp.** and **NII Holdings, Inc.**, two long-term investments for the Fund discussed above.

The median market cap of the Fund was \$3.4 billion at the end of the quarter.

RECENT ACTIVITY

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

	Quarter End Market Cap (billions)	Amount (millions)
Google, Inc.	\$209.7	\$4.5
Oil States International, Inc.	3.9	4.0
Rackspace Hosting, Inc.	5.6	3.4
Questcor Pharmaceuticals, Inc.	2.6	3.4
Booz Allen Hamilton Holding Corp.	2.5	2.9
Liberty Media Corp.	9.7	2.7
Better Place, Inc.	2.0	2.5
Polypore International, Inc.	2.0	2.3
Informatica Corp.	3.9	2.2
Blue Nile, Inc.	0.6	2.2

As described above, we took advantage of weakness in **Polypore International, Inc.** to add to our position during the quarter. We also added to **Liberty Media Corp.** during the period, as we believe the company trades at a significant discount to net asset value.

The other purchases on the above list were all new investments for the Fund in the quarter. We re-established a position in **Google, Inc.** We believe Google trades at a discount valuation and that mobile will prove to be a big driver of both search and display advertising growth. **Oil States International, Inc.** is a leading provider of specialty products and services to energy companies throughout the world. We believe the development of more remotely located resources should propel the company's accommodations business. **Rackspace Hosting, Inc.** (along with Amazon Web Services) is a leading provider of cloud computing services and should be a prime beneficiary of the shift to cloud architectures. **Questcor Pharmaceuticals, Inc.** is a specialty pharmaceuticals company that specializes in providing prescription drugs for central nervous system disorders. Nearly all of the company's revenues relate to a biological injectable drug called Acthar Gel. Questcor has worldwide rights to Acthar (purchased in 2001), and the drug has been approved by the FDA for the treatment of 19 indications, including multiple sclerosis, infantile spasms and nephrotic syndrome. **Booz Allen Hamilton Holding Corp.** is the government services arm of the old Booz Consulting. It provides consulting services to civilian and military government agencies through its force of 25,000 employees, many of whom have significant experience at high levels of government and the military, as well as top security clearances. We think cyber-security will be a significant driver of the company's future growth. We took advantage of the December sell-off in software stocks (following a weak earnings report from Oracle) to re-establish a position in **Informatica Corp.**, the leading provider of data integration software and, we believe, a major beneficiary of the "big data" trend. We reinvested in **Blue Nile, Inc.** after founder Mark Vadon decided to take a more active role in the company and re-focus the business on innovation, growth and international expansion.

Better Place, Inc. is the Fund's first private investment. Better Place is the brain child of Shai Agassi, a former executive and Board member of German software giant, SAP. At the Davos Forum for Young Leaders in 2005, Shai took seriously the challenge of finding a way to make the world a "better place" within twenty-five years. He chose to focus on attempting to wean a single country off of oil – and, after that, the world. The key was to find a way to run cars without gasoline. After much exploration of exotic technologies, Shai decided to concentrate on a simple but elegant solution: battery-powered EVs. Shai quit SAP and founded Better Place.

In developing its service, Better Place has not only innovated around software systems, electric batteries, charging infrastructure and battery-switch stations, among other things, but also around the business model and product offering as well. Better Place plans to disrupt the car industry and significantly lower the consumer cost of EVs by owning the batteries that power its customers' cars, and selling subscription plans of electric miles on the network, similar to the way wireless operators sell buckets of minutes. As Shai says, selling an EV with a battery is like selling a gasoline-powered car with enough gas to run it for several years. By selling cars without the battery, Better Place can make EVs as cheap, if not cheaper, than conventional cars, and offer subscriptions to e-miles (i.e., batteries and the electricity to charge them) for the same, if not less, than drivers typically pay each month at the pump. Most EV owners will simply charge their cars at their homes and offices. But a key differentiator of the Better Place model is that, on longer drives, they will also have the ability to conveniently pull into a battery-switch station and get a new, fully-charged battery in the time it takes to fill

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a tank of gas. Better Place plans to commercially launch its EV service in Israel and Denmark this year.

Table VI.
Top net sales for the quarter ended December 31, 2011

	Quarter End Market Cap or Sold (billions)	Amount (millions)
BroadSoft, Inc.	\$ 1.0	\$-4.6
Rogers Corp.	0.6	-3.5
Apple, Inc.	376.4	-3.2
Orbotech Ltd.	0.4	-3.1
Ritchie Bros. Auctioneers, Inc.	2.0	-2.7
Polycom, Inc.	2.8	-2.7
Viacom, Inc.	23.8	-2.6
National CineMedia, Inc.	0.6	-2.4
HomeAway, Inc.	2.1	-2.1
Zillow, Inc.	0.6	-2.0

As discussed last quarter, most of our sales were made to fund other investments, not because we lost confidence in the company in question. Simply put, sometimes we sell a company we like to buy more of one we like better, and to take advantage of opportunities provided by the market. We exited **BroadSoft, Inc.** and **HomeAway, Inc.** after making

solid returns because their valuations got a bit stretched; we may look to re-invest in each at more attractive levels. We reduced our weighting in **Zillow, Inc.** for the same reason. We sold **Rogers Corp.**, **Orbotech Ltd.**, **Ritchie Bros. Auctioneers, Inc.**, **Viacom, Inc.** and **National CineMedia, Inc.** to fund other investments. We sold a portion of our **Polycom, Inc.** position last quarter after making a nice return on our investment, and exited the rest of our position this quarter for fundamental reasons. We reduced our position size in **Apple, Inc.** during the period, but we still retain confidence in the company's growth opportunities and it remains a top 15 position.

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
January 18, 2012

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



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.

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