

Baron Partners Fund

DEAR BARON PARTNERS FUND SHAREHOLDER:

PERFORMANCE

Baron Partners Fund performed well during 2012. The Fund gained 16.40% per share for the year. U.S. stock markets also performed well during 2012. The Russell Midcap Growth Index, the benchmark against which we compare performance of this Fund gained 15.81%. The more widely recognized S&P 500 Index gained 16.00%. This was despite the uncertainty engendered by a Presidential election and what seemed to be an endless stream of negative news about our nation's slow economic growth, persistently high unemployment and whether we would escape falling off the fiscal cliff because of dysfunctional executive and

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

	Baron Partners Fund ^{1,2,3}	Russell Midcap Growth Index ²	S&P 500 Index ²
Three Months ⁴	2.64%	1.69%	-0.38%
One Year	16.40%	15.81%	16.00%
Three Years	13.01%	12.91%	10.87%
Five Years	-0.27%	3.23%	1.66%
Since Conversion (April 30, 2003)	11.84%	9.95%	6.83%
Ten Years	11.36%	10.32%	7.10%
December 31, 1999 - December 31, 2012. "The Bad Times."	5.96%	2.43%	1.66%
January 31, 1992 - December 31, 1999. "The Good Times."	22.45%	19.26%	20.21%
Since Inception (January 31, 1992) "All the Times."	11.92%	8.50%	8.32%

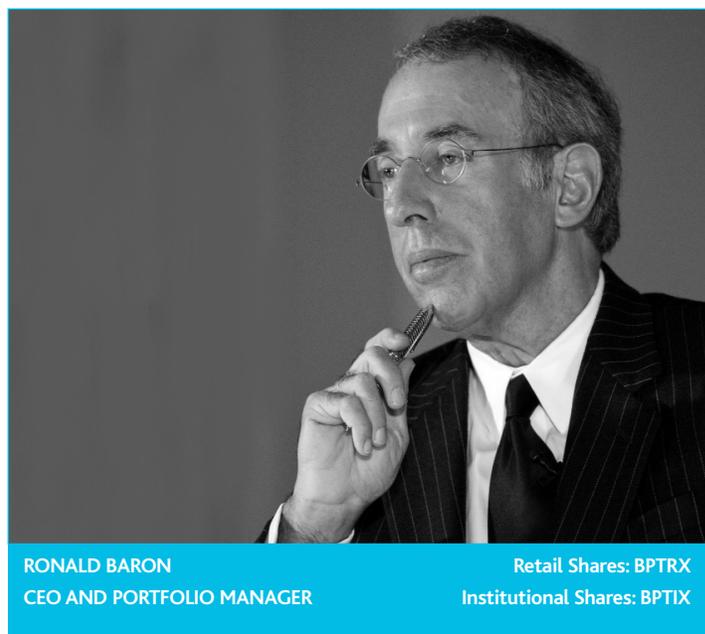
Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of December 31, 2011 was 1.71% (comprised of operating expenses of 1.35% and interest expense of 0.36%). *The performance data quoted represents past performance. Past performance 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 expenses 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 Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 20% performance fee 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 predecessor partnership's performance is only for periods before the Fund's registration statement was effective, which was April 30, 2003. 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 indexes are unmanaged. The Russell Midcap™ Growth Index measures the performance of medium-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large-cap U.S. companies. The Russell Midcap Growth Index, the S&P 500 Index and the Fund are with dividends, which positively impact the performance results.

³ 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.

⁴ Not annualized.



RONALD BARON

CEO AND PORTFOLIO MANAGER

Retail Shares: BPTRX

Institutional Shares: BPTIX

legislative branches of our government. This demonstrates the futility, in our opinion, of attempting to "trade the news" rather than attempting to invest in businesses for the long term. We discuss our outlook at the end of this letter, which we think you may guess is favorable. This is since stocks are valued below their median valuations for the past century, businesses are growing, and stocks historically have provided better returns than other asset classes.

Following U.S. stocks' strong performance during the first three months of 2012, weak results during the second quarter and strong results for the third quarter, stock prices changed little during the quarter ended December 31, 2012. Baron Partners Fund outperformed for the period and the year as you can see from Table I.

These strong results came despite only modest gains from four of the Fund's top 10 holdings: **Fastenal Co.**, **ITC Holdings Corp.**, **FactSet Research Systems, Inc.** and **Hyatt Hotels Corp.**, which collectively represent 46% of assets managed. Given that the fundamentals remained strong for these businesses throughout the year, we believe their stock prices will "catch up" in 2013 and lead to above average returns. What this also means is that Baron Partners Fund had significant contribution from the other positions in the portfolio. In fact, over 76% of the stocks in the Fund generated double digit gains in 2012, while less than 14% saw losses. Of the losses, two represented approximately 8% of managed assets, contract energy driller **Helmerich & Payne, Inc.** and market indexing leader **MSCI, Inc.** Our outlook for both businesses remains favorable.

A common theme of the stocks in the portfolio is that of businesses investing in themselves, often at the expense of short-term profits, in order to become a much larger business in the future.

We feel that management teams that continually invest in their business generate higher long-term returns for shareholders. FactSet, a leading financial data provider, consistently invests more in R&D each year to provide its investment clients better analytical



tools that drive performance and high renewal rates. Electricity transmission provider ITC Holdings, a \$4 billion market cap company, invests over \$850 million dollars annually upgrading our nation's antiquated electric grid. As an independent company, ITC is able to participate in a highly favorable regulatory structure that allows it to earn returns on capital much higher than a typical utility with less risk to its investment.

We expect a strong rebound in 2013 for those businesses that have been laggards or contributed only modestly to performance in 2012. We also expect continued gains from the businesses whose stocks performed well during the year, including **Penn National Gaming, Inc.**, **Dick's Sporting Goods, Inc.**, **The Charles Schwab Corp.**, **Vail Resorts, Inc.**, **Arch Capital Group Ltd.** and **The Carlyle Group**.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap Sold (billions)	Total Return	Percent Impact
CarMax, Inc.	2011	\$6.1	\$8.6	32.7%	1.38%
Fastenal Co.	2006	6.8	13.8	10.4	0.95
Penn National Gaming, Inc.	2008	2.5	3.8	13.9	0.86
Arch Capital Group Ltd.	2002	0.6	6.0	5.6	0.80
The Charles Schwab Corp.	1992	1.0	18.3	12.8	0.70
Verisk Analytics, Inc.	2009	4.0	8.5	7.1	0.69
Helmerich & Payne, Inc.	2006	2.6	5.9	17.8	0.56
CoStar Group, Inc.	2005	0.7	2.5	9.6	0.52
ITC Holdings Corp.	2005	0.8	4.0	2.3	0.33
C.H. Robinson Worldwide, Inc.	2003	3.2	10.2	8.6	0.25

With \$11 billion in sales, **CarMax, Inc.** is the nation's largest retailer of used cars. Shares performed well in the fourth quarter, rising 32.7%, on momentum in sales and earnings growth. Its several positive drivers have set the stage for CarMax to achieve strong earnings growth in 2013. These include: a significantly improved supply of late model vehicles, which will allow CarMax to lower prices and drive traffic; accelerating same store sales from newer stores entering the base; and pent-up demand from an unsustainably high average age of cars on the road. (Matt Weiss)

Shares of the leading industrial supplies distributor **Fastenal Co.** performed well during the fourth quarter, rising 10.3%, as sales across the company's 2,600 branches remained strong, up 7-10% over the prior year. These results were attributable to a rebound in manufacturing, new initiatives such as automated vending, its international expansion, and accelerated market share gains. (Matt Weiss)

Penn National Gaming, Inc. is a regional gaming company with casinos across the U.S. Its shares increased 13.9% in the fourth quarter after the

company announced it will be separating its real estate assets into two separately traded entities. Operating assets will comprise one entity and real property assets will comprise the other, which is expected to become a REIT. We believe this reorganization is a positive for the company and will add value to both entities over time. (David Baron)

Table III.
Top contributors to performance for the year ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Dick's Sporting Goods, Inc.	2005	\$1.6	\$5.6	30.1%	2.92%
Arch Capital Group Ltd.	2002	0.6	6.0	18.2	2.23
Verisk Analytics, Inc.	2009	4.0	8.5	27.0	1.97
Vail Resorts, Inc.	2008	1.6	1.9	29.6	1.75
The Charles Schwab Corp.	1992	1.0	18.3	29.8	1.61
Fastenal Co.	2006	6.8	13.8	10.0	1.56
CoStar Group, Inc.	2005	0.7	2.5	33.9	1.42
Penn National Gaming, Inc.	2008	2.5	3.8	29.0	1.35
Discovery Communications, Inc.	2009	6.2	14.7	55.0	1.33
CarMax, Inc.	2011	6.1	8.6	23.0	1.15

Table IV.
Top detractors from performance for the quarter ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
MSCI, Inc.	2008	\$3.0	\$3.8	-13.9%	-1.02%
Dick's Sporting Goods, Inc.	2005	1.6	5.6	-8.2	-0.87
FactSet Research Systems, Inc.	2007	2.5	3.9	-8.4	-0.76
Hyatt Hotels Corp.	2009	4.2	6.3	-3.9	-0.51
Vail Resorts, Inc.	2008	1.6	1.9	-5.5	-0.44

MSCI, Inc. shares declined in the fourth quarter as a result of Vanguard changing a subset of its ETF benchmarks from MSCI to competitors FTSE and CRSP. In response to Vanguard's decision to move to FTSE and CRSP, Vanguard's rival iShares reaffirmed its commitment to MSCI as its primary benchmark provider for international and cross border ETFs. Despite the Vanguard decision, we remain optimistic about the long-term prospects for MSCI, and believe the unique and defensible aspects of its business are underappreciated by investors. (Neal Rosenberg)

Dick's Sporting Goods, Inc., the country's largest sporting goods retailer, declined 8.2% in the fourth quarter, though the stock performed well for the year. The company has grown sales consistently through strong new store productivity, positive same store sales, and improved e-commerce business. Margins have also expanded. However, investors have recently become concerned about the Christmas season and discounting. We believe margins will remain strong despite discounting. (Michael Baron)

Baron Partners Fund

FactSet Research Systems, Inc. provides financial information to the global investment community. Its shares declined in the fourth quarter after reporting results that were slightly lower than expected. Revenue grew 7.5% but was around 1% short of expectations. FactSet has continued to gain market share, pass through modest price increases, and deploy free cash flow accretively, which have allowed the company to sustain double-digit earnings growth despite challenging market conditions. (Neal Rosenberg)

Table V.
Top detractors from performance for the year ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap Sold (billions)	Total Return	Percent Impact
Netflix, Inc.	2012	\$4.5	\$3.2	-37.1%	-1.64%
C.H. Robinson Worldwide, Inc.	2003	3.2	10.2	-8.0	-0.87
MSCI, Inc.	2008	3.0	3.8	-6.5	-0.56
DeVry, Inc.	2008	2.9	2.3	-10.1	-0.32
Arcos Dorados Holdings, Inc.	2011	4.5	4.2	-4.0	-0.15

RECENT PORTFOLIO ADDITIONS

Table VI.
Top net purchases for the quarter ended December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
Ryanair Holdings plc	2012	\$9.0	\$9.9	\$0.8

Ryanair Holdings plc is the "ultra low cost" European airline that flies 80 million passengers on 300 aircraft. Ryanair is the most profitable airline in the world, generates the highest return on invested capital, and has returned more cash to shareholders than any other airline. The company operates the lowest per-passenger cost structure by flying point-to-point service to non-congested airports. This low cost structure allows Ryanair to price tickets at low yields, which stimulate passenger demand and create a web of routes where Ryanair flies alone. Approximately 660 million passengers fly short-haul flights in the EU today, and Ryanair has a 12% share. Europe's "Flag" carriers, who operate with structurally higher costs and thus charge very high prices, have a 50% market share. We think Ryanair will continue to steal market share as passengers increasingly favor low-priced, no-frills travel. Finally, we think Ryanair will experience yield improvement across existing routes, leading to higher profitability per passenger. (Aaron Wasserman)

PORTFOLIO STRUCTURE

The strategy we use to accomplish our performance objectives is to invest for the long term in a non-diversified portfolio of appropriately capitalized,

well-managed businesses at what we think are attractive prices. The Fund's average portfolio turnover for the past three years was 15.28%. This means the Fund had an average holding period for its investments during that time period of 6.5 years. The average mid-cap growth fund holds its investments for less than one year. Although the Fund can invest in companies of all sizes, we attempt to invest Baron Partners Fund's non-diversified portfolio in fewer than 30 businesses, principally mid-cap companies. We also strive to create a portfolio with lower risk. We think the Fund's portfolio investments will be approximately 90% as volatile as the market. We are not attempting to match any index with our allocations to GICS sectors.

We think the businesses in which Baron Partners Fund has invested have the potential to double in size within approximately four years. These well-managed businesses, in our view, possess strong competitive advantages with high barriers to entry. This means it would either take many years or come at a high cost for new entrants to compete with our businesses. 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.*

These barriers enable our companies to generate strong returns on capital and provide them with the ability to grow over the long term. Some examples include **Penn National Gaming, Inc.** with its key licenses, regulatory approvals and strong balance sheet, which allow it to construct large developments quickly as new jurisdictions legalize gaming, **Vail Resorts, Inc.** counts one of the world's best ski mountains as its irreplaceable asset. This extreme barrier to entry enables Vail to consistently raise prices and sell ski passes earlier in the season to mitigate the risk of weather. **Hyatt Hotels Corp.'s** strong brands, great balance sheet and high developer returns, have translated into one of the largest development pipelines in the lodging industry. Many of Hyatt's projects are slated for fast-growing emerging Asian markets where we see tremendous opportunity. **Fastenal Co.**, a leading industrial supplies distributor to manufacturers, has one of the most entrepreneurially driven managements in its industry. The company's proprietary vending solutions help customers better manage their working capital and is a key selling innovation its competitors lack. Additionally, all of these companies have large insider stakes where management owns a large percentage of the company, so we feel comfortable knowing our interests are aligned with theirs.

To protect against uncertain economic times and world developments, we choose to invest in publicly-owned growth businesses that have a "margin of safety" built into their businesses. This means that we think our businesses will not only become much larger over the long term, but they will survive unforeseen, difficult, economic circumstances.

We believe businesses in which Baron Partners Fund invests are better managed than most businesses. The median market capitalization of the Fund's portfolio holdings was \$5.58 billion on December 31, 2012. According to FactSet's Fundamental and Estimates data, the Baron Partners Fund portfolio is expected to achieve 17% earnings per share growth over the next three to five years and sells at 13.4 times trailing 12-month earnings per share. Of course, there is no guarantee this will be the case.

Table VII.
Top 10 holdings as of December 31, 2012

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)	Percent of Total Investments
ITC Holdings Corp.	2005	\$0.8	\$4.0	\$113.4	10.5%
Arch Capital Group Ltd.	2002	0.6	6.0	111.2	10.3
Hyatt Hotels Corp.	2009	4.2	6.3	96.4	8.9
Verisk Analytics, Inc.	2009	4.0	8.5	84.2	7.8
Fastenal Co.	2006	6.8	13.8	84.0	7.8
Dick's Sporting Goods, Inc.	2005	1.6	5.6	73.9	6.8
FactSet Research Systems, Inc.	2007	2.5	3.9	70.4	6.5
Vail Resorts, Inc.	2008	1.6	1.9	58.8	5.4
The Charles Schwab Corp.	1992	1.0	18.3	50.3	4.6
Penn National Gaming, Inc.	2008	2.5	3.8	48.5	4.5

OUTLOOK

During the past 13 years, U.S. stock markets have changed little while businesses have increased their earnings and improved their balance sheets substantially. Stocks' price earnings ratios, as a result, have fallen from more than 30 times in 1999 to 13 times currently. The peak valuation in 1999 occurred in the midst of the "Internet Bubble" and was the highest in the history of U.S. markets. The valuation of publicly owned businesses today is below the 15.5 times median valuation that has prevailed both in modern times since 1960 as well as for the past hundred years. Stock valuations during that time have rarely risen above 20 times or fallen below 10 times.

As a result of investor fears regarding the European debt crisis; the fiscal cliff in America; the inability of Congress to legislate, and concerns regarding slowing growth in our economy, stocks are valued for less than their historic median valuations. We think these valuations do not take into account what we believe is the likelihood that U.S. economic growth will likely soon improve. This is for several reasons. A large percentage of the job losses America has experienced during the past five years has been in the housing

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The Baron Family of Funds is described in prospectuses which contain this and other information about the Funds. You should carefully read the prospectus before investing. You can obtain a copy of the prospectus by contacting the Funds' distributor, Baron Capital, Inc., at 767 Fifth Avenue, New York, New York, 10153, or by calling 1-800-99BARON, or by going to our website at www.BaronFunds.com.

* 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 using non-diversification and leverage, but there also is more risk. Specific risks associated with non-diversification and leverage include increased volatility of the Fund's returns and exposure of the Fund to greater loss in any given period. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and made difficult to sell during market downturns. Leverage is the degree to which an investor or business is utilizing borrowed money. 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 is 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 securities of Baron Partners Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

and automotive industries. Automobile sales have improved substantially during the past two years and are continuing to increase. Housing is now beginning to improve significantly. These developments should create a lot more jobs than most seem to expect. Even more importantly, in our opinion, energy costs in America are no longer increasing. With oil and gas production in our country rising and energy use stable or falling in part due to rising CAFÉ standards, we expect this trend to continue for a long time. Natural gas in America is currently priced for about one third the world price. This offers significant profit and investment opportunity for many businesses that have energy as an important input. In addition, electricity costs, as a result of low natural gas costs, are about half the cost than in the rest of the world. This also offers investment opportunity for job creating businesses in our country. Considering what we think are favorable growth prospects for businesses in which Baron Partners Fund has invested, and the current cost of capital, in our opinion, Baron Partners Fund's investments remain attractively priced.

Thank you for investing in Baron Partners Fund.

Thank you for joining us as fellow shareholders in Baron Partners Fund. We believe the growth prospects for the businesses in which Baron Partners Fund has invested are favorable and improving. Since, in our opinion, the share prices of our businesses do not reflect their prospects, we believe their stock prospects remain favorable. Of course, there can be 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 also remain dedicated to continuing to provide you with the information I would like to have about your investments in Baron Partners Fund if our roles were reversed. This is so you will be able to make an informed decision about whether this Fund remains an appropriate investment for you and your family.

Respectfully,

Ronald Baron
CEO and Portfolio Manager
January 8, 2013

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

