

DEAR BARON FOCUSED GROWTH FUND SHAREHOLDER:

OUTLOOK

"That's one in a row." Ron Taylor. Former CEO. DeVry Institute. 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.

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

	Baron Focused Growth Fund ^{1,2,3}	Russell 2500 Growth Index ²	S&P 500 Index ²
Three Months ⁴	9.27%	14.60%	12.59%
One Year	0.57%	2.70%	8.54%
Three Years	24.72%	29.86%	23.42%
Since Conversion (June 30, 2008)	5.13%	7.41%	4.90%
Five Years	4.58%	4.90%	2.01%
Ten Years	12.06%	6.99%	4.12%
December 31, 1999 - March 31, 2012. "The Bad Times."	7.02%	2.95%	1.52%
May 31, 1996 - December 31, 1999. "The Good Times."	27.87%	17.60%	26.58%
Since Inception (May 31, 1996) "All the Times."	11.42%	6.09%	6.71%

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 1.48%, 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.*

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 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

Since stocks remain at such historically attractive levels relative to earnings, interest rates, growth prospects, corporate balance sheets and ten year interest rates while investors remain unusually cautious, we expect a lot more "one in a row" periods like this one during the next ten 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 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 amidst the 1970s during 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 Focused Growth Fund's investments increased their earnings on average more than 20% last year. Our firm's analysts expect Baron Focused Growth Fund's businesses to increase their earnings more than 15% in 2012.

Baron Focused Growth Fund

PERFORMANCE

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

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

Baron Focused Growth Fund increased its net asset value per share 129.65%, 7.02% annualized, from December 31, 1999 through March 31, 2012. That was the worst 12 and a quarter year period in our country's more than 200 year financial history. The mid cap Russell 2500 Growth Index, the benchmark index against which we measure our performance, increased 42.71%, 2.95% annualized, during the period. The large cap, S&P 500 Index gained 20.25%, 1.52% annualized, during the period.

"The Good Times." May 31, 1996 (Inception) through December 31, 1999.

During the three and a half years from Baron Focused Growth Fund's inception on May 31, 1996 through December 31, 1999, an unusually strong period for U.S. stocks, Baron Focused Growth Fund increased in value 141.30% per share, 27.87% annualized. The Russell 2500 Growth Index, our benchmark index, increased in value 78.78%, 17.60% annualized during the period. The large cap, S&P 500 Index increased 132.69%, 26.58% annualized during the same period.

Baron Focused Growth Fund has Outperformed Through "Good Times" and "Bad Times."

Baron Focused Growth Fund has achieved 11.42% annualized gains from the Fund's inception sixteen years ago. This compares to 6.09% annualized for the Russell 2500 Growth Index and 6.71% annualized for the S&P 500 Index. Baron Focused Growth Fund, like all Baron Funds, is not trying to replicate the performance of any particular index. As a result, when certain GICs sectors in which our benchmark index is more heavily weighted than Baron Focused Growth Fund outperform or underperform during finite periods, the "actively managed" Baron Focused Growth Fund is likely to outperform or underperform the "passively managed" index during those periods.

We believe Baron Focused Growth Fund's investment strategy will allow it to continue to outperform the markets and its benchmark indexes over the long term during both "The Good Times" and "The Bad Times." There is no guarantee we will achieve our objectives.

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

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 attractively priced. We also attempt to invest in a focused portfolio of about thirty businesses diversified by GICS sectors that is significantly less volatile than 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 (27% with wide economic moats versus 7% for the benchmark).^{*} (See endnote on Page 42.) Further, FactSet data suggests, the businesses in which Baron Focused Growth Fund has invested have higher growth rates (historical 5 year EPS Growth of 12.22% versus 10.89% for the benchmark); higher profit margins (EBITDA margin of 24.32% versus 18.37% for the benchmark); better returns on capital (ROIC 13.50% versus 9.03% for the benchmark); and are less leveraged (total debt to market cap 21.44% versus 24.53% for the benchmark) than the companies in the benchmark index.

Further, since Baron Focused Growth Fund invests in growth businesses with significant recurring revenues, their earnings are significantly less dependent upon the economy than those of the benchmark indexes. In fact, the standard deviation of earnings for businesses in which Baron Focused Growth Fund has invested is about half that of the index, 79.49% vs 165.36%. Standard deviation is a measure of volatility. Since these businesses' earnings are less volatile than the benchmark, it is not surprising that Baron Focused Growth Fund's investments are also less volatile than the market and its benchmark indexes. In this instance, our portfolio investments have been 77% as volatile for the past five years as its benchmark.

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

BAMCO Inc. ("BAMCO"), the investment manager of Baron Focused Growth Fund, develops investment ideas from its proprietary research in small and mid-sized 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 Focused 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 Focused Growth Fund.

Baron Focused Growth Fund had annual average turnover of its portfolio for the last three years of 35.55% per year and 36.67% for the last 10 years. This means Baron Focused Growth Fund has held its investments for an average of about three years! The average mutual fund that invests in small and mid-cap, growth stocks turns over its entire portfolio approximately every 10 months!

Although Baron Focused Growth Fund has a focused portfolio, as is obvious from its name, its largest investments have generally become so because they have been successful investments and we have not sold them. As you

can see from Table II, the investments that have made the largest contribution to Baron Focused Growth Fund's performance in the March quarter were purchased from 2005 through 2009. Of the top 15 contributors to Baron Focused Growth Fund's performance in the March quarter, only four were purchased during the past year. The most important among those were **MICROS Systems, Inc.**, software and systems developer for hotels, restaurants and retailers; managed healthcare provider, **AMERIGROUP Corp.** and used car retailer **CarMax, Inc.**, were purchased in the past year. These businesses are currently growing very rapidly, have significant competitive advantages and are exceptionally well managed in our opinion. We expect these businesses to continue to make significant contributions to the performance of Baron Focused Growth Fund both over the short term and long term. Regardless, the performance Baron Focused Growth Fund is currently achieving is principally the result of successful investments made three to seven years ago that are now maturing. The performance we expect Baron Focused Growth Fund to achieve during the next four or five years will likely be principally obtained from investments we are making today. As a focused fund that is trying to achieve strong short term performance as well, we expect a larger percentage of gains to result from businesses in which we are investing presently than in a more diversified portfolio. However, there is more risk in a non-diversified fund.

During the first quarter, 59.91% of Baron Focused Growth Fund's assets were invested in businesses that achieved double digit returns; 12.92% achieved single digit returns; and, 23.43% 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.**; moderate 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 "lowest quality" 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. When markets rebound after performing poorly, often businesses with the most favorable prospects such as those in which we invest have shares which are least volatile and begin to outperform after the initial surge upward. We will see if that remains 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.	2005	\$1.6	\$ 5.8	1.24%
Fastenal Co.	2007	6.5	16.0	1.16
Verisk Analytics, Inc.	2009	5.0	7.7	0.92
Hyatt Hotels Corp.	2009	4.2	7.1	0.91
Airgas, Inc.	2011	5.3	6.8	0.70

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. (Michael Baron)

Shares of **Fastenal Co.**, the leading industrial supplies distributor, gained 24.5%, as demand from manufacturing and commercial construction clients continued to improve. Sales across the company's 2,500 branches have continued to show healthy comparative sales increases, even at stores more than 10 years old. 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 increasingly relying on the company to save them costs, cut working capital and improve productivity. (Matt Weiss)

Shares of **Verisk Analytics, Inc.**, an insurance data and analytics company, rose 17.0%. After a strong 2011, it appears that the company's primary business (risk assessment) is on the verge of a large increase in organic growth, while its newer health analytics business has continued to exceed growth expectations. We believe Verisk has a dominant position in the insurance analytics space and has the ability to leverage its data expertise in other industry verticals. (Rob Susman)

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Genesee & Wyoming, Inc.	2007	\$1.1	\$ 2.3	-0.55%
CARBO Ceramics, Inc.	2011	2.7	2.3	-0.39
Booz Allen Hamilton Holding Corp.	2012	2.5	2.4	-0.26
C.H. Robinson Worldwide, Inc.	2003	3.2	10.7	-0.19
Helmerich & Payne, Inc.	2007	3.7	5.8	-0.15

Shares of **Genesee & Wyoming, Inc.**, a leading short-line railroad, declined 9.9% after advancing over 30% during the prior quarter. An unusually mild winter and low natural gas prices negatively impacted coal volumes during the quarter, the company's biggest volume commodity. Over the long run, we believe Genesee is well positioned to outperform its railroad peers with unique access to emerging markets as well as freight opportunities tied to several natural resource projects in North America. The company recently closed a key international acquisition that we think will benefit from mining projects tied to export trade with China. (Matt Weiss)

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 Fund exited this position in the quarter. (Jamie Stone)

Shares of **Booz Allen Hamilton Holding Corp.**, a provider of information services and technology to the federal government, declined slightly.

Baron Focused Growth Fund

Amid difficult times for defense contractors, the company released good fourth-quarter numbers, but its guidance for the coming fiscal year was disappointing. We are confident that there is significant upside to the company's shares given multiple factors, including its current low valuation, significant free cash flow, new share-repurchase program, headcount reduction initiatives and new commercial and foreign sales opportunities for its sophisticated cyber-security and health care information technology products. (Randy Gwartzman)

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)
Booz Allen Hamilton Holding Corp.	2012	\$2.5	\$2.4	\$4.5
American Campus Communities, Inc.	2012	3.0	3.3	4.1
Ceres, Inc.	2012	0.3	0.4	1.3
ITC Holdings Corp.	2008	2.2	4.0	1.1
AMERIGROUP Corp.	2011	2.0	3.2	0.8

Booz Allen Hamilton Holding Corp., as mentioned above, is a provider of information technology and operational consulting services to the federal government. The company has a decades-long history of superior client service, and is unique in both the extreme high-end quality of its consultants, and in its client-focused organizational structure. While just over half of Booz Allen's revenues come from the Department of Defense, many of these projects help the government to save money (up to a ten-fold return to the customer), meaning that these services will be in increasing demand. Its specialization in healthcare, financial services and cyber-security (the other half of Booz Allen's business) ensure that Booz Allen is focused on the highest demand areas of government consulting. In addition, Booz Allen is building out a high end commercial version of its business which will be targeted toward healthcare and financial services clients in the U.S. and overseas. We believe Booz Allen has significant room to grow with its current low valuation, free cash flow, share repurchases, and new commercial and foreign sales opportunities. (Randy Gwartzman)

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)	Percentage of Net Assets
Hyatt Hotels Corp.	2009	\$4.2	\$7.1	\$6.8	6.9%
Verisk Analytics, Inc.	2009	5.0	7.7	6.0	6.1
Fastenal Co.	2007	6.5	16.0	5.4	5.5
Genesee & Wyoming, Inc.	2007	1.1	2.3	4.9	5.0
Airgas, Inc.	2011	5.3	6.8	4.9	5.0
AMERIGROUP Corp.	2011	2.1	3.2	4.9	4.9
Dick's Sporting Goods, Inc.	2005	1.6	5.8	4.8	4.9
American Campus Communities, Inc.	2012	3.0	3.3	4.5	4.5
MSCI, Inc.	2008	3.3	4.5	4.4	4.5
Booz Allen Hamilton Holding Corp.	2012	2.5	2.4	4.3	4.3

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
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 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.