Baron Opportunity Fund

Dear Baron Opportunity Fund Shareholder:

Performance

Baron Opportunity Fund had a disappointing fourth quarter, which also impacted results for the full year. In the context of an uncertain and choppy market environment (discussed more below), the Fund significantly underperformed in October and November. While the Fund rebounded in December, it wasn't enough to make up for the prior two months.

The Fund finished the quarter down 1.24%, trailing the Russell Midcap Growth Index, which rose 1.69%. For the full year, the Fund rose 13.69%, lagging the Russell Midcap Growth Index, which gained 15.81%, as well as the broader market measured by the S&P 500 Index.

As discussed more fully below, the Fund's Information Technology investments performed poorly during the fourth quarter. For the full year, however, Information Technology was the best performing sector for the Fund.

We believe that the Fund remains well positioned from a long-term perspective.

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

	Baron Opportunity Fund[1,2]	Russell Midcap Growth Index[1]	S&P 500 Index[1]
Three Months[3]	–1.24%	1.69%	–0.38%
One Year	13.69%	15.81%	16.00%
Three Years	10.20%	12.91%	10.87%
Five Years	3.15%	3.23%	1.66%
Ten Years	14.00%	10.32%	7.10%
Since Inception (February 29, 2000)	3.46%	0.95%	2.25%

Outlook

Uncertainty was the dominant theme of the fourth quarter. Early in the period, the market focused on the U.S. presidential election, and towards the close, on the seemingly never-ending negotiations in Washington, D.C.

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 (by contract as long as BAMCO, Inc. is the adviser to 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 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 indexes and the 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

Retail Shares: BIOPX
Institutional Shares: BIOIX

to avert the so-called fiscal cliff. Throughout the quarter, there was a steady stream of negative news concerning the U.S. sub-par economic growth, persistently high unemployment, budget deficit and political dysfunction. This uncertainty and negativity impacted businesses and consumers alike. Fourth quarter earnings and revenue guidance for many companies came in below Wall Street expectations, as management teams chose to be cautious about near term business prospects. On Main Street, consumers worried about the prospect of rising taxes and declining government benefits, pared back on holiday spending. In the end, the stock market finished the quarter almost where it started.

In this atmosphere of uncertainty and negativity, many high growth stocks, particularly those in the Information Technology sector performed poorly. At the start of the third quarter, several technology bellwethers, including Intel and Apple, issued disappointing guidance, and many management teams discussed elongated sales cycles, greater scrutiny of deals and smaller transaction sizes on their conference calls. In light of these events, the Fund lagged the overall market during the quarter. While the Fund's technology investments generally fared well from an operating perspective, multiples compressed across the space and cautious Wall Street analysts cut their 2013 growth projections. For the full year, however, the Fund's Information Technology investments were significant contributors to performance.

As we sit here today, political uncertainty still reigns. The market cheered the New Year's Eve fiscal cliff settlement with a big rally on the first trading day of the year. But eyes will soon turn to the looming battle over the debt ceiling. Our hope remains that cooler heads will again prevail, and that our political leaders will reach sensible and pragmatic compromises.

Apart from politics, the U.S. economy is in relatively good shape, particularly when compared to Europe and other developed markets, and we remain quite optimistic. The U.S. continues to be an innovative culture, our workers are highly productive, interest rates remain at historically low levels, job growth has steadied, we are in the early stages of a housing recovery, and we have emerged as a low-cost energy producer (domestic gas prices are one-third the global average). Indeed, the

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CEOs to whom we speak are quite constructive about U.S. growth prospects, assuming developments in Washington, D.C. don't prove to be a roadblock.

The events of the fourth quarter only serve to underscore our long-held belief in the futility of attempting to "trade the news" as opposed to investing in businesses for the long term. In these uncertain times, we focus on unique businesses with sustainable competitive advantages that we believe should be able to double their revenues over the next four to five years (with earnings and cash flow growing even faster). As we have written before, there is significant growth taking place around us that simply isn't reflected in reported GDP or industry growth figures, which suffer from being averages pulled down by the slow-growers and decliners. In making our investments, we hone in on those secular growth themes or trends capable of driving strong multi-year growth, regardless of changes in U.S. government tax or spending policies, or the ups and downs of the business cycle. The fourth quarter did nothing to change our fundamental view about the secular growth themes in which we are investing or the long-term growth prospects for the vast majority of our individual investments. To remind our investors, some of the key secular growth themes we are emphasizing include: cloud computing; information services; on-demand software; mobile devices, applications and advertising; digital media; unconventional oil and gas; computer simulation; real-time medical diagnostics; minimally invasive surgical procedures; social media; e-commerce; big data; sustainable agriculture; advanced materials; electric vehicles; globalization of consumer brands; and renewable energy.

Several of these themes contributed to the Fund's performance during the year. As stated above, despite pulling back in the fourth quarter, our technology-related themes have had the largest positive impact on our full-year results; some of our top performers, including **Equinix, Inc.** and **Rackspace Hosting, Inc.**, are plays on cloud computing. Several consumer themes, such as digital media (**Liberty Media Corp.** and **Discovery Communications, Inc.**) and e-commerce (**priceline.com, Inc.**) also contributed to performance. Our information services investments also performed well, led by **Gartner, Inc.** and **CoStar Group, Inc.** Lastly, our investment in **SBA Communications Corp.**, a play on the growth of all things wireless, contributed to quarterly and annual results.

Table II.

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

	Percent Impact
Polypore International, Inc.	0.85%
SBA Communications Corp.	0.54
Cymer, Inc.	0.52
CARBO Ceramics, Inc.	0.49
CarMax, Inc.	0.47

Polypore International, Inc. gained 31.5% in the fourth quarter. Sales of electric vehicles (EVs), which use battery separator components manufactured by Polypore, were choppy over the course of 2012. This hurt Polypore's sales volumes and caused it to reduce earnings expectations earlier in the year. In the fall, Polypore held a constructive analyst day, where the company's management team showcased their state of the art manufacturing facilities and differentiated technology. In the aftermath, Polypore's shares began to recover from their pullback earlier in the year. We think the market for EVs has bottomed, and that volumes of hybrids and other EVs should start to pick up. We continue to believe that Polypore's shares are undervalued and its multiple will increase once end-market growth resumes. (Randy Gwirtzman)

SBA Communications Corp. owns cellular communications towers and leases space on them to all major domestic wireless carriers. Its share price rose during the fourth quarter as the company continued to execute its business plan. As consumers use increasing amounts of wireless data bandwidth, carriers need to augment their networks by placing more equipment on towers, and SBA generates additional leasing revenue and cash flow from this activity. We also think SBA has an opportunity to grow internationally. Last quarter, SBA announced its first acquisition in Brazil. (Aaron Wasserman)

Shares of the leading provider of photolithography light sources for semiconductor manufacturing jumped dramatically after it was announced that **Cymer, Inc.** was being acquired by its largest customer, ASML. This validated our multi-year growth thesis, centered on the uptake of next-generation extreme ultra-violet lasers. (Randy Gwirtzman)

CARBO Ceramics, Inc. is the leading supplier of advanced material proppants for the oil and gas industry. After underperforming for much of the year, its shares rebounded strongly in the fourth quarter when it appeared that the problems of oversupplied markets and logistical challenges that were hurting pricing, costs, and volumes were abating. As a result, earnings estimates have stabilized and begun to improve for 2013. Investors are now beginning to look at the next phase of growth for the company in late 2013 and 2014, as it brings on new capacity. (Jamie Stone)

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. Several positive drivers are coming together in CarMax's favor, setting the stage we think for a strong 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. (Matthew Weiss)

Table III.

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

	Percent Impact
Bazaarvoice, Inc.	–0.77%
Velti plc	–0.63
Better Place, Inc.	–0.63
Mellanox Technologies Ltd.	–0.56
Infoblox, Inc.	–0.41

Bazaarvoice, Inc. provides social commerce, on-demand software solutions to brands and retailers in the U.S. and abroad. Shares of Bazaarvoice were down 38.3% in the fourth quarter, as the company announced that its Founder and CEO was replaced by the CFO. It remains the leader in powering online retail ratings and reviews and in helping retailers leverage insights from their customers to improve sales performance. We continue to retain a small investment in Bazaarvoice. (Ashim Mehra)

Shares of **Velti plc**, a mobile marketing company, declined significantly during the fourth quarter as a result of the company missing third quarter expectations and announcing a divestiture of certain European assets at relatively low prices. We exited our investment in Velti during the period. (Ashim Mehra)

Better Place, Inc. is the first private global end-to-end electric vehicle (EV) infrastructure provider with operating networks in Israel and Denmark. We invested in Better Place in December 2011, ahead of its commercial launch, with the view that its innovative approach to EVs would enable it to jump

start EV adoption in Denmark and Israel. Our expectations were not met; execution was above budget and behind schedule. This, plus a recent management change, caused us to mark down our investment in this private company significantly. (Gilad Shany)

Mellanox Technologies Ltd. supplies semiconductor-based systems for computing, storage, and communications applications connecting servers to servers and servers to storage, providing high bandwidth and low latency. After nearly quadrupling during the year, Mellanox's shares declined sharply in the fourth quarter, as valuation ran ahead of fundamentals, and investors realized that triple-digit growth is unsustainable. Mellanox was the Fund's third best contributor for the year, and while we sold a significant percentage of our position at higher levels, with 20/20 hindsight we should have exited the investment completely at these levels. As of this writing, we have sold the remainder of our Mellanox investment. (Gilad Shany)

Portfolio Structure

Baron Opportunity Fund had $378.9 million of assets under management as of December 31, 2012. The Fund had investments in 54 securities, including two private-equity investments. The top 10 positions accounted for 32.9% of the portfolio. The Fund's cash position was 1.6% at quarter end. Our research continues to generate many good ideas for the Fund.

Table IV.

Top 10 holdings as of December 31, 2012

	Quarter End Investment Value (millions)	Quarter End Market Cap (billions)	Percent of Net Assets
SBA Communications Corp.	$17.0	$9.0	4.5%
Gartner, Inc.	13.6	4.3	3.6
Equinix, Inc.	13.5	10.0	3.6
Liberty Media Corp.	11.9	13.9	3.2
ANSYS, Inc.	11.9	6.2	3.2
Verisk Analytics, Inc.	11.9	8.5	3.1
RealPage, Inc.	11.8	1.6	3.1
Polypore International, Inc.	11.5	2.2	3.0
Illumina, Inc.	11.1	6.9	2.9
Discovery Communications, Inc.	10.2	14.7	2.7

As described above, we focus on investing the Fund's assets in themes and individual businesses that we believe will experience significant secular growth rates. As a result, the Fund's sector weights are an output of our process, not an input. As compared to the Russell Midcap Growth Index, we have historically 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 – indeed, GICS assigns traditional media/advertising companies to the Consumer Discretionary sector but online and mobile media/advertising businesses to the IT sector – and we therefore consider our Consumer Discretionary weighting to be in line. Most importantly, we continue to believe the Fund's IT sector investments are well diversified across a number of distinct secular themes and end market exposures, and differentiated in that we emphasize businesses that garner a significant portion (two-thirds or more) of their revenues from recurring sources, such as subscriptions, leases, term licenses, maintenance agreements and royalties.

The median market cap of the Fund was $3.9 billion at the end of the quarter.

Recent Activity

Table V.

Top net purchases for the quarter ended December 31, 2012

	Quarter End Market Cap (billions)	Amount (millions)
Under Armour, Inc.	$5.1	$4.2
Cepheid	2.2	4.2
Western Gas Equity Partners LP	6.6	3.5
Colfax Corp.	3.8	3.2
Red Hat, Inc.	10.2	2.4

We initiated a position in leading athletic apparel brand **Under Armour, Inc.** during the quarter, as the stock pulled back from highs earlier in the year. Founded by former University of Maryland football player Kevin Plank with the idea of selling moisture wicking t-shirts for players to wear under their shoulder pads, Under Armour has never stopped innovating. Under Armour has grown into one of the dominant North American athletic apparel brands, and has significant opportunities to more than double its business through growth in footwear, women's, international and direct to consumer.

Cepheid is a manufacturer of molecular diagnostics equipment and related testing kits. It has developed a novel technology involving proprietary cartridges, which vastly simplifies sample prep, allowing tests to be done in the hospital environment, as opposed to central labs. Cepheid's tests can typically be done in under an hour and are relatively inexpensive. We believe Cepheid has a significant opportunity to disintermediate the diagnostics industry by driving a shift of many tests closer to the point of care and away from the central labs.

We initiated a position in **Western Gas Equity Partners L.P.** (WGP) as it went public through an IPO. WGP is a limited partnership that owns general partner (45%) and limited partner interests in Western Gas Partners (WES), one of the fastest growing gas gathering and processing partnerships. We have followed the general partner WES since its public offering in 2008 and learned to appreciate its management, strong growth characteristics and stability of its cash flows driven by growth of on-shore hydrocarbons' production in the U.S. We believe that WGP will allow us to get enhanced exposure to these growth themes.

Colfax Corp. is a diversified global industrial manufacturing and engineering company that provides gas and fluid handling technology products to commercial and governmental customers around the world. But what makes Colfax a unique investment is that it was founded by Mitchell and Stephen Rales, the founders of Danaher and the innovators behind the Danaher Business System. The Rales' plan is to replicate with Colfax what they did with Danaher. Indeed, Colfax operates with a set of management tools known as the Colfax Business System, which is designed to drive excellence and world-class financial performance.

Red Hat, Inc. is the leading pioneer of open-source, enterprise-ready software. Over the last decade, Red Hat disrupted the enterprise infrastructure software industry with its Red Hat Enterprise Linux (RHEL) product, which was significantly cheaper than proprietary server operating systems, space such as Windows and Unix, and sold as an annual subscription, rather than a large, upfront license. We believe Red Hat still

possesses significant growth opportunities with RHEL, along with an expanded product portfolio of open-source software focused on the middleware, virtualization, cloud management and storage markets.

Table VI.

Top net sales for the quarter ended December 31, 2012

	Market Cap When Sold (billions)	Amount (millions)
Cymer, Inc.	$2.4	$–6.1
Cerner Corp.	12.5	–3.9
MSCI, Inc.	3.2	–3.5
Infoblox, Inc.	0.7	–3.3
athenahealth, Inc.	2.7	–3.1

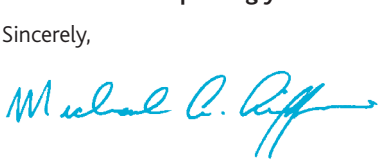
We sold **Cymer, Inc.** in connection with the announcement of the ASML acquisition.

We sold **Cerner Corp.** and **athenahealth, Inc.**, both electronic medical records technology companies, because of valuation and a concern that software sales would begin to slow as many customers have now met Stage 1 of the government's "meaningful use" standard.

We sold **MSCI, Inc.** for fundamental reasons amid declining growth rates.

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 8, 2013

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

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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.

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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