

DEAR BARON INTERNATIONAL GROWTH FUND SHAREHOLDER:

PERFORMANCE

The Baron International Growth Fund (the "Fund") appreciated 1.67%, while our principal benchmark index, the MSCI ACWI ex USA IMI Growth Index, returned 4.70% for the first quarter of 2013. During the quarter, the global equity markets remained firm, driven by ongoing financial stabilization in Europe, economic stability in China, and continued extraordinary monetary support in the developed world. The U.S. economy now stands out as a pillar of strength given the rebound in housing activity and prices, resilient consumer spending, and the deferral of fiscal adjustments. While we remain encouraged by the fundamental outlook and reasonable valuations for the companies in which we are invested, we do note that certain divergences suggest to us a potential pause in the strong equity performance of the past six months. First, emerging market equities and commodity prices have recently lagged the performance of the U.S. equity market. Second, European credit spreads and peripheral sovereign bond yields have begun to reflect risk moderation, exacerbated by the recent bank restructuring in Cyprus. Last, Chinese authorities have introduced tightening measures

Table I.
Performance (Retail Shares)[†]
Annualized for periods ended March 31, 2013

	Baron International Growth Fund ^{1,2}	MSCI ACWI ex USA IMI Growth Index ¹	MSCI ACWI ex USA Index ¹
Three Months ³	1.67%	4.70%	3.13%
One Year	3.33%	9.20%	8.32%
Three Years	5.96%	5.67%	4.39%
Since Inception (December 31, 2008)	14.84%	13.34%	12.26%

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 1.73%, but the net annual expense ratio was 1.50% (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 (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 MSCI ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI ACWI ex USA IMI Growth Index Net USD measures the equity market performance of large, mid- and small-cap growth securities across developed and emerging markets, excluding the United States. The MSCI ACWI ex USA Index Net USD measures the equity market performance of large- and mid-cap securities across developed and emerging markets, excluding the United States. The indexes and Baron International Growth Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

² The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

³ Not annualized.



MICHAEL KASS
PORTFOLIO MANAGER

Retail Shares: BIGFX
Institutional Shares: BINIX

designed to curb real estate speculation, political corruption, and unofficial, non-bank lending. While such events may spark increased market volatility in coming months, we do not believe they threaten the moderate global economic expansion underway. Further, we suggest that a more risk conscious environment would likely favor our investment approach, which is focused on higher quality, capital-efficient growth companies driven by strong and entrepreneurial management teams.

While we were quite disappointed with our first quarter relative performance, we remain confident in the long-term outlook for our strategy and the companies in which we are invested. We note that while by design we maintain broad diversification by country and sector, overall we have also maintained a developing world bias, given superior growth and value creation potential. During the first quarter, developing world equities noticeably underperformed as a group – with most major emerging market indexes down in U.S. dollar terms. This was a significant contributing factor to our first quarter performance. In particular, our India investments were the largest detractor by country to our performance. While the positions representing our India media theme largely consolidated strong fourth quarter gains, one position, **Financial Technologies Ltd.**, suffered a more meaningful correction in response to the surprise imposition of a new commodity trading tax. We, nonetheless, remain enthusiastic over the long-term appeal of FT India. Other meaningful relative performance drivers were largely company specific, as **Agrinos AS** and **Velti plc** posted disappointing fourth quarter updates. **Eurofins Scientific SE** and **Kakaku.com, Inc.** were key positive contributors, exhibiting strong fundamental trends. Our relative performance for the quarter was also helped by our limited exposure to the Materials sector.



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Table II.

Top contributors to performance for the quarter ended March 31, 2013

	Percent Impact
Eurofins Scientific SE	0.97%
Kakaku.com, Inc.	0.70
Ryanair Holdings plc	0.52
Softbank Corp.	0.47
NQ Mobile, Inc.	0.46

Shares of **Eurofins Scientific SE** outperformed in the first quarter. Eurofins provides analytical testing services to clients in the food, pharmaceutical, and environmental industries. In early March, the company reported solid fourth quarter results, capping a strong 2012 in which the company grew revenue above management's mid-term objective. The stock also rose because the company is providing food testing services in Europe related to the horse meat scandal. Management is optimistic that the company will double in size by 2017. We believe the company's growth prospects remain strong, driven by increased regulation related to food safety and the environment as well as the outsourcing of non-core activities by pharmaceutical companies. (Neal Kaufman)

Kakaku.com, Inc. shares rose strongly in the first quarter. An operator of several websites in Japan, Kakaku is slated to enjoy robust growth in its flagship website, Kakaku.com, driven by solid consumer growth in Japan this year. Further, Tabelog.com, which the company has been incubating, is expected to become a meaningful revenue contributor this year, as management begins to monetize the site in earnest in 2013. The outlook for Japanese consumer spending is benefiting from a shift towards inflation targeting in Japan. (Kyuhey August)

Shares of **Ryanair Holdings plc** increased 21.9% during the first quarter, after reporting a strong fourth quarter. Ryanair is Europe's ultra low-cost airline, flying 80 million passengers per year with 15% market share. Legacy European carriers, Ryanair's competition, have been withdrawing from short-haul routes because they cannot fly profitably. Ryanair has proven that a low-cost, low-fare model works for European passengers and airports alike, and we expect Ryanair to fly over 100 million passengers in a 5-10 year timeframe, corresponding to 20% market share. (Aaron Wasserman)

Softbank Corp. is a leading provider of mobile communications and broadband Internet access in Japan, and also owns significant stakes in Internet related businesses throughout the world. Softbank shares were strong during the first quarter rising 25.3%, as it remained the fastest growing Japanese mobile player, and investors gained comfort with the proposed acquisition of Sprint Nextel. We believe the ability to continue to gain domestic share without ARPU, average revenue per user, attrition lends visibility to forward earnings potential. Further supporting the shares was speculation over a future IPO of the leading Chinese e-commerce player, Taobao, which is 33% owned by Softbank. (Michael Kass)

NQ Mobile, Inc. was up 49.2% in the first quarter. NQ Mobile is the #1 mobile security provider in China and has a growing international presence, with over 50% of its revenues now from outside of China. Performance in the first quarter was driven by a large deal with America Movil, the 4th largest telecom provider in the world, with over 250 million subscribers in Latin America. NQ Mobile also reported strong fourth quarter results, with year-over-year revenue growth of 134%. We continue to hold NQ Mobile because we believe mobile security is vastly underpenetrated and will rise as smartphone proliferation grows. (Catherine Chen)

Table III.

Top detractors from performance for the quarter ended March 31, 2013

	Percent Impact
Financial Technologies Ltd.	-0.79%
Velti plc	-0.71
Agrinos AS	-0.61
FANUC Corp.	-0.38
Japan Steel Works Ltd.	-0.32

Shares of **Financial Technologies Ltd.** declined 36.4% in the first quarter. The stock was adversely affected by the imposition of a commodity transaction tax by the government. As a creator and operator of financial exchanges and other related services, the company is a beneficiary of the growth in multi-asset exchanges and trading activity in emerging markets. We retain conviction in the company due to its recurring revenue model and ability to generate high returns on capital. (Anuj Aggarwal)

Velti plc is a leading global mobile marketing company. Shares of Velti were down substantially in the first quarter due to the company missing fourth quarter expectations and reducing its 2013 outlook. Since the fourth quarter report, the company has brought on the experienced and well known former CFO of Sybase. The company is focused on improving free cash flow generation in 2013, but it will take two more quarters before the company passes its low point on cash generation. While we believe the company's asset value is above the current share price, we sold our position during the quarter due to a lack of cash flow visibility. (Ashim Mehra)

Agrinos AS declined 46.3% in the first quarter. Agrinos is a green technology company with a unique microbial product that significantly enhances agricultural yields. Performance in the first quarter was weak because a delay in receivables collection led to a change in accounting policy. We continue to hold Agrinos as we believe it has disruptive technology and exciting long-term growth prospects. (Catherine Chen)

Shares of **FANUC Corp.** declined 17.8% in the first quarter. The global machine tool industry softened in recent months, which explains the underperformance during the first quarter. Further, as FANUC is a large automation supplier to outsourced manufacturers of Apple, Inc. products, the company benefitted from last year's volume surprises, though has been hurt by curtailed expectations thus far in 2013. As the world's leading manufacturer of factory automation equipment and robots, the company is a beneficiary of the secular growth in industrial automation. We retain conviction in the company due to its dominant market position and ability to generate high returns on capital. (Anuj Aggarwal)

The Japan Steel Works Ltd. (JSW) produces machinery, forged steel, and plastics. The company has a highly distinctive position in nuclear energy, with one of the world's largest production capacities to make forged steel components for nuclear reactors. The company underperformed this quarter, as enthusiasm after Prime Minister Abe's election for a speedy nuclear revival in Japan abated due to the time needed and uncertainty surrounding putting the new nuclear safety guidelines in place. We continue to hold JSW because we believe that nuclear energy will be part of meeting the world's future electricity needs and that JSW will benefit due to its unique technology. (Rebecca Ellin)

PORTFOLIO STRUCTURE

Table IV.

Top 10 holdings as of March 31, 2013 - Developed Countries

	Percent of Net Assets
Eurofins Scientific SE	4.5%
Ryanair Holdings plc	3.0
Softbank Corp.	2.3
Mitsui Fudosan Co. Ltd.	2.2
Compagnie Financiere Richemont SA	2.0
Intertek Group plc	2.0
FANUC Corp.	2.0
Grifols SA	2.0
Syngenta AG	1.9
Symrise AG	1.8

Table V.

Top five holdings as of March 31, 2013 - Developing Countries

	Percent of Net Assets
SodaStream International Ltd.	2.0%
Kroton Educacional SA	2.0
NQ Mobile, Inc.	1.7
Sina Corporation	1.7
TOTVS SA	1.5

Exposure by Country: At the end of the first quarter of 2013, the Fund was invested approximately 72.7% in developed countries and 24.3% in developing countries, with the remaining 3.0% in cash. The Fund seeks to maintain broad diversification by country at all times. A detailed review of the Fund's holdings by country is available at the back of this Baron Funds Quarterly Report.

Table VI.

Percentage of securities in developed markets as of March 31, 2013

	Percent of Net Assets
Japan	15.2%
United Kingdom	8.6
Germany	8.2
France	6.1
Switzerland	5.5
Israel	5.4
United States	4.0
Norway	3.5
Israel	3.4
Australia	3.1
Hong Kong	2.3
Canada	2.2
Spain	2.0
Austria	1.3
Italy	1.3
Sweden	1.0

Table VII.

Percentage of securities in developing markets as of March 31, 2013

	Percent of Net Assets
China	6.3%
Brazil	5.8
India	5.2
Indonesia	2.7
Korea	2.2
Russia	1.3
Mexico	0.8

The Fund may invest in companies of any market capitalization, though we generally focus on mid- and smaller-cap companies, as we believe such companies often have more attractive growth potential. As of March 31, 2013 the Fund's median market cap was \$3.1 billion, and, excluding cash, we were invested approximately 39.1% in large/giant cap companies, 34.3% in mid-cap companies and 19.8% in small-cap companies, as defined by Morningstar.

RECENT ACTIVITY

During the first quarter, we established a new investment in **Brambles Ltd.**, an Australia-based global supplier of logistics services, principally pallet and reusable plastic container pooling for multinational consumer goods companies. Brambles effectively serves as an outsourced provider of critical supply chain functions, leveraging economies of scale and a dominant market share position to deliver capital and cost savings to its global customer base. Brambles' scale and network effect affords a significant barrier to entry and an attractive return on capital. We believe the company has several years of expansion potential ahead. We also initiated a position in **ENDO Lighting Corp.**, a Japanese manufacturer of commercial LED lighting, which we believe is well-positioned given the country's extraordinary demand for energy efficiency subsequent to the Fukushima earthquake. We maintain interest in the promise of LED lighting globally and continue to research additional potential investments. During the quarter, we also added to existing positions where we gained fundamental conviction, such as **Radware Ltd.**, **NQ Mobile, Inc.**, and **Opera Software ASA**. We exited positions where deteriorating fundamentals or poor execution caused us to lose investment conviction, including **Kirkland Lake Gold, Inc.**, **Velti plc** and **Shandong Weigao Group Medical Polymer Co. Ltd.** Further, given our outlook discussed below, we reduced our overall exposure to emerging markets.

OUTLOOK

Last quarter, we remarked on the positive effects of various important international developments: progress towards fiscal and banking union in Europe and the related stabilization of the EU financial system; clear signs of a bottoming in China's economic cycle; and the likely impact of a greater level of developed world quantitative easing, particularly in Japan subsequent to an abrupt shift in political leadership. These trends, which support both international and emerging market equities, remained largely in place through much of the first quarter of 2013; however, late in the quarter, as signs of policy backtracking emerged, various international and emerging markets began to underperform.

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In particular, Chinese authorities introduced several measures designed to curb speculation in real estate and slow lending in the lightly regulated “wealth management” markets. While not unexpected, we believe the markets are now looking for confirmation that prescribed economic growth can withstand measures intended to slow speculative activity and temper Party favoritism and excess. We currently believe such confirmation is likely. In addition, India’s finance minister disappointed market expectations for business-friendly fundamental reforms in unveiling a populist-leaning fiscal budget, leading to a complete reversal of the stock market’s fourth quarter gains. We fully expect India’s complex political fabric to drive this sort of “two steps forward, one step back” progress, and we remain enthusiastic towards our varied investments in unique and entrepreneurial Indian companies.

In Europe, the bailout of Cyprus bears particular mention given the precedent set regarding uninsured bank depositors. EU officials have now raised uncertainty over the treatment of senior creditors and depositors in any future bank and/or sovereign bailout - a clear departure from prior policy and a possible threat to EU fiscal and banking union. While Cyprus is indeed a special case and the financial impact itself is not significant, we must now monitor the potential resumption of deposit and capital flight from the weaker peripheral banks and sovereigns. In any case, we believe this event will prove to favor Northern European companies, particularly those with significant multinational revenues, which are well represented in the Fund.

Japan had the standout international equity market during the first quarter, as a new head of the Bank of Japan was confirmed and expectations for aggressive quantitative easing and a weaker yen continued to build. It appears domestic consumption is already picking up, as psychology shifts to embrace the likelihood of rising prices and wages. We are invested in several Japanese companies positioned to benefit from this phenomenon

and continue our research in this area. While this policy shift has benefitted Japanese equities even after associated yen depreciation, Japan’s gain does represent a loss of export competitiveness for many neighboring Asian companies, particularly in a relatively slow growth global economy. We believe recent events in Japan are at least partially responsible for the relative weakness in certain emerging market equities.

Last, we note the unusual divergence between global equity and commodity prices. This trend, if sustained, signals a potential peak in the global commodity cycle, which would have lasting implications for future value creation. In effect, such a peak would favor commodity consuming countries (and industries), such as the U.S., China, India and Japan, while creating headwinds for notable exporters such as Australia, Brazil/Latin America and Russia. We believe the shift in China from an investment-led to a consumption-led economy, as well as the firming U.S. dollar, support such a phenomenon, and further believe the Fund would be well-positioned over the long-term for such a scenario.

Thank you for investing in the Baron International Growth Fund.

Sincerely,

Michael Kass
Portfolio Manager
April 9, 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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