

Baron Emerging Markets Fund

DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:

PERFORMANCE

The Baron Emerging Market Fund appreciated 15.34%, while our principal benchmark index, the MSCI EM IMI Growth Index, returned 13.98% for the first quarter of 2012. During the first quarter, the global equity market staged an impressive rally, as several risks which had been troubling the market began to stabilize. Particularly, the funding crisis and forced selling of sovereign debt by European banks subsided as a result of over 1.0 trillion euro of low-cost, LTRO financing from the ECB. Further, during the quarter, a restructuring of Greek sovereign debt was finally completed. Market performance was led by the more cyclical and higher beta shares such as Information Technology, Consumer Discretionary, Financials and selected Industrials, as investors discounted improving growth potential and risk conditions. The first quarter rally was consistent with our suggestion at year end that, if the financial stress related to Europe improved and/or if China signaled a greater commitment to ease credit conditions, we could expect a noticeably more favorable investment environment in 2012. While we are encouraged by recent gains, we anticipate some ongoing volatility attributable to shifting fiscal, monetary and macro expectations. Therefore, we continue to believe our focus on high quality, capital efficient growth companies driven by strong and entrepreneurial management remains the right approach.

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

	Baron Emerging Markets Fund ^{1,2}	MSCI EM IMI Growth Index ¹	MSCI EM IMI Index ¹
Three Months ³	15.34%	13.98%	14.37%
One Year	-3.24%	-9.52%	-9.26%
Since Inception (December 31, 2010)	-3.62%	-7.15%	-6.39%

Performance listed in the above table is net of annual operating expenses. As of the last fiscal year ended December 31, 2011, the annual operating expense ratio for the Retail Shares was 4.49% 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, 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 The MSCI EM (Emerging Markets) IMI indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes reflected in U.S. dollars. The MSCI EM (Emerging Markets) IMI Growth Index Net USD and the MSCI EM (Emerging Markets) IMI Index Net USD are designed to measure equity market performance of large-, mid- and small cap securities in the emerging markets. The MSCI EM (Emerging Markets) IMI Growth Index Net USD screens for growth-style securities. The indexes and Baron Emerging Markets 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

For the quarter, we were pleased with our performance, which exceeded our benchmark. While our overweight position in Information Technology and underweight exposure in Materials both contributed modestly to our relative returns, as usual, the principal driver of our relative return was stock selection. Within the Information Technology sector, we had several stocks appreciate over 35% for the quarter, led by **Ubiquiti Networks, Inc.** up 74%, **Qihoo 360 Technology Co. Ltd.** and **AsialInfo-Linkage, Inc.**, each up approximately 63%, and **Yandex N.V.** up nearly 44%. Overall, our theme related to broadband Internet penetration enabling connectivity and transparency was a major driver of our outperformance in the quarter. All of these companies are excellent examples of beneficiaries of the theme. Stock selection was also strong within Consumer Discretionary, largely attributable to our developing world consumer theme. Notable examples here include Brazilian retailer **Cia. Hering SA** up 48%, **Hathway Cable & Datacom Ltd.**, the leading cable MSO in India, up nearly 56%, and **Jubilant FoodWorks Ltd.**, the owner of the franchise rights to brands such as Domino's Pizza and Dunkin Donuts in India, which rose over 60% for the quarter. Modestly offsetting the positive factors noted above, poor stock selection in the Energy sector detracted from relative performance. Here, company specific disappointments at two of our Exploration & Production investments led to quarterly declines. Last, the largest detractor from our relative performance was our cash position during the recent "risk-on" quarter.

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

	Percent Impact
AsialInfo-Linkage, Inc.	1.10%
Africa Oil Corp.	0.82
Cia. Hering SA	0.78
Ubiquiti Networks, Inc.	0.72
Qihoo 360 Technology Co. Ltd.	0.68

AsialInfo-Linkage, Inc. is China's largest telecommunication IT service provider with approximately 70% market share. The company provides a full range of software solutions



including network infrastructure, operations support and billing, and implementation services. The stock price rose 62.6% after CITIC Capital, a Chinese private-equity firm, offered to acquire the company at an undisclosed price. AsiaInfo is now soliciting offers from additional private equity firms. We believe the company is presently undervalued and has the potential to grow significantly in the years ahead. (Michael Kass)

Africa Oil Corp. is a Canadian based independent Exploration & Production company that has recently embarked on an exploration campaign onshore in East Africa. The company has partnered with Tullow Oil, one of the biggest and most successful exploration companies of the last decade. Africa Oil's shares increased 71.5% in the first quarter leading up to and following the results of the first well drilled on Kenya's prospects, which found hydrocarbons. The success of the first well has raised expectations for additional oil discoveries in Kenya in the next several years. (Jamie Stone)

Cia. Hering SA is a leading apparel retailer in Brazil. The company operates a unique, asset-light business model, which has allowed it to produce higher-than-average industry margins and returns. Based on the success of its flagship Hering brand, the company has been incubating a kids clothing concept over the last two years. Its recently announced kids store expansion plan reinvigorated the share price, resulting in a 48.4% gain. We believe that the kids concept has even greater market potential and, hence, believe there is further upside to the shares. (Kyuhey August)

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

	Percent Impact
Exillon Energy plc	-0.48%
Niko Resources Ltd.	-0.21
NII Holdings, Inc.	-0.20
Dah Chong Hong Holdings Ltd.	-0.15
Kingdee International Software Group Co. Ltd.	-0.11

Exillon Energy plc is an independent Oil & Gas company with all of its operations in two large basins in Russia. Exillon's shares were under pressure as operating challenges in Russia have lowered production expectations and raised operating costs. Since Russian companies pay a high tax rate when oil prices are above a certain level, Exillon's stock price did not benefit from sharply higher oil prices. The shares are trading at a wide discount to our expected value, and we still see strong upside potential in the shares. (Jamie Stone)

Niko Resources Ltd. is an international Exploration & Production company with operations in India and a massive inventory of exploration prospects throughout India, Southeast Asia, and Trinidad. Niko shares have been pressured by production declines at the D6 field in India. The drop-off in production is prompting a re-evaluation of the field's geological model that will likely reduce estimated reserves. The D6 news has driven recent share performance, and we chose to exit our position during the quarter. (Jamie Stone)

Shares of **NII Holdings, Inc.** declined when it became apparent that the company's long-awaited 3G network deployments in Mexico and Brazil

would be delayed by three to six months. While new network deployment delays are not uncommon, the company's transition has long been viewed as risky, even though its track record has been good. The delays, while disappointing, don't necessarily undermine NII's long-term plans to dramatically expand its subscriber base, revenues and profits over the next several years. (Rich Rosenstein)

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of March 31, 2012

	Percent of Net Assets
Bank Rakyat Indonesia (Persero) Tbk PT	2.3%
TOTVS SA	2.0
Z1Vianet Group, Inc.	2.0
Universal Robina Corp.	1.9
CFR Pharmaceuticals SA	1.9
AsiaInfo-Linkage, Inc.	1.9
Itaú Unibanco Holding SA	1.9
Cia. Hering SA	1.9
Redecard SA	1.8
Sarana Menara Nusantara Tbk PT	1.8

EXPOSURE BY COUNTRY

Table V.
Percentage of securities by country as of March 31, 2012

	Percent of Net Assets
Brazil	19.0%
India	13.8
China	9.5
Indonesia	9.3
Philippines	5.9
Chile	4.5
United States	3.5
Taiwan	3.4
Korea	3.4
Mexico	3.2
Hong Kong	3.1
Russia	3.0
South Africa	2.8
Thailand	2.5
Norway	1.8
Canada	1.1
United Arab Emirates	1.1

Exposure by Market Cap: The Fund may invest in companies of any market capitalization, though we have generally focused on mid and smaller cap companies, as we believe such companies often have more attractive growth potential. At the end of the first quarter of 2012, the Fund's median market cap was \$2.4 billion, and we were invested approximately 18.0% in large cap companies with market caps over \$10 billion, 28.0% in mid cap companies with market caps between \$2.5 and \$10 billion and 44.9% in small cap companies with market caps under \$2.5 billion.

Baron Emerging Markets Fund

RECENT ACTIVITY

Last quarter, we remarked that the decline in global equities in late 2011 presented several new investment opportunities. During the first quarter, our goal was to upgrade our holdings where possible by adding high-quality and well-managed growth companies with long-term defensible market positions and attractive returns on capital. Notable new investments include **Sarana Menara Nusantara Tbk PT** and **Media Nusantara Citra Tbk PT**, both Indonesian media and communications investments. We believe that Indonesia has several attractive investment merits, particularly related to the emerging middle class and related domestic consumption theme that we have espoused across most developing world countries. Sarana Menara is one of two independent wireless communications tower companies (the other, **Tower Bersama Infrastructure Tbk PT**, was referenced as a purchase during our last quarterly letter). We believe the build out of 3G/4G networks and the explosion of wireless data demand bode well for future growth. Further, as Indonesia is an archipelago with very limited tower locations, and the major wireless carriers are just beginning to outsource tower development and pursue a co-location strategy, we believe barriers to entry, margin potential and return on capital are poised to rise for independent operators such as Sarana Menara and Tower Bersama.

Media Nusantara Citra is the country's leading traditional television broadcaster. With advertising spent to GDP in Indonesia at very low levels, we believe rising consumer incomes will drive advertising growth for years to come. Further, we suspect Media Nusantara's significant investment in local programming content will pay off with strong ratings and future cash flow margin expansion. We note that Saban Capital Group, a savvy U.S.-based international media investor, recently made a significant strategic investment in Nusantara, which we believe supports our thesis.

We also initiated a position in **21Vianet Group Inc.**, a leading carrier-neutral internet infrastructure company in China. We believe rising broadband Internet penetration and the spread of Internet video, e-commerce, social networking and cloud services in China is driving explosive demand for data center and related internet infrastructure services, and we see 21Vianet as one of the best-positioned companies to benefit. Vianet's key customers are the "who's who" of China's Internet industry, and we believe the company's pricing power and value proposition are on the rise. Other new investments of note include **Yandex N.V.**, the "Google of Russia," with a dominant share in search and related Internet applications and services, and **Cetip SA** and **Valid Soluções SA**, both dominant specialty financial services companies in Brazil, with attractive margins and financial returns. During the quarter, we also took advantage of the market's surge to exit small, underperforming positions such as **Goldgroup Mining, Inc.**, **XL Axiata Tbk PT**, **Niko Resources Ltd.** and **Compartamos S.A.B. de C.V.**

OUTLOOK

Last quarter we suggested that if the financial stress related to Europe improved and/or if China signaled a greater commitment to ease credit conditions, we could expect a noticeably more favorable investment

environment in 2012. Indeed, with the European Central Bank's successful implementation of two rounds of LTRO financing, the funding crisis in the European banking system has subsided. Thus, as financial stress clearly normalized through the first quarter, the likelihood of a near-term global economic contraction has been all but eliminated, and equities have returned to more normalized multiples. Further encouraging the equity markets was the complex and painstaking restructuring of Greek sovereign debt. While there are lingering uncertainties that will likely lead to market volatility at some point in the future, for now, the European situation appears stable.

China remains the other key variable to monitor as it often acts as a leading indicator of global economic and market conditions. We believe the recent improvement in inflation indicators provides cover for authorities to signal incremental easing measures, and we would suggest that the year to date rally in emerging markets can be partially attributed to this expectation. However, we are somewhat troubled by clear signs of weaker economic activity subsequent to the Chinese New Year, juxtaposed with what appears an increasingly volatile political showdown in the months leading up to the transfer of power to a new regime. This political uncertainty reduces the likelihood of a clear and strong policy response to deteriorating domestic economic conditions in China. We have largely avoided investing in companies directly tied to the investment cycle in China; namely local real estate and banks, or global industrials and commodities.

The Fund is shaped by our principal investment themes relating to 1) exploding middle class and rising domestic consumption in the developing world, 2) increasing credit availability and capital markets activity, 3) increasing demand for manufacturing and business productivity, 4) increasing need for agricultural yield and energy efficiency, and 5) rising broadband Internet penetration driving connectivity and transparency. As such, our country and sector/industry exposures are similarly shaped. Our largest country concentrations are Brazil, India, China, Indonesia and the Philippines. This is where we find the prevalence of visionary entrepreneurs leading what we believe to be quality businesses with strong growth prospects and an appreciation for capital efficiency and corporate governance. We are pleased with our progress since launching the Fund just over a year ago and are excited by the prospects we envision for the companies in which we have invested.

Thank you for investing in the Baron Emerging Markets Fund.

Sincerely,



Michael Kass
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.



The Fund's investments in developing countries are subject to all of the risks of foreign investing, generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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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