

Bringing the Baron Investment Discipline to International Companies

Baron International Growth Fund & Baron Emerging Markets Fund



Michael Kass,
Portfolio Manager

Baron Funds is pleased with its expansion into international investing. We use the same approach to analyzing foreign-based companies as we do with U.S.-based companies. We also apply the same investment philosophy of looking for strong management, sustainable competitive advantages, solid capital structure, and opportunities for long-term growth.

Baron International Growth Fund and Baron Emerging Markets Fund, both managed by Michael Kass, have both been outperforming their respective benchmarks on an annualized basis since inception through 9/30/12.

Annualized performance (retail shares) since inception vs. benchmark as of 9/30/12

Baron International Growth Fund:	16.19%
(inception: 12/31/08)	
MSCI ACWI ex USA IMI Growth Index:	12.38%
Baron Emerging Markets Fund:	-0.23%
(inception: 12/31/10)	
MSCI EM IMI Growth Index:	-5.33%

One-year performance (retail shares) vs. benchmark as of 9/30/12

Baron International Growth Fund:	20.12%
MSCI ACWI ex USA IMI Growth Index:	15.28%
Baron Emerging Markets Fund:	20.14%
MSCI EM IMI Growth Index:	18.22%

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 expenses for the Funds and the Funds' 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. Investing in the stock market is risky. Current and future portfolio holdings are subject to risk.

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FUNDS AT A GLANCE	BARON INTERNATIONAL GROWTH FUND	BARON EMERGING MARKETS FUND
Portfolio manager: investment veteran with 25 years of experience	✓	✓
Investment decisions based on fundamental research and themes	✓	✓
Seeks to invest in businesses that we believe have significant long-term growth potential	✓	✓
Purchases stocks at prices we believe to be attractive	✓	✓
Invests primarily in non-U.S. growth companies	✓	✓
Country exposure	Up to 30% exposure to developing countries	Up to 20% exposure to developed and frontier countries
Invests in companies of all sizes, with focus on small and mid-sized companies	✓	✓
Typically holds 60-70 stocks	✓	✓
\$2,000 minimum investment (lower with Automatic Invest Plan)	✓	✓
Purchase directly from Baron at www.BaronFunds.com	✓	✓
Also available with no transaction fee from Fidelity, Schwab and other fund supermarkets	✓	✓

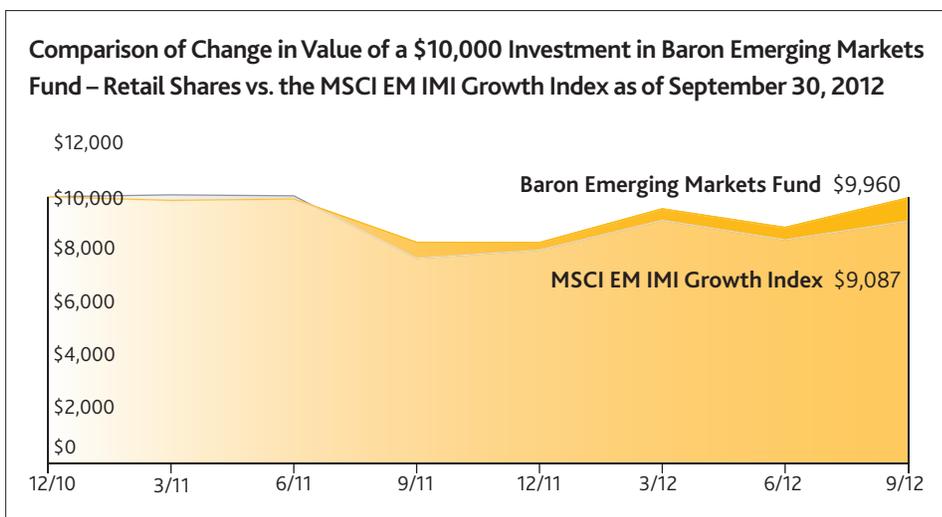
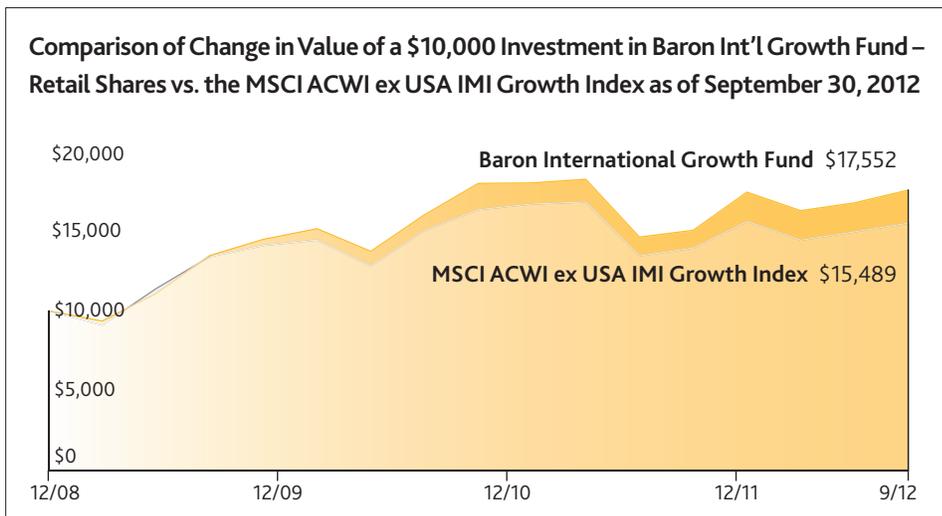
A differentiated approach in both Funds: bottom-up and thematic

Our fundamental, bottom-up research is focused in areas that we believe have the highest probability of the greatest value creation. There is close collaboration with all Baron analysts and portfolio managers to leverage specific industry expertise. The thematic and bottom-up components work to confirm each other in the investment process: a disciplined and repeatable approach that has been effective in navigating the international investing landscape. Our goal has been building portfolios of growth companies that are run by visionary entrepreneurs who are managing their business in a capital-efficient manner, with qualities pointing to first-rate corporate governance.

Bottom-up fundamental research

Both Funds employ the disciplined, bottom-up Baron investment approach, and the following three attributes are emphasized in finding international growth candidates at Baron:

1. Entrepreneurial management: founders with significant ownership stakes, leaders with strategic vision and financial sophistication, and management that thinks and acts like an owner.
2. Capital efficiency: high return on invested capital (ROIC), asset-light business models, and private, non-government controlled companies.



3. Shareholder-friendly corporate governance: minimal conflicts of interest, alignment of interests between management and minority equity shareholders, and strong boards of directors with independent members.

We emphasize the above three qualities and our experience has shown that the value-creation potential for investments exhibiting these attributes can be significant. Other criteria for a potential investment include our assessment of the growth opportunity and the sustainability of its competitive advantages.

While there are a multitude of fast-growing international companies, often with reasonable competitive advantages, our objective is to be highly disciplined in identifying companies with all of the above attributes that are also exposed to an attrac-

tive thematic opportunity. This is what differentiates the Baron approach from other international managers.

Thematic

While both funds maintain prudent diversification of individual positions, they are also focused around defined, long-term investment themes where we perceive a high probability of significant value creation.

We look for inflection points or trends, which drive the investable themes. Michael Kass defines an inflection point as a catalyst that can change the return on capital prospects for a company or an entire industry. Themes can be driven by: regulatory, political, or technological changes; vertical integration in an industry; or changes in the financial or macroeconomic environment. They may be industry, country, region-spe-

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cific or global in scope.

Illustration of the bottom-up and thematic approach at work: digitization of India's cable & media sector

The digitization theme is represented in both Funds, comprising about 2% of Baron International Growth Fund and about 7% of Baron Emerging Markets Fund. It is driven by a regulatory change by India's government that in our view signals a significant increase in return on invested capital (ROIC) for various constituents in India's cable & media sector, three of which are held in both Funds: Hathway Cable & Datacom Ltd., DEN Networks Ltd. and Zee Entertainment Enterprises Ltd. Baron Emerging Markets Fund also holds a fourth beneficiary of this theme, Dish TV India Ltd. These companies exhibit the bottom-up attributes that underscore the Baron approach to international investing.

Various constituents in India's cable & media sector are, in our view, likely to experience transformational growth through the advent of digitization. The Telecom Regulatory Authority of India (TRAI) has mandated the conversion of analog cable to digital services via the deployment of set-top-boxes (STBs) in households across India. The four largest cities in India will be the first to undergo the conversion, which is scheduled to be completed within the current year. This creates significant opportunity for most industry constituents, particularly those companies owned by our Funds, as it eliminates gross under-reporting of subscriber revenue that has long been a structural disadvantage for India's cable & media sector.

The major cable providers depend on local cable operators for last mile infrastruc-

ture into the homes of the end customer and for collecting revenues. It is estimated that the local cable operators currently report only about 15% of total subscribers, causing considerable revenue leakage to the major cable providers (i.e., about 85% of revenue goes unreported). However, with mandatory digitization, set-top-boxes will be deployed in all households, making it virtually impossible for local cable operators to underreport customers. This is a comprehensive, transformational regulatory change for the cable industry and we expect subscription revenue for our holdings could increase up to 400-500% over the next three to four years. Though it is early in the digital transition, our investments in this theme have already been strong performers.

Funding of set-top-boxes will require significant investment by the major cable providers. The companies held under this theme all have strong balance sheets and are well positioned to execute on their digitization strategy, in our view. They have a dominant market share in their respective segments, and are led by visionary, entrepreneurial management teams who understand return on invested capital. In addition, the Government of India recently announced its intention to increase foreign direct investment limits in the cable/satellite sector, which is further evidence of India's commitment to transform into a digital world.

Growth opportunities abroad

Baron International Growth Fund and Baron Emerging Markets Fund provide access to significant growth opportunities abroad. Flexible mandates for both Funds allow Michael to seek alpha from a variety of sources. Baron International Growth Fund

may purchase securities with up to 30% direct exposure to developing countries while Baron Emerging Markets Fund may purchase securities with up to 20% exposure to developed and frontier countries.

The key driver of global growth is international markets, particularly the developing markets. The once export-driven developing economies are becoming more consumer-driven. On a macro basis, it is the developing world consumer that is currently

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driving global GDP. We believe investing in non-U.S. companies presents opportunities for greater growth. With the current consensus outlook for continued devaluation of the U.S. dollar, international investing also allows U.S. dollar-based investors exposure to non-dollar holdings.

As of 8/31/12, percent ownership in companies referenced for Baron International Growth Fund: Hathway Cable & Datacom Ltd. (1.0%), DEN Networks Ltd. (0.6%), Zee Entertainment Enterprises Ltd. (0.7%); Baron Emerging Markets Fund: Hathway Cable & Datacom Ltd. (1.4%), DEN Networks Ltd. (1.6%), Zee Entertainment Enterprises Ltd. (2.2%), Dish TV India Ltd. (1.4%).

Link to
Webcast

21st Annual Baron Investment Conference

We invite you to view the webcast (excluding entertainment) of the 21st Annual Baron Investment Conference that was held on October 12th in New York City at the Metropolitan Opera House at Lincoln Center. Please visit www.BaronFunds.com for the link to the webcast replay.

Retail Shares Performance as of September 30, 2012¹

		YTD	Average Annualized Returns			Since Inception		Inception Date	Expense Ratio	Interest Expense
			1-Year	5-Years	10-Years	Annualized	Cumulative			
Small Cap	Baron Growth Fund	14.08%	28.12%	2.65%	9.74%	13.07%	785.36%	12/31/94	1.32% ²	
	Baron Small Cap Fund	14.02%	28.04%	2.31%	9.91%	8.96%	262.47%	9/30/97	1.31% ²	
Smid Cap	Baron Focused Growth Fund⁴	9.58%	24.74%	1.06%	14.35%	11.07%	455.71%	5/31/96	1.48%/1.35% ³	
Mid Cap	Baron Asset Fund	13.85%	24.65%	0.69%	9.14%	10.76%	1226.61%	6/12/87	1.33% ²	
	Baron Opportunity Fund	15.12%	21.67%	3.71%	15.70%	3.63%	56.66%	2/29/00	1.41% ²	
Large Cap	Baron 5th Ave. Growth Fund	20.35%	31.74%	0.37%	N/A	4.41%	43.80%	4/30/04	1.59%/1.30% ²	
All Cap	Baron Partners Fund⁴	13.41%	29.28%	-2.06%	12.00%	11.94%	927.97%	1/31/92	1.35% ³	0.36% ³
Int'l	Baron Emerging Markets Fund	20.29%	20.14%	N/A	N/A	-0.23%	-0.40%	12/31/10	4.49%/1.50% ³	
	Baron Global Advantage Fund	N/A	N/A	N/A	N/A	N/A	-1.50%	4/30/12	4.50%/1.50% ³	
	Baron Int'l Growth Fund	16.74%	20.12%	N/A	N/A	16.19%	75.52%	12/31/08	1.73%/1.50% ³	
Specialty	Baron Energy and Rsrcs Fund	-6.30%	N/A	N/A	N/A	N/A	-6.30%	12/30/11	4.25%/1.35% ³	
	Baron Real Estate Fund	33.57%	56.39%	N/A	N/A	21.33%	70.17%	12/31/09	2.33%/1.35% ³	

¹For Institutional Shares, visit www.BaronFunds.com/performance.

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Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The Baron Funds' prospectuses contain this and other information about the Funds. Please read it carefully before investing. You can obtain one from its distributor, Baron Capital, Inc., by calling 800-99-BARON or visiting www.BaronFunds.com/prospectus.

Baron Growth and **Small Cap Funds** invest primarily in small-cap securities, **Baron Asset Fund** in mid-cap securities, **Baron Focused Growth** and **International Growth Funds** in both. Small and mid-cap securities may be thinly traded and more difficult to sell during market downturns. **Baron Opportunity Fund** emphasizes mid-sized companies that we believe will benefit from innovations and advances in technology, which present the risk of rapid change and product obsolescence and their successes may be difficult to predict for the long term. **Baron Partners**, **Focused Growth**, **Real Estate** and **Energy and Resources Funds** are non-diversified and **Partners Fund** uses leverage, which increase volatility of the Funds' returns and expose the Funds to greater loss in any given period. In addition, the value of **Baron Real Estate Fund** is affected by the strength of the real estate markets. **Baron Fifth Avenue Growth Fund** invests primarily in large-cap securities, which like all equities are subject to price fluctuations in the stock market. **Baron International Growth**, **Emerging Markets** and **Global Advantage Funds** invest primarily in non-U.S. securities, which involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets. These risks are heightened for the **Baron Emerging Markets Fund**. **Baron Energy and Resources Fund** invests in energy companies, which can be affected by fluctuations in energy prices and supply and demand of energy fuels, and in resources industries, which can be affected by international political and economic developments, the success of exploration projects, and meteorological events.

²As of September 30, 2011 for Baron Asset, Baron Growth, Baron Small Cap, Baron Opportunity and Baron Fifth Avenue Growth Funds. For Baron Fifth Avenue Growth Fund, the total expense ratio was 1.59%, but the net annual expense ratio is 1.30% (net of the Adviser's fee waivers).

³As of December 31, 2011 for Baron Partners, Baron Focused Growth, Baron International Growth, Baron Real Estate and Baron Emerging Markets Funds. Total expense ratio shown for Baron Partners Fund was comprised of operating expenses of 1.35% and interest expense of 0.36%. For Baron Focused Growth Fund, the total expense ratio was 1.48%, but the net annual expense ratio was 1.35% (net of the Adviser's fee waivers). For Baron International Growth Fund, the total expense ratio was 1.73%, but the net annual expense ratio was 1.50% (net of the Adviser's fee waivers). For Baron Real Estate Fund, the total expense ratio was 2.33% but the net annual expense ratio was 1.35% (net of the Adviser's fee waivers). For Baron Emerging Markets Fund, the total expense ratio was 4.49%, but the net annual expense ratio was 1.50% (net of the Adviser's fee waivers). For Baron Energy and Resources Fund, the estimated total expense ratio is 4.25%, but the net annual expense ratio is 1.35% (net of the Adviser's fee waivers). For Baron Global Advantage Fund, the estimated annual operating expense is 4.50%, but the net annual expense ratio is 1.50% (net of the Adviser's fee waivers).

⁴Reflects the actual fees and expenses that were charged when the Funds were partnerships. The predecessor partnerships charged a 20% performance fee (Baron Partners Fund) or a 15% performance fee (Baron Focused Growth Fund) after reaching a certain performance benchmark. If the annual returns for the Funds did not reflect the performance fee for the years the predecessor partnerships charged a performance fee, returns would be higher. The Funds' shareholders are not charged a performance fee. The predecessor partnerships' performance is only for periods before the Funds' registration statements were effective (4/30/03 for BPF and 6/30/08 for BFGF). During those periods, the predecessor partnerships were not registered under the Investment Company Act of 1940 and were not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if they were, might have adversely affected their performance.

T SHIRTS AND HOW TO CONTACT US: Free 2012 Baron Conference T-shirts are available, men's sizes S - 2XL and women's sizes S - L. Get one and send us a picture of you or a family member wearing our T-shirt (PG only, please) and we'll display it at our next Conference. Or tell us about an unusual Baron T-shirt sighting. For your free T-shirt, go to www.BaronFunds.com or call us at 800-99-BARON. ■