

DEAR BARON PARTNERS FUND SHAREHOLDER:

PERFORMANCE

Baron Partners Fund's performance lagged benchmarks in quarter... outperforms year-to-date and over the long-term.

Baron Partners Fund increased 1.79% during the second quarter of 2013. The Russell Midcap Growth Index, the benchmark against which we

Table I.
Performance (Retail Shares)
Annualized for periods ended June 30, 2013

	Baron Partners Fund ^{1,2,3}	Russell Midcap Growth Index ²	S&P 500 Index ²
Three Months ⁴	1.79%	2.87%	2.91%
Six Months ⁴	20.78%	14.70%	13.82%
One Year	32.07%	22.88%	20.60%
Three Years	20.24%	19.53%	18.45%
Five Years	7.07%	7.61%	7.01%
Ten Years	12.40%	9.94%	7.30%
Since Conversion (April 30, 2003)	13.31%	10.92%	7.85%
Twenty Years	11.53%	9.20%	8.66%
December 31, 1999 — June 30, 2013. "The Bad Times."	7.23%	3.38%	2.58%
January 31, 1992 — December 31, 1999. "The Good Times."	22.45%	19.26%	20.21%
Since Inception (January 31, 1992) "All the Times."	12.62%	8.99%	8.77%

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of December 31, 2012 was 1.74% (comprised of operating expenses of 1.40% and interest expense of 0.34%). 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 Fund's transfer agency expenses may be reduced by expenses 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.

* The Morningstar US OE Mid-Cap Growth Category Average is not weighted and represents the straight average of annualized returns of each of the funds in the Mid-Cap Growth category. As of 6/30/2013, the category consisted of 727 funds for the three-month period.

¹ Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 20% performance fee 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 predecessor partnership's performance is only for periods before the Fund's registration statement was effective, which was April 30, 2003. 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 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 Russell Midcap Growth Index, the S&P 500 Index and the Fund are with dividends, which positively impact the performance results.

³ 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.

⁴ Not annualized.



RONALD BARON
CEO AND PORTFOLIO MANAGER
Retail Shares: BPTRX
Institutional Shares: BPTIX

compare the performance of this Fund, gained 2.87%. The better known S&P 500 Index that measures the performance of large cap companies gained 2.91% in the quarter. The Morningstar US OE Mid-Cap Growth Category Average* gained 2.11% for the three months ended June 2013. For the first six months of 2013, Baron Partners Fund increased in value 20.78% per share, more than 600 basis points better than its benchmark index.

After a strong March quarter in which Baron Partners Fund significantly outperformed its benchmark, the Fund underperformed in the June quarter. Year-to-date, the Fund is up 20.78%, which compares favorably to the 14.70% return generated by the Fund's benchmark. In the June quarter, six of the Fund's investments, representing 29% of its total investments, achieved double digit returns, 14 of the Fund's investments generated negative returns. The Fund's investments that had negative returns during the period include, among others, **The Carlyle Group, Fastenal Co., Hyatt Hotels Corp., Verisk Analytics, Inc. and Arch Capital Group Ltd.** Those businesses are among our favorite long-term investments. We do not believe their stocks' underperformance in the period reflects problems in their businesses. We try to explain the reasons why these stocks detracted from performance in the section "Top Detractors" below. We often regard gains and losses in the short term as "random." We continue to believe all of these businesses have the potential to double in size during the next five years. As a result, we believe their stocks will achieve above average returns and contribute positively to the Fund's performance in coming quarters, although we cannot guarantee it.

REVIEW AND OUTLOOK

After an exceptionally strong start to the year, U.S. stock markets experienced greater volatility and achieved more modest gains in the second quarter. We believe this was a result of investor concerns over rising interest rates and fears that the Federal Reserve's highly accommodative policies would be reversed abruptly and slow U.S. economic growth. The second quarter of 2013 was a tale



Baron Partners Fund

of two halves. Equity markets rallied strongly from March 31 through May 21. During that time, the Russell Midcap Growth Index advanced 6.99% while Baron Partners Fund advanced 4.52%. On May 22, the minutes from the Federal Reserve's latest meeting were released and altered sentiment on Wall Street. Traders then began to think the Fed's bond buying program, known as Quantitative Easing or QE, would slow as early as June. From May 21 through the end of the quarter, the Russell Midcap Growth Index declined 3.85% while Baron Partners Fund declined 2.61%.

In our view, interest rates are likely to remain at historically low levels for the foreseeable future and any slowing of the Fed's bond buying program would take place only after the economy exhibited strong evidence of improvement. We think economic strength would be good for businesses and stocks.

We believe the outlook for businesses is improving. This includes gains in housing prices, starts and existing sales; increased industrial production; strong auto sales; rising consumer confidence; and lower unemployment claims. This trend of 'better data' makes an increase in still historically low interest rates less of a headwind for stocks. Lower energy prices, a result of massive new domestic shale energy resource discoveries, also have a decidedly positive effect on businesses (lower input costs) and consumers (lower price at the pump).

Our outlook for stocks, therefore, remains favorable. This is further because stocks remain attractively valued, trading at their median valuations for the past century of approximately 15x earnings; businesses are growing; and stocks provide protection against inflation and have historically provided better returns than other asset classes.

Table II.
Top contributors to performance for the quarter ended June 30, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Illumina, Inc.	2013	\$6.8	\$9.3	37.80%	1.22%
The Charles Schwab Corp.	1992	1.0	27.2	20.38	1.05
CoStar Group, Inc.	2005	0.7	3.7	17.92	0.94
FactSet Research Systems, Inc.	2007	2.5	4.5	10.49	0.60
CarMax, Inc.	2011	6.1	10.3	10.65	0.55

Shares of **Illumina, Inc.** outperformed in the second quarter. Illumina is the leading provider of next generation DNA sequencing instruments and reagents. The cost to sequence the human genome has fallen from \$1 billion in 1990 to \$3,000 today! We think it will soon be less than \$1,000. New diagnostic tests utilizing this sequencing data are being developed. New drugs to target specific mutations are also being developed. Sequencing information is being used to treat cancer patients. In April, Illumina reported strong first quarter results. Revenues increased 21%, driven by strength across its entire product portfolio. Earnings also exceeded expectations. We think Illumina's strong first quarter results were driven in part by market share gains, which may have accelerated after the

company's main competitor announced it was evaluating strategic alternatives, which investors believe could adversely affect that competitor's business. (Neal Kaufman)

The Charles Schwab Corp., an investment brokerage firm, increased 20.4% in price in the second quarter. The firm continued its strong operational momentum that began in the first quarter. It is benefiting from strong investment flows and strong equities performance year to date, as well as from an anticipated rise in short-term interest rates. Schwab has waived its management fee on money funds and customers' cash assets held at the firm until short-term interest rates increase. When they do, Schwab's earnings will increase significantly. As importantly, an increasing percentage of customers with custodial assets at Schwab are receiving "advice" from Schwab. This means that Schwab will ultimately earn more revenues from assets customers hold at the firm, also boosting the company's long-term prospects. (Michael Baron)

Shares of **CoStar Group, Inc.**, the leading provider of commercial real estate data in the U.S. and U.K., rose 17.9% in the second quarter, driven by outstanding financial results, accelerating business momentum, and growing synergies from its LoopNet acquisition. CoStar continued to generate record quarterly bookings, which we estimate grew by over 60% in the most recently reported period. CoStar is having good results increasing fees it charges to its LoopNet customers by offering them enhanced services. (Neal Rosenberg)

Table III.
Top detractors from performance for the quarter ended June 30, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Fastenal Co.	2006	\$6.8	\$13.6	-10.35%	-0.93%
Hyatt Hotels Corp.	2009	4.2	6.5	-6.64	-0.71
The Carlyle Group	2012	0.7	1.2	-14.61	-0.68
Verisk Analytics, Inc.	2009	4.0	10.1	-3.13	-0.33
Arch Capital Group Ltd.	2002	0.6	6.8	-2.20	-0.25

Shares of the leading industrial distributor, **Fastenal Co.**, detracted from the Fund's second quarter performance, as sales growth decelerated slightly given volatile order trends from manufacturing and commercial construction accounts. We remain confident that initiatives such as vending, international expansion and, most importantly for the near term, an effort to expand its sales force, will drive accelerated market share gains and higher margins as the economic recovery gains steam. These new strategies should generate growth as customers increasingly rely on Fastenal to save costs, cut working capital, and drive productivity. (Matt Weiss)

Hyatt Hotels Corp., a global hospitality company, fell 6.6% in the second quarter due to concerns over a slowdown in the company's group business. The slowdown in group bookings was primarily due to a decline in short-term group bookings; longer-term group bookings were stronger. We think the market is overly concerned about Hyatt's short-term business. We think

the stock will benefit from a stronger economy and increasing room rates following its significant renovations and recent strong occupancy gains. We think Hyatt could increase its cash flow 50% in the next three to five years. Unit growth of managed hotels in China and India offer good growth opportunities. Importantly, despite having the strongest balance sheet in its industry, Hyatt's current share price only represents about 65% of the replacement value of its owned hotels, and it is being accorded the lowest valuation of publicly held hotel businesses. (David Baron)

The Carlyle Group, an alternative asset manager, fell 14.5% in the second quarter. The company reported weaker core earnings as it continued to expand its investing and asset gathering infrastructure. As a result, investors believe its employee compensation expense over the short term is unacceptably high. Further, the company indicated that many investment realizations would not occur until the second half of 2013. This combination sent the stock lower in the second quarter. (Michael Baron)

RECENT PORTFOLIO ADDITIONS

Table IV.
Top net purchases for the quarter ended June 30, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)
Edwards Lifesciences Corp.	2013	\$7.5	\$7.6	\$67.1
Concho Resources, Inc.	2013	8.7	8.8	62.3
IDEXX Laboratories, Inc.	2013	4.7	4.9	45.8
Illumina, Inc.	2013	6.8	9.3	39.9
C.H. Robinson Worldwide, Inc.	2003	3.2	9.0	24.4

Edwards Lifesciences Corp. is a leading manufacturer of heart valves used in surgical and transcatheter heart valve replacement. After its stock declined in response to quarterly results that were below Street expectations, we perceived an opportunity to purchase the stock at a price that we believe does not reflect the company's long-term growth opportunity. Edwards is currently the market leader in transcatheter aortic valve replacement, a new procedure in which a valve is inserted through a catheter and implanted within the diseased aortic valve. The procedure is significantly less invasive than surgical aortic valve replacement, which requires open heart surgery. We think Edwards has a large market opportunity in transcatheter aortic valve replacement. The company is also working on transcatheter mitral valve technology, which, if successful, could expand the size of the company's market opportunity further. (Neal Kaufman)

Concho Resources, Inc. is an independent exploration and production company that is focused on the development of oil and gas in the Permian Basin in West Texas and New Mexico. Concho is a company in which we have been invested for some time and has one of the management teams we admire most in the oil and gas industry. We believe that Concho's shares are selling for a substantial discount to its net asset value and also do not reflect the company's significant long-term growth potential. We repurchased our investment in that business following an approximate 20% decline in the share price caused by a combination of weaker oil prices and poor first quarter results that were mostly a function of

transitory factors that did not impact our view on long-term value. We had almost tripled our money over the prior four years when we owned Concho previously. (Jamie Stone)

The Fund opportunistically purchased **IDEXX Laboratories, Inc.** when its stock declined on a softer than expected earnings report. IDEXX, a long-time holding in other Baron Funds, is the global leader in veterinary diagnostics. The veterinary market is vast and growing, driven by powerful secular trends including favorable pet owner demographics, the ongoing "humanization" of pets, and growing intensity of diagnostic utilization. IDEXX offers veterinarians best in class proprietary diagnostic instruments and tests, which it develops by spending five times more on R&D than all of its competitors combined. We believe that recent innovations in diagnostic products, data management, and go-to-market strategy have positioned IDEXX to increase share gains and significantly accelerate revenue growth. The high incremental margins on IDEXX's tests will help to drive greater margin expansion, leading to faster earnings growth. We expect management to aggressively use its free cash flow to repurchase stock and shrink its share count. (Neal Rosenberg)

INVESTMENT STRATEGY

A common theme for Baron Partners Fund's investments is one of businesses investing for growth, often at the expense of short-term profits. This is in order to become much larger, more profitable businesses in the future. Virtually all of the businesses in which we have invested are making such capital commitments. **Verisk Analytics, Inc.**'s startup investments in healthcare and real estate data services; **CarMax Inc.**'s startup new store expenses coupled with efforts to grow sales in existing stores; and **Hyatt Hotels Corp.**'s hotel renovations and improved guest services as well as its efforts to expand in Asia are especially noteworthy in this regard. As a long-term investor in these businesses who holds stocks for an average of about five years, we expect to benefit from these expenditures. In contrast, most mutual funds are more trading oriented and turn over their portfolios on average every seven months. Those investors, in general, will not care about or benefit from such long-term, strategic investments by businesses. Therefore, they generally accord little or no value to such investments, allowing us to invest in those businesses at prices we feel are especially attractive.

Baron Partners Fund has significant interests in growing "C" corporations like **Penn National Gaming, Inc., Vail Resorts, Inc., Hyatt and ITC Holdings Corp.**, whose shares are undervalued when compared to similar businesses that are structured as REITs or MLPs. The Fund's investments in alternative investment money manager, The Carlyle Group, and financial intermediary, **The Charles Schwab Corp.**, are benefiting from strong performance of equities, which has resulted in increased investor interest in that asset class.

Our proprietary research regarding businesses' long-term growth opportunities, competitive advantages, management teams and risks determines how much we allocate to individual securities. Our goal is to invest in businesses that we think can double in size within five years. We invest in different industries that are affected by different factors to attempt to achieve a portfolio of investments with risks that are not correlated. This is part of our effort to reduce risks of managing a focused portfolio. Baron Partners Fund currently has significantly larger investments in Financials,

Baron Partners Fund

Utilities, Industrials and Consumer Discretionary businesses than the Russell Midcap Growth Index. The Fund's investments in Information Technology and Health Care are weighted less than the Index. The Fund does not have investments in Materials, Telecommunication Services or Consumer Staples. During the quarter, the Fund's investments in Information Technology, Utilities, Health Care and Energy outperformed the Index, while the Fund's investments in Financials, Industrials and Consumer Discretionary underperformed the Index. The Fund's lack of exposure to Consumer Staples, Pharmaceuticals and Biotechnology, which performed unusually well in the quarter, hurt the Fund's relative performance in the period. Baron Partners Fund's portfolio is obviously not attempting to mirror any index.

PORTFOLIO STRUCTURE

The strategy we use to accomplish our performance objectives is to invest for the long term in a non-diversified portfolio of competitively advantaged, well-managed, growing businesses at what we think are attractive prices. The Fund's average portfolio turnover for the past three years was 18.80%. This means the Fund had an average holding period for its investment during that time period of roughly five years. The average mid-cap growth fund holds its investments for seven months.

The Fund's non-diversified portfolio is currently invested in 24 businesses, principally mid-cap companies. The median market capitalization of our portfolio investments is \$6.6 billion.

We also strive to create a portfolio with lower volatility than our benchmark. Many regard volatility as "risk." We think the Fund's portfolio investments will be approximately 90% as volatile as the market. This is in part because the underlying businesses in which the Fund has invested have less volatile earnings than the index. It is also because we attempt to invest in as many businesses as possible for a focused portfolio with fundamentals that are not correlated. We are not attempting to match any index with our allocations to GICS sectors.

We think the businesses in which the Fund has invested have the potential to double in size within four to five years. We think their unusual competitive advantages mean it would take many years or cost a lot of money and therefore not be economically feasible for new entrants to compete against those businesses. These barriers enable our companies to generate strong returns on capital and provide them with the ability to grow consistently over the long term.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The Baron Family of Funds is described in prospectuses which contain this and other information about the Funds. You should carefully read the prospectus before investing. You can obtain a copy of the prospectus by contacting the Funds' distributor, Baron Capital, Inc., at 767 Fifth Avenue, New York, New York, 10153, or by calling 1-800-99BARON, or by going to our website at www.BaronFunds.com.

The Adviser believes that there is more potential for capital appreciation using non-diversification and leverage, but there also is more risk. Specific risks associated with non-diversification and leverage include increased volatility of the Fund's returns and exposure of the Fund to greater loss in any given period. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and made difficult to sell during market downturns. Leverage is the degree to which an investor or business is utilizing borrowed money. 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 is 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 securities of Baron Partners Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

Table V.
Top 10 holdings as of June 30, 2013

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)	Percent of Total Investments
ITC Holdings Corp.	2005	\$0.8	\$4.8	\$134.7	9.2%
Arch Capital Group Ltd.	2002	0.6	6.8	127.2	8.7
Hyatt Hotels Corp.	2009	4.2	6.5	100.9	6.9
Verisk Analytics, Inc.	2009	4.0	10.1	95.5	6.6
Fastenal Co.	2006	6.8	13.6	82.5	5.7
FactSet Research Systems, Inc.	2007	2.5	4.5	69.8	4.8
Edwards Lifesciences Corp.	2013	7.5	7.6	65.5	4.5
Dick's Sporting Goods, Inc.	2005	1.6	6.2	65.1	4.5
The Charles Schwab Corp.	1992	1.0	27.2	64.8	4.4
CoStar Group, Inc.	2005	0.7	3.7	64.5	4.4

Thank you for investing in Baron Partners Fund.

Thank you for joining us as fellow shareholders in Baron Partners Fund. We believe the growth prospects for the businesses in which Baron Partners Fund has invested are favorable and improving. Since, in our opinion, the share prices of our businesses do not reflect their prospects, we believe their stock prospects remain favorable. Of course, there can be no guarantee this will be the case.

We are continuing to work hard to justify your confidence and trust in our stewardship of your family's hard-earned savings. We also remain dedicated to continuing to provide you with the information we would like to have about your investments in Baron Partners Fund if our roles were reversed. This is so you will be able to make an informed decision about whether this Fund remains an appropriate investment for you and your family.

Respectfully,

Ronald Baron
CEO and Portfolio Manager
July 23, 2013

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

