

DEAR BARON DISCOVERY FUND SHAREHOLDER:

PERFORMANCE

Baron Discovery Fund (the "Fund") returned 10.16% (Institutional Shares) in the fourth quarter, which was 1.23% behind the Russell 2000 Growth Index (the "Index"). For the full year of 2019, the Fund returned 26.85%, which was 1.63% behind the Index. While we are disappointed in our slight near-term underperformance, we invest for the long term, aiming to earn a return that will let us double our initial investment in a three-to-five-year period. If we can, on average, meet that focused goal, we should handily outperform the Index, which typically provides mid- to high single-digit returns. In fact, our 15.00% annualized returns since inception are spot on to our goal, and they have outpaced the 9.72% annualized returns for the Index by 5.28% per year net of fees. As we always note, markets are fairly efficient in the short term, but we believe that they are meaningfully inefficient in the long term, particularly in the small capitalization space. When combined with our constant due diligence and risk management techniques, we strongly believe that we offer a sensible way for long-term investors to access the vibrancy and innovation inherent in the small capitalization growth market. While we can't guarantee that such returns will continue, we can pledge to be consistent in our process of investing and risk management that has worked so successfully since inception of the Fund.

Table I.
Performance[†]
Annualized for periods ended December 31, 2019

	Baron Discovery Fund Retail Shares ^{1,2}	Baron Discovery Fund Institutional Shares ^{1,2}	Russell 2000 Growth Index ¹	S&P 500 Index ¹
Three Months ³	10.04%	10.16%	11.39%	9.07%
One Year	26.46%	26.85%	28.48%	31.49%
Three Years	19.84%	20.14%	12.49%	15.27%
Five Years	12.24%	12.53%	9.34%	11.70%
Since Inception (September 30, 2013) (Annualized)	14.72%	15.00%	9.72%	13.32%
Since Inception (September 30, 2013) (Cumulative) ³	135.89%	139.58%	78.52%	118.44%

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of September 30, 2019 was 1.36%, but the net annual expense ratio was 1.35% (net of the Adviser's fee waivers) and Institutional Shares was 1.10%. *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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term 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.*

[†] The Fund's 5-year 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.

¹ The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. The Russell 2000[®] Growth Index measures the performance of small-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. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

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.



RANDY GWIRTZMAN AND LAIRD BIEGER

PORTFOLIO MANAGERS

Retail Shares: BDIFFX
Institutional Shares: BDFIX
R6 Shares: BDFUX

We continue to be excited by the catalysts that should drive long-term investment gains for the companies in the Fund's portfolio. We are also optimistic that our investments have huge growth opportunities given their large and growing markets. The Fund's tagline is "you have never heard of our companies, but you will." This is what occurs when our investments reach their market penetration potential. In the Outlook section at the end of this letter, we provide specifics so that our investors can understand our objective way of thinking about the key business drivers at our companies.

Table II.
Top contributors to performance for the quarter ended December 31, 2019

	Percent Impact
Progyny, Inc.	0.97%
Esperion Therapeutics, Inc.	0.79
Sientra, Inc.	0.73
SiteOne Landscape Supply, Inc.	0.65
Ichor Holdings, Ltd.	0.57

Baron Discovery Fund

Progyny, Inc. is a new investment for the Fund in the quarter. We purchased it at the time of the company's successful IPO in October. Progyny is a leading benefits management company specializing in fertility and family benefits. It provides comprehensive fertility solutions via a network of participating physicians that are among the best in the country. These doctors like contracting with Progyny, because the company helps them analyze data to improve patient outcomes, it is easier to deal with than typical insurers (with almost no paperwork or reimbursement risk), and it provides significant patient flows to the doctors. In exchange, the doctors provide their services to Progyny at a discount. Employees like the service as it provides a specific benefit (a fertility "cycle," such as a course of in-vitro fertilization treatment) as opposed to a certain amount of money applied to the benefit (which can be easily exhausted just from tests and other steps that insurers require patients to take). Employers like it (and pay Progyny for the benefit) because workers are more productive as they generally have lower risk pregnancies and are appreciative of the family-oriented concern given by their company. The company's target market are the 90 million people in the U.S. employed by 8,000 self-insured companies. It had only 1.4 million members as of the end of the third quarter, so Progyny has tremendous room to grow. And, the company is already cash flow positive.

Esperion Therapeutics, Inc. is developing oral therapies to lower LDL cholesterol. It has two versions of its drug called Bempedoic Acid (BA) awaiting FDA approval, one of which is BA only and the other combines BA with a generic version of Zetia (another LDL lowering drug) to increase the effectiveness of the drug (the combination form). The key target market for Esperion's drugs are people with high LDL cholesterol who have bad side effects when using the most widely used drugs in this area, such as Lipitor (statin intolerance), or patients already on statins that need to lower their cholesterol more. There are 9.6 million patients in the U.S. with LDL issues who are not on a statin therapy and 8.7 million patients on a statin who need more help. With expected reimbursement per patient at about \$3,500 per year, if Esperion's therapy was administered to these 18.3 million patients, the market is theoretically worth \$64 billion. And the drug really works. For patients not on a statin, the BA-only drug lowers LDL by 28%, and lowers LDL by 44% in the combination form. For those already on a statin, there is 18% incremental LDL lowering for BA alone, and 29% incremental lowering for the combination form. We, and the market, are excited as approvals of both drugs should come in the U.S. this February, and in the EU around mid-year 2020. The company is already in discussions with insurers on reimbursement. And with recent capital markets transactions, including a \$200 million royalty-backed credit facility inked in June, and an EU partnership agreement with Daiichi Sankyo Europe worth up to \$900 million (signed in January 2019), the company should be funded through cash flow break even.

Sientra, Inc. is an aesthetics medical device company. Shares were up in the quarter after the company beat earnings, announced the acquisition of the manufacturing plant that makes its breast implants, and set forth a plan for meaningful cost savings over the next two years. Sientra is also gaining traction for its MiraDry device used by dermatologists and plastic surgeons to treat underarm sweat, hair, and odor. We think that MiraDry could be a major growth vector for Sientra, as there are 15 million sufferers of these issues in the U.S. alone. We continue to believe that the company is substantially undervalued and look forward to accelerating growth in 2020.

SiteOne Landscape Supply, Inc. is the largest distributor of wholesale supplies to the landscape trade in the U.S. The company distributes a wide range of irrigation, fertilizer, and landscape accessories to contractors who design, construct, and maintain residential and commercial outdoor spaces. During the quarter, shares rose following a sales and earnings report that included solid organic growth, operating leverage, cash flow conversion, and a positive outlook for ongoing initiatives to improve productivity and margins. SiteOne also noted a strong pipeline of acquisition targets.

Ichor Holdings, Ltd. is a supplier of critical gas and chemical delivery subsystems to semiconductor equipment manufacturers. Ichor's subsystems are incorporated in etch, deposition, and lithography tools that accomplish critical steps in the semiconductor manufacturing process. Shares of Ichor were up during the quarter as investors regained confidence that the semiconductor down-cycle is nearing its end and after the company communicated that it expected significant revenue acceleration next quarter, which will benefit from both the stabilization in the memory market along with Ichor's continued market share gains. We continue to hold Ichor and believe its leading market position, close customer relationships, and highly regarded leadership team will enable it to gain market share for years to come.

Table III.

Top detractors from performance for the quarter ended December 31, 2019

	Percent Impact
TherapeuticsMD, Inc.	-0.85%
Mercury Systems, Inc.	-0.55
ForeScout Technologies, Inc.	-0.37
Myriad Genetics, Inc.	-0.37
Cerus Corporation	-0.31

TherapeuticsMD, Inc. is a developer of hormone-based drugs for women's health. It has three FDA approved drugs, all of which are already in limited launch. Shares were down in the fourth quarter as the company raised \$65 million in a secondary offering, which we believe will be its final capital raise before it is cash flow positive. With this event behind it, TherapeuticsMD is now poised for hyper-growth in 2020, as it is nearly finished getting payer coverage contracted and can now execute on what we believe are sophisticated marketing plans. We are extremely excited about this investment going into 2020.

Mercury Systems, Inc. is the world's leading Tier 2 defense electronics producer and integrator. Nothing fundamental changed with the company in the fourth quarter, so we believe this was a trading correction after the stock surged at the end of the third quarter. That said, our long-term optimism on the Mercury model, which includes organic and acquired growth, was bolstered after an informative and optimistic investor day in December. Management believes that the company can grow revenues at least by 20% annually for many years to come. We agree and continue to hold Mercury as a core investment in the Fund.

ForeScout Technologies, Inc. is a cybersecurity software company that maps out devices connected to electronic networks. These can be devices connected to traditional IT (information technology) networks (PC's, mobile devices, printers, security cameras, and other smart devices that use internet protocol (IP) addresses to send and receive information). Or they can be connected to OT (operational technology) networks (machine systems such as valves, controls, sensors, and other devices that physically respond to electronic network commands). We believe that ForeScout provides better maps of both environments than its competitors, since its software finds many previously unseen devices. While a hidden device could be innocuous, it could also be used by a malicious actor to exploit a network owner's data or could be used to destroy data or even physical infrastructure. In the context of a nuclear power plant, such breaches could be exceedingly dangerous. While there is a huge market to exploit over the next few years, ForeScout shares were hurt in the fourth quarter when a delay in certain contract closings caused the company to provide below-consensus guidance. We are not overly concerned as we believe these are truly delayed orders, not lost orders. Shares should rebound from levels which currently reflect diminished expectations.

We sold our position in **Myriad Genetics, Inc.** after a large miss in its September earnings period. For years, the company has been beset by a host of disappointing business developments, including issues in getting traction for new diagnostic tests that were all slated to accelerate revenue growth. In the latest reporting period, our conviction in Myriad's base hereditary cancer testing business was shaken by a miss that management didn't see until the very end of the quarter. The hereditary cancer business was always the steady bedrock that provided prodigious free cash flow and provided justification for holding the investment through some disappointing years. The unexpected issues in this part of the business dramatically shifted our long-term thesis, and as a result we sold our investment.

Cerus Corporation, an innovative developer of systems that inactivate viruses and bacteria in donated blood, continued to make progress in the quarter. It is accelerating its penetration into the U.S. platelet treatment market with help from a strong push by the American Red Cross, which represents about 40% of that market. While there was no negative news in the quarter, shares were down most likely due to investor expectations that the company's guidance that would exceed full-year 2019 consensus estimates, but its actual guidance was merely in line with these estimates.

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of December 31, 2019

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Kinsale Capital Group, Inc.	2016	\$18.8	3.1%
Floor & Decor Holdings, Inc.	2019	16.5	2.8
Mercury Systems, Inc.	2015	15.9	2.7
SiteOne Landscape Supply, Inc.	2016	15.9	2.6
Emergent BioSolutions Inc.	2017	15.6	2.6
Veracyte, Inc.	2019	14.5	2.4
RIB Software SE	2018	14.2	2.4
Silk Road Medical, Inc.	2019	14.1	2.4
Endava plc	2018	14.0	2.3
Revance Therapeutics, Inc.	2019	13.4	2.2

The top 10 positions in the Fund accounted for 25.5% of assets, in line with our typical range of 25% to 30%. Cash at quarter end was 5.6%. At the end of the year our sector allocation was 28.3% Health Care (30.5% Index), 26.9% Information Technology (17.3% Index), 17.7% Industrials (18.9% Index), 7.4% Consumer Discretionary (12.0% Index), and 5.1% Real Estate (4.6% Index). We remain, as usual, underweight Materials, Consumer Staples, Financials, Utilities, and Energy.

RECENT ACTIVITY

Table V.
Top net purchases for the quarter ended December 31, 2019

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Tactile Systems Technology, Inc.	2019	\$1.3	\$6.3
S4 Capital plc	2019	1.2	6.0
Ollie's Bargain Outlet Holdings, Inc.	2019	4.2	6.0
BRP Group, Inc.	2019	1.0	5.5
CareDx, Inc.	2018	0.9	5.4

We made a new investment in **Tactile Systems Technology, Inc.** in the quarter. Tactile designs and manufactures medical devices that treat lymphedema, a painful swelling which can occur in one's arms, legs, neck or other areas of the body, when lymphatic fluid does not properly drain. The swelling is painful and unsightly and, if not treated early, can cost tens of thousands of dollars to the health care system. Tactile's devices use custom programming to gently massage affected areas to keep them free of excess fluid. This is a large market, worth potentially \$5 billion, and Tactile has less than 4% penetration into the market (it sold 40,000 devices in the trailing twelve months, whereas it believes it has at least a 1 million patient addressable market, and some data shows up to 5 million to 10 million patients suffering with some form of lymphedema). We believe that Tactile's devices are clinically superior to competitors, which has led to its massive industry share lead. We think Tactile can grow at around a 20% rate for the next few years while expanding its margins each year. We believe that we can double our investment over time if Tactile can achieve these goals.

S4 Capital plc is a global marketing services business with a focus on digital transformation, founded by Sir Martin Sorrell, the founder and prior CEO of WPP Group, the largest ad agency in the world. S4 encompasses two primary businesses. The first is MediaMonks, a global creative production firm with clients that include Audi, Google, Netflix, and Adidas. The second business segment is MightyHive, a media consultancy business that partners with global brands and agencies with a focus on advertising technologies in the areas of media operations, training, data strategy, and analytics. Given the strong tailwinds driving digital transformation across industries and geographies, combined with the business segments where S4 has built its capabilities, we believe S4 has the ability to grow revenues north of 25% annually for the next several years while maintaining high-teens margins.

We initiated a position in **Ollie's Bargain Outlet Holdings, Inc.**, the leading extreme value closeout retailer of general merchandise in the U.S. Ollie's stores sell a wide selection of high-quality brand name merchandise at a 70% discount to specialty stores and a 20% to 50% discount to Walmart, Amazon, and other mass market retailers. The general merchandise closeout retail industry is highly fragmented, and Ollie's is the largest player with 345 stores. Ollie's plans to grow its store base to more than 950. Its stores have excellent unit economics with a payback period of less than two years. Ollie's long-term growth algorithm is low-mid-teens store growth, +1% to 2% same-store sales growth and net income growth of at least 20%. Ollie's is a rare retail name that is largely insulated from e-commerce disruption due to its price advantage, the unique "treasure hunt" shopping experience, and restrictions on online advertising imposed by brands. As many other retailers go bankrupt, Ollie's benefits from higher availability of real estate and closeouts, and lower rents. Ollie's has excellent brand relationships and a strong loyalty program with over 9 million members called "Ollie's Army." As the business grows, Ollie's will continue to get access to bigger and better brands. We invested in the company after earnings meaningfully missed expectations, driven by supply chain execution mistakes and higher-than-expected cannibalization. We view these issues as short-term hiccups and expect the company to return to its long-term growth algorithm in 2020. The market was also concerned about the recent and unexpected passing of the CEO/co-founder, Mark Butler. The new CEO, John Swygert, has been at Ollie's since 2004 and we think that he is highly capable.

Baron Discovery Fund

We purchased a new position in **BRP Group, Inc.** BRP is an independent insurance brokerage firm that distributes commercial and personal lines insurance to over 400,000 clients across the U.S. and internationally. BRP has over 500 employees in over 40 offices across four states. The company was founded in 2011 by Chairman Lowry Baldwin and is headquartered in Tampa, Florida. The insurance brokerage industry has an attractive business model since brokers earn commissions based on premiums without taking underwriting risk. Revenue is largely recurring and predictable due to roughly 90% retention rates. Profit margins are stable at healthy levels, and capital intensity is low, resulting in strong free cash flow generation. BRP is gaining share in an industry growing mid-single digits. The company has a younger and more productive sales force than the industry average. BRP separates sales and service, enabling producers to spend more of their time on selling. The company also has proprietary distribution relationships with mortgage originators, home builders, realtors, developers, community bankers, accounting firms, and law firms to distribute insurance directly at the point of sale. Management plans to be an active consolidator in the highly fragmented insurance brokerage industry. In the U.S., there are approximately 37,000 insurance brokers, and over 600 were sold in both 2017 and 2018. BRP has acquired 27 firms since 2016. BRP's strong reputation, client-focused culture, shared services, and favorable tax attributes make it an acquirer of choice. Management plans to grow BRP into a top 10 broker in 10 years, which implies an approximately 10-fold increase in revenue over this period.

We increased our investment in **CareDx, Inc.**, a leading provider of transplant diagnostics tests. As we noted in our third quarter letter, we had sold some shares at significantly higher levels due to valuation, as well as market uncertainty around the entry of a new competitor into the market in the fourth quarter. At the same time, we noted that we would add exposure at lower share levels, which we did in the fourth quarter. We believe that CareDX can grow revenues at a greater than 20% rate, and that at current prices shares are significantly undervalued, particularly on a long-term basis.

Table VI.
Top net sales for the quarter ended December 31, 2019

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Myriad Genetics, Inc.	2016	\$1.4	\$2.6	\$6.2
RIB Software SE	2018	1.1	1.3	3.8
Cubic Corporation	2018	1.8	2.0	3.8
Americold Realty Trust	2018	2.4	6.7	3.6
New Relic, Inc.	2019	3.3	3.8	3.5

We trimmed some of our **RIB Software SE** investment on valuation after it nearly doubled during the year. We still strongly believe that this construction management software company has significant growth ahead of it, and we still hold a substantial investment in the company. We sold our small position in **New Relic, Inc.**, a provider of software performance management, as we believe our other investment in the space, **Dynatrace Holdings LLC** is a more established player with better competitive prospects.

We trimmed our position in **Cubic Corporation** during the quarter. While we still believe in the long-term growth potential for the transportation and defense businesses, we were surprised by the magnitude of incremental short-term investment needed during this fiscal year.

During the fourth quarter, we trimmed our holdings in **Americold Realty Trust** to right size the position following the stock's strong performance (the stock has more than doubled since its IPO in January 2018!). We remain excited about our investment, as Americold has outsized growth potential relative to most other REITs. We also think the valuation multiple still has room to expand since Americold's current multiple is lower than the multiple at which we believe its assets would be valued in the private market.

OUTLOOK

We couldn't be more excited for 2020. We see significant near-term catalysts that we will describe in detail below. In our opinion, many of these catalysts will embody the realization of years of investment patience. After a volatile 2019, when markets were exceedingly skittish due to geopolitical factors, we expect more of the same in 2020. However, we have a portfolio that by our reckoning is more solid than ever before. While macro factors remain impossible to predict (including trade deals, the results of the 2020 elections, interest rate parity among world economies, and the continued strength of the U.S. economy), we focus more on the micro-economic level, and particularly on the ability of our businesses to grow revenues (and ultimately cash flow). By our standards, we see a lot to like in 2020.

A major positive going into 2020 is that due to a number of capital raises in 2019, we believe that most of our earlier stage companies are now funded through or close to positive free cash flow breakeven. While these offerings hurt last year's performance, they should benefit 2020 results and beyond in a significant way. As markets advanced late in the fourth quarter of 2019, and views on the Health Care sector became more sanguine, three of our Health Care companies used the more receptive market environment to raise money. TherapeuticsMD did a \$71.5 million offering, which will fund its marketing strategy for three FDA approved drugs (all of which just started generating revenue in 2019). **Revance Therapeutics, Inc.** (a developer of a long lasting Botox-like product called DaxibotulinumtoxinA, or Daxi, for aesthetics and therapeutic uses) raised \$110 million, giving it a war chest for marketing Daxi upon an expected late 2020 approval and for doing clinical trials on new therapeutic applications for the drug. **ViewRay Incorporated** (a manufacturer of MRI image guided radiotherapy for cancer treatment) raised \$130 million and added two strategic investors: Medtronic, which will do clinical trials with ViewRay's MRI radiotherapy equipment to see if it can be applied to Medtronic's uses; and Elekta, ViewRay's only other competitor in the space, which validates the quality of the ViewRay technology. The funds give ViewRay resources to market its MRIdian equipment around the world and grow these volumes from under 20 machines per year, to an opportunity that we believe is nearly 400 machines per year.

There were also a number of other secondary offerings during the year. Sientra raised \$100 million in early June, which allowed it to buy its breast implant manufacturing facility, giving it strategic control of its own destiny. This raise also gets the company close to free cash flow breakeven. **Mercury Systems, Inc.** raised \$414 million in late May to pay down existing debt and pursue more accretive acquisitions. **Veracyte, Inc.**, a diagnostic testing company for lung cancer, thyroid cancer, and other diseases, did a \$147 million offering in May that enabled it to acquire the diagnostic assets of another company called NanoString Diagnostics. These assets give Veracyte more tests (including breast cancer and lymphoma), a new testing platform, and presence in the EU that will enable it to launch sales of its base products abroad.

So with that pre-amble out of the way, let's get to the main event—the company catalysts that we believe will drive 2020 performance.

- **Specialty pharmaceuticals** – What was an extremely unloved sector in most of 2019 is now poised to drive significant upside to the Fund. We believe that our three key investments in the space will all materially advance their business plans in 2020. TherapeuticsMD is ready to expand revenues dramatically with nearly all insurers now contracted to pay for their therapies, and with a well-planned distribution strategy that is ready to drive volume growth. Esperion Therapeutics is expected to gain approval of its LDL cholesterol lowering drug in February, and we expect solid growth in its targeted multi-billion dollar market. Revance Therapeutics should gain approval of its longer lasting botox-like injectable drug late in 2020, which opens \$4 billion in aesthetic and therapeutic markets.
- **Medical Devices and Diagnostics** – Veracyte will grow its base cancer tests and expand into the EU using its newly acquired NanoString assets. CareDX will continue to expand its reach into the \$2 billion kidney transplant testing market. **Silk Road Medical, Inc.**'s market penetration of its minimally invasive carotid artery surgery device will grow. We believe this device addresses a \$1 billion market.
- **Health Care Services** – Progyny will add significant numbers of new employees to its fertility benefits platform. **Teladoc Health, Inc.** will continue to increase utilization among its telehealth members while expanding margins to show meaningful cash flow in 2020.
- **Industrials** – Mercury Systems has reloaded its balance sheet with cash and will continue to make accretive acquisitions in the defense electronics space. **TPI Composites, Inc.** (a manufacturer of composite blades for wind turbines) will update its 2020 and 2021 operating plans at its February 2020 investor day. This is a key catalyst, as the company currently has 48 manufacturing lines but only 34 are ramped up, which is hampering cash flow. This should be largely remedied in 2020, and the ultimate goal is to have 60 operational lines. If this occurs, there will be a massive operating leverage benefit and cash flow will increase dramatically. We also believe it's possible that at least one announcement during 2020 on TPI using its composite materials in the transportation market for car or truck parts (it already has a nice parts business in the electric bus market).
- **Software** – Cybersecurity companies will continue to grow commercial and governmental business, particularly in the endpoint focused area we prefer (i.e., behind the firewall). Given that Iran and North Korea have sophisticated cyber-attack operations, our investments could not be more timely. These include: (a) ForeScout Technologies, which finds devices connecting to IT and industrial equipment networks (a particularly likely target of rogue nation-state actors) and characterizes their activity; (b) **Qualys, Inc.**, which assesses endpoints for vulnerabilities due to non-compliant settings or outdated software and monitors suspicious network activity; and (c) **Varonis Systems, Inc.**, which monitors file activity across a firm's network, preventing issues like ransomware attacks that can paralyze a business. **Yext, Inc.**, a developer of software services that enables its customers to unify the information they send to multiple web providers and analyze customers'

usage of that information, had sales force execution issues. We expect those issues to be fixed in the first half of 2020 and, as a result, would expect the stock to rebound during the year.

- **Semi-conductor capital equipment** – We continue to see a rebound in memory and logic markets, as more advanced line widths and complex material and packaging technologies drive the need for high-end production and inspection equipment. Our investments in Ichor Holdings and **Nova Measuring Instruments Ltd.** will benefit from these improving trends.
- **Consumer** – The consumer space felt the impact of investor skittishness in 2019. The stocks underperformed for most of the year as investors waited to get comfort that a recession was not on the horizon. Paradoxically, consumer company earnings generally performed in line with expectations (implying that the underperformance of consumer stocks was more driven by valuation multiples than by fundamentals). We think our consumer stocks trade at attractive valuations today so, when sector sentiment becomes more positive, we think our stocks have significant upside. **Floor & Décor Holdings, Inc.** and Ollie's had significant operational challenges in 2019. As these issues get ironed out in 2020, we expect to see more consistent earnings growth. The same can be said for **Red Rock Resorts, Inc.** Red Rock has had operational challenges with its newly renovated Palms Casino in Las Vegas. We believe that the Palm's financial drag is behind the company and that earnings should show nice growth again as we move through 2020.
- **Real Estate** – Broadly speaking, real estate fundamentals were somewhat mixed in the first half of 2019 but showed improvement in the back half of the year. We expect that improvement, combined with a subdued interest rate environment to be a conducive backdrop for our real estate holdings. In the context of REITs, we believe both **Rexford Industrial Realty, Inc.** and Americold will show outsized profit growth in 2020.
- **Financials** – The largest position in the Fund, **Kinsale Capital Group, Inc.**, benefited from a hardening (rising premium cycle) of the insurance market as many competitors ceased writing new policies due to their realization of subpar returns. We expect this hardening of the market to continue in 2020 and remain excited by Kinsale's earnings growth prospects in 2020. BRP Group will also, to a lesser extent, benefit from this market improvement.

There is obviously a lot going on behind the scenes. And this is only scratching the surface of the portfolio as a whole. We hope that this catalyst exposition gives our investors a good sense of the big milestones coming up for our companies and of how diligently we are working to find and do due diligence on every investment in the portfolio. As always, we want to thank you for investing in the Fund and we wish you and yours a successful 2020!



Randy Gwartzman & Laird Bieger
Portfolio Managers

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and they 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.

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