DEAR BARON DISCOVERY FUND SHAREHOLDER:

RANDY GWIRTZMAN AND LAIRD BIEGER

PORTFOLIO MANAGERS

Retail Shares: BDFFX
Institutional Shares: BDFIX
R6 Shares: BDFUX

PERFORMANCE

During the third quarter, Baron Discovery Fund (the "Fund") was up 18.83% (Institutional Shares). This was 11.67% better than the Russell 2000 Growth Index, the Fund's primary benchmark index (the "Benchmark"). Year-to-date, the Fund is up 32.33%, which is 28.45% better than our Benchmark. As you would expect, we are pleased with these results. A question that we have been getting from investors recently is "what have you done differently this year to achieve such strong results?" The answer is that our investment process has remained consistent for the last seven years. Processes such as how we find and due diligence new investment ideas, how we construct the portfolio and how we overlay risk management onto everything we do have remained consistent since the Fund's inception. We do fine-tune and evolve our investment process on the margin. Yet, it just turns out that in some years more of our companies hit their stride and we hit on more winning investments than in other years. While it is impossible to predict short-term results, the key is that we strive to outperform the market over the long term. We encourage our investors in Baron Discovery Fund to have that same mindset.

Table I.
Performance†
Annualized for periods ended September 30, 2020

	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]	18.71%	18.83%	7.16%	8.93%
Nine Months[3]	32.07%	32.33%	3.88%	5.57%
One Year	45.33%	45.77%	15.71%	15.15%
Three Years	20.12%	20.42%	8.18%	12.28%
Five Years	22.86%	23.18%	11.42%	14.15%
Since Inception (September 30, 2013) (Annualized)	17.63%	17.92%	9.22%	12.68%
Since Inception (September 30, 2013) (Cumulative)[3]	211.53%	217.05%	85.44%	130.61%

Table II.
Top contributors to performance for the quarter ended September 30, 2020

	Percent Impact
Penn National Gaming, Inc.	1.69%
Silk Road Medical, Inc.	1.13
Vital Farms, Inc.	1.07
Emergent BioSolutions Inc.	0.95
Kinsale Capital Group, Inc.	0.90

Shares of regional casino company **Penn National Gaming, Inc.** increased in the quarter on news of strong betting activity after the early September launch of Penn's *Barstool* online sports betting application. Penn reported quarterly revenue and earnings results that beat investor expectations driven by robust margin growth across all of its casino properties. This margin expansion was especially impressive as revenues continue to be challenged by fewer customer visits due to COVID-19. Penn was able to more than

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, 2031, 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 3-month, 3-, and 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.

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offset the lower revenue by limiting non-gaming amenities and using targeted marketing to make sure it had the most profitable consumers in its casinos. The better-than-expected profitability, combined with a recent equity offering, helped Penn significantly improve its balance sheet. We think the stronger balance sheet will allow Penn to be in a better position to invest and aggressively grow its online sports betting operations going forward.

Silk Road Medical, Inc. designs and manufactures medical devices used to clear plaque from the carotid arteries of patients at high risk of stroke. The device is minimally invasive, and we believe that over 80% of the current procedure market, which is about $1 billion ($650 million in currently approved applications), could shift to Silk Road's device over the next few years. This has been the pattern when other forms of minimally invasive arterial surgery have entered the market. Shares performed well in the quarter as surgical procedures have started to return to more normalized volumes following the virtual shutdown of elective procedures during the depth of the COVID-19 pandemic in the second quarter. Interviews that we have conducted with surgeons and other industry experts indicate that procedure volumes may be back to 65% to 80% of normalized pre-COVID levels. This has validated our strategy of continuing to invest in medical technology companies that were hurt during the pandemic, with the expectation that the environment will ultimately turn around for the better. We believe that companies like Silk Road that have unique technologies and large markets to exploit will accelerate their growth over the next few years as the world begins to return to normal.

Vital Farms, Inc., a producer of butter and pasture-raised eggs, outperformed during the quarter following its initial public offering. Investor demand for this IPO was strong given its unique business model and growth opportunity. The company beat its second quarter guidance and raised its full-year outlook. Consumer demand for Vital Farms' products remains elevated and persistent. We expect Vital Farms to benefit from increased consumer focus on better-for-you goods. We also expect Vital Farms to grow its platform through category expansion and distribution gains in natural and traditional grocery stores.

Emergent BioSolutions Inc. is a pharmaceutical company that provides vaccines and post-exposure treatments for extreme pathogens, including anthrax and smallpox, and emergency opioid overdose recovery drugs. During the quarter, Emergent was awarded numerous contracts from drug companies (Johnson & Johnson, Novavax, Vaxart, and AstraZeneca) and the U.S. Government (BARDA for Operation Warp Speed candidates), to help develop, and then ultimately provide volume production of COVID-19 vaccines. It is likely that Emergent is already producing vaccines in large volumes (it has contracts to produce hundreds of millions and up to a billion doses for various manufacturers), as Operation Warp Speed envisions producing vaccines "at risk" so that they will be ready to immediately ship to patients if and when the FDA approves them. We believe that Emergent will benefit for years from these COVID-19 programs and that it will grow other development and product revenues as well.

Specialty insurer **Kinsale Capital Group, Inc.** outperformed after reporting strong financial results for the second quarter, highlighted by 41% premium growth and 48% earnings per share growth. Insurance market conditions remain favorable as competitors reduce capacity and increase premium rates after years of underpricing risk. Management expects these positive industry trends to persist and does not anticipate any material impact to growth or profitability related to the COVID-19 pandemic. While Kinsale's stock has been a strong performer since our initial purchases back in 2016, we remain bullish on the company's growth opportunities given its relatively small market share (less than 1%) in an attractive segment of the insurance market.

Table III.
Top detractors from performance for the quarter ended September 30, 2020

	Percent Impact
Esperion Therapeutics, Inc.	–0.61%
Inogen, Inc.	–0.30
Applied Therapeutics, Inc.	–0.27
American Assets Trust, Inc.	–0.17
Biohaven Pharmaceutical Holding Company Ltd.	–0.17

Esperion Therapeutics, Inc. is a pharmaceutical company that is launching a new drug in the cardiovascular space, bempodaic acid ("BA"), for patients with elevated LDL cholesterol levels. Upon its approval in February 2020, BA and BA plus ezetimibe (a combination drug), were the first non-statin-based oral LDL lowering drugs launched in a very long time. The drug is effective – BA has been shown to lower LDL cholesterol by as much as 30% to 40% on its own (for the combination version of BA). The company estimates that there are nearly 18 million patients in the U.S. alone who have not achieved their LDL lowering goals, many of whom are not on statins at all (potentially due to adverse reactions). Therefore, the market for this new drug is very large. Additionally, the company has inked deals in the European Union and Japan for large upfront payments, and it expects to sign a deal for rest-of-world rights by the end of 2020. The company launched its drugs right into the teeth of the COVID pandemic, and it was forced to pivot to virtual retailing, which no doubt hurt the initial uptake. As the pandemic recedes, we believe the company will get much better traction, and our diligence indicates that the drug is working as advertised. We maintain conviction in the company given the millions of potential patients suffering from elevated cardiovascular risk markers who cannot take a generic statin, do not want to use an injectable drug, or are otherwise in need of alternative options.

Inogen, Inc. manufactures and sells portable oxygen concentrators ("POCs") to patients with severe breathing disorders such as emphysema. As we discussed in our second quarter letter, Inogen beat estimates for the first quarter (announced in the second quarter), but in the second quarter it withdrew fiscal year 2020 guidance due to uncertainty related to COVID-19. The pandemic is causing lower volumes of patient visits to pulmonologists, and therefore fewer prescriptions for the company's POCs. We continue to believe that Inogen remains well-positioned in the space and that its shares will rally as the pandemic tapers. In the meantime, the company is valued at a reasonable multiple of cash flow, and Inogen has maintained its market leading share for POCs. We also believe that within the next few years we will see an inflection point where the oxygen tank industry no longer holds enough economies of scale to maintain its asset heavy delivery model. When this occurs, POC market share will accelerate and Inogen will gain more than its fair share of revenues and incremental cash flow.

Applied Therapeutics, Inc. is a biotechnology company developing Aldose Reductase inhibitors for both orphan diseases (Galactosemia and SORD/PMM2 neuropathy) and the broader diabetes population to treat complications like retinopathy, neuropathy, nephropathy, and cardiomyopathy. Shares have underperformed since a series of short reports were released in early summer that we do not believe accurately portray the company's fundamental opportunities. This was then compounded by an August 14 FDA partial clinical hold placed on the Galactosemia trial to ensure that all patients got a therapeutic dose of the drug (companies generally start dosing low and the FDA is concerned that sick children will get an ineffective drug dose). While near-term trading dynamics have been challenging, we think Applied Therapeutics has way too much optionality and potential to ignore and we retain conviction in the company.

American Assets Trust, Inc. ("AAT"), a U.S.-based real estate investment trust that owns an irreplaceable portfolio of office, retail, multi-family and hotel properties in the Western U.S., detracted from performance during the third quarter. Underperformance was driven by additional shutdowns and travel restrictions in Hawaii (which represents approximately 13% of the company's cash flow). This led to lower rent collections from AAT's Hawaiian retail tenants. Rent collections remained otherwise stable across property types and regions. We remain excited by AAT's growth pipeline and the underlying real estate value of its assets, and we think the market will recognize this value as we get through the COVID-19 pandemic.

Biohaven Pharmaceutical Holding Company Ltd. is a pharmaceutical company in the early stages of launching a novel oral migraine drug called Nurtec to a market which has not seen a novel drug modality in decades. Nurtec inhibits the Calcitonin Gene-Related Peptide ("CGRP") pathway and is competing in a class of five other drugs inhibiting CGRP (four intravenous versions with roughly $1 billion in annual sales today and one oral version). We think Nurtec has the best profile given its advantages of convenience, efficacy, onset of action, safety, and an eventual dual label for both acute use (approved today) and chronic/prophylactic usage (2021 approval is expected). In the third quarter, we saw underperformance from a combination of mean reversion (Biohaven had strong first half performance), concerns over gross to net drug pricing as payor contracts are negotiated and deals are brokered for access/reimbursement, and perhaps a strong push by oral competitor Ubrelvy (Allergan/AbbVie) with a large advertising campaign featuring Serena Williams at the U.S. Open. Regardless, we think Biohaven's superior molecule will rise to the top and that Nurtec will attain blockbuster status.

Portfolio Structure

Table IV.
Top 10 holdings as of September 30, 2020

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Kinsale Capital Group, Inc.	2016	$33.3	3.5%
Endava plc	2018	28.4	3.0
Floor & Decor Holdings, Inc.	2019	26.2	2.8
Silk Road Medical, Inc.	2019	24.5	2.6
SiteOne Landscape Supply, Inc.	2016	22.7	2.4
UTZ Brands, Inc.	2020	22.4	2.4
Emergent BioSolutions Inc.	2017	21.7	2.3
CareDx, Inc.	2018	21.0	2.2
TPI Composites, Inc.	2016	20.5	2.2
Advanced Energy Industries, Inc.	2019	18.9	2.0

The top 10 holdings represented 25.4% of net assets, which is in line with our historical levels of about 25% to 30%. During the quarter, we trimmed some of our top positions which we discuss later in the "Top Net Sales" section of the letter.

Recent Activity

Table V.
Top net purchases for the quarter ended September 30, 2020

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Purple Innovation, Inc.	2020	$1.3	$13.9
Vital Farms, Inc.	2020	1.6	9.9
Pacific Biosciences of California, Inc.	2020	1.7	8.5
Montrose Environmental Group, Inc.	2020	0.6	8.4
Advanced Energy Industries, Inc.	2019	2.4	6.5

Our largest purchase during the quarter was **Purple Innovation, Inc.** Purple was founded by the Pearce brothers, rocket scientist Tony, and comfort technology engineer Terry. The Pearce brothers first created a product called Floam, the world's lightest-weight cushioning fluid that was used in medical beds, footwear, braces, and other applications. By 2013, they had one-upped Floam by patenting a durable hyper-elastic polymer which eventually would be molded into the mattress cushioning that forms the core of the mattresses that Purple sells today. Purple has been led by what we call a "founder-like CEO" in Joe Megibow, who joined the company from Expedia in 2018. Under Joe's leadership, we believe the company is rapidly expanding its manufacturing capacity in order to meet current demand. We also believe there are untapped growth opportunities, such as selling into international markets and expanding the technology into more customized seat cushions (such as commercial airline seat cushions) that will, over time, allow for additional growth verticals. We believe the company can get to $1.0 billion in revenue over the next three years with a mid-teens profit margin. As such, we think shares will be worth approximately twice what they are today in that time frame.

We also invested in **Vital Farms, Inc.**, a producer of butter and pasture-raised eggs, led by its passionate founder and lifelong entrepreneur Matt O'Hayer, who sold his first business at age 24 and bought a farm. He cares deeply about healthy living and realized that eggs taste much better when chickens are allowed to roam free. He spent years trying to find that same taste, but he could not find it in any grocery stores. Matt then created Vital Farms to scale ethically raised foods from sustainable farms. Starting with his own farm, Matt helped build direct relationships with over 200 family farms through a rigorous vetting processes. Vital Farms trains its farmers from scratch and it is extremely picky about farm conditions/location. This drives a best-in-class taste through a company culture and infrastructure that would be difficult for another company to replicate. As the dominant market leader with over 75% share of pasture-raised eggs, Vital Farms has grown its revenue at over 34% since 2015 and is expected to grow over 25% in the longer term, as it continues to penetrate the vast $3.0 billion shell egg market. There is room for Vital Farms to be much bigger than it is today. The company has only 3% household penetration versus 93% of total households for the egg category. Throughout COVID-19, consumer demand for its products has remained elevated and persistent. We expect Vital Farms to continue benefiting from secular tailwinds of better-for-you and increased consumer demand for sustainability. We also expect Vital Farms to grow its platform through category expansion across egg and dairy products, and distribution gains in natural and traditional grocery stores. We believe the company can grow from $140 million in sales in 2019 to over $500 million in sales approximately five years from now.

In the quarter, we added two very interesting medical tools companies which we believe are big ideas and address new frontiers in DNA and cellular analytics.

Pacific Biosciences of California, Inc. ("PacBio") offers a differentiated long-read DNA sequencing platform for genetic analysis. We initiated a position in August when the company did a $100 million secondary share offering with proceeds to be used to support the company's organic growth. Its proprietary SMRT cells and chemistries enable longer strands to be read at a time, which can capture lengthy genomic variations that may be missed by short-read sequencers such as those made by market leader Illumina. PacBio's "HiFi" reads are based on circular consensus sequencing, which not only enable long reads, but also achieve high-read accuracy (a critical deficiency in early long-read technologies). The total addressable market for long-read analyzers is estimated at $2.5 billion by 2022, and with just single-digit penetration, we believe PacBio has room for significant growth as it commercially executes on its innovative platform. Cost has historically been a barrier to adoption, but the company has been investing in significantly improving throughput and cost per sample. In September 2015, it announced the Sequel System with SMRT Cell 1M, which improved throughput 7-fold relative to the legacy RS system. Then, in April 2019, it introduced the Sequel II system with SMRT Cell 8M to improve the throughput a further 8-fold (15-fold when taking into consideration chemistry and software upgrades released in the fourth quarter of 2019). Furthermore, PacBio recently appointed Christian Henry as its new CEO. Christian was previously Chief Commercial Officer at Illumina, and we believe his expertise can help guide PacBio to a commercial inflection point. We are excited to be able to own a company of this quality that is still a small cap.

Berkeley Lights, Inc. manufactures and distributes a digital biology platform that does analytics at a single-cell resolution. Its proprietary system uses light cages to trap individual cells and move each into its own nano-pen chamber for deep functional characterization. In other words, the system identifies the function and biologic role of each genetic sequence. This allows researchers to determine the effects of therapeutic candidates on tens of thousands of individual cell variants. This can dramatically speed up the time for drug development and massively reduce waste attributable to working on unsuitable drugs and targets. The addressable market opportunity for Berkeley Lights is around $23 billion, with $6 billion for antibody therapeutics, $15 billion for cell therapy, and $2 billion in synthetic biology. We believe Berkeley Lights has a differentiated and innovative platform that is poised to disrupt these large markets.

We also added to our stable of high-quality medical device investments. **Acutus Medical, Inc.** offers an imaging platform to assist in treating arrhythmia (which is a problem with a patient's heart in which it can beat irregularly). A complex form of arrhythmia is atrial fibrillation which is a rapid heart rate caused by chaotic electrical impulses in the atria (the upper chambers of the heart). In some cases when medication or other treatments don't work, a patient will undergo a surgical procedure to treat the arrhythmia. Typically, this is some type of catheter-based ablation, where a thin tube with a special tip is threaded through a patient's blood vessels from the groin to the heart. The tip of the catheter can deliver radio-frequency (heat) or cryogenic (cold) energy to particular areas of the heart muscle in order to restore a more regular rhythm. While many cases are solved by ablating a similar area of tissue, many times the first procedure doesn't get to the right area and the surgery fails. Acutus' AcQMap product is a catheter-delivered basket with 48 ultrasound transducers and 48 electrodes that can rapidly create a 3D map of the electrical energy moving through the heart. It does this without requiring contact with the tissue (which other competitive products need). AcQMap improves mapping speed relative to legacy systems and enables higher resolution to catch these more complex electrical patterns and deliver ablation energy to where it is needed. We believe that Acutus is in the very early stages of launching a unique product into a significant addressable market, with an estimated $5.7 billion opportunity from annual ablation procedure consumables.

We initiated a position in **Montrose Environmental Group, Inc.** during the quarter upon the company's IPO. Montrose is a high-growth environmental solutions company that supports government and commercial organizations. The company's diverse set of services are centered around air, soil, and water. The company specializes in identifying environmental needs, measuring and quantifying compounds to ensure regulatory compliance, and then helping clients fix the problem through engineering and remediation. We are very positive around the attributes of the environmental services industry due to its high recurring revenue, resilience across political and economic cycles, and strong secular backdrop driven by climate change, aging infrastructure, and heightened public awareness around environmental issues. We expect Montrose to continue to grow revenue organically in the high single-digit range, and we believe the growth rate will be even faster than that as Montrose continues to consolidate the highly fragmented environmental services industry and gain market share through cross-selling opportunities. With only $234 million in revenue in 2019, there is substantial room for Montrose to execute on its strategy to become the leading company in the $1.3 trillion global environmental services industry.

Advanced Energy Industries, Inc. manufactures power conversion products that are key components in industrial equipment. Its products transform, refine, and modify grid-delivered electrical power into controllable, usable power for semiconductor, industrial, health care, data center, and telecommunications infrastructure applications. We added to our investment in the quarter as we believe that this is a solid industrial growth company that can accelerate its revenues coming out of the pandemic. We also think that given its success in integrating the large Artesyn acquisition (completed in September 2019), that the company's balance sheet will support meaningful additional transactions in the future.

Table VI.
Top net sales for the quarter ended September 30, 2020

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Teladoc Health, Inc.	2017	$1.3	$16.4	$6.9
Penn National Gaming, Inc.	2020	3.6	11.3	6.5
DraftKings, Inc.	2020	6.1	20.9	5.3
Yext, Inc.	2017	1.1	1.8	3.5
Emergent BioSolutions Inc.	2017	1.9	5.5	2.5

We sold our remaining investment in **Teladoc Health, Inc.**, one of our most successful investments ever. Our view was that the company's valuation felt a bit extended, and its market capitalization at over $19 billion was too large for the Fund to hold. Moreover, we believe that, on a pro-forma basis, the market cap will be around $40 billion after its recent bid to merge with Livongo Health, Inc., a transaction expected to be completed in the fourth quarter. We hold Teladoc's management in the highest regard and admire the incredible company it has built over the last few years.

During the quarter, we right sized some of our holdings, such as **Penn National Gaming, Inc.** and **DraftKings, Inc.**, as both stocks had benefited greatly from investors' recent enthusiasm for companies in the online sports betting/casino sector. Despite the sales, we remain excited about the long-term opportunity in online gambling and the outsized growth potential for both businesses. We also think that in the case of Penn, the company's land-based casinos should see nice growth over the next couple of years as they recover from headwinds created by COVID-19.

We sold a significant portion of our holding in **Yext, Inc.** because the company's fundamentals continue to be challenged as a result of the COVID-19 pandemic and because it surpassed our price target. We trimmed our investment in **Emergent BioSolutions Inc.** after a dramatic share run-up in early August. This was driven by the significant contracts the company won for COVID-19 development and production for major pharmaceutical companies as discussed above. Despite trimming, Emergent remains a top 10 holding in the Fund.

Outlook

While there are certainly areas of uncertainty today including the upcoming U.S. election, COVID-19 vaccine trials, and legislation to provide multi-trillion dollar fiscal stimulus, we remain encouraged by the fundamental prospects of our portfolio investments. We try not to be sidetracked by the macro "noise" and instead focus our energies on managing our existing investments and finding new ones. The good news is that we continue to find high-quality, fast growing small companies with significant stock appreciation potential.

September 30 marked the seven-year anniversary of the Fund. We know that many of our investors have invested with us for the long term, and we sincerely appreciate your support.

Randy Gwirtzman & 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.

The 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 manager only through the end of the period stated in this report. The portfolio managers' 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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