

DEAR BARON DISCOVERY FUND SHAREHOLDER:

PERFORMANCE

In what turned out to be a challenging first quarter, Baron Discovery Fund (the "Fund") decreased 16.30% (Institutional Shares), which was 3.67% below the Russell 2000 Growth Index (the "Benchmark"). The stock market tends to dislike unknowns and 2022 has so far shown itself to have more "unknowns" than a typical year. The year started out with the Federal Reserve expressing the need for tighter monetary policy in an effort to quell the highest inflation the U.S. economy has seen since 1982. While the market was attempting to digest how the Federal Reserve's actions were going to impact earnings (as a result of higher borrowing costs) and valuation multiples, Russian troops invaded Ukraine causing further market volatility. Ironically, COVID was not even in the top two factors influencing the market so far in 2022! Who would have thought that at the start of the year?

Table I.
Performance†

Annualized for periods ended March 31, 2022

	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	(16.39)%	(16.30)%	(12.63)%	(4.60)%
One Year	(18.55)%	(18.31)%	(14.33)%	15.65%
Three Years	15.30%	15.62%	9.88%	18.92%
Five Years	17.45%	17.76%	10.33%	15.99%
Since Inception (September 30, 2013) (Annualized)	15.56%	15.86%	9.48%	14.56%
Since Inception (September 30, 2013) (Cumulative) ³	241.98%	249.45%	115.95%	217.56%

Despite the volatility, we continue to methodically execute our investment process. For investors who are newer to the Fund, here is a short refresher:

Our Investment Process

We have gone through volatile periods in the market before and we certainly will again. We have spoken about how we manage the portfolio during these periods in prior letters but, at the risk of sounding like a broken record, we think it is important that we reiterate our process:

- 1) We are not traders, return chasers, or month-to-month stock jockeys. We are investors who take a long-term view.



- 2) We invest in earlier-stage, competitively advantaged businesses, and we focus our investment analysis not just on a company's prospects but, importantly, on the people who are managing that company.
- 3) We use a bottom-up approach where we "get our hands dirty" in performing deep due diligence before investing in a business.
- 4) We manage risk by dynamically monitoring our portfolio holdings' short-, medium-, and long-term price targets, and adjusting position sizes based on the return profile of individual investments in the portfolio.

We certainly try to evolve and improve our process every day. That being said, the core tenets of our philosophy have been unchanged since the Fund's launch. While we certainly will not outperform in every period, we believe this investment process will help us outperform our Benchmark over the long term.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2021 was 1.31% and 1.05%, respectively. 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, 2032, 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- and 5-year historical performance was impacted by gains from IPOs. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same.

¹ 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. 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. The indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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.



Baron Discovery Fund

First Quarter Review

There were a few factors that caused a challenging first quarter for the Fund. First, some of the strongest performing sectors during the quarter were sectors the Fund generally avoids such as Energy (up 34% in the Benchmark for the first quarter) and Materials (up 1% in the Benchmark for the quarter). We avoid these sectors because businesses in these sectors typically do not meet our secular growth criteria. On the opposite side of the equation, the Health Care and Information Technology sectors, two sectors that in combination typically represent about half of the Fund's net assets, were two of the worst performing sectors in the first quarter (each down 15% in the Benchmark). Given these crosscurrents, it is not surprising that we underperformed in the quarter.

So how are we managing through this period? It is important to understand that when a manager underperforms in any period, it is usually due to one of two scenarios. Scenario A is when the multiples of the market are relatively constant, but the manager(s) invests in stocks that are underperforming because they are not executing on their business plans (i.e., the manager is making too many investment mistakes). Scenario B is when the manager is choosing investments that are performing in line with or better than the market's fundamental expectations, however the valuation multiples of these investments compress more than the overall market (i.e., there is a dislocation between fundamentals and valuation or simply "the baby gets thrown out with the bathwater"). We believe we are experiencing Scenario B and, in our opinion, this is a good thing for the longer-term potential of the portfolio. The reason for this is while our style of investing in high-growth, earlier-stage businesses is not in vogue today, we know that there will be a point in the future where the opposite will be true. In between now and then, as long as we have properly assessed the fundamental outlook of our investments, our companies will continue to grow revenues and/or profits at a rapid rate. This means that when valuation multiples one day recover, these multiples will be applied to a much higher revenue or profit level. Simplistically, every day that goes by, our portfolio is accruing value as a result of the consistently high-growth characteristics of the Fund's investments. We will never know when that accrued value will be reflected appropriately in stock prices, but it is our belief that when it does, we will outperform once again.

Table II.

Top contributors to performance for the quarter ended March 31, 2022

	Percent Impact
Mercury Systems, Inc.	0.46%
Revance Therapeutics, Inc.	0.31
Axonics, Inc.	0.28
Ping Identity Corporation	0.27
Velo3D, Inc.	0.24

Mercury Systems, Inc., a leading Tier 2 defense electronics integration company, rebounded along with the broader defense industry after Russia invaded Ukraine, and the new fiscal 2023 government defense budget was stronger than the market expected. We had estimated higher funding than consensus. Mercury is involved in all key priorities of the current U.S. defense strategy including electronic warfare, radar, missile defense, and carrier defense. We continue to expect acceleration in revenues over the next year.

Revance Therapeutics, Inc. is a pharmaceutical company developing a long-lasting injectable botulinum toxin that it calls Daxibotulinum toxin (Daxi). Daxi has aesthetic and therapeutic applications. Although the FDA delayed certification of its manufacturing plant in the third quarter of 2021, Revance filed its updated application in March 2022 and now expects approval by the third quarter of 2022 (ahead of consensus). The U.S. market for Daxi for aesthetic uses is now \$1.7 billion and there is a \$1 billion market for non-Daxi dermal fillers as well, which Revance can address via an acquired product line. Additionally, Daxi is currently in clinical trials for various therapeutics indications in markets worth over \$2 billion.

Axonics, Inc., a designer and manufacturer of medical devices that treat incontinence, was a positive contributor in the first quarter. In line with its pre-announcement in January 2022, Axonics posted revenues for the fourth quarter of 2021, as well as guidance for 2022 that exceeded consensus. The company's rechargeable, implantable devices for urge incontinence via sacral neuromodulation (SNM), and its new product (Bulkamid) which is an injectable bulking agent for urinary stress incontinence, are exceeding investor expectations for growth and market penetration. In addition, the company recently obtained approval for its new non-rechargeable SNM device which is expected to be competitive with Medtronic's, which has the only other product on the market. The rechargeable category represents about 40% of the market for implantable products, so this is a meaningful launch. While COVID (Omicron variant) is expected to have a small impact in the first quarter (to be reported this spring), this should dissipate through the year, and we are excited to see how the company's newly launched consumer advertising campaign drives demand for its products. The SNM market currently consists of just 45,000 implants annually, which is less than 1% of the 7 million patients who can benefit. Meanwhile, Bulkamid offers a minimally invasive alternative to surgical sling procedures. Surgical slings have not gained much traction and treat only 125,000 women annually vs. the 29 million who can benefit, so we see a significant growth runway for Bulkamid as a safer, easier, and more attractive option. We are excited about the company's future growth prospects.

Ping Identity Corporation offers identity and access management security software. Shares appreciated due to strong fourth quarter financial results and upbeat guidance for 2022. Annual recurring revenue growth accelerated for a third straight quarter driven by strong adoption of Ping's SaaS software products and cross selling new customer identity-focused products to existing customers. Management guided to further acceleration next year driven by healthy demand for the SaaS platform and for newer products such as online fraud detection, identity security orchestration, and Ping's federal government solutions. Longer term, we maintain conviction in Ping due to growing demand for identity-oriented cybersecurity, Ping's continued market share gains from legacy on-premise tools, and management's focus on expanding distribution through new channel partners. Ping also trades at a reasonable valuation relative to other leading cybersecurity peers.

Shares of **Velo3D, Inc.**, which provides hardware and software to enable 3D metal printing, rose during the quarter. Shares rallied after the company reported a solid quarter and continued to deliver on its backlog and revenue growth projections in its early stages as a public company. Velo3D's proprietary metal parts printing technology unlocks a large addressable market previously inaccessible by 3D printing as it enables printing without the need for internal structural supports. This is unique to Velo3D and is a major competitive advantage in our opinion. The technology lowers the cost and processing time to print parts and eliminates the need to "design for additive" which entails changing the optimal structure of a part so it works with a 3D printer. Because of the design flexibility provided by Velo3D's solution, companies can 3D print complex metal parts like rocket engines or heat exchangers, where in the past they would have to use traditional casting or machining (or else have a compromised 3D printed part). Because 3D printing is "monolithic" (it prints an entire complex part at once), it can combine multiple parts into one, saving cost, weight, and design complexity. For this reason, Velo3D's solution is used by some well-known customers in the aerospace, defense, and energy industries. We believe the company's unique technology will drive strong future growth especially as it begins to sell its larger and faster Sapphire XC system in 2022 in volume.

Table III.
Top detractors from performance for the quarter ended March 31, 2022

	Percent Impact
S4 Capital plc	-1.18%
Floor & Decor Holdings, Inc.	-1.00
Kornit Digital Ltd.	-0.98
Trex Company, Inc.	-0.91
SiteOne Landscape Supply, Inc.	-0.77

S4 Capital plc is a global marketing services business founded by Sir Martin Sorrell, the founder and former CEO of WPP, the largest ad agency in the world. S4 encompasses creative production firm MediaMonks and data-driven media consultancy MightyHive. Shares were down on broader concerns about a weakening advertising environment and the fact that the company's auditor, PwC, said it was unable to complete the work needed for S4 to release its 2021 results. It is our view that the delay in the release will not end up being material to the company's long-term growth opportunities.

Floor & Decor Holdings, Inc. is a differentiated, high-growth, multi-surface specialty retailer of hard surface flooring and accessories. Shares of the company underperformed during the quarter due to the combination of the sell-off in stocks with high valuation multiples coupled with concerns around a potential slowdown of housing-related spending after two years of strong growth. We have factored in the headwinds associated with a slowing housing market into our model. Despite this, we still believe Floor & Decor will grow operating profit at a 25% CAGR over the next few years as the company takes market share and continues to grow its store base.

Shares of **Kornit Digital Ltd.** fell during the quarter. Kornit develops, designs, and markets digital printing solutions for the global textile industry including direct-to-garment and roll-to-roll solutions. The stock fell as valuation multiples for growth stocks contracted meaningfully during the quarter, and the stock is expensive based on near-term metrics. Despite the valuation contraction, the company continues to report strong financial results and is more confident than ever in its medium- and longer-term outlook with new products launching this year. We believe Kornit will continue to gain incremental share of the massive global textile market as each new product addresses additional market segments.

Trex Company, Inc. underperformed during the first quarter. Trex is a leading manufacturer of composite decking materials for the U.S. residential market. Underperformance was driven by valuation multiple compression amid concerns that demand for Trex's products would slow following two years of outsized growth. In addition, Trex provided full-year margin guidance that fell slightly below expectations as a result of ongoing investments in new capacity. We remain bullish on Trex's long-term prospects as the brand and share leader in composite decking, an underpenetrated category that we believe will continue to take share versus wood for many years to come.

Shares of **SiteOne Landscape Supply, Inc.**, the largest distributor of wholesale landscape supplies in the U.S., fell during the quarter as outdoor living-related stocks that benefited from stay-at-home demand during the pandemic experienced valuation multiple compression as investors contemplated a slowdown in robust demand from 2021 levels. The company again reported strong quarterly financial results despite the tougher comparisons from the prior year and highlighted a continued robust acquisition pipeline and an improved long-term margin opportunity. We continue to believe the company is in the early innings of consolidating the industry and benefiting from its investments in technology and operational efficiency to drive organic growth and margin expansion over time.

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of March 31, 2022

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Mercury Systems, Inc.	2015	\$59.1	3.8%
Kinsale Capital Group, Inc.	2016	57.0	3.7
Rexford Industrial Realty, Inc.	2019	48.5	3.1
Boyd Gaming Corporation	2021	42.8	2.8
Progyny, Inc.	2019	41.5	2.7
Axonics, Inc.	2020	39.9	2.6
Endava plc	2018	39.9	2.6
Clearwater Analytics Holdings, Inc.	2021	36.8	2.4
Advanced Energy Industries, Inc.	2019	36.6	2.4
SailPoint Technologies Holdings, Inc.	2020	35.1	2.3

Our top 10 holdings represented 28.4% of net assets in the first quarter. This is consistent with our historical exposure.

Baron Discovery Fund

RECENT ACTIVITY

Table V.

Top net purchases for the quarter ended March 31, 2022

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
American Campus Communities, Inc.	2022	\$7.8	\$31.0
Axon Enterprise, Inc.	2022	9.8	23.6
Clearwater Analytics Holdings, Inc.	2021	5.0	14.5
Chart Industries, Inc.	2022	6.3	13.5
Definitive Healthcare Corp.	2021	3.8	8.1

We initiated a new position in **American Campus Communities, Inc.**, the nation's largest developer, owner, and manager of high-quality student housing communities. The company's 166 properties (approximately 112,000 beds) are located either on-campus or pedestrian-to-campus (94% of the company's net operating income comes from properties that are within ½ mile of campus) in submarkets with high barriers to entry. Emerging from a difficult COVID environment when many students took classes virtually and were not on campus, the company is now poised to benefit from a much more favorable fundamental backdrop. Over the next several years, we expect strong demand driven by growing student enrollment. Combined with limited new supply deliveries since many new developments were cancelled during COVID, the net result is significant growth in occupancy, rent, and cash flow. In addition to the organic growth we expect in the next few years, the company also has several greenfield developments that are underway and are expected to supplement growth as they open. As it relates to valuation, currently the company is trading at a discount to both private market values for comparable properties and to the publicly traded multi-family operators. We believe this valuation discrepancy will narrow as the company executes on its business plan. Following the completion of the quarterly letter, American Campus Communities agreed to be acquired by Blackstone for \$65.47 per share.

Axon Enterprise, Inc. is a public safety-oriented company that sells its products to governments and law enforcement agencies around the world. Its mission is to "...make the bullet obsolete" using non-lethal TASER® devices combined with digital cameras, cloud-based software, and virtual reality training. This array of technology aims to provide better relationships between law enforcement and its constituent communities, and to reduce fatal outcomes dramatically when stressful confrontations occur. Axon takes its mission seriously and has an extensive ethics committee that includes members of law enforcement and activist communities. Axon claims that with usage of body cameras, complaints against police departments are down 88% and use of force is down 58%. We believe the company is a premier part of the solution to prevent bad actors in law enforcement and the mistrust that has resulted from those bad actors.

The company has three major product lines: first, high-definition cameras (sensor division) worn on the body or mounted on vehicles (newer products incorporate live streaming and automated license plate readers); second, subscription-based digital evidence software (evidence.com) that stores body camera and third-party video allowing for evidentiary chain of custody, search, and report writing (officer court time reduced by 70%); and third, non-lethal TASER devices (that can temporarily incapacitate dangerous and violent actors using an electrical shock) that save lives by avoiding discharging firearms (the company claims 258,000 lives have been saved so far). When used in combination, its cameras provide GPS officer location and live streaming, while its software can provide real-time operations mapping of active situations. In the future, Axon seeks to add consumer safety products (launching in 2022) that will automatically notify 911 if deployed, drone-based camera products, more VR training, and additional cloud-based software, including evidence software usable by prosecutors and defense attorneys, which could be a \$1 billion market on its own.

From a financial perspective, the company is really built upon recurring revenue – it is not a one-time device sales company. Software made up 28.5% of 2021 revenues. And while hardware made up 43% of 2021 sales, about two-thirds of that is now bundled under long-term deals, so really only about 15% of the company's total revenue is one time in nature. The remaining 27% of sales is warranty and cartridge consumables, which are largely recurring as well. As software grows as a proportion of revenue (to what we believe will be over 40% by 2026), margins should expand. We believe that EBITDA margins can expand from 20% in 2021 to nearly 30% by 2026. Revenue growth, which was nearly 27% in 2021, should continue at over 20%, given that the company is less than 2% penetrated into its \$52 billion addressable market. Finally, the company has over \$400 million of cash and no debt on its balance sheet. When combined with its significant free cash flow (about 75% of EBITDA converts to free cash flow), Axon has significant capital to grow its business, complete accretive acquisitions, and potentially return capital to shareholders.

We initiated a position in **Chart Industries, Inc.**, a leader in cryogenic technology and equipment manufacturing for gas-to-liquid processing and storage. Its primary products are heat exchanging and cryogenic transportation and storage equipment serving the industrial gas, natural gas, and liquified natural gas (LNG) markets. Several recent acquisitions and a new internal commercial focus have expanded its revenue opportunities into high-growth markets such as hydrogen, carbon capture, water treatment, and others. Chart has strong competitive positioning in its core product categories and is well positioned to benefit as the world moves towards decarbonization and clean energy. While Chart's core business supplying equipment to industrial gas majors will continue to be a highly profitable business growing above global GDP, emerging applications in clean energy and other specialty products will drive overall revenue and profit growth well above that (especially because these emerging applications generally carry higher margins). Finally, the war in Ukraine is accelerating the European Union's plans to decrease its dependence on Russian natural gas while increasing the importation of liquefied natural gas. Successfully achieving this transition will require a multi-year investment in new LNG infrastructure, which should benefit Chart in future years.

During the quarter, we used the pull-back in the market to add to our existing positions in **Clearwater Analytics Holdings, Inc.** and **Definitive Healthcare Corp.** We remain bullish on the long-term prospects of both companies.

While not highlighted in our top purchases, this quarter we also initiated a position in **GitLab Inc.** GitLab provides a software development and IT operations (DevOps) platform that developers, product managers, IT operations teams, and security professionals use to collaborate throughout the software development lifecycle. For developers, the GitLab platform addresses the planning, creation, verification, testing, and deployment of code. Once code is shipped into production, IT operations professionals can use GitLab to continuously protect and monitor code and identify any issues or bugs for further updates. The GitLab platform helps more than 15,000 customers reduce time to market for new applications, automate continuous feature updates, reduce security vulnerabilities, and retain developer talent. GitLab is the only end-to-end DevOps platform that addresses all stages of the software lifecycle using a single codebase and unified data model, giving it a competitive advantage over point solutions. GitLab employs an open-source model, which has led to viral adoption among 30 million developers. More than 2,600 of these developers are active contributors to GitLab's product, enabling the company to release upgrades much faster than competitors. These consistent product enhancements have led to low churn and strong expansion in GitLab's existing customer base, driving a best-in-class 150%-plus dollar-based net retention rate (a measure of current customer average growth, where a value over 100% equals positive growth).

GitLab is in the early innings of monetizing its large active user base, and with only 0.5% penetration of the \$43 billion application development software market, we see a long runway for growth ahead. The company also has a unique remote-first culture (its workers can work anywhere) that allows it to attract and retain talented engineers and salespeople from all over the globe with very little overhead, giving us confidence in its ability to grow profitably over time.

Table VI.

Top net sales for the quarter ended March 31, 2022

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Biohaven Pharmaceutical Holding Company Ltd.	2020	\$2.7	\$8.0	\$21.8
Future plc	2019	1.1	4.1	13.3
Tripadvisor, Inc.	2021	4.8	3.8	13.0
Endava plc	2018	1.3	7.4	11.2
JBG SMITH Properties	2021	4.4	3.6	10.1

We sold our position in **Biohaven Pharmaceutical Holding Company Ltd.** as valuations were stretching toward our long-term goals, and we grew uncomfortable with recent acquisitions of early-stage clinical assets which we believe distract from the core migraine business. We trimmed our positions in **Future plc**, **Tripadvisor, Inc.**, and **Endava plc** and used the proceeds to help fund purchases of other investment ideas. We sold our position in **JBG SMITH Properties** as the recovery in the office market was taking much longer than we expected. We used the proceeds of that sale to purchase **American Campus Communities, Inc.** where we felt the company had better near-term fundamentals and a better longer-term return profile.

OUTLOOK

While 2022 has started off as a challenging year for small-cap growth investors, you can have confidence that we are not "changing our stripes" regarding how we invest. We think the Baron team combined with our investment process makes us great investors in earlier-stage growth companies and we are going to focus on doing that to the best of our ability. As we mentioned, we do not know when our style of investing will come back into vogue, but in the meantime our portfolio investments continue to grow their revenues and/or profits at healthy rates. It is our belief that this growth will, at some point, be reflected in our portfolio company stock prices.

Thank you for your support!



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. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. 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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