Dear Baron Discovery Fund Shareholder:

Performance

During the third quarter, Baron Discovery Fund (the "Fund") was flat (Institutional Shares) compared to the Russell 2000 Growth Index (the "Benchmark"), which was slightly positive. The somewhat benign performance is not reflective of the actual volatility we experienced in the quarter. Bouncing from deeply oversold conditions in late June, the Russell 2000 Growth Index rallied more than 20% from June 30 to mid-August. The narrative behind the rally was that inflation might slow at a faster-than-expected pace (and there were some signs in the commodities market to support this narrative) allowing the Federal Open Market Committee (the "Fed") to slow the pace of future interest rate hikes. As it became clear the Fed was going to remain vigilant in fighting inflation (and not pivot on rate policy), the rally faded with the market essentially relinquishing all previous gains over the remainder of the quarter.

Table I.
Performance†
Annualized for periods ended September 30, 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]	(0.04)%	0.00%	0.24%	(4.88)%
Nine Months[3]	(35.41)%	(35.26)%	(29.28)%	(23.87)%
One Year	(37.47)%	(37.29)%	(29.27)%	(15.47)%
Three Years	7.21%	7.51%	2.94%	8.16%
Five Years	8.00%	8.28%	3.60%	9.24%
Since Inception (September 30, 2013) (Annualized)	11.40%	11.68%	6.40%	10.88%
Since Inception (September 30, 2013) (Cumulative)[3]	164.16%	170.27%	74.79%	153.42%

RANDY GWIRTZMAN AND LAIRD BIEGER
PORTFOLIO MANAGERS

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

It is time, not timing, that matters for stock market returns.

This is a difficult time to be an investor if you do not like reading negative headlines. To summarize, we are in a bear market (defined as a decline of 20% or more), inflation is at 40-year highs, the Fed is raising rates at a rapid pace, economic growth is slowing (and we might be in a recession), the consumer is being pinched, the housing market is stalling, Europe may not even have enough natural gas to provide heat to its citizens this winter… you get the point. Given these headlines, it is not surprising that the market continues to hit new lows and that investor pessimism has reached new highs. As you can see in the chart on the next page, we recently reached the highest ever level of bearish investor sentiment since the American Association of Individual Investors started tabulating the survey back in the late 1980s.

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, 2033, 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 and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

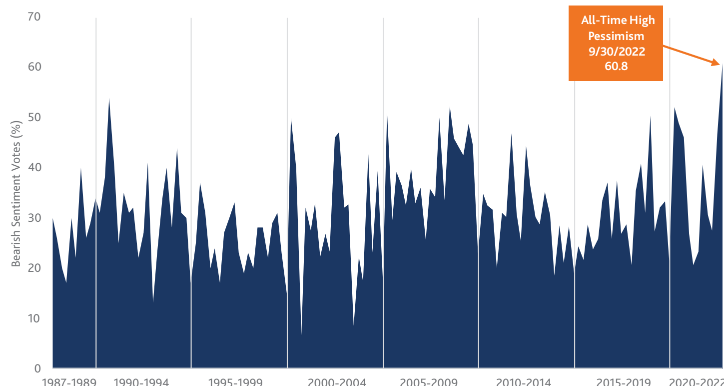
1 The **Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth and the **S&P 500 Index** of 500 widely held large cap U.S. companies. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trade mark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. 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.

Investor pessimism is at an all-time high.

AAII U.S. Investor Sentiment Bearish Readings
9/30/1987 to Present



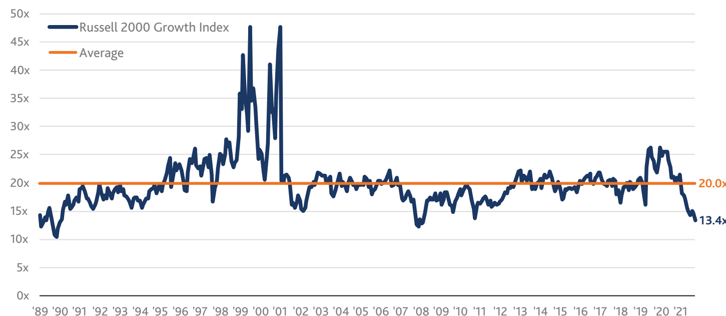
The AAII U.S. Investor Sentiment indices reflect the sentiment of individual investors towards the stock market over the next six months. The question asked is: Do you feel the direction of the stock market over the next six months will be up (bullish), no change (neutral) or down (bearish)? The American Association of Individual Investors (AAII) Polls indicate the bullishness and bearishness of the stock market. High bullish readings in the poll usually are signs of market tops; low ones, market bottoms.

Source: Bloomberg L.P.

To put it simply, the current environment is yucky! With that as the backdrop, you may be surprised with our current thoughts on the market: *we are getting more constructive on the opportunity to make outsized returns from these levels*. If you are like the many institutional investors we speak to on a weekly basis, you too may be skeptical about our optimism. Let us walk you through our reasoning. First, while our portfolio companies are certainly not immune to macroeconomic headwinds, the majority of our companies are able to continue to grow their revenues at healthy levels despite the challenges facing the economy at large. This is one of the benefits of investing in emerging growth companies. Most of our companies are early in their revenue ramp. They generally are growing off small revenue bases into large market opportunities allowing them to grow at healthy growth rates no matter what the economic outlook is. Second, as you can see in the chart below, small-cap growth equity valuations are at levels not seen since the Great Recession and, before that, the recession in the early 1990s. In our opinion, small-cap growth valuations already reflect a lot of the bad news and uncertainty. If you need even more evidence that small-cap growth stocks are undervalued, you can see in the chart below that they are trading at a discount to large-cap stocks for the first time in over 20 years. Historically, small-cap growth companies have commanded a valuation premium versus large-cap companies owing to their faster growth prospects. Third, as mentioned above, investor pessimism is extreme, which historically has been a strong contrarian indicator (i.e., the average investor gets most pessimistic when the market is at the bottom). In summary, we believe it is appropriate to get more constructive in environments where small-cap growth stocks are hated by the general public, are cheap on a historical basis, and where individual company fundamentals remain relatively healthy. We have seen comparable conditions to today in the past, and they have proven to be conducive to producing outsized returns for longer-term investors like us.

Small-cap stocks have not been this cheap since the Great Financial Crisis.

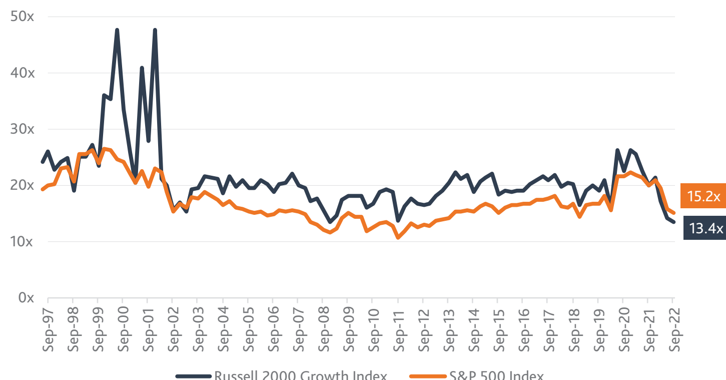
Russell 2000 Growth Index Forward P/E vs. Long-Term Average
12/31/1989 to 9/30/2022



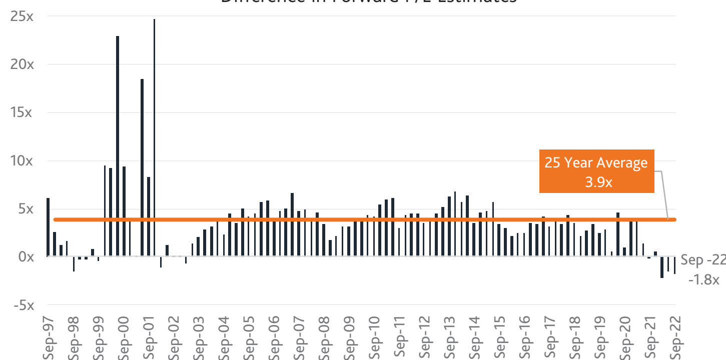
Source: The Bank of New York Mellon Corporation using I/B/E/S 1 Year Forecast EPS.

Small-cap growth stocks have not been this cheap relative to large-cap stocks in 20 years.

Russell 2000 Growth Index vs. S&P 500 Index
Historical Valuation Comparison using Forward P/E Estimates



Difference in Forward P/E Estimates



Sources: The Bank of New York Mellon Corporation using I/B/E/S 1 Year Forward EPS and FactSet Market Aggregates.

The other factor driving our optimism is our belief that we are closer to the end of the market downturn than to the beginning. We are almost one year into this market downdraft which started last November (and technically started in February 2021 when the Russell 2000 Growth Index peaked). Expectations for 2023 remain subdued and even so, it is likely we see negative earnings revisions over the next couple of earnings reporting

periods. Despite this, and while we are certainly not calling a market bottom, we believe a lot of the bad news is reflected in stock valuations at this point. What currently is not reflected in the market is the fact that weak fundamentals in 2023 make for easier comparisons in 2024. We also think we are getting closer to a point where investors start focusing on what a 2024 recovery scenario will look like (you heard us right, 2024!). Today, investors are looking at the stock market through the lens of a glass being half empty. We believe we are getting closer to a point where investors will be looking at negative news such as Fed rate increases, slowing economic growth, and high inflation as happening, to use a car analogy, in the rearview mirror. When that happens, investors will refocus their psychology from "how bad will this economic downturn be?" to "how strong of an economic recovery will we have emerging from this downturn?" Or, in other words, what could revenue and earnings growth look like in 2024? Of course, 2024 may seem a way off, but equity investors will discount the future well before it happens. As a result, we can envision a scenario where investor psychology becomes much more constructive about 2024 in the not too distant future. We are the first to admit that trying to time when this shift in psychology will take place is extremely difficult. This is why we tell investors it is time, not timing, that matters for stock market returns. What we can confidently affirm is that when the proverbial rubber band snaps back and small-cap growth comes back into favor, we will benefit as valuations will rerate to higher levels and will do so on larger revenue run rates.

Table II.

Top contributors to performance for the quarter ended September 30, 2022

	Percent Impact
Revance Therapeutics, Inc.	1.23%
Axonics, Inc.	0.65
Clearwater Analytics Holdings, Inc.	0.52
Ping Identity Corporation	0.51
Silk Road Medical, Inc.	0.50

Shares of **Revance Therapeutics, Inc.**, an aesthetics-forward biotechnology company, contributed to performance in the quarter. Following several delays, the U.S. FDA finally approved Daxxify, the company's longer-acting competitor to Botox in September. Unlike Botox, Daxxify contains a peptide that helps the toxin localize to the injection site and adhere to neurons. While the effect of Botox tends to fade in three to four months, Daxxify's effects last on average six months. We think the longer duration of action is a key selling point for consumers. Revance is launching Daxxify to a select group of injectors over the next six months to gain real-world experience before a broader launch in the second quarter of 2023. We think consumer and injector demand is strong, and we expect to see meaningful uptake in the second half of 2023. Ultimately, we see Daxxify and Revance's already-launched RHA fillers capturing significant share in the fast-growing $4 billion-plus facial injectables market and supporting more than twice Revance's current valuation.

Axonics, Inc. offers a novel implantable sacral neuromodulation (SNM) device for the treatment of urinary and bowel urge dysfunction. Through an acquisition, Axonics also offers Bulkamid, a unique injectable product to treat stress urinary incontinence in women. Shares outperformed in the quarter after Axonics beat and raised guidance for full-year 2022. With the recent FDA approval for a recharge-free SNM product (called the F15), Axonics now has a complement for its rechargeable product to round out its portfolio. The F15 is seeing strong uptake and is opening up previously competitive accounts that preferred a recharge-free option. The company has been taking share from Medtronic with competitively advantaged features like superior battery life and an easier user interface, as well as high-touch service. Axonics now plans to accelerate growth further with investments in a direct-to-consumer TV campaign. The SNM market currently consists of just 45,000 implants annually, which is less than 1% of the 7 million patients who could benefit. Meanwhile, Bulkamid offers a minimally invasive, 15 minute in-office alternative to surgical sling procedures. Surgical slings have not gained much traction and are only used to treat 125,000 women annually (only 0.4% penetration) of the 29 million who could benefit. Already, Axonics predicts it will treat nearly 50,000 patients in 2022, so we see significant growth runway for Bulkamid.

Shares of **Clearwater Analytics Holdings, Inc.**, a leading provider of software for investment accounting and reporting, contributed to performance. The company's second quarter earnings demonstrated strong underlying business trends. Management also announced the strategic acquisition of investment management software platform JUMP Technology that will help Clearwater expand its European presence and broaden its product set to cover more of the full end-to-end lifecycle for investment managers. The business is being negatively impacted in the near term by a reduction in its clients' assets under management (due most notably to rising interest rates), but management is taking proactive measures to mitigate the impact going forward. We retain long-term conviction in Clearwater due to its competitively advantaged product offering, a solid compounding growth profile, and strong profitability.

Ping Identity Corporation offers identity and access management security software that enterprises use to authenticate their employees and customers. Following the drop in software valuations this year, private equity and strategic buyers have been active in the small-cap cybersecurity space due to the sector's strong secular growth and its relative demand resilience in uncertain macroeconomic environments when IT budgets face higher scrutiny. On August 2, 2022, private equity firm Thoma Bravo announced an agreement to acquire the company for an enterprise value of $2.8 billion. The acquisition represented a 63% premium to Ping's last share price prior to the announcement, driving outperformance for the quarter. We estimate that the acquisition enterprise value represents 7.0 times Ping Identity's revenue for 2023. Thoma Bravo knows the identity space well, and it closed its acquisition of SailPoint (a former Fund holding) earlier this year (at 11 times 2023 enterprise value to equity). And even more recently, in early October, Thoma Bravo bought another of our portfolio holdings that competes with Ping, called **ForgeRock, Inc.** for about 7.5 times its 2023 revenues (a 53% premium). Clearly, our longer-term perspective on valuation in the space has benefited our shareholders even as others in the market have sold due to short-term fears.

Shares of **Silk Road Medical, Inc.**, which sells medical devices used in minimally invasive carotid artery procedures, contributed to performance in the quarter. In May, the FDA approved the company's devices for use in *standard surgical risk* carotid stenosis patients in addition to the prior approval in *high surgical risk* patients. The minimally invasive procedures done by Silk Road are called Transcarotid Artery Revascularization (TCARs). TCARs account for about 11% of the 170,000 carotid procedures in the U.S. today despite generally being as effective, safer, and more efficient than traditional open carotid surgery where a large incision is made in the neck-based artery. The updated FDA indication increases the number of eligible patients by 50%, reduces reimbursement uncertainty, and further legitimizes the procedure in the eyes of more conservative surgeons. Early channel checks following the label update have been positive as doctors are

comfortable performing TCARs on more patients and with less administrative paperwork. We think the updated label will accelerate growth and TCARs will ultimately account for the majority of carotid procedures.

Table III.
Top detractors from performance for the quarter ended September 30, 2022

	Percent Impact
Mercury Systems, Inc.	–1.41%
Definitive Healthcare Corp.	–0.70
Petco Health and Wellness Company, Inc.	–0.42
Kratos Defense & Security Solutions, Inc.	–0.40
S4 Capital plc	–0.40

Two of our larger decliners in the quarter, **Mercury Systems, Inc.** and **Kratos Defense & Security Solutions, Inc.**, are in the defense industry. Generally, the entire industry (from small- to large-capitalization companies) has been hurt by several factors that had their genesis in the COVID period but have been stickier than we originally anticipated. These include: (1) labor costs and difficulty in finding highly trained personnel; (2) supply-chain issues (semiconductors in particular, as well as subcontractor delivery delays); and (3) delays in enacting the federal budget for fiscal year 2023 (starting October 1, 2022). Offsetting these issues, which we believe should be resolved over the next three to four quarters, the demand environment for defense has strengthened considerably due to the Russian aggression in Ukraine. Russia's standards-breaking invasion woke up the world to the previously unthinkable prospect of a conventional land war in Europe (not seen since the end of World War II). As a consequence, NATO Alliance countries have pledged to move back to NATO mandated defense purchases constituting 2% of GDP (in 2021 only 10 of the 30 NATO members met these requirements). In particular, according to NATO data, in 2021 Germany and Italy were only at 1.5% of GDP and Spain was at only 1%. This change in priorities within NATO countries (and a recent change in perspective by the current U.S. Administration) is directly leading to increases in U.S. foreign military sales (FMS), which need to be approved by the U.S. Government. The Defense Security Cooperation Agency recently announced that FMS approvals for fiscal year 2022 were $75 billion (normalized at $52 billion for transactions that might not pan out), up substantially from $34.8 billion in fiscal year 2021 (the lowest amount of FMS transactions since 2016). And this does not count congressionally approved funding for Ukraine totaling about $29 billion. The normalized $52 billion number compares to FMS transactions averaging $51 billion in the 2017 to 2019 time frame. Lower FMS sales in 2020 and 2021 have largely been a result in policy changes from the new U.S. Federal Administration. Russia has completely changed that equation. This, combined with the increasingly aggressive posture of China with respect to Taiwan, has led to an increased priority within the Administration for FMS and in the base U.S. Department of Defense (DoD) budget. While a final fiscal year 2023 DoD budget has not yet been approved (spending will be under a continuing resolution at fiscal year 2022 levels for the time being), all of the budget activity from the White House to the Senate to the House of Representatives indicates bi-partisan budget increases of low to high single digits once the 2023 budget is finally approved. We expect this to occur after midterm elections in early 2023. This will continue to increase going forward due to the heightened worldwide threat environment, giving us confidence in our positive long-term outlook for our defense investments.

Shares of Mercury, the leading U.S. Tier 2 defense electronics integrator, declined in the third quarter. The company reported June results that were below consensus and gave forward guidance for its 2023 fiscal year (ending June 30, 2023) that were below consensus. Similar to nearly every other company in the defense industry, the misses were due to inflation, delays in the government defense budget (which caused delays in award timelines), supply-chain issues (including failure of delivery by suppliers), and labor issues resulting from the pandemic. The positive is that demand remains very strong. Mercury is involved in all key priorities of the current U.S. defense strategy including electronic warfare, radar, missile defense, and carrier defense. This is reflected in backlog at the end of fiscal 2022 that already constitutes two-thirds of expected fiscal 2023 sales. Historically, Mercury has grown organically at around 10% to 15% per year. In fiscal year 2022, organic growth declined by 5% and we expect it to be flat in fiscal year 2023. As the issues from fiscal year 2022 resolve through the course of 2023, we model organic growth of around 6%, supplemented by small acquisitions. At this pace, Mercury is trading at only 7 times our calendar 2027 cash flow, and at 14 times calendarized 2023 cash flow (a fair current multiple given the recent headwinds). We did reduce the position a bit during the quarter as we felt it was too large given current market conditions. Nevertheless, we expect significant share accretion over the long term, and maintain a relatively full-sized investment in the company.

Kratos shares also declined in the quarter, for reasons similar to those of Mercury Systems, Inc. Like Mercury, we believe Kratos is focused on priority programs within the DoD budget that are starting to accelerate and should lead to substantial revenue growth for Kratos. These programs include missile defense, space-based systems and software, unmanned aircraft (UAVs), advanced rocket engines and aircraft materials (including hypersonic technology), and defense electronics. It is clear that UAVs are going to be a critical component of defense strategies going forward, and Kratos can build these vehicles at extremely low cost but with top-end performance characteristics. The company is a leading supplier of target drones (UAVs that act like enemy missiles or fighter aircraft used for training). Now Kratos has taken that experience and translated it into tactical UAVs that carry missiles, bombs, and sensor equipment. These UAVs have demonstrated they can perform like the most advanced fighter aircraft, but at costs of only $200,000 to $10 million per plane. This is only a fraction of the cost of a new F-35 (about $80 million at volume production) or an F-22, our most advanced aircraft (about $150 million without factoring in development costs). They also cost far less than competitors' UAVs. These drones operate autonomously, in swarms or as a "loyal wingman" for our most sophisticated fighter jets. We are tracking multiple programs that could become regular defense budget items (programs of record) over the next one to four years. There is currently a lack of viable competitors who can execute on these platforms at Kratos' price and quality levels. This gives the company a strong first mover advantage.

Until we start to see meaningful tactical UAV revenues, we believe the company's valuation will be supported by its other programs, in particular its OpenSpace satellite communications software. OpenSpace allows Kratos' customers to build virtual ground stations that can be easily upgraded and scaled for increased capacity without the significant expense of traditional hardware-based solutions. Additionally, it allows far better interoperability among disparate system types, so they can be combined into one "common operational picture." Kratos recently won three OpenSpace contracts worth hundreds of millions of dollars combined. Kratos should grow revenues at around 10% to 12% organically for the next several years, and currently trades at about 15 times our 2023 cash flow estimates and 4 times our 2027 estimates. We believe that in a base-case scenario, Kratos shares could

double or even triple over the next five years. If we are correct about Kratos' market positioning, we could see substantial revenue upside on tactical UAVs leading to even larger returns. Moreover, we think that Kratos would be a highly prized takeover candidate, particularly if it wins any of the key tactical UAV programs that are in the works.

Shares of **Definitive Healthcare Corp**., a commercial intelligence software provider for health care companies, underperformed due to concerns around slower sales cycles in the uncertain macroeconomic environment. Although second quarter revenues were up 37% and beat consensus expectations, current revenue performance obligations (a measure of contracted revenues for the next 12 months) slightly missed management expectations by $3 million or about 4% on an annualized basis. Definitive attributes this to customers applying more scrutiny to new vendor contracts and bringing in additional layers of management before finalizing contracts. Importantly, Definitive continues to see healthy demand at the top of the sales funnel. While we acknowledge there is less certainty around near-term growth, we think this is reflected in the stock's current valuation and we see any macro-related headwinds as temporary in nature. We continue to see Definitive as a high-quality company with fantastic cash flow margins (near 30%), a differentiated offering, and a long runway of growth.

Petco Health and Wellness Company, Inc. is a pet supply retail chain. Shares were down during the quarter as the company reported earnings that missed analyst expectations. Strong sales in pet food and pet services (two categories that tend to be less discretionary) were more than offset by softer-than-expected sales in non-essential supplies and companion animals (both of which tend to be more discretionary). Given management's expectation for continued consumer spending softness, the company lowered profit guidance for the remainder of the year. While pet food and pet services carry a higher lifetime value for Petco, these categories are also lower margin and so the mix shift towards these categories will be a short-term drag on profitability. Despite these short-term challenges, we remain positive on Petco's long-term growth prospects. Weakness in supplies and companion animals has been temporary in prior economic slowdowns and, as a result, should rebound over the coming quarters. At the same time, services continue to expand nicely as the company grows its veterinary practices. Lastly, Petco's new store concept targeting rural communities is off to a strong start, setting the stage for a second growth concept going forward.

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 of S4 were down given a lowered margin outlook for 2022, which was 25% below consensus expectations. That said, first half results showed fundamental resilience, several high-value customer additions, and a promising pipeline and positive seasonality into the back half of this year. We remain impressed with S4's 25% organic top-line growth expectations, especially compared to industry standards of approximately 10% growth in 2022 for ad spending at the top eight platforms. On the bottom line, we believe management has concrete levers to manage expenses, including increased efficiencies, higher pricing, and growing higher-margin divisions. In addition, we believe working capital and free cash flow are being managed more closely during this time. While we acknowledge that the industry is in a difficult position and S4 has U.K. exposure, we retain conviction in the company's long-term outlook and we believe the stock is significantly undervalued at these levels.

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of September 30, 2022

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Kinsale Capital Group, Inc.	2016	$63.9	5.6%
Axonics, Inc.	2020	44.9	3.9
Boyd Gaming Corporation	2021	35.0	3.1
Revance Therapeutics, Inc.	2019	34.9	3.0
Rexford Industrial Realty, Inc.	2019	33.8	3.0
Advanced Energy Industries, Inc.	2019	32.9	2.9
Axon Enterprise, Inc.	2022	29.1	2.5
Silk Road Medical, Inc.	2019	28.8	2.5
Mercury Systems, Inc.	2015	28.3	2.5
Floor & Decor Holdings, Inc.	2019	27.8	2.4

RECENT ACTIVITY

Table V.
Top net purchases for the quarter ended September 30, 2022

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Texas Roadhouse, Inc.	2022	$5.8	$15.9
Smartsheet Inc.	2022	4.5	11.8
CareDx, Inc.	2018	0.9	7.7
Navitas Semiconductor Corporation	2021	0.7	6.0
SmartRent, Inc.	2021	0.4	5.2

We initiated a position in **Texas Roadhouse, Inc.**, a fast-growing casual dining restaurant operator. The company and its franchisees operate 678 restaurants in 49 states and 10 foreign countries, including 637 *Texas Roadhouse* restaurants, 37 *Bubba's 33* restaurants, and 4 *Jaggers* restaurants. The company's success is due to its proven strategy of offering high-quality, freshly prepared food at attractive prices. Texas Roadhouse's ability to execute this strategy better than other restaurant chains has allowed the company to be a consistent market share gainer year after year.

We expect the company's growth algorithm to consist of mid-single-digit annual unit growth as it expands its core Texas Roadhouse brand from 637 to close to 1,000 units over time. We also expect the company to accelerate unit growth of its Bubba's 33 Restaurants. Bubba's 33 is a family-friendly, sports restaurant concept featuring freshly prepared foods. While over the shorter term Texas Roadhouse may be impacted by a weaker economic backdrop, over the medium to long term we believe Texas Roadhouse can grow revenues at a high single-digit rate. We also believe that as inflation pressures abate, particularly on food costs, the company can expand its operating margin. The combination of revenue growth and margin expansion should enable the company to more than double its earnings in the next five years resulting in a doubling of the stock as well.

This quarter, we initiated a position in **Smartsheet Inc.** The company provides a cloud-based collaboration and work management software platform that customers use to plan, visualize, manage, and automate business projects. More than 11 million users across 100,000 organizations use Smartsheet to collaborate on projects like new store openings, marketing campaigns, IT system implementations, and merger integrations.

The software enables users to exchange data with a variety of third-party systems; invite collaborators from inside and outside the organization to share content and communicate; track project progress and resource utilization; and automate repetitive workflows such as budget approvals. Smartsheet replaces disjointed tools and processes traditionally used to manage projects, such as spreadsheets, emails, and whiteboards.

While there are many competitors in the collaboration space, Smartsheet is differentiated by its ability to serve large enterprise clients that have tens of thousands of users, more complex projects, and stricter IT security and compliance requirements. Smartsheet is also differentiated by its premium add-on products such as Control Center (project portfolio management software), Brandfolder (software used to edit and distribute digital content), and Data Shuttle (pipelines that connect Smartsheet with large-scale data stores like Enterprise Resource Planning systems). Collectively, these premium products account for 28% of annual recurring revenue and are growing north of 80%. By growing its user footprint across departments and cross-selling its premium products, Smartsheet has maintained a leading dollar-based net retention rate (growth in revenue across existing customers) that has averaged 130% over the last several years, and its average annual contract value per customer has more than tripled since 2019. We think there is further room to penetrate existing customers and see a long runway for growth ahead. The stock is trading at just over 4 times 2023 estimated revenue, which is a discount relative to other software peers growing revenue north of 35% with near break-even free-cash-flow margins.

We purchased additional shares of **CareDx, Inc.**, a diagnostic company that facilitates organ donor matches pre-transplant and rejection monitoring post-transplant. Transplant rejection testing is recurring and can help ensure the right immunosuppressant treatment to avoid overdosage or organ loss. Shares underperformed for the quarter. The company is facing reimbursement headwinds as it moves beyond traditional Medicare and into the growing Medicare Advantage market and commercial payer markets for patients who do not qualify for Medicare. It is providing tests into these commercial markets basically for free in order to gain first mover advantage and on a delayed reimbursement basis because while Medicare Advantage payers are required to pay, they put up administrative hurdles that slow the process considerably. So even though test volume for CareDx was up 21% in the second quarter due to increased market penetration of the company's cutting-edge DNA tests, the overall average selling price per test (ASP) was down 14%, leading to overall revenue growth of only 9%. This ASP headline has spooked the market, leading to a trading multiple as low as we have ever seen. While we acknowledge this overhang may take time to navigate, we think the company's competitive position within this diagnostic niche is not being sufficiently appreciated. CareDx has a first mover advantage, has embedded its tests into large centers' protocols, and offers intensive patient support. We also believe the randomized controlled trials the company is running can help add to the body of clinical evidence supporting its tests and will support its push for more reimbursement coverage. Kidney transplant monitoring is a $2 billion market into which CareDx is less than 15% penetrated, so we think there is plenty of runway for growth.

During the quarter, we purchased additional shares of **Navitas Semiconductor Corporation**, a leader in gallium nitride (GaN) power semiconductors. We took advantage of what we believe to be a dislocation in the stock due to near-term weakness in mobile phone demand, especially in China. Navitas' GaN products continue to see strong share gains driven by its monolithically integrated GaN power ICs (full power systems on a single chip), which provide greater reliability and performance compared to competitors who supply discrete (non-integrated) power devices. Navitas also remains on track with its higher-power products targeting data center, renewable energy, and automotive end-markets in the coming years. Additionally, the company recently acquired GeneSiC, a small and rapidly growing silicon carbide (SiC) power semiconductor designer, which is already shipping its SiC products into Navitas' targeted higher-power end-markets and can leverage Navitas' existing global organization to accelerate growth. GaN and SiC are highly complementary products, and Navitas is now the only pure-play one-stop-shop for these energy efficient next generation power semiconductors. As GaN and SiC power devices continue to take market share from silicon-based products due to their improved efficiency, size, and power density, Navitas will disproportionately benefit as a technology leader, and we believe the current stock price does not reflect the tremendous growth opportunity over the coming decade.

We acquired additional shares of **SmartRent, Inc.** during the third quarter following a sharp correction after the company reported disappointing second quarter installations and revised full-year guidance. We were also able to take advantage of the additional liquidity provided when an early venture capital investor was selling their shares in the market. While we are cognizant of the broader macroeconomic backdrop and near-term execution challenges, SmartRent's future business pipeline continues to grow and remains robust. The company has 450,000 units installed today with another nearly 800,000 in the pipeline with zero cancellations in its history to date. We are hopeful that the second half of 2022 will represent a bottom in terms of quarterly installation pace from which the company can ramp as hardware and chip supply becomes more freely available. Furthermore, customers are actually increasingly focused on deploying SmartRent's solutions in an inflationary environment as they are eager to capitalize on labor and other cost savings enabled by the company's platform (e.g. self-guided tours) as well as potential revenue opportunities. This was a common theme we heard from several companies at a recent global real estate conference that we attended. We are optimistic about the company's ability to scale in 2023 and 2024 and grow its run-rate recurring SaaS software revenue by 3 times from 2022 levels during that time period.

Table VI.
Top net sales for the quarter ended September 30, 2022

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Mercury Systems, Inc.	2015	$0.6	$2.3	$12.6
Floor & Decor Holdings, Inc.	2019	2.9	7.5	8.0
Nextdoor.com, Inc.	2021	4.2	1.2	7.3
The Beauty Health Company	2021	0.7	1.8	6.8
Red Rock Resorts, Inc.	2020	3.0	3.6	5.5

We trimmed our positions in **Floor & Decor Holdings, Inc.**, **The Beauty Health Company**, and **Red Rock Resorts, Inc.** and re-allocated that capital into other ideas in the portfolio. We sold our position in **Nextdoor.com, Inc.** as the fundamentals of that business had deteriorated at a faster-than-expected pace.

Outlook

Thus far, 2022 has been a challenging year for the economy and in the stock market. Small-capitalization stocks are in a bear market and in many cases are trading at or below the valuation levels we saw during the COVID bear market. Investor sentiment is as pessimistic as we have ever seen since these readings started being kept in the 1980s. So it is understandable that we are experiencing *significant* investor skepticism when we say we are becoming more constructive on the market. But keep in mind, to outperform over the long term, a successful investor needs to be a contrarian or, in other words, to be buying when the rest of the world is selling (and overly pessimistic). It is never easy going against the crowd and it is almost impossible to time the market bottom perfectly, but we believe that by staying the course with our competitively advantaged, emerging growth businesses, our shareholders will be richly rewarded when the inevitable economic recovery begins.

Thank you for 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 the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and 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.

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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Discovery Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

Price/Earnings Ratio (next 12-months): is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).