DEAR BARON DISCOVERY FUND SHAREHOLDER:

PERFORMANCE

During the third quarter, Baron Discovery Fund (the "Fund") was down 5.02% (Institutional Shares) which was 0.63% better than the Russell 2000 Growth Index (the "Benchmark"). Market conditions deteriorated in the third quarter as the Delta variant of COVID spread across the globe creating pressures on both the demand and supply of goods and services. This setback in the expected COVID recovery timeline dragged stocks lower, ceding some of the gains the Fund experienced earlier in the year. Year-to-date, we remained pleased with the Fund's performance, up 8.28% and 5.46% better than the Benchmark. While the Delta variant has certainly been a "speed bump" in the pace of the economic recovery, it is our belief that the U.S. economy is back on track and the economic impact of Delta is mostly in the rearview mirror.

Table I.
Performance†
Annualized for periods ended September 30, 2021

	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]	(5.06)%	(5.02)%	(5.65)%	0.58%
Nine Months[3]	8.08%	8.28%	2.82%	15.92%
One Year	35.61%	35.93%	33.27%	30.00%
Three Years	20.16%	20.48%	11.70%	15.99%
Five Years	25.23%	25.55%	15.34%	16.90%
Since Inception (September 30, 2013) (Annualized)	19.74%	20.03%	11.97%	14.71%
Since Inception (September 30, 2013) (Cumulative)[3]	322.47%	330.97%	147.13%	199.81%

RANDY GWIRTZMAN AND LAIRD BIEGER
PORTFOLIO MANAGERS

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

Across almost every sector in which we invest, conversations with our management teams combined with incoming economic data lead us to conclude that economic fundamentals continue to improve (especially as it pertains to demand). As a result, we expect strong revenue growth rates for our portfolio companies over the near to medium term. Offsetting a portion of this strong revenue growth, however, is our more muted outlook on expenses. We are seeing inflationary pressures in everything from commodities (agricultural and metals), energy (oil and natural gas), and labor (and labor availability), to logistics (the cost to ship a container from China to the U.S. hit a record high during the quarter). The net result of these crosscurrents is that we still expect profit growth for our companies to show solid year-over-year growth in 2022 but not to the same extent as one might expect given the strong demand trends and revenue growth we are forecasting.

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, 2020 was 1.35% and 1.08%, 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 YTD, 1-, 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.

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

Table II.
Top contributors to performance for the quarter ended September 30, 2021

	Percent Impact
The Beauty Health Company	1.00%
S4 Capital plc	0.51
Endava plc	0.48
Indie Semiconductor, Inc.	0.37
Future plc	0.32

The Beauty Health Company is an innovative skin care and aesthetics company providing consumers the benefits of a professional medical treatment with the experience of a consumer brand. Shares outperformed in the third quarter following better-than-expected earnings results and the announcement of two new retail partnerships with Nordstrom and Ulta, where the company expects to sell an aesthetics device that customers can use in their home. We continue to be attracted to the company's asset-light, recurring revenue business model and see the company doubling its revenues organically over the next few years. We also believe that Beauty Health will boost shareholder value over time through accretive acquisitions.

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 up during the quarter on recovering global ad spending, continued M&A, and increasing investor awareness. We believe S4 has a highly attractive growth algorithm of annual revenue growth greater than 25% and high-teens EBITDA margins. We also think that S4 is, and will continue to be, a prime beneficiary of digital transformation across industries and geographies.

Endava plc provides outsourced software development for business customers. As has been the case in recent quarters, shares outperformed after the company reported better-than-expected quarterly results and annual guidance. Following a brief slowdown in the early months of the pandemic, business has fully rebounded and accelerated as clients recognize the need for greater investment in digital transformation. Management expects organic revenue growth to exceed 20% with upside from accretive acquisitions. We continue to own the stock because we believe Endava will continue gaining share in the large global market for IT services.

Indie Semiconductor, Inc. is a fabless designer, developer, and marketer of automotive semiconductors for automated driver assistance systems, user experience, and electrification applications. Indie leverages its cross-domain semiconductor expertise in analog, processing and power chips to integrate multiple chips and capabilities into a single package and offer its customers lower cost products in a smaller form-factor. Indie has strong market share in applications such as Apple CarPlay and ultrasonic parking assist with multiple contracts ramping in the coming quarters in applications such as advanced lighting controls, telematics, and electrification. The stock rose on increasing investor recognition of the longer-term opportunity for the company, especially in light of the current automotive semiconductor supply shortage. Semiconductor content in cars is expected to grow substantially over the coming decade as automated safety features and electrification penetrate an increasing percentage of vehicles.

Future plc is a special-interest publisher of digital content, magazines, and events with a brand portfolio including TechRadar, PC Gamer, and Gizmodo. Shares of Future were up during the quarter as a result of e-commerce tailwinds in the company's largest categories–tech, gaming, music, sports, home, and lifestyle–as well as continued strength in the broader advertising environment. We believe the company can continue to grow both organically and through M&A for many years into the future (pun intended).

Table III.
Top detractors from performance for the quarter ended September 30, 2021

	Percent Impact
Mercury Systems, Inc.	–0.72%
CareDx, Inc.	–0.63
Inogen, Inc.	–0.63
Zymergen Inc.	–0.55
Eargo, Inc.	–0.54

Mercury Systems, Inc., a provider of defense electronics solutions, was a detractor from performance in the quarter. In early August, the company announced earnings that beat consensus but took down full-year 2021 guidance due to some program delays on ship-based radar, fighter jet electronics, missile defense systems, and foreign military sales. Management indicated that it expected some carryover into fiscal 2022 but with a strong rebound in the back half of 2022 into 2023. Given strong bi-partisan support for a military budget proposal, and the positioning of Mercury to counter the most important threats from Russia and China, we believe that Mercury will see organic reacceleration in mid-2022 and 2023. In addition, the company has been setting up its infrastructure for an even greater acquisition cadence. All in, we believe that the company can grow for many years at a mid-teens rate. At current share prices, we believe that Mercury offers significant upside potential.

CareDx, Inc. provides transplant testing and ancillary services. The company reported strong second quarter earnings (it beat and raised full-year guidance), driven by its kidney and heart transplant tests. It also is moving forward with studies on more transplant tests (liver, stem cell/bone marrow transplant, cell transplant, and lung). We believe the weak share price performance was related to noise surrounding a competitor's heart transplant test study that purported to be more accurate than CareDx's test. While the headline number looks better for the competitor, it is important to note that CareDx's Heart Care combination test, which includes both donor-derived DNA and gene expression testing, is comparable to the competitor's accuracy. Also, while the full publication has not yet been released, it appears that the competitor's testing results are from retrospective (looking back) as opposed to prospective (blind and forward looking) patient results. So, this may not be a fully "apples-to-apples" comparison. The same competitor has previously had similar test data and a competitive product launch in kidney (by far the largest revenue producer for CareDx) but has still failed to garner meaningful share. CareDx has proven itself to be a terrific long-term partner to its customers, providing not only tests, but services to transplant centers and their patients which creates brand stickiness, and therefore competitive advantage beyond pure testing. We are not concerned by the short-term dip in the share price as CareDx still has significant market opportunity in kidney, heart, and all of its pipeline products.

Inogen, Inc. makes portable oxygen concentrators ("POCs") for patients with lung issues. Shares were down in the quarter despite the company handily beating June 2021 consensus numbers (driven by both sales and rentals of POCs) because Inogen took down full-year 2021 estimates as a component supply shortage (chips) is preventing the company from meeting strong demand. We believe this situation is much like the one in the automobile industry and that it will be resolved over the next few quarters as chip supply increases. In the meantime, management is procuring alternative supplies even at much higher prices, which it can pass on via low single-digit price increases (as the chips are a very small part of the overall cost of goods sold). Given that we are in the early stages of the transition of the oxygen treatment industry from tanks to POC's (perhaps only 25% converted at this point) shares now trade for a bargain price, in our view.

While rare, we do occasionally experience some drama with our investments. In the quarter, we had two negative bluebird events. The percentage price drop of each stock was significant, but combined they detracted only about 1% from relative results due to our risk management discipline of keeping our position sizes in our earlier stage and smaller market capitalization companies small. **Zymergen Inc.** is a synthetic biology company that has an integrated infrastructure for producing novel chemical compounds from microbes. The company's lead compound is Hyaline, an electronic screen protection film, and other compounds in the pipeline include insect repellants and agricultural products. Shares underperformed for the quarter after the company issued a negative update that delayed its product delivery timelines and revenue projections, revised downward its estimates for the addressable market opportunity and market growth rate, and announced the CEO was stepping down. We exited our investment because we believe this update has impaired our thesis on the commercial viability of Zymergen's platform and management's ability to identify and execute on commercial opportunities. **Eargo, Inc.** offers a hearing aid that is virtually invisible, affordable, and delivered through a telecare-based, direct-to-consumer model. Shares underperformed for the quarter after the company disclosed it was undergoing a claims audit by an insurance company which then turned into an investigation by the Department of Justice as the claims related to government insurance plans. While we have seen many situations involving insurance audits with our companies, we have never seen something that has escalated so quickly with the Department of Justice. We sold our investment as the claims being audited represented a significant amount of the company's growth, and the investigation adds too much uncertainty to the story.

Portfolio Structure

Table IV.
Top 10 holdings as of September 30, 2021

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Endava plc	2018	$54.3	2.7%
The Beauty Health Company	2021	51.9	2.6
Future plc	2019	47.2	2.3
Mercury Systems, Inc.	2015	45.4	2.2
S4 Capital plc	2019	44.1	2.2
Progyny, Inc.	2019	42.5	2.1
Floor & Decor Holdings, Inc.	2019	42.3	2.1
Axonics, Inc.	2020	41.5	2.0
Kinsale Capital Group, Inc.	2016	40.4	2.0
Advanced Energy Industries, Inc.	2019	40.4	2.0

Our top 10 holdings represented 22.2% of the Fund's net assets at the end of the third quarter. This is essentially unchanged from the second quarter level of 22.3%. We remain comfortable with this concentration. As we have mentioned in prior quarterly letters, our top 10 concentration is not a deliberate strategy on our part, but rather the natural result of the addition of new investments across the portfolio, and our judgment about the position sizes of each of these top holdings based on risk and valuation.

Recent Activity

Table V.
Top net purchases for the quarter ended September 30, 2021

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Couchbase, Inc.	2021	$1.3	$29.2
SmartRent, Inc.	2021	2.5	27.0
Membership Collective Group Inc.	2021	2.5	20.8
ForgeRock, Inc.	2021	3.2	17.5
Qualys, Inc.	2013	4.3	16.2

Couchbase, Inc., a new position in the Fund after a successful IPO, provides a modern database that collects and stores data and powers enterprise applications, for which there is no tolerance for disruption, inaccuracy, or downtime. The Couchbase database is based on a platform called NoSQL, which means that rather than having a pre-determined rigid structure to store data (like legacy relational database software), it stores data in documents, making it easy to have a flexible set of items that can move into and out of each record. Its solution is fast as it utilizes caching, or retrieval from memory, versus hard drives; scales to large numbers of records, which is expensive for old-style relational databases and not even possible with some of the other NoSQL solutions; and works in all settings (on-premise, in the cloud, or in mixed hybrid environments). Couchbase is addressing a large total market of $62 billion, which is slowly migrating to the cloud and using less rigid database structures. We believe Couchbase can win its fair share of these workloads over time given its unified platform, ability to scale run anywhere, and its familiar query language that makes it easier for developers to quickly create solutions. The company's growth rate is currently being impacted by COVID (about 15% of Couchbase's customers are in the travel and hospitality industries), but we believe a return to normal pre-COVID spending levels later this year and into early 2022 should help to accelerate growth. Longer term, we believe that management will improve its go-to-market efficiency, which will further accelerate growth. Given that revenues are only about $150 million now, it has a huge opportunity in this $62 billion marketplace, and we expect that Couchbase will be a profitable investment for many years to come.

We acquired shares of **SmartRent, Inc.** during the quarter. SmartRent has emerged as a category-leading enterprise grade software company providing a fully integrated solution to the real estate industry. The core product is built around smart access or keyless entry. Products enable resident access, self-guided tours, smart parking, video intercom, package delivery as well as community Wi-Fi, leak detection, and temperature control management that will lower cost, mitigate risk, and increase rents for multi-family property owners. Cost savings range from 20% to 30% on utilities and 20% to 50% on leasing costs. In exchange, SmartRent charges a low recurring base monthly fee per apartment. No enterprise-level solution existed prior to SmartRent and its digital amenities are elevating the resident and landlord experience.

SmartRent has over 200,000 units deployed today with over 450,000 total users. The company has experienced zero churn and importantly has developed strategic partnerships with 15 of the top 20 institutional apartment owners. In addition, the company has a pipeline of 600,000 committed units and a 3.5 million unit opportunity within its existing customer base, which could yield a $2 billion recurring revenue stream over time just with property owners who are already existing customers. We believe there is a path to achieve $450 million of software revenue from $25 million today yielding roughly $200 million of run-rate recurring cash flow (versus negligible cash flow today) over the near term given the in-place customer commitments and future sales wins, which could lead to the stock price doubling. In addition, we believe there is upside potential longer term through emerging initiatives that could open up several exciting adjacent growth verticals (e.g., international, student and senior housing). Lastly, with approximately $500 million of cash, we expect M&A opportunities to layer on additional services to augment growth both to the product offering as well as from increased monthly pricing.

During the quarter, we purchased **Membership Collective Group Inc.** ("MCG"), a global membership platform centered around club houses in metropolitan areas. Its trademark Soho House brand has 30 Houses with more than 111,000 members globally, 94% average annual retention, and a wait list of over 59,000 people. In addition to the core Soho House brand, the company has additional membership brands including Soho Works, Scorpios Beach Club, The Ned Club as well as adjacent/digital memberships, including Soho Friends and Soho House Digital. We believe MCG has a valuable, unique business model as a scaled global membership platform. Its strong brand, evidenced by its long wait list, leads to very low marketing expenses and high retention, while also driving strong recurring revenue. There are currently 30 Soho Houses open, and 5 to 7 new openings are planned per year, providing a clear line of sight for attractive long-term growth. Over the long term, management believes they can have close to 100 houses globally.

We believe MCG's growth pipeline, recurring revenue potential, operating leverage, and de-leveraging should drive solid financial growth in the medium term. We expect revenue to grow at a 34% CAGR between 2021 and 2025 as it expands the number of houses, expands other membership programs, and spending per member increases. We also expect EBITDA margins to benefit from the ramp up in new houses (the company targets House-Level Contribution Margins of 20% to 30% by year five) as well as from improving operations of existing houses and leveraging corporate expense. The combination of strong top-line revenue, expanding EBITDA margins, and the potential for investors to better understand the recurring revenue business model should result in significant shareholder value over time.

During the quarter, we invested in **ForgeRock, Inc.**, which provides an identity software platform that enterprises use to authenticate their customers, employees, and devices. Its products, which include single sign-on, multi-factor authentication, and identity governance, are used by more than 1,300 companies to secure over 3 billion identities globally. ForgeRock is a technology leader in the external customer identity access management ("CIAM") use case. The CIAM industry is growing faster than the more mature workforce identity management market as companies invest more in digital transformation initiatives and focus on improving user experience and security during the sign-up and log-in process. With a rise in cybersecurity threats, companies are increasingly turning to modern, flexible, prebuilt software platforms like ForgeRock to replace homegrown tools and legacy on-premise vendors. We think ForgeRock is well positioned benefit from these secular trends due to its scalable architecture, its ability to operate in complex IT environments, and its AI-powered identity governance tools. We also see an opportunity for ForgeRock to improve its unit economics as it converts existing customers to its SaaS product, which generates a meaningful uplift in average revenue per managed identity and has a shorter sales cycle.

We added to our position in **Qualys, Inc.**, a provider of cybersecurity software that protects endpoints by ensuring that all devices on a network are mapped out (asset view and inventory), that software configurations are up to date on those devices (vulnerability management ("VM")) and that the settings on the devices are in compliance with corporate policies (policy compliance ("PC")). The company generates significant free cash flow from its legacy VM and PC products, and it has been working on new products that extend its knowledge of the information within its customers' networks. These products fit into the endpoint detection and response ("EDR") category and can be very powerful tools, as they use artificial intelligence to detect improper network intrusions and then automate defensive responses to them. From our due diligence, we believe that the Qualys EDR system is starting to gain traction at its enterprise customers, which would help to re-accelerate the company's top-line growth from the low teens percentage growth, back to the high teens or even over 20% growth. Our purchases were made at what we believe were favorable valuations. We also believe that Qualys would be an interesting takeover target for another cybersecurity company given its high margins, significant free cash flow, premium market positioning, and fully cloud-delivered service, which would make integration into another company fairly seamless.

Table VI.
Top net sales for the quarter ended September 30, 2021

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Raven Industries Inc.	2018	$1.3	$2.1	$25.9
Red Rock Resorts, Inc.	2020	3.0	6.0	12.1
The Beauty Health Company	2021	0.7	3.5	11.2
Ollie's Bargain Outlet Holdings, Inc.	2019	3.5	4.2	10.0
American Assets Trust, Inc.	2020	1.6	2.3	9.2

During the quarter, **Raven Industries Inc.** agreed to be acquired by CNH Industrial at a 49% premium to the stock's price the day before the announcement. Raven, a leader in precision and autonomous agriculture technology, will, in our opinion, significantly improve CNH's ability to innovate and compete in its markets. We thank the management team for creating significant shareholder value during our ownership. Raven is the second company in the Fund's portfolio to agree to be acquired in 2021 (the other was Medallia, Inc.) As we have written in the past, we never invest in a business with the primary investment thesis being that we believe the company is likely to be acquired. That said, we believe that our early stage, fast growing businesses tend to make great bolt-on acquisitions for larger-cap companies in need of additional growth, as was the case with Raven.

We trimmed our positions in **Red Rock Resorts, Inc.** and **The Beauty Health Company** after meaningful increases in their respective stock prices in an effort to manage their position sizes. We sold our position in **Ollie's Bargain Outlet Holdings, Inc.** after that company experienced operating challenges. We exited our investment in **American Assets Trust, Inc.** when the stock reached our price target.

OUTLOOK

As we look to the end of 2021 and into 2022, we continue to believe our portfolio companies are well positioned to benefit from the economic resurgence that we expect to come post-COVID. We have a large pipeline of innovative emerging growth companies that are trading at attractive valuations.

Thank you for your interest and 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.

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