DEAR BARON SMALL CAP FUND SHAREHOLDER:

PERFORMANCE

Baron Small Cap Fund (the "Fund") had a strong year. The Fund appreciated 17.59% (Institutional Shares) in the fourth quarter of 2020 and 40.68% for the year. These strong absolute returns compare to the Russell 2000 Growth Index (the "Index"), which gained 29.61% in the fourth quarter and 34.63% for the year, and the S&P 500 Index (the "S&P 500") which gained 12.15% for the fourth quarter and 18.40% for the year.

The Fund has outperformed both the Index and the S&P 500 over all relevant periods of comparison (1-, 3-, 5-, 10-year, and since inception). Since we started the Fund in 1997, it has generated 11.49% annualized returns, outperforming the Index by 4.06% and the S&P 500 by 3.37%.

Table I.
Performance
Annualized for periods ended December 31, 2020

	Baron Small Cap Fund Retail Shares[1,2]	Baron Small Cap Fund Institutional Shares[1,2,3]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	17.52%	17.59%	29.61%	12.15%
One Year	40.33%	40.68%	34.63%	18.40%
Three Years	20.46%	20.78%	16.20%	14.18%
Five Years	19.56%	19.88%	16.36%	15.22%
Ten Years	14.18%	14.47%	13.48%	13.88%
Fifteen Years	10.86%	11.08%	10.69%	9.88%
Since Inception (September 30, 1997)	11.35%	11.49%	7.43%	8.12%

U.S. equity markets continued their powerful rally in the fourth quarter. Positive news about the availability and effectiveness of vaccines to fight COVID excited investors about the prospects of a quicker-than-expected return to normalcy (that is certainly my hope!). The election of Joe Biden as President and the flip of the Senate were viewed favorably, with the expectation that a more stable governing environment will return to Washington, which would likely provide additional near-term support to businesses and individuals who are in need. Corporate profits remained strong, especially for those businesses benefiting from digital conversion, and optimism returned for the prospects of many companies that had struggled because of the conditions of the last nine months. Interest rates remained super low, and the Fed appears to remain committed to additional accommodation if necessary.

CLIFF GREENBERG
PORTFOLIO MANAGER

Retail Shares: BSCFX
Institutional Shares: BSFIX
R6 Shares: BSCUX

This quarter, there was a change in market leadership. The best performing stocks shifted from growth and momentum to more value and cyclical companies. These had lagged and now their prospects seem brighter.

Though we are heavily invested in many stocks that fit the former bill, the Fund still had a strong quarter on an absolute basis: 28 stocks (of 76 owned during the quarter) rose over 30% in the quarter, and 10 stocks rose over 50%. Our best performers came from many different sectors and featured many smaller positions that came to life this quarter. These included Information Technology ("IT") companies **The Trade Desk**, **Gartner, Inc.**, and **WEX Inc.**; Industrials companies **Array Technologies, Inc.**, **Kratos Defense & Security Solutions, Inc.**, and **RBC Bearings Incorporated**; Consumer Discretionary companies **Red Rock Resorts, Inc.**, **Fiverr International Ltd.**, and **OneSpa World Holdings Limited**; and Health Care companies **Inspire Medical Systems, Inc.**, **HealthEquity, Inc.**, and **IDEXX Laboratories, Inc.** However, we did have a bunch of positions that kind of sat it out this quarter and didn't participate in the rally, including some of

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 1.31% 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 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.

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. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group. The indexes are unmanaged. The 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 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

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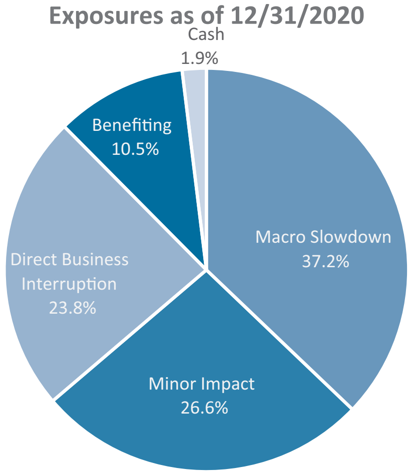
our larger holdings, such as **DexCom, Inc.**, **Clarivate Plc**, **Wix.com Ltd.**, **Installed Building Products, Inc.**, **Kinsale Capital Group, Inc.**, and **Vertiv Holdings, LLC**. We believe this is primarily because they had performed very well earlier in the year and the market rotated.

In the quarter, the Fund underperformed the Russell 2000 Growth Index, which was on fire and gained almost 30%. The Index was led by the sharp bounce back of lower-quality companies. Cyclical stocks in the Industrials, Energy, and Materials sectors did great. So called "re-opening stories" led the way. The Fund invests in high-quality, secular growers, so it did not benefit as these other stocks were in vogue. Health Care stocks were strong as well, especially biotechnology and pharmaceutical companies, and these sub-industries made up over 20% of the Index by the end of the quarter. Baron Small Cap Fund has modest investments in these sub-industries, as explained in the past. This made up a significant part of the variance of performance between the Fund and the Index in the quarter. Some other "style biases" and "factors" also worked against us in the quarter. Smaller stocks did better, and our Fund has some larger market cap positions as we hold onto our winners. Our bias towards earnings quality and profitability were drags, as volatile stocks outperformed and our holdings less so.

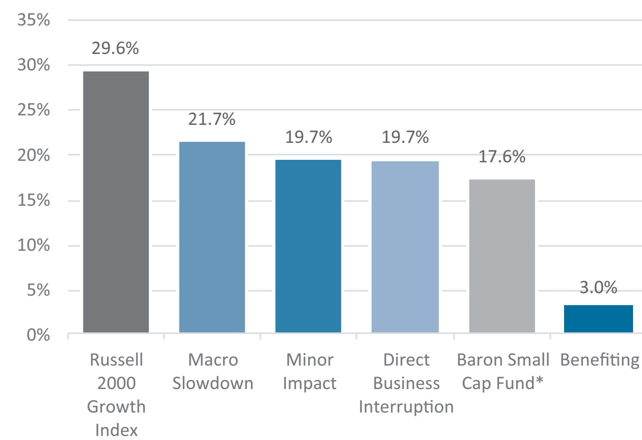
For the year, the Fund's strong results were driven by terrific performance of many stocks as their businesses excelled during the year. Most of our larger holdings had a great year, and we had a bunch of new positions that rocketed. Our biggest contributors for the year were IT holdings **Trade Desk**, **Wix**, **Repay Holdings Corporation**, and **Cognex Corporation**; Health Care holdings **Teladoc Health, Inc.**, **IDEXX**, and **Inspire Medical**; Industrials holdings **SiteOne Landscape Supply, Inc.**, **Clarivate**, and **Vertiv**; Consumer Discretionary holdings **Penn National Gaming, Inc.**, **DraftKings, Inc.**, **Floor & Decor Holdings, Inc.**, **Installed Building Products**; and Financials holdings **Kinsale** and **BRP Group, Inc.** Many of the stocks listed were up over 100%, and all were up around 50% or more. Our stock selection was excellent, as our holdings in key sectors solidly outperformed the Index constituents in those sectors. We significantly outperformed the Russell 2000 Growth Index and the S&P 500 Index. All in all, a terrific year.

Table II.
Exposures and Returns by COVID-19 Impact Type

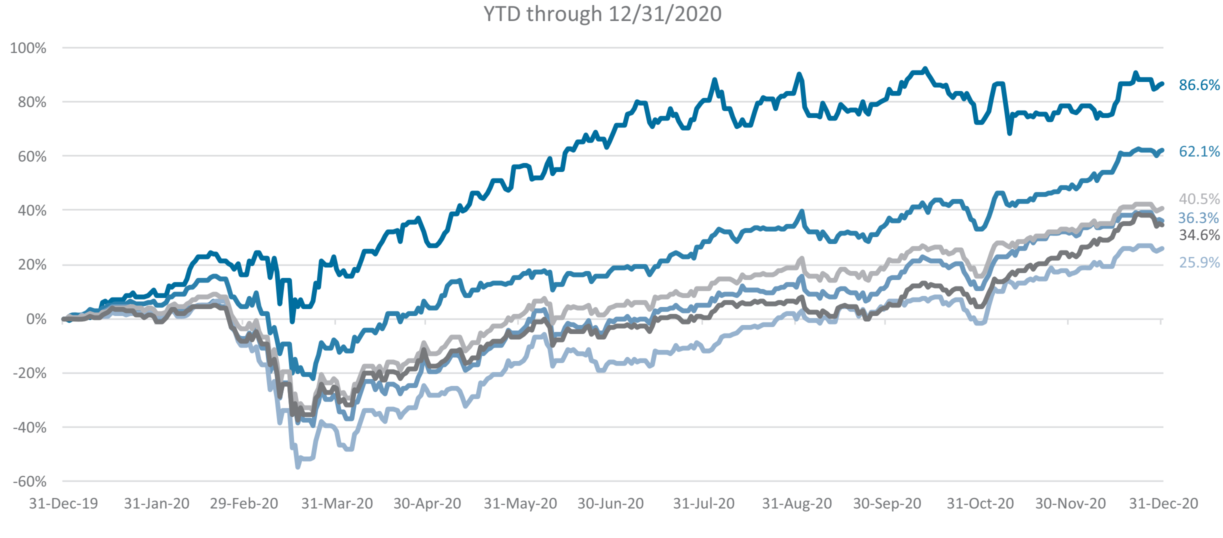
Exposures as of 12/31/2020



4th Quarter of 2020 Returns



Baron Small Cap Fund Cumulative Returns by COVID-19 Impact Type vs. the Russell 2000 Growth Index
YTD through 12/31/2020



Sources: BAMCO, FactSet PA, and Russell, Inc. The index is unmanaged. The index performance is not fund performance; one cannot invest directly into an index.
* *Represents the blended return of all share classes of the Fund.*

Throughout the year, we have been explaining how the performance of our Fund has been particularly affected by the pandemic. We have classified our holdings in four buckets and monitored how the stocks in those groupings have acted in each quarter, especially since we saw much uniformity in performance based on characteristics earlier in the year. To review, when COVID hit in the first quarter, the stocks we owned that suffered direct business interruption got slaughtered, while the stocks whose businesses actually benefited from the new conditions held solid. These beneficiaries soared in the second period, but by the third quarter they leveled out, since the catalysts that propelled these stocks were then understood by the market and they had performed so well. Our best performers in the third quarter were the stocks that were originally most affected by the pandemic, as their prospects improved, and their stocks started to participate in the broad market rally. The fourth quarter was more of the same. Our COVID beneficiaries were flattish, and our other holdings all did well, performing similarly, as shown in the bar chart above.

For the year, as might be expected because of the extreme dislocation caused by the virus, our biggest contributors were our "beneficiaries" (see the line chart above). The second-best group were those stocks that weren't so affected, and our worst performers were those directly affected. We presently have lower exposure to the "beneficiaries," about 10% of the portfolio versus a peak of 15%, because we have sold or trimmed those positions as the stocks realized the growth potential offered by the pandemic, and we invested new capital into stocks in other categories.

We think this was a worthwhile and interesting way to understand performance in the unusual year that just ended. But, as we approach a more normal economic environment (fingers crossed!), we note these categorizations are less meaningful in illustrating how stocks are acting, so we will stop this exercise go forward.

Table III.
Top contributors to performance for the quarter ended December 31, 2020

	Percent Impact
The Trade Desk	1.55%
Gartner, Inc.	0.88
SiteOne Landscape Supply, Inc.	0.83
ASGN Incorporated	0.79
Array Technologies, Inc.	0.78

The Trade Desk, the leading online advertising platform enabling advertisers and their agencies to efficiently purchase digital advertising, continued its great run. The stock was our best performer this quarter and second best for the year, more than tripling in 2020. This period, the company reported revenues that were well above Street estimates and continued to outline a bright future. Viewership of connected TV (Netflix, YouTube….) continues to greatly expand and ad avails increase. Trade Desk's revenues more than doubled in this important line of business. The company believes its new software release is a significant upgrade and will lead to even better measurement of the value of advertising being placed. The company reported great progress with its "Unified ID" product, which would replace cookies that are now used by walled gardens and independent websites. The company foresees this product reaching critical adoption in the upcoming year, further embedding Trade Desk in the digital advertising ecosystem.

Shares of **Gartner, Inc.**, the provider of syndicated research about technology and business practices, increased after reporting results that well exceeded estimates on both revenues and EBITDA. Though the core research business has slowed as corporations have cut back on spending, trends in both their IT and corporate offerings are on the upswing, and we expect re-acceleration as business conditions stabilize. Gartner's destination conferences are on hold, but the company has successfully pivoted to virtual events, which will probably remain relevant even after travel restrictions are behind us. Profit margins rose considerably in the quarter, and free cash flow generation was strong, resulting in the company having an underleveraged balance sheet that could be used for acquisitions and/or share repurchases. Though shares have bounced back, we still believe they are undervalued on our near-term estimates and do expect the company to revert to its historic strong long-term growth.

SiteOne Landscape Supply, Inc., the largest distributor of wholesale supplies to the landscaping industry, rose after reporting strong results. Same-store sales in the quarter were the best since the company has been public, and margins showed good improvement. The company restarted its acquisition program and has acquired eight companies so far this year and has a robust pipeline of future opportunities. Management explained how its operational and selling initiatives are making great strides, which we believe will lead to market share gains and higher margins in the future.

ASGN Incorporated is the second largest staffing company in the U.S., specializing in high-end recruiting for the IT industry and other growing end-markets. Because ASGN is so differentiated and focuses on secularly growing industries, it was able to grow revenues, even as the unemployment rate doubled and other industry players reported weak sales. The highlights were their government services segment, which grew 40% overall, including acquisitions and one-time contracts; and its consulting operation, which provides great high-margin assignments and is growing organically by double-digits. Trends indicate further improvement go forward. The company made two small acquisitions in the quarter and its balance sheet is now set up to enable more in the future. Strategic and accretive acquisitions have been a tremendous means of value creation in the past. We believe the stock remains inexpensive on near-term expectations and cheap against our longer-term view.

We bought shares in **Array Technologies, Inc.** during its IPO this quarter. The company is one of the largest manufacturers of solar trackers, a type of mounting system used for ground-mounted commercial solar installments. The stock rose nicely after the offering. Please see our brief writeup on the company later in this quarterly report.

Table IV.
Top detractors from performance for the quarter ended December 31, 2020

	Percent Impact
SBA Communications Corp.	–0.33%
DraftKings, Inc.	–0.30
DexCom, Inc.	–0.29
Teladoc Health, Inc.	–0.21
SOC Telemed, Inc.	–0.17

SBA Communications Corp., the operator of 30,000 cell phone towers in the U.S. and abroad, fell in the quarter as the market favored more cyclical and volatile equities. Interest rates ticked up in the quarter, which also weighs against REIT shares. Operating results were fine, with 15% AFFO growth. Leasing activity and forward bookings picked up as wireless usage remained strong. We expect continued momentum in the business as we enter 2021, with all the major carriers expanding their networks for the rollout of 5G services. We have owned SBA for over 16 years, buying our initial position at a $235 million market cap. We have made almost a 30% annualized return since its initial purchase, and the present market cap is over $31 billion. We trimmed our position earlier in the year when the stock was near its peak.

Shares of **DraftKings, Inc.**, one of the leading online sports betting and i-gaming platforms, fell on profit taking after its incredible run since its April IPO. We invested in January, in the SPAC that was acquiring DraftKings and the stock has risen over 260% from our initial purchase price. We are bullish about the future of sports betting and DraftKings' position as one of the leaders and innovators. The company launched its offerings in Illinois this quarter, and there are many more states that have approved sports betting for 2021, and we suspect more will do so, which will drive huge growth. Our work leads us to believe that the company could ultimately earn close to $1 billion in EDITDA, which is kind of amazing. Even so, we have been trimming our position during the year as the stock rose on excitement about this trend.

DexCom, Inc. sells continuous glucose monitoring devices for use by diabetics. The stock fell this quarter, after a big run, when a competitor received regulatory approval in Europe for its newest device. We continue to have great conviction in DexCom based on the large addressable market that its products address, the stellar execution of management, and the new product pipeline. DexCom's G7 product, which addresses the larger Type 2 diabetes market, will be introduced in 2021 and has great promise. At its recent investor day, the company projected that its revenues and profits would grow 250% and 300%, respectively, over the next five years, which we believe is eminently doable and is not reflected in the present stock price.

Shares of **Teladoc Health, Inc.**, the nation's largest telehealth company, declined in the fourth quarter after more than doubling earlier in the year. Teladoc was a major beneficiary of the pandemic, as utilization of its services accelerated and the prospects for telehealth became more cemented in the health care system as an integral modality of delivery. Teladoc closed a major acquisition of disease management company Livongo in the quarter. Teladoc was the top contributor to performance in 2020. However, we sold our position by year end since the stock had risen so much that the market cap of the company post acquisition was very high, and we are somewhat concerned about increased competition in the space. We owned Teladoc for three years and made a terrific 80% annualized return since its initial purchase.

SOC Telemed, Inc. is also a telehealth company that we invested in this quarter. The stock fell after its SPAC merger was complete. The increase in COVID cases will hurt the company's business near term. We discuss the company more fully later in this report and our rationale for purchase, so please read on to learn more.

Portfolio Structure & Recent Activity

As of December 31, 2020, the Fund had $5.1 billion under management. The top 10 holdings made up 28.1% of the Fund's net assets. These top holdings include some we have held over the last decade and some we have bought this year and last. We owned 72 securities.

Table V.
Top 10 holdings as of December 31, 2020

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Installed Building Products, Inc.	2017	$170.7	3.4%
Gartner, Inc.	2007	160.2	3.2
SiteOne Landscape Supply, Inc.	2016	158.6	3.1
Guidewire Software, Inc.	2012	157.7	3.1
The Trade Desk	2017	140.2	2.8
Floor & Decor Holdings, Inc.	2017	139.3	2.7
ASGN Incorporated	2012	133.6	2.6
Vertiv Holdings, LLC	2020	130.7	2.6
Clarivate Plc	2019	118.8	2.3
ICON Plc	2013	117.0	2.3

The Fund is most heavily invested in four sectors. As has been the case for some time, our largest concentration is in IT (25.6% of net assets), Industrials (23.1%), Consumer Discretionary (16.7%), and Health Care (16.2%). Compared to the Russell 2000 Growth Index, we are overweight in IT, Industrials, and Consumer Discretionary; and significantly underweight in Health Care, which stems from our aversion to biotechnology and pharmaceutical stocks. We own more Financials than in the past and own a bunch of FinTech stocks that are classified as tech companies. We only own two Consumer Staples companies, **UTZ Brands, Inc.** and **Whole Earth Brands, Inc.**, and no Utilities or Energy stocks. Our investments are made "bottom-up," meaning we are not aiming to find stocks in particular sectors so that we look similar to the Index. Just the opposite, we are looking for companies that meet our criteria across sectors and the portfolio composition flows from that effort.

We are long-term investors in small-growth companies. Stocks that we have held for over 10 years make up 15.8% of our Fund's assets. Another 22.6% of our holdings have been held 5 to 10 years. We hold these stocks for the long term because that has led to good returns. The stocks that we have held for more than 5 years have a weighted average annualized total return of 25%, which well surpasses the indexes over those holding periods. We often quote the old investment adage I first learned over 30 years ago, to "water your flowers and cut your weeds." These long-term holdings are "our flowers." As we make new investments, we are looking for our next long-term holdings, which involves a different type of mindset and research than most other investors undertake.

Our Fund is laden with "big winners." Investments in 14 stocks that make up 30% of our assets have appreciated five times or more in the Fund. An additional 27 stocks, making up 42% of our assets, have more than doubled since bought for the Fund. So almost three-quarters of our holdings have already been very successful investments. We hold these stocks only when we believe they can continue to be great stocks. Some of our holdings now have larger market caps than is typical in small-cap funds, but all these stocks were purchased when they are small and have appreciated significantly over time through long-term compounding and issuance of equity to grow their businesses. We sell some of our positions in these larger market caps to maintain what we believe are appropriate position sizes, to raise capital to reinvest in new small-cap ideas, and to be cognizant of the overall market cap of the Fund and stay true to our small-cap mandate.

We were a little more active in adding new names to the portfolio in 2020. The market was more volatile, which created opportunities. And we had continued success finding new investments that came public through SPAC transactions and IPOs. Our turnover for the year was about 17%, which is in keeping with our historical levels of 15% to 20%. For the quarter, the weighted average market cap of the new stocks bought was $2.0 billion and the weighted average market cap of all stocks bought, either new companies or additions to existing positions was $2.1 billion. For the year, our new stocks had a weighted average market cap of $1.5 billion when acquired, and all purchases had a weighted average market cap of $2.0 billion. These levels are in line with the market caps of initial investments over the life of the Fund. As we have discussed, SPACs are a great source of new ideas for the Fund. In the quarter, we bought one SPAC. We bought five SPACs during the year. About 37% of the capital invested in new ideas were in the SPACs. We also have committed to two PIPES in conjunction with SPAC transactions that will fund in the first quarter. We expect SPACs to continue as a great source of new idea flow in 2021, as we expect triple the amount of backend mergers to close, so lots for us to look over.

Table VI.
Top net purchases for the quarter ended December 31, 2020

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Array Technologies, Inc.	2020	$5.5	$35.7
SOC Telemed, Inc.	2020	0.6	32.3
CryoPort, Inc.	2020	1.7	13.7
Certara, Inc.	2020	5.2	13.3
Jamf Holding Corp.	2020	3.5	12.5

During the quarter, we made investments in six new ideas. We also added to nine positions. The new investments were in IPOs, SPACs, and existing businesses either owed by other Baron Funds or new.

Array Technologies, Inc. has a dominant market position in solar trackers, a single-axis mounting system that rotates solar panels to follow the sun. A solar tracker increases the yield of the solar panels, producing up to 25% more energy for 7% higher cost, and ultimately reduces the levelized cost of electricity produced by the system vs. "fixed-tilt" or stationary mounting systems. Array is a direct beneficiary of the economic competitiveness of solar energy and is agnostic to panel technology. The company has a patented tracker technology (around 10 years left on the patent) that uses less labor to install and 180 times fewer components, resulting in lower operating costs and fewer unscheduled repairs over an expected 30-year project's life. Array's automatic mechanical stowing design, which protects panels in high wind conditions as well as new software and machine learning capabilities further differentiates the company in improving the output of a solar project. Array's unique product design and strong execution has led to a dominant market position in the U.S. market with an over 50% share, up from 20% to 25% a few years ago.

We believe Array can double its revenue in the near term and more so thereafter through growth in the U.S. solar market and increased tracker penetration from 70% to 90%, taking share and further adoption of the global tracking market (currently 32% tracker vs. 68% fixed tilt) and expanding into adjacencies to sell through its existing sales channels via M&A, while maintaining a healthy 16% to 18% EBITDA margin with minimal capital expenditure.

SOC Telemed, Inc. is a nationwide leader in the ever-emerging field of acute telemedicine. The company provides high-quality specialty clinical care at scale through technology. SOC Telemed enables its critical mass of scarce physicians to provide real-time neurology, psychiatric, and emergency room services to hospitals in need, over the company's proprietary digital platform. The adoption of telemedicine has accelerated because of the pandemic and is still early stage. The company is a differentiated provider (acute care market focus) with a compelling market opportunity. We believe the company has substantial opportunities to expand its services with existing clients, to serve additional heath systems, and provide adjacent specialties which they will enter organically or through acquisition.

We admire the company's business model, which features recurring revenues, high rates of customer retention, and modest capital intensity. We believe that its software offering, Telemed IQ, is highly advanced and proprietary, and we are excited about the company's plan to sell licenses of its software outright in a SaaS model to hospitals and doctor groups who want to utilize it on their own. We foresee rapid growth and expanding margins for years to come. However, revenues in 2020 were down because hospitals were using their beds and resources to deal with COVID at the expense of focusing on providing regular acute services. The company came public by merging into a SPAC (the principals of which we highly respect), but, unfortunately, the deal closed when the market was weak, and the stock has traded down. We think the company is trading at about five times our estimate of forward annual revenues, which we think is cheap for a high-quality/fast-growing business.

Table VII.
Top net sales for the quarter ended December 31, 2020

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Teladoc Health, Inc.	2017	$1.8	$30.4	$75.0
The Trade Desk	2017	1.7	37.6	47.1
Moelis & Company	2014	0.4	2.4	29.2
Quaker Chemical Corporation	2019	2.6	4.5	24.8
Floor & Decor Holdings, Inc.	2017	3.0	9.2	21.9

During the quarter, we sold out of **Teladoc Health, Inc.**, a great position for the Fund, because of market cap considerations and valuation concerns. We also sold out of our smaller positions in **Moelis & Company**, **Quaker Chemical Corporation**, and **Cantel Medical**. All were deemed either full in valuation or less exciting than other ideas in which we were investing. All were bad sales so far, as these stocks continued to rally in the quarter and into the new year.

We trimmed some of our larger positions into strength. The largest decreases, measured by dollars raised, were **The Trade Desk**, **Floor & Decor Holdings, Inc.**, **Fiverr**, and **IDEXX**. All these holdings have been very strong in the quarter, and for the year, so we were reducing into strength, as is our usual practice.

Baron Small Cap Fund

Outlook

The market remains strong into the new year, continuing the momentum of the fourth quarter. Business remains strong for many of our holdings, especially those companies that are prospering from the acceleration of digital trends brought on by dealing with the pandemic. There is much optimism about the prospects for companies that suffered, as the end of the pandemic appears to be in sight and the return to normalcy is palpable. We expect strong continued results from most of our investments as the trends set in place in 2020 continue to play out. And other companies should benefit from pent-up demand and their business should bounce back vibrantly. Interest rates remain very low, which bodes well for high stock multiples, and, as rates tick higher, that negatively affects the attractiveness of bonds as an alternative to equities.

We expect the new Biden administration and Democrat-controlled Congress to be fine for business and the market. While we expect corporate and individual tax rates to increase, we think it is likely that there will be additional fiscal stimulus and support programs for individuals, which will add to growth. Hopefully, health care policy will be in capable hands and there will be an efficient and effective rollout of the vaccine and thoughtful oversight of future challenges. Though the country is terribly divided, we are hopeful that the temperature will be turned down, calming tensions, and, even if not, we don't believe it will be an impediment to economic growth or the market outlook.

The primary concern about the market is valuation. We acknowledge that stocks are trading at higher valuation levels than in the past. This is probably appropriate since the near-term and long-term prospects of our investments are rosier than usual, interest rates are so low, and we believe our holdings are so special, making valuations seem appropriate. But they are extended. As we underwrite our companies, we still see considerable upside based on our view of the future prospects of the businesses, but, again, we find ourselves embedding higher multiples.

We know that it is hard to understand the timing of when stocks will perform. So, we focus on how the business will perform and know that stocks will reflect these results over time. We are "in it to win it"…. we like to stay invested to capture the returns when they come (like in 2020) and not be too cute to try to think we (or anyone) can time it. And if stocks trade down, because multiples contract, I revert back to the teachings of the immortal Dick Gilder, who would say "growth cures all," which means if the companies perform and grow to be much bigger, their stocks won't seem overvalued for long. This is one of the great advantages of being a long-term, research-driven, investor; we don't have to time it right, we just have to get it right. And we have more times than not over the life of the Fund.

I would like to recognize the immense contribution of the Baron research group, which continues to do outstanding work in identifying, researching, and following the eclectic holdings of the Fund, each of which we believe has the common attributes of being competitively advantaged, well managed, growing nicely, and having great prospects for long-term success. Our team is very talented and dedicated, and it is showing its mettle and prowess through the strong results of the Baron Small Cap Fund and other funds at Baron. And thanks to assistant portfolio manager David Goldsmith for his invaluable role in managing the Fund.

I wish you all a happy and healthy New Year. For those who suffered this past year, you have my heartfelt sympathy, and I hope that better times are ahead.

Thank you for your confidence in us and your investment in the Fund.

Cliff Greenberg
Portfolio Manager

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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