DEAR BARON SMALL CAP FUND SHAREHOLDER:

PERFORMANCE

Baron Small Cap Fund (the "Fund") fell 23.34% (Institutional Shares) in the first quarter of 2020. This compares to the Russell 2000 Growth Index, which fell 25.76%, and the S&P 500 Index, which fell 19.60%.

Table I.
Performance
Annualized for periods ended March 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]	(23.37)%	(23.34)%	(25.76)%	(19.60)%
One Year	(16.24)%	(16.05)%	(18.58)%	(6.98)%
Three Years	3.81%	4.08%	0.10%	5.10%
Five Years	3.66%	3.93%	1.70%	6.73%
Ten Years	9.19%	9.47%	8.89%	10.53%
Fifteen Years	7.01%	7.21%	7.17%	7.58%
Since Inception (September 30, 1997)	8.78%	8.91%	4.88%	6.56%

CLIFF GREENBERG
PORTFOLIO MANAGER

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

The quarter was like no other that I or any money manager have ever experienced. After a strong start, with the market at all-time highs, propelled by strong earnings, solid economic growth, and full employment, the world is in the grip of a terrible virus and a global health pandemic. Economies around the world have been temporarily closed down in an effort to control the spread of the disease, resulting in a drastic contraction in economic activity. We are destined for a serious recession. Unemployment claims have skyrocketed (with weekly claims being 10 times greater than prior highs) and small businesses and larger ones that are leveraged or directly impacted are fighting for survival. Against this backdrop, the Federal Reserve and Congress have unleashed massive monetary and fiscal programs to try to blunt the impacts of the crisis…providing liquidity to markets and the financial system, increasing unemployment benefits, and extending loans and grants to businesses in need.

Uncertainty is everywhere…the severity and duration of the pandemic, the length and depth of the sharply reduced economic activity, and the path and timing of reopening the economy…and no one really knows the answers.

The market declined dramatically in response. The S&P 500 Index fell 33.8% from mid-February through late March. Volatility was intense, with the S&P 500 Index swinging over 3% on 22 of 26 days from late February to the end of March. Smaller capitalized stocks, as measured by the Russell 2000 Growth Index fell even more, declining 40.4% from peak to trough (2/19/2020 to 3/18/2020). The Russell 2000 Growth Index finished down 25.8% for the quarter, representing the fifth worst quarter since the benchmark's inception (12/31/1978). Small stocks lagged large stocks by the widest margin since 1998 and have lagged since 2016. We believe that small caps are set up to shine when the equity markets recover, as usually is the case.

The Fund swung wildly, from being up 9% in mid-February, to down 39% at the bottom, and then recovering much ground by the quarter's end. We outperformed the Russell 2000 Growth Index by 242 basis points, a pyrrhic victory, primarily because of stock selection. The Fund's bias to profitability, earnings quality, and size factors helped as well.

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, 2019 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 indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. The Russell 2000® Growth Index measures the performance of small-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 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.

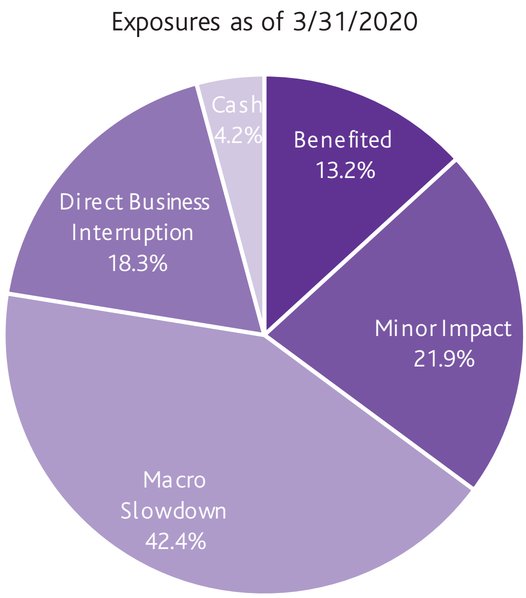
Table II.
Top contributors to performance for the quarter ended March 31, 2020

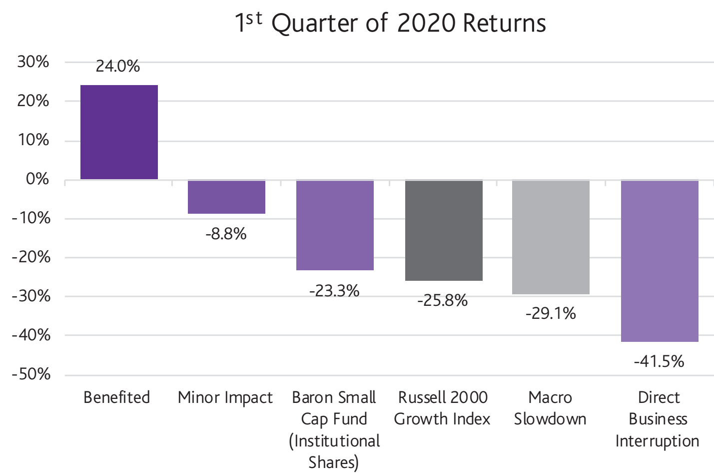
	Percent Impact
Teladoc Health, Inc.	1.81%
Clarivate Analytics Plc	0.33
DexCom, Inc.	0.32
Americold Realty Trust	0.20
Houlihan Lokey, Inc.	0.06

Table III.
Top detractors from performance for the quarter ended March 31, 2020

	Percent Impact
ASGN Incorporated	−1.33%
Gartner, Inc.	−1.24
WEX Inc.	−1.19
Floor & Decor Holdings, Inc.	−1.16
Installed Building Products, Inc.	−1.14

Table IV.
Exposures and returns by COVID-19 Impact Type





Sources: BAMCO, FactSet PA, and Russell, Inc.

Usually, the performance of our Fund is driven by particular developments…good or bad…of our individual holdings. Favorable results and strategic or accretive actions usually lead to rising stock prices and vice versa. We typically review the happenings at those individual businesses in this section. But because of the unusual circumstances of this quarter, we believe that the performance of our stocks, and thus our Fund, was driven more by the market's judgment on how well they would fare in the near term in the new environment. Other factors, such as the company's balance sheet/liquidity and their business model matter a lot right now too, but less than the real-time impact the pandemic is having here and now on our companies. The performance of our stocks bears out this observation.

We have classified our holdings into four categories:

a. businesses that are benefiting

b. businesses where the impact is minor

c. businesses that will be negatively affected by the macro slowdown

d. businesses experiencing direct business interruptions

Companies that, in our estimation, benefit from this environment, make up 13% of the Fund at quarter's end. They rose 24% as a group. They include **Teladoc Health, Inc.**, the leading provider of telehealth services. They are ideally suited as the initial patient touchpoint during a time of social distancing and overwhelmed health care facilities. Call volumes have spiked as acceptance on the part of doctors and patients is far greater than anyone imagined, as more medical specialties are delivered virtually and as payors have expanded coverage. We believe the utilization of telehealth services will increase permanently, and Teladoc will be a major beneficiary of this secular and lasting change. Others that we think are benefiting include **SBA Communications Corp.**, the communication tower company, as wireless networks need to be beefed up to handle the surge in internet traffic from people working from home. **Repay Holdings Corporation** enables debit cards to be used as payment for auto and personal loans, which will be relied on more as people refrain from visiting banks or make physical payments. **Americold Realty Trust** operates refrigerated warehouses that support the frozen food supply chain, which is taxed as shipments to supermarkets has risen with people eating at home more. Also, we expect continued secular growth of "e-grocery," which increases the need for the automation in cold storage facilities, of which Americold is a leading developer. In this group, we actually trimmed back some of our Teladoc position, as the stock rose 88% in the quarter, though it remains a core holding. We added to our Americold position.

Companies that were affected on the margin is a more diverse group. It makes up 22% of the Fund and, during the quarter, these stocks lost about 9% in value as a group. Our best performer was **Clarivate Analytics Plc**, a provider of IP and scientific information and services. The company announced strong results and a significant accretive and strategic acquisition. The business is critical to drug research and sold on a recurring subscription basis, so we think it will hold up well in a softer economy. **DexCom, Inc.** makes continuous glucose monitors for patients with diabetes. They reported stellar results and strong demand for their new products, with other big introductions in the offing. We believe that the COVID-19 crisis won't be too disruptive to its business, and the future is very bright. **Houlihan Lokey, Inc.** is an investment bank with a leading franchise providing a wide range of corporate advisory services to smaller companies. We expect their restructuring business to see a surge in activity in this environment of increased financial distress, which will offset a likely reduction in M&A volume.

Some of the companies in this grouping didn't perform well, even though we don't think their businesses will suffer too much. **BRP Group, Inc.**, is a small and fast growing insurance broker that we believe will grow slower in this new world, but we still expect mid-single-digit organic growth and additive acquisitions. We think the stock fell because, as a recent IPO, its shareholder base is less secure. We added to our position. A similar situation is playing out with **Grid Dynamics Holdings, Inc.**, another new position we invested in when it was acquired by a SPAC. We think that **Berry Global Group, Inc.**, the provider of packaging for stable end markets, such as food, hygiene, household, and personal care products, will do fine. But the stock fell because the company is leveraged and last quarter's results were just fair.

Companies that will be negatively affected by the slowing macro environment represent the largest part of the Fund, as one might expect since the effects of the situation are so widespread. These stocks make up about 42% of the Fund and were down 29% in the quarter. Some of the better performers were **Vertiv Holdings, LLC**, maker of critical infrastructure products for data centers and communications networks, which came public this quarter as the SPAC acquisition closed. The story is fresh and exciting…a leading niche business that had been neglected inside a bigger entity, that is now on its own and led by a very accomplished management team. Their plan calls for strong organic growth, margin improvement, deleveraging, and growth through acquisition, which should all be levers for share appreciation. **Trex Company, Inc.** held up well after reporting solid earnings driven by the warm acceptance of its new lower-priced decking product. And mainstays **Mettler-Toledo International, Inc.** and **Waste Connections, Inc.** did fine as both are stable, well established companies that are highly respected on the Street, even though both will grow more slowly as the economy contracts, and there will be some new challenges for each to deal with.

Some of the worst performers in this group were **TransDigm Group, Inc.**, **Installed Building Products, Inc.** and **John Bean Technologies Corporation**. TransDigm sells proprietary aftermarket parts to the airline industry. Obviously, their customers are hurting with the decline in air travel and their own balance sheet issues. We had fortuitously sold some TransDigm before the market collapsed at the highs. Inspired by the memory of how the company came back strong after 9/11, TransDigm remains a core position. Installed Building Products is a subcontractor to residential and commercial builders, installing insulation and other products. After reporting great fourth quarter results, the stock fell over concerns that housing starts will slow in a recessionary environment. That is likely true, but we viewed the decline as a buying opportunity, as the operating costs are highly variable, the company has ample liquidity, and will be even more competitively advantaged after the fallout. John Bean makes food processing equipment, which we believe is a great niche as global food producers modernize and automate. However, even though orders were on the upswing coming into the pandemic, the business is lumpy so we expect that things will be slower in the near term. No biggie, it's worth the wait until the macro environment gets back on track, in our opinion.

Then, there are the companies that are in survival mode until society gets back to "normal" (travel, congregating, etc.) whenever and whatever that may be, suffering direct business interruption. This group makes up 18% of the Fund and declined 41% for the quarter. Many of our worst performers in this category were Consumer Discretionary companies that had to close their businesses. We have some holdings that were obviously in that camp…such as retailer **Floor & Decor Holdings, Inc.**, casino operator **Red Rocks Resorts, Inc.**, and restaurant operator **The Cheesecake Factory, Inc.** These don't make up a big portion of our portfolio though, as we have struggled to find truly competitively advantaged growth businesses in these sectors. However, we have other large positions that are unfortunately imperiled because of the particular situation we are in, through no fault of their own. **Bright Horizons Family Solutions, Inc.**, the leading provider of corporate day care centers and other services, was forced to shut the majority of its centers along with school and office closings. **Planet Fitness, Inc.**, the franchisor of the dominant chain of health care clubs, is getting no revenues from its system as all gyms are now closed. Elective medical procedures are on hold so that hospitals can be used for COVID-19 patients, so **Silk Road Medical, Inc.** and **Inspire Medical Systems, Inc.**, which sell innovative medical products to treat carotid artery disease and sleep apnea, respectively, are not selling products for the time being. Even some of our larger Information Technology ("IT") holdings are mired. **Gartner, Inc.**, the provider of syndicated IT research, has a destination events business in which business leaders travel to meet and get current on the latest in product and industry trends. Those events have been suspended twice, and each time the stock was punished. **WEX Inc.** provides payment services to the transportation fleet and travel/hospitality end markets that are under severe pressure, and that is reflected in their stock prices.

We acknowledge that these classifications mattered the most in the first quarter, but we do not think that the market will be so myopically focused this way for long. For now, since it's all so shocking, it is understandable that investors gravitate to the companies that are least affected in the short term. But…we invest for the long term, always have, and how our companies do over time is much more important to our process and results. We invest in high-quality, well managed, growing companies with long runways of growth ahead. We believe that our special businesses will more easily get back on track, and that the quality of their businesses and their growth prospects will result in the resumption of their market leadership. It is unfortunate that many of our holdings are directly affected by present events, as their stocks have suffered the most and weighed on the performance of our portfolio, but we expect that many of those equities will be some of our best performers in the future since their businesses will recover from these depressed levels.

Portfolio Structure & Recent Activity

As of March 31, 2020, the Fund had $3.0 billion under management. The top 10 holdings made up 32.3% of the Fund's assets. We owned 67 stocks.

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
SBA Communications Corp.	2004	$128.2	4.2%
Teladoc Health, Inc.	2017	127.9	4.2
Guidewire Software, Inc.	2012	119.0	3.9
Gartner, Inc.	2007	99.6	3.3
ICON Plc	2013	95.2	3.1
Americold Realty Trust	2018	88.5	2.9
Clarivate Analytics Plc	2019	83.0	2.7
SiteOne Landscape Supply, Inc.	2016	81.0	2.7
DexCom, Inc.	2012	80.8	2.7
IDEXX Laboratories, Inc.	2008	78.7	2.6

During times of tumult, as in the first quarter, we try to be thoughtful and measured, not frenetic.

We look hard at our holdings, trying to determine if any of them have balance sheet or liquidity issues that could dilute our position. Also, we reexamine our investment thesis for each of our holdings to see if we believe that the long-term future of our companies has changed significantly for the worse. We tighten up the portfolio and sell out of some stocks that we don't believe in for the future and also rebalance the size of our present positions to weight them based on risk/reward from that point in time.

The result is that the portfolio is altered somewhat but not dramatically, as we liked our holdings very much coming into the quarter. Specifically, we reduced our number of positions by five. We increased our concentration, so that the top 10 positions represented 200 basis points more of the Fund.

Our concentrations by sector remained pretty consistent. Our largest sectors were IT (22.7% of net assets), Health Care (22.0%), Industrials (20.8%), and Consumer Discretionary (11.3%). Compared to the Index, we are overweight IT, Industrials, and Real Estate and underweight Health Care. We have small investments in Financials and don't own any Energy, Consumer Staples, or Utilities names.

We ran a cash position of about 4% at end of the quarter, which was up from earlier in the year and higher than in 2019. We think it's wise to have more cash during volatile times, to offensively take advantage of downdrafts by adding to positions at favorable prices, and defensively to have capital to take care of potential redemptions. We are pleased that we have not had increased outflows during the sell-off. I would expect us to maintain a somewhat elevated cash position for the time being, as that seems prudent. In contrast, during the time of the "great recession," we held a cash position of over 10%, but during the sell-off at the end of 2018, our cash position was in the low single-digits.

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

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Vertiv Holdings, LLC	2019	$2.8	$48.0
PolyOne Corporation	2019	1.8	36.6
Diamond Eagle Acquisition Corp.	2020	0.6	11.1
BRP Group, Inc.	2019	0.7	7.7
Ollie's Bargain Outlet Holdings, Inc.	2018	3.0	6.8

We bought two new names during the quarter, **Vertiv Holdings, LLC** and **Diamond Eagle Acquisition Corp.** We made our initial purchases early in the quarter and then added to our positions after the crisis hit. Both are SPAC conversions, which have been fertile ground for us to find new investments for the past year. We discussed Vertiv in last quarter's report and above.

Diamond Eagle is a SPAC that is buying DraftKings. DraftKings is the premier brand in digital sports entertainment. They originally focused on online fantasy sports betting, but more recently have entered the online sports betting and online casino betting markets, which we believe will ultimately be a massive $40 billion market. Diamond Eagle is also acquiring SBTech, a leader and innovator in sports betting technology, which will power the platform. DraftKings has had proven success in New Jersey, garnering substantial market share and earning significant profits in a short time, which gives us confidence that the company will be a leader in the new markets that we think will approve sports betting. The business will have a pristine balance sheet and a strong shareholder base when it merges into the SPAC in April. The company has laid out a roadmap to reach over $1 billion in EBITDA in time, which we think is reasonable, and if achieved, the stock would rise multiple fold.

Other stocks we added to this quarter include **PolyOne Corporation**, which we discussed in the last quarterly letter as well. The stock was under pressure this quarter over concerns about leverage they would take on to close an important acquisition, and general concerns about the slowing economy. We believe the company will be able to navigate the former on its terms, but do acknowledge that present earnings will be impacted. We think the stock was oversold and offered an opportunity to buy more. We increased our undersized position in **BRP Group, Inc.** on weakness. We added to **Ollie's Bargain Outlet Holdings, Inc.**, Installed Business Products, and Americold as well.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount Sold (millions)
Waste Connections, Inc.	2009	$0.4	$20.4	$27.0
Teladoc Health, Inc.	2017	1.8	11.3	24.9
SiteOne Landscape Supply, Inc.	2016	1.1	3.1	20.9
LiveRamp Holdings, Inc.	2013	1.6	2.2	18.8
TransDigm Group, Inc.	2006	1.1	17.2	18.5

During the quarter we exited six positions. Three (Abcam, Adaptive Biotechnologies, Wingstop) were sold at great prices before the market sold off, as we deemed them fully valued and could use the funds to buy better names. Three (Univar, Revolve Group, and RealReal) were sold as the market was deteriorating, as we determined that these businesses would not hold up well going forward either because of balance sheet or demand issues.

We trimmed many of our positions during the quarter. We sold pieces of many of our larger market capitalization holdings when the market was still strong, such as **Waste Connections, Inc.**, **SiteOne Landscape Supply, Inc.**, **TransDigm Group, Inc.**, Bright Horizons, and IDEXX Laboratories. We cut back our position in **Teladoc Health, Inc.** as it rose when considered a beneficiary of the crisis. We reduced some other positions, including **LiveRamp Holdings, Inc.**, Raven Industries, and Hudson, to raise money to invest into other holdings we liked more.

Outlook

As of this writing, the markets have recovered somewhat, as there is cautious optimism from the slowing of Coronavirus cases in the U.S., and hope that the government's financial resolve and response to carry its citizens and businesses during the economic shutdown would succeed. However, we remain concerned that it will not be so easy to quickly reopen the economy, that substantial damage will be done the longer the economy stays shut, and that it is unlikely that the recovery will be robust.

We are honest with ourselves that we don't know how this will play out. Nobody does. We are in a time of unprecedented uncertainty. We will stay well attuned to happenings and are willing to adapt to changing circumstances around both the health and economic picture. We suspect that the pandemic will likely accelerate the disruptive trends that were already in place.

We are optimistic by nature, which has served us well. Our optimism and study of the situation causes us to believe that this will pass. We will vanquish this virus with technology, it's just a matter of time. We think that our companies will prosper and in time earn more than we originally expected this year, and that their stocks will be higher. We suspect it will be a tug of war along the way, based on the pace of economic recovery and the state of investor sentiment. At the bottom, bearishness is extreme and anxiety high, which is a good time to buy…when nobody else wants to. We think investors who can stomach the uncertainty and stay invested, as we are in our strong businesses, even if 2020 will be a lost year for some of them, will benefit in the long run.

I sincerely hope that you and your families are healthy, safe, and taking good care of yourselves. I greatly appreciate your continued confidence in us, especially in these trying times. We will make it through.

We are attaching a link to an edited version of an interview that David Goldsmith and I did on March 26. We were asked to discuss the current environment, how we were thinking, and what we were doing. I think it's an honest, contemporaneous look inside our mindset, process, and day-to-day approach…and would be interesting to read, so it's here to check out if you would like.

https://www.baronfunds.com/sites/default/files/Cliff-Greenberg-and-David-Goldsmith-on-Coronavirus-3.26.20.pdf

Cliff Greenberg
Portfolio Manager