DEAR BARON SMALL CAP FUND SHAREHOLDER:

PERFORMANCE

Baron Small Cap Fund (the "Fund") appreciated 35.77% (Institutional Shares) in the second quarter of 2020. For the first six months of 2020, the Fund was up 4.09%. We meaningfully outperformed the Russell 2000 Growth Index (the "Index") and the S&P 500 Index, which were up 30.58% and 20.54% in the quarter, and are down 3.06% and 3.08% year-to-date, respectively.

Table I.
Performance
Annualized for periods ended June 30, 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]	35.64%	35.77%	30.58%	20.54%
Six Months[4]	3.95%	4.09%	(3.06)%	(3.08)%
One Year	8.32%	8.61%	3.48%	7.51%
Three Years	12.46%	12.77%	7.86%	10.73%
Five Years	10.48%	10.78%	6.86%	10.73%
Ten Years	13.41%	13.71%	12.92%	13.99%
Fifteen Years	8.97%	9.18%	8.85%	8.83%
Since Inception (September 30, 1997)	10.15%	10.28%	6.06%	7.36%

After a quarter in which stocks plummeted from the effects of Coronavirus, the market roared back, and stocks recovered with their best quarter in percentage terms in more than 20 years. Small stocks had fallen by 40% in just six weeks in the first quarter but rebounded almost as briskly in the second. What a year!

The market rallied because the economic outlook improved with businesses reopening and because of growing confidence about potential scientific breakthroughs in both vaccines and therapeutics. Policymakers have responded to the crisis with extraordinarily aggressive monetary and fiscal measures. Interest rates have been dramatically reduced, liquidity was restored to the market, enabling companies to fund their capital needs at favorable terms, and the government has supported small businesses with badly needed forgivable loans and greatly enhanced unemployment benefits for those who unfortunately lost their jobs. Economic statistics consistently show fresh signs of improvement, most evident in the jobs reports for May and June, with the jobless rate dropping from nearly 18% at peak to 11% at last reading. It is kind of hard to fathom, after the disaster that the global economy suffered, but it seems like a self-reinforcing economic recovery is taking hold.

CLIFF GREENBERG

PORTFOLIO MANAGER

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

There is optimism on the health care front as well. There are dozens of promising vaccines in development, and-frequent reports of positive results in their trials. Lots of progress is being made on therapeutics too.

It is rational to believe that there will be effective vaccines available within a year. This is enabling investors to look through to the other side of this crisis. Even with the resurgence of COVID-19 cases in June, the market was resilient, as there is an overriding belief that the Coronavirus crisis will pass in time.

The Fund had a very strong quarter, our best quarter ever. Gains were broad based, including both stocks that bounced back from big losses in the first quarter, and those that rose as they continued to show strong operational results. We had 19 stocks that were up over 50% in the quarter, which is pretty amazing. We had only 5 stocks that fell in the quarter, and they were all miniscule positions. Our Information Technology (lead by **Wix.com Ltd.**, **The Trade Desk**, and **Repay Holdings Corporation**), Industrials (headed by **ASGN Incorporated**, **Vertiv Holdings LLC**, and **SiteOne Landscape Supply, Inc.**) and Consumer Discretionary (lead by **Floor & Decor Holdings, Inc.**, **Installed Building Products, Inc.**, and **Ollie's Bargain Outlet Holdings, Inc.**) stocks rose over 50% in the quarter. We also had strong absolute performance and contribution from our Financials holdings.

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.

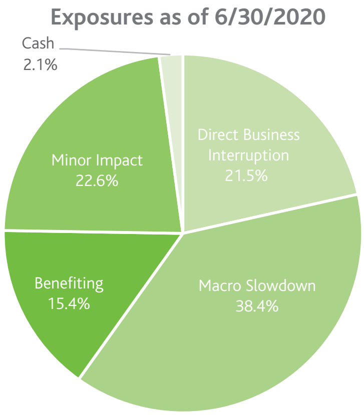
3 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

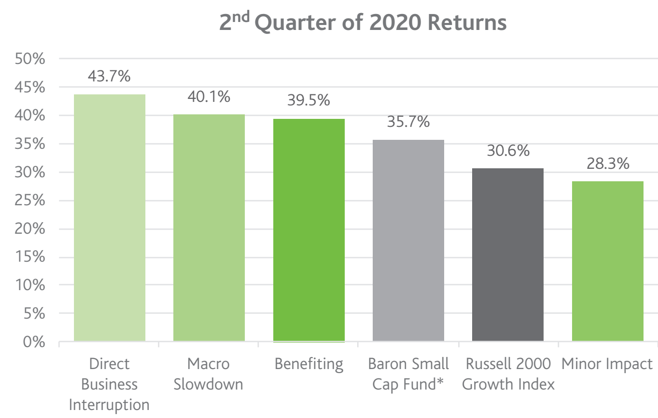
4 Not annualized.

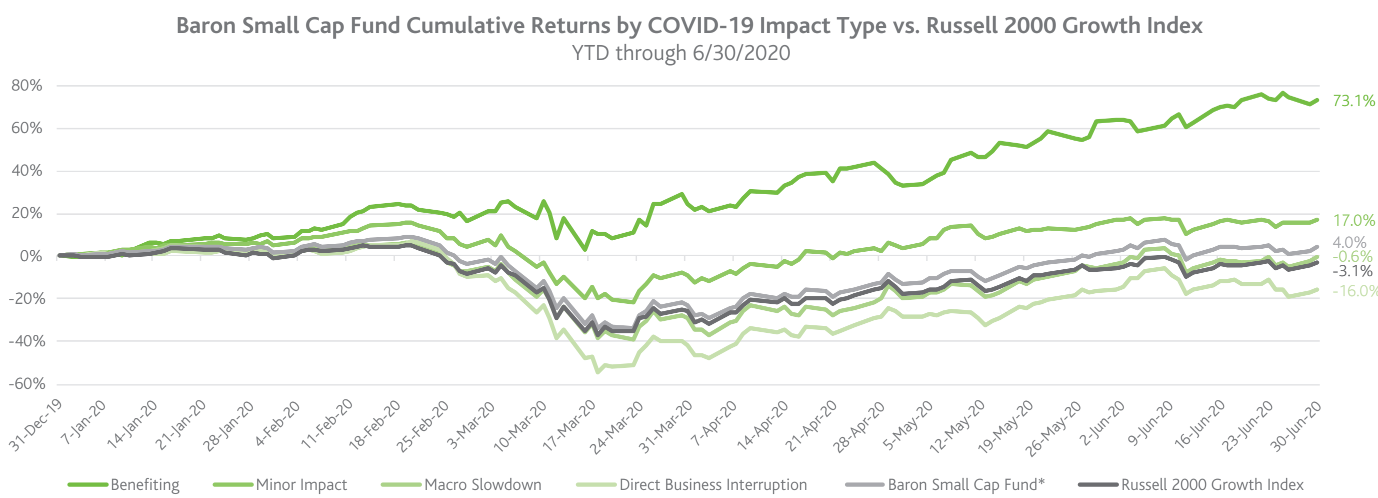
Baron Small Cap Fund

On a relative basis, the Fund primarily outperformed the Russell 2000 Growth Index because of favorable stock selection. This overshadowed the adverse effect of certain style biases. The Fund favors high-quality, low-beta companies, but this quarter stocks that are more volatile and have lower quality earnings outperformed. Also, the market cap of the Fund skews higher than its Index because of our long-term holding period and desire to stick with our winners, but, this quarter, the smaller, more speculative stocks did better. And, as always, the Fund is significantly underweight in biotechnology stocks, as those companies are typically not established enough for our taste, and biotechnology stocks were one of the strongest sub-industries in the Russell 2000 Growth Index this quarter. Still, we were able to overcome these negatives and outperform that Index by over 500 basis points in the quarter.

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







Sources: BAMCO, FactSet PA, and Russell, Inc. An investor cannot invest directly into an index.

* *Represents the blended return of all share classes of the Fund.*

Like the first quarter, it is best to discuss the performance of our Fund based on our characterization of how the pandemic is affecting the businesses of our investments. During this unusual time, it is our view that, for the most part these classifications have mattered more to how stocks acted than micro developments at the companies themselves. In this context, the second quarter was the flip side of the first. As the economy started to reopen, and there was some light at the end of the tunnel, the companies left for dead in the first quarter bounced back to lead the market higher in the period.

Our best performers this quarter were those that suffered direct business interruption because of the pandemic. As a group, they were up 43.7% in the second quarter, after declining 41.5% in the first quarter, when these were by far the worst performing segment. This group made up about 21% of the assets of the Fund in the second quarter. The second-best performing group this quarter were companies that were hurt by the slowing macro economy. This group was up 40.1% this quarter, after declining 29.1% in the first quarter. This group makes up 38% of our Fund, so is more significant to our overall returns. The stocks of our holdings that benefit in the present circumstance continued to act well and were up 39.5% for the quarter. These stocks gained 24.0% in the first quarter, and they make up 15% of the Fund. Stocks of companies that were only impacted to a minor degree gained 28.3% this quarter, after declining 8.8% in the first quarter. They comprised 22.8% of the Fund.

As shown in the graph, year-to-date our best stocks were those benefiting from the environment, as they are up 73%. The stocks of companies that are suffering direct business impact are down 16% for the year, even after the big gains this quarter. This all makes sense since the economic environment has changed so much since the spring and is a tailwind to some businesses and a headwind (sometimes a major headwind) to others.

In the "Direct Business Interruption" group, retailers **Floor & Decor Holdings, Inc.** and **Ollie's Bargain Outlet Holdings, Inc.** were very strong performers. Floor & Decor, the leading retailer of hard surface flooring, had reopened all its stores by early June. Housing is strong, driven by lower interest rates and rising home values. Consumer demand is buoyed since homeowners are staying at home and more desirous of improving their surroundings. The professional channel is very busy. All of these are trends that point to strong expected results. Ollie's, a leading close-out retailer of general merchandise, announced a material acceleration in sales trends, starting in the second quarter. Earnings estimates have been increased. The company's focus on selling essentials at value prices is spot on for this moment in time. And Ollie's will benefit from the retail disruption and troubles of other retailers, as more desirable merchandise is becoming available for them to purchase cheaply and add to its offerings. Not only are these companies performing, but we believe both are defined leaders in their niches, are exceptionally well managed, and have a long runway of growth ahead of them. Floor & Decor now operates 125 stores, and we believe they will grow their store count at 20% per year on the way to a 400 plus store base. Ollie's operates 360 stores and we believe it will grow at a mid-double-digit pace to over 1,000 in time.

We own gaming companies (**DraftKings, Inc.**, **Penn National Gaming, Inc.**, and **Red Rock Resorts, Inc.**) whose businesses were basically shut in the first quarter but started to reopen in the second quarter. The stocks of DraftKings and Penn soared this quarter as investors are gripped by the potential for online sports betting. We agree and believe there is a massive opportunity in sports betting and "i-gaming" (online casino games). DraftKings is the premier brand in the space and is creating a vertically integrated powerhouse that will offer differentiated in-game betting options. Seven states have presently approved sports betting, but we think many more states will follow suit in an expedited fashion as a way to generate much needed tax revenues. Penn acquired Barstool Sports this spring. We are positive that the Barstool brand and ecosystem will translate well to Penn's online gaming efforts, and this new business can be an important contributor to Penn's future cash flow. We repurchased shares in Penn this quarter to participate in the upside we expect this to generate.

The stocks of medical products holdings **Inspire Medical Systems, Inc.** and **Silk Road Medical, Inc.** significantly rebounded this quarter, as hospitals returned to offering elective surgeries. Each company has unique products and the potential to become the standard of care in its niche. The shares of our holdings in other consumer sectors–restaurant operator **The Cheesecake Factory, Inc.**, gym operator **Planet Fitness, Inc.**, day care center operator **Bright Horizons Family Solutions, Inc.**, and casino operator **Red Rock Resorts, Inc.**–were all strong for most of the quarter but sold off in the back half of June when Coronavirus cases started to rise and states took or considered actions to moderate the pace of reopening indoor venues.

We had three terrific performers in the "Macro Slowdown" category among many good stocks. **The Trade Desk** is the leading independent technology platform for digital ad buyers. Business softened early in the year, as advertising budgets were slashed since economic conditions deteriorated and ad spending (a variable expenditure) could easily be cut back. Advertising inflected positively in June. Trade Desk benefits from increased viewership and advertising on connected TV (Netflix, YouTube…), and we expect COVID-19-related disruptions to linear TV advertising spending to accelerate. Trade Desk is gaining share in programmatic advertising, and we expect the programmatic pie to grow significantly over time.

ASGN Incorporated, a leading staffing firm focused on the IT and government services end markets, rose sharply after reporting strong first quarter results with a big beat on earnings and after explaining that the impact on COVID-19 on future results would be modest. In the first quarter, organic growth in the main technology staffing division was up 4%, and up 19% in its ECS unit, which serves the government. It is a testament to the quality of the company's operations and their importance to their customers that sales are expected to hang in even in the face of exploding unemployment. We believe the company will benefit from the trend of reshoring employees and that they will continue to grow their "sow" line of business, in which they take on entire tasks for clients and do not just provide tech employees. The balance sheet is now underleveraged, so we anticipate the company to return to its acquisitive ways, which has proven over time to be highly strategic and accretive to both near-term earnings and long-term positioning. Also, in the human capital management business, we own **Ceridian HCM Holding Inc.,** which does digital payrolls. That stock snapped back as well this quarter.

Installed Building Products, Inc. ("IBP"), the leading installer of insulation and complementary building products for residential and commercial construction markets, reported strong results and an upbeat long-term outlook. Revenues grew double digits in the first quarter and incremental margins were strong. Orders for new homes dried up in March and April, which will likely cause a softening of installation business for a quarter, however housing trends have since turned positive, and we expect the slowdown for IBP to be short lived. The commercial business is now performing very well and offers great opportunity to create a second leg of growth over time. Management put a temporary pause on its acquisition program to take stock of the situation, but we suspect they are probably now more favorably inclined. The pipeline is healthy, and acquisitions are super accretive as it can buy small tuck-ins at sub-five times EBITDA, improve the profitability, and grow the acquired businesses. It's stock trades at twice that multiple.

Other strong stocks in the category that gained over 50% in the quarter include, **Trex Company, Inc.**, **Vertiv Holdings, LLC**, and **SiteOne Landscape Supply, Inc.** Each reported solid results, improving trends, and seemed to be back on track to continue their historic growth.

Helios Technologies, Inc., **Ingevity Corporation**, and **Raven Industries Inc.** each reported weak results and outlooks. There were CEO changes at Helios and Ingevity. We sold our stakes in each as we deemed them to be too cyclical, and we were less comfortable with the management teams.

Our top contributor this quarter was **Wix.com Ltd.**, which provides software to small businesses to help them build and maintain websites. This company is squarely in our "Benefiting" bucket, as the pandemic is accelerating the pace of digitization. April results showed a significant acceleration in the pace of business, with collections increasing 76% and premium subscriber additions rising 207%. Wix has rolled out e-commerce business plans for their website customers that enable small businesses to operate online, which greatly increases its scope and revenue opportunity. Also, the company sells tools to professionals and agencies who help businesses digitize, and these offerings are now getting traction. This would also be a new significant line of business, extending the company from its core DIY channel.

Repay Holdings Corporation was another holding in this category that was up lots. Repay provides payment software for auto and small business loans. As these channels move online, the company is thriving. They also have proven to be keen acquirers of complementary products that have successfully been integrated to the base offerings.

In the "Minor Impact" category, we had success with a couple of Financials, **BRP Group, Inc.** and **Kinsale Capital Group, Inc.** BRP is an insurance broker that came public last year, and we added to our position this quarter. We like the company's entrepreneurial culture and its differentiated go-to-market approach, which has led to above industry organic growth. We believe the company is executing a smart acquisition strategy to add high-quality smaller brokers to its platform, to increase its product expertise and market reach. We are particularly enamored with its MGA of the Future offering, which sells renters insurance online, as it has a great business model and growth prospects. Kinsale is a specialty insurance company that focuses exclusively on the excess and surplus lines market, a less commoditized segment for risks that cannot be placed in the standard market. The company reported excellent first quarter results and beat estimates on both its top and bottom lines. Management expects minimal impact from the COVID-19 pandemic on premium growth and earnings.

On the negative side, **Whole Earth Brands, Inc.**, a new investment in a natural foods space, fell after going public through merger into a SPAC. We like the business, management, and opportunity, and believe the stock is down because it is not yet understood. **Grid Dynamics Holdings, Inc.** is a neat company that provides digitization services, which is a hot space. However, Grid's primary customers are large retailers, some of whom are suffering in the pandemic and greatly reducing their use of Grid's services. We believe the company is doing a good job in transitioning its clientele and will revert to growth soon enough, but this year's results are much lower than we had hoped.

Table III.
Top contributors to performance for the quarter ended June 30, 2020

	Percent Impact
Wix.com Ltd.	2.43%
The Trade Desk	2.01
ASGN Incorporated	1.77
Floor & Decor Holdings, Inc.	1.61
Installed Building Products, Inc.	1.53

Table IV.
Top detractors from performance for the quarter ended June 30, 2020

	Percent Impact
Helios Technologies, Inc.	–0.18%
Whole Earth Brands, Inc.	–0.08
LiveRamp Holdings, Inc.	–0.04
Grid Dynamics Holdings, Inc.	–0.04

Portfolio Structure & Recent Activity

As of June 30, 2020, the Fund had $4.0 billion under management. The top 10 holdings made up 29.8% of the Fund's assets. We owned 67 stocks plus some warrants.

Table V.
Top 10 holdings as of June 30, 2020

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Guidewire Software, Inc.	2012	$135.8	3.4%
Teladoc Health, Inc.	2017	124.0	3.1
Gartner, Inc.	2007	121.3	3.1
SBA Communications Corp.	2004	119.2	3.0
Floor & Decor Holdings, Inc.	2017	115.3	2.9
Installed Building Products, Inc.	2017	115.2	2.9
SiteOne Landscape Supply, Inc.	2016	114.0	2.9
ASGN Incorporated	2012	113.4	2.9
The Trade Desk	2017	111.8	2.8
ICON Plc	2013	109.5	2.8

As in the past, the Fund has its highest concentrations in Information Technology ("IT") (24.1% of net assets), Industrials (21.0%), Health Care (19.5%), and Consumer Discretionary (14.8%). Compared to the Russell 2000 Growth Index, we are overweight in IT, Industrials, and Consumer Discretionary; and underweight in Health Care. Our overweight in IT is smaller than in the past and larger in Industrials at the end of the quarter because of the annual rebalancing of the Russell 2000 Growth Index and the performance of the sectors. The underweight in Health Care has increased, as biotechnology stocks were extra strong this quarter and now make up nearly 18% of the Index, and we are not invested in that sub-industry.

In some of our smaller allocations, our Real Estate holdings (5.7% of net assets) and Communications Services (4.3%), we are overweight versus the Index. We are underweight in Financials, Consumer Staples, Energy, and Utilities. Our cash position was 3.5% on average during the quarter and ended the period at 2.1%. We ran at a somewhat higher cash balance in the first quarter, but now cash levels are normalizing as the market settles down, and we are finding new opportunities to put cash to work.

We remain true to our tenet to be long-term investors in growth business and to hold onto our winners to participate in their success. At the end of June, 40% of our assets were in stocks that we have held 5 years or more (and 17% we have held over 10 years). These long-term holdings have stellar annualized returns of 24.3% per year. The Fund is also laden with "big winners." About 32% of our Fund's net assets are invested in securities that have increased five-fold or more since their initial purchase, and another 34% of the Fund's net assets are invested in securities that have more than doubled since their initial purchase. So, two-thirds of our holdings have already been great stocks, and we believe there is much more to come and that they will continue to perform well going forward.

We added eight new names to the Fund this quarter, which is higher than last quarter, as we suspected. Of the new names, four were stocks that we either had owned or were following/held in other Baron Funds. Two of the new positions were IPOs and two were SPAC transactions. The weighted average market cap at purchase was $1.6 billion. This is in keeping with our historical market value on entry of between $1.5 billion and $2.0 billion. We exited nine positions in the quarter.

The weighted average market cap of all stocks added (including both new positions and stocks where we added to our positions) was $1.9 billion. This contrasts with $10.5 billion, the weighted average market cap of our sales.

This is consistent with our practice of selling higher market caps and redeploying that capital into small-cap stocks.

Table VI.
Top net purchases for the quarter ended June 30, 2020

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Collier Creek Holdings	2020	$0.8	$38.9
Axonics Modulation Technologies, Inc.	2020	1.4	33.3
Kratos Defense & Security Solutions, Inc.	2020	1.9	30.0
AZEK Co Inc.	2020	4.8	25.1
Penn National Gaming, Inc.	2020	4.2	21.4

We initiated a position in SPAC **Collier Creek Holdings** on the announcement of its acquisition of Utz Brands, a salty-snack company founded in 1921 that owns and sells well-known brands *Utz, Zapp's, Good Health, Golden Flake*, among others. Through the SPAC merger, Utz is entering the public markets backed by exceptional leadership on the Board, which we think will enhance its growth prospects and profitability. Collier Creek management, led by former Pinnacle Foods Chairman Roger Deromedi, seeks to replicate his proven operating playbook. Utz, the #4 national player in the category, has demonstrated 43 years of consecutive sales growth and a 4% CAGR over the past five years on back of its prominent brands, competitively advantaged manufacturing, and distribution network. We see that organic growth is accelerating near term, benefiting from eat-at-home trends (first quarter 12% year-over-year growth), and longer term, via targeted brand investment and capturing white space opportunities across channels and geographies. We expect M&A to drive shareholder returns as well given the fragmented market and accretion from layering single brands into Utz's manufacturing facilities (69% utilization) and direct-to-store delivery model. Over the past decade, Utz management has been successful in this regard, making 11 acquisitions with a post-synergy multiple of 7.4 times. With a tighter focus on operations, we think Utz margins should rise from 12.4% to 'mid-teens' over time. $50 million of costs have already been identified to cull over the next three years. We believe this business can be a long-term compounder with EBITDA growth of around 10%, and trade at a nice premium to our about 12 times EBITDA entry point.

Axonics Modulation Technologies, Inc., designs, manufactures, and sells implanted medical devices that improve bladder and bowel dysfunction. Sacral Neuromodulation ("SNM") therapy treats overactive bladder (40 million U.S. adults) and fecal incontinence (18 million), mostly impacting older females, by stimulating the sacral nerve, much like a pacemaker. There were only 45,000 implants in 2019, or 1% of the estimated 4 million patients that are eligible candidates for SNM therapy as a result of having failed or not being satisfied with results of drug therapy or Botox injections into the bladder. Our diligence confirms a huge growth opportunity for Axonics to increase customer awareness, as well as take a chunk of the market with better technology. Medtronic is the incumbent player with approximately $700 million of sales but hasn't innovated or educated the market on the benefits of SNM. Axonics launched the first rechargeable SNM system (one hour each month) that is superior to Medtronic's legacy device. This system is designed to last 15 years versus Medtronic's device that requires a surgical replacement every 5 years. The SNM system is 60% smaller than Medtronic's and full body MRI compatible. We believe the market is vastly underpenetrated, and our diligence indicates that, after the Axonics launch, patients and physicians are more interested in SNM as a solution. The clinical data shows 90% efficacy for Axonics' patients after one year. The company has already signed over 350 unique accounts (hospitals and ambulatory surgery centers) in the U.S. and is gaining momentum. Aging demographics, and an innovative technology should drive further SNM adoption, driving management's $150 million revenue target for 2021 to serve as a guidepost on a path to several hundred million dollars of sales, and a nicely profitable business (20% EBITDA margins) over time.

Kratos Defense & Security Solutions, Inc. designs and supplies low cost, high performance defense solutions to meet the growing strategic priorities of the U.S. Defense Department and its allies. The company focuses on unmanned aerial drones, satellite command, control, and communications systems, microwave electronics for electronic warfare, radar and missile systems, ballistic missile defense systems, small jet engines for munitions and drones, and training systems. Founded in 1995, Kratos owns all key IP in its high-growth businesses with a goal of winning sole source contracts and "designed in" positions on defense programs with multi-decade life spans. Kratos' core differentiation is its demonstrated ability to develop and field high technology solutions at an affordable cost–meeting the need for military mobility to do more while spending less. For example, three Kratos drones might cost 10% to 20% as much as a comparable fighter jet, all while delivering the same payload and without risking human life. These "loyal wingman" or autonomous fighter/bomber/reconnaissance drones that are already flying today could quickly drive drone revenues from $200 million this year to potentially over $1 billion by 2025. Other business lines driving Kratos' $7.7 billion proposal pipeline (versus $740 million of guided revenue this year) include ground command and control systems for satellites, sub-systems for key missile defense technologies, and small jet engines for a range of standard munitions and new drones. With a clear value proposition, strong IP, and clear alignment with fast growing areas of the defense budget, we see potential for EBITDA to be two to three times this year's $75 million.

We acquired shares in **AZEK Co Inc.** as part of the company's IPO. AZEK was formed in 2012 when AZEK, a leader in PVC based outdoor products, merged with Timbertech, a branded composite decking company. Today, it is a leading manufacturer of branded, non-wood outdoor living products (including decking, railing, and trim) primarily servicing the U.S. residential housing industry. The company generates over 20% EBITDA margins and attractive ROIC with leadership positions across its product categories, including the #2 position in composite decking and railing (behind Trex, another Fund holding), the #1 position in PVC decking, and the #1 position in PVC trim. Demand for AZEK's non-wood decking products is expected to continue growing at a healthy clip, as consumers increasingly opt to replace their wood decks with composite or PVC materials, which offer similar aesthetics but are less costly to maintain. Wood still represents 80% of the decking market, 67% of the rail market, and 42% of the trim market presenting a long-term conversion story. AZEK's leadership positions, recognized brands, broad product offering, and exclusive distribution relationships serve as competitive advantages that position the company well to benefit from these secular trends and limit new competition. The business has benefited near term from COVID-19 related shelter-in-place trends, boosting spending on outdoor living renovations. While deleveraging will be a priority in the near term, strategic acquisitions, in which this management team has proven acumen, are another potential avenue of growth in the coming years. The company is in the process of building out its recycling capability, which is expected to lower the company's cost structure and improve margins meaningfully over time. We like AZEK for the long term as a double-digit EBITDA compounder with a great financial and ESG profile.

Table VII.

Top net sales for the quarter ended June 30, 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	$14.2	$33.2
Guidewire Software, Inc.	2012	1.4	9.2	28.8
IDEXX Laboratories, Inc.	2008	2.0	28.0	23.3
SBA Communications Corp.	2004	0.2	33.3	22.4
Ingevity Corporation	2018	3.6	2.0	21.8

During the quarter, we trimmed many of our larger positions, all of which had acted well. The largest sales were **Teladoc Health, Inc.**, **Guidewire Software, Inc.**, **IDEXX Laboratories, Inc.**, and **SBA Communications Corp.** We remain shareholders in each and are excited about their prospects, but we wanted to take advantage of price increases, reduce the Fund's average market cap, and have the capital available to put into new small-cap ideas.

We exited four industrial companies, each for different reasons. The common thread was that we are less certain these companies will bounce back to prior earnings levels, even as their stocks had rebounded. We sold out of two retail stocks, concerned about their balance sheets and economic headwinds. We sold two IT holdings that we had less confidence in than our other holdings. And we sold one Health Care stock that we believed was fully valued and offered less upside than other names.

Outlook

As of this writing, the market has recovered significantly, and the NASDAQ Composite is trading at an all-time high. It's hard for many to come to grips with this when large swaths of the economy have suffered terrible blows, so many businesses are teetering, and people have lost their jobs.

How can this be?

Well, first, many businesses in technology, digital, internet, and medical research are thriving in the present environment. As disruptive trends have been accelerated, many companies are doing better now than they would have and their long-term growth prospects have also improved. This makes up a significant part of the market, and these companies are the mainstay of the NASDAQ, so it makes sense their stocks should be higher.

Second, the market is forward looking. It is reasonable to believe that the Coronavirus will pass through scientific breakthroughs, hopefully sooner rather than later. Longer-term investors, like ourselves, are looking to the other side of this crisis (not without empathy and compassion for the businesses and the people who work for them that have been hurt the worst by the pandemic), as we invest and value our investments based on how companies will perform for years to come. How they do for the next six months or so matters less to our thinking about long-term opportunity, performance, and value creation.

Third, the massive stimulus that the Federal Reserve and Federal government have instituted, the success of the efforts so far, and the commitment to continue to do what it takes, makes us feel that the economy will heal and catastrophe will be avoided.

Fourth, interest rates are close to zero, which is good for business and equity valuations. There is no inflation. And investor sentiment is cautious with much skepticism about market levels…. all of these contribute to a favorable investing environment.

Against this are some legitimate concerns.

First, Coronavirus cases are on the rise, which could derail the economy.

Second, there should be negative consequences from the government spending needed to bridge the economy. Deficits are risings significantly and tax revenues are flagging, creating imbalances that will need to be tended to.

Third, there are elections in November and now the Democrats are in the lead. If it plays that way, one could expect higher taxes and less business-friendly policies.

And fourth, stocks have risen, some significantly, and there are legitimate concerns that equities are ahead of themselves and are overvalued. We are intently focused on this point and study the valuations of our holdings very carefully. It will be harder to earn good returns from these levels in the nearer term.

I am heartened to report that our Firm is functioning well even as we work remotely and apart from each other. I commend our research department for its great work now and over the years for identifying some wonderful companies in which to invest. While I miss seeing many of my colleagues, I am confident we can keep up the good work and provide our investors with good returns.

I appreciate your investment in the Fund and your continuing confidence in us, and I wish you good health in these unusual times.

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.

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 manager's 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.

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