Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund (the "Fund") gained 1.32% (Institutional Shares) in the third quarter of 2021. For the first nine months of the year, the Fund is up 10.65%. The Fund soundly beat the performance of the Russell 2000 Growth Index (the "Index") in the quarter, which was down 5.65%, and for the year, with the Index up just 2.82%. The S&P 500 was up 0.58% for the quarter and is up 15.92% for the year, as large-cap stocks have outpaced small caps this year.

The Fund has outperformed the Index for most time periods. Over the life of the Fund, we have compounded at over 400 basis points more than the Index…11.58% versus 7.32%, which means that if you invested in the Fund since inception, it's now worth 2.5 times more than if you had invested in a fund designed to track the Index.

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

	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]	1.24 %	1.32 %	(5.65)%	0.58%
Nine Months[4]	10.43%	10.65%	2.82%	15.92%
One Year	29.77%	30.11%	33.27%	30.00%
Three Years	17.55%	17.86%	11.70%	15.99%
Five Years	19.98%	20.29%	15.34%	16.90%
Ten Years	16.85%	17.15%	15.74%	16.63%
Fifteen Years	11.46%	11.70%	10.59%	10.37%
Since Inception (September 30, 1997)	11.43%	11.58%	7.32%	8.53%

The market was flat to down in the quarter. As opposed to the past few quarters, when the economy was accelerating rapidly and earnings were surging (from depressed levels caused by COVID), headwinds arose in this period. The Delta variant surged in much of the country, slowing the reopening of the economy and impeding growth. Ever-increasing supply chain issues saddled companies with higher costs and troubles delivering goods and services. Labor shortages and wage increases also pressured day-to-day operations and profit margins. And interest rates trended higher because of increased inflation, the Federal Reserve's signaling of a less accommodating monetary policy, and the possibility of higher Federal deficits that would be brought on by anticipated increases in government spending. With all these issues in play, the market has remained resilient.

CLIFF GREENBERG
PORTFOLIO MANAGER

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

The concerns listed above notwithstanding, we still expect economic growth to be strong this year and into next year, as COVID cases and concerns wane and normalcy returns. We think that corporations (at least the ones in which we invest) will be able to deal with the near-term cost pressures and that profits will revert to strong uptrends. We do believe that inflation will stay elevated and that interest rates will trend higher.

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.

The Fund's 3Q 2021 historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

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

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

3 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.

Large-cap stocks did better than smaller caps this quarter, which is often the case in uncertain environments. The seesaw between growth and value stocks was less pronounced, as both had had their day in the sun over the last few quarters and were more in equilibrium. The Fund benefited in the quarter from its higher weighting of larger market cap stocks than the Index.

The Fund primarily outperformed because of stock selection. Our Fund's performance most often is driven by fundamentals, not so much the macro factors or market trends that so many focus on. We materially outperformed in three of the four sectors in which we primarily invest. Our Information Technology ("IT") stocks performed well. **Gartner, Inc.**, our largest position, posted another quarter of strong results and its stock continued to climb. Same with payments company **Nuvei Technologies Corp.** Digital enablers **Grid Dynamics Holdings Inc.** and **Endava plc** also showed accelerating growth and benefited from multiple expansion. Our Health Care holdings rose nicely in the quarter, in contrast to those in the Index, which were down double digits. Our best performers were **ICON Plc** and **DexCom, Inc.**, two long-term holdings with strong outlooks, and medical products companies **Inspire Medical Systems, Inc.** and **Silk Road Medical, Inc.** Our Consumer Discretionary holdings did much better than those in the Index as well. Our best performers were flooring retailer **Floor & Decor Holdings, Inc.** and locals casino operator **Red Rock Resorts, Inc.** New additions **European Wax Center, Inc.** and **Dutch Bros Inc.** also performed well. Our Industrials holdings were a drag on performance this quarter. Defense contractors **Mercury Systems, Inc.** and **Kratos Defense & Security Solutions, Inc.** both declined on weak earnings and an uncertain funding environment. Shares of **Clarivate Plc** and **Hydrofarm Holdings Group, Inc.** were down as well, as their near-term earnings prospects became a bit cloudy.

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

	Percent Impact
Gartner, Inc.	1.09%
ICON Plc	0.76
Grid Dynamics Holdings Inc.	0.61
Nuvei Technologies Corp.	0.45
ASGN Incorporated	0.45

Shares of **Gartner, Inc.**, the provider of syndicated research to business leaders with insights on technology and managerial issues, continued to climb this quarter after reporting outstanding results. Growth in the company's research business reaccelerated to double digits, doubling the pace of growth in the prior quarter. Forward-looking metrics were excellent, led by contract value growth of 18% in the GBS division, which bodes well for strong future growth. Margin flow through was very strong as was free cash flow conversion. After significantly raising guidance last quarter, the company did so again this quarter, with free cash flow now projected to be 33% more than prior expectations. The company aggressively repurchased stock, like it did in the old days, which highlights its strong balance sheet and confidence in the future. Though the stock has almost doubled this year, we believe FCF per share will compound at 20% plus for years to come (from about $12 per share in 2022 to $20 per share in 2025) and the stock has considerable upside from here.

ICON Plc is the second largest Contract Research Organization and provides outsourced drug development services to pharmaceutical and biotechnology companies. During the quarter, ICON completed its acquisition of PRA Health Sciences, Inc. (another long-time holding of the Fund), and the stock rose as investors warmed to the merger. Initial concerns about potential disruption to the business waned as ICON detailed positive customer reception and shared strong new customer wins. We are very excited about the combined company, which brings together two fine, high-performing, well-run organizations with complementary skill sets. We believe that the debt taken on to finance the deal is appropriate and will be paid down quickly with cash flow. The combination of solid organic growth, margin expansion through capturing large synergies, and reduced interest payments, should drive strong earnings growth and garner a premium valuation.

Grid Dynamics Holdings Inc., which provides digital transformation services to large businesses, reported a great second quarter that handily beat estimates. Revenues grew 72% organically versus last year and 18% versus the prior quarter. EBITDA margins expanded significantly to reach the company's 20% long-term target much faster than expected. The demand environment remains robust, and Grid is doubling its headcount of highly skilled, yet relatively low-cost employees, primarily in Eastern Europe, to serve the needs of its clientele. Grid has done a terrific job in expanding its client base from primarily retail to technology and other industries. We believe the growth prospects for Grid are terrific, and now the market appreciates that as well. We did trim our position somewhat in the quarter, as the stock ran up a lot.

Nuvei Technologies Corp., the fintech payments processor focused on e-commerce and partnering in high-growth verticals like gaming, retail, and digital services, reported a strong quarter with revenues and volumes up 68%. Growth was broad based across verticals and geographies. Management is targeting sustained organic growth of over 30%. Nuvei's strong momentum validates its differentiation and the value proposition of offering a full stack payments platform. The company closed an acquisition and announced another, adding additional capabilities to its offering. The stock has advanced on recognition of its competitive advantages and strong growth outlook, and it now trades in line with other high-growth payments companies.

Shares of **ASGN Incorporated**, a leading provider of skilled workers to the IT and digital/creative industries for staffing and consulting work, rose as the company reported strong results for the quarter. Revenues grew 17% and earnings gained 24%, driven by a healthy rebound in the depressed staffing business and a robust 62% organic growth rate in its burgeoning consulting segment. Guidance is for continued strong growth, which we think should greatly surpass industry rates. ASGN closed on the sale of its Oxford division in the third quarter, a strategic decision we like very much, as it will focus the company on higher-growth end-markets and services. After the sale, the company is well capitalized, and management is indicating that it will pursue acquisitions in its consulting and government services segments. We think they have been masterful acquirors in the past. ASGN stock is appreciating not just on the back of strong results but is being re-rated. The company is no longer a cyclical, low-multiple business, but now a strong secular grower, with market-leading capabilities and relationships, serving great end-markets.

Other holdings that rose over 20% in the quarter but contributed less to the Fund's performance were **DexCom, Inc.**, **BRP Group, Inc.**, **Red Rock Resorts, Inc.**, **Inspire Medical Systems, Inc.**, and new issues **European Wax Center, Inc.**, **Dutch Bros Inc.**, and **Clearwater Analytics Holdings, Inc.**

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

	Percent Impact
Wix.com Ltd.	–0.51%
Clarivate Plc	–0.41
Mercury Systems, Inc.	–0.40
Installed Building Products, Inc.	–0.39
Americold Realty Trust	–0.39

Wix.com Ltd. is the leading provider of software that helps microbusinesses build and maintain their websites. Shares declined this quarter after the company reported a slowdown in new customer additions versus last year when demand for their services surged because of COVID. Guidance was reduced, as management has less visibility about the growth rate of the "top of the funnel." The other important metrics, such as conversion rates, retention rates, and attachment of new services, are all running at record rates, so not an issue. We have taken a more conservative approach to estimating future profitability and valuation, but still see good upside in the shares, so we are hanging in.

Clarivate Plc is an information services company that maintains leading/comprehensive IP and scientific databases and sells data, tools, and services to health care and other industries. The company reported a deceleration in subscription growth and slower-than-expected organic growth in the second quarter. Management, who we greatly admire for how they have assembled and run this leading company and one before, has laid out aggressive growth targets, which investors are now concerned about even though those projections were reiterated. Also, the company received a second request from the Federal Trade Commission related to a large acquisition, which has delayed approval. This is causing near-term dilution, as the funds to close the transaction have already been raised. We retain our conviction that the company can achieve its growth objectives and would expect the multiple to recover as they prove so.

Mercury Systems, Inc., a provider of defense electronics solutions, fell after the company reduced full-year guidance due to delays on some large programs and explained that the issues will continue for the remainder of this calendar year. On the positive side, management unveiled important cost savings initiatives and forecasted a strong rebound in growth in the upcoming year. We believe the company should be able to revert to historic growth rates of high single-digit organic growth and higher profit growth, and continue to do accretive and strategic acquisitions, which has been their calling card. But the stock is in the doghouse until that is reestablished and, realizing that we reduced our position in the quarter.

Installed Building Products, Inc. is the largest installer of insulation and complementary building products to the residential housing market. The stock declined because of mixed business trends, and because interest rates ticked up, which is considered bad for housing stocks. Margins are under pressure as the company is suffering from supply chain issues…primarily getting the products they install in a timely fashion. On the other hand, revenue growth reaccelerated as the company gained market share. Management is positive about the pricing environment and believe they will be able to pass on higher insulation costs. They have been focused on retaining their labor force for years, which is now reaping benefits and is a major competitive advantage. And we expect acceleration in acquisitions, as the pipeline is stocked. These purchases are highly accretive and are a core competency of management. We think there is lots to like, and the stock is cheap.

Americold Realty Trust is one of the largest global owner/operators of cold storage warehouses. The stock fell as the company reported weak results for the third quarter in a row. The primary issue is that food producers are not able to produce enough to service customer demand and maintain inventory levels. It's disappointing that this dynamic is now projected to persist, causing management to reduce guidance and lose face with investors. We think the long-term story and investment thesis remains intact, so are sticking with our position. The stock trades at a big discount to its private asset value.

Other holdings that fell over 20% in the quarter were **Kratos Defense & Security Solutions, Inc.**, **UTZ Brands, Inc.**, **Ollie's Bargain Outlet Holdings, Inc.**, **Hydrofarm Holdings Group, Inc.**, **SOC Telemed, Inc.**, **Shoals Technologies Group, Inc.**, and **Figs Inc.**

Portfolio Structure & Recent Activity

As of September 30, 2021, the Fund had $5.3 billion under management. The top 10 holdings made up 30.8% of the Fund's net assets. We held 76 stocks.

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$288.7	5.4%
ICON Plc	2013	196.5	3.7
ASGN Incorporated	2012	175.4	3.3
Installed Building Products, Inc.	2017	160.7	3.0
SiteOne Landscape Supply, Inc.	2016	159.6	3.0
Floor & Decor Holdings, Inc.	2017	151.0	2.8
Vertiv Holdings, LLC	2020	150.6	2.8
Guidewire Software, Inc.	2012	145.6	2.7
DexCom, Inc.	2012	109.4	2.1
SBA Communications Corp.	2004	105.8	2.0

The sectors of greatest concentration are Information Technology (28.7% of net assets), Industrials (23.7%), Consumer Discretionary (16.7%), and Health Care (15.6%). Compared to the Russell 2000 Growth Index, we are overweight in Industrials, IT, and Consumer Discretionary, and meaningfully underweight in Health Care. These weightings come from our bottom-up stock picking and do not reflect a view on which sector is next to perform the best–we do not have such a view. This last quarter, the majority of our new purchases, either new stocks or additions to existing positions were mostly in the Consumer Discretionary and Industrials space. They were one-off opportunities that we uncovered, not a thematic move to increase the Fund's weighting in those sectors. Similarly, we sold or trimmed some of our Health Care and IT holdings, which were also isolated decisions not driven by a view on sector concentration.

Our holdings across sectors have common characteristics. We favor investing in companies that are well established, leaders in their niches, special, and differentiated; and have considerable barriers to entry, significant opportunities to grow, and superb management teams. We do our own due diligence to uncover such businesses and have great experience and, in my humble opinion, expertise in doing so. We hope to buy into our companies when they are small-ish (the market cap of our investments going in is $1.6 billion on average) and be long-term investors in the

companies that meet and often surpass our expectations. Our low 3-year average turnover (16%) and strong returns on our long-term investments (25% on average) are our proof points that this approach and our execution generate above market investment returns.

We are valuation sensitive in our stock selection and ownership. Ideally, we would love to find stocks that have these wonderful business characteristics at discounted multiples, but we are fine buying and holding them at reasonable valuations and making our returns as the businesses grow. We shy away from fast-growing companies because the valuations usually spook us. We don't like businesses that are not growing nicely, or we are concerned that they will be dislocated by new competitors, even if one could make the case that they are bargains. We are not comfortable investing in early-stage businesses that are not yet well established, nor do we like companies that trade on multiples of revenues, preferring businesses that have demonstrated earnings power and stability, where it's easier to have more confidence in our underwriting of their futures. We like subscription or replicable business models and seek companies that are capital light and cash flow generative.

We often find ourselves with companies that can grow their value through multiple levers. The primary driver is organic growth. But many of our companies also grow by making strategic and accretive acquisitions, by gaining scale to improve margins, and by using their free cash flow to pay down debt, buy back stock, or pay dividends. We like to reasonably and conservatively underwrite our companies to make sure long-term returns meet our hurdle rate. The best of our investments–our "big winners"–are companies that are able to achieve better-than-anticipated results, often from opportunities that weren't apparent at the time of investment. With our "big winners," we have made over five times our initial purchase price in stocks that make up about one-third of our assets.

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

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Membership Collective Group Inc.	2021	$2.5	$27.9
Holley Inc.	2021	1.4	27.6
SmartRent, Inc.	2021	2.5	25.3
European Wax Center, Inc.	2021	1.8	17.1
Hillman Solutions Corp.	2021	2.2	16.5

During the quarter, we made three large purchases of companies that are new to the public markets and are described below.

Two of these companies came public through merging into SPACs and one through the more traditional IPO path. The SPAC market has continued to be out of sorts, as we explained in our last quarterly report. We presently have no commitments to make additional investments in new SPACs. We are interested in some situations where the businesses meet our criteria, but the stocks are trading poorly because of the dislocation in the market.

We participated in the **Membership Collective Group Inc.** ("MCG") IPO. MCG is the only scaled global exclusive membership platform centered around physical "Houses." Its trademark Soho House brand has 30 Houses, over 111,000 members globally, 94% average annual retention, and a wait list of more than 59,000. It has additional physical memberships through Soho Works, Scorpios Beach Club, and The Ned Club, as well as adjacent/digital memberships, including Soho Friends and Soho House Digital.

We believe MCG has a valuable, unique business model as a scaled global membership platform. Its strong brand, evidenced by its long wait list, leads to low marketing expense and high retention, while also driving strong recurring revenue. MCG is also able to attain favorable lease rates and, in recent years, shifted from a primarily "owned" model to a "developer-financed development" model, which will reduce capex and drive faster growth and higher returns on capital.

There are currently 30 Soho Houses open, and 5 to 7 openings planned per year (Nashville, Rome, and Stockholm to open in 2022), providing a clear line of sight for attractive long-term growth. Over the long term, management believes they can have over 90 Houses. From 2015 to 2019, MCG saw a 29% membership revenue CAGR and the company may benefit from current pent-up demand for leisure activities, secular shifts in the ways that people live and work, with less time spent in traditional corporate offices and more time in social spaces, and a new digital paid membership.

We expect revenue to grow at a 34% CAGR between 2021 and 2025, as they expand the number of Houses, expand other membership programs, and spending per member increases. Longer term, we believe membership and EBITDA can grow at approximately 20% per year.

During the quarter, we added to our position in **Holley Inc.**, which traces its roots back to 1903, but recently came public via a SPAC merger with Empower Ltd. Holley is a leading designer, marketer, and manufacturer of high-performance automotive aftermarket products for car and truck enthusiasts, selling 60 iconic brands across many categories and car models. They are the market leader in the space with around $600 million in sales, #1 or #2 market positions in all their major categories (i.e., electronic fuel injection, carburetors), and 3 times the size of their closest competitor. These scale benefits enable Holley to outspend on R&D to continuously innovate with unmatched go-to market capabilities to drive above industry growth. Holley's Direct-To-Consumer strategy is a core focus, engaging its loyal customer base and transforming the sector with a consumer-first approach driven by innovation (approximately 40% of sales from products introduced in the last five years).

Since 2001, Holley's core market has grown at a 6.5% CAGR as more than 50 million Americans see their vehicle as more than a means of transportation, 15 million of whom are considered avid enthusiasts. These enthusiasts spend a great deal of time (on average, more than 10 hours per week) and money pursuing their vision of a perfect vehicle, often leading to heightened levels of repeat spending.

Holley has an attractive financial profile with mid- to high single-digit organic revenue growth and EBITDA margins in the mid 20% range that generate strong free cash flow. We expect Holley to grow revenue organically due to its strong innovation pipeline and as it expands into additional categories and vehicle vintages. One example is the emerging performance Electric Vehicle segment, in which Holley can leverage its substantial expertise in electronic controls. Holley's e-commerce business is growing 2.5 times faster than the market and is its highest margin channel.

We expect Holley to continue its proven acquisition platform (eight acquisitions since 2014) with a robust M&A pipeline. The company has already identified 15 high priority, synergistic acquisitions that will further accelerate growth. We think Holley can grow EBITDA at a 20% clip, including acquisitions, and is trading at a cheap multiple for a market leader with a strong financial profile in a growing, resilient industry.

We acquired shares of **SmartRent, Inc.** during the quarter. SmartRent has emerged as the category-leading enterprise grade software company providing a fully integrated solution to the real estate industry. The core product is built around smart access or keyless entry (products enable resident access, self-guided tours, smart parking, video intercom, package delivery) as well as community Wi-Fi, leak detection, and temperature control management that lower costs, mitigate risks, and increase rents for multi-family property owners. In exchange, SmartRent charges a low recurring monthly fee to apartment owners and continuously improves its software application. No enterprise-level solution existed prior to SmartRent, and their digital amenities are elevating the rental resident and landlord experience.

CEO/Founder Lucas Haldeman, previously the CTO of Colony Starwood Homes, understands firsthand the acute pain points of institutional residential landlords and the value proposition underpinning SmartRent's offering. SmartRent has 211,000 units deployed with over 450,000 total users, never having a customer churn and strategic partnerships with 15 of the top 20 institutional apartment owners. Not only has SmartRent served more units than all competitors combined, the company has 606,000 units committed (just a fraction of the 28 million multi-family U.S. units) and a $2 billion revenue opportunity just with property owners who are already existing customers. SmartRent has an open-source, hardware-agnostic platform allowing for ease of integration, with existing hardware and property management software, and a large, growing installer network, which creates a strong moat in the retrofit market. The company's software component provides a multi-year, high-margin, recurring revenue stream deserving of a high multiple. With approximately $500 million of cash, we expect M&A opportunities to layer on additional services to augment growth. We believe there is a path to create over $200 million of run-rate recurring cash flow (negligible today) over the near term given the in-place customer commitments and future sales wins plus longer-term upside potential through emerging initiatives that could open several exciting adjacent growth verticals (for example, international and student/senior housing).

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Array Technologies, Inc.	2020	$4.6	$ 1.6	$23.7
Vertiv Holdings, LLC	2020	1.1	8.5	20.7
Certara, Inc.	2020	5.8	4.0	19.1
The Trade Desk	2017	1.7	33.7	17.3
Mercury Systems, Inc.	2016	0.8	2.7	15.1

Our largest sales during the quarter had us exiting positions all together as well as reducing the position sizes of some of our larger positions whose valuations we felt were extended.

We sold out entirely of **Array Technologies, Inc.** after losing confidence in the durability of its business. We sold our small positions in **Certara, Inc.** and **Olink Holding AB** to redeploy the capital to other higher conviction names.

We trimmed our positions in **Vertiv Holdings, LLC**, **The Trade Desk**, and **Gartner, Inc.** into strength to somewhat reduce position sizing. We sold some **Mercury Systems, Inc.** and **Americold Realty Trust** because of near-term concerns, as mentioned earlier.

Outlook

The economic and investment environment is murkier than in the recent past. During the last few quarters, the debate was over how fast we would grow and concerns about valuation levels and trading excesses. Now, there is more to consider. Supply chain troubles are wreaking havoc with businesses, resulting in higher costs and execution challenges. And the problems now feel like they will not settle out so soon. The labor market is dislocated, and many service and industrial businesses can't find workers and have to pay higher wages to keep employees. This too feels like a condition that will last a while. These factors are resulting in slower overall growth than previously expected and will likely cause profit shortfalls versus prior estimates. The market shrugged this off last quarter as a temporary condition, but we are not sure that it will continue to do so.

Inflation is pervasive and persistent, and a real issue. The CPI has accelerated to over 5% in the latest reading and oil is at a seven-year high. It is harder to accept that inflation is "transitory" as the Fed has stated. Interest rates are inching higher. The Fed is talking about "tapering" its asset purchases. The U.S. government remains dysfunctional and on the verge of passing spending programs that would add greatly to the existing large deficit and extra stimulus to an already hot economy. It seems reasonable to expect higher interest rates.

Against this, consumer demand is super strong. Consumer balance sheets are flush. There seems to be little consumer pushback on the higher costs of goods and services. And discussions with our portfolio companies lead us to believe that they have the pricing power to pass through higher operating costs.

It's a lot to consider. Our take is that even when the macroeconomic picture gets confusing, the most important thing for us to focus on with respect to the returns of the Fund is the actual performance of the businesses in which we invest. We own terrific companies that are doing well, and that we expect to continue to do well. They are innovators, disruptors, and leaders. None of the macro factors we discuss in this letter should obscure the fact that we are in an era of great opportunity, and we believe our companies will continue to thrive and grow their value.

Thanks to David Goldsmith, who is doing a bang up job as Assistant Portfolio Manager. And a shout out to the terrific research team at Baron for their invaluable contributions to helping the Fund and all the funds at Baron. And thanks to my fellow shareholders for your confidence in us.

Cliff Greenberg
Portfolio Manager

Baron Small Cap Fund

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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