Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund (the "Fund") had a strong year, in both absolute and relative terms. The Fund gained 4.69% (Institutional Shares) for the fourth quarter of 2021 and 15.84% for the year. This well exceeded the returns of the Russell 2000 Growth Index (the "Index"), which was flat in the fourth quarter and up 2.83% for the year. This was a quarter and a year where small-cap stocks did worse than large caps. The S&P 500 Index gained 11.03% in the quarter and 28.71% for the year.

The Fund is now entering its 25th year. Since inception, the Fund has returned 11.66% a year. This is 442 basis points better than the Index has performed over the same period. Therefore, if you had invested in the Fund since inception, as me and many of you have…and we thank you…you have made 14.5 times on your money, which is 2.7 times as much as if you were invested in a fund designed to track the Index. The Fund has also nicely outperformed the Index for all the time periods calculated (1, 3, 5, 10 and 15 years).

CLIFF GREENBERG

PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended December 31, 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]	4.62%	4.69%	0.01%	11.03%
One Year	15.53%	15.84%	2.83%	28.71%
Three Years	29.67%	30.01%	21.17%	26.07%
Five Years	20.75%	21.07%	14.53%	18.47%
Ten Years	16.02%	16.33%	14.14%	16.55%
Fifteen Years	11.10%	11.34%	9.97%	10.66%
Since Inception (September 30, 1997)	11.51%	11.66%	7.24%	8.90%

U.S. stocks continued their upward momentum in the fourth quarter and finished near an all-time high. This capped off a banner year, in which the market made 70 new highs. The quarter's market rise, which was much more pronounced in large-cap stocks, was driven by accelerating economic growth, strong corporate profits, and low interest rates. The market performed well even in the face of looming Fed tapering, continued supply-chain issues, and persistent inflation driven by shipping bottlenecks and labor shortages. And though Omicron, a new COVID variant, was raging at the end of the quarter and affecting life and business, we have optimism that its effects on the economy will be short lived and that the pandemic will become endemic. Fingers crossed!

The Fund did well primarily because of our stock picking. Small-cap growth stocks generally performed poorly in the quarter, but our small caps performed better as we favor more established, stable companies that are reasonably valued on earnings, as opposed to trading on revenue multiples. Also, our businesses are leading franchises in their niches that are doing well presently, as opposed to speculative businesses depending on future developments to drive performance. We hold on to our winners, so our portfolio has some larger market cap stocks, which also performed well this quarter. Our underexposure to more volatile investments and lower weightings in Health Care stocks also helped our relative numbers.

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, 2021 was 1.29% and 1.03%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The **Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth and the **S&P 500 Index** of 500 widely held large cap U.S. companies. 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.

BARON FUNDS 1987

Our best stocks had improving fundamentals....which is usually the most important factor in our stock and Fund performance. For the quarter, we had 14 stocks that rose over 20%. These were across many sectors and included many of our largest holdings, including top 10 positions–**Installed Business Products, Inc.**, **SiteOne Landscape Supply, Inc.**, and **Endava plc**. For the year, we had 31 stocks that rose over 30%. Like the fourth quarter, many of our best stocks were also our biggest positions. Other top 10 holdings that were strong for the year include **Gartner, Inc.**, (our largest position, which more than doubled), **Red Rock Resorts, Inc.**, **ICON Plc**, **ASGN Incorporated**, **Vertiv Holdings, LLC**, and **Floor & Decor Holdings, Inc.**

Table II.
Top contributors to performance for the quarter ended December 31, 2021

	Percent Impact
Installed Building Products, Inc.	0.87%
ICON Plc	0.69
Kinsale Capital Group, Inc.	0.66
SiteOne Landscape Supply, Inc.	0.58
Gartner, Inc.	0.51

Installed Building Products, Inc. ("IBP") is a market leading installer of insulation and complementary building products serving the U.S. residential housing market and non-residential construction industries. The company reported 21% sales growth, 24% profit growth, and improved "price/mix," as it successfully passed on increases in raw material prices. Housing trends remain robust; however, completions are still lagging orders, which bodes well for a long upcycle for installers. Business operations are still hindered by supply-chain disruptions, which are weighing on near-term gross margins. But labor availability is in good steads, as management's well-conceived efforts to retain installers has succeeded. As anticipated, this has been a big year for acquisitions. IBP has done 10 deals, adding $200 million in revenues, a large uptick from prior years. Acquisitions are highly accretive and strategic in building out a national footprint, increasing the company's product offerings and expanding its lines of business. We believe that the company will grow organically by double digits, will grow EBITDA more rapidly due to the benefits of the acquisitions, and is trading at a reasonable value on our 2022 estimates…a good setup for future returns.

Shares of **ICON Plc**, a leading global contract research organization ("CRO") providing drug development support to pharmaceutical and biotechnology companies, rose this quarter after reporting strong results and commenting favorably about the integration of the merger with PRA Health Sciences. Revenues and profits beat Street estimates, and the company raised its guidance. The company reported record net business wins, a healthy book-to-bill ratio of 1.27, and a record closing backlog which is up 14% on a proforma basis. There has been no evidence of post-merger disruption; just the opposite, as management has detailed why the businesses are "better together." We foresee years of strong revenue growth, as the CRO industry is expected to grow at a mid-single-digit pace, and ICON should continue to take share. There is plenty of opportunity for margin improvement. We expect significant free cash flow generation, resulting in a balance sheet that will be modestly levered in a year. Go forward, we believe the company can compound its EBITDA at 15% and earnings around 20%, and maintain its present multiple.

Specialty insurer **Kinsale Capital Group, Inc.** contributed to performance after reporting strong quarterly results. Gross written premiums grew 36% and EPS rose nearly four times, as the underwriting margin expanded to the highest level in the company's history. Market conditions remained favorable with rate increases well above loss cost trends, resulting in higher margins and significantly higher reserves. We believe this unique company, a technological and operating leader in its niche, still has a long runway of growth ahead.

Shares of **SiteOne Landscape Supply, Inc.**, the largest distributor of wholesale supplies to the landscape trade, continued its strong uptrend after the company reported terrific results for the quarter. Organic sales increased 15%, total sales were up 25%, and EBITDA grew 46% as margins increased 200 basis points. All results well outpaced expectations, against tough comparisons, as the landscape market remains healthy and the company's initiatives to drive greater-than-market growth and raise margins are taking hold. Industry consolidation has been a big value driver, and 2021 was another year of strong inorganic growth (acquisitions). Its pipeline is deep and expanding, and the company still has only 12% market share. As we believe its share can triple from here, the company can be much larger and more profitable in time.

Gartner, Inc., the provider of syndicated research, again reported great earnings that significantly exceeded Street estimates. Revenues were up 15%, and EBITDA was up 80%. Profits are benefiting from savings in corporate expenses, which we anticipate will increase when travel resumes. As management stated, the company is "thriving in the current environment." Contract value growth returned to double digits in the GTS segment and accelerated by 22% in GBS. The company is aggressively repurchasing its stock, as it is gushing cash, and the balance sheet is in excellent shape. Even with the expected normalization in margins, we believe that free cash flow per share will compound at about 20% a year, and the stock can more than double on our longer-term estimates.

Other stocks that gained more than 20% in the quarter but added less to our absolute performance were **Aspen Technology, Inc.**, **Endava plc**, **Trex Company, Inc.**, **The Trade Desk**, **Grid Dynamics Holdings, Inc.**, **Avient Corporation**, **Liberty Media Corporation-Liberty Formula One**, **Mettler-Toledo International, Inc.**, **Berry Global Group, Inc.**, **The AZEK Company Inc.**, and **Dutch Bros Inc.**

Table III.
Top detractors from performance for the quarter ended December 31, 2021

	Percent Impact
Nuvei Corporation	–0.66%
Penn National Gaming, Inc.	–0.35
DraftKings, Inc.	–0.34
HealthEquity, Inc.	–0.30
Repay Holdings Corporation	–0.28

Nuvei Corporation provides payment processing services for online merchants around the world. The shares fell sharply following a short seller report that raised questions about management's background, the company's acquisitions, and the stock's valuation. Management provided a detailed rebuttal to the report and reaffirmed guidance and its medium-term targets. Generally, we think the report was a hatchet job, and a well-timed one at that, as the stocks of many payment companies were under pressure in the quarter.

That payment company downdraft was also the reason for the decline in the shares of **Repay Holdings Corporation** this quarter. Repay provides integrated payment processing services for personal loans, auto loans, and receivables management. We like investing in small-cap payments businesses, as we have identified well-positioned, well-managed businesses that have strong market positions and recurring revenue business models. The companies have numerous growth opportunities–organically by further penetrating their segments and through acquisition. In our view, the stocks now are attractively valued as the segment is out of favor.

Shares of **Penn National Gaming, Inc.** and **DraftKings, Inc.** fell in the quarter, as stocks of online gaming companies were under pressure. Sports betting and i-gaming are rolling out with great fanfare and success across the country; however, investors seem concerned about competition and margins. Most participants are spending heavily on marketing and promotions, which is cutting into margins. We see this as worthy investment in customer acquisition at a moment in time when revenues are just building. We continue to believe that online sports betting and gaming will be enormous industries, that DraftKings will be a leading player, and that Penn will carve out a modest share. We think the business will have high margins as it matures. We believe we are underwriting both businesses conservatively and see much upside in the long term. Penn has a strong, well-performing brick and mortar casino business that we believe is worth close to its present stock price, so though we are taking a wait-and-see approach to its sports betting offering, there should be little downside from here.

HealthEquity, Inc. administers Health Savings Accounts (“HSAs”) and other consumer-directed benefits. Shares fell in the quarter when revenues and earnings missed investor estimates, and management lowered guidance. The company’s core HSA business has continued to grow in line with expectations, but some of the ancillary businesses that the company acquired in the WageWorks deal are not doing well. This caused total sales and profits to be flat. Much of the shortfall was caused by business conditions resulting from the pandemic. The stock is now trading at a reasonable multiple of lower estimates, and the business should benefit from higher interest rates.

Other stocks that we own that fell over 20% in the quarter but hurt results less were: **Paya Holdings Inc.**, **SmartRent, Inc.**, **WEX Inc.**, **Shift4Payments, Inc.**, **Sweetgreen, Inc.**, and **Figs Inc.**…all are either payments companies or new issues.

Portfolio Structure & Recent Activity

As of December 31, 2021, the Fund had $5.5 billion under management. The top 10 holdings made up 32.5% of the Fund, up somewhat from prior periods because our largest positions performed well. We owned 74 stocks.

Table IV.
Top 10 holdings as of December 31, 2021

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$292.5	5.3%
ICON Plc	2013	216.8	4.0
Installed Building Products, Inc.	2017	192.1	3.5
ASGN Incorporated	2012	191.3	3.5
SiteOne Landscape Supply, Inc.	2016	181.7	3.3
Floor & Decor Holdings, Inc.	2017	162.5	3.0
Vertiv Holdings, LLC	2019	156.1	2.8
Guidewire Software, Inc.	2012	139.1	2.5
Endava plc	2019	125.9	2.3
Red Rock Resorts, Inc.	2016	123.8	2.3

The Fund is most heavily invested in four sectors and has been for years. Our largest weightings are in Information Technology (IT) stocks (26.3% of net assets), Industrials (24.8%), Consumer Discretionary (16.5%), and Health Care (13.7%). Compared to the Russell 2000 Growth Index, we are overweight Industrials, IT, and Consumer Discretionary. We are significantly underweight Health Care because of our aversion to small-cap biotechnology stocks, as they are too speculative and unestablished to fit this Fund’s criteria for investment. We have invested more in Financials than we have historically because we like some niche insurers and fintech companies. We don’t own Utilities or Energy stocks, which were strong in 2021, as we don’t like to bet on commodity prices or slow growers.

The portfolio is a collection of independent ideas, developed in conjunction with our analysts who have deep industry and domain expertise. The stocks essentially all have common characteristics…leaders in their niche, competitively advantaged, big growth opportunities, well managed, reasonably priced…. across different sectors.

We think long term in our analysis of companies and in our holding of stocks. This is a key differentiator. 43% of our assets are in stocks that we have held over 5 years, 17% of which we have held for over 10 years. The returns we have made on these long-term holdings is over 26% per year, so they have been well worth holding onto. Our turnover is 15%, as measured over a three-year period. This is consistent with how we have managed the Fund since inception. When we make new investments, we are hoping to find stocks that we can hold long term and provide similar returns. If they don’t make the grade, or we lose confidence in them, we sell and replace them with a new investment that hopefully will prosper like many have in the past.

We do trim our long-term holdings over time, to both manage the position sizes of our holdings to what we deem appropriate, and to be mindful of the fact that we manage a small-cap Fund. With many of our oldest and largest market cap positions, we own a small fraction of our original holdings, around 10% on average of our seven largest market cap positions, but it has proven wise to maintain even these reduced positions sizes as they have been additive to our returns as the stocks continue to perform. As in the past, we invest new money only in small caps. The weighted average market cap of new stocks purchased in 2021 was $2.0 billion, and $2.3 billion for all stocks, including additions to ones we already own. We sell some of our larger-cap holdings to fund the new purchases. The weighted average market cap of stocks we either trimmed or sold during the year was $19.8 billion.

The result of holding stocks for the long term that compound at high rates is that the Fund has many "big winners." About one third of the Fund's assets are in stocks that have increased six times or more from our original investment. Another 43% of assets are in stocks that have increased between two and five times. So, three-quarters of the Fund's assets are in stocks that have doubled or more. We still hold these stocks, as we believe there is more to come, and they will still be strong investments. We take these results as a testament to our proven process for achieving our objectives. We continue to ride our winners and feverishly search for new ones to add to the fold.

Table V.
Top net purchases for the quarter ended December 31, 2021

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
Sweetgreen, Inc.	2021	$3.5	$34.6
First Advantage Corporation	2021	2.9	18.7
Red Rock Resorts, Inc.	2016	6.3	12.7
The Beauty Health Company	2021	3.6	12.5
European Wax Center, Inc.	2021	1.9	9.2

During the quarter we added just two new names to the portfolio: **Sweetgreen, Inc.**, which came public in an IPO, and **The Beauty Health Company**, which merged into a SPAC. We also increased our positions in a number of smaller, newer names in the portfolio.

This quarter we participated in the IPO of Sweetgreen. Sweetgreen is one of the fastest growing restaurant chains in the U.S. and sits at the intersection of health and wellness, plant-based food consumption, digital adoption, and purpose-driven brands. As of the third quarter of 2021, the company operated 140 restaurants in 13 states, with the goal of being as ubiquitous as traditional fast food.

Sweetgreen's menu is designed to be a delicious, customizable, and convenient way to empower customers to make healthier choices for both lunch and dinner. They currently offer signature salads, warm bowls, and plates that are complemented by a seasonal menu that changes five times a year. Sourced from over 200 domestic food partners, Sweetgreen's assortment of roughly 40 freshly prepared or cooked ingredients allows customers to create millions of unique, customized orders to accommodate almost any flavor profile or dietary preference and allows for high frequency of use. The company utilizes a multi-channel approach with 68% of revenue via digital channels and 47% of revenue coming through their own App. This is one of the highest digital penetration rates among restaurant companies, which gives Sweetgreen a valuable data and customer relationship advantage relative to peers. Digital customers tend to come more often and spend 20% more on average. Also, this data helps assess market density and viable new store locations.

With just 140 restaurants in 13 states there is considerable whitespace for the company to expand and we believe the company can grow units at a 25% CAGR over the next five years as they enter new markets, densify existing regions, and introduce new restaurant formats such as drive-thru and pick-up only. Historically concentrated in large urban markets, Sweetgreen should benefit from a recovery in those markets as the effects of COVID recede, driving outsized same-store sales, and potentially over 40% revenue growth over the next two years. Sweetgreen has also been planning for future growth by intentionally building additional capacity in existing restaurants to handle more order volume without adding more costs or square footage. Unit economics are already strong with new restaurants expected to generate revenues of approximately $3 million, with a healthy restaurant-level profit margin of 18%-plus, and year two cash-on-cash returns of over 40%.

As we've seen with other category leaders such as Chipotle and Panera, leading chains can have thousands of units over time. Sweetgreen is currently the largest chain in salad, and we believe that the company's strong brand, early investments in technology, and high-quality, founder-led management team could position it to have over 1,000 units in 10 years and generate revenues greater than $3 billion (from around $350 million today), which would result in a multi-fold increase from its current market capitalization.

Table VI.
Top net sales for the quarter ended December 31, 2021

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Silk Road Medical, Inc.	2019	$1.2	$ 1.5	$47.4
Ollie's Bargain Outlet Holdings, Inc.	2018	3.7	4.1	32.6
Dutch Bros Inc.	2021	6.1	11.8	27.4
SBA Communications Corp.	2004	0.2	42.3	26.2
Gartner, Inc.	2007	2.2	27.5	24.5

During the quarter we sold out of four positions. We exited **Silk Road Medical, Inc.**, **Ollie's Bargain Outlet Holdings, Inc.**, and **Hydrofarm Holdings Group, Inc.** as we became concerned that near-term issues were worrisome to our long-term growth thesis for each. We sold our shares of the hot new idea **Dutch Bros Inc.**, a high-growth beverage retailer, when it soared to a price that we believed more than reflected the bright future of the company.

Most of the funds we raised in the quarter were in trims of long-standing successful investments. We sold slices of **SBA Communications Corp.**, **Gartner, Inc.**, **The Trade Desk**, **ICON Plc**, and **SiteOne Landscape Supply, Inc.** all after nice moves up and near highs. **Grid Dynamics Holdings, Inc.** rose over 200% in the year, and we cut back our position. **Jamf Holding Corp.** traded up to our near-term target, and we see less upside, so we reduced our holdings.

Outlook

This year, we anticipate a clash between rising interest rates and increasing corporate profits. We also suspect that 2022 will be a rockier ride, coming off such a strong two-year run in the market with modest downdrafts…and with the Fed weighing rate increases to deal with the greater-than-anticipated pickup in inflation. And right on cue, the year has started with a pretty intense sell-off.

The Fed is putting into action its signaled change of course, to end asset purchases (tapering) quickly and raise the Fed Funds rate a few times in the upcoming year. The interest rate on the 10-year U.S. government bond has risen from under 1.5% to nearly 1.9%. Growth stocks, especially technology stocks, have declined sharply as trading multiples have contracted. The latest reported CPI rate was 7%, and the last jobs report showed the unemployment rate under 4% with wages accelerating, which fueled additional concerns for inflation.

Things might be different this year, but there is no reason to panic. First off, as someone who has done this a long time, there is no formulaic link between the level of interest rates and trading multiples in practice. Yes, there is a theoretical "dividend discount model" that approximates fair value, but that is not how the market really works. Many factors determine how stocks are valued…such as short- and long-term fundamentals, sentiment, investment alternatives, macros, geopolitics…along with interest rates. In our view, multiples have been extended and are now coming back in line, especially in conjunction with the favorable growth outlook we see. Secondly, stocks and markets decline when earnings disappoint or decline. We do not see that on the horizon, though we are cognizant that something unexpected could challenge our assessment after what we have lived through the last two years. And third, hikes in the Fed Funds rate are not necessarily bad for the market, especially at the beginning of the tightening cycle since they are usually in response to strong fundamentals. We do not believe that rate increases will cause a recession.

The business outlook for 2022 is great. We expect strong consumer spending as wages are accelerating, net worth has exploded, and people are anxious to live again and raring to spend coming out of the pandemic. We think GDP growth will moderate from extraordinary levels of 2021 but will still be well above long-term trends. We believe corporate profits will be solid and that our holdings have pricing power to pass along increases in input and labor costs. We believe we will have a year of strong earnings, which is usually the key determinate to the performance of our stocks.

We believe our portfolio is made up of exceptional businesses that are run by terrific managers and that they have strong competitive advantages. The businesses are performing well now, and we believe will continue to do so into the future. We think we will make good returns over the long term, if these businesses continue to grow and their stock prices grow in line to reflect the future value of the companies.

Special thanks to Assistant Portfolio Manager, David Goldsmith, for his exceptional contributions to the Fund's strong performance. And I would like to commend our terrific analyst team and portfolio managers for great work identifying and following the special businesses in which we invest, and for their continued input and advice. We greatly appreciate your confidence in us and your investment in the Fund.

Cliff Greenberg
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: The Adviser believes that there is more potential for capital appreciation in smaller companies, but there also may be more risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded, and they may be more difficult to sell during market downturns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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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