Baron Discovery Strategy

BARON CAPITAL

March 31, 2024

Dear Investor:

Performance

During the first quarter of 2024, Baron Discovery Strategy® (the Strategy) was up 4.57%, which was 3.01% lower than the 7.58% increase for the Russell 2000 Growth Index (the Benchmark). While we were not satisfied with the underperformance this quarter, we think there were some unique circumstances that make the underlying reality of our performance better than it appears on the surface.

Table I.
Performance for annualized periods ended March 31, 2024 (Figures in USD)†[1]

	Baron Discovery Strategy (net)[2]	Baron Discovery Strategy (gross)[2]	Russell 2000 Growth Index[2]	S&P 500 Index[2]
Three Months[3]	4.57%	4.83%	7.58%	10.56%
One Year	15.35%	16.49%	20.35%	29.88%
Three Years	(6.58)%	(5.66)%	(2.68)%	11.49%
Five Years	9.08%	10.17%	7.38%	15.05%
Ten Years	10.80%	11.78%	7.89%	12.96%
Since Inception (October 31, 2013)[4]	12.59%	13.56%	8.24%	13.20%

Table II.
Calendar Year Performance 2019-2023 (Figures in USD)

	Baron Discovery Strategy (net)[2]	Baron Discovery Strategy (gross)[2]	Russell 2000 Growth Index[2]	S&P 500 Index[2]
2019	26.97%	28.24%	28.48%	31.49%
2020	66.25%	67.93%	34.63%	18.40%
2021	4.92%	5.97%	2.83%	28.71%
2022	(34.96)%	(34.32)%	(26.36)%	(18.11)%
2023	22.80%	24.00%	18.66%	26.29%

First Quarter 2024 Commentary

Historically, it's rare for a single security in the benchmark we use to significantly impact our relative performance. However, in the first quarter of 2024, the benchmark's largest constituent, Super Micro Computer (Supermicro), negatively impacted the Strategy's relative results by 2.68%. This single stock accounted for approximately 90% of the Strategy's underperformance in the quarter. This event was statistically highly improbable, exceeding seven standard deviations from the mean, and we believe it's unlikely we'll see a single stock impact relative performance to this degree again.

While we have no opinion on Supermicro's fundamentals, it's worth noting that when the benchmark was reconstituted in June 2023, Supermicro had a market capitalization exceeding $13 billion. This size falls outside our investment criteria. So, even if we had foreseen Supermicro's potential, its market cap at the time would have precluded us from purchasing it. Additionally, even if we disregarded our investment process and bought it anyway, we would have had to sell it well before it reached its current market capitalization of approximately $60 billion.

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of March 31, 2024, total Firm assets under management are approximately $43.0 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in the Firm's Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO and a separately managed account managed by BCM. The Strategy invests mainly in small cap growth companies. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies or a GIPS Report please contact us at 1-800-99-BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

† The Strategy's 1Q2024 5- and 10-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs will be the same in the future.

1 With the exception of performance data, most of the data is based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

2 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. All rights in the FTSE Russell Index (the "Index") vest in the relevant LSE Group company which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. The Strategy includes reinvestment of dividends, net of foreign withholding taxes, while the Russell 2000® Growth Index and the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts performance results. The indexes are unmanaged. Index performance is not Strategy performance; one cannot invest directly into an index.

3 Not annualized

4 The Strategy has a different inception date than its representative account, which is 9/30/2013.

As previously stated, our focus remains within the small-growth category. We sell investments when their market caps become too large and reinvest that capital in smaller companies. It's important to emphasize that this explanation is not an excuse for our underperformance. We simply want to highlight that the relative shortfall was primarily driven by one company that no longer qualifies as small-cap. Excluding Supermicro from the benchmark would have resulted in a much smaller underperformance of only 0.36% in the first quarter.

Supermicro will likely be removed from the benchmark during its reconstitution this June. However, given its current large size within the benchmark, it could once again significantly impact our relative performance, positively or negatively, in the second quarter.

2024 Outlook

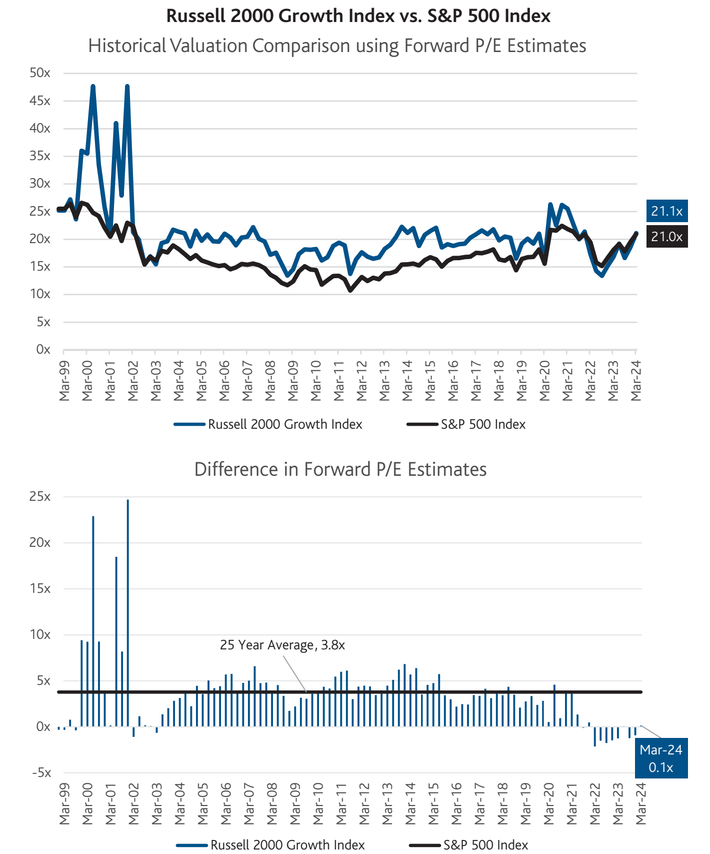
We maintain our bullish outlook for the Strategy in 2024. As discussed in our previous quarterly letters, we believe the tailwinds supporting small-cap outperformance remain firmly in place. Notably, small-cap growth stocks boast attractive valuations, both in absolute terms and compared to large-cap stocks (Chart A). Additionally, small-cap growth stocks historically experience significant appreciation following deep market downturns (Chart B). We anticipate a strengthening economic environment and a subsequent mean reversion in the relative valuations of large-cap and small-cap growth stocks. Our portfolio positioning reflects our conviction in capitalizing on this potential shift. We believe the Strategy is well-suited to excel in an environment where small-cap growth stocks transition from a bear market to a bull market.

Market troughs and the recent 2021 high are based on total return levels of the Russell 2000 Growth Index. The performance shown for the Dotcom Collapse/September 11 Attacks and Great Recession bull markets are for the first two years of the market recovery following market bottoms, while the COVID recovery spanned from the market trough on (3/18/2020) to the latest all-time high for the Russell 2000 Growth Index on 2/9/2021.

Specialty insurer **Kinsale Capital Group, Inc.** reported financial results that exceeded Street forecasts. After a slowdown in the prior quarter, gross written premiums grew 34% and EPS grew 49% with a record-high underwriting margin. Market conditions remain favorable with rising premium rates and more business shifting from the standard market to the excess and surplus lines market where Kinsale operates. In addition, insurance stocks broadly rebounded from last quarter's pullback as interest rates stabilized. We remain bullish on the stock because we believe Kinsale is well managed and has a long runway for growth in an attractive segment of the insurance market.

Shares of **DraftKings Inc.**, a leading online sportsbook in the U.S., rose during the quarter following an earnings release that showed strong market share gains and an improved outlook for future profitability. Market share capture has been driven by investment in innovative product offerings that are resulting in strong customer retention. The company also announced the acquisition of JackPocket, a digital lottery courier service. We believe the acquisition will help DraftKings achieve a first-mover advantage in many states that offer the JackPocket service but have not yet legalized online sports betting and casino gaming. DraftKings is well positioned to expand margins and generate positive free cash flow as it grows revenues alongside the rapidly expanding U.S. sports betting market, in our view.

Chart A – Historical Valuation Comparison and the Difference in Forward P/E Estimates



Sources: The Bank of New York Mellon Corporation using I/B/E/S 1 Year Forward EPS and FactSet Market Aggregates.

Chart B – Small-Cap Growth Generally Outperforms the Broader Market Coming Out of Significant Market Downturns

	Cumulative Total Returns (%)		
	Dotcom Collapse/ September 11 Attacks Trough (10/9/2002) to 10/9/2004	Great Recession Bottom (3/9/2009) to 3/9/2011	COVID-19 Trough (3/18/2020) to Recent All-Time High (2/9/2021)
Russell Microcap Growth Index	88.77	147.73	223.49
Russell 2000 Growth Index	76.18	145.85	152.61
Russell 2500 Growth Index	73.61	148.98	142.48
Russell Midcap Growth Index	68.50	138.52	102.78
Russell 1000 Growth Index	39.54	104.09	84.56
S&P 500 Index	49.65	103.44	65.62
Difference – Russell 2000 Growth Index vs. S&P 500 Index	26.53	42.41	86.99

Sources: FTSE Russell, S&P Global Inc., and Baron Capital.

Shares of **CyberArk Software Ltd.**, an identity security platform focused primarily on privileged access management (protecting credentials for high-level technology administrators), rose after the company delivered strong quarterly results. CyberArk grew annual recurring revenue by 36% year-over-year and generated 20% free-cash-flow margins. New customer deal sizes and existing customer expansions at renewal were strong, boosted by high demand for CyberArk's newer product categories like access management (credential management and multi-factor authentication for all employees) and secrets management (credentials for machine identities). The increasing frequency and severity of cyberattacks, new SEC regulatory requirements for cyberattack disclosures, and greater emphasis from the federal government on privilege controls for its agencies and suppliers are driving healthy demand for CyberArk's products. Management issued consensus-beating full-year guidance across all metrics. We remain optimistic about CyberArk's long-term revenue and free-cash-flow growth prospects.

Table III.
Top contributors to performance for the quarter ended March 31, 2024

	Percent Impact
Kinsale Capital Group, Inc.	1.34%
DraftKings Inc.	0.94
CyberArk Software Ltd.	0.64
Axon Enterprise, Inc.	0.61
Establishment Labs Holdings Inc.	0.54

Table IV.
Top detractors from performance for the quarter ended March 31, 2024

	Percent Impact
Endava plc	–0.68%
Inari Medical, Inc.	–0.55
Navitas Semiconductor Corporation	–0.53
Mercury Systems, Inc.	–0.48
SentinelOne, Inc.	–0.45

Shares of IT services provider **Endava plc** fell after management cut guidance for the fiscal year ending June 30, 2024. Growth has slowed over the last year as business customers pulled back on discretionary IT spending due to macroeconomic uncertainty. Last fall, management was seeing early signs of a recovery, but new projects have been taking longer to materialize as customers delay spending decisions. Higher expenses due to increased staffing to meet anticipated demand weighed on margins as well. Management acknowledged that it misread the market and is taking steps to right-size the cost structure to improve margins. We remain invested because we expect these near-term headwinds to abate over time, leading to better growth as clients embrace digital transformation.

Inari Medical, Inc. offers catheter-based devices to remove clots from veins, known as venous thromboembolism (VTE). VTE is the third most common vascular condition in the U.S. after heart attacks and strokes, and if left untreated it can be fatal. The stock detracted from performance on investor concerns about a competitive product launch from Penumbra, Inc., coupled with Inari's disclosure of a Department of Justice civil investigation concerning some of its payments to doctors. Such investigations are common in the medical technology industry, and we anticipate any potential fine to be manageable based on precedent. Inari's core VTE market remains largely untapped, with many patients still relying on ineffective drugs, leaving ample room for multiple devices to succeed. Additionally, Inari is at various stages of launching multiple new products for other venous and arterial blockage conditions that could unlock billions of dollars in additional addressable market.

Navitas Semiconductor Corporation is a leader in gallium nitride (GaN) power semiconductors and a smaller player in silicon carbide (SiC) power semiconductors. Shares fell during the quarter on lowered guidance. Despite the softer near-term outlook, the company highlighted several design wins across mobile, data center, renewable energy, and vehicle electrification that are expected to ramp later in 2024 and into 2025 and should support above-industry growth. The company's monolithically integrated GaN power chips provide greater reliability and performance compared to discrete power devices. It recently purchased a co-packaged silicon controller to drive additional integration and performance. Its SiC products also offer better performance than peers and robustness across many applications. We expect Navitas to gain share in the rapidly growing GaN and SiC power semiconductor markets over time, driven by its superior technology, especially with its high-power GaN product in data center, solar, and electric vehicles just starting to ramp.

Portfolio Structure

Table V.
Top 10 holdings as of March 31, 2024

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
DraftKings Inc.	2023	$56.1	3.6%
Kinsale Capital Group, Inc.	2016	52.5	3.4
Axon Enterprise, Inc.	2022	45.1	2.9
CyberArk Software Ltd.	2022	42.6	2.8
Advanced Energy Industries, Inc.	2019	40.3	2.6
GitLab Inc.	2022	39.5	2.6
SiteOne Landscape Supply, Inc.	2016	39.3	2.5
Masimo Corporation	2024	38.9	2.5
Floor & Decor Holdings, Inc.	2019	38.9	2.5
Axonics, Inc.	2020	38.8	2.5

Recent Activity

Table VI.
Top net purchases for the quarter ended March 31, 2024

	Year Acquired	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Masimo Corporation	2024	$7.8	$35.9
Intapp, Inc.	2024	2.5	18.2
Allegro MicroSystems, Inc.	2020	5.2	15.4
RH	2022	6.4	10.6
CareDx, Inc.	2024	0.5	10.2

We've made a new investment in **Masimo Corporation**, a provider of high-end vital sign monitoring equipment and software. This presents a unique investment opportunity, as the company is currently unwinding an unpopular consumer products acquisition. We believe this will unlock the full value of its core health care business. Masimo is a market leader in monitoring pulse rates, oxygen levels, perfusion, blood hemoglobin content, and other key vital signs. Studies have shown that Masimo's high-quality monitoring can save lives and money through increased accuracy and better warning capabilities.

The base health care business generates revenues of about $1.3 billion, according to 2024 company guidance. About 15% of this revenue comes from non-recurring sensor hardware sales (what Masimo calls sockets), which serve as the "razor" in the analogy of the business model. The remaining 85% of revenues come from disposable sensors, the "blades" in the analogy, which produce recurring and growing revenue. Masimo aims to grow its health care revenues by introducing new products, expanding its customer base both in the U.S. and internationally, and encouraging existing customers to purchase additional vital sign parameters for their existing sockets. Currently, the company averages about $8 per socket in sensor revenues, but this has the potential to increase to $100 per socket over time. While we don't anticipate a 12-fold increase in revenues, we do believe revenues could double over the next seven years. Additionally, margins are expected to expand due to gross margin improvements from the completion of a new Malaysian manufacturing facility and operating leverage as the sales force is largely built out, with a comfortable research and development budget in place. Consequently, the overall base business cash flow could double within six to seven years.

However, Masimo's acquisition of Sound United in early 2022 for $1 billion overshadowed these prospects. Sound United designs and manufactures high-end stereo equipment under brands like Marantz and Denon. Masimo is launching a smartwatch designed for higher-end vital sign monitoring in both the health and consumer markets, in comparison to products like Apple and Android watches. It acquired Sound United primarily for its sales and distribution assets. However, this acquisition added debt, and the market perceived it as a diversion from its health care roots. As a result, shares dropped nearly 70% by October 2023.

Our interest in Masimo was piqued when an activist began pushing for the separation of Masimo's consumer and health care businesses. At the end of the first quarter, Masimo announced its plans to explore modalities for splitting the two businesses, including a spin-off or JV structure. We believe this move is excellent and will unlock value in the currently under-appreciated health care business. Additionally, Masimo is likely to retain a good portion of the potential proceeds from a lawsuit against Apple, alleging patent infringement related to vital signs on the Apple Watch. While this could be worth hundreds of millions or more in ultimate value, we view it as just additional value optionality on the investment. Overall, we believe we can double our investment from current valuation levels through Masimo's cash flow growth and a higher trading multiple, which we believe will be justified by the cleaner health care structure the company should achieve this year.

We also initiated a position in **Intapp, Inc.**, a company founded in 2000 that provides cloud-based software for regulated professional services industries such as legal, accounting, consulting, private capital markets, and investment banking. Intapp's software helps manage and automate many of the administrative workflows unique to these industries, such as clearing conflicts for new engagements, onboarding new clients, recording billable hours, and establishing regulatory walls between divisions. Its DealCloud suite also functions as a deal lifecycle management and customer relationship management system that has become the industry standard in private equity and investment banking. Intapp serves more than 2,400 customers, including 96 of the top 100 American law firms, 15 of the top 20 accounting firms, and 1,600 leading financial services firms.

Intapp competes in a large and growing addressable market, encompassing 28,000 firms that collectively spend roughly $15 billion annually on software in Intapp's categories. The company has grown its annual recurring revenue by more than 20% annually for the past five years as customers have seen good returns on their Intapp investments. For example, Intapp products have helped professional services firms reduce new client onboarding and conflict clearance processing times by more than 50%, saved millions of dollars in billable hours leakage, and significantly expanded new deal origination volumes for financial services firms. This success has led to low churn rates, increased market share capture, and expanding footprints in existing accounts.

We see a long runway for growth through a combination of new customer wins and existing customer expansion. Management believes its largest 200 customers alone represent a $1.3 billion wallet opportunity and that Intapp can continue to generate mid-teens expansion rates in existing accounts by cross-selling product modules, growing its user penetration, and capturing better pricing. While Intapp is profitable today and has expanded its free cash flow margins over the last two years, we see an opportunity for margins to increase further to 20% or more as the company benefits from operating leverage and a higher cloud revenue mix. The combination of good organic growth and free cash flow margin expansion should bode well for the stock in the long term.

We added to our investment in **Allegro MicroSystems, Inc.**, a fabless designer and manufacturer of integrated circuit (IC)-based sensors and application-specific analog power ICs for automotive and industrial markets. We had meaningfully reduced our position in the third quarter of 2023 given what we viewed were extreme valuations, even on long-term metrics. Since then, shares have come down from a low-$50's level to the mid-$20's, and we *re-loaded* the position as we view Allegro as a solid long-term grower that can double again from here.

During the quarter, we added to our position in **RH**, a high-end retailer of home furnishings and furniture that has a unique vision to transform from a domestic furniture company to a global luxury brand. Shares were pressured in the earlier part of the quarter due to shorter-term concerns regarding demand amid a volatile macroeconomic environment. Despite these short-term pressures, we remain confident in RH's ability to gain market share in the fragmented high-end furnishings market, and we see a multi-year growth pipeline driven by store expansion around the globe. We also anticipate improved profitability for RH as it transitions back to a full-priced sales model and scales its early international investments.

CareDx, Inc. is a diagnostic company that facilitates organ donor matches pre-transplant and rejection monitoring post-transplant. Transplant rejection testing is recurring and can help ensure the right immunosuppressant treatment to avoid overdosage or organ loss. We re-established an investment in the company after selling the position in the first quarter of 2023. At the time, the reason given for the sale was a very unexpectedly negative notice from MolDx, the CMS-related entity responsible for determining pricing and reimbursement criteria for diagnostic tests. This notice significantly exceeded our worst downside scenarios. The vagueness of the notice from MolDx, combined with the potential for a far reduced paid volume of approved tests for Medicare patients put a dramatic amount of current revenue and profitability at risk.

We determined that until the issue is resolved, we could not properly underwrite our investment in the company. The company has now overcome the massive negative revenue impact of the CMS notice and has begun growing revenues again under the lower reimbursement regime. Combined with improved cash collections and significant efficiency gains in operating expenses, we believe the company will achieve cash flow breakeven by 2025. This, coupled with $235 million in cash and zero debt on its balance sheet, positions the company for complete self-funding.

The company currently trades at only 1.3 times its enterprise value to sales ratio, which should be at least double its present level. We believe there is a good chance that the CMS guidelines will be reversed or at least improved from their current state. This would create a best-case scenario where the company's valuation could potentially see significant growth in a short timeframe.

Table VII.
Top net sales for the quarter ended March 31, 2024

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
SiTime Corporation	2023	$2.3	$ 2.1	$10.4
Navitas Semiconductor Corporation	2021	0.5	0.9	8.6
Ichor Holdings, Ltd.	2016	0.2	1.3	8.6
Repligen Corporation	2023	8.7	10.3	7.8
CyberArk Software Ltd.	2022	5.2	11.2	7.8

We trimmed our position in **CyberArk Software Ltd.** to manage its position size after gaining a solid appreciation in the stock. That said, we continue to like the company's strong competitive footing in identity security and are optimistic about its longer-term growth prospects.

We trimmed our position in **Repligen Corporation**, a life science tools supplier to the bioprocessing industry. 2023 had been a year of headwinds, including customer destocking, biopharmaceutical funding constraints, and weakness in China. Estimates have moved lower, and the recovery is taking longer than expected, while valuation has moved up significantly to levels where we wanted to de-risk a bit. We still like the company's long-term positioning.

We sold the remaining portion of our position in **Ichor Holdings, Ltd.**, which manufactures semiconductor capital equipment components, as we felt the stock's valuation was already embedding a relatively strong upcycle in wafer fabrication equipment spending and to make room for other positions with more long-term upside.

We reduced our position in **Navitas Semiconductor Corporation**, a provider of analog power management semiconductors, due to concerns about the near-term outlook for consumer spending (particularly in the communications charging segment), increased competition from Chinese companies, and mixed signals from the auto industry, which is a new growth area for the company. We continue to like the company's products and are watching the environment closely. We also reduced our position in **SiTime Corporation**, which manufactures analog semiconductors that regulate timing within chips and for communication applications. This was for similar reasons to our Navitas reduction, aside from the Chinese competition. We remain excited about SiTime's long-term growth prospects, and we still believe it can achieve its targeted 30% revenue growth rate and 30% operating margin.

Outlook

During the first quarter, both the large-cap S&P 500 and NASDAQ Composite Indexes reached all-time highs. However, small-cap growth stocks remain in a bear market exceeding three years, defined as a greater than 20% decline from the Benchmark's all-time intraday high on February 10, 2021 (price levels, excluding dividends). We believe there will be a significant catch-up trade where small-cap growth stocks return to their historical premium valuation relative to large-cap stocks. In our view, the portfolio is well-positioned to capitalize on this outcome when it occurs.

Randy Gwirtzman
Portfolio Manager

Laird Bieger
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies but may have different investment restrictions.

Risks: Past performance is not a guide to future performance. The value of investments and income from them may go down as well as up. Your capital is at risk. Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Strategy is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Strategy's returns. Past performance is not a guide to future performance. The value of investments and income from them may go down as well as up. Your capital is at risk.

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 managers' 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.