

Baron Growth Fund®

Long-Term Investing in Small-Cap Growth Companies

At one time, **The Charles Schwab Corp., BlackRock, Inc., American Tower, Inc., CME Group, Inc., and Illumina, Inc.** – all large-cap stocks today – were small-cap stocks.

That was when we first invested in them.

As a firm that got its start by researching and investing in small-cap growth companies over 40 years ago, we are long believers in the potential for active managers to generate durable, long-term outperformance in the small-cap space. Small-cap stocks tend to be overlooked by Wall Street, in part because finding the right ones takes intensive, hands-on research. We invest in this level of research because we believe that small-cap stocks have the ability to grow in ways that are not possible for larger companies.

With Baron Growth Fund, one of our three small-cap growth funds, we also believe we take an investment approach that is distinct in several key respects. We think this investment philosophy and process, which we describe in detail below, are the driving force behind the Fund's outperformance with less risk over time.

Baron Growth Fund

Baron Growth Fund is managed by Ron Baron and Neal Rosenberg. Ron, who is the founder and CEO of Baron Capital and has headed the Fund since its inception in 1994, has the benefit of a 54-year career researching and investing in small-cap growth companies. Neal was named co-portfolio manager of the Fund in 2018 after two years as assistant portfolio manager. He brings 21 years of investment experience to his position, including 18 years at Baron Capital.

Ron and Neal apply our research-intensive, fundamental, bottom-up approach to find and invest for the long term in companies that they believe benefit from durable competitive advantages, excellent management, and secular growth opportunities, at an attractive valuation.



Neal Rosenberg
Portfolio Manager

Ron Baron
CEO and
Portfolio Manager

This time-tested, repeatable investment process has produced excellent results over the 29 years since the Fund's launch. As seen in the chart below, the Fund has outperformed its benchmark across the three-year, five-year, 10-year, and since inception periods. For the five-year period, the Fund's alpha is 6.57% and beta is 0.86. Its upside capture of 93.87% and downside capture of 74.89% are also solid.

Baron Growth Fund Performance as of 12/31/2023 (annualized)*

	1-Year	3-Year	5-Year	10-Year	Since Inception**
Baron Growth Fund	14.97%	2.34%	14.92%	10.24%	12.88%
Russell 2000 Growth Index	18.66%	-3.50%	9.22%	7.16%	7.67%

* Institutional shares. For retail and R6 shares, visit baronfunds.com

** 12/31/94

Risks: 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 Fund is diversified, it may establish more significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's return.

Performance listed in the above table is net of annual operating expenses. The annual expense ratio for the Institutional Share Class as of fiscal year ended 9/30/2023 was 1.05%.

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 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 baronfunds.com or call 1-800-99-BARON.

Baron Growth Fund
Top 10 Holdings as of December 31, 2023

Holding	Sector	% of Net Assets
MSCI Inc.	Financials	10.8%
Gartner, Inc.	Information Technology	8.6%
Arch Capital Group Ltd.	Financials	8.5%
FactSet Research Systems Inc.	Financials	7.2%
CoStar Group, Inc.	Real Estate	5.7%
Vail Resorts, Inc.	Consumer Discretionary	5.4%
ANSYS, Inc.	Information Technology	4.6%
Choice Hotels International, Inc.	Consumer Discretionary	4.3%
Kinsale Capital Group, Inc.	Financials	4.2%
Iridium Communications Inc.	Communication Services	4.0%
Total		63.5%

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

Unique Attributes of Small-Cap Stocks

We believe small caps provide several advantages for long-term growth managers like Baron, who are focused on research-driven, bottom-up stock selection.

- **Broad investment universe** With more than 3,000 listed U.S. stocks (excluding penny stocks), this asset class has a large pool of companies to analyze.
- **Less coverage** Small caps get less coverage on Wall Street. On average, a large-cap company is followed by over 20 analysts, compared with under 10 for the average small-cap company. This thinner coverage can provide active managers with robust research capabilities an edge in identifying promising companies early in their growth trajectory.
- **Entrepreneurial mindset** The entrepreneurial mindset – visionary, passionate, open to new ideas – that we see in many small-cap management teams helps keep these companies innovative and flexible in their strategies for growth, in our view.
- **Personal stake** The significant personal stake that many founders and executives of small-cap companies have in their business helps provide assurance that the interests of management and shareholders are aligned.
- **Acquisition target** Small caps are more likely to be acquired than their larger-cap counterparts. When publicly traded companies are acquired, they are typically bought at a premium to their existing share price.

On the downside, small caps can be volatile. As long-term investors, we are accustomed to riding out short-term volatility and will selectively take advantage of a dip in the market to initiate or add to a position. As less well-established businesses, small caps can also carry more risk than their larger peers. As described later in this piece, we take a multi-faceted approach to managing risk, which we believe is key to successful management of a small-cap portfolio.

A Differentiated Investment Approach

Baron Growth Fund is a diversified small-cap growth strategy. We employ a consistent, repeatable, and time-tested investment process with the aim of providing superior returns over time with less risk. We believe our strategy benefits from a distinctive approach characterized by:

- Research-intensive stock selection with a focus on fundamentals
- Proven long-term approach
- Multi-faceted approach to risk

Research-Intensive Stock Selection With a Focus on Fundamentals

We take a research-driven, bottom-up investment approach to identify what we believe are competitively differentiated businesses that can grow independently of their sector economics and macroeconomy. Because we invest only in businesses in which we have strong conviction, we have a limited number of holdings. As of December 31, 2023, the Fund held 39 stocks, compared with a category average of 149 stocks. The top 10 holdings comprised 63.5% of our portfolio.

Our stock-specific approach is borne out by our results, as virtually all our outperformance is driven by stock selection. Our goal is to find companies that can double in value within five or six years. To help achieve our objective, we focus on businesses with:

- Long-term, secular growth opportunities
- Strong, durable competitive advantages
- Attractive business model
- Exceptional management
- Attractive valuation

Long-term, secular growth opportunities We look for companies that we believe are well positioned to benefit from secular growth opportunities with large, addressable markets. We find these opportunities across a range of sectors and subindustries.

For example, we own a number of companies that are tapping the explosive growth in data generation and consumption, including **CoStar Group, Inc.**, **FactSet Research Systems, Inc.**, and **MSCI, Inc.**, all of which are top 10 holdings. While each of these companies services a different end market, they are all subscription-based businesses that provide unique, proprietary data and analytics that typically become deeply embedded in customer workflow.

IDEXX Laboratories, Inc. is benefiting from significant, durable growth in the pet care/animal health industry. The company, which we have owned since 2005, is the leader in diagnostic tests for companion animals, livestock, and poultry.

Companies that provide products and services to biotech and pharma can benefit from the ongoing growth in this space without the risk inherent in a single-product company. We own **West Pharmaceutical Services, Inc.**, which sells products and services used in injectable drug packaging; and **Bio-Techne Corporation**, which develops life sciences tools for biomedical researchers and clinical research laboratories.

Some companies are creating their own growth opportunities. Ski resort owner **Vail Resorts, Inc.** pioneered the multi-resort season pass as a way to increase revenue and help immunize the company against poor snowfall seasons. In addition to allowing Vail to increase prices, this

innovative approach has enabled the company to acquire additional resorts, each of which expands its addressable market. We first invested in Vail in 1997, shortly after its IPO.

Strong, durable competitive advantages A durable competitive advantage is another key attribute of the companies we own. We look for businesses that are establishing their competitive advantages, as a fully realized competitive advantage is more likely to be reflected in the stock price.

Attractive business model We seek to invest in companies with the following characteristics:

- Pricing power
- Long-term contracts / high retention rates
- Recurring or reoccurring revenue
- High and /or expanding incremental margins
- Asset light / low capital intensive
- Strong free cash flow conversion
- Appropriate capital structure

We prefer companies whose pricing power is tied to the utility of their product or service rather than a monopolistic hold on the market. For example, with subscription-based business models, companies are able to leverage the continual improvement and expansion of the services they provide to raise prices on a regular basis. Long-term contracts with high retention rates – another characteristic of many of our subscription-based businesses – provide stability, sustainability, and transparency, as does recurring or reoccurring revenue.

We like companies with high or expanding margins that are reinvesting their profits in future growth. Many of our holdings are asset-light, low capital-intensive businesses because once they have built their core assets – database, platform, etc. – as they scale, margins can expand significantly. We also like strong and visible free cash flow, because unlike earnings, cash flow is not readily manipulated by accounting conventions. Finally, we look for a capital structure appropriate to the industry in which the company operates. We are comfortable with leverage if it is an established business with recurring and predictable free cash flow and sensible debt levels. We believe such balance-sheet optimization is a way to maximize shareholder returns.

Exceptional management Baron Capital's long-held motto, "We invest in people," reflects our belief that experienced, visionary management is at the heart of a company's success. To find these talented people, Ron and Neal tap their decades of experience as investment professionals, over the course of which they have met with and interviewed thousands of executives about their companies. We look for a personal financial stake in the company's success.

Attractive valuation We project the long-term intrinsic value of every stock we own using both quantitative and qualitative analysis. Our projection is based on key revenue growth drivers, profitability, cost structure, and capital structure – as well as more qualitative factors, such as the total addressable market, sustainability of the competitive advantage, and strength of the management team. We will initiate a position only if we believe the stock can double in size in a five- to six-year period. We will remain invested as long as the stock's valuation is supported by our projection of intrinsic value.

Proven long-term approach

Consistent with our longstanding Baron Capital investment philosophy, Baron Growth Fund is managed with a long-term perspective. We believe this long view gives us an edge. Most small-cap managers are focused on the short term, where factors that may have little to do with business fundamentals, such as a quarterly earnings beat or miss or overall market volatility, are often the most significant factor driving trading decisions and share price performance.

Since the vast majority of managers employ a short-term approach, we believe our long-term perspective affords us less competition while also allowing us to take advantage of the shortsightedness of the market. We leverage our extensive research capabilities to conduct a deep dive on the fundamentals of every company in which we are considering an investment. Our research allows us to develop an informed and thorough understanding of the longer-term secular advantages of these companies. Ultimately, we are more interested in the duration of a company's growth opportunity, rather than being overly focused on its timing. We believe this is a key part of the engine that drives alpha for us.

The Fund's low 3-year average turnover of 1.21% is an outgrowth of our investment process rather than a goal in itself. If we find and invest in the right companies, we believe that it makes little sense to replace these companies with new and relatively untested ones. We would rather remain invested throughout the duration of the growth trajectory of our highest-conviction companies. We also believe this is a more tax efficient approach to managing a portfolio and one that is often attractive to company management who are aware of our reputation as long-term holders of stock.

As a result of our low-turnover, long-term investment strategy, many of our holdings have added significant value to the Fund. Our top 10 holdings illustrate this. As of December 31, 2023, the portfolio's 10 largest positions have been owned for a weighted average of 17.9% years. Our holdings in these stocks have increased by a weighted average of 19.3% since our initial investment and have exceeded the benchmark by a weighted average of 11.2%. Of course, not every stock we invest in performs as well as the examples we have cited. In addition, past performance is no guarantee of future results. Nevertheless, we believe these results help reinforce the validity of our approach and give us the confidence to continue this strategy into the future. Our primary goal is capital appreciation, and we strongly believe we should stay involved as our investments grow and flourish as long as our investment thesis holds true. We believe we would be doing our shareholders a disservice if we sold out of our most successful stocks too soon to replace them with new positions that might not perform as well.

Multi-Faceted Risk Management

With a beta of 0.86, upside capture of 93.87%, and downside capture of 74.89% for the five-year period, we believe Baron Growth Fund is an excellent option for investors looking for a lower-risk option in the small-cap space.

We believe this lower-risk profile is a direct result of our multi-pronged approach to risk that involves:

- Extensive due diligence
- Emphasis on high-quality businesses
- Focus on non-correlated end markets

Extensive due diligence We believe the best risk management starts with knowing the companies in which we invest. Throughout the life of all of our investments, we continue to conduct due diligence and engage with management so we can keep apprised of the company's business as it develops and grows. The research we continue to put in to each of our holdings goes well beyond participating in quarterly earnings conference calls. We speak to our holdings' management teams multiple times per year, conduct site visits, and meet with management on an annual basis or more frequently to the extent practicable. We believe this sustained research and interaction with management helps us test and refine our valuation models on an ongoing basis.

Emphasis on high quality businesses We invest in what we believe to be high quality businesses with attributes that helps dampen volatility. Our top 10 holdings all have a strong track record of success during the period held yet we believe still have significant upside. These holdings tend to be cash-generative, asset-light businesses that are building off established market positions and have predictable and reliable revenues. We supplement these long-term success stories with smaller and younger companies that we think can provide more significant growth and develop into long-term holdings.

Focus on non-correlated end markets We also manage risk by investing in businesses across a range of non-correlated end markets.

For instance, our health care companies each serve different end markets, so we believe they are less correlated than they would initially appear. **FIGS, Inc.** provides scrubwear apparel to health care professionals, **Neogen Corp.** serves the pet care industry, and **Mettler-Toledo International, Inc.** provides weighing instruments for use in laboratory, industrial, and food retailing applications. The growth of each of these health care companies will be affected primarily by how successfully it is transforming its particular end market.

Conclusion

While short-term cycles ebb and flow, we do not seek to reposition the portfolio or change our process or strategy just because certain areas of the market are temporarily in vogue. Over the longer term, we expect the pandemic will accelerate certain secular trends such as digitization and a focus on ESG (environmental, social, and governance) factors. We also think we will see significant transformations in consumer travel habits, public health screening, and corporate supply chains. We believe such changes will create meaningful investment opportunities, and we continue to focus on identifying and researching these unique businesses with significant barriers to entry and growth prospects, investing at attractive prices, and holding them for the long term.

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

The discussion of market trends and companies are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change any time based on market and other conditions, and we have no obligation to update them.

Portfolio holdings as a percentage of total investments as of December 31, 2023 for securities mentioned are as follows: **IDEXX Laboratories, Inc.** – 3.7%, **West Pharmaceutical Services, Inc.** – 2.0%, **Bio-Techne Corporation** – 2.9%, **FIGS, Inc.** – 0.7%, **Neogen Corp.** – 0.3%, **Mettler-Toledo International, Inc.** – 1.1%.

As of 12/31/2023, the Fund did not hold shares of **The Charles Schwab Corp., BlackRock, Inc., American Tower, Inc., CME Group, Inc., or Illumina, Inc.**

The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The **Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth. The **Russell Top 200 Index** is a market capitalization weighted index of the largest 200 companies in the Russell 3000. The Russell Top 200 Index is a benchmark index for U.S.-based large-cap stocks; the average member has a market cap above \$100 billion. The index is reconstituted annually to account for new members and growing 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 Fund includes reinvestment of dividends, net of withholding taxes, while the indexes include reinvestment of dividends, before withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not fund performance; one cannot invest directly in an index.

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Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

Beta measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition.

Upside Capture explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

Downside Capture measures how well a fund performs in time periods where the benchmark's returns are less than zero.

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