

Baron Small Cap Fund®

A Differentiated Approach to Small-Cap Investing

As a firm that got its start investing in small-cap stocks four decades ago, we are long believers in the potential for active managers to generate alpha and durable, long-term returns in this space. In addition to providing diversification, we think the breadth, diversity, and relative lack of coverage of this equity asset class is tailor made for the acumen and selectivity of a skilled active manager. The unique characteristics of the small-cap space create opportunities for managers like us who have the capacity to engage in comprehensive research to discover promising companies with great characteristics and opportunities for growth that we can invest in for the long term.

Baron Small Cap Fund

We launched Baron Small Cap Fund in 1997 with Cliff Greenberg as portfolio manager. Cliff is co-CIO of Baron Capital and has been instrumental in building our investment team – now numbering 45 investment professionals including 17 portfolio managers. He is a veteran investor with 39 years of experience and one of the Firm’s longest tenured portfolio managers. David Goldsmith has served as assistant portfolio manager of the Fund since 2016.

Cliff takes a distinctive approach that sets him apart from his peers in a number of key respects, including the types of names he favors, the number of stocks he holds and concentration of holdings, the length of time he holds them, and his management of risk.

As set forth in the table below, this approach has resulted in solid performance over the 26 years since the Fund’s launch. The Fund has annualized alpha of 4.62% with beta of 0.98 and up/down capture of 101.03% and 88.21%, respectively, for the five-year period ended September 30, 2023. It has always maintained high active share; its current active share is 96.2%.



Cliff Greenberg
Co-CIO and Portfolio Manager

Baron Small Cap Fund Performance as of 9/30/23 (annualized)*

| | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception** |
|---------------------------|--------|--------|--------|---------|-------------------|
| Baron Small Cap Fund | 17.71% | 1.97% | 5.94% | 9.06% | 9.78% |
| Russell 2000 Growth Index | 9.59% | 1.09% | 1.55% | 6.72% | 5.69% |

* Institutional Shares. For Retail and R6 Shares, visit baronfunds.com.

** 9/30/1997

Performance listed in the above table is net of annual operating expenses. The annual expense ratio for the Institutional Share Class as of 9/30/2022 was 1.04%.

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

Performance for the Institutional Shares prior to 5/29/2009 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 5/29/2009 did not reflect this fee, the returns would be higher.

The Fund’s 3-year 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.

The Fund has a Morningstar Medalist Rating of Silver, based on its proven and repeatable investment approach; focus on durable, long-term growth; solid long-term results; and Cliff's status as a veteran investor backed by Baron's strong stock-picking culture.

A Differentiated Process

We combine fundamental, bottom-up research with a long-term perspective to invest in small-cap growth companies with what we believe have competitive advantages, excellent management, and secular growth opportunities, at an attractive valuation. We supplement this by investing in situations where we see investment opportunity in a company that is new to the market through a spinoff, IPO, restructuring, or acquisition by a SPAC (special purpose acquisition company); and also in "turnarounds," companies with a strong business model that have stumbled and have a new management team and plan.

To build and manage our portfolio, we use our extensive research capacity and industry expertise to source promising investment opportunities. Because we invest only in stocks in which we have strong conviction, we hold a limited number of names. As of September 30, 2023, the Fund held 63 stocks, compared with a category average of around 150 stocks. The top 10 holdings comprised 38.8% of assets. Our high-conviction, long-term approach, combined with our deep bench of research analysts, means we can do the necessary due diligence to gain in-depth knowledge of the companies we invest in, including engaging their management teams and visiting key facilities.

We favor certain kinds of companies. Our investments typically include:

- Companies that are leaders in their sectors and are often disrupting those industries while strengthening their competitive position
- Companies that we believe have great business models, with visible, recurring, and maintainable revenues and cash flows, and exceptionally high margins
- Companies run by, in our view, sharp, often founding executives, who have proven track records of success and are of high character
- Stocks with trading multiples that we think offer great upside as earnings grow over time and/or multiples expand to recognize the special qualities of these businesses

We look for companies with strong and compounding organic revenue growth. Often, strategic and accretive acquisitions add to value creation. We prefer companies with expanding margins, where profits are growing faster than revenue. Another attribute we look for is strong free cash flow that can be used to add value through debt reduction, acquisitions, capital expenditures, share buybacks, or dividends.

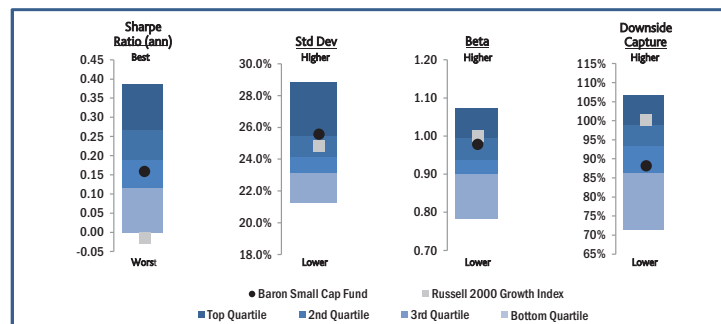
We are comfortable with a company that leverages its balance sheet to optimize returns if it is an established business with recurring and predictable free cash flow and debt levels are prudent. For instance, **Bright Horizons Family Solutions, Inc.**, a provider of corporate-sponsored child care, has successfully used leverage for accretive acquisitions of established centers in its highly fragmented market and for geographic expansion.

Please refer to p.4 for Morningstar disclosures.

Risks: Risks associated with investing in smaller and medium sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

We are valuation-conscious, buying only when we think firms are attractively priced relative to their earnings prospects over three to five years. To assess the growth opportunities of an investment, we build a proprietary, company-specific, long-term model focused on key revenue growth drivers, cost structure, profitability, and capital structure. We model five years of forward-looking earnings and financial metrics. Our valuations are done based on our projections applying conservative and reasonable multiples. We stress test for company-specific and market risk. We continuously update our models and thoughts based on new data points and developments.

Multi-Faceted Risk Management



Source: FactSet SPAR

As seen in the chart above, over the five-year period ended September 30, 2023, the Fund has had better beta, downside capture and risk-adjusted performance, as measured by its Sharpe ratio, than its benchmark index. The solid risk/return characteristics of Baron Small Cap Fund are no accident. Rather, they are a direct result of our multi-pronged approach to risk that involves:

- Extensive due diligence
- Barbell approach to portfolio weighting
- 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 interact with management in order to stay on top of the company's growth story as it develops. We speak to our holdings' management teams multiple times per year. Our sustained level of interaction with management helps sharpen our model inputs and assumptions. Cliff is involved in research on each name with the support of David and our team of research analysts.

Barbell approach to portfolio weighting We manage a diversified portfolio with its heaviest weightings in stocks with which we have had long-term success, yet we still believe have considerable upside. This approach dampens volatility of the Fund, since many of these companies are growth companies with business models that are "baked," are building off established market positions, and have predictable and reliable revenues. We supplement these long-term winners with new ideas that are smaller and younger companies, but that can provide more significant upside and develop into long-term holdings.

Baron Small Cap Fund
Top 10 Holdings as of September 30, 2023

| Holding | Sector | % of Net Assets |
|--------------------------------|------------------------|-----------------|
| Vertiv Holdings Co | Industrials | 6.3% |
| Gartner, Inc. | Information Technology | 5.5% |
| Kinsale Capital Group, Inc. | Financials | 4.7% |
| ICON Plc | Health Care | 4.1% |
| SiteOne Landscape Supply, Inc. | Industrials | 3.7% |
| ASGN Incorporated | Industrials | 3.4% |
| Chart Industries, Inc. | Industrials | 3.0% |
| Red Rock Resorts, Inc. | Consumer Discretionary | 2.9% |
| Floor & Decor Holdings, Inc. | Consumer Discretionary | 2.7% |
| Guidewire Software, Inc. | Information Technology | 2.6% |
| Total | | 38.8% |

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

As an example, aircraft parts manufacturer **TransDigm Group, Inc.** generates recurring cash flow and high margins on after-market replacement parts for airplanes that remain in service for decades. We have held the stock for 17.5 years and the stock has made a 28.5% annualized total return since our initial investment. Another example is **SBA Communications Corp.**, which leases towers to wireless carriers. The company benefits from long-term leases and limited competition due to zoning and licensing obstacles that prevent new entrants into its markets. We have held SBA for 19 years, and the stock has made a 22.5% annualized total return since our initial investment.

Focus on non-correlated end markets We also manage risk by investing in businesses across a range of non-correlated end markets. For instance, although we own a number of application software businesses, they serve different end markets, so we believe they are less correlated than they would appear at first glance. **The Trade Desk** is involved in media and advertising; **Aspen Technology, Inc.** services process engineering markets; and **Guidewire Software, Inc.** the property and casualty insurance industry. The fate of each of these application software companies will be impacted in large part by how it is transforming its particular end market.

Proven Long-Term Approach

Our approach for the Fund is simple in premise but difficult in execution. We seek to find special, one-of-a-kind companies that have competitive advantages and strong business models, are well managed, and can grow on a compounding basis, in our view. We hope to find these companies when they are smaller and own them as they mature and grow. We stay invested as long as the businesses perform (as the stock should follow) but sell out and replace them in the portfolio if the businesses falter.

As Cliff likes to say, "We water our flowers and cut our weeds." Consistent with our strategy of watering our flowers, we leverage our experience to resist the urge to sell when a stock takes a hit for non-fundamental reasons such as short-term market volatility or a missed quarter or when it spikes up on good news. We will not hold a stock indefinitely, but strive to maintain a rigorous sell discipline, informed by regular conviction checks to determine whether the investment premise remains intact.

An outgrowth of this approach is that the Fund has about 31% of its assets in stocks that it has held longer than 10 years. The weighted average annualized return on these holdings is 18.7%, which confirms the wisdom of staying invested in these special companies.

Of course, not every stock we invest in performs as well as the examples we have cited. In addition, please note that there is no guarantee that these results will be repeated in the future.

We realize that our approach is unusual for a small-cap fund and we are committed to maintaining our small-cap mandate. In a given year, we will normally sell about a quarter of our holdings and use the proceeds to purchase new small-cap companies or add to existing smaller-cap holdings. By doing so, we remain small cap. Our three-year average turnover is 14.74%. We sell stocks of companies that get acquired, or meet our long-term price targets, or that we like less than new ideas we uncover, and trim our larger-cap holdings to regulate position sizes and be mindful of the small-cap charter of the Fund.

This process keeps the portfolio fresh, and the overall market cap controlled. Our primary goal is to maximize the returns of the Fund, and we strongly believe we should hold on to our winners and stay involved as our investments flourish, as proven by past results. We believe we would be doing our investors a disservice if we were forced to sell out of our big winners too soon and try to replace them with a new position that might not perform as well.

Conclusion

We own a portfolio of what we believe to be well-managed, high-quality companies. They are leaders in their niches, with strong competitive advantages. We think they have great growth opportunities based on their positioning in their sectors and well-established business plans. The growth is evidenced by strong historical results. We continue to adhere to our approach of staying investing in these special, high-quality businesses wherever we happen to be in the market cycle, as we believe they will outperform over 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 is 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 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 at any time based on market and other conditions and Baron has no obligation to update them.

Portfolio holdings as a percentage of total investments net assets as of September 30, 2023, for securities mentioned are as follows: **Bright Horizons Family Solutions, Inc.** – 1.3%; **TransDigm Group, Inc.** – 2.5%; **SBA Communications Corp.** – 1.2%; **The Trade Desk** – 1.4%; **Aspen Technology, Inc.** – 1.7%.

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

The **Morningstar Medalist Rating™** is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Investment products are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for Morningstar's conviction in those products' investment merits and determines the Medalist Rating they're assigned. Pillar ratings take the form of Low, Below Average, Average, Above Average, and High. Pillars may be evaluated via an analyst's qualitative assessment (either directly to a vehicle the analyst covers or indirectly when the pillar ratings of a covered vehicle are mapped to a related uncovered vehicle) or using algorithmic techniques. Vehicles are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a vehicle, they assign the three pillar ratings based on their qualitative assessment, subject to the oversight of the Analyst Rating Committee, and monitor and reevaluate them at least every 14 months. When the vehicles are covered either indirectly by analysts or by algorithm, the ratings are assigned monthly. For more detailed information about these ratings, including their methodology, please go to global.morningstar.com/managerdisclosures/.

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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.

Diversification cannot guarantee a profit or protect against loss.

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

Active Share is a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics M. Cremers and A. Petajisto, as a measure of active portfolio management.

Sharpe Ratio is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance.

Standard Deviation (Std. Dev.) measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk).

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