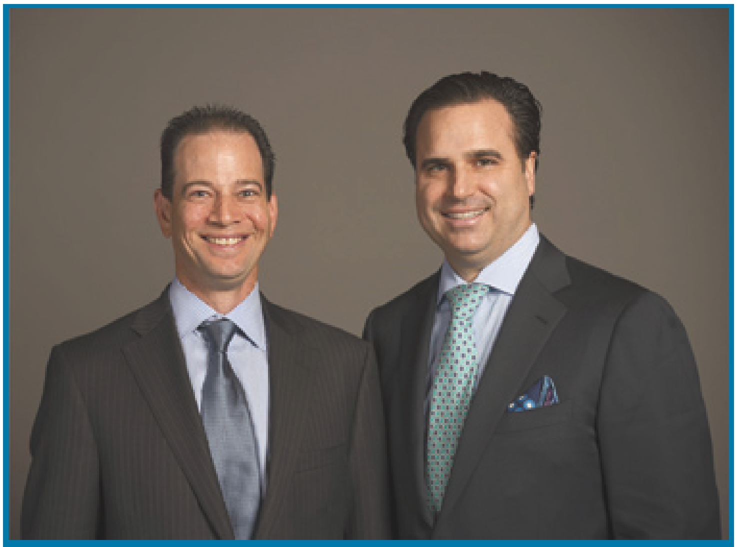
Dear Baron Discovery Fund Shareholder:

Performance

This past year was incredibly challenging but Baron Discovery Fund® (the Fund) returned 22.58% (Institutional Shares) in 2023, which was 3.92% better than the 18.66% return of the Russell 2000 Growth Index (the Index). In the fourth quarter, the Fund returned 12.44%, 0.31% less than the Index. Since inception, investors in the Fund have more than tripled their money and have earned an annualized return of 12.42%, or 4.62% better than the Index when including fees. Beating the market in any given quarter is random. Beating it consistently over longer time periods requires patience, judgment, and experience.



RANDY GWIRTZMAN PORTFOLIO MANAGER | LAIRD BIEGER PORTFOLIO MANAGER | Retail Shares: BDFFX Institutional Shares: BDFIX R6 Shares: BDFUX

Table I.
Performance†
Annualized for periods ended December 31, 2023

	Baron Discovery Fund Retail Shares[1,2]	Baron Discovery Fund Institutional Shares[1,2]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[3]	12.36%	12.44%	12.75%	11.69%
One Year	22.28%	22.58%	18.66%	26.29%
Three Years	(6.10)%	(5.86)%	(3.50)%	10.00%
Five Years	11.65%	11.94%	9.22%	15.69%
Ten Years	10.74%	11.02%	7.16%	12.03%
Since Inception (September 30, 2013) (Annualized)	12.14%	12.42%	7.80%	12.82%
Since Inception (September 30, 2013) (Cumulative)[3]	223.59%	232.02%	115.98%	244.24%

So much has changed in the past 20 years and these changes have made it harder to have a so-called *edge* in the markets. Cheap or free access to the most important market data including financial statements, pricing information, and real time news, has led to informational democracy. Significantly increased regulation (most notably, Reg FD) ensures equal dissemination of market moving news. An increased variety of investment options (ETFs, index funds, and a host of other public and private investment vehicles) enable a variety of ways to execute investment strategies. And soon, artificial intelligence (AI), which we expect will be available to nearly everyone, could democratize trading even further. And yet, against all odds, Baron Discovery Fund and most of the other Baron Funds have consistently beaten their principal benchmarks over the last decade and have garnered top rankings in their respective categories. Why have our returns been meaningfully better than benchmark averages? What is it that we see that others don't? In other words, why should you invest with us for the future?

We believe our advantage lies in two key areas. First, we are long-term, fundamentally based investors. Our *edge* does not depend on getting a quick trading jump on other investors, but rather by truly investing in businesses we believe can grow meaningfully over time due to quality management teams, strong protected business models, and large unexploited market opportunities. Second, we have the experience to

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, 2023 was 1.33% and 1.06%, 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 Adviser may reimburse certain Baron Fund expenses pursuant to a contract expiring on August 29, 2034, unless renewed for another 11-year term and 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.

† The Fund's 3-, 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 Fund's level of participation in IPOs will be the same in the future.

1 The **Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth. The **S&P 500 Index** measures the performance 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 Fund includes reinvestment of dividends, net of withholding taxes, while the Russell 2000® Growth Index and S&P 500 Index include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in 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 Not annualized.

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recognize these opportunities and to correctly value them. This deep understanding of our business allows us to hold our positions even in the face of transient adversity. We believe that while AI will help investors in many ways, it will never have the ability to replicate or replace our experiential judgment in evaluating management teams and the competitive environments in which they operate.

The *experience* component captured my attention over the holidays. I read two interesting books that shed some light on our experiential edge in the markets: *Elon Musk* by Walter Isaacson (2023); and *Blink: The Power of Thinking Without Thinking* (2005) by Malcolm Gladwell.

Elon Musk is a fascinating biography, which attempts to capture the mindset and human underpinnings of a controversial but unimpeachably game-changing inventor, businessman, and "speciest." The latter term, which I'd never heard of until reading the book, refers to Elon's moral belief that human consciousness should be favored over that of machines. This seems elementary, but there are those who believe otherwise, and this will become relevant in the "singularity" (when machine-based intelligence reaches the point where it equals and then exceeds that of humans). Elon does not like these people (and I agree), and the drive to perpetuate human consciousness is driving his mission to populate Mars. However, I believe the singularity is a long way off even in the age of AI, and particularly in the realm of investing, where the human element of intuition (informed by experience) is the ultimate *edge*. Even a genius like Elon Musk has had years of experientially informed trial and error to help him extend his products to the realm of what was originally thought to be impossible. Blowing up multiple SpaceX rockets to iterate on the best engine designs ("If we're not blowing up engines we're not trying hard enough"), dealing with massive parts reductions in Tesla cars that sometimes lead to recalls ("the best part is no part"), and refusing to accept conventional wisdom in how to engineer a NeuraLink chip to interface with the human brain, are how Elon learns on an iterative basis.

At Baron, our team of analysts and portfolio managers do something very similar with regard to stress testing management teams, investment theses, and portfolio construction. We visit companies and we talk to customers, competitors, and suppliers. We interview experts in the field whether they are surgeons, semiconductor engineers, or insurance executives. Then we circle back to the management teams in which we invest, to ask follow-up questions to ensure that the original investment theses and our initial estimations of managements' character are sound. There is a correlation with the average experience of our 17 Baron portfolio managers at 27 years, and why Baron Funds outperform over the long term. It is because we have been there. In the words of Elon, "If you've not been there, you're just talking bull-#@$%." (*Elon Musk*, p. 583).

A corollary to the necessity of having tremendous experience for investment success, is that you need to know when not to *overthink* the situation. This is the crux of *Blink*. The book posits that in certain circumstances unconscious thinking can be better than conscious analysis. This is particularly apropos in complex situations when we are overloaded with information. "We have virtually unlimited amounts of data at our fingertips at all times, and we're well versed in the arguments of not knowing enough and doing our homework. But what I have sensed is an enormous frustration with the unexpected costs of knowing too much, of being inundated with information. We have come to confuse information with understanding." (*Blink*, p. 264). In fact, this phenomenon is a big issue in AI when "hallucinations" (conclusions formed by synthesizing massive amounts of information in a logical but ultimately incorrect manner) are substituted for real world truth. In public market investing, information overload situations happen constantly. They can occur when a public company CEO says something in a meeting that doesn't ring *true* (requiring an immediate follow-up question), or a rapid negative pricing dislocation in the market that might lead to adding to or reducing an investment (given a high level of confidence in the circumstances). In cases such as these, investors need to balance in-depth analytics and massive information gathering with instinctual decision-making processes. This necessitates a deep experiential base. "Being able to act intelligently and instinctively in the moment is possible only after a long and rigorous course of education and experience." (*Blink*, p. 259). Experts have "a way to structure their first impressions, the vocabulary to capture them, and the experience to understand them . . ." (*Blink*, p. 187). In other words, experts have judgment. "[J]udgement matters. It's what separates winners from losers." (*Blink*, p. 260).

This is in sync with another book that Gladwell wrote in 2008 called *Outliers: The Story of Success* where the author argues that true expertise is not achieved until practitioners have at least 10,000 hours of experience in their field. Laird and I have each been investing for over a quarter of a century, which at 60 hours per week (we probably each work a lot more than that including weekends) would equate to about 3,000 hours per year, or 75,000 hours each of total experience in honing our craft. Talk about AI (actual intelligence™) training! Our experience and judgment separate us from nearly all of our peers. Our excess returns bear that out.

Table II.
Top contributors to performance for the quarter ended December 31, 2023

	Percent Impact
SentinelOne, Inc.	1.37%
GitLab Inc.	1.13
Varonis Systems, Inc.	1.02
CyberArk Software Ltd.	0.93
Kratos Defense & Security Solutions, Inc.	0.89

SentinelOne, Inc. is a cybersecurity software company that specializes in endpoint protection, cloud security, and security data analytics. Shares rose on outstanding quarterly financial results and strong guidance. SentinelOne is one of the fastest growing public cybersecurity companies, with revenue expected to grow more than 46% this fiscal year. Growth has been driven by a combination of: 1) market share capture from legacy endpoint vendors that struggle to compete against SentinelOne's AI-enabled platform; 2) an ongoing shift of Information Technology (IT) infrastructure to the cloud driving demand for cloud application protection (growing triple digits); and 3) cybersecurity vendor consolidation favoring end-to-end platforms with comprehensive security portfolios over single-point solutions. The company is also leveraging its single data store and AI capabilities to cross-sell more products into its existing customer base and increase average sale prices. Between larger deal sizes and improving operating efficiencies, we believe the company can continue to expand margins at a significant rate and begin generating positive free cash flow in the next fiscal year.

GitLab Inc. is an end-to-end software development and IT operations platform that enterprises use to create, secure, and deploy programming code. The stock rose after GitLab delivered strong quarterly results driven by improving win rates in enterprise deals, solid seat growth, and higher average selling prices. In recent years, GitLab has delivered more than 400 feature enhancements to its platform, enabling its customers to consolidate more software development steps into GitLab, lowering total IT costs and achieving faster software delivery times. As a result, GitLab has realized higher average revenue per user (ARPU) through a combination of price increases and upgrades to its Ultimate Tier product. These ARPU increases, coupled with consistent user growth, bode well for future sales and margin expansion. GitLab also has several exciting new growth levers, including a monetizable generative AI product that helps developers write code, detect vulnerabilities automatically, and remediate bottlenecks in the coding process, a new enterprise planning SKU that brings non-developers onto the platform, and a Dedicated Tier for clients in regulated industries.

Varonis Systems, Inc. is a cybersecurity vendor that helps organizations classify, locate, and protect sensitive data across on-premise and cloud environments. Shares of Varonis increased on strong quarterly results with annual recurring revenue (ARR) growth and free cash flow beating consensus. Last year, Varonis began transitioning to a Subscription as a Service (SaaS) model, which will benefit clients via lower maintenance costs, better automation, and faster remediations of data vulnerabilities. Throughout 2023, demand for the SaaS model has been much higher than investors anticipated, and SaaS already accounts for over 15% of ARR. SaaS customers are landing with more licenses, paying 30% higher prices per license, and signing deals faster. As this mix shift progresses, we anticipate improved sales efficiency and higher margins. Varonis remains a competitively advantaged business in the data security industry, which we believe can accelerate in 2024 as recent SEC disclosure requirements for security breaches drive industry awareness, and regulated companies look to invest in data security as a prerequisite for adopting generative AI.

Table III.
Top detractors from performance for the quarter ended December 31, 2023

	Percent Impact
Kinsale Capital Group, Inc.	-1.21%
Chart Industries, Inc.	-0.87
Establishment Labs Holdings Inc.	-0.56
The Beauty Health Company	-0.51
European Wax Center, Inc.	-0.23

Shares of specialty insurer **Kinsale Capital Group, Inc.** gave back some gains from earlier this year after the company reported slower premium growth in the third quarter. Earnings beat Street expectations with EPS doubling and ROE exceeding 34%. However, investors focused on the slowdown in gross written premiums to 33% growth from 58% growth in the prior quarter, which management attributed to normal seasonality for property insurance. Additionally, we believe some of the share price weakness resulted from a market rotation away from defensive stocks to more speculative stocks following a decline in interest rates. We continue to own the stock because we believe Kinsale is well managed and has a long runway for growth in an attractive segment of the insurance market.

Chart Industries, Inc. is a global leader in design, engineering, and manufacturing of process and storage technologies and equipment for gas and liquid handling. Shares fell after the company missed analyst earnings forecasts on project revenue recognition timing. Chart also held an Investor Day in which it provided mid-term financial targets instead of further detail on its 2024 outlook, falling short of some analyst expectations. We remain bullish on the company's prospects. Business fundamentals are strong, with management seeing solid demand across the portfolio and cost synergies from the Howden acquisition are ahead of company targets. Chart also has a much larger than normal backlog supporting growth in 2024, providing good visibility. We believe the integration of Howden is proceeding well, with the combined company on track to become a globally diversified, high-quality, high-growth industrial business with proprietary technology and solutions serving the growing hydrogen, carbon capture, liquid natural gas, and other end markets. Chart's valuation remains attractive relative to its growth and margin profile, in our view.

Establishment Labs Holdings Inc. sells next-generation breast implants that have meaningfully lower safety risks compared to competitor products. The company's implants have captured significant share in many international markets, and the upcoming U.S. and China launches will more than double the addressable market. Shares fell in the quarter. The near-term issue is that breast augmentations are expensive discretionary cash-pay procedures, and macroeconomic headwinds are leading to weaker global demand. Compounding this, distributors in Asia-Pacific are working down inventory as they run leaner in uncertain economic times. This weakness also creates uncertainty as to whether Establishment Labs can achieve certain milestones needed to access additional tranches of debt, absent which the company will likely need to raise capital. Longer term, we think Establishment Labs will capture significant share in the U.S. and China and will launch a unique minimally invasive implant product that will accelerate revenue growth and profitability.

Portfolio Structure

Table IV.
Top 10 holdings as of December 31, 2023

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
GitLab Inc.	2022	$49.0	3.4%
DraftKings Inc.	2023	43.5	3.0
SentinelOne, Inc.	2023	43.2	3.0
Advanced Energy Industries, Inc.	2019	43.1	3.0
Axon Enterprise, Inc.	2022	42.9	3.0
CyberArk Software Ltd.	2022	41.7	2.9
Axonics, Inc.	2020	39.7	2.8
Floor & Decor Holdings, Inc.	2019	39.0	2.7
Rexford Industrial Realty, Inc.	2019	36.5	2.6
Couchbase, Inc.	2021	35.9	2.5

Our top 10 holdings represented 29.0% of the portfolio, versus 32.1% at December 31, 2022 and 25.6% at December 31, 2021. This is within our typical 25% to 35% range. Cash holdings were 5.8%, which is also a typical mid-single digit level. As of September 30, 2023, the Fund had capital loss carryforwards of about $205 million representing cumulative short and long-term losses that may be applied against future capital gains. We have no expectation of distributable gains in the near future, and we are always attuned to the tax position of the Fund.

We generally don't expect our sector exposures to vary greatly from the Index, but the Fund is presently overweight IT by about 16% due to our belief that small-cap IT has continued to show compelling valuations coupled with strong business growth characteristics. A portion of our overweight position in IT (2.7%) comes from our investment in **Advanced Energy Industries, Inc.**, which we consider to be more of an Industrials company. In Industrials, the Fund is 1.7% overweight (4.4% if we re-allocate Advanced Energy), which includes 4.5% exposure to defense-oriented names. The Fund is 7.8% underweight in Health Care, but this is mostly due to our lack of exposure to biotechnology stocks, which represent over 10% of the Index. Finally, the Fund does not have exposure to more cyclical/ value-oriented sectors comprising over 10% of the Index including Energy (4.5% of the Index), Materials (4.1%), and Utilities (1.5%). While this latter allocation decision can hurt the Fund's relative performance during periods when the market is exceedingly defensive and commodities are in an inflationary cycle, we believe that such periods are more the exception than the rule.

The Fund's portfolio turnover was 32.3% for the year (versus 31.8% last year) and 34.8% on average over the last three years. This is significantly lower than the 71.1% three-year average for the Morningstar Small Growth Category, which reflects our long-term strategic investment focus.

Recent Activity

Table V.
Top net purchases for the quarter ended December 31, 2023

	Year Acquired	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
AAON, Inc.	2023	$ 6.0	$12.9
Mercury Systems, Inc.	2015	2.2	5.3
DraftKings Inc.	2023	16.4	5.2
SentinelOne, Inc.	2023	8.2	4.0
Maravai LifeSciences Holdings, Inc.	2022	1.6	3.9

AAON, Inc. is a high-quality manufacturer of HVAC equipment based in Tulsa, OK. It is a leader in providing premium, semi-custom HVAC equipment to the non-residential market with products that are more energy efficient, have longer life spans, and overall are better customized than peers to fit customers' needs. This has driven significant outperformance over the past decade with organic growth in the high single-digit to low double-digit range compared to a low to mid-single-digit range for its peers.

Strong secular growth driven by decarbonization and broader ESG trends/ regulations is leading to greater demand for the types of products AAON specializes in such as energy efficient HVAC equipment that provides better air quality. To satisfy incoming regulations, peers have been forced to update their offerings and raise prices, while AAON today has ready-to-ship products satisfying all regulations. This dynamic is reducing the price premium between AAON's products and the industry standards from 15% to 20% historically to a high single-digit level today. This price gap reduction is accelerating volume growth and enabling the company to take share. With the acquisition of BasX Solutions, a leader in data center, cleanroom systems, and custom HVAC units in December 2021, AAON expanded its addressable market by around 50% to over $30 billion in segments of the market where its focus on energy efficient units is extremely valuable. BasX's adjusted cash flow (EBITDA) has roughly doubled over the past two years under AAON's ownership. Lastly, CEO Gary Fields has undertaken a multi-year reorganization of the company's management team and invigoration of company culture with a greater focus on selling and pushing the AAON solution from niche to mainstream. A simple illustration of the change brought by Gary is the opening of the exploration center this past April. This is a 28,000 square foot facility with over 10,000 square feet of exhibits and AAON products. We toured this facility at the company's Analyst Day this past May where AAON units were placed next to competitor solutions. By purchasing and deconstructing competitors' solutions, the team clearly highlighted the value of AAON's superior products. They are more durable and have higher levels of efficiency. The team hoped that they would bring one to two potential customers a week to the center, but the demand has been so strong that one to two customers a day are visiting with a strong conversion from visits to eventual orders.

Going forward, with run-rate revenue at a little over $1 billion in a $30 billion market, there is ample opportunity ahead for AAON to grow and take market share. We expect mid-single-digit price increases across its product set along with mid-single-digit volume growth. The business is about 65% replacement/35% new construction with a mix of end-markets and limited exposure to new office construction. Given the growth opportunity ahead, the company is continuing to invest aggressively but at the same time has taken steps to maximize its physical footprint and, over time, will achieve greater levels of operating leverage. We believe the company will drive gross margins from the low 30% to the mid-high 30% levels with EBITDA margins expanding from the low to high 20% levels over our five year investment horizon. We calculate this combination of above market growth combined with significant margin expansion will allow us to double our investment over the next five years.

We added to our position in **Mercury Systems, Inc.**, the leading U.S. Tier 2 defense electronics manufacturer and integrator, as we are convinced that the new management team put in place in August 2023 has made meaningful progress in their turnaround efforts, and that shares remain meaningfully undervalued. We also added a small amount to our **SentinelOne, Inc.** investment as we are excited about valuation and the acceleration in its business fundamentals.

We added to our position in **DraftKings Inc.**, the leading mobile sportsbook and gaming operator in the U.S. While we lowered our estimates for the fourth quarter due to lower hold in the month of November, it is important to keep in mind that while hold can be volatile from quarter to quarter, the company continues to slowly increase hold over time (primarily because of a higher percentage of the handle being in higher hold "parlay" bets). We continue to be attracted to DraftKing's dominant market share and the scale advantages that come with this.

While **Maravai LifeSciences Holdings, Inc.** remains a relatively small position in the Fund, we believe that better days are ahead for this mRNA-oriented drug development technology company. We think that over the coming years its pipeline will start to bear fruit, and we can be patient as it is already cash-flow positive with net cash on its balance sheet.

Table VI.
Top net sales for the quarter ended December 31, 2023

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Kinsale Capital Group, Inc.	2016	$0.4	$7.8	$17.5
European Wax Center, Inc.	2023	1.2	0.9	13.1
ACV Auctions Inc.	2021	0.5	2.4	8.3
Ichor Holdings, Ltd.	2016	0.2	1.0	6.9
Kratos Defense & Security Solutions, Inc.	2020	2.2	2.6	6.1

We trimmed our position in **Kinsale Capital Group, Inc.** in an effort to risk manage the position size. That being said, we continue to like the company's longer-term prospects and opportunities to take share in the excess and surplus lines insurance market.

We sold our position in **European Wax Center, Inc.** due to what we viewed as an appropriate valuation given the recent macroeconomic slowdown in visits from the company's *episodic guests*.

We trimmed our position in **ACV Auctions Inc.** during the quarter. While we continue to believe in the company's longer-term growth opportunities, we believe the current valuation reflects the challenging near-term economic environment.

We sold some of our position in **Ichor Holdings, Ltd.**, which is a manufacturer of semiconductor capital equipment. We like Ichor and its management team, but as we await the turnaround of the equipment cycle broadly, we believed there were better opportunities to deploy capital within the IT sector.

Outlook

In our 2022 fourth quarter letter, we posited that there were already signs that inflation, which was driven by massive monetary and fiscal stimulus and COVID-related supply-chain issues, was starting to ease. During 2023 our message to investors was that markets will rally as participants start to discount a pause in interest rate increases by the Federal Reserve, and will ultimately discount rate *decreases* by the Fed. While they did not move in a straight line, markets played to type and rallied in what we viewed as a *typical* economic cycle reaction. That being said, large-cap stocks, and particularly a small set of these, rallied higher than small caps in 2023. We believe that 2024 will be the *year of small cap* as relative valuations return to more normalized levels, with small caps garnering bigger multiples than large caps. We also believe that our style of stock picking—active management driven by experiential-based fundamental analysis—will be amply rewarded. We appreciate your trust in us, and we are glad that you have chosen Baron Discovery Fund as an investment.

Randy Gwirtzman — Portfolio Manager
Laird Bieger — 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 the Funds' distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting baronfunds.com. Please read them carefully before investing.

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 significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

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 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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Discovery Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).