Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund® (the Fund) had a solid fourth quarter and a strong 2023, both on an absolute and relative basis. The Fund was up 12.64% (Institutional Shares) in the quarter and gained 27.19% for the year. This was essentially in line with the performance of the Russell 2000 Growth Index (the Benchmark) in the fourth quarter, which was up 12.75%, and was **853 basis points better than the Benchmark for the year.** The Fund slightly outperformed the broader S&P 500 Index this quarter and for the year, which was a good achievement as larger-cap stocks outperformed small caps in 2023. Overall, a very satisfying year.

As shown below, the Fund has outperformed the Benchmark for all relevant periods. We have beaten the Benchmark six of the last seven years. The down year we had in 2022, when quality growth underperformed, is now safely in the rearview mirror. Since inception, we have provided an annual excess return of 4.06%, which adds up. If you had hypothetically invested $10,000 at the inception of the Fund in September 1997, your investment would be worth $127,309, which is well in excess of $47,581, the value of the investment if you had invested in a fund that tracked the Benchmark. We appreciate the confidence and support of those who have been with us for these past 26 years, or any portion thereof.

CLIFF GREENBERG
PORTFOLIO MANAGER

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

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

	Baron Small Cap Fund Retail Shares[1,2]	Baron Small Cap Fund Institutional Shares[1,2,3]	Russell 2000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	12.57%	12.64%	12.75%	11.69%
One Year	26.88%	27.19%	18.66%	26.29%
Three Years	0.27%	0.52%	(3.50)%	10.00%
Five Years	13.73%	14.02%	9.22%	15.69%
Ten Years	9.03%	9.31%	7.16%	12.03%
Fifteen Years	13.10%	13.39%	12.07%	13.97%
Since Inception (September 30, 1997)	10.02%	10.18%	6.12%	8.34%

The market staged a powerful rally late in the fourth quarter. U.S. Federal Reserve (the Fed) Chairman Powell indicated that the Fed was likely done raising interest rates, which ignited a big decline in yields and a corresponding increase in stock prices. Softer economic news and lower inflation readings contributed to the significant decrease. The yield on the 10-year government bond fell from 5% to under 4%, reversing the large increase in just the prior quarter when the market was focused on strength in the economy, sticky inflation, and troubling government debt and deficits. Though the market has flip-flopped in its take on inflation and rates, this felt like a real change, a pivot, and the end of the aggressive rate increases, which began in early 2022. This breathed new life into the market.

The market broadened in the fourth quarter. After a year of terrible relative performance, small-cap stocks finished strong to modestly outperform large caps for the quarter. However, the small-cap rally was tilted toward lower-quality issues and had a value bent. We view our relative performance as

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 1.31% and 1.05%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit baronfunds.com or call 1-800-99-BARON.

† 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.

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; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

solid, as often the Fund, which invests in high-quality growth companies, lags the Benchmark at the beginning of such rallies.

For the year, the market performed well, as the highly anticipated recession proved to be a no show. Inflation declined significantly and is trending lower, falling from a peak of over 8% to under 4%, and appears to have been mostly related to spikes caused by the pandemic, which have now reversed with time. The economy remained resilient and corporate earnings, though uninspiring in most sectors, held in just fine. Stock gains were led by the NASDAQ Composite Index, which appreciated nearly 45%, with dramatic gains from the so-called *Magnificent Seven*. The S&P 500 Index ended close to an all-time high. However, small caps are still well off their highs, and are relatively undervalued, so probably have more room to run.

The Fund's performance in the fourth quarter was broad based and driven by good stock selection. Our Consumer Discretionary and Information Technology (IT) stocks did very well in the quarter. Some strong performers in Consumer Discretionary were **Red Rock Resorts, Inc.**, which opened its new casino in Las Vegas, and **Planet Fitness, Inc.**, which brought on a new interim CEO and enhanced relations with franchisees. Of our IT investments, **Gartner, Inc.** and **Guidewire Software, Inc.** gained on robust earnings performance. The shares of perceived interest rate sensitive stocks or those helped by lower borrowing costs were strong – including Consumer Discretionary names **Installed Building Products, Inc.** and **Floor and Decor Holdings, Inc.**, Industrials company **Trex Company, Inc.**, and telecommunications company **SBA Communications Corp. Vertiv Holdings Co** continued to climb based on a strong outlook and higher trading multiple. What a stock it has been. Our results were negatively impacted by not owning biotechnology stocks, which were stronger this quarter.

For the year, our performance was based on great one-off stock performance. We benefited from both the strong earnings of many of our holdings and multiple expansion, which resulted from either better outlooks or a rebound from prior depressed levels. We had a dozen stocks that rose over 50% in the year. Our largest holdings did great, so our portfolio construction helped our performance significantly. Of our top 10, 9 holdings outgained the results of the Fund itself, with the top 10 rising anywhere from 18% (**ASGN Incorporated**) to 252% (Vertiv). In our top four areas of concentration, our Industrials and Consumer Discretionary stocks well outpaced those in the Benchmark. Our Health Care stocks did well and were nice contributors to our results, led by **ICON Plc**, **Dechra Pharmaceuticals PLC**, **Neogen Corp.**, and **IDEXX Laboratories, Inc.** Our IT holdings underperformed because we had some losers in that sector offsetting our winners.

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

	Percent Impact
Vertiv Holdings Co	2.12%
Gartner, Inc.	1.94
Installed Building Products, Inc.	1.17
Red Rock Resorts, Inc.	0.91
Planet Fitness, Inc.	0.77

Vertiv Holdings Co, a manufacturer of critical infrastructure equipment for data centers, continued its ascent, up 29% for the quarter. The company is benefiting from a robust demand environment as well as successful implementation of its strategy to improve margins. As one of the leading providers of precision cooling for data centers, Vertiv stands to benefit from the increasing adoption of artificial intelligence (AI), as AI-related servers have higher energy density, which will necessitate more complicated cooling solutions. During the quarter, Vertiv held its first Analyst Day, where it introduced long-term growth targets for revenue growth of 8% to 11% CAGR out to 2028 and 500 bps of margin expansion to 20% adjusted EBIT margins and $3 billion of share repurchases over that same time frame. We trimmed the position into strength, but we remain significant shareholders as we see substantial upside over the long term, as the company executes its strategy in a strong industry backdrop.

Shares of **Gartner, Inc.**, a provider of syndicated research, soared after reporting yet another beat and raise quarter. Gartner's core subscription research businesses continued to compound at attractive rates, and growth is poised to accelerate over the next several quarters. We believe Gartner will emerge as a critical decision support resource for many companies evaluating the opportunities and risks of AI for their businesses. We expect this development to provide a tailwind to Gartner's volume growth and pricing realization over time. Gartner's sustained revenue growth and focus on cost control should drive continued margin expansion and enhanced free-cash-flow generation. The company's balance sheet is in excellent shape and can support aggressive repurchases and bolt-on acquisitions.

Installed Building Products, Inc. (IBP) is a leading distributor and installer of insulation and complementary building products for residential and commercial end markets in the U.S. Stock performance was helped by a pronounced decline in mortgage rates during the fourth quarter and expected continuation into 2024, which would make new residential home purchases, a key driver of IBP's business, more affordable. Continued strong operating and financial results (record third quarter EBTIDA and EBITDA margins) also helped boost the share price. IBP is poised to benefit from outsized growth across U.S. residential construction, which remains below long-term historical averages.

Other stocks that rose over 30% in the quarter but contributed less to the overall performance of the Fund were **Red Rock Resorts, Inc.**, **Planet Fitness, Inc.**, **DexCom, Inc.**, **Trex Company, Inc.**, **Altair Engineering Inc.**, **Endava plc**, **Kratos Defense & Security Solutions, Inc.**, **ODDITY Tech Ltd.**, and **Clarivate Plc**.

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

	Percent Impact
Kinsale Capital Group, Inc.	–1.19%
Chart Industries, Inc.	–0.84
The Beauty Health Company	–0.41
E2open Parent Holdings, Inc.	–0.34
European Wax Center, Inc.	–0.22

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 yields. We continue to own the stock because we believe Kinsale is well managed and has a long runway for growth in an attractive niche 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 during the quarter, as the company missed third quarter 2023 earnings expectations on project revenue recognition timing, along with free cash flow below expectations due to an accounting treatment of assets being divested. Despite this, fundamentals for the business continue to be strong, with management seeing solid order momentum across its entire portfolio, cost synergies ahead of targets from the Howden acquisition, and a higher-than-normal backlog into 2024. Chart held an Analyst Day introducing updated medium-term financial targets of mid-teens organic revenue growth, mid-30% gross margin (up from a low-30% margin currently), and mid-40% EPS CAGR, which imply earnings power well above current consensus expectations. We believe Chart is a globally diversified, high-quality, high-growth industrial business, with proprietary technology and solutions serving the growing hydrogen, carbon capture, water treatment, LNG, and other end-markets. We added to the position as valuation remains attractive, in our view, against Chart's growth and margin profile.

The Beauty Health Company is a skin care and beauty company that sells the flagship HydraFacial machine and related consumables. Shares declined after reporting disappointing results that revealed execution issues associated with the roll out of Syndeo, the latest generation of the HydraFacial machine. While the features and functionality of this new device surpassed the prior version, the machine also had several defects that caused potential buyers to delay their purchases. To remedy the defects, the company had to incur added costs to repair and replace existing Syndeos in the field. The company also announced that the CEO was leaving. Due to the continued uncertainty, lowered near-term financial results, suspension of 2025 guidance, and heightened management turnover, we exited our position.

Other stocks that declined over 10% this quarter but had less impact on our results were **E2open Parent Holdings, Inc.**, **European Wax Center, Inc.**, **Fox Factory Holding Corp.**, and **Shoals Technologies Group, Inc.**

Portfolio Structure & Recent Activity

As of December 31, 2023, the Fund had $4.6 billion in net assets. We held 61 stocks. The top 10 stocks made up 39.2% of net assets. As has been the trend, this is a more concentrated composition than in the past. The performance of the largest holdings was strong this quarter and year, as mentioned earlier, which led to the higher concentration. We remain excited about the prospects for each, and even after good stock performance, we believe there is still great upside in the stocks over the long term. During the year, we sold out of 10 smaller holdings and added 4. We expect to add more new names in the future, especially if the capital markets open up and IPOs become more prevalent.

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Vertiv Holdings Co	2019	324.2	7.0%
Gartner, Inc.	2007	259.4	5.6
ICON Plc	2013	198.1	4.3
ASGN Incorporated	2012	168.3	3.6
Red Rock Resorts, Inc.	2016	160.0	3.5
Kinsale Capital Group, Inc.	2019	159.1	3.4
SiteOne Landscape Supply, Inc.	2016	154.4	3.3
Guidewire Software, Inc.	2012	133.6	2.9
Installed Building Products, Inc.	2017	128.9	2.8
Floor & Decor Holdings, Inc.	2017	128.3	2.8

The Fund is concentrated in four sectors, as has been the case for a while. Industrials make up 32.0% of the Fund, IT 17.8%, Consumer Discretionary 17.3%, and Health Care 12.8%. Compared to the Benchmark, we are notably overweight in Industrials and Consumer Discretionary, underweight in IT, and significantly underweight in Health Care. Our weightings are not a reflection of which sector we expect to perform best in the near future but are an outgrowth of where we have found special companies that meet our high standards. Besides these main sectors, we have 8.5% of the Fund in Financials, which includes some specialty insurance and investment banks, and 3.9% in Communication Services. Our largest stocks in this sector are not typical communications companies; they are a digital advertising platform and some sports franchisees. Though some sectors do well and others do not in any given year…for instance, this was a year when IT shined and Health Care lagged….we note that the performance of the Fund is most affected by the business success and prospects of the individual holdings, not so much the sector weightings. Also, we always keep some cash in the Fund to make new investments. Last year, this averaged 4.6% and ended the year at 3.4%. Since the market was strong, this hurt our performance a bit for the year.

The Fund is different than many of its peers in that we hold our stocks longer than most to stay invested in our best ideas. This has proven to be a successful strategy, and we believe is core to our strong long-term performance. With the Fund now in its 27th year (boy, was that a quick 26-plus years!), our differentiated approach has resulted in a Fund that has distinct characteristics from others. We point to three unique attributes. Our Fund is loaded with what we call *big winners*, our Fund has low turnover and holds many stocks for a long time, and the market-cap stratification of the Fund skews larger.

We seek to find very special companies when they are small…typically investing in them when their market caps are between $1.5 billion and $2 billion…and hold them for the long term, as the companies grow and succeed. We have been positively amazed that the best of our investments can grow multiple fold and their stocks can appreciate dramatically and at high annualized returns. We have witnessed that success begets success, and that our best investments are companies that can continue to grow for years, often by just playing out the game plan that we bought into when they were small.

As of the end of 2023, we own 15 stocks that have appreciated over five-fold since their initial purchase price, 9 of which have gone up over 10 times! These 15 stocks make up 37.0% of the Fund's net assets. They have generated a weighted average annualized return of 29.4%. These are our *big winners*. Many of these stocks were among our best performers last year, including big gains in **TransDigm Group Incorporated**, **Gartner, Inc.**, **IDEXX Laboratories, Inc.**, **The Trade Desk**, **ICON Plc**, and **SiteOne Landscape Supply, Inc.** In addition, another 19 holdings, which make up an additional 33.1% of the Fund's net assets, have at least doubled. These too have compounded at high rates. So, 70.1% of the stocks in the Fund have already doubled or more, which, based on our experience, we regard as a reliable indicator of more to come, not that these investments have run their course.

These big winners provide a ballast to the portfolio. Their business models are proven, and our relationship with management and belief in their execution are well established. Also, these stocks tend to perform better in tougher markets and contribute to our Fund's attractive risk-adjusted profile, as evidenced by our higher Sharpe ratio and impressive Upside/Downside capture ratios.

We are long-term investors. We seek to find these great companies and investments when they are small and hold on as they grow. At the end of 2023, about 58.7% of the Fund's net assets were in 32 stocks that we have held for 5 years or more. Of that, 15 stocks representing 30.8% of net assets are in stocks we have held for 10 years or more. The weighted average annualized return for the stocks we have held for over 5 years was 19.6%. This is well in excess of the annualized return of the Benchmark over the holding period of 8.6%. The Fund's three-year average portfolio turnover is 12.9%, which is much lower than the small-cap fund average.

The resulting marketcap range of the Fund is that 33.5% of the Fund's net assets is invested in companies with market caps of $10 billion or more, 33.4% was in stocks that range from $5 billion to $10 billion, and 29.7% is invested in stocks with market caps under $5 billion, with the remainder in cash. Remember, the average market cap on initial purchase of all these names is approximately $2 billion, and we don't initiate any position if it isn't considered small cap. As market caps rise, we need to have higher conviction in the business and the stock for it to remain in the portfolio, as we consciously balance investment returns and our small-cap mandate. We actively manage the position sizes of our largest market cap stocks by trimming the holdings into strength. We now own only a small percentage of the initial positions in some of our biggest companies. For instance, we own 125,000 shares of TransDigm down from a peak position of 1.9 million shares, 550,000 shares of **DexCom, Inc.** from a peak position of 5 million. Our shareholders benefit from the fact that we still own even a fraction of the position of these sensational companies.

We are focused on keeping the market cap of the Fund in check, even with the strong performance of some of our biggest companies. This entails selling or trimming stocks with higher market caps and reinvesting the proceeds into smaller caps. For the year just ended, the weighted average market cap of new investments, both initial purchases and additions to existing holdings, was $3.6 billion. The weighted average market cap of stock sales, including both trimming positions and outright sales, was $13.5 billion. This resulted in a nice decrease in our *raw size score*, Morningstar's measure of the overall market capitalization of the portfolio.

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

	Year Acquired	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Fox Factory Holding Corp.	2023	$2.9	$39.0
nCino Inc.	2023	3.8	16.2
Chart Industries, Inc.	2022	5.8	13.1
ODDITY Tech Ltd.	2023	2.6	9.2
Neogen Corp.	2022	4.4	6.4

We more than doubled our position in **Fox Factory Holding Corp.**, following its third quarter earnings release, which we believe created an attractive buying opportunity. Fox is a manufacturer of premium components for high-end bicycles and powered vehicles (side-by-sides, on-road trucks with off-road capabilities, all-terrain vehicles, etc.). During the third quarter, Fox's auto business was negatively impacted by the UAW strike, which limited sell-in of their suspension products to OEM customers and effectively shut off supply of chassis for their aftermarket re-styling business. Management also set low expectations for recovery (from the COVID-driven pull-forward effect on demand to today's oversupply in the retail channel) of the bike business in 2024. The challenges in the powered vehicles group are short term in nature, and we believe the off-road and upfitted truck end markets have a long runway for growth.

Additionally, Fox announced its sizeable acquisition of Marucci Sports, a high-end manufacturer of baseball equipment. This is a new category for Fox's specialty sports group, which was previously only bikes, and investors were spooked by the headlines, as Marucci is primarily a baseball bat business perceived as a low-growth category lacking differentiation. We spent time meeting with Fox management and the founder of Marucci and believe Marucci has several actionable opportunities to continue to capture market share in the baseball category, continuing its impressive growth trajectory (at 25%-plus EBITDA margins). While Marucci is not directly related to Fox's other businesses, the companies share complementary cultures as a special enthusiast brand operating at the highest end of its market. The deal is immediately accretive to top and bottom lines, offers further opportunities in the form of engineering and sourcing synergies (aluminum and composites, for example), and we are confident in management's track record of generating successful returns from M&A outside of its legacy core shock and suspension business. We view Fox to be a high-quality, well-managed business that is fighting through some near-term issues. We were excited to buy more at what we believe is a cheap multiple.

This quarter we initiated a position in **nCino Inc.**, a leading provider of cloud-based banking software that was founded in 2012. The company's platform helps more than 1,850 global financial institutions modernize their processes around client onboarding and account opening, making loans, and managing loans after they have been originated. NCino's solutions support a large majority of customers at a financial institution, including commercial, small business, consumer, and mortgage customers.

NCino operates in a large market – the addressable market is approximately $10 billion in the Americas and $18.5 billion on a global basis – and has achieved high levels of customer satisfaction as evidenced by a strong net promoter score of 74 and very little voluntary churn. The company's solutions are deeply embedded in customer workflows and generate a strong return on investment in the form higher revenue from more loans, lower costs from a reduction in paper-based processes, faster decision making, and improved efficiency with the ability to consolidate several legacy systems. Relative to the competition, nCino's solution has several advantages, including operating a cloud-native single platform (built on top of Salesforce) that is free from legacy tech debt, having a well-known brand that is highly regarded in the marketplace (especially strong in commercial banking), and a long history of successful deployments with an impressive roster of customers (institutions like Bank of America, Wells Fargo, Barclays, Fifth Third, and many others) who can then serve as reference accounts.

NCino is well positioned to drive mid-teens or greater organic revenue growth for many years driven by a combination of growth with existing clients (even within its large U.S. customers, we estimate that nCino is only around mid-20% penetrated today), increasing penetration of nIQ (data analytics and machine learning products), continuing to win new commercial clients, gaining traction in newer end-markets like consumer loans and mortgages, and ramping its international expansion. The company is already seeing good success in the U.K., Canada, New Zealand, Japan, and several countries in continental Europe. The company has also started to ramp its margin profile, but we see a path for additional margin expansion from the low double-digit range today up to 30% to 35% operating margins over time. We believe there is a long runway for profitable growth for nCino, as banks and other financial institutions choose it as a partner to help digitize and transition to the cloud.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Net Amount Sold (millions)
Gartner, Inc.	2007	$2.2	$35.2	$41.4
SBA Communications Corp.	2004	0.2	27.4	41.1
Dechra Pharmaceuticals PLC	2018	2.8	5.6	18.7
Vertiv Holdings Co	2019	1.0	18.3	16.2
Installed Building Products, Inc.	2017	2.4	5.2	15.2

We exited positions in **E2open Parent Holdings, Inc.** and **Liberty Media Corporation – Liberty SiriusXM** this quarter. E2open's organic growth stalled out and senior management was let go. We have lost confidence, so cut bait. Liberty SiriusXM was a longtime successful holding. The stock reacted favorably to their definitive agreement for the tracking stock to be combined with SiriusXM in creating a new public company. This was the catalyst we had been anticipating, and the implied valuation for the combination felt fair to us so we sold out because future growth is suspect. We exited **The Beauty Health Company**, as discussed above. We trimmed our holdings in larger caps **Gartner, Inc.**, **SBA Communications Corp.**, and **Vertiv Holdings Co** to manage their respective position sizes and be attentive to market cap. We sold some of our position in **Dechra Pharmaceuticals PLC**, which is being acquired by a private equity firm.

OUTLOOK

The market is off to a bit of a shaky start at the beginning of 2024. The market had raced ahead at the end of last year and had baked in multiple interest rate cuts, which were expected to start relatively soon. However, the latest inflation report ticked up and yields rose as market participants and Fed governors seemed to back away from prognostications of easing in the near term.

Despite the modest pullback, the prevailing market sentiment is bullish. It is based on the three-fold expectations of continuing disinflation…with inflation dropping towards the Fed target of 2% in the medium term…, a notable change in global monetary policy from restrictive to easing…a lengthy period of rate cuts after 14 months and 525bps of increases…and an expectation that the economy and earnings remain resilient and growing. Lower interest rates would be a positive for stock multiples. And possibly, dare I say, ideally, lower rates along with better financial markets would generate positive momentum in the economy, lifting future growth rates. The pandemic has greatly distorted the economy for years, with faster-than-normal growth experienced in late 2020 and 2021 only to be followed by slower-than-normal growth in 2022 and 2023. Just as inflation seems to be reverting to historic trends, maybe growth will as well, which would be a welcome uptick from present levels.

The biggest risk facing the market is not when the Fed will start, or the extent of its interest rate reductions, but if the so-called *soft landing* that now reflects consensus expectations does not materialize. Economists and market prognosticators whom we respect point to history and academic studies that predict that an economic slowdown is in the offing; that the extremely aggressive Fed tightening cycle we have just lived through normally leads to a recession; and that monetary policy works with long and variable lags, so has not yet to have its effect on the economy. The concern is that corporate earnings will decline and disappoint, and that stock multiples would contract in conjunction, leading to a bad market even if interest rates decline. And there are other concerns (there always are), such as more persistent inflation than anticipated, government debt and deficits resulting in higher rates, and countless geopolitical and domestic political tensions. We are attuned to this all.

We believe we have a good lens through which to monitor the economy with our constant communications with the executives who manage the businesses in which we invest. These conversations have been prescient in the past. Our present sense is that business is stable and trending as it has for the past year; that many businesses have or are presently bottoming. We hear some green shoots and sense things will trend better as the year progresses. We expect nice earnings growth from our companies. Valuations of our stocks have moved from cheap to reasonable, so most likely we don't have the tailwind of multiple expansion in our quiver this year. But we note that valuations are not stretched and expect them to expand if growth reaccelerates.

Taking a step back, we own a diversified group of high-quality, unique/leading, successful, and well-managed businesses across many industry sectors. We have painstakingly assembled this portfolio over many years with the assistance of a top-notch research team. We believe that the future is bright for each and every one of these investments and the success that we expect will result in strong stock performance individually for the holdings and collectively for the Fund. That has been the case for the past 26-plus years we have managed the Fund in this manner, and our expectations for the future. I am optimistic.

I would like to thank assistant portfolio manager David Goldsmith for his great contribution to the Fund's management and success. I also commend the Baron research and investment team for its help as well.
And a big thank you to our investors. We appreciate your faith in us.

Cliff Greenberg
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from 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 manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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

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. **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. **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).