DEAR BARON SMALL CAP FUND SHAREHOLDER:

PERFORMANCE

Baron Small Cap Fund® (the Fund) had a stellar first quarter. The Fund was up 11.81% (Institutional Shares) in the quarter, which was well ahead of the Russell 2000 Growth Index (the Benchmark), which was up 7.58%. The Benchmark's performance was inflated by the anomalous performance of one stock, Super Micro Computer, Inc., which more than tripled in the quarter and accounted for over one-third of the Benchmark's gains, so the relative performance of the Fund was actually more impressive in comparison. The Fund outpaced the broader S&P 500 Index as well, which was up 10.56% in the quarter. Large-cap stocks outperformed small caps and a handful of popular stocks drove general market returns.

As shown in Table I below, the Fund has outperformed the Benchmark for all relevant periods. Since inception, the Fund has generated an annualized excess return of 4.18% and has exceeded that level over the last 1-, 3-, and 5- year periods. If you would have hypothetically invested $10,000 at the inception of the Fund in September 1997, your investment would be worth $142,341, which is well in excess of the $51,189 you would have if you had hypothetically invested in a fund that tracked the Benchmark. Many investors have been with us the whole way…for 26 years plus. We thank you for your confidence in us and are happy we have been able to do well for you. We are working hard in an effort to continue to outperform. We are confident we can do so.

Table I.
Performance
Annualized for periods ended March 31, 2024

	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]	11.73%	11.81%	7.58%	10.56%
One Year	29.61%	29.94%	20.35%	29.88%
Three Years	3.16%	3.42%	(2.68)%	11.49%
Five Years	11.56%	11.84%	7.38%	15.05%
Ten Years	10.35%	10.64%	7.89%	12.96%
Fifteen Years	14.55%	14.84%	13.39%	15.63%
Since Inception (September 30, 1997)	10.38%	10.54%	6.36%	8.66%

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

The market strength of the fourth quarter of 2023 continued into 2024, and the Dow Jones Industrial Average and S&P 500 Index closed the first quarter at record highs. Sentiment was positive based on the belief that the economy was resilient, inflation was moderating, and rate cuts were on the horizon and actually expected in the near term. Stock multiples increased. Growth did better than value, and Information Technology (IT) and Communication Services stocks led the way in the market in general. In the small-cap growth space, IT, Energy, and Industrials were the best groups and more defensive sectors underperformed.

The Fund's strong performance in the quarter was driven by stock selection. Also, as has been the case recently, many of our largest positions were among our best performing stocks. Investments in Industrials and Financials were the source of most of our absolute gains and excess returns. The stocks rose because the fundamentals of the businesses are doing very well, and the outlooks are bright and improving. **Vertiv Holdings Co**, the leading provider of cooling solutions to data centers, continued its torrid performance, gaining another 70% in the quarter after rising over 250% in 2023. **TransDigm Group Incorporated**, the maker of proprietary parts for planes, rose over 20%, as did

Performance listed in the above table is net of annual operating expenses. The 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.

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.

liquid handling company **Chart Industries, Inc.**, and composite decking manufacturer **Trex Company, Inc.** Strength in our Financials holdings came from specialty insurer **Kinsale Capital Group, Inc.**, which gained over 50% in the quarter. Other sectors that did well were Health Care, paced by **ICON Plc**, a leading CRO, and Consumer Discretionary, with nice gains from casino operator **Red Rock Resorts, Inc.**, childcare provider **Bright Horizons Family Solutions, Inc.**, and online gaming company **DraftKings Inc.** Some of our perceived interest rate sensitive stocks, including housing installation contractor **Installed Building Products, Inc.**, and flooring retailer **Floor & Decor Holdings, Inc.**, continued to rebound with rate declines. Our IT stocks did not do well this quarter. Some of our vertical software holdings, **Intapp, Inc.** and **Clearwater Analytics Holdings, Inc.**, and digital transformation service providers, **Endava plc** and **Grid Dynamics Holdings, Inc.**, were down in the quarter and hurt our performance. The Fund's bias toward owning some larger market caps because of appreciation helped this quarter, but we are underweight securities with elevated idiosyncratic volatility, so these factors offset.

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

	Percent Impact
Vertiv Holdings Co	4.67%
Kinsale Capital Group, Inc.	2.06
Installed Building Products, Inc.	1.12
ICON Plc	0.77
TransDigm Group Incorporated	0.56

Shares of **Vertiv Holdings Co**, a manufacturer of critical infrastructure equipment for data centers, rose during the quarter due to improved focus on operational execution, strong revenue growth prospects, and robust opportunities for margin expansion. We expect Vertiv to benefit from the rising demand for data center capacity, with approximately 70% of its revenue coming from the data center end market. As one of the leading providers of precision cooling for data centers, Vertiv also stands to benefit from the increasing adoption of generative AI (GenAI), as GenAI-related servers have higher energy density, which will necessitate more complicated cooling solutions. We reduced the position into strength, but we remain large shareholders. We believe that Vertiv's leading market position in data center thermal and power management will lead to strong growth and substantial upside over the long term.

Specialty insurer **Kinsale Capital Group, Inc.** gained after financial results exceeded Street forecasts. After last quarter's cameo on the detractor list, Kinsale fundamentals remain strong, with 34% growth in gross written premiums and 49% EPS growth highlighted by record underwriting margin. Market conditions remain favorable with rising premium rates and more businesses shifting from the standard market to the excess and surplus lines market where Kinsale operates. In addition, insurance stocks broadly rebounded from last quarter's pullback as interest rates stabilized. We 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.

Installed Building Products, Inc. is a leading distributor and installer of insulation and complementary building products for residential and commercial end markets in the U.S. Shares rose on improving industry conditions, particularly in the new single-family residential construction market, which drives approximately 60% of the company's revenue. Installed Building Products' excellent execution across various strategic initiatives continues to generate growth from other construction end markets, including multi-family construction, light and heavy commercial construction, and remodeling. We believe the company also stands to benefit from pricing and profitability improvements and our expectation of attractive tuck-in acquisitions, which has long been a mainstay of the company's growth algorithm.

Other stocks that rose over 20% in the quarter but contributed less to the overall performance of the Fund were **DraftKings Inc.**, **Repay Holdings Corporation**, **HealthEquity, Inc.**, **WEX Inc.**, **TransDigm Group Incorporated**, **The Trade Desk**, **Chart Industries, Inc.**, **Trex Company, Inc.**, **BRP Group, Inc.**, and **Bright Horizons Family Solutions, Inc.**

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

	Percent Impact
Endava plc	–0.70%
Neogen Corp.	–0.47
Fox Factory Holding Corp.	–0.31
Planet Fitness, Inc.	–0.27
Intapp, Inc.	–0.21

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

Shares of **Neogen Corp.**, a leading provider of food and animal safety products, detracted from performance. While end-market challenges appear to be bottoming, this improvement is happening at a slower pace than the company had forecast, which caused it to lower fiscal year 2024 guidance. Neogen also continues to deal with issues integrating the assets of 3M's Food Safety business, its pivotal recent acquisition. We think that the company will be a juggernaut when this integration is behind it and that the stock has huge potential, so we have been adding to our position amid near-term troubles.

Shares of **Fox Factory Holding Corp.**, a leading provider of suspension systems and engineered products for the mountain bike, power sport, and off-road truck categories, declined during the quarter following an earnings update that indicated uncertain volumes in its bike and aftermarket truck segments. The company's challenges are mostly attributable to temporary issues, such as vehicle production delays associated with the 2023 United Auto Workers strike, which is now resolved. We believe Fox Factory is protecting its brand positioning and leading innovation within its categories. As near-term demand headwinds dissipate, Fox Factory should return to strong growth rates in the large automotive aftermarket.

Other stocks that declined over 15% in the quarter but had less impact on our results were **Shoals Technologies Group, Inc.**, **Intapp, Inc.**, **Mercury Systems, Inc.**, **Clarivate Plc**, and **Americold Realty Trust**.

Portfolio Structure & Recent Activity

As of March 31, 2024, the Fund had $4.9 billion in net assets and owned 60 stocks. The top 10 stocks in the Fund made up 43.1% of net assets, continuing the trend of higher concentration. This is the result of strong contributions from many of our larger holdings. We are comfortable with this outcome, as we retain conviction about the prospects for these holdings. We are starting to see the reopening of the IPO market. We suspect this will lead to some new investments for us, as high-quality businesses are often the first ones to go public. We welcome this development, as new issues have historically been the source of successful investments for us. We also note that the capital markets are becoming unfrozen, which we expect will lead to more merger and acquisitions activity. We suspect that some of our holdings will be acquired or taken private, like in the past.

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

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Vertiv Holdings Co	2019	$396.1	8.1%
Gartner, Inc.	2007	250.3	5.1
Kinsale Capital Group, Inc.	2019	249.3	5.1
ICON Plc	2013	235.2	4.8
ASGN Incorporated	2012	183.3	3.8
Red Rock Resorts, Inc.	2016	179.5	3.7
Installed Building Products, Inc.	2017	161.7	3.3
SiteOne Landscape Supply, Inc.	2016	161.5	3.3
Chart Industries, Inc.	2022	144.1	3.0
Guidewire Software, Inc.	2012	143.0	2.9

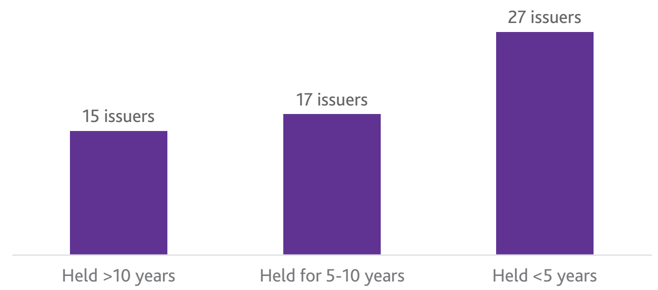
The Fund's investments remain concentrated in the same sectors as usual. Industrials make up 32.9% of the Fund's net assets, IT is 17.9%, Consumer Discretionary is 17.1%, and Health Care is 11.4%. Compared to the Benchmark, we are notably overweight in Industrials, slightly overweight in Consumer (if one combines Consumer Discretionary with Consumer Staples), underweight in IT, and significantly underweight in Health Care. We are bottom-up investors, and the aforementioned variances are the result of the stock selections we make and their subsequent success. We invest in what we consider to be high-quality, competitively advantaged, well-managed businesses across various industries. We do not manage to mimic the Benchmark.

The high concentration in Industrials consists of multiple investments in leading niche businesses that we believe have strong long-term growth prospects because of superior market positioning and secular tailwinds. It does not reflect a near-term conviction in the pace of economic growth. The underweight in Health Care is primarily the result of our aversion to investing in biotechnology stocks, as most small-cap issues in this sector are early stage and their success is binary…which is not our thing.

We are long-term investors. We set out to invest in small-cap companies, usually at an initial market cap of $1.5 billion to $2.0 billion, that we believe can grow and become significantly larger and that we can own for years. It is our experience that if the companies can succeed as hoped or as expected, their stocks will compound at high rates. Having managed the Fund for the past 26-plus years, we can affirm this has been our practice. As shown in the chart below, at the end of the first quarter, we own 15 stocks which make up about 31% of the Fund's net assets for 10 years or more. We own another 17 stocks, representing 28% of the Fund for between 5 and 10 years. We hold 27 stocks, making up 40% of the Fund for under 5 years. The weighted average return is over 20% for the stocks in the three different periods, which we believe is exceptional.

Baron Small Cap Fund

AUM Breakdown by Period Held[1]



	Held >10 years	Held for 5-10 years	Held <5 years
Portfolio weight	**30.9%**	**27.8%**	**39.8%**
Weighted average return for period held	**20.2%**	**20.8%**	**21.4%**

[1] – As of 3/31/2024, the portfolio held 60 publicly traded equity issuers. The balance of the portfolio was held in cash and cash equivalents. Portfolio holdings are subject to change.

Sources: Baron Capital and FactSet.

We own many stocks which have been terrific performers…our *big winners*. As the table below shows, we own 10 stocks that have increased 10 TIMES OR MORE since initial purchase! These stocks have been held anywhere from 7 to 20 years, with the average being 14.5 years. The annualized weighted average rate of return of these investments is 26.9%, which is outstanding. Some of the returns have been mind-blowing. **TransDigm Group Incorporated** has increased 123 times since our initial investment over 18 years ago, **DexCom, Inc.** has increased 40 times since our initial purchase over 11 years ago, **The Trade Desk** has increased nearly 21 times since our initial investment over 7 years ago, and **ICON Plc** has increased nearly 12 times since our initial purchase over 11 years ago. In addition to the "tenbaggers," we also own another 6 stocks that have appreciated between 5 and 10 times since our initial purchase. These stocks have returned 44.1% on a weighted average annualized basis. In total, these 16 stocks make up 63.1% of the Fund and have returned 36.1% a year during our holding periods. This has been the essence of our alpha generation.

Baron Small Cap Fund – Big Winners

Holding	% of Net Assets	Multiples of First Purchase Price (X)[1]	# of Years Held
Multiples of 10 or more			
TransDigm Group Incorporated	2.5	123	18
SBA Communications Corp.	0.4	55	20
DexCom, Inc.	1.6	40	11
IDEXX Laboratories, Inc.	0.3	32	15
Liberty Complex[2]	1.8	27	15
Gartner, Inc.	5.1	23	17
The Trade Desk	1.3	21	7
Mettler-Toledo International Inc.	0.9	18	15
Waste Connections, Inc.	1.2	14	15
ICON Plc	4.8	12	11
Multiples of 5 to <10			
Vertiv Holdings Co	8.1	9	4
SiteOne Landscape Supply, Inc.	3.3	7	8
Kinsale Capital Group, Inc.	5.1	6	4
ASGN Incorporated	3.8	6	12
Cognex Corporation	1.3	6	13
Aspen Technology, Inc.	1.5	5	9
Multiples of 10 or more	**20.0**	**37**	**14.5**
Multiples of 5 or more	**43.1**	**25**	**12.1**

[1] - The stock price multiples reflect the increase of the stocks' share prices from the date of the Fund's first purchase until 3/31/2024. This performance may be lower or higher than the performance of the stocks in the Fund depending on the portfolio manager's purchases and sales over the period. This is a select group of holdings. Not all holdings in the portfolio reflect this type of return.

[2] - Liberty Complex consists of the Fund's investments in Starz Inc., Liberty Media Corporation, Atlanta Braves Holdings, Inc., Liberty Broadband Corporation, Liberty Expedia Holdings, Liberty Media Corporation–Liberty SiriusXM, Liberty Media Corporation–Liberty Formula One, and Liberty Media Corporation–Liberty Live, some of which are no longer held.

Sources: Baron Capital and FactSet.

As the stocks age in the portfolio, we stay diligent in monitoring the position to make sure we believe that they can continue to perform. We have learned over the years that the stocks of truly special companies can perform well for a long period of time. We are happy to report that many of our best recent performers are some of our longest held and *biggest winners*. We also pay close attention to the market cap of our holdings, seeking to balance investment returns within our small-cap mandate. We trim our larger-cap holdings so that the positions aren't too large. We now own just a small fraction of our original positions. Still, we are glad we own them, as the stocks have continued to perform. We use the proceeds from the sales to make new small-cap investments. In the first quarter of 2024, the weighted average market cap of stocks purchased was $3.2 billion, while the weighted average market cap of stocks sold and trimmed was $20.0 billion.

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

	Year Acquired	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Intapp, Inc.	2024	$2.5	$75.2
Exponent, Inc.	2024	4.2	20.2
ODDITY Tech Ltd.	2023	2.5	15.2
nCino Inc.	2023	4.3	14.5
John Bean Technologies Corporation	2017	3.3	12.7

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

Intapp competes in a large and growing serviceable addressable market, spanning 28,000 firms that collectively spend about $15 billion annually on software in Intapp's categories. The company has grown its annual recurring revenue by more than 20% annually for the past five years, as customers have seen good returns on their Intapp investment. For example, Intapp products have helped professional services firms reduce new client onboarding and conflict clearance processing times by more than 50%, saved millions of dollars in billable hours leakage, and significantly expanded new deal origination volumes for financial services firms. This success has led to low churn rates, increased market share capture, and expanding footprints in existing accounts. Intapp has several competitive advantages that should drive continued market share capture over time, including a proprietary graph data model that is better equipped for professional services needs than traditional databases, good brand recognition with decades of experience serving the largest firms in its industries, and AI capabilities that continuously improve product effectiveness.

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

In February, Intapp reported a solid fourth quarter with 23% revenue growth and 7% operating margins – both above consensus estimates – and management raised its full-year guidance for software-as-a-service revenue, operating margin, and earnings per share. However, shares sold off during the quarter due to some concerns about near-term budgetary headwinds in the investment banking customer segment and due to one of Intapp's pre-IPO investors exiting most of its position in early March. We view both issues as short term and opportunistically purchased additional shares on weakness.

Exponent, Inc. is a leading engineering & scientific consulting firm. Around half of the business is reactive work where the company gets brought in to determine the root cause of an event such as car recalls, oil spills, and wildfires; and the remainder is proactive work where clients engage Exponent before an issue arises to help with risk management and product design. Exponent is a business that we have admired from the sidelines for a while, and we finally saw an opportunity to initiate a position at an attractive price due to a rare pause in annual growth, which we believe to be temporary.

Exponent has a strong competitive position. The company has been around for over 50 years and has developed a well-known brand; it is the go-to consultant in the engineering & scientific space. Additionally, Exponent has a unique combination of scale and premium service orientation. The company has more than 1,000 consulting staff (including 740 doctoral-level professionals) across 90 technical disciplines in over 30 offices around the globe. We estimate that even the biggest competitor is only 15% to 20% of Exponent's size. No competitors can match the capabilities that Exponent brings to the table, especially as it relates to multi-disciplinary and highly complex matters.

Despite the near-term growth pause, we believe Exponent is well positioned to drive high single-digit or greater revenue growth over time through a combination of 6% to 8% net headcount growth, low/mid-70s utilization, and 2% to 4% realized price increases. From a market demand perspective, the business is driven by several secular trends, including an increasing focus on safety, health, and the environment, a faster pace of innovation, higher complexity of new technologies, amplified brand risk when product launches go wrong, and an increased risk of litigation. Exponent is not immune from the macro, as evidenced by the recent softness in consumer electronics, but its business model has held up well across economic cycles and key demand drivers are not impacted as much by the economy compared to most other consulting firms.

Exponent has a robust financial model. Given its superior capabilities, the company is a premium priced provider. Bill rates for each consultant are set at the beginning of the year, and the company does not discount for any client. This drives strong adjusted EBITDA margins in the high-20s to low-30s and free-cash-flow generation, which the company deploys for internal investments and capital allocation (both dividends and share repurchase). The company also has a strong balance sheet with ample cash and no debt. We believe that Exponent is a high-quality business and will be a solid earnings compounder, which should drive good returns for the stock over a multi-year period.

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

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Vertiv Holdings Co	2019	$1.1	$31.2	$135.1
Axonics, Inc.	2020	1.4	3.5	67.7
Floor & Decor Holdings, Inc.	2017	3.0	13.8	35.8
TransDigm Group Incorporated	2006	1.1	68.5	27.5
Dechra Pharmaceuticals PLC	2018	2.8	5.6	24.5

We sold **Axonics, Inc.**, which is being acquired by Boston Scientific. The expected closing shifted from the second quarter to the second half of 2024, so we decided to cash out now and redeploy the funds. The **Dechra Pharmaceuticals PLC** take-out by a consortium of private equity firms closed early in the first quarter, capping a successful investment (85% total return). We trimmed positions in **Vertiv Holdings Co**, **Floor & Decor Holdings, Inc.**, and **TransDigm Group Incorporated** to manage their respective position sizes and be attentive to market cap.

OUTLOOK

There has been a noted change in market sentiment in the beginning of the second quarter. Interest rates have spiked, with the 10-Year Treasury Bond going from 3.9% to 4.6%. Rates have risen after a robust employment report in March, after hotter-than-expected inflation reports for March and the prior three months, and after oil prices jumped from increased tensions in the Middle East. The Federal Reserve Chair and Board of Governors are in a data dependent mode, and their present stance seems to be that the economy is doing well and that inflation is not coming down quickly enough to their 2% target. So, it appears that interest rate cuts, which seemed likely, even imminent, early in the year, are now on hold. This shift in interest rate view has resulted in a whipsaw for stocks, which have now given back most all of the gains for the year.

We are in consistent contact with the management teams of our portfolio companies and follow carefully what other companies are saying. We have found that those conversations give us a good bead on the pace and trends of economic growth. What we hear is incongruous with what is now common narrative. The economy is fine/resilient, but not strong. We are more concerned about softening consumer spending than overheating. Employment is no longer tight. Companies can now find good people, and some companies continue to scale back from over hiring from faster-than-normal growth a few years ago. Inflation is in the rearview mirror. Most of our portfolio companies experienced significant cost increases during COVID-19, and then raised prices to maintain profit margins. That is over, and we see some signs of reversal. Not that we are macro guys, but we suspect that interest rates will decline from here when the softer economic conditions and lower inflation that we are hearing about are recognized by the decision makers.

Baron Small Cap Fund

The case for small-cap stocks remains compelling. Small-cap growth stocks have significantly underperformed large caps for years. Small-cap growth stocks are priced well below the premium they have historically traded at. And small-cap stocks usually perform better as the economy improves and interest rates are cut…both of which we believe are on the horizon. We believe our investments will continue to perform well, and we foresee faster growth in the future, as most of our portfolio companies are growing below what we expect to be their long-term pace. We considered our stocks to be cheap a year ago, and now the stocks are reasonably valued in the near term and still offer great upside on what we believe they will earn in the long term. The biggest risk to this scenario is that corporate earnings will disappoint, which would be caused by a softer economy than we project.

I would like to thank our fellow investors and others for your interest in the Fund. We believe our approach, of investing in high-quality, special, well-managed businesses, diversified across industry sectors, will continue to provide market-beating returns, as it has for the long life of the Fund. We believe that we have built a portfolio of such businesses, many of which have done very well for years, and which we see as a harbinger of good things to come. We have a great research group at Baron to help identify new potential investments and monitor our present holdings.

Cliff Greenberg

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.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.