Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund (the "Fund") was down 3.64% (Institutional Shares) in the third quarter.

This quarter, the Fund underperformed the Russell 2000 Growth Index, which was up 0.24%, but outperformed the S&P 500 Index, which was down 4.88%, as small-capitalization growth stocks did better this quarter. Year-to-date, the Fund is down 33.86%, trailing the Russell 2000 Growth Index, which is down 29.28%, and the S&P 500 Index, which is down 23.87%. A poor year so far for the Fund and the market.

Table I.
Performance†
Annualized for periods ended September 30, 2022

	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]	(3.70)%	(3.64)%	0.24%	(4.88)%
Nine Months[4]	(33.99)%	(33.86)%	(29.28)%	(23.87)%
One Year	(30.93)%	(30.76)%	(29.27)%	(15.47)%
Three Years	5.39%	5.67%	2.94%	8.16%
Five Years	7.00%	7.28%	3.60%	9.24%
Ten Years	9.85%	10.14%	8.81%	11.70%
Fifteen Years	7.28%	7.53%	6.82%	8.03%
Since Inception (September 30, 1997)	9.32%	9.47%	5.54%	7.45%

The market and the Fund had some wild swings during the quarter. The Fund rallied 18% from the end of June to mid-August (the S&P 500 Index rallied nearly 14%), only to give back all the gains and end lower at the end of the quarter. Stocks rallied with the decline in interest rates in July and early August, which was caused by signs of slowing in U.S. and global economies. The view was that we were closer to the end of the interest rate hikes. The inflation reports, however, continued to show high levels of inflation, which were broad based and frustratingly sticky. Economic reports remained strong, too. The Federal Reserve was direct, monolithic, and insistent that defeating inflation was its highest priority. The Fed raised the Fed Funds Rate 75 basis points at its last three meetings and has now raised the Fed Funds Rate five times this year, the most aggressive hiking in 30 years, and indicated that additional increases were in the offing. We are not sure that the Fed is pursuing the correct policy, as we see the cyclical market forces already leading to significant declines in many inputs, and companies are reporting slowing business conditions and less price pressure.... inflation is cooling. Yet, the policy is very much in place right now, which is hurting economic prospects and weighing heavily on stock prices.

CLIFF GREENBERG
PORTFOLIO MANAGER

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

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, 2021 was 1.29% and 1.03%, 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 www.BaronFunds.com or call 1-800-99BARON.

† 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 and the **S&P 500 Index** 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 indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact 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.

The Fund underperformed in the quarter for a few reasons. Biotechnology stocks were strong this quarter, up 16.1%, and Energy stocks also managed gains. The Fund was not invested in this sub-industry or sector, as we have detailed in the past. The market cap of the Fund skews higher than its primary benchmark because the market caps of our *winners* appreciated in value over our long-term holding period, and smaller companies in general did better. Also, the stocks of lower-quality businesses (non-earners and low ROEs/margins) outperformed this quarter, as happens sometimes, which isn't our bag. Our stock selection was weak in some sectors and weighed on our relative results. Our Health Care holdings did poorly. **ICON Plc** and **Dechra Pharmaceuticals PLC** declined on perceived concerns about future growth rates. Some of our Industrials holdings were weak, including defense contractors **Mercury Systems, Inc.** and **Kratos Defense & Security Solutions, Inc.**, because of delays in military programs. Housing-related stocks **SiteOne Landscape Supply, Inc.**, **Trex Company, Inc.**, and **Hillman Solutions Corp.** performed poorly over concerns that higher rates would crimp near-term results. Some of our Consumer Discretionary investments, including **Bright Horizons Family Solutions, Inc.** and **Holley Inc.**, declined over supply-chain or labor availability issues, which are hangovers from COVID.

Our Information Technology (IT) stocks outperformed this quarter, led by **Gartner, Inc.** and **Aspen Technology, Inc.**, which reported strong business trends and raised guidance. Our application software stocks acted well also. Some of our Financials holdings, such as **Kinsale Capital Group, Inc.** and **BRP Group, Inc.**, were up as investors generally view them as defensive stocks.

During the quarter, we believed the market was bottoming from oversold conditions, but the quarter ended with investors fearing that recession and lower corporate earnings were ever more likely because the Fed was jacking up interest rates. Geopolitical tensions boiled even hotter, as the war in Ukraine intensified, with no end in sight and the possibility of it worsening.

Table II.

Top contributors to performance for the quarter ended September 30, 2022

	Percent Impact
Gartner, Inc.	0.50%
Aspen Technology, Inc.	0.43
Axonics, Inc.	0.27
The Trade Desk	0.25
Kinsale Capital Group, Inc.	0.24

Shares of **Gartner, Inc.**, a leading provider of syndicated research that delivers actionable, objective insight to business executives, reported very strong results again this quarter. Research revenues grew 17% on a constant currency basis and contract value (an indicator of future sales) was up 15%. Guidance was raised even with the headwinds of foreign exchange rates and the company terminating operations in Russia. Management has renewed focus on margin expansion and raised its future EBITDA margin target. Significant free-cash-flow generation and a strong balance sheet enabled continued aggressive share repurchases, which now stand over $1 billion for the year. We believe that Gartner will be able to grow free cash flow per share at about 20% per year and that the stock can compound accordingly.

Aspen Technology, Inc., a leader in process automation software, completed the transformational acquisition of software assets from Emerson Electric and posted strong results. The stock rose as a result. Annual spending in the legacy Aspen business accelerated and beat guidance as end-markets remained robust. They reported that customer receptivity to the newly acquired assets is strong and integration is progressing well. The company also announced another acquisition that should be accretive to growth and margins and, in our minds, is the first of many deals we expect the new company to pursue. We expect Aspen management to improve the margins and cash flow of the acquired businesses by converting them to recurring revenue models, while leveraging Emerson's vast sales force to improve growth rates. We added to our position in Aspen in May of this year, prior to the close of the Emerson deal and are excited about the prospects of the new entity.

Shares of **Axonics, Inc.**, a medical device company focused on the treatment of urinary and bowel dysfunction, rose this quarter as the company continued to execute on the commercial rollout of its devices and introduced a new recharge-free version that was an immediate hit. Revenues grew 50%, well ahead of consensus, and the company raised guidance for the year. Axonics' offering is superior to the incumbent's product, and we expect Axonics to take significant market share and expand the category. Over the next five years, management's goal is to garner 50% market share of a category that is twice the size, which we think is reasonable. If they can accomplish this, we believe revenues will compound at over 30% and margins would expand to over 25% from breakeven next year.

The Trade Desk is the leading internet advertising demand-side platform, enabling agencies and companies to buy and track digital advertising. The company reported 35% growth in sales, a terrific result in a softening advertising market, and the shares rose. EBITDA margins were 37% in the quarter, and cash flow also beat expectations. The company is benefiting from the growth in advertising on Connected TV and advertisers' desire to work with Trade Desk, as a neutral service provider, as opposed to Google who does not share critical data with its partners/advertisers. Also, Netflix announced that it would be offering a tier of service that includes advertising, which is a seminal moment in the development of digital advertising and a big growth opportunity for Trade Desk. Though it is an expensive stock on near-term estimates, we believe Trade Desk can continue to compound its EBITDA and EPS at a 25% to 30% clip into the future, creating significant value in time.

Shares of specialty insurer **Kinsale Capital Group, Inc.** increased after reporting strong results. For the quarter, gross written premiums grew 43% and earnings per share rose 51%. The earnings beat was driven by better underwriting margins and a mix towards property insurance policies. Market conditions remain favorable, and we are optimistic that they will stay firm for a while. More business is shifting to the Excess and Surplus lines market, Kinsale's sweet spot. Operating in a fragmented niche of the insurance industry, Kinsale is a well-run operator and has great technological capabilities. Though we are underwriting growth to slow from the torrid pace of the last three years, we expect earnings to compound at about 20% a year go forward and the stock to rise as the company prospers.

Table III.
Top detractors from performance for the quarter ended September 30, 2022

	Percent Impact
Mercury Systems, Inc.	–0.61%
Holley Inc.	–0.52
ICON Plc	–0.50
Repay Holdings Corporation	–0.44
Avient Corporation	–0.43

Shares of **Mercury Systems, Inc.**, the leading Tier 2 defense electronics contractor, declined in the quarter as the company reported disappointing earnings and forward guidance. EBITDA in the upcoming year is expected to be flattish, which was disappointing as the expectation was for the company's profits to snap back and resume old rates of growth. The issues have to do with delays in government spending, supply-chain issues, and inflation in goods and wages, which have been consistent areas of trouble since the pandemic. Near-term visibility remains challenging, and the market is skeptical about management's view of a pickup in the back half of this year. Demand seems fine and no major programs have been cancelled, so bookings are at record levels. Though this has been a harrowing period, our long-term thesis remains intact. We believe that the company will revert back to growing its EBITDA nicely through a combination of organic growth, margin expansion, and accretive acquisitions.

Holley Inc. is a specialty manufacturer of high-performance automotive aftermarket parts sold to auto enthusiasts. Shares fell after the company reported weak results and lowered guidance due to microchip shortages that prevented the company from making and selling some of its most popular products. Ugh… Management also relayed that wholesalers were cutting back orders somewhat to get inventories in line. The stock is under a cloud until the chip issue is resolved and has traded down to 6 times trailing EBITDA. We believe in time that profits will be much higher than that and the multiple will expand considerably, so we remain involved.

ICON Plc, a large global contract research organization that provides outsourced drug development services to the pharmaceutical industry, fell on investor concern about softer funding for biotechnology companies in conjunction with the decline of the stock market. Emerging biotechnology companies account for about 15% of ICON's revenues, so there is risk to some of its book. However, management has not seen any deterioration and really doesn't expect any. Otherwise, business is awesome. Organic growth, excluding revenues associated with tests for COVID drugs, was up 16% in the quarter. The integration with PRA Health Sciences is going swimmingly, and margins are expanding ahead of schedule. Though the company is delivering quickly, the balance sheet has a lot of variable rate debt, which will be more expensive as rates rise. All in, we see a high-quality, well-managed, business that can grow earnings at 20% per year trading at 14 times next year's estimates.

Repay Holdings Corporation, a payments processor, fell after reporting results that missed estimates. Management had anticipated an acceleration in its personal loans line of business that didn't materialize, and organic growth and profits rose only 10%, less than expected. Payments stocks have acted poorly over concerns of cyclicality and competitive differentiation. This has weighed on Repay, which now trades below 10 times our estimate for next year's EBITDA for a business that is a leader in its niches, has solid organic growth, and posts 40% margins. We added to our position during the quarter but have been wrong so far.

Avient Corporation, a leading global formulator of chemical additives and specialized polymer materials, declined when the company lowered guidance by about 10%. Management cited slower demand in Europe and China and currency translation issues. Avient recently completed the acquisition of a neat, high-performance fiber business and announced the sale of its distribution operation, which completes its transformation to a pure-play specialty chemical company. We believe that, over time, the company will have a higher multiple to reflect the quality of its operations. We are underwriting lower earnings in 2023 for this cyclical business. The stock currently trades at a discounted multiple to those estimates, so we expect nice growth in the future.

Portfolio Structure & Recent Activity

As of September 30, 2022, the Fund had $3.9 billion under management. We held 69 stocks. The top 10 positions made up 31.5% of the Fund, in keeping with our usual concentration. To long-term investors or followers of the Fund, most of the names listed below are familiar. Our top holding has been in the Fund for 15 years, and the newest of the others is three years old. Most of these stocks have been winning investments that we believe can continue to generate good performance well into the future.

Table IV.
Top 10 holdings as of September 30, 2022

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Gartner, Inc.	2007	$235.2	6.0%
ASGN Incorporated	2012	158.1	4.0
ICON Plc	2013	128.6	3.3
Kinsale Capital Group, Inc.	2019	127.7	3.2
Installed Building Products, Inc.	2017	113.4	2.9
SiteOne Landscape Supply, Inc.	2016	109.3	2.8
Floor & Decor Holdings, Inc.	2017	98.4	2.5
Red Rock Resorts, Inc.	2016	94.2	2.4
Aspen Technology, Inc.	2015	90.5	2.3
BRP Group, Inc.	2019	81.7	2.1

The Fund remains most heavily invested in four sectors…Industrials (25.7% of net assets at the end of the quarter); IT (21.9%); Consumer Discretionary (14.7%); and Health Care (12.6%). Compared to the Russell 2000 Growth Index, we are overweight in Industrials, IT, and Consumer Discretionary, and underweight in Health Care. These weightings, which come from our bottom-up research and long-term mindset, worked against us this quarter. Health Care, especially biotechnology, was strong in the third quarter, and we are not involved. Similarly, Energy stocks continued to do well, and we are not invested in that sector, either.

We are long-term investors, a trait that distinguishes the Fund from many of its peers and that has historically enhanced our returns. At the end of the third quarter, 48.5% of the Fund's assets were in stocks we have held over 5 years, and 44.5% in stocks held under 5 years, with the remainder in cash. Of the longer-held stocks, about half were held over 10 years and half between 5 and 10 years, with the average holding period being nearly 11 years. The weighted average annualized return of our longest-held positions has been 19% a year, which we feel is a testament to our ability to find great long-term winners.

Investors in the Fund have benefited from its lower risk profile, better performance in down markets, and attractive risk-adjusted returns. As we invest in high-quality, well-run, established companies, it makes sense that these businesses and their stocks would perform better when the economic conditions soften, and the markets get rocky. So why aren't we seeing that now? There are some reasons that are driving the relative underperformance that we believe will be temporary. Our analysis of the historic performance of the Fund, with a focus on periods of severe declines in the market (e.g., 1999/2000, 2008/2009…), suggests that the stocks of high-quality businesses hold up better at the start of economic and market downturns, as we experienced late last year, when the Fund performed admirably. Then comes a second phase when they decline because they have higher relative valuations, even if investors are comfortable with the stocks and their more predictable and time-tested business models and results. Finally, there comes a third phase when the economic outlook gets so murky that it becomes hard to be comfortable with the near-term outlooks for all businesses and all stocks are sold indiscriminately. We think we are living through that now. Over the life of bear market periods, the Fund has always outperformed, but there are pockets of underperformance along the way. Usually, our relative performance will turn before the markets bottom, as investors come back to higher-quality companies when they return to buying stocks.

Table V.
Top net purchases for the quarter ended September 30, 2022

	Year Acquired	Quarter End Market Cap (billions)	Amount Purchased (millions)
The Cheesecake Factory, Inc.	2001	$1.5	$16.1
Grid Dynamics Holdings, Inc.	2020	1.4	13.1
Clarivate Plc	2019	6.3	8.8
Chart Industries, Inc.	2022	6.8	7.5
Sprout Social, Inc.	2022	3.3	5.9

During the quarter, we added to our position in **The Cheesecake Factory, Inc.** The operator of the namesake restaurant concept has declined approximately 50% from its peak back in the spring of 2021. Currently, the stock is trading at what we believe is a very attractive valuation (P/E of approximately 12 times our depressed 2023 estimated earnings) with an attractive dividend yield (about 3.5%) and two up-and-coming growth concepts (North Italia and Flower Child) that we believe will spur unit growth for years to come. While we acknowledge the economic challenges facing the consumer over the near term and the negative impact that will have on Cheesecake Factory's sales, the current stock price more than reflects these headwinds, and we believe the stock has the potential to double in value when the economy recovers.

We added to our **Grid Dynamics Holdings, Inc.** position as part of the company's equity raise to fund potential future acquisitions. Management has proven to be successful acquirers in the recent past, and we would expect a transaction to be nicely accretive and help diversify the business geographically. The company is growing exceptionally (52% organic sales growth for the second quarter of 2022), and we believe EPS can compound at 20% to 30% for many years, as Grid Dynamics provides its customers technology consulting, software development, and data analytics for their digital transformation.

We added to our position in **Clarivate Plc**. The company offers highly valuable proprietary data that allow its clients to discover, protect, and commercialize new ideas and inventions. Clarivate's analytical applications become deeply embedded in its customers' workflows, demonstrating high customer retention and pricing power. We have confidence that the new management team will accelerate organic revenue growth after digesting and integrating two large recent acquisitions. The stock's valuation has gotten too cheap (less than 10 times 2023 estimates of free-cash-flow per share) for a company with such a strong moat around its products, defensive end-markets, and subscription-based revenue model that generates strong free cash flow.

We also added to our positions in **Chart Industries, Inc.** and **Sprout Social, Inc.**, which we initiated earlier this year.

Table VI.
Top net sales for the quarter ended September 30, 2022

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Sweetgreen, Inc.	2021	$5.3	$2.1	$16.0
Wix.com Ltd.	2017	2.2	4.4	15.2
The AZEK Company Inc.	2020	3.9	2.5	12.0
The Beauty Health Company	2021	3.9	1.8	8.7
Progyny, Inc.	2022	3.9	3.4	7.8

We sold out of **Sweetgreen, Inc.** because of uncertainty that the salad chain can ultimately grow to 1,000 units, the scale needed to leverage current G&A investments and turn a nice profit. We exited **Wix.com Ltd.** due to the expected continued slowdown in its core website development business and confusion around why its "Partners" venture, where Wix creates client websites for its agency customers, is so unprofitable. On a multi-year basis, these stocks don't sketch as exciting as other names in the portfolio or new ideas we are considering.

We took down our position in **The AZEK Company Inc.**, as its business is slowing from channel partners de-stocking inventory combined with weaker near-term consumer demand for its composite decks, trim, rail, and housing accessories. We are maintaining our position in industry leader **Trex Company, Inc.** because the secular play on composite decking taking share from wood remains intact, and we believe that the stock more than reflects the current macroeconomic backdrop. We trimmed our positions in **The Beauty Health Company** and **Progyny, Inc.**, solely to harvest tax losses.

Outlook

As we start the fourth quarter, the market remains very volatile with a negative bias. The Fed continues its crusade against inflation. The economy remains too strong (the unemployment rate fell to 3.5% in September) and inflation reports have not moderated. More and more companies are reducing earnings outlooks, and it is evident that a slowdown is coming. The reasons for earnings reductions are evolving from supply-chain snafus and labor availability/costs to soft demand, excess inventories, and foreign exchange conversion (as the U.S. dollar has appreciated 25% since May 2021). We suspect there will be more cuts coming with the reporting of third quarter earnings.

There are other factors we are also focused on, such as the increased intensity of the war in Ukraine, which now includes nuclear threats, and other geopolitical flashpoints. Also, we believe that unexpected things *break* when economies slow, so we are attuned to potential issues in the credit markets. As interest rates go higher, we believe that investing in bonds or yield vehicles will become more attractive and will compete with stocks for incremental investment dollars.

We are monitoring our investments closely and are focused not only on near-term trends and challenges but also longer-term opportunities. For the vast majority of our holdings, business has not slowed materially, but management teams are preparing themselves for softer times ahead. Importantly, our long-term thesis and projections for our companies are well intact, however it might take a little longer to achieve, since we acknowledge that near-term growth will be slower than we had expected. We apply conservative valuations on those longer-term estimates, and our resulting price targets are doubles and triples on 2025 numbers. Of course, things rarely play out exactly how we underwrite them, so we acknowledge this is a hypothetical exercise. Still, the upside is unusually high.... primarily because we believe the economy will stabilize and the high-quality companies that make up our portfolio will grow significantly.

The market does not take a similar long-term view. Investors and sell-side research analysts are focused on near-term estimates on which they are placing low multiples. We get it. However, it is our belief that we should not adjust our long-standing and time-tested investment approach. We remain resolute. We will stay invested in high-quality companies that we believe are special and have significant barriers to entry, are superbly managed, and have long runways of growth. The tide will turn sometime before interest rates crest, even if business results are under pressure at that moment. I wish I knew when.... we all do.

To my fellow shareholders, I look forward to seeing many of you at our upcoming Baron Conference.

Please say hi. We very much appreciate your investment in the Fund, belief in our Firm, and confidence in us, especially in times like this. Long-term investors in the Fund have been here with us before, and we believe their understanding of our process and the results it has yielded over the long term has benefited them in the past, and we are confident that it will again in the future.

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 1-800-99BARON or visiting www.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.

Price/Earnings Ratio (next 12-months): is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.

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