Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund® (the Fund) was down 6.43% (Institutional Shares) in the second quarter of 2024, trailing the Russell 2000 Growth Index (the Benchmark), which was down 2.92%, and the broader Russell 3000 Index, which rose 3.22% in the quarter. After a strong first quarter, the Fund's performance is now essentially in line with Benchmark year to date, up 4.62% compared with the Benchmark up 4.44%. The Fund is behind the Russell 3000 Index, which was up 13.56% in the first half of 2024, as large-cap stocks continued to significantly outperform small caps.

As shown in Table I below, the Fund outperformed the Benchmark for all longer-term periods listed. Since inception, the Fund has generated an excess return of nearly 400 basis points, which adds up. If you had hypothetically invested $10,000 at the inception of the Fund, some 26 years ago, the value of your investment would be $133,189, which is 2.7 times the value of a hypothetical investment in a fund that tracked the Benchmark.

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

Table I.
Performance†
Annualized for periods ended June 30, 2024

	Baron Small Cap Fund Retail Shares[1,2]	Baron Small Cap Fund Institutional Shares[1,2,3]	Russell 2000 Growth Index[1]	Russell 3000 Index[1]
Three Months[4]	(6.51)%	(6.43)%	(2.92)%	3.22%
Six Months[4]	4.46%	4.62%	4.44%	13.56%
One Year	13.90%	14.18%	9.14%	23.13%
Three Years	(1.16)%	(0.91)%	(4.86)%	8.05%
Five Years	9.02%	9.30%	6.17%	14.14%
Ten Years	9.31%	9.59%	7.39%	12.15%
Fifteen Years	12.64%	12.93%	11.59%	14.49%
Since Inception (September 30, 1997)	10.00%	10.16%	6.18%	8.70%

The broader indexes and the technology heavy NASDAQ Composite Index reached all-time highs in the second quarter, but the rally was very narrow and concentrated, with the continued strong performance of the mega-cap *Magnificent Seven* responsible for all the gains of the larger-cap indexes. Small-cap stocks declined. The market cheered signs of slowing inflation and continued resilient growth in the economy and earnings. Interest rates after rising at first declined as the quarter progressed, and the odds of rate cuts by the Federal Reserve (the Fed) increased. The "goldilocks" scenario of declining inflation coupled with a solid economic environment had market participants anticipating monetary policy easing and a soft landing (i.e., no recession).

Our Fund's losses this quarter were the result of declines in stocks across multiple sectors. Some of the losses came from company specific concerns about near-term fundamentals and others from macro sector worries or just market sector rotation. Our perceived interest rate sensitive Consumer Discretionary and Industrials holdings (**SiteOne Landscape Supply, Inc.**,

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 BaronCapitalGroup.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 **Russell 3000® Index** measures the performance of the broad segment of the U.S. equity universe comprised of the largest 3,000 U.S. companies representing approximately 96% of the investable U.S. equity market , as of the most recent reconstitution. 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 and Russell 3000® Indexes include reinvestment of dividends before taxes. Reinvestment of dividends positively impacts the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

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

3 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.

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Installed Business Products, Inc., **Floor & Decor Holdings, Inc.**, and **Trex Company, Inc.**) all declined when near-term housing industry trends weakened, even with interest rates starting to decline. Our Health Care stocks underperformed primarily because **Inspire Medical Systems, Inc.** missed earnings projections, raising questions about the effect of GLP-1 drugs on its growth prospects. Other large Health Care holdings fell for no particular reason, giving back some of the gains made earlier in the year. Even though operating results have been pretty good, many of our Industrials stocks, including **Chart Industries, Inc.** and **Dayforce, Inc.**, declined on concerns about a softening economy. Our Information Technology (IT) holdings were hurt by an unexpected earnings miss and reset by **Sprout Social, Inc.** and continued lackluster near-term growth by IT consulting holdings, **ASGN Incorporated**, **Endava plc**, and **Grid Dynamics Holdings, Inc.** Our Consumer Discretionary holdings also underperformed because of declines from **European Wax Center, Inc.**, which fell after the company reported soft same store sales, and **DraftKings Inc.**, whose shares declined when one of the states in which they provide online gaming services increased the tax rate it charged to do business. Our Financials holdings were dragged down as sales growth at **Kinsale Capital Group, Inc.** slowed down, taking out the gains from the first quarter's performance, which was well ahead of expectations.

Our winners this quarter were companies who reported strong fundamentals. **Vertiv Holdings Co** posted extraordinarily strong orders. **Guidewire Software, Inc.** reported encouraging progress shifting insurance clients to the cloud. **The Baldwin Insurance Group, Inc.** is showing strong momentum in increasing its operating margins. Other winners had similar positive news or positive vibes. **Planet Fitness, Inc.** is raising membership prices, which is expected to lead to higher earnings.

Table II.
Top contributors to performance for the quarter ended June 30, 2024

	Percent Impact
Vertiv Holdings Co	0.59%
Guidewire Software, Inc.	0.57
The Baldwin Insurance Group, Inc.	0.46
Planet Fitness, Inc.	0.31
The Cheesecake Factory, Inc.	0.17

Vertiv Holdings Co, a leading provider of critical digital infrastructure for data centers, contributed during the quarter. As an industry leader in data center cooling and power management, Vertiv is poised to benefit from AI-driven growth in data center spend. The NVIDIA partner network, strong industry relationships, and broad product portfolio that Vertiv maintains enables its participation in the creation of the technology roadmap for the future of the data center. In addition, Vertiv is investing in its capacity to serve this growing end market more effectively. The company also has an extensive global service network to aid customers as they grow. We believe the company has durable competitive advantages and a flexible balance sheet to benefit from the expected significant capital investment in data centers for years to come. Vertiv reported very strong results for the March quarter, with orders up 60%, which highlighted the strong demand it is seeing for its products. We sold some of our position into strength after the runup from the positive report, but still hold a major position in the Fund as we see considerable upside in the shares over time.

Shares of property and casualty (P&C) insurance software vendor **Guidewire Software, Inc.** contributed to performance for the quarter. After a multi-year transition period, we believe the company's cloud transition is substantially over. We believe that cloud will be the sole path forward, with annual recurring revenue (ARR) benefiting from new customer wins and migrations of the existing customer base to Insurance Suite Cloud. We also expect the company to shift R&D resources from infrastructure investment to product development, which will help to drive cross sales into its sticky installed base and potentially accelerate ARR over time. We are also encouraged by Guidewire's subscription gross margin expansion, which improved by more than 1,000 basis points in its most recently reported quarter. We believe that Guidewire will be the critical software vendor for the global P&C insurance industry, capturing 30% to 50% of its $15 billion to $30 billion total addressable market and generating margins above 40%.

Insurance broker **The Baldwin Insurance Group, Inc.** reported first quarter organic revenue growth of 16%, and EBITDA margins expanded meaningfully year-over-year, leading to EBITDA growth of 29%. Margin improvement is expected to continue as the company leverages recent growth investments and focuses on efficiency after years of acquisitions. Also, during the quarter, the company refinanced a portion of its debt, resulting in lower borrowing costs and extended maturities. After a few years of subpar profit growth and the digestion of significant acquisitions, we believe Baldwin is now poised to show more consistent margin progression and free cash flow generation, and garner a higher multiple on compounding earnings.

Other stocks that rose over 15% in the quarter but contributed less to the overall performance of the Fund were **Loar Holdings Inc.**, **Planet Fitness, Inc.**, and **Exponent, Inc.**

Table III.
Top detractors from performance for the quarter ended June 30, 2024

	Percent Impact
Kinsale Capital Group, Inc.	–1.36%
SiteOne Landscape Supply, Inc.	–1.07
Installed Building Products, Inc.	–0.59
ASGN Incorporated	–0.56
Sprout Social, Inc.	–0.56

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 first quarter. Earnings beat Street expectations with 44% EPS growth and 43% growth in book value per share. However, investors focused on the slowdown in gross written premiums to 25% growth from 34% last quarter, reflecting tough comparisons and moderating growth in property insurance. 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. Recall that Kinsale was one of our best performers last quarter, and we believe we can endure some volatility to achieve strong long-term returns.

SiteOne Landscape Supply, Inc. is the largest distributor of wholesale landscape supplies in North America. SiteOne sells irrigation, hardscapes, agronomics, and nursery products to landscapers through its network for residential and commercial maintenance, upgrade/repair, and new construction. Shares fell during the quarter after a negative intra-quarter update, with weaker-than-expected demand in upgrade/repair product categories and stronger-than-expected commodity deflation, which together will likely lead to lower full-year results. We believe SiteOne remains well positioned long term as its investments in operational efficiency, technology, and product category management enable it to continue taking share of the fragmented wholesale landscape supplies distribution industry and improve margins, while expanding its product catalog and geographic footprint through consistent M&A. We visited with the company at their headquarters in Atlanta during the quarter and came away with renewed respect for management and their execution. We believe in their journey to gain significant market share through acquisitions and organic growth and increase margins by about 50% over time, and we believe the stock is now very cheap because of the present softness in their sales.

Installed Building Products, Inc. (IBP) is a leading installer of insulation and complementary building products for U.S. residential homes. Shares fell on investor concerns that U.S. housing construction activity levels would slow due to the diminished ability of consumers to afford down payments and monthly mortgage payments, both of which are significantly higher than they were several years ago. We remain confident in our long-term investment thesis, as the U.S. housing market continues to grow, and IBP continues to execute on its multi-prong organic growth strategy, supplemented by highly accretive acquisitions. IBP has been able to unexpectedly grow its EBITDA very significantly over the last few years when single-family housing has been weak, so its outlook is bright as we expect to transition to a better macro environment. The stock has almost tripled off the bottom in 2022, and we have taken some profits along the way to manage the position size.

Other stocks that declined over 20% in the quarter but had less impact on our results were Sprout Social, Inc., Inspire Medical Systems, Inc., Floor & Decor Holdings, Inc., Trex Company, Inc., **WEX Inc.**, Dayforce, Inc., **Ibotta, Inc.**, European Wax Center, Inc., and Endava plc.

Portfolio Structure & Recent Activity

As of June 30, 2024, the Fund had $4.5 billon in net assets and owned 60 stocks. The top 10 stocks in the Fund made up 40.1% of net assets, which is down a bit from last quarter but still on the high end of our historic concentration. The turnover of the Fund is down to 12.5% measured on a 3-year average basis. We suspect this will increase, as we are seeing an increase in IPOs, and we suspect that M&A activity will increase, as the capital markets return to a more normal state.

Table IV.
Top 10 holdings as of June 30, 2024

	Year Acquired	Quarter End Investment Value (millions)	Percent of Net Assets
Vertiv Holdings Co	2019	$329.0	7.3%
Gartner, Inc.	2007	235.8	5.2
ICON Plc	2013	219.4	4.8
Kinsale Capital Group, Inc.	2019	183.0	4.0
Guidewire Software, Inc.	2012	168.9	3.7
Red Rock Resorts, Inc.	2016	164.8	3.6
ASGN Incorporated	2012	145.5	3.2
TransDigm Group Incorporated	2006	127.8	2.8
Chart Industries, Inc.	2022	126.3	2.8
The Baldwin Insurance Group, Inc.	2019	115.3	2.5

The Fund's investments are concentrated in four sectors, as has been the case for a while now. Industrials is the largest category and make up 27.5% of the Fund's net assets. IT is 22.1%, Consumer Discretionary is 15.8%, and Health Care is 11.4%. Compared to the Benchmark, we are notably overweight in Consumer Discretionary and Industrials, and significantly underweight in Health Care. The Benchmark was recently "rebalanced" and our underweight in Health Care stocks is now even more pronounced since biotechnology stocks, which we don't own, have an increased emphasis. This might lead to some confusing relative performance in future quarters…. just saying…but won't affect how we manage the Fund, nor our aversion to holding biotechnology stocks in the Fund because of their binary and volatile nature.

Our approach is to invest in high quality companies across different industry verticals that have similar characteristics – established/leading companies in their niche, very well managed and have significant growth opportunities on the horizon. We have a deep and talented research team to identify and focus on winning businesses that we can invest in for the long term. This leads to a diversified and balanced portfolio that should prosper in most market environments…. hold up better in bad markets and outperform in good ones. Over the past three years, the Fund's upside capture is 103% with downside capture of 91%.

As we have discussed before (please see last quarter's report for details), the market capitalization of the Fund is high because of the success of our small-cap investments, which have grown much larger over time, and our practice to hold on to our "winners" to participate in their long-term success as businesses and stocks. We seek to tame the market cap by buying only small-cap companies and selling shares in our larger market cap holdings. In the quarter just ended, the weighted average market cap of our new purchases, both new ideas and additions to existing holdings was $2.8 billion. Our sales and trims had a weighted average market cap of $16.3 billion. We own just a small fraction of the peak position in our larger market cap stocks, which continue to perform very well. We have held many of them for 15 years or more and we believe strongly that they are additive to our returns and core to our strategy.

Table V.
Top net purchases for the quarter ended June 30, 2024

	Year Acquired	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Ibotta, Inc.	2024	$2.3	$33.9
Driven Brands Holdings Inc.	2021	2.1	13.1
ODDITY Tech Ltd.	2023	2.2	6.4
Loar Holdings Inc.	2024	4.8	6.3
Clearwater Analytics Holdings, Inc.	2021	4.6	3.3

We initiated a position in **Ibotta, Inc**. in its April IPO. Ibotta offers cashback rewards on various purchases through its Ibotta Performance Network (IPN) and direct-to-consumer app. Ibotta partners with retailers (e.g., Family Dollar and Kroger) who want to offer loyalty programs, and earns money from brands (e.g., Nestle and Unilever) who want to offer digital cashback rewards on their products. For example, brands find these cashback rewards useful as a measurable way to attract customers away from private label brands and launch new items. Ibotta gets paid on a measurable basis, averaging $0.80 per cashback redemption. In total, Ibotta serves over 2,400 brands, and through its third-party retailer network, reaches over 200 million potential end consumers ("redeemers"). Given the scalability of offering online rewards across its platform, Ibotta has a highly profitable and cash flow generative model, with 70% incremental margins in its third-party business.

Ibotta was founded in 2011 as a direct-to-consumer app in a highly competitive space. In 2021, Ibotta began powering cashback rewards programs with the IPN for large third-party retailers, which is a much faster growing space and is already half of Ibotta's revenue today. To date, Ibotta has credited American consumers with $1.8 billion in cash rewards through its network. With the IPN, Ibotta competes in a very large, digital total addressable market, and we believe that Ibotta, which enables effective return on brand spending, has significant room to grow from a base of $320 million in revenue in 2023.

Competitively, Ibotta is the clear leader in providing consumer rewards/incentives for large retailers, with more meaningful scale, better technology, and sharper focus than legacy competitors. We believe it would be very difficult to replicate Ibotta's relationships with 2,400 brands and 85 retailer point-of-sale integrations offering item-level transaction data. We also believe this is a market where there should be a winner that takes most/all, and we believe Ibotta is on track to be that winner. While this shift will take time, Ibotta's deep partnership with Walmart should be a catalyst. Ibotta has signed an exclusive multi-year deal to power all cashback rewards for Walmart, which we believe will expand its redeemer base substantially and attract other retailers who look to follow Walmart's lead.

At the end of May, Ibotta reported their first quarter as a public company: revenue grew 52% year-over-year to $82 million and adjusted EBITDA 28%. However, Ibotta's second quarter guidance was a bit soft (versus expectations), which we believe is because Walmart and other retailers are still ramping and remain far from maturity. With the stock trading down, we find Ibotta's valuation attractive and added to our initial position.

We initiated a position in **Loar Holdings Inc.** as part of the company's IPO. Founded in 2012, Loar is a niche aerospace parts manufacturer with an 85% proprietary portfolio and over half of revenue focused on the high margin aftermarket channel. Loar's business comprises roughly 15,000 products with around 1,400 employees and 12 manufacturing locations. We believe Loar can grow revenue 10% organically supplemented by a disciplined acquisition strategy that has allowed the integration of 16 acquisitions over the past 12 years. This exceptionally strong M&A franchise has been integral to the 38% sales and 46% EBITDA CAGR since inception. Given secular aerospace tailwinds, strength of the business model, and a management team with over a decade of proven success, we see a long runway of growth ahead for the company to compound EBITDA organically in the mid-teens with a potential double-digit addition from M&A.

We added to our position in **Driven Brands Holdings Inc**. on the belief that the stock price does not reflect the quality of the underlying assets and the ability of management to unlock this value with portfolio restructuring.

Table VI.
Top net sales for the quarter ended June 30, 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	$1.0	$32.4	$97.3
Installed Building Products, Inc.	2017	2.4	5.9	24.5
Mercury Systems, Inc.	2016	0.8	1.6	18.7
European Wax Center, Inc.	2021	0.7	0.6	14.2
ASGN Incorporated	2012	0.9	4.0	9.9

We decreased our holdings in **Vertiv Holdings Co** to manage the position size after the stock's 83% ascent year-to-date. We have sold about half of our peak position in Vertiv over the last year as the stock has been a tremendous success and we need to manage the Fund's market cap. We trimmed **Installed Building Products, Inc.** into strength, as mentioned before. We sold out of **Mercury Systems, Inc.** after years of disappointing operational issues and unclear timing of improved financial results. We trimmed **European Wax Center, Inc.** this quarter as business has slowed and key performance indicators have deteriorated.

Outlook

The stock market has acted well to begin the third quarter of 2024. There is growing evidence inflation is cooling and the economy is slowing. Interest rates have declined, and there is now more conviction that trends are in place to enable the Fed to begin cutting interest rates this fall. This has been greeted positively by the market participants, as lower rates are a positive catalyst to future economic growth and higher stock multiples.

The somewhat softer economic readings corroborate what we have been hearing from our holdings. Consumer spending is slowing and labor markets, the pace of both hiring and wage increases, are starting to show some cracks. The slowdown feels modest. But as we enter earnings season, our expectations about the near term are moderated. The path of future earnings growth will be a key determinant to how stocks act from here.

There has been a noticeable recent rotation into small-cap stocks, which we find welcome and overdue. The catalyst seems to be the latest benign CPI report, pointing to lower inflation, and the increasing likelihood of a Trump victory in the upcoming election, which is considered better for economic growth because of expectations of lower tax rates and less regulation. The performance of small-cap stocks has significantly lagged larger caps for years, and the trends are even more pronounced recently. Small caps now trade at a valuation discount, which is unusual because they typically grow faster. In the past, small caps have performed well when interest rates are cut, and the economy improves. The key will be if the economy is near its inflection point towards improvement or in a decelerating trend, caused by the extremely tight monetary conditions of the last couple of years.

The bull case from here is that the Fed can commence monetary policy easing while growth holds on at reasonably healthy levels and there is no recession looming. That earnings outlook will improve, especially as rates decline, which would drive improvement in consumer sentiment and unlock growth in the important housing market. And though the market indexes are near highs, most stocks have not participated, which should change to broader participation from index constituents. The bear case is that the economy is just beginning to slow from the weight of the extensive rate hikes, that the U.S. is facing a huge fiscal problem, which will need to be addressed, and that market conditions are stretched with stocks trading at high valuations and sentiment being too bullish. We are cognizant of the debate and are not ashamed to admit we are not sure how this will play out. We would also add that market sentiment is hard to predict, and often overwhelms fundamentals on the short term. Still, we like our holdings and their prospects to compound over time.

Thanks for your interest in the Fund.

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 BaronCapitalGroup.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.

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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.

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