DEAR BARON DISCOVERY FUND SHAREHOLDER:

PERFORMANCE

Baron Discovery Fund® (the Fund) was up 13.55% (Institutional Shares) in the quarter, outperforming the Russell 2000 Growth Index (the Benchmark) by 514 basis points. For the year-to-date period, the Fund returned 9.50%, 372 basis points below the Benchmark return of 13.22%. We were pleased with the performance during the third quarter, and we feel that it is possible that the bear market in small-cap growth stocks that started way back in February 2021 is finally ending. We have been talking about the divergence between small-cap growth and large-cap valuations for several quarters now, but to give you a sense of how challenged small-cap growth has been, before this quarter the Benchmark had only beaten the S&P 500 Index in 2 of the last 14 quarters. We have not seen small-cap growth quarterly underperformance of this magnitude since the late 1990s. To further illustrate this point, consider the cumulative performance of two asset classes over the last three plus years: one asset class is up 56% and the other is down 13%. If you came to these numbers without any context, you might assume that the returns represent investments in assets of different countries where one economy was slowing and the other was booming. At no point, however, would you think that these two returns are from indices *in the same exact economy*. Yet those two metrics represent the cumulative performance of the S&P 500 Index (+55.81%) and the Benchmark (-13.41%) since February 9, 2021.

RANDY GWIRTZMAN PORTFOLIO MANAGER | LAIRD BIEGER PORTFOLIO MANAGER

Retail Shares: BDFFX
Institutional Shares: BDFIX
R6 Shares: BDFUX

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

	Baron Discovery Fund Retail Shares[1,2]	Baron Discovery Fund Institutional Shares[1,2]	Russell 2000 Growth Index[1]	Russell 3000 Index[1]
Three Months[3]	13.52%	13.55%	8.41%	6.23%
Nine Months[3]	9.27%	9.50%	13.22%	20.63%
One Year	22.78%	23.12%	27.66%	35.19%
Three Years	(5.76)%	(5.51)%	(0.35)%	10.29%
Five Years	10.53%	10.82%	8.82%	15.26%
Ten Years	11.71%	12.00%	8.95%	12.83%
Since Inception (September 30, 2013) (Annualized)	12.17%	12.45%	8.47%	13.27%
Since Inception (September 30, 2013) (Cumulative)[3]	253.60%	263.55%	144.54%	293.69%

Over the past several quarters, our quarterly letters have pointed out that the divergent paths of small-cap growth and large-cap stocks would not continue forever, and a likely catalyst for rotation into small-cap growth stocks would be the decline in inflation and, as a result, the lowering of rates by the Federal Reserve (the Fed). Inflation has been on a lower trajectory for many quarters now and the Fed reacted to this fact by cutting rates by 50 basis points in September. Small-cap stocks reacted positively to the news and the higher quality growth companies in the Fund managed to outperform the Benchmark during this period. Skeptics might say that this was an anomaly, like the small-cap rally that occurred in the first seven months of 2023 that completely disappeared over the following three months. So let us explain why we think this quarter is different from the rally we saw in 2023 and why the small-cap growth versus large-cap "reversion to the mean" trade can have legs.

First, the Fed has gone from neutral to dovish. As we have written about for several quarters, our companies were telling us that the inflation and supply-chain issues they experienced during COVID-19 had mostly dissipated by

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of September 30, 2023 was 1.33% and 1.06%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser may waive or reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2035, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit BaronCapitalGroup.com or call 1-800-99-BARON.

† The Fund's 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.

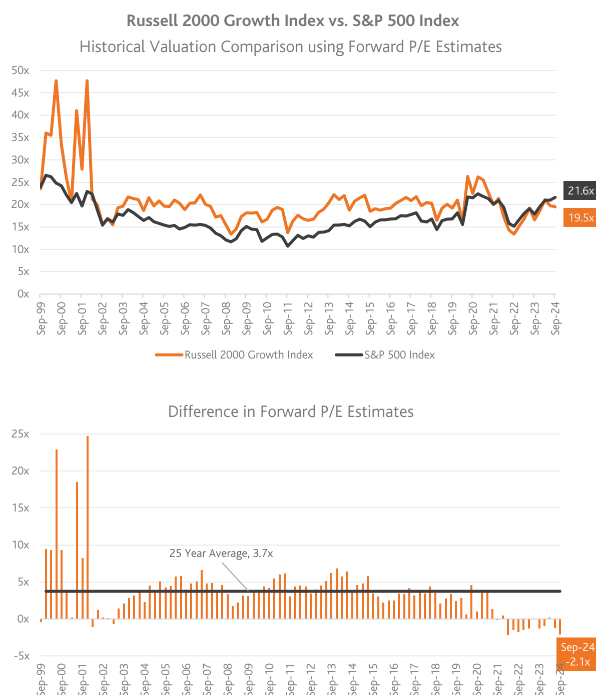
1 The **Russell 2000® Growth Index** measures the performance of small-sized U.S. companies that are classified as growth. The **Russell 3000® Index** measures the performance of the broad segment of the U.S. equity universe comprised of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. 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 Not annualized.

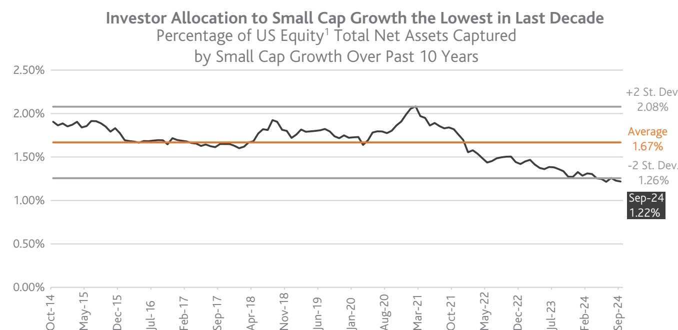
the end of 2022. We have seen government inflation data steadily falling for several quarters. Lower inflation gave the Fed the headroom to begin the process of normalizing interest rates. Lower rates are a positive for our smaller growth companies for two primary reasons: (1) when interest rates fall, the present value of future cash flows increases. This means that the discounted cash flows of small-cap growth stocks, which often have higher growth rates, become more valuable. As a result, valuation multiples expand and stock prices tend to rise; and (2) lower interest rates are a tailwind for the economy and are supportive of economic growth. This creates an environment where our portfolio companies can see accelerating revenue growth.

Second, valuations of small-cap growth stocks remain attractive compared to their large-cap counterparts. In fact, small-cap growth is presently trading at its largest discount relative to large cap in the last 25 years.



Sources: FactSet Market Aggregates and The Bank of New York Mellon Corporation.

Third, investors are under-allocated to small-cap growth stocks as an asset class. When looking at the allocation to small-cap growth within the Morningstar US Equity universe over the last 10 years, the percentage of total net assets invested in the Morningstar Small Cap Growth category recently hit a new low at the end of September. When investors are shunning an asset class, as they are with small-cap growth today, this can be a contrarian indicator and a positive predictor of better asset performance in the future.



1 - US Equity includes the following Morningstar defined categories: US Equity, International Equity, Sector Equity, and Nontraditional Equity.

Source: Morningstar Direct.

Fourth, negative earnings revisions have been a frequent theme over the last couple of years. We believe this trend can reverse as year-over-year earnings comparisons become easier go forward. Periods where earnings revisions are positive are bullish for both valuation multiples and stock prices.

Fifth, Chinese economic growth has been a drag on global economic growth for the last couple of years. We believe the stimulus measures that the Chinese government announced in late September (with one Bloomberg article suggesting it could be as high as $1.4 trillion dollars!) will jumpstart the Chinese economy which will act as a tailwind to global economic activity.

The bottom line is that there are many reasons why a rotation into small-cap growth stocks (and into our secular growers in particular) is likely. The combination of lower interest rates, stronger economic growth, attractive valuations, and easier earnings comparisons create a backdrop that we think is conducive for stronger small company fundamentals and valuation multiples.

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

	Contribution to Return (%)
CareDx, Inc.	1.72
Axon Enterprise, Inc.	1.22
Tempus AI, Inc.	1.12
Exact Sciences Corporation	0.93
Veracyte, Inc.	0.87

CareDx, Inc. is a diagnostic company that facilitates donor matches pre-transplant and rejection monitoring post-transplant. In August 2024, CMS "retired" a draft local coverage determination that had previously caused a major reimbursement overhang, massively impacting CareDx's revenues and share price. Shares outperformed for the quarter as testing volumes accelerated, leading the company to beat second quarter consensus

estimates as well as its full-year guidance. The silver lining from the difficult period CareDx experienced is that it has optimized its operating expense structure and should see meaningfully increased profitability as it gets back to prior testing volumes and beyond. Even after a big rebound in the shares this year, we still believe CareDx's valuation remains inexpensive.

Axon Enterprise, Inc. is the leading provider of tasers, body cameras, software, and other solutions for law enforcement. Shares rose following an exceptionally strong second quarter earnings report, highlighted by revenue growth of over 25% for the 10th straight quarter. This was led by nearly 50% growth in Axon's software business. Axon introduced Draft One software for law enforcement officers, which leverages generative AI and body-worn camera audio to produce high-quality draft report narratives in seconds, freeing up 20% to 25% of an officer's day. This product showcases the many potential generative AI use cases in Axon's business. International bookings were up 100%, driven in part by growing interest in Draft One and the Taser 10 product. Run by a visionary founder with a best-in-class team, the company is continually pushing new and innovative products in the pursuit of becoming the de-facto public safety ecosystem. We believe Axon will become a much larger company over time.

Shares of **Tempus AI, Inc.** contributed to performance. Tempus is a cancer diagnostics company that provides genomic testing results. Tempus has also amassed an over 200 petabyte proprietary multimodal dataset that combines clinical patient data with genomic testing data. In addition to using this data to empower more intelligent diagnostics for its own tests, Tempus also licenses this data to biopharmaceutical companies which use it to design smarter clinical trials and identify potential new drug targets. We think this proprietary dataset is unique with meaningful barriers to entry, and brings meaningful value to biopharmaceutical R&D. As we mentioned in the letter from last quarter, shares have been incredibly volatile. We took advantage of this volatility to buy a meaningful position when shares sold off into the low $20's per share from an IPO price of $37. When shares spiked into the mid-$70's (likely due to short sellers covering losses as shares rose), we took profits on a meaningful portion of the investment as we believed valuation had become stretched (shares now trade in the high $40's to low $50's level). We like our position sizing now, and would add to the position at lower valuations. We believe that Tempus has significant growth ahead of it and we are excited about its unique business model.

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

	Contribution to Return (%)
Montrose Environmental Group, Inc.	–1.21
indie Semiconductor, Inc.	–0.69
Chart Industries, Inc.	–0.44
Couchbase, Inc.	–0.32
Inari Medical, Inc.	–0.31

Montrose Environmental Group, Inc., a leading environmental services company, underperformed in the quarter. The stock pulled back sharply after the Supreme Court decided the *Loper Bright Enterprises v. Raimondo case* in June 2024, which overturned the so-called "Chevron Deference Doctrine" named from the 1984 *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.* case. Chevron held that federal courts should defer to the decisions of administrative agencies when they are interpreting a law or statute. Now future agency decision-making will come under more scrutiny and court challenge. Because Montrose derives most of its business from EPA related work, investors grew concerned that its growth could slow. We think this concern is overblown. Loper did not require a reassessment of regulations that are already in place (which is basically all of Montrose's current business). In addition, Montrose's business drivers are diverse and its testing and advisory business benefits from complexity. We added to our position on weakness. While the Loper case might affect the timing and magnitude of Montrose's opportunity to clean up PFAS (so-called "forever plastics") sites (since EPA regulations are currently being decided), we still believe this is a huge potential line of business for the company. We continue to believe that Montrose, as a vertically integrated environmental services company, has a unique value proposition to customers and we believe that the company will be successful in the execution of its strategy to grow organically and through acquisition. And valuation is compelling at a mid-single-digit multiple of cash flow for an industrial company with Montrose's growth characteristics.

Indie Semiconductor, Inc. is a fabless designer, developer, and marketer of automotive semiconductors for advanced driver assistance systems (ADAS) and connected car, user experience, and electrification applications. Indie's stock fell during the quarter as it guided full-year 2024 revenue growth below expectations for the third quarter in a row. This is due to macro factors as opposed to problems specific to indie itself. Overall auto industry production is expected to be incrementally worse and excess inventory at indie's customers has been a headwind to volume growth. Despite the near-term macro softening, indie continues to win new sockets in future platforms and remains very well positioned for growth over the medium and long term supported by its $6.3 billion design win backlog, of which $4.6 billion is in ADAS applications. It also is expecting some very large program ramps in 2025, including a marquee radar-related rollout, the biggest program in the company's history. We believe indie can continue to significantly outpace the broader industry and approach $1 billion in revenue by the end of this decade with premium margins. We believe its share price will recover as rapid growth resumes in 2025.

Chart Industries, Inc. is a global leader in the design, engineering, and manufacturing of process and storage technologies and equipment for gas and liquid handling. Shares of Chart fell during the quarter as the company missed earnings expectations on revenue recognition timing and lowered full-year guidance. Despite this, fundamentals for the business continue to be very strong, with record revenue, backlog, and margins in the quarter and strong orders, with a book-to-bill greater than one. The issues for the stock continue to be self-inflicted, with management setting too-high expectations and continuing to need to cut them back. After several conversations with management, we believe that they will better set expectations moving forward. Chart is unique in its breadth of technology and solutions capabilities with EBITDA margins growing double digits in long-duration secular growth markets (LNG, hydrogen, carbon capture, water treatment, etc.), and we believe as the near-term expectations-related issues subside, the company will earn the valuation we believe it deserves, driving significant near- and long-term upside in the stock.

Portfolio Structure

Our top 10 holdings represented 29.4% of the portfolio, roughly in line with historical levels.

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

	Year Acquired	Quarter End Investment Value ($ millions)	Percent of Net Assets (%)
Axon Enterprise, Inc.	2022	57.6	3.8
DraftKings Inc.	2023	48.4	3.2
CyberArk Software Ltd.	2022	46.7	3.1
Kratos Defense & Security Solutions, Inc.	2020	45.3	3.0
CareDx, Inc.	2024	44.8	3.0
Guidewire Software, Inc.	2022	43.1	2.9
Advanced Energy Industries, Inc.	2019	41.6	2.8
PAR Technology Corporation	2018	39.1	2.6
Clearwater Analytics Holdings, Inc.	2021	37.9	2.5
SiteOne Landscape Supply, Inc.	2016	37.7	2.5

Recent Activity

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

	Year Acquired	Quarter End Market Cap ($ billions)	Net Amount Purchased ($ millions)
TWFG, Inc.	2024	1.5	12.6
Inari Medical, Inc.	2020	2.4	8.1
Liberty Media Corporation – Liberty Live	2023	4.7	5.9
SiteOne Landscape Supply, Inc.	2016	6.8	2.9
Montrose Environmental Group, Inc.	2020	0.9	1.9

Our largest purchase during the quarter was **TWFG, Inc.**, a Texas-based insurance broker that supports independent insurance agents in the property and casualty (P&C) space. TWFG primarily helps captive agents make the transition over to independence by offering a turnkey independent agent solution called "Agency-in-a-Box." TWFG provides agents with the carrier relationships needed to sell insurance as an independent agent (these are often hard to obtain as a sole operator), as well as the technology, training, back office, and brand needed to run a successful independent agency. TWFG has a capital efficient business model where the independent agent is responsible for the ongoing expenses of his or her business, while TWFG keeps 20% of the commissions generated.

The U.S. P&C market is over $850 billion in annual premiums, of which over $400 billion is in Personal Lines. Over time, captive agents – who only represent one insurer – have been losing share in distribution to independent agents. Independent agents are not exclusive to any one insurer, so they can offer customers a much broader range of insurance options and thus can write more premiums and earn more commissions, as compared to captive agents. In homeowners' insurance, the share of premiums written by independent agents increased from 41% to 49% from 2011 to 2021 as more agents left captive models and became independents. TWFG is squarely focused on serving this growing pool of independents.

TWFG was founded in 2001 by former insurance agent Gordy Bunch. Bunch has successfully scaled the business to over $1 billion in written premiums while taking in little outside capital, and TWFG now has a presence in over 40 states and serves over 400 TWFG-branded independent agencies. We believe that TWFG can grow by adding more agencies as the secular shift of agents from captive to independent continues, and that the 80/20 commission split is an attractive deal for agents that delivers substantial value while allowing them to retain most of the economics. The industry remains highly fragmented with over 40,000 agents, which provides TWFG with a long runway for growth. Additionally, management has begun to acquire smaller agencies at favorable terms, which increases both revenue and profit margins. We expect management will use the IPO proceeds to accelerate the pace of these accretive acquisitions. We believe that TWFG's long track record of growth, capital-light business model, opportunities for accretive M&A, large addressable market, and a founder-CEO with significant skin-in-the-game make for a compelling investment opportunity.

We added to our position in **Inari Medical, Inc.** in the quarter at what we believe are attractive valuations for a market leading medical device company. Inari offers catheter-based devices to remove clots caused by venous thromboembolism (VTE). VTE is a disease state that manifests as deep vein thrombosis (DVT), in which a clot cuts off blood flow in a deep vein (usually in the leg), and as pulmonary embolism (PE), when the clot in the leg breaks off and circulates to lodge in the blood vessels that supply the lungs. Despite beating its second quarter earnings and raising full-year guidance, Inari shares have been pressured after the release of competitor Penumbra, Inc.'s new product for DVT treatment. Both companies have very good products for DVT. We believe that there are huge opportunities for both companies to grow in DVT (by displacing other treatments), and Inari, in particular, has even bigger opportunities in PE (which it dominates) also by displacing other treatments.

PE and DVT are each markets worth about $3 billion per year (a $6 billion total market opportunity). Right now, about 80% receive just blood thinners which do nothing for existing clots, while only 20% receive any sort of more in-depth intervention. And then of this 20%, still a third are on thrombolytics, which has a high risk of bleeding and require an ICU stay for monitoring. Inari is working on studies that it believes will show superiority of its devices to using lytics or blood thinners. Its first PE study (superiority of an Inari device to using lytics) is due to read out in the fourth quarter of 2024. It has another PE study which should read out over the next couple of years that should help open up the remaining 80% of the PE market (superiority of an Inari device versus using blood thinners). In addition, Inari is at various stages of launching multiple new products (for other venous and arterial blockage conditions) which could unlock nearly $4 billion in additional addressable market opportunities. And it is launching its products in foreign markets as well. In other words, although a portion of its markets are facing increased competition, we believe there is a huge amount of overall growth opportunity that is wide open for Inari, and the stock is trading at a valuation that currently does not reflect these opportunities.

We added to our position in **Liberty Media Corporation – Liberty Live**, a tracking stock whose primary asset is its holdings in Live Nation Entertainment, Inc. (LYV). Live Nation, which produces live concerts and owns Ticketmaster, traded down when the Department of Justice (DOJ) sued the company for anticompetitive behavior. We added to our position in Liberty Live as we do not believe the DOJ suit will lead to the breakup of

Live Nation and we believe that Live Nation trades at a valuation well below its intrinsic value. Shares of both Live Nation and Liberty Live recovered during the quarter, ending the period near their 52-week highs.

Table VI.
Top net sales for the quarter ended September 30, 2024

	Year Acquired	Market Cap When Acquired ($ billions)	Quarter End Market Cap or Market Cap When Sold ($ billions)	Net Amount Sold ($ millions)
Silk Road Medical, Inc.	2019	0.5	1.1	26.3
Tempus AI, Inc.	2024	6.6	8.7	23.2
Definitive Healthcare Corp.	2021	4.0	0.4	12.7
Nova Ltd.	2018	0.7	6.1	7.0
ASGN Incorporated	2022	6.0	4.2	5.6

We sold **Silk Road Medical, Inc.** when it announced it was going to be purchased by Boston Scientific Corporation. We had always been believers in the company's products which address carotid artery blockages through a proprietary, minimal invasive stenting procedure. We addressed why we trimmed **Tempus AI, Inc.** in the contributors section. We sold **Definitive Healthcare Corp.** after owning the company for nearly three years, and it was a very unsuccessful investment despite having fantastic margins, solid free cash flow, and what we viewed as a high-quality health care database. Ultimately, the company will need to find a way to stop the slide in organic growth that has hurt equity value for shareholders.

OUTLOOK

The last three and a half years have been a challenging period for small company stocks. We believe the divergent performance of small-cap growth versus large-cap stocks cannot continue forever and thus, there will be a "reversion to the mean" where small-cap growth stocks can outperform large-cap stocks. The current economic backdrop of lower interest rates and some early signs of better economic growth ahead is more conducive for small-cap company fundamentals and valuations. As we look out over the medium to long term, we believe that investing in small-cap growth stocks over the next three and a half years will be significantly more profitable than it was over the last three and a half years. Thank you for your support.

Randy Gwirtzman
Portfolio Manager

Laird Bieger
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting 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 managers' views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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

Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets. **Price/Earnings Ratio or P/E (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.

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).