Dear Baron Small Cap Fund Shareholder:

Performance

Baron Small Cap Fund® (the Fund) was up 9.68% (Institutional Shares) in the third quarter of 2024. For the first nine months of 2024, the Fund is up 14.74%. The Fund is ahead of the Russell 2000 Growth Index (the Benchmark) for the quarter and the year-to-date period, with the Benchmark rising 8.41% this quarter and 13.22% year to date. The Fund beat the broader Russell 3000 Index this quarter, as small-cap stocks outperformed large caps for the first time this year, but trails for the year. The Russell 3000 Index was up 6.23% this quarter and has gained 20.63% year to date.

As shown in Table I below, the Fund has outperformed the Benchmark for all relevant periods. As of October 2, 2024, the Fund was also in the top quartile of all small-cap growth funds for each of the 1-, 3-, 5-, 10-, and 15-year periods. Since its inception 27 years ago, the Fund has generated excess returns of 400 basis points a year versus its Benchmark. The compounded return of this outperformance adds up over time. If one had hypothetically invested in the Fund at its inception (as many of you have, and we are incredibly grateful), your investment would have risen 13.6 times, meaning a $10,000 investment would be worth $146,080. This is 2.7 times more than if you had invested in a Fund that tracked the Benchmark, which would be worth $53,874.

U.S. stocks were higher in the third quarter, for the fourth consecutive quarter and seventh out of the past eight, ending the quarter at an all-time high. The market rally in the quarter, with solid performance from a wide swath of sectors and market caps, stood in contrast to the narrow market leadership of earlier periods. Small caps and rate sensitive sectors staged a strong rally at the beginning of the quarter, spurred by market anticipation of interest rate cuts that would propel economic growth. Stocks were volatile this period, as concerns of slowing economic growth/recession periodically entered the conversation and resulted in occasional big declines.

The Federal Reserve (the Fed) took a dovish stance based on greater confidence that inflation was moving back to its long-term target. Softer jobs reports had the Fed focused on trends in employment, the other side of its dual mandate. Chair Powell announced a policy adjustment, termed "recalibration." In late September, the Fed began its easing cycle with a 50-basis point reduction in the Fed Funds rate. The cut was seen as aggressive and interpreted as the first of many cuts to come. The market reacted positively.

The Fund's outperformance was the result of solid stock selection, especially in Information Technology (IT) and Financials. In IT, our application software stocks performed well. **Guidewire Software, Inc., Clearwater Analytics Holdings, Inc.**, **Intapp, Inc.**, and **Aspen Technology, Inc.** each rose over 20% because of strong fundamentals and as sentiment towards vertical

CLIFF GREENBERG

PORTFOLIO MANAGER

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

software providers turned positive after an extended period of fear that AI could hurt their prospects. In Financials, **The Baldwin Insurance Group, Inc.** and **Kinsale Capital Group, Inc.** rose with solid earnings reports and benefited as the sector gained on the prospects of lower interest rates. We had other holdings whose share prices were bolstered by strong financial results, such as day care provider **Bright Horizons Family Solutions, Inc.**, medical device developer **Inspire Medical Systems, Inc.**, and employment screener **First Advantage Corporation**. Our Industrials and Consumer Discretionary holdings, which are considered interest rate sensitive, did well this quarter, after falling last quarter when rate cuts were less certain. Landscape supplier **SiteOne Landscape Supply, Inc.**, insulation installer **Installed Business Products, Inc.**, and flooring retailer **Floor and Decor Holdings, Inc.**, all gained nicely in the quarter.

The Fund's Health Care stocks performed poorly and hurt our performance, as **DexCom, Inc.** declined after it cut its outlook significantly, and **ICON Plc** fell over concerns about biotechnology funding. Also, biotechnology stocks were strong this quarter. Since the Fund does not invest in this sub-industry, as we have explained, our relative performance was hurt. We benefited by not having any Energy exposure, as the sector was weak this quarter. Our exposure to higher market cap holdings as well as those with lower betas hurt somewhat, which often is the case when small caps begin to rally. Our focus on growth too was a negative, as small-cap value did better this quarter.

As of 10/2/2024, the Morningstar Small Growth Category consisted of 568, 554, 537, 509, and 465 share classes for the 1-, 3-, 5-, 10-, and 15-year periods. Morningstar ranked Baron Small Cap Fund Institutional Share Class in the 24th, 24th, 17th, 21st, and 24th percentiles, respectively.

Morningstar calculates the Morningstar Small Growth Category Average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

BARON FUNDS 1987

Baron Small Cap Fund

Table I.
Performance
Annualized for periods ended September 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]	9.62%	9.68%	8.41%	6.23%
Nine Months[4]	14.51%	14.74%	13.22%	20.63%
One Year	28.90%	29.25%	27.66%	35.19%
Three Years	1.49%	1.75%	(0.35)%	10.29%
Five Years	12.12%	12.41%	8.82%	15.26%
Ten Years	10.87%	11.16%	8.95%	12.83%
Fifteen Years	12.38%	12.67%	11.09%	13.80%
Since Inception (September 30, 1997)	10.28%	10.44%	6.44%	8.86%

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

	Contribution to Return (%)
Vertiv Holdings Co	1.31
Guidewire Software, Inc.	1.29
The Baldwin Insurance Group, Inc.	1.06
Kinsale Capital Group, Inc.	0.86
Gartner, Inc.	0.70

Vertiv Holdings Co is a leader in data center equipment, with significant share in both power and cooling applications. The stock rebounded off recent weakness, as investors gained confidence that a massive build out of AI data centers globally was on the horizon. Vertiv's strong relationship with chip manufacturers and involvement in the necessary technology roadmap for solutions as the energy density of server racks increases were catalysts. Vertiv's orders were up 57% year-over-year in the second quarter, backlog was $7 billion, a record, and 2024 operating profit margin and EPS guidance was raised.

Shares of property and casualty (P&C) insurance software vendor **Guidewire Software, Inc.** advanced after subscription gross margins improved by more than 1,000 basis points in its most recently reported quarter. After a multi-year transition period, the company's cloud migration is substantially over. We believe cloud will be the sole path forward, with annual recurring revenue benefiting from new customer wins and migration of the existing customer base to InsuranceSuite Cloud. We believe Guidewire will be the dominant, 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.** contributed to performance after reporting second quarter financial results that exceeded Street expectations. Revenue grew 19% on an organic basis and EBITDA grew 22% despite a temporary margin headwind from a timing shift of profit-sharing commissions. Management reaffirmed their expectation of ongoing margin expansion while growing revenue organically at a double-digit rate. Falling interest rates also likely helped the stock, due to the company's elevated leverage profile consisting primarily of variable rate debt. We expect the company to continue gaining market share while expanding margins and reducing leverage over the next several years.

Other stocks that rose over 25% in the quarter but contributed less to the overall performance of the Fund were Intapp, Bright Horizons, Clearwater, Inspire, Floor & Decor, **Grid Dynamics Holdings, Inc.**, **Loar Holdings Inc.**, and **Liberty Media Corporation – Liberty Live**.

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

	Contribution to Return (%)
DexCom, Inc.	–0.57
Chart Industries, Inc.	–0.51
ICON Plc	–0.41
Janus International Group, Inc.	–0.41
indie Semiconductor, Inc.	–0.28

DexCom, Inc. sells a continuous glucose monitoring device for patients with diabetes. Shares fell after DexCom reported lower-than-expected second quarter financial results and reduced guidance for the year. A rare misstep for the company. Multiple issues surfaced during the earnings report. Management cited: 1) disruption from the expansion of its sales force; 2) channel dynamics including market share losses in the durable medical equipment channel, and a revenue per user headwind from Medicare Advantage plans offering pharmacy access to its members; 3) a negative impact from faster-than-anticipated rebate eligibility; and 4) a shortfall in international sales. We believe some of these issues are temporary and addressable, but we are circumspect.

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.

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 largest 3,000 U.S. companies representing approximately 98% 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.

Chart Industries, Inc. is a global leader in design, engineering, and manufacturing of process and storage technologies and equipment for gas and liquid handling. Shares declined after the company once again missed earnings expectations on revenue recognition timing and lowered full-year guidance. Business fundamentals are strong, with record revenue, backlog, margins, and a solid order pipeline. We believe the issues with the stock price are self-inflicted, with management setting expectations too high and then needing to cut them back. Chart is unique in its breadth of technology and solutions capabilities in long-duration secular growth markets (LNG, hydrogen, carbon capture, water treatment, etc.). As management "clear the decks" on guidance and focus returns to double-digit organic growth and improving free cash flow, we think the company will earn the valuation it deserves. The stock now trades at seven times our estimate of forward EBITDA, which is very cheap.

ICON Plc is the second largest global contract research organization, providing outsourced drug development services to pharmaceutical and biotechnology clients. Shares fell on continued concerns about levels of biotechnology and big pharma R&D funding, with investors focusing on book-to-bill figures, which came in slightly below expectations, and cancellations, which grew 7% sequentially. We retain conviction. Second quarter EPS beat consensus, more than offsetting a slight revenue miss. Longer-term, we are confident demand will improve as biotechnology funding picks up due to lower interest rates and big pharma R&D comes back due to the need for new products, especially for later stage projects that are ICON's sweet spot.

Other stocks that declined over 20% in the quarter but had less impact on our results were **Repay Holdings Corporation** and **indie Semiconductor, Inc.**

PORTFOLIO STRUCTURE & RECENT ACTIVITY

As of September 30, 2024, the Fund had $4.5 billion in net assets and owned 57 stocks. The top 10 stocks in the Fund made up 43.3% of the net assets. Turnover was 12.4% as measured by a three-year average. This number of holdings is lower, level of concentration is higher, and trading activity is lower than usual. This is the outgrowth of strong performance of our top holdings, from us "cutting our weeds" as we are known to say…selling out of some small positions that we no longer favor, and investing less in new ideas. We think this is all just a moment in time and suspect that these measures will return to more historic levels. We expect that the capital markets will be more active in the future and will offer us the opportunity to invest in more IPOs and secondaries.

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

	Year Acquired	Quarter End Investment Value ($ millions)	Percent of Net Assets (%)
Vertiv Holdings Co	2019	353.2	7.8
Gartner, Inc.	2007	253.4	5.6
Guidewire Software, Inc.	2012	215.0	4.8
Kinsale Capital Group, Inc.	2019	209.5	4.6
ICON Plc	2013	196.8	4.4
Red Rock Resorts, Inc.	2016	163.3	3.6
The Baldwin Insurance Group, Inc.	2019	149.4	3.3
TransDigm Group Incorporated	2006	142.7	3.2
ASGN Incorporated	2012	139.8	3.1
SiteOne Landscape Supply, Inc.	2016	132.0	2.9

The Fund primarily invests in four sectors – Industrials, IT, Consumer Discretionary, and Health Care. These are the areas where we believe we have the most investment expertise and where we have had our greatest success over time. We are playing to our strength. We look for leading/special companies in each of those sectors that often share the same characteristics of durable competitive advantage, compelling business models, successful track records, strong growth outlooks, and proven management teams that we respect.

We invest in these great companies after deep due diligence and size the positions based on conviction, valuation, and with consideration of risk mitigation. This results in a diversified portfolio that varies greatly from the Benchmark to which we are compared. As has been the case for a while, we are overweight in Industrials, IT, and Consumer Discretionary, and significantly underweight in Health Care. The overweight in Industrials was lower this quarter than in the past, since we have trimmed some of our holdings in that group. And our underweight in Health Care is more pronounced than in the past after the recent rebalancing of the Benchmark.

Our calling card is that our portfolio is laden with "big winners" and long-term holdings. These are distinguishing characteristics of the Fund.

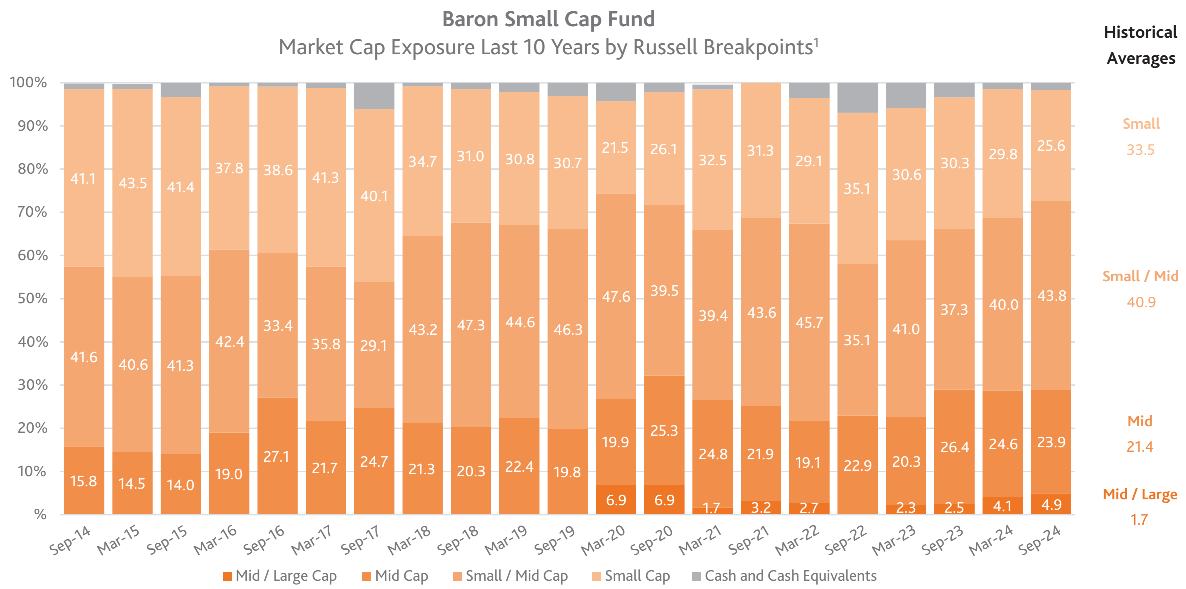
As of September 30, about 74% of the net assets in the Fund are invested in stocks that have doubled or more since purchase. 48% of our assets are in 18 stocks that have risen five times or more from purchase, and 24% of our assets are in 10 stocks that have risen ten-fold or more since purchase. Pretty extraordinary and a testament to our research process and investment philosophy. The "ten baggers" have appreciated at an annualized rate of 40% on a weighted average basis over the years, proving that great stock performance can last for years. And they have risen 49% on a weighted average basis year to date, showing they are still strong performers.

Also, 34% of the assets are invested in stocks we have held 10 years or more, and another 26% in stocks held from 5 to 10 years….so 60% of our capital is in stocks held at least 5 years. The stocks we have held over 10 years have returned 19% a year since purchase, on a weighted average basis, which is about the same return for holdings of 5 to 10 years and under 5 years. So, it has paid to hold onto "winners" for the long term...to "let our flowers" grow.

We have been practicing this approach of long-term investing since inception. We hold onto our winners as they grow, as this has been additive to our performance and consistent with our style. We proactively trim the position sizes as the size of our holdings increases in market capitalization and recycle that capital into new small-cap investments. For our largest holdings, we own a very modest portion of our peak position.

This approach has resulted in a different market cap spread than most other small-cap funds. Presently 26% of the Fund is invested in small-cap stocks; another 44% is in small/mid cap; 24% is in mid-caps and 5% is in mid/large caps. As you can see, the levels of these holdings have been very consistent over the years, which is by design.

Baron Small Cap Fund



1 The Russell market cap breakpoints are provided by The Bank of New York Mellon in their monthly Total United States Equity Profile Report, which recalculates the "Russell 3000 Index Breakpoints" for the various market cap segments on a monthly basis applying the methodology used for the Russell Indexes at reconstitution.

Sources: Baron Capital and The Bank of New York Mellon Corporation.

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

	Year Acquired	Quarter End Market Cap ($ billions)	Net Amount Purchased ($ millions)
Ibotta, Inc.	2024	1.9	21.7
GCM Grosvenor Inc.	2024	2.1	19.0
Driven Brands Holdings Inc.	2021	2.3	6.9
nCino Inc.	2023	3.7	6.2
John Bean Technologies Corporation	2017	3.1	2.3

Ibotta, Inc. stock traded down in the quarter, due to short-term headwinds (primarily in display advertising, which is not an area of focus for the company). We retain conviction that Ibotta will remain the leader in consumer rewards and incentives, with multiple drivers to reach greater than 20% revenue growth per year and strong incremental profitability. Beyond continued initiatives in ramping their partnership with Walmart, Ibotta announced a partnership with Instacart, which validates our belief that Ibotta can be the aggregated platform for consumer incentives. We believe there is a strong pipeline of retailers and brands to join the Ibotta ecosystem. As a result, we added to our Ibotta position when the stock was trading at around 7 times next year's EV/EBITDA, which we think is inexpensive for a market leader with a strong financial profile.

We initiated a position in **GCM Grosvenor Inc.** in the quarter. Grosvenor is an alternative asset manager with $79 billion in assets under management (AUM), which is invested in both Private Markets ($56 billion) and hedge funds ($23 billion). Grosvenor has a 53-year history of supporting clients with their investments in alternatives, a secular growth area within financial services. Due to the long duration nature of these investments, capital is generally committed for 5 to 10 years. This creates a highly resilient earnings model, helped further by client reinvestments, which are typically 30% higher than the prior commitment. Grosvenor helps its clients to access, choose, and manage these investments. This requires specialized expertise due to the fragmentation of the alternatives industry, the illiquid nature of these assets, and LPs lacking the necessary scale to build this talent and effectively diligence managers and investments for themselves. Grosvenor has particular strengths in infrastructure and sustainable investing, with each growing AUM at a 20%-plus CAGR over the past 3.5 years.

We think Grosvenor is a high-quality business with durable earnings, secular growth tailwinds, and further margin expansion opportunities, led by a management team with significant skin in the game (CEO owns over 35% of the company). We believe Grosvenor can double fee-related earnings and EPS over the next 5 years and, with the stock trading at a discount to peers, this should lead to good upside from current levels.

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)
Installed Building Products, Inc.	2017	2.4	7.0	43.3
Floor & Decor Holdings, Inc.	2017	3.0	13.3	34.1
Sprout Social, Inc.	2022	3.5	1.6	24.8
Vertiv Holdings Co	2019	1.0	37.3	23.3
Endava plc	2019	1.5	1.5	22.0

During the quarter we trimmed some of our strong performers and exited four positions. We decreased our holdings in **Installed Building Products, Inc.** and **Floor & Decor Holdings, Inc.** to manage the position sizes after recent stock rallies. Both stocks ran in the quarter as interest rates declined.

We exited our position in **Sprout Social, Inc.** during the quarter following several quarters of mixed execution and a change at the CEO position.

We sold **Endava plc** as IT services demand has slowed due to macroeconomic uncertainty, overspending during the pandemic, and as customers evaluate recent advancements in generative AI. Endava's results have been worse than its peers' due to less diversified end-market exposure and pullbacks from a few large customers. Given low visibility into a rebound in sales and margins, we decided to exit the investment.

We exited our small position in **European Wax Center, Inc.** following continued deterioration in unit economics and belief that management's efforts to increase customer counts might not be effective. Subsequent to our sale, European Wax Center reduced their expectations for unit growth and also announced the exit of both the CEO and CMO.

Finally, we sold **Loar Holdings Inc.** following the stocks over 150% appreciation from its IPO price of $28 in April. Trading at 45 times 2024 EBITDA and 35 times 2025 EBITDA, we believe that a material portion of future gains have been pulled forward even with the assumption of a significant amount of M&A and organic growth estimated in coming years.

Outlook

As we begin the fourth quarter, as usual, there are some issues weighing on the market.

First, the U.S. elections are only a month away, and the race is too close to call. The candidates favor different economic policies. It seems unlikely that one party would sweep the presidency and both House and Senate, but it is possible. It is reasonable that investors would take a cautious approach until this all is settled.

Second, the war in the Middle East has intensified. There is fear of an expanded regional war, which would likely result in a spike in oil prices, among other things. Fingers crossed that this does not happen, but, if it does, it would disturb the present benign inflation outlook and could alter the path of interest rate cuts, which is at the core of the current positive market sentiment.

And third, and most importantly, the economic outlook is uncertain. The U.S. economy is solid but slowing. We hear it in our conversations with company executives. More of our holdings reduced their outlooks this quarter than usual, related to the softening macro environment.

The Fed has acknowledged this slowdown. With inflation under control, they have turned their focus to the level of employment. The market now expects many more interest rate cuts and is hopeful that the economy will remain intact as rates decline. The recent positive payroll report, with unemployment rate falling to 4.1%, has momentarily eased concerns about the near-term path of growth. But on the other hand, if the economy holds up too well, then the pace of rate cuts might disappoint, and inflation may even reappear. It's a bit of a double-edged sword.

Lower interest rates would be positive for future growth, especially for certain areas that are depressed, such as housing, finance, and consumer spending. Lower rates are also good for stock valuations. Often small- and mid-cap stocks have benefited the most, relatively speaking, when rate cuts begin. However, sometimes interest rate cuts are the precursor to a recession, which would be bad for earnings and stocks.

We believe we own a portfolio of special businesses that have succeeded and will continue to do so. For the most part, the companies are presently growing slower than normal, as we are still working our way through this unusual post-COVID environment. We expect growth to be faster in the future, we are just not sure if that is around the corner or not. We believe our stocks are reasonably valued on their present fundamentals and cheap when looked at over the long term or assuming an acceleration in growth.

Thank you very much for your interest in the Fund. We remain excited about the prospects for continued strong returns.

Cliff Greenberg

Cliff Greenberg
Portfolio Manager

Baron Small Cap Fund

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.

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.

Upside Capture explains how well a fund performs in time periods where the benchmark's returns are greater 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. **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. **EPS Growth Rate** (3-5-year forecast) indicates the long term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance.

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).