RANDY GWIRTZMAN
PORTFOLIO MANAGER

LAIRD BIEGER
PORTFOLIO MANAGER

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

DEAR BARON DISCOVERY FUND SHAREHOLDER:

PERFORMANCE

"[B]etween the vagaries of fate and our uncertain state of knowledge about the world, getting things even somewhat right is hard enough. Probabilities are usually the best you can do."
Nate Silver, *On the Edge*, p. 16

Baron Discovery Fund® (the Fund) was up 6.20% (Institutional Shares) in the fourth quarter, outperforming the Russell 2000 Growth Index (the Benchmark) by 4.50%. For the full year ended December 31, 2024, the Fund was up 16.28%, outperforming the Benchmark by 1.13%. We were very pleased with the outperformance, particularly given the difficult start that we had in the first half of the year. At the end of the second quarter, the Fund was down 3.57%, trailing the Benchmark by about 8%. During this period of underperformance, we remained consistent with our process and long-term focus. We didn't view the underperformance as fundamentally driven. In our June 30, 2024 letter we wrote "we believe the downside moves [in our worst performing investments] are more technically related to macroeconomic factors and the trading environment and could reverse extremely quickly . . . " Our belief proved to be prescient as the Fund significantly outperformed in the second half of the year (the Benchmark was up 10.26% and the Fund was up 20.58%, producing outperformance of 10.32%!).

Table I.
Performance†
Annualized for periods ended December 31, 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]	6.11%	6.20%	1.70%	2.63%
One Year	15.95%	16.28%	15.15%	23.81%
Three Years	(2.83)%	(2.57)%	0.21%	8.01%
Five Years	9.73%	10.01%	6.86%	13.86%
Ten Years	10.98%	11.26%	8.09%	12.55%
Since Inception (September 30, 2013) (Annualized)	12.47%	12.76%	8.44%	13.22%
Since Inception (September 30, 2013) (Cumulative)[3]	275.19%	286.08%	148.71%	304.05%

Nate Silver's book *On the Edge* is a terrific exploration of some of the most important events, trends, and people in the recent past including AI, cryptocurrency, Silicon Valley venture capitalists, hugely successful entrepreneurs, and even financial villains. Silver, a professional political pollster and also a professional poker player, relates to the world in a construct that divides it into two key personality types, "Riverians" and "Villagers." Riverians are gamblers, investors, entrepreneurs, and other risk takers who view their actions in terms of expected value (EV). EV simplistically is the value of a result being successful, multiplied by the probability that success occurs. If something has positive EV (+EV) after subtracting its costs, then it's worth pursuing (at the most abstract level). Riverians are individualistic and calculating (sometimes to the extreme). By contrast, "Villagers" are more tribal and prize sticking to their community as the paramount way to achieve success (also sometimes to the extreme). Villagers (politicians, academics, journalists, and the like) are by nature more risk-averse. It won't surprise you to hear that your Fund managers are Riverians by nature, and we strive to create what Silver calls "edge" via our style of long-term, fundamentally sound investing.

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.

Baron Discovery Fund

"Edge" is defined as consistently making +EV decisions (p. 22). It is important to understand that long-term actualized positive value does not mean that every investment or investment period is a guaranteed winner. Just that each investment is made with +EV at the outset. Pursuing this road requires a distinctive mixture of traits, including contrarianism (being critical of consensus thinking, not merely blindly defying the majority) (p. 25), risk taking (p. 221), a commitment to process versus using results as a goal (p. 221), with a long-term perspective (p. 226) based on experiential preparation (p. 232), and high-quality quantification of these experientially derived intuitions (p. 237). Sound familiar? It should. This is our daily process and it has allowed us to create long-term annualized returns for the Fund since inception of 12.76% with outperformance (our annualized return above the market after fees) of 4.32%.

As Silver says, "it's hard for anybody to have alpha. But not everybody is playing the same game. People have different incentives, and they may be following their incentives rationally, but it nevertheless creates profitable opportunities. . . It's easier to achieve alpha at your objective when other people aren't playing the same game. . . . So be a conscientious contrarian – look for flaws in people's incentives rather than their intelligence – and then seek out a place where your own incentives are well-aligned with your goals." (p. 242). "Many times you can make a +EV bet just by being more patient than the next person. And it represents a comparative advantage because patience is an atypical trait in the United States." (p. 259).

We are patient and we are playing the long-term game, which is contrary to most market participants (perhaps because their investors are driven by short-term performance or because they simply don't have the patience). We also "eat our own cooking." We have substantial investments in the Fund which we have not sold, even when markets have been fearsome. This was particularly true in the first half of 2024 when as mentioned we were behind the market on a relative basis. Periods such as this set up big +EV opportunities, as emotions drive most investors to routinely sell quality investments at a discount due to fear. We are extremely proud of our long-term performance, particularly when every day the market seems to value "patience" less and less. Our contrarian outlook and measurement of "edge" over a longer-term horizon makes us different from most other funds and investors – we are playing a different game.

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

	Contribution to Return (%)
Axon Enterprise, Inc.	1.56
Chart Industries, Inc.	0.99
PAR Technology Corporation	0.97
Reddit, Inc.	0.85
Liberty Media Corporation – Liberty Live	0.77

Shares of **Axon Enterprise, Inc.**, the leading provider of tasers, body cameras, and other public safety solutions, rose after a robust quarterly earnings report. The company closed the quarter with record bookings and highlighted the 2025 launch of an AI bundle oriented around its innovative Draft One product (which automates the process of report writing for public safety officers). With eleven consecutive quarters of more than 25% revenue growth, Axon continues to find new areas of expansion as it pulls ahead of the competition and is on track to become the dominant provider of public safety solutions in the U.S., and, increasingly, in Europe.

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 rose during the quarter as the company reported strong financial results, importantly with free cash flow ahead of investor expectations. The fundamentals for the business continue to be very strong, with record revenue, backlog, and margins every quarter in 2024 and a book-to-bill ratio above one. The stock had been "in the penalty box" for self-inflicted issues, with management setting too-high expectations and continuing to need to cut them back, but this quarter showed Chart has finally set more achievable expectations and we believe it is set up for strong execution into 2025. Chart is unique in its breadth of technology and solutions serving long-duration secular growth markets (liquid natural gas, hydrogen, carbon capture, water treatment, and more) with a mid-20% (and improving) EBITDA margin profile and with revenue growing double digits. As the company continues to grow and execute its operational excellence plan, we believe it will earn a more premium valuation, which combined with its strong earnings growth profile will drive significant near- and long-term upside in the stock.

PAR Technology Corporation is a leading software, hardware, and service provider to the restaurant industry. Shares of PAR rose during the quarter as it continued to deliver strong growth while reporting its first quarter of adjusted cash flow (EBITDA) profitability since embarking on its current strategy. The restaurant industry historically underinvested in technology, and PAR is building an all-in-one platform for enterprise restaurants to run the most critical portions of their technology stacks. PAR remains well positioned given limited competition, accelerating restaurant adoption of technology, and best-of-breed products. We believe PAR will deliver on its greater than 20% software revenue growth target for the next several years with possible significant upside if PAR closes some of its potential large customer deals. We further believe EBITDA margins will rapidly scale from this first profitable quarter as the company has maintained strong cost controls coincident with its growth. The company's recent TASK and Stuzo acquisitions further strengthen the long-term opportunity as well, allowing for expansion into convenience stores and international markets and opening up opportunities with additional Tier 1 restaurants.

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

	Contribution to Return (%)
CareDx, Inc.	–0.95
Montrose Environmental Group, Inc.	–0.57
Floor & Decor Holdings, Inc.	–0.50
Exact Sciences Corporation	–0.34
Varonis Systems, Inc.	–0.34

CareDx, Inc. is a diagnostic company that facilitates donor matches pre-organ transplant and rejection monitoring post-transplant. The market reacted poorly to the company's Investor Day in October, with its preannouncement of quarterly results underwhelming expectations. And the stock was up over 100% in the prior quarter, leaving little room for disappointment. Short-term momentum shifts notwithstanding, our long-term investment thesis remains intact. We believe there is significant greenfield in the transplant diagnostics market alongside the backdrop of a cleaner reimbursement landscape.

Shares of **Montrose Environmental Group, Inc.**, a leading environmental services firm, were down due to a multitude of issues and negative news flow. Previously, the stock came under pressure when the U.S. Supreme

Court struck down the Chevron Doctrine in July, raising investor concerns about the authority of federal agencies to enforce environmental regulations that drive portions of Montrose's business. In September, shares sank after a short report targeted the company. Finally, the perception that Montrose will fare worse under the incoming administration due to a reduced focus on regulation also hurt shares. Management has refuted all these points and met with investors to give confidence around their 2025 outlook. They noted the company grew under the prior Trump administration and paused acquisitions in the short term to demonstrate organic revenue growth and cash flow generation, which the short report claimed was lacking. We added to our position on weakness.

Floor & Decor Holdings, Inc. is a hard-surface flooring retailer with a long growth runway driven by double-digit unit growth as they consolidate the hard-surface flooring industry. The company has long-term, sustainable competitive advantages in its ability to source and price products versus both big box retailers and independents. Despite this positive long-term secular potential, the company's shares can be highly sensitive to changes in interest rates over the short term as higher interest rates increase the risk of a prolonged housing recovery. As the year ended, rates on longer-dated maturities increased and, as a result, shares underperformed during the quarter due mostly to changes in interest rates. Despite this dynamic, demand for the company's products appears to have stabilized and we believe once the housing market begins to recover, Floor & Decor will continue to be well positioned.

Portfolio Structure

Our top ten positions comprised 28.2% of the portfolio, consistent with long-term levels. Our cash position was 3.9%, also in line with historical levels. The Fund has significant capital loss carryforwards from prior years to offset current year capital gains.

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

	Year Acquired	Quarter End Investment Value ($ millions)	Percent of Net Assets (%)
CyberArk Software Ltd.	2022	53.4	3.4
Kratos Defense & Security Solutions, Inc.	2020	51.2	3.2
PAR Technology Corporation	2018	50.9	3.2
Liberty Media Corporation – Liberty Live	2023	47.6	3.0
DraftKings Inc.	2023	45.9	2.9
Clearwater Analytics Holdings, Inc.	2021	41.3	2.6
Dayforce, Inc.	2022	40.0	2.5
Axon Enterprise, Inc.	2022	39.9	2.5
Guidewire Software, Inc.	2022	39.7	2.5
SentinelOne, Inc.	2023	39.4	2.5

Recent Activity

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

	Year Acquired	Quarter End Market Cap ($ billions)	Net Amount Purchased ($ millions)
The Macerich Company	2024	4.5	21.3
ServiceTitan, Inc.	2024	9.1	20.4
Independence Realty Trust, Inc.	2024	4.5	20.1
Montrose Environmental Group, Inc.	2020	0.6	16.9
Brunello Cucinelli S.p.A.	2024	7.5	13.7

This quarter we initiated a new position in **The Macerich Company**. Macerich is a REIT that owns a portfolio of 43 exceptionally high-quality malls in the U.S., located in key states such as California, New York, and Arizona.

We are excited about the short- to medium-term prospects for Macerich for four reasons: 1) The fundamental backdrop for high-quality mall real estate remains favorable. Tenant demand remains robust, as a broad-based group of retailers seek to secure space to meet their five- to ten-year growth objectives. In the meantime, there is a shortage of desirable space that is available, since industry occupancy is high and no new mall developments are underway. This demand/supply imbalance is enabling landlords to raise rents. 2) Macerich owns an exceptionally high-quality portfolio of mall real estate. Approximately 90% of the company's portfolio value is derived from malls graded Class A, which means the properties are well located, highly productive, and appealing to prospective tenants. 3) We see continued growth opportunities for Macerich through increases in occupancy, rents, margins, and redevelopment projects, which should lead to continued cash flow growth. 4) A CEO transition is underway for the first time in decades. Effective March 1, 2024, Jackson Hsieh became President and CEO of Macerich. Jackson most recently served as CEO of net lease REIT Spirit Realty Capital until its acquisition by Realty Income in January 2024. At Spirit, Jackson led a successful turnaround effort to improve overall portfolio quality and simplify the company's capital structure. We believe Jackson has an opportunity to make similar improvements at Macerich, including selling non-core properties and repaying debt.

At the recent share price, we believe Macerich is valued at a significant discount relative to its closest publicly traded mall peers and relative to recent mall transactions that have taken place in the private market. We anticipate that this valuation discount will narrow or close in the coming years as the company's turnaround plan progresses.

ServiceTitan, Inc. is the leading business management software platform for "the trades" (i.e HVAC, plumbing, electrical, pest control, roofing, etc.). The platform serves as a system of record offering clients nearly everything they need to run their businesses including customer relationship management (sales enablement, marketing automation, and customer service), field service management (scheduling/dispatching), enterprise resource planning (inventory), human capital management (compensation and payroll) and fintech (payments and consumer financing).

ServiceTitan operates in a large market. In just the U.S. and Canada, the trades are roughly a $1.5 trillion annual industry and ServiceTitan's current set of solutions serve about $650 billion of this spend. This equates to about a $30 billion addressable market for the company, of which $13 billion is serviceable today. The industry is also resilient given that over 75% of U.S. residential trades jobs are non-discretionary in nature. Relative to its competition, ServiceTitan has several notable advantages including: 1) it is by far the leading end-to-end software platform built specifically for the trades that provides a strong return on investment to clients and would be very hard to catch at this point given it is virtually a one-stop-shop for all of a trade's business' technology needs; 2) it has a first mover advantage that allowed the company to build up broad-based customer trust over time; and 3) the company's scale provides a big data advantage as ServiceTitan can use its industry leading data to make continuous improvements to its product offerings and connect previously disparate processes for customers.

We believe ServiceTitan is well positioned to drive at least high teens to 20% or more organic revenue growth for many years driven by a combination of natural growth with existing clients (as customers grow, ServiceTitan grows with them), increased adoption of add-on products for existing customers and new product launches (today the company captures about 1% of customer transaction volume with the opportunity to reach 2% if a customer adopts the full suite of solutions), new customer acquisitions in existing trades (less than 10% penetrated today), and expansion into new trades.

The company has started to ramp its margin profile, but we see a long runway left for additional margin expansion from roughly breakeven levels today up to 25% or more operating margins over time. As the margin ramps, we expect strong free cash flow conversion, which should bolster the company's healthy balance sheet and provide flexibility around capital allocation. We believe that ServiceTitan is a high-quality business and will be a solid earnings compounder, which should drive good stock returns over a multi-year period.

During the quarter, we initiated a new position in multi-family REIT **Independence Realty Trust, Inc.** (IRT). We believe the stock is attractive due to a favorable valuation level, continued robust demand outlook across its markets, and other idiosyncratic considerations.

IRT owns 33,000 apartment units that cater to a more affordable income demographic. We believe the return prospects for the stock continue to be appealing given 1) the company's discounted public market valuation relative to both recent private market transactions and publicly traded peers that have communities in overlapping markets; 2) its "value-add" program that provides superior growth prospects versus peers; and 3) less new multi-family apartment supply in its markets go forward which will enhance IRT's pricing power. Furthermore, we believe the broader market is under-appreciating the company's additional cash flow growth from the *lease-up* of its two recently completed development projects. It is our view that the market is not embedding the associated cash flow from this lease up into the company's earnings expectations.

We bought more shares of **Montrose Environmental Group, Inc.** as we believe the company will start to show meaningful free cash flow production in 2025, and that the concern about negative regulatory issues is overstated.

Another new addition was **Brunello Cucinelli S.p.A.**, a high-end luxury brand focused on the creation, production, and sale of Brunello Cucinelli branded clothing, accessories, and lifestyle products. We believe that Brunello Cucinelli provides one of the best top-line growth resiliency stories in the consumer sector due to the company's strong brand heritage and appeal in the highly attractive, and less cyclical, "absolute luxury" segment. The brand is meticulously managed to maintain exclusivity and deliver the highest quality products for a very discerning customer base of approximately 400,000 customers (who spend on average about €2,500 per year). We believe that Brunello Cucinelli's strong brand, solid pricing power, limited competition, and generally more recession-proof consumer demand make it one of the best-positioned luxury brands in a more uncertain environment.

We expect Brunello Cucinelli to grow its revenues at a minimum of 10% per year driven by a combination of opening new company stores, expanding older company stores, adding new wholesale clients, and annual price increases. Brunello Cucinelli also has expansion opportunities in China (we believe sales can grow from 12% of total company revenues to 18% over time), and through new product introductions (for example, the company recently entered eyewear and fragrance categories). We also expect a measured approach to profit margin expansion and believe that Brunelli Cucinelli can expand margins by 20 to 30 basis points per year. The combination of double-digit revenue growth and operating margin expansion should lead to earnings growth compounding in the low to mid-teens for the foreseeable future.

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

	Year Acquired	Market Cap When Acquired ($ billions)	Quarter End Market Cap or Market Cap When Sold ($ billions)	Net Amount Sold ($ millions)
Axon Enterprise, Inc.	2022	8.9	45.3	42.5
Rexford Industrial Realty, Inc.	2019	3.0	9.2	28.0
Intapp, Inc.	2024	2.6	5.0	14.4
Advanced Energy Industries, Inc.	2019	2.6	4.4	14.0
ASGN Incorporated	2022	6.0	3.7	11.0

We sold some of our investment in **Axon Enterprise, Inc.** as shares had run up significantly in the quarter due to an outsized earnings beat. This brought the position to approximately 5% of net assets during the day on November 8, 2024. After a total return of nearly 400% on our investment at December 31, 2024, we still own a 2.5% position in Axon (which we think is one of the best companies we have ever owned).

We reduced our position in **Intapp, Inc.** and sold out of **Rexford Industrial Realty, Inc.** to fund the purchases of Macerich and ServiceTitan, respectively.

We trimmed our investment in **Advanced Energy Industries, Inc.** to manage the position size to about 2%. We still believe the company has many opportunities to grow its state-of-the-art power management product set in semiconductor capital equipment, medical devices, and advanced industrial applications. Finally, we trimmed our position in **ASGN Incorporated**, as we found some higher return on invested capital ideas that we wanted to fund.

Outlook

We believe that there is significant upside to our current portfolio given current valuations and the growth profiles of the companies in which we invest. Broadly, small capitalization markets have been worse than stagnant. The Benchmark at December 31, 2024 was still 12% below its February 9, 2021 peak. This is incredible – a nearly four-year stretch at a standstill, when these companies are producing real and rapid fundamental growth. We have written at length about the relative valuation discounts in small versus large capitalization markets (see our third quarter investor letter for more details). And we are about to enter a period of time in which the country might get a step function of positive catalysts including increased deregulation, lower taxes, a serious effort to reduce the federal debt, and a return to more normalized energy policies. We believe that this confluence of factors should provide a powerful tailwind for small capitalization stocks.

We thank you for your own long-term commitment to our investment process. Here's to more "edge!"

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.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **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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