



QUARTERLY LETTER | DECEMBER 31, 2025

Baron Small Cap Fund[®]

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



Cliff Greenberg
Portfolio Manager

Dear Baron Small Cap Fund Shareholder,

Performance

Baron Small Cap Fund[®] (the Fund) was down 1.56% in the fourth quarter. For calendar year 2025, the Fund was down 0.66%. The Fund trailed the Russell 2000 Growth Index (the Index) this quarter by 2.78%, as the Index was up 1.22%. In 2025, the Fund trailed the Index by 13.67%, with most of the underperformance occurring in August, September, and October. 2025 was a disappointing year given past performance of the Fund, both on an absolute and relative basis. Although the Fund may underperform in a given year, it has a consistent track record of outperforming over the long term, beating the Index 68% of the time on a rolling 3-year basis, 67% of the time over rolling 5-year periods, and nearly 80% of the time on a 10-year rolling basis.⁵

The market was up slightly in the fourth quarter, extending positive trends for the year. Large-cap growth led the market (for the third straight year), with the Magnificent Seven again playing a major role. The market was buoyed by continued monetary easing.... the Federal Reserve (the Fed) cut the Fed Funds rate twice in the quarter.... solid earnings reports, excitement about AI, and an economy that remained resilient even in the face of confusing tariff policies, a government shutdown, and escalating geopolitical tensions. Technology/AI plays were in vogue for the year and most of the fourth quarter, though market leadership did broaden later in the fourth quarter.

In the fourth quarter, our largest sector weightings, Industrials (29% average weight), Information Technology (IT) (21%), and Consumer Discretionary (19%) were collectively up on an absolute and relative basis compared to the Index. Within Industrials, **Legence Corp.**, an engineering, installation, and maintenance services company (profiled in “Top Purchases” in our third quarter letter) benefiting from robust data center activity, was a strong contributor (+40%), along with **RBC Bearings Incorporated**, which reported strong growth and an upbeat outlook supported

Annualized performance (%) for periods ended December 31, 2025[†]

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2,3}	Russell 2000 Growth Index ¹	Russell 3000 Index ¹
QTD ⁴	(1.61)	(1.56)	1.22	2.40
1 Year	(0.90)	(0.66)	13.01	17.15
3 Years	12.51	12.80	15.59	22.25
5 Years	2.51	2.77	3.18	13.15
10 Years	10.71	11.00	9.57	14.29
15 Years	10.15	10.43	9.94	13.58
Since Inception (9/30/1997)	9.73	9.89	6.67	9.16

SMALL CAP

by heightened aerospace and defense spending and improving margins. In IT, our software names were up 4%, outperforming their counterparts in the Index, which were down 8%. For more stock-specific contributors, see “Contributors/Detractors” section.

Investments in Health Care, Financials, and Consumer Staples weighed the most on relative results. While our Health Care names modestly contributed to absolute performance for the quarter, lack of exposure to biotechnology and pharmaceutical stocks, which were up 26% and 24%, respectively, in the Index, detracted nearly 300 basis points from the relative performance. This impact alone was responsible for the entirety of our relative underperformance during the quarter. We choose not to invest in biotechnology/pharmaceuticals as these businesses are generally unprofitable with binary outcomes that are hard to underwrite, especially in small cap. Our property and casualty (P&C) insurance exposed names, **Kinsale Capital Group, Inc.** and **The Baldwin Insurance Group, Inc.**, along with global investment bank

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of January 28, 2025 was 1.30% 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.

Houlihan Lokey, Inc. presented a drag in Financials. Consumer Staples declined owing to the weak performance of **ODDITY Tech Ltd.** (see “Detractors” portion of the letter).

Headwinds from style factors witnessed in the third quarter remained problematic to begin the fourth quarter, with underexposure to Beta and Momentum and overexposure to Earnings Quality playing a key role in the Fund’s underperformance as the market rally extended into October. Following a difficult October (underperformance of nearly 500 basis points), the Fund outperformed by 200-plus basis points over the last two months of the year. The market rally stalled in November and December, and certain style-related headwinds abated, resulting in improved relative returns.

For the year, the Fund’s performance can be broken into two distinct periods: heightened market volatility to begin the year that resulted in the Index entering a bear market in early April and the subsequent strong market rally that followed from April 8 to year end. The Fund was down 20% versus a decline of 22% for the Index from December 31, 2024 to April 8, consistent with past trends of outperformance in declining markets as our portfolio is replete with well-established market leaders that display “quality earnings” growth and typically hold in better during tenuous markets. Yet, the Fund failed to keep up with the Index, which rallied 45% off the lows. “Non-earners,” low ROE businesses, micro-caps, and retail-favored concept stocks, along with metals/mining companies (the Fund has no exposure) were in vogue, whereas Earnings Quality was out of favor. Profitable constituents in the Index (based on FY1 earnings estimates) were up 9.0% for the year, while unprofitable constituents were up 29.7%.

We had some very strong performers and some big losers in 2025. Characterizing them broadly, the best stocks were involved in AI infrastructure buildout (**Vertiv Holdings Co** and Legence); aerospace and defense players (**Kratos, Defense & Security Solutions, Inc., Karman Holdings Inc.,** and RBC Bearings); and niche small companies that posted exceptional earnings results (**Red Rock Resorts, Inc., Guidewire Software, Inc., JFrog Ltd., Installed Building Products, Inc.,** and **JBT Marel Corporation**). Our worst performing stocks were software or technology service companies, where results were soft or there was concern about the effect of AI on their business (**Gartner, Inc., Intapp, Inc.,** and **PAR Technology Corporation**); employment service providers (**ASGN Incorporated, Grid Dynamics Holdings, Inc.,** and **First Advantage Corporation**); insurance companies (**Baldwin and Kinsale**); and businesses that reported weak earnings results (**The Trade Desk, Neogen Corp.,** and **Floor & Decor Holdings, Inc.**). We have reduced some of our position sizes of the winners after very strong stock performance to manage the portfolio, but we still believe that these companies have great runways for long-term growth and will continue to be strong stocks. For the most part, we have maintained our position sizes in the poor performers because of our belief that results will improve and the issues they faced were temporary. And we believe that multiples will expand as the companies prove they can succeed in an AI world and the market’s negative bias will lift.

Top contributors to performance for the quarter

	Contribution to Return (%)
Vertiv Holdings Co	0.59
Clearwater Analytics Holdings, Inc.	0.57
JFrog Ltd.	0.44
Legence Corp.	0.42
RBC Bearings Incorporated	0.39

Vertiv Holdings Co is a leading provider of critical digital infrastructure solutions for data centers, communication networks, and commercial and industrial environments, with one of the broadest offerings in electrical and thermal management equipment and services within the data center infrastructure industry. Shares rose during the quarter following robust financial results (+29% organic revenue growth!) and the announcement of a \$1 billion accretive acquisition that further differentiates Vertiv’s service offerings. We believe Vertiv is well positioned for growth over the next several years, supported by its broad product portfolio, unique service capabilities, and role as a preferred solutions provider to leading chip and hyperscale companies. The stock has been a huge winner over the last few years, but valuation remains reasonable on our forward estimates which embed continued strong growth, so we still hold a large position.

Clearwater Analytics Holdings, Inc., a provider of portfolio accounting and reporting software, reported solid third quarter 2025 earnings and raised full year guidance. Clearwater also announced that a consortium of private equity investors struck a deal to acquire the company for \$24.55 per share, a 55% premium from the lows in early November, and 10% lift from the prior day closing price. We are disappointed in the sale price and decision to sell the company as we strongly believe Clearwater has a meaningful competitive advantage which can lead to several years of compounding revenues at very attractive margins, resulting in a significantly higher stock price over time, even applying a conservative multiple.

JFrog Ltd. is a software platform that helps developers manage, secure, and release modern software applications. Its core products enable large companies to store and manage “binaries”—machine-readable files spanning open-source software packages, large language models, dependencies, and metadata—that allow applications to run securely in production. Shares rose as JFrog’s customers—many of whom are leveraging generative AI to improve developer productivity—built applications at faster rates throughout 2025, driving an increase in binary creation and platform usage. Customers also began signing larger, longer-term commitments and increasingly adopted JFrog’s cybersecurity suite to help prevent software supply chain breaches. These dynamics led to three consecutive quarters of revenue acceleration (third quarter sales grew 26% year-over-year), margin expansion (trailing 12-month free cash flow margins of 28%, up 600 basis points year over year), and positive estimate revisions, driving strong stock price appreciation. We believe JFrog has a long runway for growth as the dominant platform for binary management in an industry accelerating due to AI adoption.

Other holdings that rose over 20% in the quarter but added less to the overall returns were Neogen, **Novanta Inc.**, **Neptune Insurance Holdings Inc.**, **Anderson Group Inc.**, **Holley Inc.**, and **Inspire Medical Systems, Inc.**

Top detractors from performance for the quarter

	Contribution to Return (%)
ODDITY Tech Ltd.	(0.66)
Guidewire Software, Inc.	(0.63)
Cognex Corporation	(0.49)
Houlihan Lokey, Inc.	(0.43)
Kinsale Capital Group, Inc.	(0.40)

ODDITY Tech Ltd. intends to transform the beauty and wellness market by using proprietary technology to sell and launch products exclusively online. Shares declined amid investor concerns around category weakness following cautious commentary from industry peers, as well as credit card data indicating a potential deceleration at the company's largest brand, Il Makiage. ODDITY is also launching its third platform, MethodIQ, which requires incremental upfront marketing investment during the year, and yet unproven, adds a layer of uncertainty to the financials. Since its IPO, ODDITY's results have been stellar, demonstrating an ability to create innovative products and successfully launch new brands by leveraging its molecule formulation and marketing capabilities. We continue to own the stock given its attractive valuation relative to future earnings, strong cash flow generation, solid balance sheet, and long-term growth opportunity in a large, underpenetrated e-commerce category.

Shares of P&C insurance software vendor **Guidewire Software, Inc.** declined during the quarter following strong gains earlier in the year, as the broader software sector came under pressure. After a multi-year transition period, we think Guidewire's cloud migration is largely complete. We believe cloud will be the sole path forward, with annual recurring revenue benefiting from new customer wins and migrations of the existing customer base to InsuranceSuite Cloud. This progress is best exemplified by Guidewire's landmark 10-year agreement with Liberty Mutual, the fifth-largest U.S. insurer with \$45 billion in direct written premiums. The deal should also help drive cloud adoption among other Tier 1 carriers. We believe that Guidewire will be the critical software vendor for the \$2.5 trillion global P&C insurance industry, capturing 30% to 50% of its \$15 billion to \$30 billion total addressable market and generating margins above 40%.

Cognex Corporation is a leading provider of machine vision solutions. Shares declined during the quarter following weaker-than-expected forward guidance that suggested continued growth but less acceleration than investors had anticipated. Cognex is an especially short-cycle player that is sensitive to changes in the broader industrial economy, which is currently operating below normalized levels. We expect the CAPEX cycle to continue in its Logistics segment, improve across Consumer Electronics, and management to spur growth with its "Emerging Customer Initiative." Cognex's competitive moat remains strong, the business has a stellar balance sheet, and margins are improving. We continue to like stock.

Other holdings that declined over 20% in the quarter but had less impact on overall performance were **Trex Company, Inc.**, **Janus International Group, Inc.**, **Integer Holdings Corporation**, Trade Desk, and **Repay Holdings Corporation**.

Portfolio Structure and Recent Activity

As of December 31, 2025, the Fund had \$3.5 billion under management and owned 56 stocks. The top 10 holdings accounted for 39.0% of the Fund's net assets, in keeping with recent levels of concentration. The portfolio turnover rate is 11.0% as measured over a three-year average.⁶

Top 10 holdings

	Year Acquired	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Vertiv Holdings Co	2019	194.4	5.6
Red Rock Resorts, Inc.	2016	185.9	5.4
Kinsale Capital Group, Inc.	2019	166.2	4.8
Guidewire Software, Inc.	2012	150.8	4.3
Planet Fitness, Inc.	2018	124.7	3.6
SiteOne Landscape Supply, Inc.	2016	124.6	3.6
Gartner, Inc.	2007	107.2	3.1
JBT Marel Corporation	2017	105.5	3.0
RBC Bearings Incorporated	2014	100.9	2.9
TransDigm Group Incorporated	2006	93.1	2.7

The top 10 holdings should be familiar to long-term followers of the Fund. All of the largest positions have been held for over five years, which is in keeping with our strategy—to invest in what we identify as great, unique, well managed companies and hold them for the long term, as the businesses prosper and the stocks compound along with the success of the businesses.

At the end of 2025, approximately two thirds of the Fund's assets were invested in stocks that have doubled or more in value since initial purchase. 32% of the Fund's assets were invested in stocks that have increased five times or more, and 17% have increased 10-fold or more. The weighted average annualized return of these "big winners" is 35%. We believe these results are proof points of our strategy and prowess.

We own stocks for the long term. Stocks that make up one third of the Fund's assets have been owned for 10 years or more. And almost three quarters of the Fund's holdings have been held for five years or more. The weighted average annualized return of these long-term holdings is 20%, which we believe is impressive as well.

Our approach is very different than most small-cap funds, which are more trading oriented- looking to own stocks for short periods of time and focused on the investing in hot spaces or companies who are beating near-term estimates. That is not us. We remain believers in our strategy of deep fundamental research to uncover great businesses that can thrive for years to come. Even though we can be out of sync with the market for periods, our approach is time tested and repeatable, so we expect to outperform over the long term.

Top net purchases for the quarter

	Year Acquired	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
SiteOne Landscape Supply, Inc.	2016	5.5	15.4
Novanta Inc.	2025	4.3	13.1
Liberty Live Holdings, Inc.	2023	7.7	12.6
Andersen Group Inc.	2025	2.9	8.3
Neptune Insurance Holdings Inc.	2025	4.0	6.0

Consistent with prior years, the Fund initiated positions with a weighted average market cap of \$3.7 billion, squarely in the small-cap designation. The weighted average market cap of our trims and outright sales was \$28.4 billion solely based on those individual stock's risk/reward profile, while also providing capital to be recycled into new small-cap names and keeping the Fund's market cap in check.

In the fourth quarter, we added one new holding and increased positions of many of our existing holdings at what we think are attractive prices. We sold out of three names. The factorization of the market and short-term mentality had led to some wild swings on relatively mundane earnings announcements and news flow from the Trump Administration. As a result, 11 of our stocks moved +/- 30% in the quarter, and we tried to take advantage on both sides of the buy/sell ledger. For the year, we invested in 12 new ideas (2 were sold during the year), half of which were new to the public markets. As we have discussed in the past, we are heartened by the return of the IPOs, as they have been a great source on successful new investments for the Fund over the years.

One such IPO was **Neptune Insurance Holdings Inc.**, an underwriter of private flood insurance. Neptune is the leader in private flood insurance and utilizes a proprietary underwriting model combined with easy-to-use technology, which enables insurance agents to offer flood insurance.

Flood insurance in the U.S. is largely dominated by the government-run National Flood Insurance Program (NFIP). Neptune offers a private market option. Compared to the NFIP, Neptune is faster and easier for insurance agents to quote, which leads to agents quoting and pricing more business through Neptune. Accurate data-based pricing allows Neptune to win business outside of flood zones where insurance is not mandatory, but now reasonably priced for the risk. In the third quarter, over 80% of new business sales came from non-mandatory purchases. Neptune is an MGA (Managing General Agent), meaning that it doesn't bear the risk of losses, which makes the business very capital efficient. Instead, the company writes business on behalf of seven capacity providers, who in turn pay Neptune commissions for sourcing and underwriting the business.

Because of Neptune's speed of quoting, ease-of-use, and competitive pricing, the company has been able to sign up over 80,000 insurance agencies to use its product and has grown to 260,000 policies. Neptune has a large opportunity to penetrate the 25 million properties that the company considers high risk and take share from the NFIP, which is raising its rates following

years of underpricing. We think this can support 15% to 20% EBITDA growth, with the potential for additional upside should the government take action to reform the NFIP and reduce its role in the flood insurance market, since the program has lost \$36 billion since 2005 and relies on borrowing from the U.S. Treasury to remain solvent.

The Fund's lone new purchase this quarter was **Andersen Group Inc.**, a leading provider of tax, valuation and financial advisory services to individuals, family offices, businesses, and institutional clients. The company provides many services, but their core area of expertise is helping high net worth individuals and corporations optimize their tax planning. Andersen has a strong competitive position driven by their globally recognized brand, which enables the company to attract and retain top talent. Their global affiliate network (Andersen Global) allows the company to offer clients worldwide coverage at scale that few other peers can offer. Relative to the Big Four audit firms, Andersen has a notably lower ratio of employees per partner (indicating a higher touch business model) and by not offering audit services, avoiding auditor independence rules and restrictions.

We believe Andersen is well positioned to drive low double-digit organic revenue growth over the medium term as they have done every year since being founded in 2003. They have been successful at growing their base of revenue generating partners (both through promotions and lateral hiring) and leveraging the meaningful value they drive for clients to extract solid price increases each year.

Beyond organic growth, Andersen has an exciting acquisition opportunity over the coming years. The broader Andersen Global affiliate network has around \$5 billion of revenue that is not part of the public entity today and management believes that over half of this business could get acquired by Andersen over the medium term presenting meaningful upside to its core North American business.

We believe that Andersen is a high-quality, needs-based service business that will continue to compound its earnings at an attractive clip, especially in context of its current valuation.

Top net sales for the quarter

	Year Acquired	Market Cap When Acquired (\$B)	Quarter End Market Cap or Market Cap When Sold (\$B)	Net Amount Sold (\$M)
Vertiv Holdings Co	2019	1.0	61.9	96.4
Kratos Defense & Security Solutions, Inc.	2020	1.5	12.8	37.1
ICON plc	2013	1.7	13.9	26.6
Mettler-Toledo International Inc.	2008	2.4	28.5	21.5
JFrog Ltd.	2024	3.4	7.4	18.5

During the quarter, our largest sales were trims of some of our largest and best performing stocks (**Vertiv Holdings Co** and **Kratos Defense & Security Solutions, Inc.**) as well as some long-held positions (**ICON plc**, **Mettler-Toledo International Inc.**, and **RBC Bearings**) that we believed should be trimmed following recent good moves in their respective share prices.

We sold out of three small positions (Integer, Trex, and Janus) where we became concerned about business trends to reallocate the capital to other ideas which we like more.

Over the course of the year, five of our holdings have announced a take-out or go private transactions. As the capital markets have opened back up, this is a resumption of historic trends that a handful of our holdings get purchased every year. We believe this is likely to continue.

Most of our stock sales in the back half of the year have been through Redemption in Kind programs. We believe that this is a good development for the Fund in enabling us to more easily move blocks of shares to raise cash for new purchases without incurring transaction costs or generating gains.

Outlook

The setup for 2026 is solid. We expect that GDP growth will likely accelerate from the fiscal stimulus in place that should promote consumer spending from tax rate cuts and refunds and encourage increased corporate capital expenditures. We expect inflation to remain tame based on muted wage gains, lower effects of tariffs, and a continued downtrend in shelter inflation. We expect the Fed to continue to ease policy and cut the Fed funds rates, though we are less certain that longer-term interest rates will decline. And we expect corporations to show continued productivity gains as AI is adopted to reduce costs and open new revenue opportunities. All this is a very good backdrop for strong earnings growth and multiple expansion, especially for small caps.

For the last few years, small-cap companies have grown more slowly than large caps, which is not typical. This has been a major factor in the historic and extended underperformance of small-cap stocks. As we foresee better growth ahead for small caps, we believe that the stock market will broaden and that leadership could (fingers crossed) change. We have seen this at the outset of 2026.

“Quality Growth” stocks have been terribly out of favor. We suspect this will be short lived. Our holdings have strong fundamentals, and we expect accelerating growth back to normal levels. The stocks now trade at low absolute multiples in our opinion. We do own some stocks where the multiples are under pressure because of existential concerns about the growth rates and barriers to entry in the coming era of AI, which can play havoc with stock prices. We think this lifts over time and offers great upside as it plays out.

I would like to thank assistant portfolio manager David Goldsmith for his great contribution in managing the Fund. I am lucky to have him as my partner. And let me also praise the research group at Baron, which is smart, hardworking, and focused on succeeding.

Thank you for your interest in the Fund. We appreciate your belief in fundamental long-term investing in small cap growth and in our stewardship.

Sincerely,



Cliff Greenberg
Portfolio Manager

[†] 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 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.

⁵ Returns are monthly rolling returns versus the Russell 2000 Growth Index, for the period of from the inception of the fund, 9/1997 to ending 12/31/25.

⁶ Excludes the value of portfolio securities delivered as a result of in-kind redemptions of the Fund's capital shares.

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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Beta explains common variation in stock returns due to different stock sensitivities to market or systematic risk that cannot be explained by the U.S. Country factor. Positive exposure indicates high beta stock. Negative exposure indicates low beta stock.

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