



QUARTERLY LETTER | MARCH 31, 2026

# Baron Small Cap Fund<sup>®</sup>

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



Cliff Greenberg  
Portfolio Manager

## Dear Baron Small Cap Fund<sup>®</sup> Shareholder,

### Performance

Baron Small Cap Fund<sup>®</sup> (the Fund) was down 7.90% (Institutional Shares) in the first quarter, trailing the Russell 2000 Growth Index (the Index) by 5.09%, as the Index was down 2.81%.

Stocks started the quarter on the rise, trading to new record highs, but ended lower in the quarter. The initial gains were based on expectations for higher growth and interest rate cuts. However, market sentiment shifted in February and the market traded lower. The release of new AI applications rattled the markets over concerns of its potential disruption to many service businesses and the long-term impact on software offerings, sending stocks in both these sectors into a tailspin. The broad concern about AI's potential impact on employment also weighed on consumer stocks. Then in late February, war broke out in Iran, causing oil prices to spike dramatically. As the war continued without clear signs of de-escalation, interest rates rose and inflation ticked higher. The near-term path to fast growth and lower rates hit a wall because of escalating geopolitical tensions. The market tumbled. This “oil shock” is the next bout to deal with, following the prior “inflation shock of 2022” and the “tariff shock of 2024.”

Small-cap stocks started the year off strongly, as did the Fund, and ended up outperforming other indexes. It was a quarter where small value outperformed growth, and certain commodity-oriented sectors—Energy, Materials, and Industrials—were up lots in the quarter. Information Technology (IT) and Consumer sectors did poorly. As the Fund is positioned towards growth and has heavy exposure to technology and consumer stocks, our positioning this quarter wasn't in sync with what performed best in the Index.

About two-thirds of the Fund's underperformance versus the Index was principally due to adverse impacts from active industry exposures, led by overexposure to the lagging Insurance Brokers

### Annualized performance (%) for periods ended March 31, 2026<sup>†</sup>

	Fund Retail Shares <sup>1,2</sup>	Fund Institutional Shares <sup>1,2,3</sup>	Russell 2000 Growth Index <sup>1</sup>	Russell 3000 Index <sup>1</sup>
QTD <sup>4</sup>	(7.98)	(7.90)	(2.81)	(3.96)
1 Year	0.33	0.61	23.58	18.09
3 Years	6.22	6.50	12.27	17.86
5 Years	0.30	0.56	1.62	10.87
10 Years	10.11	10.39	9.79	13.72
15 Years	8.84	9.12	9.09	12.81
Since Inception (9/30/1997)	9.32	9.49	6.50	8.92

and Reinsurance and Hotels, Leisure and Consumer Services industries. Lower exposure to AI beneficiaries in Semiconductors, Communications Equipment, Computers Electronics, and Semiconductor Equipment also hampered performance, as these industries managed strong gains in a generally weak market. The Fund's overexposure to software and services-related industries (Internet Software and IT Services and Software) also weighed on performance. Lastly, lack of exposure to Energy-linked industries (Oil and Gas Equipment and Services, Oil Gas and Consumable Fuels, and Oil and Gas Exploration and Production), which were up sharply alongside the price of oil in the period, hampered performance. The remaining underperformance came from style factors, principally underexposure to Momentum, the performance of which remained strong to begin the year. Underexposure to the Momentum factor was a 2.21% relative drag on the Fund's performance.

*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, 2026 was 1.32% 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 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](http://BaronCapitalGroup.com) or call 1-800-99-BARON.*

SMALL CAP

The Fund maintains a sizeable investment in AI infrastructure buildout. Capital spending continues at a breakneck pace with no end in sight. Our large holdings in **Vertiv Holdings Co** and **Legence Corp.** posted tremendous results and their stocks continued to soar. The other stocks that performed the best were primarily one-off situations where companies showed improving results, with examples being **Cognex Corporation** and **Neogen Corp.** See below for further discussion. These gains were offset by some significant declines in our software, consumer, and financial holdings. The Fund's four application software companies, **Guidewire Software, Inc.**, **Intapp, Inc.**, **PAR Technology Corporation**, and **nCino Inc.**, were each down meaningfully in the quarter on the AI disruption narrative, despite sanguine results and outlooks. These declines alone dragged down absolute performance by almost 3%.

Other stocks in the services sector down on AI fears were **Gartner, Inc.**, **ASGN Incorporated**, and **First Advantage Corporation**. Consumer Discretionary holdings were also a drag, as **Planet Fitness, Inc.**, **Red Rock Resorts, Inc.**, and **DraftKings Inc.** all declined for varied reasons. And **Kinsale Capital Group, Inc.** and other insurance holdings were weak as business softened and interest rates rose. More bad than good this quarter, which is why we ended up down more than the Index.

### Top contributors to performance for the quarter

	Contribution to Return (%)
Vertiv Holdings Co	2.73
Cognex Corporation	0.66
RBC Bearings Incorporated	0.57
Legence Corp.	0.47
Madison Square Garden Sports Corp.	0.34

**Vertiv Holdings Co** is a leading global 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 increased after Vertiv reported blowout orders and backlog, well above expectations, and guided to meaningfully higher earnings. The company is benefiting from the industry's shift toward integrated and modular solutions. Vertiv is a leading provider of these solutions, backed by industry-leading servicing capabilities, and is also well positioned to support key technology transitions, including liquid cooling and direct current architectures. We underwrite that Vertiv will grow its revenues by over 40% in 2026 and 30% in 2027, with increasing margins and free cash flow. Though the stock is up a ton, it trades at a reasonable multiple. We continue to see big upside and hold a large position.

**Cognex Corporation** is a leading provider of machine vision solutions. Shares climbed during the quarter following a strong earnings report, with the company showing signs of a return to accelerated growth alongside material cost reductions initiated by the new management team, with whom we are very impressed. We

believe Cognex is positioned to benefit from improving industrial conditions and has substantial latent operating leverage that could drive earnings to double over the next two to three years. We remain confident in Cognex's position as the best-in-class provider of advanced machine vision solutions.

**RBC Bearings Incorporated** is a proprietary aerospace and defense (A&D) and industrial solutions provider. Shares rose during the quarter as the company's end markets are undergoing significant, sustained growth—from A&D, led by marine-related programs, to commercial original equipment manufacturers, driven by Boeing's reaccelerated production ramp. As a top-tier supplier, RBC is well positioned to meet this elevated level of demand, which should persist for the foreseeable future.

Other holdings that rose over 30% in the quarter but added less to the overall returns were Legence and Neogen.

### Top detractors from performance for the quarter

	Contribution to Return (%)
Planet Fitness, Inc.	(1.07)
Gartner, Inc.	(1.06)
Guidewire Software, Inc.	(0.99)
ICON plc	(0.98)
Intapp, Inc.	(0.88)

**Planet Fitness, Inc.**, a leading franchiser and operator of low-cost fitness centers, detracted from performance after the company issued disappointing 2026 guidance that came in below investor expectations, especially relative to more aggressive three-year financial targets provided months earlier. During the quarter, the company's internal improvements under new leadership led to same-store sales growth of 5.7%, EBITDA increasing 12%, earnings per share rising 18.6%, and gym openings exceeding expectations. Longer term, we believe Planet Fitness will benefit from ongoing initiatives to improve member experience and franchisee returns, remaining well positioned as the category leader in the secularly attractive fitness industry. We believe the new management team is very strong and believe in their vision of enhancing the brand, evolving the offering, and revitalizing growth. The stock traded down to a very cheap multiple for this leading franchise business over this guidance faux pas, which will cure itself over time.

Syndicated research provider **Gartner, Inc.** detracted from performance as valuation multiples compressed amid rising concerns around AI for IT services companies. Against this backdrop, shares of Gartner came under pressure after the company reported contract value growth that was slightly below expectations, underscoring the dramatic valuation compression at play. We continue to own Gartner given its large addressable market, significant competitive advantages, and robust free cash flow generation. Management has been extremely aggressive with share repurchases at these depressed valuation levels and remains steadfast in their belief that growth will rebound.

Shares of property and casualty insurance software vendor **Guidewire Software, Inc.** declined during the quarter amid concerns about the disruptive impact of AI, which weighed broadly on software stocks. We retain conviction in Guidewire and believe its fundamentals remain robust. The company's cloud sales are accelerating, with annual recurring revenue benefiting from new customer wins, expansions, and migrations of its existing customer base. The ongoing shift away from on-premises deployments, along with strong customer references from insurers such as Liberty Mutual, The Hartford, and Sampo, should further accelerate customer migration to the cloud. Additionally, Guidewire is ramping investment in product development, which should facilitate cross-selling into its sticky installed base. AI should act as a tailwind, helping the company accelerate product releases, create products that were previously out of reach, and reduce the cost of customer implementations (a historical impediment to adoption). We believe these dynamics position Guidewire for sustained growth over the long term.

Other stocks, besides those listed above, that declined by over 30% this quarter were **ODDITY Tech Ltd.**, **PAR**, **The Trade Desk**, **nCino**, **DraftKings**, **Grid Dynamics Holdings, Inc.**, and **Inspire Medical Systems, Inc.**

### Portfolio Structure and Recent Activity

As of March 31, 2025, the Fund had \$2.7 billion under management and owned 53 stocks. The top 10 holdings accounted for 42.0% of the Fund's net assets.

#### Top 10 holdings

	Year Acquired	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Vertiv Holdings Co	2019	213.0	7.9
Red Rock Resorts, Inc.	2016	136.1	5.0
SiteOne Landscape Supply, Inc.	2016	129.8	4.8
Kinsale Capital Group, Inc.	2019	126.4	4.7
Guidewire Software, Inc.	2012	112.2	4.2
Planet Fitness, Inc.	2018	89.3	3.3
Cognex Corporation	2011	85.2	3.2
JBT Marel Corporation	2017	84.4	3.1
TransDigm Group Incorporated	2006	81.1	3.0
RBC Bearings Incorporated	2014	76.0	2.8

As usual, the Fund is primarily invested in five sectors... Industrials, Consumer Discretionary, IT, Financials, and Health Care. These are areas where we believe we have deep investment expertise and experience. And where we believe we can identify special, competitively advantaged businesses, that are run by superior management teams and have long runways of growth ahead.

We are aware of the composition of the Index to which we are compared, but our portfolio reflects our own fundamental research and convictions, so it varies significantly from the Index

in its makeup. Broadly, we are well overweight in Consumer Discretionary and Industrials, overweight in Financials, modestly underweight in IT, and well underweight in Health Care. Sometimes our sectors are out of favor, as was the case this last quarter, but as we have in the past, we plan to stick to our knitting and remain long-term shareholders in businesses we believe in long term.

#### Top net purchases for the quarter

	Year Acquired	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Once Upon a Farm, PBC	2026	0.7	27.8
DraftKings Inc.	2020	10.7	16.6
VSE Corporation	2026	5.2	14.1
Andersen Group Inc.	2025	3.0	8.4
Bright Horizons Family Solutions, Inc.	2013	4.5	4.9

In the first quarter we added two new holdings, **Once Upon a Farm, PBC** and **VSE Corporation**, and increased positions in recent new purchases **Andersen Group Inc.**, **Hinge Health, Inc.**, and **Mirion Technologies, Inc.** We also added to many of our long-standing existing holdings, such as **DraftKings Inc.**, **Bright Horizons Family Solutions, Inc.**, and **Planet Fitness, Inc.**, at what we think are attractive prices.

We initiated a position in Once Upon a Farm during their IPO. The company is a rapidly growing leader in modern childhood nutrition providing innovative, nutrient-packed, organic food. Its products are made with no added sugar, no preservatives, and nothing artificial. Once Upon a Farm is led by industry veteran John Foraker — who ran Annie's as a public company — who joined with Jennifer Garner to help build the company. We believe Once Upon a Farm is one of the most compelling emerging brands in natural and organic food, with a differentiated product, strong management, and a still-early distribution footprint that we expect to drive many years of compounding growth.

Once Upon a Farm's products are unique via its product technology. Its core pouches are produced using high, cold pressure, never heating them above 40 degrees, which preserves nutrients and produces a taste and texture as if it were homemade. Traditional baby food manufacturers rely on high-heat processing to create shelf-stable products, a method that compromises nutritional quality. That product quality has translated into a loyal and vocal consumer base with high Net Promoter Scores and strong word of mouth marketing.

The company also sells pouches specifically formulated for babies, which are increasingly distributed through coolers in the baby aisle. As of December 31, 2025, Once Upon a Farm has over 3,400 coolers deployed nationally. The company believes its coolers are highly incremental to baby food category growth, leading to larger and more profitable baskets for retailers. We believe over time the company can have close to 15,000 coolers driving significant revenue, as they both expand distribution and revenue per cooler through new product introductions.

We expect growth of over 25% with expanding profitability driven by innovation in the core pouch business, further expansion into kid snacking, and as the company methodically enters new categories. We can envision a business that can scale to over \$1 billion in revenues in time. That is nicely profitable and worth a high multiple of earnings as a standalone company or as part of a large food company. If this plays out that way, the company will be worth multiples of where we have established our position

## 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	95.9	90.5
Clearwater Analytics Holdings, Inc.	2021	5.9	6.8	75.8
RBC Bearings Incorporated	2014	1.5	17.2	47.2
Installed Building Products, Inc.	2017	2.4	7.2	42.9
Karman Holdings Inc.	2025	4.0	10.6	41.6

During the quarter, the majority of sales were trimming of large positions in our best performing stocks (**Vertiv Holdings Co, RBC Bearings Incorporated, Installed Building Products, Inc., Karman Holdings Inc.**).

We exited **Clearwater Analytics Holdings, Inc.** to redeploy funds elsewhere, as the company is being taken private in an acquisition expected to close early in the second quarter.

We sold **ODDITY Tech Ltd.** after a Meta algorithm update proved incompatible with the company's "Try Before You Buy" model, routing ads toward low-intent audiences and sending customer acquisition costs to levels that made new customer acquisition unprofitable. This forced management to pull back on growth in marketing during their peak Q1 acquisition window. With no firm timeline for resolution and a recovery path that requires rebuilding core prediction models and retooling the acquisition funnel, we decided to exit the position.

## Outlook

We are writing this report in mid-April. The market has been extremely volatile. News from the war in Iran has been driving the market direction. We have just had a strong run and Indexes are back to new all-time highs. The market is presently pricing in a resolution of the seven-week war in Iran on the belief that the present ceasefire will stay intact as evidenced by the collapse in the price of oil. However, it's a very fluid situation. And complicated.

Recent economic reports have been favorable. The economy remains resilient and business is healthy. The latest jobs report trended better, and the labor market is firmer. Though inflation ticked up, looking under the hood shows that the inflation outlook improved and core inflation remains modest and declining.

If the war is ending, then I do think we will return to the bullish outlook that was evident at the beginning of the year...that economic growth will accelerate from the rolling recession of that last couple of years, and widen beyond just the jolt coming from the AI buildout; that the Fed will continue on its path to reduce interest rates to support employment, though this is on hold till the risk of inflation is reduced; and that the market will broaden with stocks other than the Magnificent Seven and other AI beneficiaries leading. This would be a good environment for small caps in general and for our stocks in particular. We view our stocks as poised to have faster growth and to be trading at low absolute multiples and cheap relative to other stocks.

Of course, if the war continues or escalates it would be a different environment. Some other real concerns to mention are that the market in general is trading at a high valuation level... even if we believe our stocks are cheap. And that government debt levels are high and the political environment is contentious so long-term interest rates might not decline much in conjunction with the expected Fed rate cuts.

Ok, enough of the market environment stuff. We remain steadfast in our approach to uncover and invest in great companies that we believe will excel for years to come and their stocks will appreciate in course. On the cusp of this AI revolution, the market is rightfully questioning the sustainability of competitive advantage of many companies. This is a big focus of our work. Within the portfolio, we have investments in businesses that we believe will be advantaged by AI but the stocks have sold off, often significantly, on concerns about AI-driven disruption. In these cases, we see great opportunity in the stocks, but we need to be prudent in sizing our positions appropriately to avoid too much near-term angst.

Thank you for investing in the Fund.

Sincerely,



Cliff Greenberg  
Portfolio Manager

<sup>†</sup> Historical performance was impacted by gains from IPOs. There is no guarantee that these results can be repeated or the level of IPO participation will be the same in the future.

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> Not annualized.

*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](http://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.

**EBITDA**, short for earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. It's used to assess a company's profitability and financial performance. **Free Cash Flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

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).

© 2026 Baron Capital. All rights reserved.