



QUARTERLY LETTER | SEPTEMBER 30, 2025

Baron Discovery Fund®

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

Dear Baron Discovery Fund Shareholder,

Performance

Baron Discovery Fund® (the Fund) ended the third quarter up 10.75% (Institutional Shares) year-to-date, which was 0.90% below the Russell 2000 Growth Index (the Benchmark). After outperforming the Benchmark in the first half of the year, the Fund underperformed during the third quarter, increasing 2.85% compared to the Benchmark's gain of 12.19%.

When the Fund underperforms during a short period of time, e.g., one quarter, the majority of the underperformance is generally due to one of three drivers: poor individual stock picking ("stock specific effects"), overweighting poorly performing sectors or conversely underweighting outperforming sectors ("industry effects"), and lastly, over/underexposure to certain style factors that may be in vogue or out of favor during a given period ("style effects"). During the third quarter, it was this last circumstance that caused the majority of our underperformance.

We believe that the best way to create alpha over the long term is to invest in fast-growing businesses with high-quality earnings streams. It has been our experience that through a full cycle, these are the stocks that are most likely to outperform the overall market. That being said, there are periods of market frothiness where long-term high-quality investing fails to match up to short-term speculative fever. This is exactly what we witnessed in the third quarter when being overexposed to the Earnings Quality factor was a significant headwind (see chart). Going back 50 years, Earnings Quality has never performed worse as a factor that it did during this quarter (and this includes the meme stock frenzy during COVID-19 and the internet bubble in the late 1990s). History shows that these "junk rallies," as they are sometimes called, tend to run hot and then burn out quickly (e.g., the bursting of the COVID-19 and internet bubbles).



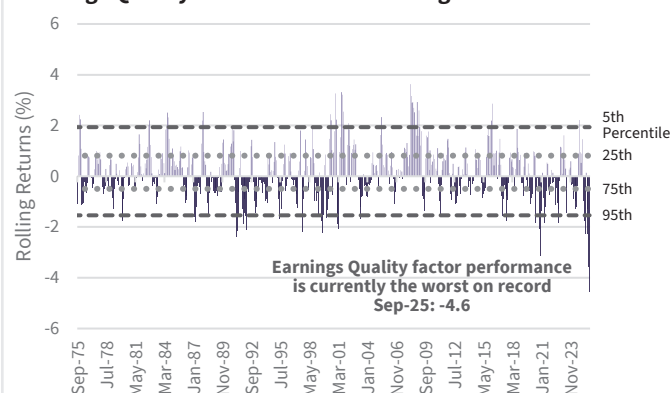
Randy Gwirtzman
Portfolio Manager

Laird Bieger
Portfolio Manager

Annualized performance (%) for period ended September 30, 2025†

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2}	Russell 2000 Growth Index ¹	Russell 3000 Index ¹
QTD ³	2.79	2.85	12.19	8.18
YTD ³	10.56	10.75	11.65	14.40
1 Year	17.31	17.61	13.56	17.41
3 Years	16.23	16.52	16.68	24.12
5 Years	5.89	6.16	8.41	15.74
10 Years	14.06	14.36	9.91	14.71
Since Inception (9/30/2013)	12.59	12.87	8.88	13.61
Since Inception (9/30/2013) (Cumulative) ³	314.81	327.56	177.69	362.22

Earnings Quality Factor - 3-Month Rolling Returns

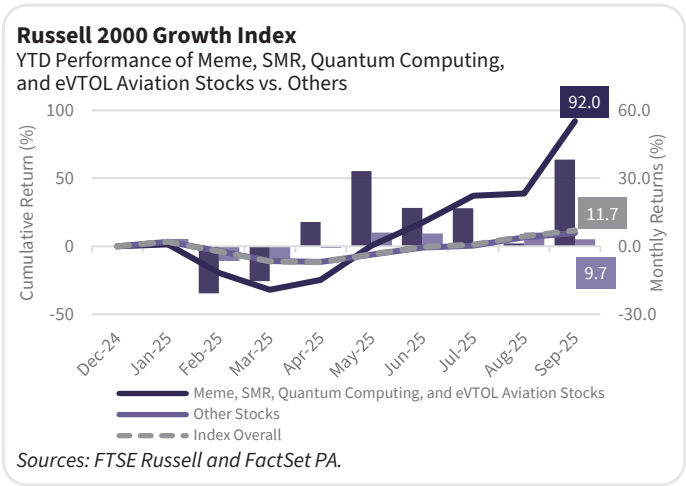


Sources: FactSet and MSCI Barra USSLOW Factor Model.

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 1.32% 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 Adviser may waive or reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2036, 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.

SMALL CAP

During these periods, while it is never fun to underperform, we believe the best course of action is to stick to our process and focus on the fundamentals of our individual portfolio companies. We think the best long-term strategy for capital preservation and alpha creation is to never chase the latest investment fad, especially when the stocks that are outperforming are companies that are not getting to break-even free cash flow during our five-year investment horizon. In our experience, we will likely have one bear market period during a five-year investment horizon. It is also our belief that stocks that don't have a clear path to cash flow break-even tend to have the largest stock declines when, in bear markets, investors are seeking safety. With that backdrop, it should not be surprising that we have not invested in the sectors with the most speculation. Specifically, we purposely have not invested in the small modular reactor (SMR), quantum computing, and electric vertical takeoff and landing (eVTOL) aviation sectors (and we have avoided the Reddit “meme” stocks). This basket of stocks (10 in total) was up 92% year-to-date through the end of September, and despite only having an average weight of 2.1% in the Benchmark, the group was responsible for 20% of the Benchmark’s gains. As we analyze our performance, the positive is that when removing these more speculative areas of the small-cap growth stock universe, the Fund is outperforming year-to-date (10.6% versus a 9.7% gain for the non-meme, SMR, quantum computing, and eVTOL aviation stocks in the Benchmark).



Top contributors to performance for the quarter

	Contribution to Return (%)
Kratos Defense & Security Solutions, Inc.	2.42
Mercury Systems, Inc.	1.21
Karman Holdings Inc.	0.96
Montrose Environmental Group, Inc.	0.70
Wynn Resorts, Limited	0.67

Leading defense technology provider **Kratos Defense & Security Solutions, Inc.** contributed to performance following a strong earnings report and continued momentum across its business

segments. Years of investment are beginning to pay off, with the company winning new contracts across multiple divisions. The current defense spending cycle appears to be in a generational upswing amid heightened global conflicts, and Kratos’ innovative solutions position it well to support the U.S. Armed Forces. The current administration’s openness to smaller, agile defense contractors further strengthens Kratos’ opportunity to secure larger awards, supporting our continued conviction in the company.

Mercury Systems, Inc. designs, manufactures, and markets high-performance embedded digital signal and image processing systems, mission systems, and software for Tier-1 defense contractors worldwide. Shares rose during the quarter following another strong earnings report, reflecting the material progress made since CEO Bill Ballhaus began restructuring the company in 2023. Mercury continues to deliver meaningful margin expansion and is benefiting from a generational increase in defense spending across the ecosystem, particularly among the nation’s flagship defense programs, for which it serves as a mission-critical supplier of electronic components and solutions. We continue to expect accelerating growth and further margin expansion in the years ahead.

Shares of **Karman Holdings Inc.**, a best-in-class supplier of defense systems, rose during the quarter as the company continued to benefit from a generational increase in defense spending. Demand was especially strong across the nation’s flagship defense programs, where Karman is a mission-critical supplier of components and solutions, as well as in emerging segments such as hypersonics, where the company is a leading player. Karman is arguably one of the most important suppliers in the defense industry, given its focus on technically complex systems for a customer base composed largely of prime contractors, enabling margins more than double the peer average. We continue to expect elevated growth and incremental margin expansion as the company solidifies its irreplaceable position in the defense supply chain.

Top detractors from performance for the quarter

	Contribution to Return (%)
PAR Technology Corporation	(0.96)
Inspire Medical Systems, Inc.	(0.71)
Wingstop Inc.	(0.54)
ARS Pharmaceuticals, Inc.	(0.47)
CareDx, Inc.	(0.46)

PAR Technology Corporation is a leading global provider of software, systems, and service solutions to the restaurant industry. Shares fell during the quarter after the company lowered its full-year growth outlook to 15% from 20%, reflecting a weaker-than-expected first half driven by soft macroeconomic conditions and deliberate rollout delays for certain customers. These delays were strategic, allowing PAR to focus on securing contracts with several large enterprise restaurant chains currently in late-stage

negotiations, at least one of which could meaningfully expand the company's scale. Despite the slower start to the year, management remains confident in achieving 20% annual recurring revenue growth over the next 12 months, supported by a strong pipeline of contracted and prospective customers, including its ongoing rollout with Burger King. As more enterprise-scale restaurants upgrade their technology stack, we believe PAR is well positioned to capture outsized share as the leading cloud-based platform in the industry. Strong software revenue growth combined with rapidly scaling profitability should drive meaningful long-term performance. That being said, we decreased the position size given the macroeconomic headwinds the company is facing.

Inspire Medical Systems, Inc. is a medical device company offering a treatment option called hypoglossal nerve stimulation for patients with moderate-to-severe obstructive sleep apnea. Shares fell during the quarter as management lowered 2025 financial guidance, citing several factors behind the slower-than-expected rollout of Inspire 5, the company's next-generation device. These included delays onboarding centers to a new patient management platform, a postponed Medicare reimbursement code that did not take effect until July 1 due to a software update, patients deferring procedures in anticipation of Inspire 5's availability, and management's decision to pause marketing efforts and new center expansion. In addition, management noted anecdotal reports of some patients delaying procedures to try GLP-1 medications. We exited our position.

Wingstop Inc. is a fast-casual restaurant chain known for its cooked-to-order chicken wings and wide flavor variety, operating a highly franchised model across the U.S. and abroad. Shares fell during the quarter amid softening sales momentum. While the company reported better-than-expected quarterly results over the summer, subsequent market data indicated weakening sales trends as the quarter progressed. We attribute this to a broader slowdown in industry spending that has affected Wingstop's customer base. Despite these short-term headwinds, we maintain conviction in Wingstop's long-term growth prospects. The company's asset-light, franchised business model and best-in-class unit economics should continue to support double-digit unit growth for the foreseeable future. We also believe Wingstop's technology initiatives to reduce order times will drive improved sales and that the company will benefit from continued growth in marketing and brand awareness.

Portfolio Structure

The Fund's top 10 positions represented 29.9% of the Fund's net assets, which is in line with the historical average.

Top 10 holdings

	Year Acquired	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Exact Sciences Corporation	2024	71.5	3.8
Mercury Systems, Inc.	2015	71.2	3.7
Liberty Media Corporation - Liberty Live	2023	67.9	3.6
Karman Holdings Inc.	2025	61.0	3.2
Kratos Defense & Security Solutions, Inc.	2020	56.4	3.0
DraftKings Inc.	2023	50.5	2.7
Loar Holdings Inc.	2024	50.3	2.6
Dynatrace, Inc.	2019	47.8	2.5
Advanced Energy Industries, Inc.	2019	46.8	2.5
Wynn Resorts, Limited	2025	44.9	2.4

Recent Activity

Top net purchases for the quarter

	Year Acquired	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Primo Brands Corporation	2025	8.3	38.0
Birkenstock Holding plc	2025	8.3	36.3
Netskope, Inc.	2025	8.7	28.7
Badger Meter, Inc.	2025	5.3	26.0
AAON, Inc.	2025	7.6	24.5

During the quarter, we established a new position in **Primo Brands Corporation**. Primo Brands owns the leading bottled spring water brands and the nation's largest home and office water delivery service. The company was formed through the November 2024 combination of Primo Water and Blue Triton Brands. Primo Brands is fully vertically integrated. It owns or leases water supply (springs and municipal water sources), treats the water, bottles it, transports it to hubs, and distributes it last-mile to retail or the home. Primo Brands goes to market with 13 different brands. It has 7 brands that are over 100 years old, and 4 that date back to the 1800s. Primo Brands also owns high growth premium brands such as Saratoga and Mountain Valley Springs.

We think the stock is attractive for several reasons. First, the company benefits from strong barriers to entry. In the retail channel, brand recognition, distribution capability, and scale are the principal competitive advantages that have led to Primo Brands' number one market share position in the water category, ahead of large beverage companies such as Coca-Cola and PepsiCo. In home and office delivery, Primo Brands has unrivaled route density that results in powerful local economies of scale and protects its 70%-plus market share. Second, there are tailwinds driving growth in water consumption. Consumers are becoming more health conscious and are trading sugary soft drinks for water. The aging municipal water infrastructure in the U.S. is also leading more people to seek out high-quality spring and purified water.

We built our position after the stock traded sharply lower following a second quarter earnings release that revealed challenges stemming from the integration of Primo Water and Blue Triton. As part of the merger, management identified opportunities to save costs through the elimination of redundant manufacturing plants and distribution branches. Execution of this plan during the first half of 2025 led to unexpected service disruptions in the home and office delivery segment. The problems were caused by changes to five-gallon jug availability and adoption of new technology systems used by drivers to manage their deliveries. These issues negatively impacted the timing of highly calibrated routes and led to a temporary reduction in on-time, in-full delivery rates. In response to these challenges management is sacrificing margin to win back churned customers and is delaying plans to increase prices. The business is now trading at what we believe is a very attractive multiple of fundamental earnings power. We believe management has a good handle on these transitory headwinds and expect the business to return to its normal rate of growth in the coming quarters. Primo Brands is poised to generate significant free cash flow in the years ahead, and we believe the stock will warrant a materially higher valuation once the company solves these current challenges.

In the third quarter we purchased shares of **Birkenstock Holding plc**. Birkenstock is a global footwear brand with roots dating back to 1774. The brand is most known for its iconic "Arizona" and "Boston" sandals, and the brand has been embedded in U.S. culture since the 1960s and 1970s. Although the Birkenstock brand has been around for over 250 years, in 2009 the Birkenstock family brought in its first outside management team led by Oliver Reichert. Under new leadership and vision, the business has been transformed from a family-owned, production-oriented company into a global, professionally managed enterprise committed to growing the Birkenstock brand. Following the addition of outside management, Birkenstock revenues have grown at a 20% CAGR from fiscal 2014 to fiscal 2025. In 2025, the company generated revenues of €2.1 billion with profitability margins in the mid 30% range. This combination of an iconic brand with high growth and industry leading profitability makes the Birkenstock brand a unique asset.

Unlike almost all other footwear brands, Birkenstock manufactures its products in-house with over 95% of its products manufactured in Germany. This provides Birkenstock with better quality control and less external risk. Birkenstock products are sold both direct and through wholesale partners. Wholesale represents roughly 64% of sales and Birkenstock products were sold in 6,000 selected wholesale partners in over 75 countries ranging from orthopedic specialists to major department stores, to high-end fashion boutiques. The remaining 36% of sales are generated direct-to-consumer, with the vast majority sold through e-commerce. The company has just 90 stores, which we expect to continue growing.

Birkenstock's strongest, most developed regions are the Americas and Europe, which represented 53% and 36% of revenues in fiscal 2022, respectively.

We believe that Birkenstock will be able to grow revenue in the mid-high teens over the medium term. The company's growth should be driven by continued growth in its core styles, an expanding year-round product mix, growing the number of stores, and geographic expansion, particularly in the APAC region. We also believe that Birkenstock will be able to maintain its industry leading profitability due to high brand awareness, vertical integration, and the high proportion of products sold at full prices.

During the quarter, we initiated a position in **Netskope, Inc.**, a leading cybersecurity company specializing in Secure Access Service Edge (SASE). SASE is a large, fast-growing IT category that converges several historically separate networking and security products, including data loss prevention, secure web gateways, cloud application access, and private network access. Netskope provides a unified SASE platform that inspects and secures all of a company's data traffic—whether to the web, the cloud, or private applications—allowing it to enforce security policies, prevent data loss, and stop threats in real-time, all while enhancing network speed and performance. The company serves over 4,300 customers, including more than 30% of the Fortune 100.

The rising cybersecurity threat environment, proliferation of cloud and AI applications, and new regulatory requirements have made SASE a critical priority for large enterprises. Gartner expects the \$15 billion addressable market today to nearly double by 2028. Netskope has been gaining market share in this space due to its next-generation technology. Unlike many peers who rely on public cloud infrastructure, Netskope spent years and hundreds of millions of dollars to build and operate its own global network of over 120 data centers. This gives the company full control over performance and results in faster connectivity for its users. Critically, Netskope's founders designed the platform to deeply inspect and understand the "language of the cloud," allowing for far more granular control over how employees interact with modern applications, including new generative AI tools. This unique architecture has resulted in strong win rates, accelerating revenue growth, and best-in-class customer retention, with a 96% gross retention rate.

We believe Netskope is well positioned for durable growth and significant margin expansion. New customer growth has accelerated, while the company maintains a healthy 117% net revenue retention rate as existing customers expand their usage. With the average customer still using only a fraction of Netskope's 20-plus products, there is a long runway for continued wallet share capture. Furthermore, with the heavy capital investment in its global network largely complete, the company has begun to generate strong operating leverage. We expect this trend to continue as Netskope scales, driving substantial free cash flow generation and creating long-term shareholder value.

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)
CyberArk Software Ltd.	2022	5.2	20.9	55.1
Kratos Defense & Security Solutions, Inc.	2020	2.2	15.4	53.0
Chart Industries, Inc.	2022	5.3	8.9	39.8
Montrose Environmental Group, Inc.	2020	0.4	1.0	18.0
PAR Technology Corporation	2018	0.3	1.6	16.9

We sold our position in **CyberArk Software Ltd.**, the global leader in identity security, after the company agreed to be acquired by fellow cybersecurity firm Palo Alto Networks, Inc. Similarly, we exited our position in industrial equipment maker **Chart Industries, Inc.** after the company agreed to be acquired by Baker Hughes. Both companies performed well since we first established positions back in 2022, contributing meaningfully to the Fund's excess returns.

We sold some of our investment in defense technology provider **Kratos Defense & Security Solutions, Inc.** after a significant share run-up in the quarter. During the quarter, Kratos had gotten beyond our 4% threshold for position size and was also nearing our longer-term valuation. This is part of our continuous, objective investment process. We still hold a meaningful investment in the company as we believe Kratos is well positioned in hypersonic technology, drone engines, small missile engines, space, microwave electronics, and unmanned systems. And we believe in the quality of the Kratos management team to deliver further success in the years ahead.

Shares of **Montrose Environmental Group, Inc.**, a leading environmental services company, continued their significant rebound which started in the second quarter. Fears of adverse policy changes at the Environmental Protection Agency under President Trump continue to fade, as we had predicted. Similar to Kratos, we trimmed our investment in Montrose to manage a large position size. We continue to believe in the long-term prospects of the company and see optionality in upside in its PFAS cleanup technology, which deals with so-called "forever plastics."

Outlook

We continue to believe the recent frothiness in some of the more speculative areas of small cap will run its course. In the meantime, our portfolio companies continue to execute their growth plans. We believe investing in businesses with high-quality earnings streams will lead to alpha creation over a full economic cycle and we will continue to stick to our investment process despite "Earnings Quality" being out of favor in the current investment climate.

Thank you for your trust in us!



Randy Gwirtzman
Portfolio Manager



Laird Bieger
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 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. 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 is a measure of an investment's performance that indicates its ability to generate returns in excess of its benchmark. The portfolio manager defines "**Best-in-class**" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking. **Enterprise Value (EV)** is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization. EV includes in its calculation the market capitalization of a company but also short-term and long-term debt as well as any cash on the company's balance sheet. **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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