



QUARTERLY LETTER | SEPTEMBER 30, 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 up 0.54% (Institutional Shares) in the third quarter. Year to date, the Fund is up 0.91%. The Fund trailed the Russell 2000 Growth Index (the Index) this quarter by 11.65%, as the Index was up 12.19%. The Fund now trails the Index by 10.74% this year, with most of the underperformance occurring in August and September.

The market remained strong in the third quarter, with the S&P 500 and NASDAQ Composite Indexes reaching new highs and the Dow Jones Industrial Average ending the quarter at all-time record levels. The market was powered by continued excitement around AI, solid corporate earnings reports, a lessening in trade tensions, and the prospect of lower interest rates. The Federal Reserve (the Fed) cut its key interest rate by 25 basis points in September, after being on hold since 2024, and gave the impression that this could be the beginning of a protracted easing cycle. Fear about inflationary pressures from tariffs waned, and softer employment reports spurred efforts to stimulate economic growth.

After lagging the larger-cap benchmarks by a wide margin all year, the Russell 2000 Growth Index was one of the best performers this quarter, which should have offered a favorable backdrop for our Fund. However, the small-cap rally was extremely unusual. It was a “junk” rally, led by “hopes and prayers” meme stocks and speculative thematic plays in the areas of quantum computing, small modular reactors, and eVTOL (electric vertical take-off and landing). Stocks with high measures of momentum, idiosyncratic volatility, and beta had outsized gains. Microcaps were the best performers. Better returns came from companies with negative or zero earnings. The higher-quality small-cap companies with strong earnings quality, to which we are overexposed, had their worst three months of relative performance on record!

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

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2,3}	Russell 2000 Growth Index ¹	Russell 3000 Index ¹
QTD ⁴	0.46	0.54	12.19	8.18
YTD ⁴	0.73	0.91	11.65	14.40
1 Year	(0.35)	(0.09)	13.56	17.41
3 Years	14.68	14.98	16.68	24.12
5 Years	6.21	6.49	8.41	15.74
10 Years	11.32	11.62	9.91	14.71
15 Years	11.22	11.51	11.01	14.23
Since Inception (9/30/1997)	9.88	10.05	6.68	9.15

We aim to avoid the “junk” and invest in leading established businesses with strong earnings prospects and recurring cash flows. We steer clear of untested and speculative concept stocks. We favor companies that are presently profitable, and we foresee years of compounding growth ahead. This has always been our approach and has served us well. Only two periods in the life of the Fund (in the dot-com and the COVID eras) have we experienced such a headwind. And in those instances, the bias against quality was short lived.

Though the majority of the relative underperformance of the Fund had to do with the strange nature of the small-cap rally, our stocks had mixed performance. We had some big gains, led by strong results from companies in certain sectors that were in vogue during the quarter, which offset some losses where companies reported weaker results or suffered multiple contraction.

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.

From a sector perspective, our Industrials holdings, comprising 32% of net assets on average, were our best absolute performers, led by aerospace & defense names **Kratos Defense & Security Solutions, Inc.** and **Karman Holdings Inc.** **Vertiv Holdings Co** continued to perform well as the outlook for massive expansion of data center capacity became more evident. We also benefited as two of our companies got take-out offers, **Chart Industries, Inc.** and **Dayforce, Inc.**, at nice premiums.

Poor stock performance in Information Technology (IT) was responsible for 50% of the relative losses in the period, driven by **Gartner, Inc.** (see “Top Detractors”). Growth has slowed at **PAR Technology Corporation**, which provides cloud-based software to the restaurant industry, as their customers struggle with a weak consumer backdrop, which has slowed their spending on modernization efforts. We believe this is temporary, and PAR has positioned itself as the industry leader with the potential to land big new accounts. Other software holdings continued to struggle because of market concerns about competition from AI. Weakness in Financials came largely from insurance broker **The Baldwin Insurance Group, Inc.** and specialty insurer **Kinsale Capital Group, Inc.** (see “Top Detractors”), as their growth rates decelerated from higher than typical levels.

Our stocks in the Health Care and Consumer Discretionary sectors were up in the quarter, albeit less than the Index, led by **RadNet, Inc.**, which rose after reporting strong same-store growth in its outpatient diagnostic imaging centers, and **ICON plc** as biotechnology/pharmaceutical customer spend is turning up. **Installed Building Products, Inc.** (IBP) rose on a stellar second quarter earnings report, as did **Red Rock Resorts, Inc.** (see “Top Contributors”). But many of our consumer holdings fell over concern about possible weaker consumer spending in the offing.

Top contributors to performance for the quarter

	Contribution to Return (%)
Kratos Defense & Security Solutions, Inc.	1.98
Vertiv Holdings Co	1.00
Red Rock Resorts, Inc.	0.73
Cognex Corporation	0.66
Installed Building Products, Inc.	0.62

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 low cost 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.

Vertiv Holdings Co, a leading provider of critical digital infrastructure solutions for data centers, reported strong earnings and raised guidance, supported by robust momentum in the data center end market, particularly as increased AI-related activity drives elevated demand. We continue to hold Vertiv as we believe the company is well positioned to benefit from the ongoing buildout of AI data centers, especially through the adoption of liquid cooling technologies, which are increasingly necessary as data center energy intensity continues to rise.

Red Rock Resorts, Inc. is a casino owner and operator focused on the Las Vegas Locals market. Shares rose during the quarter as investors reacted positively to incremental visitation from new customers and accelerating spend-per-visit trends, despite concerns about a market slowdown. Red Rock is regaining business at its flagship resort following some initial cannibalization from the opening of its Durango property, with management expecting a full recovery next year and trends already improving faster than anticipated. The new property is generating robust returns, and performance across the company’s six core casinos has strengthened, as the Las Vegas Locals market absorbs Durango and returns to its historical low single-digit growth rate. Given the strength of the market, management continues to ramp up capital investment and has a decade of strong new bold projects on the docket which we believe should drive a doubling of EBITDA overtime.

Other holdings that rose over 30% in the quarter but added less to the overall returns were **Cognex Corporation**, **IBP**, **Karman**, **RadNet**, and **Holley Inc.**

Top detractors from performance for the quarter

	Contribution to Return (%)
Gartner, Inc.	(1.55)
The Baldwin Insurance Group, Inc.	(1.13)
Kinsale Capital Group, Inc.	(0.64)
PAR Technology Corporation	(0.57)
Intapp, Inc.	(0.47)

Gartner, Inc., a provider of syndicated research, detracted from performance following disappointing quarterly earnings. Contract value growth, a leading indicator of future revenue, decelerated by approximately 2%. We attribute most of the slowdown to ongoing cost cutting in the U.S. public sector, which represents about 5% of revenue, as well as more challenging business conditions in industries dependent on public sector funding. In addition, companies with meaningful exposure to tariffs appear to be reducing costs, resulting in longer sales cycles and slightly higher client attrition. While the market expressed concern about the impact of AI on Gartner’s insights business, we see no evidence that this is negatively impacting its value proposition. The company continues to benefit from a vast and expanding set of proprietary data generated through hundreds of thousands of interactions with buyers, sellers, and technology consumers. Gartner bought

back approximately \$800 million worth of stock in July and August and authorized an additional \$1 billion in September, and we expect the company to continue repurchasing shares aggressively to capitalize on the discounted valuation.

Shares of insurance broker **The Baldwin Insurance Group, Inc.** fell after the company trimmed full-year guidance to reflect softer pricing for property insurance and slower business from construction customers. This mirrors the broader pullback in insurance stocks during the quarter amid expectations for a cyclical slowdown in industry pricing and premium growth. Management reaffirmed its goal of reaching \$3 billion in revenue and 30% EBITDA margins within five years, implying that earnings could nearly triple. We remain shareholders and expect the company to continue gaining market share while expanding margins and reducing leverage over the next several years.

Shares of specialty insurer **Kinsale Capital Group, Inc.** fell during the quarter amid concerns about moderating growth and a cyclical slowdown in the broader insurance industry. Nevertheless, Kinsale reported quarterly earnings that exceeded Street expectations, with 14% premium growth outside of large property policies, which face the most competition. Recent data from several state insurance commissioners also point to faster premium growth for the company in the third quarter. We continue to own the stock because we believe Kinsale is well managed, a differentiated industry leader, and has a long runway for growth in an attractive segment of the insurance market.

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

Portfolio Structure and Recent Activity

As of September 30, 2025, the Fund has \$3.8 billions under management and owned 58 stocks. The top 10 holdings make up 39.1% of the Fund's net assets. The portfolio turnover was 11.2%⁵ as measured over a three-year average.

Top 10 holdings

	Year Acquired	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Vertiv Holdings Co	2019	264.0	7.0
Red Rock Resorts, Inc.	2016	183.2	4.9
Kinsale Capital Group, Inc.	2019	180.7	4.8
Guidewire Software, Inc.	2012	172.4	4.6
Planet Fitness, Inc.	2018	119.4	3.2
ICON plc	2013	113.8	3.0
SiteOne Landscape Supply, Inc.	2016	112.7	3.0
Gartner, Inc.	2007	111.7	3.0
Kratos Defense & Security Solutions, Inc.	2020	109.6	2.9
Houlihan Lokey, Inc.	2018	102.7	2.7

The Fund remains primarily invested in five sectors- Industrials, IT, Consumer Discretionary, Financials, and Health Care. These are the sectors where we have deep research expertise and a track record of investment prowess. And these are the sectors where we can identify and own the companies that meet our investment criteria of special businesses, with significant competitive advantage and long potential runways of growth, that are managed by superior teams that often founded the companies or have significant skin in the game.

The makeup of the Fund varies greatly from the Index, as has always been the case. We are aware of the variances and how that might affect near-term relative performance, but we have built the Fund stock by stock/bottom up to reflect our highest long-term convictions and appropriate portfolio construction. Compared to the Index, we are presently well overweight in Industrials (31.3% of net assets) and Consumer Discretionary (16.3%), somewhat overweight in Financials (11.7%), modestly underweight in IT (20.6%), and well underweight in Health Care (10.4%). We have no exposure to Energy or Utilities, and only modest exposure to Materials, as these are sectors that we find cyclical and most often commodity like in characteristics. This quarter, these sectors performed very well, and our limited exposure hurt relative performance.

This quarter, we saw the return of the new issue market, which has been moribund for years. We like this development as through the Fund's history....and again now...initial public offerings (IPOs) are a great funnel for us to meet new companies, and we often find interesting new businesses and management teams in which to invest. Over the last half a year, we have had many "testing the waters" meetings with companies considering public offerings, and now many are coming out.

We acknowledge that many businesses are staying private longer these days, which does reduce the number of small-cap IPOs. But even so, we are seeing many exciting small companies and there are real opportunities. Often the best ones come public first. We have been active, initiating new positions in two IPOs during the quarter with more in the works.

As we have explained over the years, we hold onto our winners for years if we believe these stocks can continue to meet our growth expectations. The success of many of these holdings has skewed the market capitalization of the Fund. At Baron, we are now using Redemption In-Kind programs, which enable us to reduce the position size of our larger-cap holdings when we determine it's appropriate. This is enabling us to reduce the overall market capitalization of the Fund, greatly reducing our "size score" in Morningstar vernacular, and creating additional capital to invest in our new ideas. During the quarter, we bought or increased positions in stocks with a weighted average market cap of \$4.0 billion, and sold or trimmed stocks with a weighted average market cap of \$20.2 billion.

Top net purchases for the quarter

	Year Acquired	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Legence Corp.	2025	3.2	35.0
Novanta Inc.	2025	3.6	33.9
Accelerant Holdings	2025	3.3	26.4
Integer Holdings Corporation	2025	3.6	25.6
PAR Technology Corporation	2025	1.6	17.9

We added five new names to the portfolio this quarter. We are excited to have new companies come to market, and are also finding other opportunities, taking advantage of volatile trading patterns to invest in companies we have long researched at favorable prices.

We initiated a position in **Legence Corp.** when the company went public in September. Legence is a leading provider of engineering, installation, and maintenance services for mission-critical systems in buildings. Legence has more than 60% of the companies in the Nasdaq-100 Index as clients, mostly in high-growth sectors that necessitate technically demanding buildings (i.e., no retail or multi-family). We think Legence is positioned to grow rapidly as data centers, manufacturers, pharmaceutical companies, hospitals, schools, and universities make investments in new and existing facilities to support growing demand and make them more energy efficient and sustainable.

Legence's service offering focuses on complex systems including HVAC, process piping, and other mechanical, electrical, and plumbing (MEP) for new and existing facilities. The company is comprised of a highly specialized workforce, including 1,200 MEP engineers and energy consultants and approximately 3,400 HVAC and plumbing service technicians, fitters, electricians, and sheet metal workers. Legence combines both design and build services on a national scale, while the competition typically offers either engineering or installation and only on a regional basis. Legence has lengthy relationships with its top 10 clients, exceeding 26 years on average, evidence of the value the company provides.

Legence has a very strong business model with more than half of revenues coming from "high growth industries," which includes customers in the data center & technology and life sciences & health care end markets. The business is also primarily comprised of small projects (less than \$10 million), which reduces risk. Additionally, no customer represents more than 4% of total revenues, a lower level than many of its peers whose top customers comprise 10% or more of their revenues. We also like that the mix of revenues skews towards retrofits, upgrades, and maintenance for existing buildings (around 68% of 2024 revenues).

We believe that spending in these end markets and key verticals, especially data centers, has the potential to grow in the double-digit range moving forward, which can help Legence maintain its strong organic growth profile (16%-plus CAGR over the last three years). We feel Legence can augment its growth through M&A, as they further consolidate this geographically fragmented industry.

This quarter, the Fund initiated a position in **Novanta Inc.**, a supplier of proprietary technology solutions and subsystems to medical and advanced industrial original equipment manufacturers. Novanta combines deep proprietary expertise (about 750 patents) and competencies in precision medicine, precision manufacturing, robotics and automation, and advanced surgery to solve complex technical challenges.

Novanta's key products include lasers, beam steering devices, high-precision motors, drives, and controls, robotic sensors and end-of-arm tooling, medical insufflators and endoscopic pumps, and vision and radio frequency identification solutions sold in a variety of applications. Products are generally solely sourced during long design cycles in which Novanta acts as an extension of its customers' R&D function, with very sticky revenue from designed-in positions spanning multiple years.

Since 2012, Novanta has grown its revenues at a 12% CAGR and its EBITDA at 14%. Yet, lackluster organic growth recently driven by supply chain and tariff uncertainty and post-COVID demand fluctuations in key end markets has pressured the stock, presenting us the opportunity to invest at what we believe is a cheap multiple for a high-quality, technology-oriented industrial company on the cusp of reaccelerating growth via new products in the medical and robotics space. Additionally, with a strong balance sheet and active pipeline for M&A, we believe the company can double its \$1 billion in revenue over the coming five years, with earnings growing faster driven by a continuous improvement culture driving 1% gross margin expansion annually, operating leverage over time, and strong free cash flow conversion.

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)
Chart Industries, Inc.	2022	6.1	8.9	123.7
Kratos Defense & Security Solutions, Inc.	2020	1.5	15.4	82.2
Dayforce, Inc.	2018	4.2	10.8	65.0
Vertiv Holdings Co	2019	1.0	57.6	63.6
Guidewire Software, Inc.	2012	1.4	19.4	27.4

Two of our holdings, **Chart Industries, Inc.** and **Dayforce, Inc.**, announced this quarter they are being acquired for cash. After the stocks popped on the news, we sold out to recycle the proceeds into new ideas. We started buying shares of Chart in 2022 at a \$6.1 billion market cap, and it was sold at a market cap of \$8.9 billion. We initiated a position in Dayforce on its 2018 IPO at \$22 (\$4.2 billion market cap) compared with the \$70 takeout price.

We trimmed our holdings in **Kratos Defense & Security Solutions, Inc.**, **Vertiv Holdings Co**, **Guidewire Software, Inc.**, **The Cheesecake Factory Incorporated**, and **Liberty Media Corporation – Liberty Formula One** at prices we believed were favorable to right size the positions.

Outlook

As we enter the fourth quarter, the economy is still on firm footing, though maybe softening a bit. GDP growth was a strong 3.8% in the second quarter of 2025, aided by significant investment in AI infrastructure. Inflation hasn't been licked but appears to be under control. The jobs market is softer as hiring has been more muted because of the uncertain effect of AI on workforce composition and changing immigration policy. However, the unemployment rate is still very low at 4.3%. We expect corporate earnings to remain solid. And we believe that interest rates will decline and improve the growth outlook.

The last quarter was somewhat frustrating, in that the market rallied, but the Fund generally failed to participate. It's been an odd year in the market, with the strongest gains in large-cap technology, with AI as the dominant theme, along with gold and crypto. And when small-cap stocks started to rally, it was a strange brew of lower quality/highly speculative names that have done the best. We would expect the market to broaden, as is usually the case. We suspect that favoring risk and momentum will give way to recognizing the value of quality growth, our sweet spot.

There is concern about the valuation of the market. We concur that many of the leading stocks now trade at extended levels, and speculative story stocks trade on frothy expectations. However, we believe that our holdings are for the most part now cheap. They are cheap either because of concern about the trajectory of near-term earnings growth or the negative effect that AI could have on longer-term prospects. These are uncertain times and there are a lot of crosscurrents. We have strong beliefs based on our deep fundamental research into these considerations and expertise developed over decades, and we believe that as things play out, our convictions will be rewarded.

Thank you for investing in the Fund. We believe we own a portfolio of high quality, well managed, growth businesses that will compound earnings at strong rates, and their stocks will perform well as they do. As always, we will stick to our knitting as long-term investors based on our proprietary research and viewpoints even when our approach is somewhat out of sync with current market trends.



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 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.

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.

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.

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).