



QUARTERLY LETTER | JUNE 30, 2025

Baron Discovery Fund®

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

Dear Baron Discovery Fund Shareholder,

Performance

*“First they ignore you, then they laugh at you,
then they fight you, then you win.”*

– Common political maxim often attributed to Mahatma Gandhi

Baron Discovery Fund® (the Fund) had a strong second quarter. The Fund was up 14.76% (Institutional Shares), which was 2.79% better than the 11.97% return of the Russell 2000 Growth Index (the Benchmark). Year-to-date, the Fund is up 7.68%, or 8.16% ahead of the Benchmark, which has returned negative 0.48% to date.

It feels as if we have lived through an entire market cycle (or perhaps an entire Presidential cycle) in only the past three months. The second quarter started on April 2 with President Trump’s broad application of tariffs against trading partners of the U.S. also known as “Liberation Day.” The market uncertainty of this new trade policy caused a drop in the Benchmark of nearly 16% from the close on Liberation Day to the market low on April 7. Since that low, the market rallied 30% through the close of the second quarter on June 30. The Benchmark is now at the prevailing levels when the President was inaugurated in January 2025, and at the high point of the second quarter.

Between these two data points of Benchmark highs and lows, an enormous number of policy initiatives have been undertaken, in every conceivable context, for which the final market implications have not yet been written. The scope is vast and potentially transformative. The policies seek to address, in an immediate timeframe, issues that have been created and then festered for decades. These initiatives encompass: (1) the U.S. balance of trade (trade negotiations and tariff



Randy Gwirtzman
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Portfolio Manager

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

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2}	Russell 2000 Growth Index ¹	Russell 3000 Index ¹
3 Months ³	14.70	14.76	11.97	10.99
6 Months ³	7.56	7.68	(0.48)	5.75
1 Year	29.55	29.84	9.73	15.30
3 Years	15.15	15.43	12.38	19.08
5 Years	8.99	9.27	7.42	15.96
10 Years	11.25	11.55	7.14	12.96
Since Inception (9/30/2013)	12.61	12.89	8.02	13.16
Since Inception (9/30/2013) (Cumulative) ³	303.54	315.71	147.51	327.29

implications); (2) foreign policy (can the U.S. maintain its superpower status, and the suasion that comes with it, without pulling the country into another foreign war?); (3) fiscal policy (what are the effects of the “Big Beautiful Bill” (BBB) that became law on July 4, 2025, making the 2015 tax cuts permanent, which should be stimulative to the economy, but might increase the Federal budget deficit?); (4) monetary policy (have the Trump administration’s policies led to lower inflation which should lead to stimulative rate cuts by the Federal Reserve?); (5) legal clarification (what are the limits of the power of the executive branch and will this lead to Congress working harder to exercise its own power by more efficiently legislating in a more bi-partisan manner?); and (6) U.S. immigration policy (which has social, political, and economic implications).

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, 2035, unless renewed for another 11 year term and the Fund’s transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit BaronCapitalGroup.com or call 1-800-99-BARON.

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All the aforementioned policy initiatives are interrelated. The budget affects the deficit, which affects the debt, which affects inflation, which affects monetary policy. And foreign policy affects budgetary decisions on defense, as well as the potential positive or negative effects on the economy from more peaceful world trade. We could go on, but obviously the iterations are endless. The administration has attempted to change everything simultaneously, which initially caused extreme market anxiety. However, as data points have come in (inflation is lower than expected, tariff revenues are much higher than expected, unemployment numbers are holding steady at low levels and GDP growth looks solid), the market rallied on the possibility that policy might indeed be moving the economy in the right direction. We have witnessed extreme policy intensity, but it had to be done this way to cut the Gordian knot of interrelated problems.

So the President has moved through three of Mahatma Gandhi's stages of goal attainment in pressing his policies. It remains to be seen if he will indeed "win."

In addition to the policy tailwinds we describe above, we continue to believe there are several reasons why the Fund, and small-cap stocks generally, are attractive today. These include the fact that small-cap growth stocks have underperformed large-cap stocks for an extended period of time. At June 30, 2025, the Russell 2000 Growth Index was still 12.4% below its highs more than four years ago (at February 9, 2021) while at the same time the NASDAQ Composite Index is up over 50% and the S&P 500 Index is up almost 70%. It is our belief that large-cap stocks will not outperform small-cap growth stocks forever and therefore, we could be nearing a period where the opposite occurs. Valuations for small-cap growth stocks remain attractive in both absolute and relative terms. The next 12-month P/E valuation of the Benchmark remains at a discount to the large-capitalization S&P 500 Index and it has been that way for four years! As we have previously written, small-cap growth stocks typically trade at valuation premiums to large-cap stocks given their faster growth. Lastly, investor allocations to small-capitalization growth stocks remain at multi-year lows, indicating a huge potential tailwind to small caps as we revert to more normalized allocations.

We remain excited by our portfolio company's prospects. The majority of our companies are benefiting from powerful secular tailwinds. Examples include applied AI, next-generation unmanned aerospace and defense, cybersecurity, advanced cancer diagnostics, the movement of application software to the cloud, and the explosion in online sports betting. We believe the portfolio is well positioned to outperform over the long term.

Top contributors to performance for the quarter

	Contribution to Return (%)
Kratos Defense & Security Solutions, Inc.	1.89
Montrose Environmental Group, Inc.	1.04
Karman Holdings Inc.	0.97
indie Semiconductor, Inc.	0.87
DraftKings Inc.	0.86

Leading defense technology provider **Kratos Defense & Security Solutions, Inc.** contributed to performance during the quarter amid growing momentum across nearly the entire business. We believe Kratos is well positioned for accelerated multi-year growth, as prior investments in high-growth areas of defense—such as hypersonic technology, drone engines, small missile engines, space, microwave electronics, and unmanned systems—are translating into larger contract awards. Demand is being driven by increased funding from the U.S. Department of Defense and other global militaries. In our view, the current operating environment has never been better, and few companies are as well equipped as Kratos to deliver the advanced solutions required for modern warfare.

Shares of **Montrose Environmental Group, Inc.**, a leading environmental services company, rebounded during the quarter. The stock had fallen sharply earlier in the year due to concerns that environmental policy changes and new leadership at the Environmental Protection Agency under President Trump would reduce enforcement of regulations underpinning Montrose's testing and monitoring services. These concerns ultimately did not materialize, and the company continues to grow, supported by strong secular tailwinds such as rising industrial activity and increased regulatory oversight at the state level. Montrose's decision to pause acquisition spending has also allowed its organic growth profile to stand out, while the payoff of its convertible debt has increased transparency, helping unlock value for shareholders. We remain invested in Montrose, as we believe the company retains its competitive advantages, stands to benefit from secular growth trends, and trades at an attractive valuation.

Shares of **Karman Holdings Inc.**, a best-in-class supplier of defense systems, rose during the quarter after the company reported strong earnings results that exceeded investor expectations. The company is well positioned across nearly all of the fastest-growing areas within the upcoming \$1 trillion-plus U.S. defense budget (including missile defense and hypersonic technology) and supports most of the leading space launch companies (with market leading rocket component technology). We believe Karman's position should enable it to outpace overall defense budget growth and continue to earn exceptional margins.

Top detractors from performance for the quarter

	Contribution to Return (%)
Clearwater Analytics Holdings, Inc.	(0.57)
Inspire Medical Systems, Inc.	(0.35)
The Macerich Company	(0.28)
RH	(0.26)
Independence Realty Trust, Inc.	(0.26)

Clearwater Analytics Holdings, Inc. provides portfolio accounting and reporting software. While the company reported strong quarterly earnings and its business fundamentals remain solid, shares fell as investors sought evidence that management can successfully integrate its three recent acquisitions without disrupting the core business. Insider selling also weighed on sentiment, though that overhang now appears largely resolved. We retain conviction. We

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believe Clearwater has meaningful competitive advantages and the potential to compound revenue at a high teens to 20% rate for several years. And the company has an efficient business model that should drive 40%-plus adjusted EBITDA margins over time.

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 declined during the second quarter. The company is in the early stages of commercializing its fifth-generation device, Inspire 5, which reduces procedure time and simplifies the process for surgeons. Management noted that some patients delayed surgery in anticipation of the new device, leading to a slowdown in procedures during the quarter. Shares were also pressured by concerns about new competitors entering the market and the potential long-term impact of GLP-1 weight loss drugs on business, given the link between obesity and sleep apnea. Despite these headwinds, we believe Inspire remains well positioned to grow at a healthy rate, supported by its market leadership and the substantial size of the addressable patient population. We believe the current valuation presents a compelling entry point given the company's long-term growth potential.

Shares of **The Macerich Company** underperformed during the quarter. Macerich is a REIT that owns a high-quality portfolio of mall retail real estate. Underperformance was driven by concerns that strong retail leasing demand may subside over tariff and economic related concerns.

Portfolio Structure

Top 10 holdings

	Year Acquired	Quarter End Investment Value (\$M)	Percent of Net Assets (%)
Kratos Defense & Security Solutions, Inc.	2020	65.4	3.6
Exact Sciences Corporation	2024	60.2	3.3
DraftKings Inc.	2023	57.9	3.2
Liberty Media Corporation - Liberty Live	2023	56.8	3.1
Guidewire Software, Inc.	2022	55.4	3.0
CyberArk Software Ltd.	2022	53.0	2.9
Mercury Systems, Inc.	2015	49.6	2.7
PAR Technology Corporation	2018	48.6	2.7
Karman Holdings Inc.	2025	46.0	2.5
Montrose Environmental Group, Inc.	2020	45.2	2.5

Our top ten holdings comprised 29.5% of the Fund's net assets. This is consistent with the concentration of the Fund since inception. Cash at quarter end represented 8.9% of the portfolio, which is slightly above historical norms due to a large inflow at the end of the quarter.

Recent Activity

Top net purchases for the quarter

	Year Acquired	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Wynn Resorts, Limited	2025	9.8	26.4
Novanta Inc.	2017	4.6	18.9
Dynatrace, Inc.	2019	16.5	14.0
Alkami Technology Inc.	2021	3.1	12.7
Inspire Medical Systems, Inc.	2024	3.8	9.6

Ategrity Specialty Insurance Company Holdings is an insurance company focused on the excess and surplus (E&S) market. E&S insurance is a complementary market to the more heavily regulated "Admitted" market. The E&S market gives insurers more flexibility in policy terms and pricing than the Admitted market, which enables more suitable underwriting of certain risks. Ategrity is 100% focused on the E&S market, similar to existing Fund holding **Kinsale Capital Group, Inc.**

We invested in Ategrity when it went public in the quarter. Ategrity focuses on policies for small businesses. This segment is more attractive than large business as there is less competitive intensity, since most insurers can't serve small businesses in a cost-effective manner. Ategrity is able to serve this segment profitably as it leverages a data-driven approach to better ingest policy submissions, segment risks, and quote prices. This allows Ategrity to acquire small business policies in a high-speed, light-touch fashion, which also makes the company an attractive partner to insurance brokers who value timely quotes.

Ategrity has been growing written premiums at over 20% and is currently ceding over 30% of its business to reinsurers. Post-IPO the company will be over-capitalized and so can retain more of the business that it generates, which should lead to strong earnings improvement. We expect the company will continue growing premiums rapidly, and as it builds scale profitability should improve through a lower expense ratio. With improving margins and more business retained by the company, we think Ategrity can achieve a mid-teens return on equity over the next three years, delivering a compelling return on our investment.

During the quarter, we established a new position in **Wynn Resorts, Limited**. Wynn is a luxury resort and casino operator which currently owns integrated gaming properties in Las Vegas, Macau, and Boston. At the start of the quarter, the potential impact of tariffs and a trade war with China weighed on the stock. We took advantage of this weakness by building a position at what we believed were attractive prices. In preview, our analysis showed that we were buying the stock at trough valuation multiples on both the Las Vegas and Macau properties and we were getting the upside from the currently under construction Al Marjan Island project (located in the UAE) for essentially free.

There are a handful of factors that differentiate Wynn from other casino operators and make the stock attractive in our opinion. First, we believe Wynn remains the most differentiated operator in

the gaming sector with a premium offering that caters to high-end customers. This focus on premium service enables the company to command higher room rates and gaming revenue per visitor. This also helps to insulate the company during more challenging macro-economic periods.

Second, the company is working on numerous growth opportunities, the most important of which is the company's investment into the first casino in the UAE. Wynn Al Marjan (a joint venture with local partners) will have over 1,500 rooms, mass-market and VIP gaming, premium food and beverage selections with celebrity chefs, and luxury retail. The property should generate strong demand from Dubai residents, Ras Al Khaimah vacationers, and direct international visitors. Construction is well underway, and the resort is on-pace to open in the first quarter of 2027. We are bullish on the prospects for this integrated resort and we think the stock is ascribing almost no value to the project currently.

Lastly, Wynn derives a significant portion of its revenue from Macau (China's version of Las Vegas). Macau's gaming revenues remain well below pre-pandemic levels and in the last few quarters, growth in the market has stalled. As a result, Macau gaming stocks suffered from dampened investor sentiment resulting in valuations we believe offered compelling risk/reward. Since purchasing the stock, the Macau market has started to show better-than-expected growth with June gross gaming revenues up double digits year-over-year versus low single-digits growth for the year through May. While one month does not make a trend, we believe that Chinese tourism and discretionary spending will improve over time and that Wynn's Macau resorts could see significant upside when that happens.

Wynn's stock has appreciated nicely since our purchase. Nevertheless, we still believe the stock has room to double from here over the next five years. We also think that Wynn's five-star quality resorts could potentially be attractive to an acquirer.

Apart from new positions discussed above, we added to existing positions in electronic products manufacturer **Novanta Inc.**, AI-powered observability and security platform business **Dynatrace, Inc.**, digital banking solutions provider **Alkami Technology Inc.**, and obstructive sleep apnea treatment leader **Inspire Medical Systems, Inc.**, among others.

We exited our position in **Dayforce, Inc.** in order to fund additional purchases in **Dynatrace, Inc.** (while at the same time not becoming overly exposed to the software industry). While we are long-term believers in the Dayforce growth opportunity, growth recently fell below our expectations, and we felt Dynatrace exhibited stronger growth opportunities both near and long term. We exited our position in **The Macerich Company** due to increased headwinds in the macro-economic environment.

We sold our position in database software provider **Couchbase, Inc.** after it agreed to be purchased by a private equity firm for a 29% premium to its trading price prior to the announcement.

Shares of luxury home furnishings retailer **RH** faced significant volatility during the quarter and detracted from performance. The heightened volatility was due in large part due to increased uncertainty related to tariffs as the company imports a large percentage of its products. At the same time, the home furnishings industry remains under pressure due to lessened housing activity related to high interest rates and macroeconomic uncertainty. Despite having conviction in RH's long-term growth prospects, because of the heightened risk and uncertainty we exited our position.

We trimmed defense technology provider **Kratos Defense & Security Solutions, Inc.** and precision medicine solutions provider **Tempus AI, Inc.** to manage position sizing following strong recent performance.

Outlook

We are very excited about the business prospects of our investments and their current valuations. And all of this is spring-loaded against what could be some great macroeconomic tailwinds for small capitalization stocks. Thank you for investing in the Baron Discovery Fund.



Randy Gwirtzman
Portfolio Manager



Laird Bieger
Portfolio Manager

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)
Dayforce, Inc.	2022	8.6	8.1	27.1
Couchbase, Inc.	2021	1.3	1.3	26.0
Kratos Defense & Security Solutions, Inc.	2020	2.2	7.7	21.2
The Macerich Company	2024	4.5	3.6	15.6
Tempus AI, Inc.	2024	6.6	11.0	9.9

¹ 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.

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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.

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