QUARTERLY LETTER | JUNE 30, 2026

Baron Small Cap Fund®

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

Cliff Greenberg
Portfolio Manager

SMALL CAP

Dear Baron Small Cap Fund® Shareholder,

Performance

Baron Small Cap Fund® (the Fund) was up 12.57% (Institutional Shares) in the second quarter, trailing the Russell 2000 Growth Index (the Index) by 13.14%, as the Index was up 25.71%. Year to date, the Fund is up 3.67% while the Index is up 22.18%. The Russell 3000 Index, which measures the performance of the overall U.S. equity market, rose 15.44% for the quarter and is up 10.88% this year.

After selling off in March due to the U.S.-Iran conflict and disruptions in the Strait of Hormuz, U.S. equities rallied to new record highs during the second quarter, with most of the gains coming in April and May. The AI secular growth trade was the principal driver of market returns, with most of the gains coming from so-called "AI winners".... primarily semiconductors, which boomed in the quarter, and certain other Information Technology (IT) and Industrials stocks involved in building out AI infrastructure.

The market powered through a rather confusing macro environment. Inflation data was mixed and employment data was solid, so rate hikes are being considered by the Federal Reserve, which is led by new chair Kevin Warsh. The U.S.-Iran conflict continued to have twists and turns, and oil prices were on a rollercoaster ride during the quarter, adding great uncertainty about the future effect on inflation and growth expectations. Oil prices did collapse late in the quarter after the U.S. and Iran signed a Memorandum of Understanding in mid-June, aimed at ending the conflict. Consumer sentiment from high living costs, persistent inflation, and elevated borrowing rates weighed on consumer spending, especially in the lower income class. Still, the S&P 500 and NASDAQ Composite Indexes were up 15.2% and 21.6% respectively, for the quarter, representing the largest quarterly gains since the COVID pandemic.

Annualized performance (%) for periods ended June 30, 2026†

	Fund Retail Shares[1,2]	Fund Institutional Shares[1,2,3]	Russell 2000 Growth Index[1]	Russell 3000 Index[1]
QTD[4]	12.52	12.57	25.71	15.44
YTD[4]	3.55	3.67	22.18	10.88
1 Year	2.35	2.61	38.74	22.82
3 Years	8.22	8.49	18.44	20.36
5 Years	1.45	1.70	5.57	12.31
10 Years	10.88	11.16	11.97	15.06
15 Years	9.59	9.88	10.81	13.89
Since Inception (9/30/1997)	9.68	9.85	7.29	9.38

From a market cap standpoint, small caps meaningfully outperformed in the quarter to extend their advantage over large caps this year. Small caps (+21.5%), defined as the Russell 2000 Index, led the way in the second quarter, outpacing mid (+13.8%) and large caps (+15.1%). Small caps remain on track to outperform large caps for the first time since 2016. Growth stocks performed exceptionally well in April and May before fading somewhat in June.

The Fund has sizable holdings that are directly involved in the AI buildout or considered beneficiaries of AI usage, such as **Vertiv Holdings Co**, **Legence Corp.**, and **JFrog Ltd.**, which were strong performers in the quarter as they have been for a while. We trimmed these names to right size the positions and acknowledge

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 or call 1-800-99-BARON.

expanded valuations. Of our IT holdings, **Cognex Corporation** continues to surge as new management turns around the business, and **Novanta Inc.** rose due to an improved growth outlook and the announcement of a large attractive acquisition. Many of our Industrials performed well on strong results or rebounding from oversold conditions, including **Enpro Inc.**, **First Advantage Corporation**, and **Andersen Group Inc**. In Health Care, **Hinge Health, Inc.** more than doubled in the quarter after reporting strong results and new services, and **ICON plc** rebounded after addressing accounting concerns and reporting strong billings and backlog. Our position in **Madison Square Garden Sports Corp.** has been strong, as our beloved NY Knicks won the NBA Championship....Knicks in 5!!

The Fund continued to suffer losses in certain software and services segments, such as application software and IT consulting & other services, where several holdings were pressured by ongoing concerns that AI will negatively affect their businesses. **Guidewire Software, Inc.**, **Gartner, Inc.**, **Everforth, Inc.**, **Exponent, Inc.**, and **Intapp, Inc.** were down again this quarter, building on losses from the first quarter. **Planet Fitness, Inc.**, **Installed Building Products, Inc.**, and **Bright Horizons Family Solutions, Inc.** fell after reporting soft earnings. Defense contractors **Kratos Defense & Security Solutions, Inc.** and **Karman Holdings Inc.** gave back some of their large gains from the prior quarter, as the war in the Middle East appeared to near an end.

On a relative basis, many of the top contributors in the Index have elevated exposure to Beta and Momentum, factors to which the Fund is, and always has been, underexposed. “Beta” was the top performing domestic factor and “Momentum” ranked in the second percentile relative to history, leading to about 70% of the underperformance. And many of the top stocks this quarter are businesses that are not in our wheelhouse—the companies are too speculative or risky, and the valuations too high. This condition has persisted over the last nine months, unfortunately. Being uninvested in commodity-sensitive sectors, such as Energy and Materials, however, worked in our favor.

Top contributors to performance for the quarter

	Contribution to Return (%)
Vertiv Holdings Co	2.66
Cognex Corporation	1.44
Legence Corp.	1.24
Hinge Health, Inc.	1.19
Red Rock Resorts, Inc.	1.13

Vertiv Holdings Co provides power and cooling systems for data centers. Shares increased during the quarter as Vertiv reported strong Q1 financial results (adjusted earnings per share increased 83% year-over-year) and increased fiscal year guidance fueled by organic sales growth of around 30%. Vertiv is benefiting from the industry's shift toward integrated and modular solutions that help alleviate labor shortages and accelerate deployment timelines, supported by its market-leading product portfolio and service capabilities. The company is also well positioned to support key technology transitions, including liquid cooling and direct current power architectures. Management increased long-term financial projections to 20%-plus revenue CAGR and a 27%-plus EBIT margin out to 2030, with $24 billion of cash to deploy for M&A, offering a compelling investment from current levels. Though we have trimmed our position along the way, we maintain a large position believing strongly in the future success of the company.

Cognex Corporation is a leading provider of machine vision solutions. Shares rose during the quarter following a robust earnings report, with the company experiencing accelerating, broad-based growth driven by improving industrial conditions. This top-line momentum, combined with material cost-cutting efforts, is enabling significant earnings per share expansion. We expect this elevated level of growth to persist, supported by a meaningfully improved cost structure and go-to-market sales approach. We believe that Cognex will benefit from new phone formats and consumer devices to access AI.

Legence Corp. is a leading provider of engineering, installation, and maintenance services for mission-critical building systems, with a focus on complex heating, ventilation, air conditioning, process piping, and other mechanical, electrical, and plumbing systems. Shares rose during the quarter, driven by a combination of strong underlying business momentum and continued enthusiasm around AI and data center construction, which remains a significant tailwind for the business. Quarterly results highlighted accelerating growth, with both revenue and cash flow more than doubling compared to the prior year. Additionally, the company's backlog reached a record high, providing excellent visibility for future growth.

Other holdings that rose over 30% in the quarter but added less to overall returns were Hinge Health, ICON, Enpro, First Advantage, JFrog, Novanta, **The Cheesecake Factory Incorporated**, Andersen Group, and **indie Semiconductor, Inc.**

Top detractors from performance for the quarter

	Contribution to Return (%)
Planet Fitness, Inc.	(0.99)
Guidewire Software, Inc.	(0.81)
Everforth, Inc.	(0.71)
SiteOne Landscape Supply, Inc.	(0.69)
Karman Holdings Inc.	(0.51)

Planet Fitness, Inc., the leading high-value, low-cost gym operator, detracted from performance in the second quarter after the company lowered full-year guidance following weaker-than-expected member additions in the first quarter. Member growth was pressured by a combination of unfavorable weather, macroeconomic headwinds, increased competition in certain markets, and marketing changes that did not resonate with certain customer segments. As a result, management reduced its outlook for the year to reflect the lower membership base and paused previously announced price increases. Despite the disappointing results, Planet Fitness remains the category leader, with scale advantages needed to capitalize on favorable long-term health and wellness trends.

Shares of property and casualty insurance software vendor **Guidewire Software, Inc.** declined after a handful of deals slipped from the fiscal third quarter into the fiscal fourth quarter. We believe this is purely a timing issue, with these deals closed in the current period. Guidewire's InsuranceSuite platform serves as the core system of record for insurance carriers, functioning as the single source of truth for the policies an insurer writes, the claims it processes, the premiums it collects, and the payments it makes. We think the core-system opportunity alone represents nearly $20 billion of annual recurring revenue, or roughly 20 times Guidewire's current size. In our view, AI will meaningfully expand this opportunity by enabling automation and intelligence on top of the core system of record.

Everforth, Inc., formerly known as ASGN Incorporated, is a leading provider of IT consulting and staffing services. Shares fell after the company reported disappointing first quarter results and second quarter guidance was below expectations. We believe commercial conversions are slowing and sales cycles are lengthening, particularly for higher-margin enterprise software projects, as customers pause to assess the implications of AI. At less than 6 times EBITDA, we believe the stock is trading at or near a valuation trough, and Everforth is well positioned to help its customers develop and implement critical and modern IT solutions as demand normalizes.

Another holding that declined over 30% in the quarter but had less impact on overall performance was Karman.

Portfolio Structure

As of June 30, 2026, the Fund had $2.8 billion under management and owned 55 stocks. The Top 10 stocks accounted for 38.5% of the Fund's net assets. As expected, with more initial public offerings, market volatility, and improved liquidity through the utilization of Redemption in Kind (RIK) trades, the number of names in the Fund has increased somewhat, and concentration has decreased.

Top 10 holdings

	Year Acquired	Quarter End Investment Value ($M)	Percent of Net Assets (%)
Vertiv Holdings Co	2019	217.6	7.6
Red Rock Resorts, Inc.	2016	144.8	5.1
Kinsale Capital Group, Inc.	2019	115.4	4.1
SiteOne Landscape Supply, Inc.	2016	105.2	3.7
JBT Marel Corporation	2017	95.7	3.4
TransDigm Group Incorporated	2006	93.2	3.3
Cognex Corporation	2011	90.5	3.2
Guidewire Software, Inc.	2012	86.1	3.0
Liberty Media Corporation - Liberty Formula One	2016	76.1	2.7
The Baldwin Insurance Group, Inc.	2019	71.8	2.5

The Fund is primarily invested in five sectors: Industrials, Consumer Discretionary, IT, Health Care, and Financials. The mix of these sectors has remained fairly consistent over the past few years. We are well overweight in Industrials and Consumer Discretionary, slightly overweight in Financials, underweight in IT, and well underweight in Health Care (because we don't own biotechnology stocks which are approximately 15% of the Index).

These weightings are the outcropping of our team's research to find the best investment opportunities for the long term. It is not a reflection about our feelings on near-term expectations about what sectors will perform best or the pace of economic growth, which is not our area of expertise. Identifying high-quality businesses that are well managed, have strong competitive advantages, great long-term opportunities, and trade a reasonable multiple that enable us to make good long-term investment returns...that's our thing.

Our approach of being long-term investors and holding onto our winners has served us well. Our goal is to identify special businesses that we can buy when they are small and own as they grow and mature, and their stocks compound at attractive rates in line with the company's success. 39% of our assets are invested in companies that we have invested in for 10 years or more and another 31% in stocks we have owned between 5 and 10 years. These holdings have performed well. We also strongly believe that we should maintain our investments in our winning investments (though we trim the position sizes back over time) to benefit from their continued growth. 25% of our assets are in stocks that have appreciated over five times since we purchased them, and another 34% have more than doubled. The annualized returns of these holdings is very strong. We believe the success of this approach is reflected in the consistency of the Fund's outperformance over the long term versus the Index and peers, as shown below.

Percentage of time Fund outperformed benchmark and peers over different time periods from inception through 6/30/2026

Rolling Return Period	1 Year	3 Years	5 Years	10 Years
Fund Outperformance vs. Russell 2000 Growth Index	60%	66%	66%	75%
Fund Outperformance vs. Morningstar Small Growth Category Average	66%	82%	90%	99%
Morningstar Small Growth Category Average vs. Russell 2000 Growth Index	44%	42%	42%	42%

The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.
Sources: Baron Capital, FTSE Russell, and Morningstar Direct.

We are now in a period of rapid change, brought on by the onset of AI, which will affect most businesses. We need to be extra diligent in understanding the impact of AI on our holdings and actively reevaluate each holding, even if we have had great long-term success in the stocks. It is more challenging now to predict the future, but we believe we have a great perch from which to do so with our deep relationships with our companies and vast, experienced, and differentiated research effort.

Relative underperformance versus the Index has been more pronounced and protracted than in the past. We believe this primarily has to do with anomalies in the market/Index, which for a while now has favored lower quality, more speculative, high beta, and momentum stocks. We are not sure why. Our response is to stick to our knitting and invest as we always have. It seems like this period is coming to an end, which would be welcome.

Recent Activity

Top net purchases for the quarter

	Year Acquired	Quarter End Market Cap ($B)	Net Amount Purchased ($M)
Shake Shack Inc.	2026	2.4	32.6
Blackstone Digital Infrastructure Trust Inc.	2026	2.2	30.0
Applied Aerospace & Defense, Inc.	2026	3.9	27.6
Wingstop Inc.	2026	4.7	23.9
Casella Waste Systems, Inc.	2026	6.2	18.4

In the second quarter, we added five new names to the portfolio and increased three existing positions. The Fund initiated or increased positions with a weighted average market cap of $3.5 billion, squarely in the small-cap designation. Of the five, two were new to the public markets. Both are profiled below.

Wingstop Inc. was a previous successful investment that remains a best-in-class franchisor with stellar unit economics and long growth runway. We are investing again in this high-quality "fallen angel" at what we think is a meaningfully discounted valuation. We acquired shares of **Casella Waste Systems, Inc.**, a well-entrenched market leader with high barriers to entry in an industry we understand well (after more than a decade owning **Waste Connections, Inc.**) at what we believe is an attractive entry point. In both cases, we feel the issues leading to lower stock prices are temporary, creating long-term opportunities in the stocks.

During the quarter we initiated a position in **Shake Shack Inc.**, a premium fast-casual burger chain, after the stock sold off almost 30% after its Q1 earnings call on a reported bad comp in April, and slightly lower fiscal year margin guidance from rising beef inflation. This presented a compelling opportunity to invest in a differentiated brand led by an experienced new management team, with stellar unit economics and balance sheet to fund growth for many years to come.

We believe Shake Shack is still in the early innings of its growth lifecycle with significant runway across several dimensions. Management has articulated a long-term target of 1,500 domestic company-operated Shacks, compared to roughly 390 today. They expect Shake Shack to open 60 to 65 company-operated restaurants in 2026, up from 44 in 2025 which is supported by improving unit economics (35% cash-on-cash returns) as the company has been able to expand restaurant-level margins while reducing build costs. Average unit volumes in domestic company-operated restaurants exceed $4 million, among the highest in the fast-casual peer set, with an attractive sales/investment ratio of roughly two times. Internationally, licensed partners in the Middle East, Asia, and Europe continue to expand, providing high-margin fee income to the company. At the same time, restaurant-level margins are on an upward trajectory as the operations team captures efficiency gains unlocked under new management. We believe that Shake Shack will be able to grow revenue growth in the double digits and EBITDA mid-teens over the next several years, and that shares are attractively priced relative to that growth.

We participated in the IPO of **Blackstone Digital Infrastructure Trust Inc.**, a newly listed Blackstone-sponsored vehicle focused on acquiring stabilized, fully leased data centers underpinned by long-term, non-cancellable leases to the world's largest hyperscalers in primary data center markets. The opportunity is compelling given the absence of large-scale capital dedicated to acquiring stabilized data center assets – leaving a significant volume of institutional-quality assets available at attractive prices with limited competition. Blackstone's sponsorship brings an unparalleled sourcing advantage, having invested $200 billion into digital infrastructure since 2018 and sourcing over 85% of deals off market, alongside a near-term actionable pipeline of $25 billion. We believe the long-term leases with annual escalators and limited exposure to operating risks support a highly visible, attractive return profile. We spent considerable time with management prior to the IPO and came away highly impressed with the depth of the team, the quality of the identified pipeline, and the clarity of the long-term vision.

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Applied Aerospace & Defense, Inc. is a premier provider of mission-critical structures and components for the aerospace and defense industrial base. During its IPO, we were drawn to the company's scarce, IP-rich franchise, with an 87% sole source and 89% proprietary portfolio. The company sits deep in the supply chain across three attractive end markets – defense aviation, space launch, and C5ISR/Precision Strike – producing reusable landing systems for launch vehicles, control surfaces for next-generation fixed-wing aircraft, and solid rocket components among other offerings. We see a multi-pronged path to durable growth ahead as the company converts a $1.1 billion backlog and $3.8 billion weighted pipeline into revenue. We expect the company to grow revenue at least at a mid-teens CAGR organically with EBITDA margins expanding to the high 20% level over time.

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	128.6	65.0
Legence Corp.	2025	3.1	9.2	54.3
The Cheesecake Factory Incorporated	2001	1.3	4.0	34.5
Cognex Corporation	2011	1.4	12.1	32.1
Gartner, Inc.	2007	2.2	8.7	19.9

During the quarter, our largest sales were trims of some of our largest and best performing stocks (**Vertiv Holdings Co**, **Legence Corp.**, **The Cheesecake Factory Incorporated**, and **Cognex Corporation**). The weighted average market cap of our decreased positions (20 in total) was approximately $33 billion. We sold three positions during the quarter, with the largest disposal being Floor & Decor Holdings, Inc. as existing home sales, a key driver for flooring demand, remain weak and we favor other ways to play a future housing recovery. We reallocated funds from Accelerant Holdings and PAR Technology Corporation to other ideas we like more.

Outlook

The first half ended with the market near highs and the economy being strong and resilient. Inflation was moderating, with the decline in the price of oil, and interest rates were declining, which would be a positive for growth and the multiples of stocks. But subsequently, the U.S.-Iran deal has collapsed, oil prices have jumped, and rates are trending higher. A very fluid situation.

In June and July, there has been a rotation in the market. The Magnificent Seven was all the rage in 2025 and AI/technology stocks were the primary drivers of market performance in the first half of 2026. But the second quarter's biggest AI winners, semiconductor stocks, have come back to earth. There is newfound interest in sectors and stocks that have been overlooked and haven't participated in the year's rally. This is healthy and a positive trend for the Fund.

We believe small caps, generally, and our portfolio, in particular, are well positioned for good returns. Though the small-cap indexes have done well this year, it's just a narrow swath of stocks that have dominated the performance, and most stocks are still unloved and undervalued. Despite recent outperformance of small-cap growth stocks, the relative valuation versus large caps remains attractive relative to long-term averages. We believe our holdings range from cheap to reasonably valued. We foresee stronger rates of growth going forward, as the industrial economy perks up after three years of subpar growth. We believe this improved earnings trajectory, driven by faster organic growth and the execution of corporate opportunities, will drive good stock performance from these levels.

Thank you for your interest in the Fund. We remain dedicated to applying our time-tested investment approach and confident that it will return excellent results in the long term. Our research team is tremendous. We are excited about the prospects for our holdings and are seeing many new investment opportunities that are generated by the volatility in the market, changing and uncertain perceptions about the future, and an improved new issue calendar.

Sincerely,

Cliff Greenberg
Portfolio Manager

† 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.

[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.

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Risks: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

The Fund may not achieve its objectives. **Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.**

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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Beta explains common variation in stock returns due to different stock sensitivities to market or systematic risk that cannot be explained by the US Country factor. Positive exposure indicates high beta stock. Negative exposure indicates low beta stock. **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. **Earnings Per Share (EPS)** is a commonly used measure of a company's profitability. It indicates how much profit each outstanding share of common stock has earned. **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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