DEAR BARON FOCUSED GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron Focused Growth Fund (the "Fund") decreased 4.52% (Institutional Shares) in the quarter ended December 31, 2022. The Fund's primary benchmark, the Russell 2500 Growth Index (the "Index"), increased 4.72%. The S&P 500 Index, which measures the performance of domestic large-cap companies, increased 7.56%. For the full year, the Fund somewhat trailed the Index, depreciating 28.14% compared to a decline of 26.21% for the Index.

Table I.
Performance
Annualized for periods ended December 31, 2022

	Baron Focused Growth Fund Retail Shares[1,2,3]	Baron Focused Growth Fund Institutional Shares[1,2,3,4]	Russell 2500 Growth Index[2]	S&P 500 Index[2]
Three Months[5]	(4.57)%	(4.52)%	4.72%	7.56%
One Year	(28.30)%	(28.14)%	(26.21)%	(18.11)%
Three Years	23.71%	24.02%	2.88%	7.66%
Five Years	20.63%	20.94%	5.97%	9.42%
Ten Years	15.10%	15.39%	10.62%	12.56%
Fifteen Years	10.96%	11.21%	8.39%	8.81%
Since Inception (May 31,1996)	12.70%	12.84%	7.65%	8.80%

This modest underperformance in 2022 was principally due to the decline in **Tesla, Inc.**'s share price. Tesla's stock price fell 65% for the year and 54% in the fourth quarter. This decline was mostly offset by stronger performance across approximately half of our portfolio where our consumer and business services companies benefited from strong demand. Robust demand enabled those businesses to achieve greater pricing power, while still maintaining strong customer retention rates. Among those companies were **CoStar Group, Inc.**, **Arch Capital Group Ltd.**, **Iridium Communications Inc.**, and **Hyatt Hotels Corp.**

DAVID BARON CO-PORTFOLIO MANAGER | RONALD BARON CEO AND LEAD PORTFOLIO MANAGER | Retail Shares: BFGFX Institutional Shares: BFGIX R6 Shares: BFGUX

We were obviously disappointed by the stock price performance of Tesla in 2022 and in the fourth quarter. Regardless, we believe the company's fundamentals remain attractive. Chinese production and deliveries were both impacted last year by shutdowns of its plant and less demand from Chinese consumers due to COVID. Also negatively impacting demand in the U.S. in December were purchasing deferrals due to consumer tax incentives starting in early 2023. As a result, Tesla cut prices for its electric vehicles (EVs) in the period which created investor concerns about demand and the impact on gross margins. In January, Tesla experienced "unprecedented" demand, with orders about twice daily production! We believe the significant increase in demand for Tesla EVs will reduce the impact of lower prices.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2021, 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 reimburse certain Baron Fund expenses pursuant to a contract expiring on August 29, 2033, 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 www.BaronFunds.com or call 1-800-99BARON

1 Reflects the actual fees and expenses that were charged when the Fund was a partnership. The predecessor partnership charged a 15% performance fee through 2003 after reaching a certain performance benchmark. If the annual returns for the Fund did not reflect the performance fees for the years the predecessor partnership charged a performance fee, the returns would be higher. The Fund's shareholders will not be charged a performance fee. The performance is only for the periods before the Fund's registration statement was effective, which was December 31, 2008. During those periods, the predecessor partnership was not registered under the Investment Company Act of 1940 and was not subject to its requirements or the requirements of the Internal Revenue Code relating to registered investment companies, which, if it were, might have adversely affected its performance.

2 The **Russell 2500™ Growth Index** measures the performance of small to medium-sized companies that are classified as growth and the **S&P 500 Index** of 500 widely the performance of small to medium-sized U.S. companies that held large cap U.S. companies. 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 index and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

3 The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

4 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.

5 Not annualized.

BARON FUNDS 1987

Tesla is the lowest cost provider for its high-quality EVs and is continuing to lower production costs. In addition, new manufacturing facilities in Berlin and Texas should ramp this year helping increase production capacity and eliminate margin drag from start-up costs.

The company will also benefit from the Inflation Reduction Act, which we expect will boost Tesla's profits and volumes. Starting on January 1, 2023, most consumers will receive a $7,500 credit to buy an EV, and Tesla will benefit from a $3,500 tax incentive. Combining its strong 50% EBITDA to cash conversion rate and its strong balance sheet, with over $22 billion in cash and nominal debt, we think the company is in a strong position to weather the current volatile environment.

We remain steadfast in our commitment to long-term investments in competitively advantaged growth businesses with large growth opportunities that are taking share and are managed by exceptional executives. We believe such investments are an effective way to protect and increase the purchasing power of our savings in a focused fund. In the past, after wars, pandemics, financial panics, higher-than-normal inflation, and significant market declines, as interest rates stabilize and are ultimately reduced, equity stock prices have increased substantially. We believe that will happen again although timing remains uncertain.

The Fund continued to outperform its Index for the 3-, 5-, 10-, and 15-year periods, as well as since its inception as a private partnership on May 31, 1996. Since its inception over 26 years ago, the Fund has increased 12.84% annualized. This compares to a 7.65% annualized return for the Index and an 8.80% annualized return for the S&P 500 Index.

While the Fund's fourth quarter and 2022 annual performance were weak on both an absolute and relative basis, we remain confident in our portfolio holdings and expect stronger performance ahead though this cannot be guaranteed. We believe many of our stocks have already priced in significant declines in earnings this year. Investors obviously remember operating declines seen in the 2008/2009 Global Financial Crisis and are pricing in similar declines today. Hence, we believe if we do not go into a deep recession this year or if the slowdown and/or declines in earnings are not as bad as feared, we should see significant upside near term in our investments. We believe our stocks are cyclically depressed, not secularly challenged and should recover over the next 18 to 24 months. Thus far, most of our companies haven't experienced a slowdown in sales or earnings growth, and their outlooks remain strong. In addition, we believe that even if a downturn were to occur, our companies would still be operating above pre-pandemic levels. Our businesses' balance sheets have been strengthened compared to pre-COVID levels. As a result, our businesses should be better able to withstand whatever slowdown or decline in earnings growth occurs.

Our portfolio holdings continue to have strong competitive advantages with large market opportunities. Despite market volatility, our companies continue to invest in their businesses to accelerate revenue growth, while using excess cash to return capital to shareholders through increased buybacks and dividends. That's a key differentiator for the Fund. The current weighted average return on invested capital for the Fund's holdings is 10.5% versus just 6.4% for the companies in the Index. One of the reasons we believe our companies should continue to grow through any market environment is that they invest for growth through any market environment. In addition, many are starting to accelerate their return of capital to shareholders through increased buybacks and dividends. Those are signs to us that management teams see significant value in their stocks and are confident in their business prospects despite the uncertain macro environment.

Fourth quarter performance was led by companies that continue to see strong demand for their products and services despite the uncertain economic environment. They remain price leaders while maintaining high retention rates. These include CoStar, Iridium, Hyatt, and Arch. These gains were offset by the underperformance of our higher-growth companies, whose multiples continued to contract given concerns about the Fed's aggressive rate hikes and the underperformance of their businesses, such as **Figs Inc.** and Tesla (as mentioned above).

Real estate data and marketing platform CoStar increased 11.0% in the quarter and helped performance by 55 bps. CoStar's share price increase was due to strong new bookings with continued strength in retention rates despite implementing price increases across its suite of products. CoStar continues to invest in its residential platform and is starting to benefit. We believe this investment should meaningfully accelerate CoStar's revenue growth through the expansion of its addressable market. We believe the stock market is attributing negative equity value to this growth opportunity. Over the next five years, this investment could add as much as $1 billion or more to annualized revenue at a significantly accretive margin. This would result in a 50% increase to today's $2 billion of revenue and an approximate 75% increase in EBITDA. Longer term, we believe this investment opportunity is several multiples of $1 billion of revenue.

Iridium, a leading mobile voice and data communications services vendor offering global coverage via satellite, increased 15.8% and added 58 bps to performance in the quarter. It increased 24.2% for the year and helped performance by 106 bps. The stock outperformed as the company's revenue growth accelerated, leading to strong profitability and cash flow, which the company used to buy back its stock. The company continues to benefit from its $3 billion investment in its satellite constellation, which is a technologically and capital-intensive effort and a strong barrier to entry. Iridium continues to generate consistent and growing revenue and cash flow, which should lead to a return of capital to shareholders for at least the next 10 years. That is since its satellites last longer than its competitors' satellites, and they offer stronger broadband given its low-earth orbit positioning.

Hyatt increased 11.7% and helped performance by 59 bps in the quarter. The company continues to achieve strong revenue-per-available-room as business travel recovers from pandemic lows and leisure travel remains strong. The company also benefited from its Apple Leisure Group acquisition, which has made the business more asset light and improved cash flow generation. Leisure rates remain strong and are still well above pre-COVID levels. This strength combined with continued improvement in business transient travel and group bookings are leading to higher margins and increased cash flow that Hyatt is using to buy back its shares. We believe Hyatt shares are significantly undervalued. While there remains investor concern that a possible recession will result in slower or even negative growth, we believe most of this is being priced into the stock at current levels. We clearly think the risk/reward for the stock skews positively. Thus far, the company has seen no material slowdown in occupancy levels or rates and continues to increase prices, especially on the leisure side. While leisure may be experiencing peak demand levels, management believes any slowdown in growth would be offset by the continued recovery of group and business customers. Volumes in these segments are rapidly returning to pre-pandemic levels. Hyatt's balance sheet and cash flow profile remain strong, which, combined with additional owned hotel asset sales, should result in more consistent earnings. This should expand the stock's multiple over time.

Shares of property & casualty (P&C) insurer Arch increased 37.9% in the quarter and helped performance by 193 bps and increased 41.2% for the year and helped annual performance by 193 bps. This was as the company increased premiums written and raised prices. This strong pricing is resulting in robust returns on investments, with increased earnings and cash flow that the company is using to repurchase its shares. We believe that Arch will continue to generate mid-teens returns on capital and that Arch's valuation remains attractive.

Shares of Figs, the largest direct-to-consumer supplier of scrubs to the medical industry, declined 18.4% in the quarter and hurt performance by 73 bps. The decline was due to customers pulling back on their frequency of purchases as they are being hurt by the current inflationary macro environment. Management now expects to have an increased promotional environment to clear excess inventory, although they indicated it should be similar to pre-COVID levels. However, the company continues to innovate offering new styles, colors, and sizes. It continues to add active customers despite the challenging macro environment with record customer reactivations. Non-scrubs continue to grow at a brisk pace and should be accretive to margins as this product line scales. The company also continues to expand awareness, by leveraging digital and out-of-home marketing and remains profitable on a first order basis. Its international business is in its very early days with strong results so far in the U.K. and Canada. We believe its direct-to-consumer model, strong brand, and superior product remain durable competitive advantages and should help the company take share as it continues to penetrate the $80 billion global health care apparel market. We continue to believe the company could double its revenue over the next three years and almost triple its EBITDA.

For 2022, **FactSet Research Systems, Inc.**, a financial intelligence provider to the investment community, declined 16.8% and hurt performance for the year by 59 bps. FactSet shares declined as investors were worried about decelerating earnings growth with the company making accelerated investments in new tools and technology to spur revenue growth. However, the company is starting to see stronger revenue growth with improved margins, as recent investments start to generate returns. This has led to increased pricing power and new use cases without any change in retention rates. We expect further revenue and earnings growth in 2023 and beyond, as well as improved cash flow from its recent CUSIP acquisition. FactSet will likely use its increased cash flow for additional acquisitions and share repurchases. FactSet's prospects remain favorable due to its large addressable market, strong financial technology expertise, and consistent execution on both new product development and financial results.

For 2022, shares of P&C insurance software vendor **Guidewire Software, Inc.** fell 44.9% and hurt performance by 189 bps. We believe this is due to continued multiple compression in high-growth cloud technology stocks. However, the company continues to accelerate its investment in its cloud computing growth opportunity. Guidewire has now crossed the midpoint of its cloud transition, which should correlate to dramatically improving financial results. We believe Guidewire has tripled its addressable market to $20 billion through new products and cloud delivery. We believe the company is the critical software vendor to the global P&C insurance industry, which remains significantly underpenetrated. Guidewire could ultimately capture 30% to 50% of its $15 billion to $25 billion total annual addressable market. If that is the case its margins could exceed 40%. This resultant strong cash flow could be used to continue to invest in new products and services for its customers and buying back stock. It recently instituted a $400 million share repurchase program.

In 2022, shares of ski resort owner and operator **Vail Resorts, Inc.** declined 25.2% and negatively impacted performance by 93 bps. The decline was due to investor concerns that a possible recession will result in a slowdown or decline in growth and would negatively impact season pass sales and earnings. Thus far, Vail has seen no material change in its visitation or visitor spending levels. It continues to generate robust earnings and free cash flow. Season pass sales this season increased at a mid-single-digit rate, enabling the company to be assured of almost a third of its annual revenue before the season even started. Vail continues to invest in its people and resorts. This year it raised its minimum wage to $20 from $15. It also increased its investment budget for all its resorts from $170 million per year to $320 million. This is to increase lift capacity and open acreage to make skiing at Vail an even more outstanding experience. Vail's strong balance sheet and well-covered dividend should enable it to weather any downturn and allow for further acquisitions and pursuit of other growth opportunities.

Shares of gaming company **PENN Entertainment, Inc.** declined 42.7% in 2022 and penalized performance by 110 bps. This was due to investor concerns about a potential recession. Thus far, the company has seen no material change to visitation or spending levels. PENN is generating strong cash flow, which it continues to use to invest in its digital growth opportunity, while using excess cash to buy back its stock. PENN is well positioned to weather a slowdown or recession, and we believe that if one does occur, the company would likely still generate revenue and EBITDA above pre-pandemic levels. We regard the $80 million of startup costs in 2022 from its digital business to be modest in relation to PENN's over $1 billion of EBITDA casino earnings. The losses from its digital business represent customer acquisition costs incurred as additional states legalize online gambling. Since it is far less expensive to retain existing customers than to acquire new ones, we expect marketing costs to decline as PENN builds its customer base. PENN's core bricks and mortar casino businesses remain strong. Its healthy regional casino business and strong balance sheet should enable it to continue to easily absorb its digital losses whether or not a recession should occur.

Performance for 2022 was led by our **Financials** investments, which performed better than the Index. Rising interest rates help such businesses. These stocks increased 1.83% in the year and represented 17.5% of net assets. The outperformance was led by our investment in P&C insurer Arch.

Companies we categorize as **Core Growth** businesses can generally to grow revenue and earnings steadily, while returning excess cash flow to investors through dividends and share repurchases. They declined less than the Index in 2022. These stocks decreased 10.3% in 2022 and represent 12.4% of net assets. The better performance was due to CoStar's strong performance in the period. CoStar declined 2.2% for the year vs. the Index, which was down 26.2%. This was as CoStar accelerated its investment in its residential business. This investment will penalize earnings in the short term but should significantly expand CoStar's addressable market longer term. We believe the investment should yield high returns and enhance the company's growth and free cash flow.

Our **Real/Irreplaceable Assets** are those companies with assets that generally have strong pricing power and are a hedge against inflation. They also held up better than the Index despite falling 21.0% in 2022. These holdings represent 25.0% of net assets as of year-end. The declines were due to our investments in Vail and PENN (as noted above), as investors were concerned about a potential global recession and its impact on these companies' earnings and cash flow. However, both companies continue to generate strong results as consumer spending remains robust. Visitation and spending patterns have not been materially impacted by higher interest rates or the inflationary environment. We believe these stocks are unusually attractively priced with strong brands and future growth opportunities. With strong balance sheets, all should still be able to generate earnings above pre-pandemic levels even if a recession were to occur. Most are already discounting that one will occur in the next 12 months.

Our **Disruptive Growth** investments, rapid, earlier-stage growth businesses that are disruptive to their industries, failed to outperform the Index after decreasing 43.4% for the year. The group accounted for 37.4% of net assets as of December 31, 2022. The decline was due to our investments in Tesla(as mentioned above) as well as digital music service provider **Spotify Technology S.A.**, which we discuss in further detail below.

Table II.
Total returns by category for the quarter ended December 31, 2022

	% of Net Assets (as of 12/31/2022)	Total Return (%)	Contribution to Return (%)
Financials	**17.5**	**17.53**	**2.36**
Arch Capital Group Ltd.	7.8	37.86	1.93
MSCI, Inc.	4.8	10.58	0.43
FactSet Research Systems, Inc.	5.0	0.47	0.01
Real/Irreplaceable Assets	**25.0**	**11.50**	**2.06**
Red Rock Resorts, Inc.	3.3	20.11	0.53
Vail Resorts, Inc.	5.2	12.35	0.50
Hyatt Hotels Corp.	6.2	11.72	0.59
Marriott Vacations Worldwide Corp.	2.3	11.04	0.24
PENN Entertainment, Inc.	1.9	7.96	0.12
Manchester United plc	1.3	6.82	0.07
Choice Hotels International, Inc.	2.4	3.07	0.08
Alexandria Real Estate Equities, Inc.	0.7	0.96	0.01
Douglas Emmett, Inc.	0.7	–0.87	–0.01
American Homes 4 Rent	1.0	–7.63	–0.07
Core Growth	**12.4**	**6.98**	**0.37**
CoStar Group, Inc.	6.2	10.95	0.55
Verisk Analytics, Inc.	3.3	2.66	0.06
IDEXX Laboratories, Inc.	1.6	–6.69	–0.10
Krispy Kreme, Inc.	1.4	–10.25	–0.14
Russell 2500 Growth Index		**4.72**	
Disruptive Growth	**37.4**	**–21.39**	**–9.12**
Shopify Inc.	1.0	29.01	0.19
Space Exploration Technologies Corp.	11.9	22.58	2.03
Iridium Communications Inc.	4.5	15.84	0.58
Guidewire Software, Inc.	3.0	1.59	0.02
BioNTech SE	–	0.97	0.00
ANSYS, Inc.	2.0	0.12	0.00
Spotify Technology S.A.	1.1	–9.79	–0.14
Figs Inc.	3.5	–18.45	–0.73
Tesla, Inc.	10.4	–53.56	–11.09
Cash	**7.7**	**–**	**0.07**
Fees	**–**	**–0.28**	**–0.28**
Total	**100.0***	**–4.53****	**–4.53****

Sources: FactSet PA, BAMCO, and FTSE Russell.

* Individual weights may not sum to displayed total due to rounding.

** Represents the blended return of all share classes of the Fund.

Table III.
Performance
Periods Baron Focused Growth Fund underperformed

	Internet Bubble	Baron Growth Stocks Underperform 2014-2016
	Annualized Returns	
	10/8/1998 to 3/9/2000	12/31/2013 to 12/31/2016
Baron Focused Growth Fund (Institutional Shares)	41.77%	0.45%
Russell 2500 Growth Index	126.53%	5.45%
S&P 500 Index	32.29%	8.87%

Performance data quoted represents past performance. Past performance is no guarantee of future results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

From 2014 through 2016, the Fund invested in several companies whose stocks underperformed while they were investing in their businesses to enable them to grow. CoStar and Iridium were among those businesses. Their stocks outperformed in 2021 and 2022, as those investments began to generate strong returns.

We believe the Fund's underperformance from 2014 through 2016 is analogous to instances when, after brief periods of underperformance, the Fund subsequently outperformed for an extended period. For example, in the 18-month period from October 1998 through March 2000, at the height of the Internet Bubble, the Fund, which owned no internet stocks, increased 41.77% annualized, while the Index increased 126.53% annualized. This was immediately prior to the Internet Bubble bursting. The Index fell materially over the next eight years. The Fund increased in value during that period. (Please see Tables III and IV.)

Similar to the Fund's relatively strong performance in the post-Internet Bubble period, we expect the Fund to perform well over the next several years. This is despite our expectation that there will be periods when value stocks outperform the growth stocks in which we have invested as was the case in 2022. We can certainly give no assurance this will be the case. So, despite unusually strong balance sheets and favorable growth prospects, we believe the market is giving these businesses little credit for future earnings growth. We believe, even if a recession were to occur, these businesses would still be generating earnings above pre-pandemic levels and most of their stocks are already discounting that a decline in earnings will occur next year.

Since its inception as a private partnership on May 31, 1996 through December 31, 2022, the Fund's **12.84% annualized performance** has **exceeded** that of its Index by **519 bps per year**!

The Fund's beta has averaged 0.83 since inception. This means the Fund has been 83% as volatile as the Index. As a result of the Fund's strong absolute and relative returns and lower risk since inception, the Fund has achieved 6.70% annual alpha, a measure of risk-adjusted performance.

Table IV.
Performance
Millennium to COVID-19 Pandemic. The Impact of Not Losing Money.

	Millennium Internet Bubble to Financial Panic 12/31/1999 to 12/31/2008		Financial Panic to Present 12/31/2008 to 12/31/2022		Millennium Internet Bubble to Present 12/31/1999 to 12/31/2022		Inception 5/31/1996 to 12/31/2022	
	Value $10,000	Annualized	Value $10,000	Annualized	Value $10,000	Annualized	Value $10,000	Annualized
Baron Focused Growth Fund (Institutional Shares)	$12,732	2.72%	$80,750	16.09%	$102,811	10.66%	$248,085	12.84%
Russell 2500 Growth Index	$ 6,931	–3.99%	$57,233	13.27%	$ 39,667	6.17%	$ 70,918	7.65%
S&P 500 Index	$ 7,188	–3.60%	$56,284	13.14%	$ 40,457	6.27%	$ 94,142	8.80%

Performance data quoted represents past performance. Past performance is no guarantee of future results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

We did not make much money from December 31, 1999 to December 31, 2008 (amid the highs of the Internet Bubble and the lows of the Financial Crisis). But…we did make something…which gave investors a much better outcome than if they had hypothetically invested in a passive index fund mirroring either the Index or the S&P 500 Index. Both indexes lost a material amount of money during that period. (Please see Table IV.)

Due to the power of compounding and of not losing money from the Millennium Internet Bubble to the Financial Panic period and outperforming the market during upswings from the Financial Panic to Present, $10,000 hypothetically invested in Baron Focused Growth Fund at the Fund's inception on May 31, 1996, was worth $248,085 on December 31, 2022. That is 3.5 times the value of a hypothetical investment of the same amount in funds designed to track the Russell 2500 Growth Index, and over 2.6 times the value of a hypothetical investment of the same amount in funds designed to track the S&P 500 Index. (Please see Table IV.)

Table V.
Top contributors to performance for the quarter ended December 31, 2022

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Space Exploration Technologies Corp.	2017	–	–	22.58%	2.03%
Arch Capital Group Ltd.	2003	0.9	23.2	37.86	1.93
Hyatt Hotels Corp.	2009	4.2	9.7	11.72	0.59
Iridium Communications Inc.	2019	3.1	6.5	15.84	0.58
CoStar Group, Inc.	2014	6.2	31.4	10.95	0.55

Space Exploration Technologies Corp. (SpaceX) is a high-profile private company founded by Elon Musk that designs, manufactures, and launches rockets, satellites, and spacecrafts. Its long-term goal is to enable human beings to inhabit Mars. We believe SpaceX is creating substantial value through the expansion of its Starlink broadband service. It also reliably provides reusable launch capabilities, including crewed space flights, and is making progress on its largest rocket, Starship. We value SpaceX using prices of recent financing transactions and a proprietary valuation model.

Arch Capital Group Ltd. is a specialty insurance company based in Bermuda. Shares increased due to favorable pricing trends in the P&C insurance market. During the quarter, the company reported earnings that beat consensus despite significant losses from Hurricane Ian. The stock also benefited from inclusion in the S&P 500 index, which prompted buying from passive funds. We continue to own the stock due to Arch's strong management team and our expectation of strong growth in earnings and book value.

Shares of global hotelier **Hyatt Hotels Corp.** increased in the quarter, driven by steady spending at its leisure properties and improvement in its business transient and group bookings. Strong revenue growth resulted in improved margins versus pre-pandemic levels. Continued progress in Hyatt's transformation into an asset-light business based on management and franchise fees is generating increased cash flow that the company is using to buy back shares and make accretive acquisitions. Its solid balance sheet should allow it to withstand a possible downturn or recession.

Shares of **Iridium Communications Inc.**, a leading mobile voice and data communications services vendor offering global satellite coverage, rose after announcing its first cash dividend as part of its shareholder return program. Expectations for smartphone compatibility remained robust, with record quarterly results showing double-digit growth in commercial service revenue and solid profitability. Initiatives including aircraft tracking system Aireon and enterprise broadband service Certus are maturing. Lastly, Iridium won a $324 million contract from the Space Development Agency.

CoStar Group, Inc. is the leading provider of information and marketing services to the commercial real estate industry. Shares increased on solid third quarter results and raised guidance. We think CoStar is well positioned to benefit from the migration of real estate market spend to online channels. CoStar is investing aggressively to build out its residential marketing platform, which offers dramatic upside potential, in our view. The company has over $4.7 billion of cash on its balance sheet, which we expect it to begin to deploy for opportunistic M&A.

Table VI.
Top detractors from performance for the quarter ended December 31, 2022

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Total Return	Percent Impact
Tesla, Inc.	2014	$31.2	$389.0	–53.56%	–11.09%
Figs Inc.	2022	1.5	1.1	–18.45	–0.73
Krispy Kreme, Inc.	2021	2.4	1.7	–10.25	–0.14
Spotify Technology S.A.	2020	45.4	15.2	–9.79	–0.14
IDEXX Laboratories, Inc.	2022	36.5	33.8	–6.69	–0.10

Tesla, Inc. manufactures EVs, related software and components, and solar and energy storage products. Shares fell due to growing investor concerns regarding volume and pricing dynamics as demand appeared to be pressured by a potential recession and higher interest rates. In addition, following Twitter's acquisition, CEO Elon Musk dedicated a material portion of his time to the company and sold Tesla shares to fund the transaction, driving investors' concern regarding his dedication to Tesla. We remain confident in Tesla's fundamentals and management team.

Figs Inc. is a leading direct-to-consumer health care apparel brand. Shares declined following disappointing guidance for the remainder of the year. While Figs remains the favorite brand for many health care professionals, the company now expects growth to be slower than it had previously forecast, as its customers are cutting back on purchases given the challenging macroeconomic environment. We retain conviction due to Figs' strong brand, superior product and merchandising, and direct-to-consumer business model.

Krispy Kreme, Inc. is a manufacturer and retailer of branded fresh doughnuts and packaged sweet treats sold through an omni-channel model in the U.S. and abroad. Despite initial gains following third quarter earnings results, shares fell after the company's Investor Day. While generally positive, management highlighted the negative impact of inflation, FX headwinds, and the U.K. macro environment on near-term performance. We see opportunity for growth and margin expansion as Krispy Kreme optimizes its hub and spoke model and view these challenges as temporary.

Spotify Technology S.A. is a leading global digital music service offering on-demand audio streaming through paid premium subscriptions and an ad-supported model. Shares of Spotify were down on weakness in the company's fourth quarter gross margin guide. We still view Spotify as a long-term winner in music streaming with potential to reach more than one billion active monthly users. Subscriber additions remain strong, price increases seem likely, and cost discipline has become a bigger focus.

Shares of veterinary diagnostics leader **IDEXX Laboratories, Inc**. detracted from performance for the period held. Veterinary visits are still being adversely impacted by tight labor markets and challenging comparisons after a surge of pet adoptions during the pandemic. However, the rate of decline seems to have stabilized, and we see increasing evidence that long-term secular trends around pet ownership and pet care spending have been structurally accelerated. IDEXX's competitive trends are outstanding, and we expect new proprietary innovations and sales force expansion to be meaningful contributors.

Investment Strategy & Portfolio Structure

Despite current market volatility and investor angst, we have continued to manage the Fund the same way we have historically, searching for companies with large addressable market opportunities that have the potential to disrupt industries and take market share given strong competitive advantages inherent in their businesses. We search for companies with strong pricing power that have the ability to be a price leader and can raise prices every year without impacting retention rates such as with FactSet, CoStar, MSCI, or Arch. We also look for those companies that are able to be a cost leader and can produce goods and provide services at the lowest possible cost such as with Tesla and Figs.

In the fourth quarter, we added new positions in **ANSYS, Inc.**, the market leader in simulation driven product development, and **IDEXX Laboratories,**

Inc., the leading provider of diagnostics to the veterinary industry, and sold two-thirds of our position in **Spotify Technology S.A.** to take advantage of losses in the stock for tax purposes. We expect to repurchase these shares.

ANSYS is the leader in the simulation industry that its clients use for new product development. New technologies are creating goods and services that are significantly more complex. These companies need ANSYS's software for product testing that they cannot do themselves. Accordingly, ANSYS generates strong recurring revenue through contracts that last three to five years and retention rates at 95% or higher. ANSYS has a $20 billion addressable market that is underpenetrated today. ANSYS' stock declined 40% last year. We also believe its current valuation and growth prospects are attractive.

IDEXX is the market leader in animal health diagnostics, with more than 50% market share across all modalities. It is benefiting from strong long-term secular trends in the veterinary health market, including growth in the pet population, the humanization of pets, and the growing intensity of diagnostic utilization. IDEXX generates recurring revenue, underpinned by 5- to 6-year contracts and annual retention rates of between 97% and 99%. The stock declined 38% last year, and we believe its valuation and growth are attractive at current levels.

While we have made other changes on the margin, the Fund's strategy remains the same. We continue to invest for the long term in a focused portfolio of what we believe are appropriately capitalized, competitively advantaged, well-managed, small- and mid-cap growth businesses at attractive prices. We attempt to create a portfolio of between 20 and 30 securities diversified by GICS sectors that will be approximately 80% as volatile (as measured by beta) as the market. Since inception, the Fund has generated 98% of the upside when the market rises but just 80% of the downside when the market declines. Businesses in which the Fund invests are identified by our analysts and portfolio managers using our proprietary research and time-tested investment approach.

As of December 31, 2022, we held 25 investments. The Fund's average portfolio turnover for the past three years was 28.6%. This means the Fund has an average holding period for its investments of almost four years. This contrasts sharply with the average mid-cap growth mutual fund, which typically turns over its entire portfolio every 17 months. From a quality standpoint, the Fund's investments have stronger sales growth than holdings in the Index, higher EBITDA, operating, and free cash flow margins, and stronger returns on invested capital. We believe these metrics are important factors limiting risk in this focused portfolio.

While focused, the Fund is diversified by sector. The Fund's weightings are significantly different than those of the Index. For example, we are heavily weighted in Consumer Discretionary businesses with 33.2% of net assets in this sector versus 12.2% for the Index. We have no exposure to Energy versus 6.2% for the Index and lower exposure to Health Care stocks (5.0%) versus 19.4% for the Index. We believe the performance of stocks in these sectors can change quickly, we believe it is undesirable to invest in these stocks in a concentrated portfolio for the long term. The Fund is further diversified by investments in businesses at different stages of growth and development as discussed above and shown below.

Table VII.
Disruptive Growth Companies as of December 31, 2022

	Percent of Net Assets	Year Acquired	Cumulative Return Since Initial Purchase
Space Exploration Technologies Corp.	11.9%	2017	431.96%
Tesla, Inc.	10.4	2014	637.87
Iridium Communications Inc.	4.5	2014	778.71
Figs Inc.	3.5	2022	–26.53
Guidewire Software, Inc.	3.0	2013	35.35
ANSYS, Inc.	2.0	2022	–0.81
Spotify Technology S.A.	1.1	2020	–67.01
Shopify Inc.	1.0	2022	–0.29

Disruptive Growth firms accounted for 37.4% of the Fund's net assets. On current metrics, these businesses may appear expensive; however, we think they will continue to grow significantly and, if we are correct, they have the potential to generate exceptional returns over time. Examples of these companies include EV leader **Tesla, Inc.**, commercial satellite company **Iridium Communications Inc.**, and systems software provider to the insurance industry **Guidewire Software, Inc.** All of these companies have large underpenetrated addressable markets relative to the current size of these competitively advantaged businesses.

Table VIII.
Investments with Real/Irreplaceable Assets as of December 31, 2022

	Percent of Net Assets	Year Acquired	Cumulative Return Since Initial Purchase
Hyatt Hotels Corp.	6.2%	2009	229.71%
Vail Resorts, Inc.	5.2	2013	360.49
Red Rock Resorts, Inc.	3.3	2017	111.71
Choice Hotels International, Inc.	2.4	2010	456.10
Marriott Vacations Worldwide Corp.	2.3	2022	2.29
PENN Entertainment, Inc.	1.9	2019	41.50
Manchester United plc	1.3	2022	10.00
American Homes 4 Rent	1.0	2018	52.23
Alexandria Real Estate Equities, Inc.	0.7	2022	0.00
Douglas Emmett, Inc.	0.7	2022	–0.88

Companies that own what we believe are **Real/Irreplaceable Assets** represented 25.0% of net assets. **Vail Resorts, Inc.**, owner of the premier ski resort portfolio in the world, upscale lodging brand **Hyatt Hotels Corp.**, and the largest U.S. regional casino gaming company **PENN Entertainment, Inc.**, are examples of companies we believe possess meaningful brand equity and barriers to entry that equate to pricing power over time. PENN's state-granted licenses for its regional casinos provide important protection from competitors. Online sports betting and internet-casino gaming offer large opportunities for future growth.

Table IX.
Financials Investments as of December 31, 2022

	Percent of Net Assets	Year Acquired	Cumulative Return Since Initial Purchase
Arch Capital Group Ltd.	7.8%	2003	1,624.20%
FactSet Research Systems, Inc.	5.0	2008	816.24
MSCI, Inc.	4.8	2021	–28.09

Financials investments accounted for 17.5% of the Fund's net assets. These businesses generate strong recurring earnings through subscriptions and premiums that generate highly predictable earnings and cash flow. Those businesses use cash flows to continue to invest in new products and services, while returning capital to shareholders through share buybacks and dividends. These companies include **Arch Capital Group Ltd.**, **FactSet Research Systems, Inc.**, and **MSCI, Inc.** Arch, one of the leading P&C insurers, continued to increase premiums written and raise prices. This strong pricing is resulting in robust returns on investments, with increased earnings and cash flow that the company is using to repurchase its shares. We continue to believe that Arch will continue to generate mid-teens returns on capital. Arch's valuation remains attractive.

FactSet, which offers one of the leading financial intelligence systems for the asset management industry, continues to grow into new areas via fixed income, risk management, and, most recently, private equity. This should enable the company to grow and generate a steady stream of recurring cash flow that it uses for acquisitions, dividends, and buybacks. MSCI is a leading provider of investment decision support tools for the global investment community. The company's underlying business largely continued to perform well despite the negative impact of broader market weakness on asset-based fee revenue. We retain long-term conviction, as MSCI owns strong, "all weather" franchises and remains well positioned, in our view, to benefit from numerous secular tailwinds in the investment community.

Table X.
Core Growth Investments as of December 31, 2022

	Percent of Net Assets	Year Acquired	Cumulative Return Since Initial Purchase
CoStar Group, Inc.	6.2%	2014	261.12%
Verisk Analytics, Inc.	3.3	2022	2.10
IDEXX Laboratories, Inc.	1.6	2022	–7.55
Krispy Kreme, Inc.	1.4	2021	–26.34

Core Growth investments, steady growers that continually invest in their businesses for growth and return excess free cash flow to shareholders, represented 12.4% of net assets. An example would be **CoStar Group, Inc.** The company continues to add new services in the commercial and residential areas of real estate, which have grown its addressable market and enhanced services for its clients. This has improved client retention and cash flow. CoStar continues to invest its cash flow in its business to accelerate growth, which we believe should generate strong returns over time.

Portfolio Holdings

As of December 31, 2022, the Fund's top 10 holdings represented 65.4% of net assets. A number of these investments have been successful and were purchased when they were much smaller businesses. We believe they continue to offer significant further appreciation potential, although we cannot guarantee that will be the case.

The top five positions in the portfolio, **Space Exploration Technologies Corp.**, **Tesla, Inc.**, **Arch Capital Group Ltd.**, **Hyatt Hotels Corp.**, and **CoStar Group, Inc.**, all have, in our view, significant competitive advantages due to irreplaceable assets, strong brand awareness, technologically superior industry expertise, or exclusive data that is integral to their operations. We think these businesses cannot be easily duplicated, which enhances their potential for superior earnings growth and returns over time.

Table XI.
Top 10 holdings as of December 31, 2022

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Space Exploration Technologies Corp.	2017	–	–	$86.5	11.9%
Tesla, Inc.	2014	31.2	389.0	75.8	10.4
Arch Capital Group Ltd.	2003	0.9	23.2	56.5	7.8
Hyatt Hotels Corp.	2009	4.2	9.7	45.2	6.2
CoStar Group, Inc.	2014	6.2	31.4	44.8	6.2
Vail Resorts, Inc.	2013	2.3	9.6	38.1	5.2
FactSet Research Systems, Inc.	2008	2.5	15.3	36.1	5.0
MSCI, Inc.	2021	53.9	37.2	34.9	4.8
Iridium Communications Inc.	2014	0.6	6.5	32.7	4.5
Figs Inc.	2022	1.5	1.1	25.2	3.5

Thank you for investing in Baron Focused Growth Fund. We continue to work hard to justify your confidence and trust in our stewardship of your family's hard-earned savings. We also continue to try to provide you with information we would like to have if our roles were reversed. This is so you can make an informed judgment about whether Baron Focused Growth Fund remains an appropriate investment for your family.

Respectfully,

Ronald Baron
CEO and Lead Portfolio Manager

David Baron
Co-Portfolio Manager

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 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: The Fund is non-diversified which means, in addition to increased volatility of the Fund's returns, it will likely have a greater percentage of its assets in a single issuer or a small number of issuers, including in a particular industry than a diversified fund. Single issuer risk is the possibility that factors specific to an issuer to which the Fund is exposed will affect the market prices of the issuer's securities and therefore the net asset value of the Fund. As of the date of the latest prospectus supplement, about 27% of the Fund's assets are invested in Tesla stock. Therefore, the Fund is exposed to the risk that were Tesla stock to lose significant value, which could happen rapidly, the Fund's performance would be adversely affected. Specific risks associated with investing in small and medium-sized companies include that the securities may be thinly traded and more difficult to sell during market downturns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future 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 managers 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: measures a fund's sensitivity to market movements. The beta of the market (Russell 2500 Growth Index) is 1.00 by definition. **Alpha:** measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Upside Capture** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture** measures how well a fund performs in time periods where the benchmark's returns are less than zero. **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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