

DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:

PERFORMANCE

Baron Emerging Markets Fund® (the Fund) declined 4.89% (Institutional Shares) during the third quarter of 2023, while the MSCI EM Index (the Benchmark) fell 2.93%. The MSCI EM IMI Growth Index (the Proxy Benchmark) declined 3.99% for the quarter. The Fund underperformed the Benchmark and modestly trailed the Proxy Benchmark in a period of rising interest rates and weakness in global equities. The Fund now slightly trails the Benchmark and remains ahead of the Proxy Benchmark year-to-date. The dominant macro development during the quarter was a sharp rise in bond yields in response to stronger-than-expected U.S. economic and employment conditions. Consequently, global equities broadly retreated with growth stocks notably underperforming value stocks. Notwithstanding the stubbornly strong U.S. economic and employment picture, which is in contrast to much of the rest of the world and, in our view, is the direct result of significant fiscal spending commitments in recent years, we remain of the view that we are passing through *peak hawkishness*, and on the other side lies a sustainable phase of international and emerging markets (EM) relative outperformance. Interestingly, while employment surprised positively and oil prices rose throughout the quarter, forward inflation expectations did not move higher, and therefore real bond yields approached levels not seen since 2006 to 2007 (barring the 2008 financial crisis when inflation expectations plummeted). To us, this is akin to the 2007 to 2008 rally in oil on strong demand, which ultimately and paradoxically choked off economic growth. We believe rising real rates will likely trigger demand destruction in the U.S., ushering in a phase of earnings vulnerability and providing a more favorable backdrop for non-U.S. central banks to begin an easing cycle that will improve perceived relative earnings prospects. We remain confident that our diversified portfolio of well-positioned and well-managed companies will capitalize on their attractive growth potential over the coming years.

Table I.
Performance[†]

Annualized for periods ended September 30, 2023

	Baron Emerging Markets Fund Retail Shares ^{1,2}	Baron Emerging Markets Fund Institutional Shares ^{1,2}	MSCI EM Index ¹	MSCI EM IMI Growth Index ¹
Three Months ³	(5.00)%	(4.89)%	(2.93)%	(3.99)%
Nine Months ³	1.16%	1.38%	1.82%	0.34%
One Year	9.72%	10.07%	11.70%	9.65%
Three Years	(5.49)%	(5.24)%	(1.73)%	(5.43)%
Five Years	0.09%	0.36%	0.55%	1.37%
Ten Years	2.02%	2.29%	2.07%	2.96%
Since Inception (December 31, 2010)	2.45%	2.71%	0.98%	1.82%

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, 2022 was 1.38% and 1.12%, 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 Fund expenses pursuant to a contract expiring on August 29, 2034, 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 baronfunds.com or call 1-800-99-BARON.

[†] The Fund's 5- and 10-year 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 MSCI EM (Emerging Markets) Index Net (USD) is designed to measure equity market performance of large and mid-cap securities across 24 Emerging Markets countries. The MSCI EM (Emerging Markets) IMI Growth Index Net (USD) is a free float-adjusted market capitalization index designed to measure equity market performance of large-, mid- and small-cap securities exhibiting overall growth characteristics across 24 Emerging Markets countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of foreign 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.

² The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

³ Not annualized.



MICHAEL KASS

PORTFOLIO MANAGER

Retail Shares: BEXFX
Institutional Shares: BEXIX
R6 Shares: BEXUX

For the third quarter of 2023, we underperformed our primary Benchmark, while also modestly underperforming our Proxy Benchmark. From a sector or theme perspective, adverse stock selection in the Information Technology (IT) sector, most notably select investments in our China value-added theme (**Glodon Company Limited** and **Kingdee International Software Group Company Limited**) and automation/robotics theme (**Keyence Corporation**), was a key detractor to relative performance this quarter. In addition, weak stock selection effect in the Industrials sector, across multiple themes (**Estun Automation Co., Ltd.**, **Localiza Rent a Car S.A.**, **HD Korea Shipbuilding & Offshore Engineering Co., Ltd.**, **HD Hyundai Heavy Industries Co., Ltd.**, and **Korea Aerospace Industries, Ltd.**), also weighed on relative results. Lastly, poor stock selection effect combined with our underweight positioning in the Energy sector also adversely impacted relative performance. Partially offsetting the above was positive stock selection in the Communications Services sector, primarily attributable to select holdings in our digitization theme (**Tata Communications Limited** and **Bharti Airtel Limited**). Favorable stock selection effect in the Materials sector also bolstered relative performance this quarter.

From a country perspective, adverse stock selection effect in China drove the majority of underperformance this quarter. Our active exposure to Hong



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Kong, which we largely view as a China proxy, and Japan, through a single investment in **Keyence Corporation**, were also detractors to relative results. Partly offsetting the above was our overweight positioning in India, together with favorable stock selection effect in Poland and the Philippines.

As expressed in previous letters, we remain excited about the long-term investment potential of India and are encouraged by the durability of corporate earnings growth of our holdings there. India's productivity enhancing economic reforms such as the Goods & Services Tax, Unified Payments Interface, Performance Linked Incentives, among others, are kick-starting a virtuous investment cycle that is positioning the country to become the world's fastest-growing large economy of this decade. In our view, real GDP growth is likely to sustain a 6% to 8% CAGR over the next several years, which presents exciting bottom-up opportunities for long-term investors. We also believe India will be a key beneficiary of tectonic shifts in the geopolitical landscape that increasingly position the country as an attractive investment destination for global corporations looking to diversify their supply chains and manufacturing footprints. Despite the recent underperformance in China, primarily driven by near-term economic concerns, we remain encouraged by the ongoing regulatory and financial easing cycle and continue to expect government sponsored stimulus to ultimately spark a recovery in confidence and job creation.

Table II.
Top contributors to performance for the quarter ended September 30, 2023

	Percent Impact
Suzano S.A.	0.30%
Tata Communications Limited	0.28
Bundl Technologies Private Limited	0.26
Bajaj Finance Limited	0.17
Fix Price Group Ltd.	0.17

Suzano S.A. is the world's largest and lowest-cost producer of pulp, which is primarily used in paper, tissue, and packaging. Shares increased due to rising pulp prices as a result of higher demand in China. We retain conviction. Suzano is expanding into new, higher-margin markets for pulp with fossil-to-fiber substitution for textile, plastics, fuels, and chemicals. Suzano's pulp production removes more greenhouse gas emissions from the atmosphere than it emits. Its goal is to remove 40 million tons of CO₂ over the next five years, and we see an opportunity for the company to monetize these carbon credits. In addition to our positive view on pulp prices, we expect sustainability/ESG factors to drive multiple positive re-ratings for Suzano.

Indian telecommunications company **Tata Communications Limited** is the world's leading sub-sea fiber network operator. The company carries roughly 30% of the world's internet routes and connects businesses to 60% of the cloud hyperscalers. Shares were up during the quarter on the accelerated growth of Tata Communications' data business, which the company plans to double in the next four years. Long term, we believe revenue growth could re-rate to double digits from high single digits, as the company continues to benefit from structural growth in data usage, incremental large deal wins, and front-loaded investments in talent.

Bundl Technologies Private Limited contributed to performance during the quarter. Bundl is the parent entity of Swiggy, India's leading food delivery platform with a roughly 50% market share. Bundl is benefiting from increasing penetration of food delivery in India and improving profitability. We believe India's food delivery industry is still in its infancy and will continue to scale over the next several years, driven by a growing middle

class, rising disposable income, higher smartphone penetration, and a structural shift in consumer preference driven by a technology savvy younger population.

Table III.
Top detractors from performance for the quarter ended September 30, 2023

	Percent Impact
Taiwan Semiconductor Manufacturing Company Limited	-0.73%
Samsung Electronics Co., Ltd.	-0.35
Tencent Holdings Limited	-0.34
Estun Automation Co., Ltd.	-0.31
HDFC Bank Limited	-0.26

Semiconductor giant **Taiwan Semiconductor Manufacturing Company Limited** detracted in the third quarter due to the weakening global macroeconomic environment and muted semiconductor demand across major end-markets, including the smartphone and PC markets. We retain conviction that Taiwan Semiconductor's technological leadership, pricing power, and exposure to secular growth markets, including high-performance computing, AI, automotive, 5G, and IoT, will allow the company to sustain strong earnings growth over the next several years.

Shares of South Korean conglomerate **Samsung Electronics Co., Ltd.** decreased during the quarter due to the weakening global macroeconomic environment and an ongoing inventory correction in the semiconductor memory market. We are confident that Samsung will remain a key beneficiary of long-term growth in semiconductor demand and a global leader in memory, 5G smartphones, and semiconductor foundry services.

Tencent Holdings Limited operates the leading social network and messaging platforms (QQ, WeChat), the largest online entertainment and media business, and the largest online gaming business in China. Shares of Tencent were down this quarter on continued investor uncertainty around the macroeconomic recovery and post-COVID reopening of China. We retain conviction in Tencent's ability to compound earnings, especially given the company's recent quarterly results, and its ability to compound growth in games, ads, software, and fintech. While it is still on the earlier side, we also believe that Tencent could become the largest generative AI beneficiary in China, given its ability to improve its existing products (e.g., content creation in gaming) and enter adjacent markets (e.g., search-like products) with massive scale and distribution.

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of September 30, 2023

	Percent of Net Assets
Taiwan Semiconductor Manufacturing Company Limited	5.9%
Samsung Electronics Co., Ltd.	4.6
Alibaba Group Holding Limited	4.1
Tencent Holdings Limited	3.7
Bajaj Finance Limited	2.6
Suzano S.A.	2.3
HDFC Bank Limited	2.1
HD Korea Shipbuilding & Offshore Engineering Co., Ltd.	2.1
Tata Communications Limited	1.9
PT Bank Rakyat Indonesia (Persero) Tbk	1.7

EXPOSURE BY COUNTRY

Table V.
Percentage of securities by country as of September 30, 2023

	Percent of Net Assets
China	27.8%
India	27.2
Korea	10.4
Taiwan	7.4
Brazil	7.0
Mexico	2.6
Philippines	2.1
Hong Kong	2.0
Poland	1.8
Indonesia	1.7
South Africa	1.1
Peru	1.0
Japan	0.7
France	0.6
United Arab Emirates	0.3
Spain	0.1
Russia	0.0*

* The Fund's exposure to Russia was less than 0.1%.

Exposure by Market Cap: The Fund may invest in companies of any market capitalization, and we have generally been broadly diversified across large-, mid-, and small-cap companies, as we believe developing world companies of all sizes can exhibit attractive growth potential. At the end of the third quarter of 2023, the Fund's median market cap was \$12.4 billion, and we were invested 47.8% in giant-cap companies, 36.9% in large-cap companies, 8.5% in mid-cap companies, and 0.6% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

RECENT ACTIVITY

During the third quarter, we added a few new investments to our existing themes, while also increasing exposure to various positions that we established in earlier periods. We continue our endeavor to add to our highest conviction ideas.

We were active in adding to our EM consumer theme by initiating positions in **Kweichow Moutai Co., Ltd.** and **Mahindra & Mahindra Limited (M&M)**. Moutai is a distiller of ultra-premium baijiu, China's national spirit. Among local consumers, its flagship products have the strongest brand equity of any Chinese spirits company (and likely of any Chinese consumer brand more broadly), evidenced by its 95% market share of baijiu priced above RMB 1,500 per 500 ml bottle at retail. Supply grows slowly due to inherent production constraints and is vastly exceeded by demand, so much so that market prices on its core SKUs generally range around two to four times the ex-factory price at which the company sells those products to its wholesale distributors. This suggests significant pricing power and latent earnings power, and Moutai's ongoing shift in channel mix away from traditional wholesale and into direct relationships with key accounts and a new direct-to-consumer digital channel should drive significant ASP growth and allow the company to gradually capture that latent pricing power. Combined with gradual volume growth, we believe the channel mix improvement can drive at least a doubling of earnings over the next half-decade, with the potential for continued compounding thereafter. Moutai has also increased attention to shareholder value creation relative to prior years, a welcome development.

M&M is a leading Indian conglomerate. The company's core business is automotive and farm equipment manufacturing, and it is a market leader with approximately 40% and 20% share in tractors and SUVs, respectively. M&M also operates in other business verticals through its subsidiaries and associates, including publicly listed entities such as M&M Financial Services, which focuses on domestic vehicle financing, and Tech Mahindra, which is a leading IT services company in India. Under the leadership of Dr. Anish Shah, who took over as managing director in 2020, M&M has rationalized its unprofitable investments and become a shareholder return-oriented organization. We are excited about several growth opportunities for the company in the medium to long term, including rising adoption of SUVs and farm machinery in India, upcoming EV launches, and the ongoing restructuring of Tech Mahindra. We expect M&M to deliver 15% to 20% compounded earnings growth over the next five years, while also generating an attractive high teens return on equity.

During the quarter, we also increased exposure to our fintech disruption theme by initiating an investment in **Nu Holdings Ltd.**, a Latin American digital bank with operations in Brazil, Mexico, and Colombia. Nu was founded in 2014, and its core mission is to provide Brazilian consumers with better and more convenient access to financial products. The financial services industry in Brazil has historically operated as an oligopoly, where the top five banks control a large share of assets and deposits. This has led to high prices, poor customer service, and limited access to basic products such as credit for the mass market. Nu is disrupting this market via its digital distribution and intense focus on customer experience, which has enabled it to reach over 80 million registered users (almost half of the Brazilian adult population) with little investment in marketing. In our view, Nu has four key competitive advantages: a user-friendly, technology driven platform; a track record of conservative credit underwriting; a low-cost funding base consisting mainly of retail deposits; and a solid brand name. Earlier this year, the company swung to profitability as operating leverage is beginning to play out. Nu has been scaling its credit business rapidly and has already gained 10% share in Brazil's credit card market. The company's recent launch in Mexico and Colombia also expands its addressable market and adds to its long-term growth visibility. Additionally, we believe Nu's ROE will expand further from 10% currently to 25% to 30% in the medium term, driven by scale gains (revenue growth exceeding expense growth which drives improvement in its efficiency ratio) and optimization of the balance sheet (better asset mix and higher operating leverage). Ultimately, we are confident the combination of strong growth and ROE improvement will drive stock outperformance for many years to come.

We added to several of our existing positions during the quarter, including **Baidu, Inc.**, **NARI Technology Co. Ltd.**, **Trent Limited**, **Kanzhun Limited**, **Kingdee International Software Group Company Limited**, **Wal-Mart de Mexico, S.A.B. de C.V.**, **Midea Group Co., Ltd.**, and **Shenzhou International Group Holdings Ltd.**

During the quarter, we exited several smaller positions in favor of more attractive opportunities including **Hindustan Unilever Limited**, **LG Chem, Ltd.**, **Hangzhou Tigermed Consulting Co., Ltd.**, **PT Bank Negara Indonesia (Persero) Tbk**, **Hong Kong Exchanges and Clearing Limited**, and **Tenaris S.A.**

OUTLOOK

In our second quarter letter, we suggested that rising real bond yields, and a likely return to Fed rate hikes after a brief pause, were not consistent with rising multiples on U.S. and global growth stocks, and thus we anticipated that tightening U.S. liquidity and higher yields could trigger a consolidation of recent

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gains. This is largely what played out in the past quarter, as bond yields rose sharply on stronger-than-expected U.S. economic and employment conditions, while global equities broadly retreated with growth stocks notably underperforming value stocks. While we believe, as stated in our prior letter, that a correction in U.S. equities is a likely precondition to a lasting inflection point in EM and international equity relative performance, in our view the necessary catalyst would be *deteriorating* U.S. economic and earnings visibility and a *peak* in bond yields, which we still view as a likely coming development. The increase in yields in the recent quarter, largely on stronger U.S. employment data, triggered a reversal of fortunes for some of the second quarter leaders that had rallied on the anticipation that Fed rate cuts would begin before year end. Only three months later, markets have pushed out the timing for Fed easing into the back half of 2024. Interestingly, while employment surprised positively and oil prices rose, two-year and five-year forward inflation expectations remained steady at just above 2%, and therefore real bond yields approached levels not seen since 2006 to 2007 (barring the 2008 financial crisis when inflation expectations plummeted). To us, this is akin to the 2007 to 2008 rally in oil on strong demand, which ultimately, and paradoxically choked off economic growth and demand. In the current scenario, we believe rising real rates will likely trigger demand destruction in the U.S., ushering in a phase of earnings vulnerability, and providing a more favorable backdrop for non-U.S. central banks to begin an easing cycle well before the Fed, and thus help trigger a long-awaited reversal in market leadership.

For international and EM investors, we think the most notable events during the quarter were the volatility in China's markets, economic outlook, and expectations for stimulus measures; and India's ongoing and uncharacteristic solid performance in the face of rising global yields and tightening liquidity. China-related equities rallied impressively early in the quarter on speculation that policymakers were preparing fresh support measures to the property and financial sectors, as well as targeted infrastructure and demand-side stimulus. This rally reversed sharply when the government announced stimulus appeared insufficient and supply-side biased, and coincident economic indicators fell short of expectations. We would characterize the sell-off in China-related equities as a third capitulation since early 2022, with the first two being triggered by Russia's invasion of Ukraine and last October's Party Congress meeting and ensuing

frustration over China's zero-COVID measures. In what to us is becoming a pattern, China's authorities appear fairly sensitive to market signals, and we are now seeing enhanced expectations and cues regarding more substantial support forthcoming, which is again supporting the equity market. Importantly, we see no evidence in China's currency, bond market, or credit spreads that suggest policymakers are losing control of the narrative, and we continue to believe they are more likely than not to ultimately provoke the economic recovery they committed to in late 2022. We remain roughly market weight China and see a favorable risk/reward proposition from current levels, and we remain confident that we own many well-positioned companies from a fundamental and competitive position that are poised to benefit from China's economic pivot in an era of deglobalization.

India's equity market uncharacteristically outperformed the emerging market and global indices by a wide margin during a period of a material rise in interest rates, oil prices and the U.S. dollar; this is a departure from historical trends, and in our view offers confirmation that something has changed. India has reached escape velocity after years of implementing a series of productivity-enhancing reforms and in addition stands out as a material beneficiary in the evolving global geopolitical environment. We remain enthusiastic regarding the growth and investment potential of India and our many investments there.

We continue to believe that EM and international equities are nearing the end of a long cycle of relative underperformance, and we look forward to our next communication.

Thank you for investing in the Baron Emerging Markets Fund.

Sincerely,



Michael Kass
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 its distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting baronfunds.com. Please read them carefully before investing.

Risks: In addition to the general stock market risk that securities may fluctuate in value, investments in developing countries may have increased risks due to a greater possibility of: settlement delays; currency and capital controls; interest rate sensitivity; corruption and crime; exchange rate volatility; and inflation or deflation. The Fund invests in companies of all sizes, including small and medium sized companies whose 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 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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