

DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:

PERFORMANCE

Baron Emerging Markets Fund (the "Fund") appreciated 0.85% (Institutional Shares) for the first quarter of 2018, while its principal benchmark index, the MSCI EM Index, gained 1.42% for the quarter. Early in the quarter, emerging market equities continued the powerful advance of 2017, only to reverse and end the quarter with a marginal gain, as concerns regarding monetary and liquidity support, as well as the re-emergence of trade protectionism risk, deflated investor optimism. While we have noted the potential for a consolidation phase that could develop into a market correction, looking forward, we continue to believe EM and other international equities likely remain poised for a sustainable period of outperformance. We continue to believe that China's emphasis on gaining market and profit share from Western multinationals in high value-added sectors is well placed, and presents attractive long-term investment opportunities. We believe we are positioned appropriately for a rise in market volatility and would look to capitalize on opportunities that typically arise in such an environment. We remain optimistic that our differentiated discipline and process position us well over the long term.



MICHAEL KASS

PORTFOLIO MANAGER

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

Table I.

Performance†

Annualized for periods ended March 31, 2018

	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	0.78%	0.85%	1.42%	1.20%
One Year	25.20%	25.48%	24.93%	30.11%
Three Years	9.40%	9.66%	8.81%	10.04%
Five Years	8.63%	8.92%	5.03%	6.78%
Since Inception (December 31, 2010)	6.47%	6.73%	2.67%	4.10%

For the first quarter of 2018, we modestly underperformed our benchmark MSCI EM Index; however, our relative performance improved as the market gave up its January gains, and we were comfortable with our absolute and relative performance. During the quarter, the largest driver of adverse relative performance was stock selection effect in the Financial sector, driven by our India wealth management theme. We believe stocks associated with this theme underperformed due to news of the initiation of a modest capital gains tax. Select bank holdings in Southeast Asia that we believe were particularly sensitive to the rise in global bond yields over the past several months also underperformed. From a country perspective, the overwhelming cause of adverse relative performance was India, where our multi-pronged reform and investment cycle themes were challenged in the short term by the surprise introduction of a modest capital gains tax, rising commodity prices and bond yields, and a case of bank fraud in the jewelry sector. We remain confident in the fundamental underpinnings of our India

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, 2017 was 1.36% and 1.10%, 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 has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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.*

† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

1 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 23 Emerging Markets countries. MSCI EM (Emerging Markets) Index Net USD is designed to measure equity market performance of large and mid-cap securities across 23 Emerging Markets countries. The indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results.

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.



Baron Emerging Markets Fund

investments and general overweight position, and we believe the peak of underperformance for India equities is likely behind us.

On the positive side, stock selection effect in the Information Technology sector was particularly strong, led by significant gains in **Kingdee International Software Group Co. Ltd.**, a Chinese software company transitioning to cloud-based services, **PagSeguro Digital Ltd.**, a Brazil-based payment services company, which completed its initial public offering during the quarter, and **MyEG Services Berhad**, a Malaysian payments and transaction services company. By country, stock selection effect in China was the principal driver of relative outperformance.

Table II.
Top contributors to performance for the quarter ended March 31, 2018

	Percent Impact
Kingdee International Software Group Co. Ltd.	0.58%
PagSeguro Digital Ltd.	0.42
Petróleo Brasileiro S.A. – Petrobras	0.35
MyEG Services Berhad	0.33
Sunny Optical Technology Group	0.32

Shares of **Kingdee International Software Group Co. Ltd.**, an enterprise management software provider in China, rose during the quarter on solid cloud software sales. We believe Kingdee's cloud suite will provide significant value to customers seeking ways to counter rising labor costs in China and see cloud adoption in China rapidly rising from a low base. The Chinese government is emphasizing business productivity growth via software automation, and we believe the company is on track for expansion after a management transition, a repositioned sales channel, and the recent JD.com investment.

PagSeguro Digital Ltd. is a Brazilian payment processor and merchant acquirer. Shares rose during PagSeguro's first quarter as a publicly traded company on news that its business is growing at a rapid rate. We believe credit card and digital payment penetration is low among the Brazil population, and PagSeguro's digital wallet and physical device form an attractive platform that should allow small merchants to accept digital currency and grow over time, in our view.

Shares of **Petróleo Brasileiro S.A. – Petrobras**, the leader in offshore deep water oil production development in Brazil, appreciated in the first quarter due to lower perceived risk around Brazil's presidential elections and progress on a transfer-of-rights resolution with the Brazilian government that has implemented several market-oriented reforms in the oil & gas sector. We retain conviction due to the ramp-up in production at pre-salt oil fields. We also expect a deleveraging of the company's balance sheet through non-core asset divestments over the next several years.

Shares of **MyEG Services Berhad** rose in the quarter on a strong earnings report. MyEG is a software-enabled data services firm serving public entities in Malaysia. We believe MyEG has several exciting data service opportunities that could help the government lower its administrative costs and reduce bureaucracy. The company's new employer insurance and job-matching programs are designed to lower frictional costs, and its goods and services initiative helps improve tax compliance in Malaysia.

Sunny Optical Technology Group is an integrated manufacturer of optical-related products in China. Shares appreciated after the company's camera module and lens business exceeded market expectations, thanks to market share gains and margin expansion. New businesses, such as a 3D sensing module, provided additional upside to the company's growth trajectory. We continue to hold Sunny as one of our high conviction ideas.

Table III.
Top detractors from performance for the quarter ended March 31, 2018

	Percent Impact
Tata Global Beverages Limited	-0.29%
Vakrangee Limited	-0.22
Motherson Sumi Systems Limited	-0.19
Edelweiss Financial Services Limited	-0.19
Max Financial Services Limited	-0.19

Shares of **Tata Global Beverages Limited**, the world's second largest tea company, declined due to profit-taking as earnings growth missed analyst consensus expectations. We retain conviction in Tata Global Beverages, as we believe new leadership at parent company Tata Sons will emphasize efficiency and productivity and create significant shareholder value. We believe Tata Global Beverages is benefiting from a structural shift in consumer preference toward healthier beverages, especially in India. The company also operates the Starbucks franchise in India.

Shares of **Vakrangee Limited**, a digital and logistics services provider servicing rural India, declined sharply during the quarter following reports of improper trading activity in its shares and a lack of disclosure. While the company has denied any wrongdoing, we are evaluating the situation closely.

Shares of **Motherson Sumi Systems Limited**, a global auto parts supplier, fell in the quarter due to earnings results that missed analyst consensus and investor anticipation of a decline in original equipment manufacturer volumes. We think the company has a solid operational track record and a proven ability to make accretive acquisitions. The company is benefiting from industry consolidation across various geographies and is expanding its business in developing countries such as China and India.

Shares of **Edelweiss Financial Services Limited**, a leading non-bank financial company in India, declined in the quarter due to profit-taking and investor concerns about a new capital gains tax as well as rising bond yields that would lead to margin headwinds for the firm. The company is well positioned, in our view, to benefit from growing demand for retail lending, distressed assets, and wealth management products and services, and has a prudent risk management process. We believe the company could generate a book value growth rate in the high teens over the next five years.

Shares of **Max Financial Services Limited**, India's leading life insurance company, declined in the quarter due to investor concerns about uncertainties related to Max Financial Services' collaboration with Axis Bank, a key distribution partner. Both parties are currently negotiating renewal terms. We remain comfortable as we think a commercial extension is highly likely and further believe the company will benefit from strong consumer demand for term protection and financial savings products. We see secular growth opportunities in India's life insurance industry and expect mid-teens earnings growth over the next three-to-five years.

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of March 31, 2018

	Percent of Net Assets
Tencent Holdings, Ltd.	3.8%
Alibaba Group Holding Limited	3.7
Sberbank of Russia PJSC	2.5
Samsung Electronics Co., Ltd.	2.3
KB Financial Group, Inc.	2.1
China Construction Bank Corporation	2.0
Baidu, Inc.	1.8
Taiwan Semiconductor Manufacturing Company Ltd.	1.8
Housing Development Finance Corporation Limited	1.7
Sino Biopharmaceutical Ltd.	1.6

EXPOSURE BY COUNTRY

Table V.
Percentage of securities by country as of March 31, 2018

	Percent of Net Assets
China	31.8%
India	17.8
Brazil	7.1
Korea	6.6
Taiwan	5.6
South Africa	4.6
Mexico	4.1
Russia	4.0
Argentina	3.3
Philippines	1.9
Hong Kong	1.5
Malaysia	1.3
United Kingdom	0.9
Panama	0.9
Indonesia	0.9
Thailand	0.7
Nigeria	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 often exhibit attractive growth potential. At the end of the first quarter of 2018, the Fund's median market cap was \$10.5 billion, and we were invested approximately 74.4% in large- and giant- cap companies, 17.2% in mid-cap companies and 1.5% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash.

RECENT ACTIVITY

During the quarter, we made several additions to existing themes and positions, notably in the China domestic value-added arena, where we initiated positions in **CSPC Pharmaceutical Group Limited**, our second bioscience and pharmaceutical investment, and **Han's Laser Technology Co. Ltd.**, a leading high-precision laser equipment company positioned to benefit from the rising penetration of industrial automation and electric vehicles. Also in this theme, we increased our investment in **Kandge Xin Composite Material** during the quarter.

We also participated in the initial public offering of **PagSeguro Digital Ltd.**, a Brazilian payment services provider, which we believe has an attractive value and technology proposition, particularly for merchants who have not previously been able to offer credit or debit card-based payments. Further, we initiated positions in **KIA Motors Corporation**, which is a likely beneficiary of Chaebol reform in Korea, and **JSW STEEL Ltd.** of India, which we believe is positioned to be a consolidator of distressed assets and benefit from ongoing capacity reductions in China.

We would also like to emphasize two early-stage themes that took shape over the past quarter. In India, we have been following and researching the restructuring of Tata Sons, one of the oldest, largest and most diversified industrial entities in the country. Over the past 15 years, the group implemented a global expansion strategy that yielded sub-par results, high leverage, and a deteriorating return on capital profile. We believe that recent leadership changes at Tata Sons have the potential to yield significant value creation for shareholders in the group's publicly listed entities. Last year, the former CEO of Tata Consultancy Services was promoted to Chairman at Tata Sons, while a respected veteran investment banker assumed the role of CFO. The new leadership's top priority is to divest non-core and/or loss-making entities, reduce leverage, and focus on maximizing profit in its core India businesses. Organic growth, profitability, and return on capital will form the new basis for management accountability and incentive structures at the publicly traded subsidiary level. We now have positions in four Tata Sons companies. In addition to our positions in **Tata Global Beverages Limited** and **Tata Communications Limited**, this quarter we established new positions in **Tata Chemicals Limited** and **Titan Company Limited**. The latter is a high-quality jewelry and gold retailer that we believe could be a major beneficiary of industry disruption given the high-profile default of a competitor.

Comprising a second early-stage theme, we added another investment in the China SOE bank sector, **Industrial and Commercial Bank of China Limited**, as we have gained conviction that recent improvements in asset growth, net interest margins, and credit quality are likely sustainable, leading to an acceleration in earnings growth for the first time in several years. We believe recent regulatory measures suggest that we have entered a period of market share gains for the traditional deposit-taking banks, after several years of losses to non-bank financial players.

During the quarter, we sold our remaining investments in **Ctrip.com International, Ltd.**, **Banco Santander-Chile**, **LG Household & Health Care Ltd.**, **Sociedad Química y Minera de Chile SA** and **Multi Commodity Exchange of India Ltd.**, given concerns over deterioration in fundamentals or valuation. We also note that we have modestly reduced our China technology holdings, which form the foundation of our internet and e-commerce theme, after a period of material gains, by selling Ctrip, and reducing **Baidu, Inc.**, **Bitauto Holdings Limited**, **Alibaba Group Holding Limited**, and **Kingdee International Software Group Co. Ltd.**

Baron Emerging Markets Fund

OUTLOOK

In our recent year-end letter, we suggested that the coalescence of improved global macroeconomic momentum, increased forward-looking confidence, and significant fiscal easing in the U.S. via tax cuts and deficit spending was reason to temper enthusiasm in the midst of what appeared an overshoot to the upside in global equities. While, at the time, we could not predict how far the equity uptrend might carry, we remarked that global markets were likely to experience increased volatility and a period of consolidation, if not perhaps a notable correction, as accelerating economic momentum and incremental fiscal easing would likely collide with the necessity for a greater than discounted withdrawal of liquidity.

Just after the ink had dried on our year-end letter, global equity markets began a marked correction, with a short-term spike in volatility measures driving spectacular moves in related ETF securities. At the time, many market commentators blamed the liquidation of certain ETF securities for the broader decline in equities. We believe the early-February decline likely foreshadows the consolidation phase we have expected, particularly given the high correlation of market positioning and trading-oriented strategies centered on expectations for a continued low-inflation and low-volatility environment. We don't conclude that this environment has ended; rather, for the first time since the 2008/2009 global financial crisis, we question its sustainability.

Our baseline expectation for 2018 has been that solid coincident economic and earnings momentum and rising inflation measures would necessitate incremental tightening and liquidity withdrawal by central bankers. Further, we have suggested that renewed policy tightening in China, alongside that already expected in the U.S., may represent a drag on economic growth and earnings expectations at some point this year. One quarter into the new year, we now update our baseline expectation. What has changed is two-fold: first, we have observed several signs that forward-looking, leading indicators of global economic activity may be peaking. A notable slowing of credit growth and trade flows in several countries, and a peak in developed

world sovereign bond yields stand out. Second, Donald Trump has opened a Pandora's box with regard to protectionist measures, further illuminating the risk of slower growth and higher inflation. On February 5, 2018, Jerome Powell assumed the position of Federal Reserve Chairman. We believe this has particular significance, as a new Fed Chairman, under pressure to establish credibility, presents a greater risk of reacting to backward-looking data and perhaps tightening into a slowdown.

To us, all of the above supports our view that the record low volatility environment of recent years should not be expected to persist. However, a return to more normalized volatility is not necessarily a bad thing and would likely present attractive opportunities. While we believe that the recent increase in the equity risk premium is largely appropriate, we are exiting a phase of uber-optimism and we do not currently foresee a scenario worse than a broad consolidation, perhaps ending with a correction should monetary tightening proceed too far. Taking a longer-term view, we remain encouraged by the ongoing foundation of productivity-enhancing reforms in many EM countries, as well as a favorable political shift in the direction of investment, business, and capital market-friendly policies. As always, we continue to believe our unique forward-looking and bottom-up, fundamental approach and process position us well to identify attractive investments as they arise. 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 contains this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

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.

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