Baron International Growth Strategy

September 30, 2017

Dear Investor:

Performance

Baron International Growth Strategy (the "Strategy") advanced 8.57% for the third quarter of 2017, while its principal benchmark index, the MSCI ACWI ex USA IMI Growth Index, gained 6.42% for the quarter. For the year-to-date period, the major international equity indexes further extended their leadership over U.S. equities (in U.S. dollar terms) while posting enviable gains. We believe such performance has been fueled by solid global growth and international trade flows; broad-based improvement in cyclical conditions and profit margins in international economies, particularly throughout Europe, Japan, and the developing world; and expectations for ongoing supportive liquidity conditions. More recently, improved sentiment with regard to growth, stability, and economic rebalancing in China has helped sustain the year-to-date strength and leadership of international equities, given their greater sensitivity to this large marginal driver of global growth. Regarding the emerging markets, while we largely credit equity leadership over the past 18 months to the cyclical earnings expansion, which we have consistently referenced over that time frame, a broadening list of support factors have increased our confidence that a longer-term, more secular phenomenon may well be taking root in such markets. We are quite pleased with our year-to-date absolute and relative performance, and we remain optimistic that our differentiated discipline and process position us well to take advantage of substantial investment opportunities across our broad universe over the long term.

Table I.
Performance
Annualized for periods ended September 30, 2017

	Baron International Growth Strategy (net)[1]	Baron International Growth Strategy (gross)[1]	MSCI ACWI ex USA IMI Growth Index[1]	MSCI ACWI ex USA Index[1]
Three Months[2]	8.57%	8.81%	6.42%	6.16%
Nine Months[2]	28.23%	29.08%	24.80%	21.13%
One Year	20.38%	21.42%	17.60%	19.61%
Three Years	9.78%	10.79%	6.70%	4.70%
Five Years	10.05%	11.05%	8.05%	6.97%
Since Inception[3] (March 31, 2009)	14.29%	15.26%	11.42%	10.57%

For the third quarter of 2017, we notably outperformed both our key international all-cap growth index and the MSCI ACWI ex USA Index, while we also remain comfortably ahead for the year-to-date period. During the quarter, the largest driver of relative performance was stock selection as well as allocation effect, due to our substantial overweight position, in the Information Technology sector; several positions contributed here, led by **RIB Software SE**, the German construction and engineering software vendor, **Bitauto Holdings Limited**, a leading internet platform serving the automotive and auto loan vertical in China, **Baidu, Inc.**, the leading search engine in China with an impressive and growing presence in artificial intelligence, and **Worldpay Group plc**, a U.K. electronic payments provider which received a takeover offer during

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of September 30, 2017 total Firm assets under management are approximately $25.3 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO. The Strategy invests mainly in non-U.S. companies of all sizes, but focuses on small and mid-sized non-U.S. growth companies of developed nations and those benefiting from growth in developing countries. The mutual fund may invest up to 30% in companies of developing countries. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's Strategies or a GIPS-compliant presentation please contact us at 1-800-99BARON.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

1 The MSCI ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI ACWI ex USA IMI Growth Index Net USD measures the equity market performance of large, mid and small cap growth securities across developed and emerging markets, excluding the United States. The MSCI ACWI ex USA Index Net USD measures the equity market performance of large and mid cap securities across developed and emerging markets, excluding the United States. The indexes and Baron International Growth Strategy include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is 12/31/2008.

the quarter. Stock selection in the Health Care and Financials sectors also stood out, led by longtime holding **Eurofins Scientific SE** of France**, JM Financial Limited**, a recently added position and a leading Indian wealth management provider, and **BNP Paribas S.A.,** a French bank with leading positions in France, Belgium, and Italy. Finally, a significant underweight position in the Consumer Staples sector also noticeably contributed to relative performance during the quarter. On the negative side, relatively poor stock selection as well as adverse allocation effect in the Telecommunication Services sector was the largest detractor from relative performance in an otherwise strong quarter for performance. Here, **Tata Communications Limited** of India, **Softbank Group Corp**. of Japan, and **PT Tower Bersama Infrastructure, Tbk.** all posted flat to modestly negative declines in a strong market. Positive relative performance from a country perspective was quite broad-based, led by stock selection in India, the U.K., China, Chile, Germany, France, and Canada, and was modestly offset by relatively poor stock selection effect in Norway and Spain.

Table II.
Top contributors to performance for the quarter ended September 30, 2017

	Percent Impact
TAL Education Group	0.69%
RIB Software SE	0.61
Baidu, Inc.	0.52
Alibaba Group Holding Limited	0.51
Smiles SA	0.46

TAL Education Group is a leading Chinese K-12 tutoring company, operating over 550 learning centers in 35 cities across China. Shares of TAL increased sharply as a result of growth in student enrollments of roughly 62%, the opening of 60 new learning centers and expansion of existing learning centers, and continued market share gains in the fragmented Chinese K-12 tutoring market. We maintain conviction in TAL as a market leader with a strong brand that we think will drive market share gains for many years to come.

RIB Software SE is a software company with a unique 5D capability that allows construction clients to manage 3D modeling, costs, and time. We are excited to see the company's vast market potential just starting to percolate in its financials and stock price. With technology highly underpenetrated in the construction industry and with RIB's recent headway in commercializing this opportunity, we expect the company to continue to post strong results.

Baidu, Inc. is the dominant search engine and leader in online video, artificial intelligence, and autonomous driving in China. Shares of Baidu increased in the quarter, fueled by improving financial results. The company made considerable changes to its search results in certain categories over a year ago in response to the Chinese government's concerns and limitations. We believe these changes could help reaccelerate Baidu's growth. Management is now focusing more on the core businesses and consolidating, selling, or taking public less strategic businesses.

Alibaba Group Holding Limited is the largest e-commerce company in China. Shares of Alibaba appreciated in the quarter on financial results that continued to exceed analyst expectations. The company is benefiting from strong mobile and advertising growth, which is driving upside beyond core e-commerce growth. We believe mobile monetization should continue to improve while Alibaba invests in new growth areas such as groceries, logistics, and cloud computing.

Smiles SA is a Brazilian loyalty company affiliated with Brazil's GOL airline. Smiles' shares have been a home run since its 2013 IPO due to the company's attractive, high return business model and the management team's steady execution. During the quarter, the company reported yet another strong set of earnings numbers, and we retain conviction that Smiles has a long growth opportunity ahead while maintaining its attractive margins and returns.

Table III.
Top detractors from performance for the quarter ended September 30, 2017

	Percent Impact
MonotaRO Co., Ltd.	–0.20%
Reckitt Benckiser Group Plc	–0.19
Landis+Gyr AG	–0.17
Domino's Pizza Enterprises Ltd.	–0.13
Aena SA	–0.12

Shares of **MonotaRO Co., Ltd.** declined during the quarter following an announcement from a competitor that suggested a rising competitive environment. The MonotaRO website sells machine tools, engine parts, and various consumable products to business customers across Japan and South Korea. While we are monitoring the situation closely, we continue to believe that MonotaRO has an enviable supply chain and management team that will allow the company to take market share from the inefficient wholesale channel.

Reckitt Benckiser Group Plc is a global producer of consumer health and hygiene products. While the company has posted consistent growth and margin improvements over many years, it has recently struggled due to a slowdown in the sale of its core products in foot care and legal issues regarding its humidifier sanitizer business in Korea. In addition, the company suffered a cyberattack during the quarter which exacerbated already challenging conditions. While we are following news flow closely, we believe the headwinds will prove largely temporary in nature.

Landis+Gyr AG is the leading global provider of smart metering solutions to utilities with 26% share of installed meters worldwide (excluding China). We initiated a position when Toshiba divested the company through an IPO on the Swiss exchange. The stock price has declined since it came to market and it now trades at a discount to its closest competitor. We continue to hold the stock as we expect that the company will participate in large upcoming smart meter roll-outs in connection with government mandates to modernize the electric grid.

Domino's Pizza Enterprises Ltd. is the largest master franchiser of Domino's pizza. The company operates in Australia/New Zealand, select European countries, and Japan. While this position has been one of our most successful investments, the share price has been under pressure in recent quarters largely due to concerns over wage inflation in Australia. The company also had a rare earnings miss during the quarter. We believe that current hiccups are temporary in nature and retain conviction that the company's competitive advantages and long-term opportunities are intact.

Shares of **Aena SA** declined as a result of moderating expectations of traffic growth going into 2018. The resignation of Aena's CEO also hurt the stock price. As Spain's largest airport operator, Aena is benefiting from strong passenger traffic growth driven by increased tourism and an improving economy. Turmoil in the Middle East has also helped the airline as tourists chose Spain over Turkey/Tunisia as a travel destination. We retain

conviction due to attractive secular trends for Spain's passenger traffic, strong free cash flow generation, and hard-to-replicate airport assets.

Portfolio Structure

Table IV.
Top 10 holdings as of September 30, 2017 – Developed Countries

	Percent of Net Assets
Eurofins Scientific SE	3.1%
RIB Software SE	2.8
BNP Paribas S.A.	2.5
Constellation Software, Inc.	2.2
Square Enix Holdings Co., Ltd.	2.2
Vivendi SA	2.0
Abcam plc	1.9
Softbank Group Corp.	1.9
UniCredit S.p.A.	1.9
Arch Capital Group Ltd.	1.8

Table V.
Top five holdings as of September 30, 2017 – Developing Countries

	Percent of Net Assets
Alibaba Group Holding Limited	2.4%
Tencent Holdings, Ltd.	2.2
JM Financial Limited	2.0
Baidu, Inc.	1.8
Smiles SA	1.5

Exposure by Country: At the end of the third quarter of 2017, we had 66.9% of our investments in developed countries and 28.8% in developing and frontier countries, with the remaining 4.3% in cash. We seek to maintain broad diversification by country at all times.

Table VI.
Percentage of securities in developed markets as of September 30, 2017

	Percent of Net Assets
Japan	17.1%
United Kingdom	10.4
France	8.7
Germany	5.0
Israel	3.5
Canada	3.5
United States	3.1
Switzerland	2.9
Spain	2.8
Netherlands	2.2
Italy	1.9
Australia	1.6
Ireland	1.5
Norway	1.1
Belgium	1.0
Hong Kong	0.6

Table VII.
Percentage of securities in developing and frontier markets as of September 30, 2017

	Percent of Net Assets
China	11.5%
India	6.4
Argentina	2.2
Brazil	2.1
Russia	1.6
Mexico	1.2
Korea	1.1
Indonesia	1.0
Panama	0.9
Chile	0.6
Nigeria	0.2

The Strategy may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. As of September 30, 2017, the Strategy's median market cap was $10.7 billion, and it had 60.0% in large- and giant-cap companies, 30.3% in mid-cap companies, and 5.4% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the recent quarter, we increased a number of positions, with **Square Enix Holdings Co., Ltd.** and **KOSÉ Corporation**, both of Japan, standing out. Further, we initiated several new investments. We initiated **Vivendi SA** as a top 10 holding during the quarter, principally based on the performance of UMG, the world's leading music business by market share which is benefiting from the global success of streaming music services such as Spotify. In addition, we believe Vivendi has a credible plan to stabilize subscriber losses and improve financial results in its core Pay TV operations. We also established a position in **Takeda Pharmaceutical Company Limited,** a leading global pharmaceutical company based in Japan, which has installed a new slate of top management, all from outside Japan. The new team will focus on innovative product launches alongside stringent cost-savings initiatives, and fits well in our broad theme of a major shift in Japan towards improved corporate governance and shareholder returns. We also re-established an investment in **Yandex N.V.**, the "Google of Russia" with a broad ecosystem encompassing search, classified ads, e-commerce and taxi, a result of a favorable regulatory order which will force Google to cease anti-competitive practices as we believe this will allow Yandex to win back lost market share. We also added to our industrial automation and robotics theme via an investment in **KEYENCE CORPORATION** of Japan, a leading global supplier of sensor technologies and machine vision applications for factory and supply chain automation. We believe the company's customized solutions, which offer substantial productivity benefits, will increasingly penetrate more industries and geographies over several years. Finally, we participated in the IPO of **Landis+Gyr AG**, the leading global provider of smart metering technologies and systems to the utility industry. While the ultimate rollout of smart metering may prove lumpy due regulatory processes and the concentration of customers, we believe Landis+Gyr is representative of the best-in-class, quality approach to investing that we seek within the broad global productivity enhancement theme.

During the quarter, we also harvested several investments. **Mobileye N.V.** was the subject of a cash takeover by Intel. We sold **Mitsui Fudosan Co. Ltd., Daiwa Securities Group, Inc.,** and **Bridgestone Corp.** in favor of fresh opportunities in Japan that better fit with our industry and country-specific, reform-oriented themes. We also exited **Momo Inc.**, the Chinese live streaming video platform operator, **ProSiebenSat.1 Media AG**, the German media conglomerate, **Grifols SA**, the Spain-based plasma derivatives manufacturer, and **China Distance Education Holdings Limited**, all based on perceived deterioration in fundamentals that we suspect may continue beyond the short term.

Outlook

In the past, we suggested that, for a variety of reasons, international and emerging market equities were likely in a sweet spot for the time being. As if on cue, during the third quarter, such equities further extended already impressive year-to-date gains. Looking ahead at the balance of global equity markets, we believe that the U.S. is likely to continue to underperform given elevated enthusiasm regarding growth prospects, premium valuations, and most importantly, given that the U.S. is much more advanced in its growth and monetary cycle. We suspect that for the first time in several years, the Federal Reserve is increasingly likely to tighten policy more than currently discounted over the coming year or so, which would eventually lead to a consolidation or correction regardless of the current visibility of earnings growth. International economies, which for a variety of reasons appear much earlier in the economic and monetary cycle, would be in a relatively better position to absorb the global impact of a U.S.-led tightening of liquidity. We would also highlight that large pockets of the international markets, notably Japan, certain European countries, and much of the developing world, appear considerably less vulnerable to the wave of populism that, in our view, threatens to compromise future corporate profit margins and returns to capital owners. Thus, we believe that the outperformance of international equities may well still be in an early stage.

We are increasingly encouraged that after a protracted period of secular debt deflation, Japan appears to be on track to enter a sustainable upturn. Over the past 18 months there are myriad signs that a commitment to improved shareholder returns and corporate return on capital is underway. To us this is meaningful, given that Japanese equities trade at a substantial valuation discount following years of substandard profitability and returns. Much as we often report on the reform potential of emerging market economies, Japan has recently prioritized and embraced more efficient capital allocation, management incentive compensation, the elimination of "Japan Inc." era cross-shareholdings, and increased shareholder dividends and capital investment expenditures, while encouraging corporations to raise wages and employment. In short, we believe Japan is transitioning from a deflationary-biased and fixed income-oriented market to an inflation-seeking, equity-oriented culture. We further believe this sea change was confirmed by the rebalancing of the government's principal pension fund, the GPIF, whereby domestic and overseas equity exposure in recent years was doubled at the expense of domestic bond holdings. In recent quarters we have notably increased our investments in Japan and now carry an overweight exposure.

We often comment enthusiastically on the visibility and implementation of ongoing productivity-enhancing reforms in many EM countries; more recently, we believe the ability of China to progress with its rebalancing without financial sector or currency instability has emerged as a key catalyst for International and EM equities alike, given the acute sensitivity of such markets to China's growth outlook. With regard to China, many strategists and investors have been skeptical, particularly in light of the broad tightening of credit to the speculative financial economy, the increased tolerance for debt restructuring, and the clear reversal of stimulus to the property development, infrastructure, and automotive sectors. Last quarter we remarked that we viewed such tightening as intentional and likely related to the all-important and now imminent Party Congress meeting, where future leadership and policy direction will be cemented. We have previously harbored concerns that a likely "re-upping" of commitment to reform as a focus of the Party Congress could be interpreted negatively for growth both in China and globally, potentially initiating a global market consolidation in ensuing quarters. However, more recently, increased evidence of deft management by Chinese authorities is commanding greater respect from market participants and investors. More specifically, for the first time in memory, we have seen credit quality and bank Non-Performing Loan exposure *improving* during a tightening phase, while credit extended to the real economy, and thus economic growth, have not been compromised. In our view, this is largely due to careful administration of offsetting support through targeted expansion of asset-backed consumer lending, deep capacity cuts to low-productivity/high-polluting sectors such as steel and coal, and material support to anticipated capital flows due to initiatives such as the Hong Kong bond connect and A-share inclusion in the MSCI EM equity index. We are impressed by what Chinese authorities have been able to achieve, and believe this story is still developing.

Looking forward, and in conclusion, we believe we remain in a sweet spot for international equities. While fundamentals have improved, valuations remain reasonable, and most countries are not yet at risk of triggering material tightening measures. While we suspect there is a reasonable likelihood of an overshoot to the upside in the months or quarters ahead, there is also the possibility that a rise in inflation expectations takes root, particularly in the U.S., which could trigger a notable increase in interest rates globally. Such a scenario would likely cause an eventual consolidation or correction in global equities as markets price in the impact of higher rates, regardless of perceived solid economic growth and corporate earnings. Should this scenario play out, we believe international and emerging market equities could likely perform better than expected based on historic precedent. We continue to believe that our discipline and process position us well to identify unique investment opportunities and to generate attractive and sustainable risk-adjusted returns over the long term, regardless of the market environment.

Sincerely,

Michael Kass
Portfolio Manager

Kyuhey August
V.P., Assistant Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets. This may result in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell. The Strategy 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.