

March 31, 2018
Institutional Shares (BEXIX)

Baron Emerging Markets Fund Fact Sheet

BAMCO, Inc., Registered Investment Adviser



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. You should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The prospectus and summary prospectus contain this and other information about the Fund and can be obtained from the Fund's distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings, and 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.

The Fund may not achieve its objectives. Portfolio holdings may change over time.

Definitions (provided by BAMCO, Inc.): The indexes cited are free float-adjusted market capitalization indexes. The **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 **MSCI EM (Emerging Markets) IMI Growth Index Net USD** is designed to measure equity market performance of large, mid and small-cap securities exhibiting overall growth characteristics across 23 Emerging Markets countries. The indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. Morningstar calculates the **Morningstar US Fund Diversified Emerging Mkts Average** using its Fractional Weighting methodology. The Fund has been included in the category since inception. © 2018 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Standard Deviation (Std. Dev.):** measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk). **Sharpe Ratio:** is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance. **Alpha:** measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta:** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **R-Squared:** measures how closely a fund's performance correlates to the performance of the benchmark index, and thus is a measurement of what portion of its performance can be explained by the performance of the index. Values for R-Squared range from 0 to 100, where 0 indicates no correlation and 100 indicates perfect correlation. **Tracking Error:** measures how closely a fund's return follows the benchmark index returns. It is calculated as the annual-

ized standard deviation of the difference between the fund and the index returns. **Information Ratio:** measures the excess return of a fund divided by the amount of risk the fund takes relative to the benchmark index. The higher the information ratio, the higher the excess return expected of the fund, given the amount of risk involved. **Upside Capture:** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture:** explains how well a fund performs in time periods where the benchmark's returns are less than zero. **Active Share:** a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management. **EPS Growth Rate (3-5 year forecast):** indicates the long-term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance. **Price/ Earnings Ratio (trailing 12-months):** is a valuation ratio of a company's current share price compared to its actual earnings per share over the last twelve months. **Price/Book Ratio:** is a ratio used to compare a company's stock price to its tangible assets, and it is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. **Price/Sales Ratio:** is a valuation ratio of a stock's price relative to its past performance. It represents the amount an investor is willing to pay for a dollar generated from a particular company's operations. Price/Sales is calculated by dividing a stock's current price by its revenue per share for the last 12 months. Historical portfolio characteristics are provided by Compustat and FactSet Fundamentals. **Weighted Harmonic Average:** is a calculation that reduces the impact of extreme observations on the aggregate calculation by weighting them based on their size in the fund.

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Not bank guaranteed, may lose value, not FDIC insured.



Portfolio Facts and Characteristics

	Fund	MSCI EM Index
# of Equity Securities / % of Net Assets	94/93.1%	-
Turnover (3 Year Average)	28.48%	-
Active Share (%)	79.1	0
Median Market Cap†	\$10.54 billion	\$5.84 billion
Weighted Average Market Cap†	\$79.24 billion	\$95.27 billion
EPS Growth (3-5 year forecast)†	14.5%	17.7%
Price/Earnings Ratio (trailing 12-month)*†	17.7	13.7
Price/Book Ratio*†	2.1	1.6
Price/Sales Ratio*†	1.7	1.2

* Weighted Harmonic Average

† Source: FactSet PA – Compustat, FactSet and BAMCO. Internal valuations metrics may differ.

R6 Shares are also available for this Fund.

Performance Based Characteristics²

	3 Years	5 Years	Since Inception
Std. Dev. (%) - Annualized	13.42	12.51	14.16
Sharpe Ratio	0.68	0.69	0.46
Alpha (%) - Annualized	2.75	4.96	4.52
Beta	0.76	0.75	0.76
R-Squared (%)	86.54	81.05	83.42
Tracking Error (%)	6.33	6.59	7.06
Information Ratio	0.13	0.60	0.58
Upside Capture (%)	82.46	86.15	83.98
Downside Capture (%)	70.95	62.78	64.22

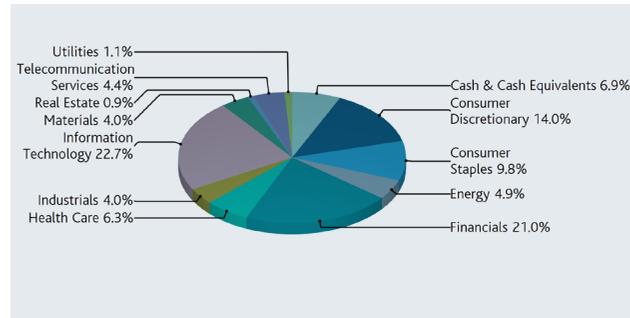
Top 10 Holdings

% of Net Assets

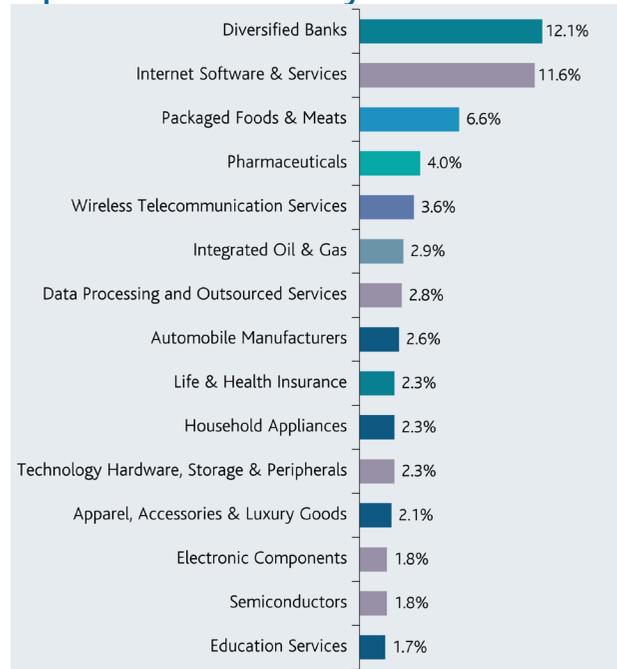
Tencent Holdings, Ltd.	3.8
Alibaba Group Holding Limited	3.7
Sberbank of Russia PJSC	2.5
Samsung Electronics Co., Ltd.	2.3
KB Financial Group, Inc.	2.1
China Construction Bank Corporation	2.0
Baidu, Inc.	1.8
Taiwan Semiconductor Manufacturing Company Ltd.	1.8
Housing Development Finance Corporation Limited	1.7
Sino Biopharmaceutical Ltd.	1.6
Total	23.3

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.

GICS Sector Breakdown¹



Top 15 GICS Sub-Industry Breakdown¹



Colors of Sub-Industry bars correspond to sector chart above.

Investment Strategy

The Fund invests primarily in emerging market companies of all sizes with significant growth potential. The Fund may invest up to 20% in companies in developed and frontier countries. Diversified.

Portfolio Manager

Michael Kass joined Baron in 2007 and has 31 years of research experience. From 2003 to 2007, he was a managing principal of Artemis Advisors, which acquired the Artemis Funds, a long-short equity strategy he co-founded in 1998. From 1993 to 2003, he worked at ING as a director of proprietary trading and was named senior managing director and portfolio manager in 1996. From 1989 to 1993, he worked at Lazard Frères in investment banking. From 1987 to 1989, Michael was an analyst at Bear Stearns. Michael graduated summa cum laude from Tulane University with a B.A. in Economics in 1987.

Investment Principles

- Long-term perspective allows us to think like an owner of a business
- Independent and exhaustive research is essential to understanding the long-term fundamental growth prospects of a business
- We seek appropriately capitalized open-ended growth opportunities, exceptional leadership, and sustainable competitive advantages
- Purchase price and risk management are integral to our investment process

Fund Facts

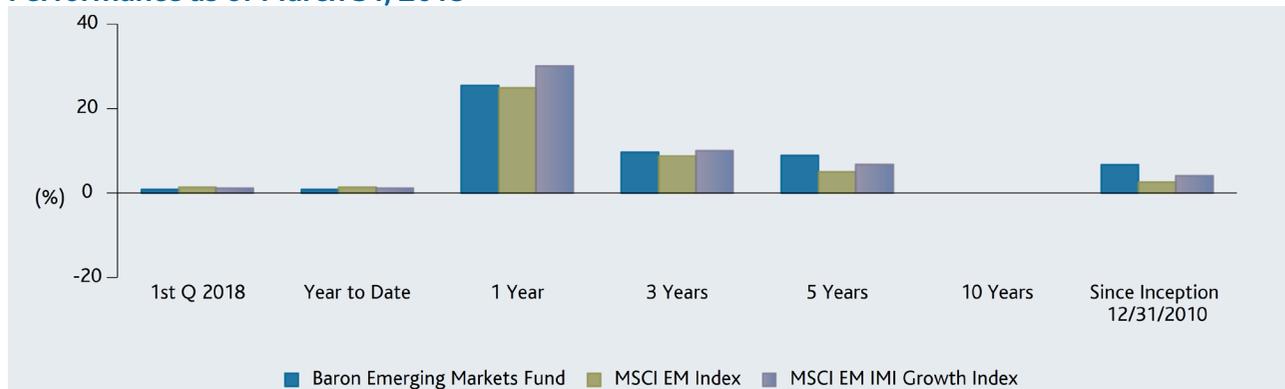
Inception Date	December 31, 2010
Net Assets	\$5.63 billion
Institutional Shares	
CUSIP	06828M876
Expense Ratio (As of FYE 12/16)	1.13%

1 - Industry sector or sub-industry group levels are provided from the Global Industry Classification Standard ("GICS"), developed and exclusively owned by MSCI, Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P"). All GICS data is provided "as is" with no warranties. The Adviser may have reclassified/classified certain securities in or out of a sub-industry. Such reclassifications are not supported by S&P or MSCI.

2 - Source: FactSet SPAR. Except for Standard Deviation and Sharpe Ratio, the performance based characteristics above were calculated relative to the Fund's benchmark.



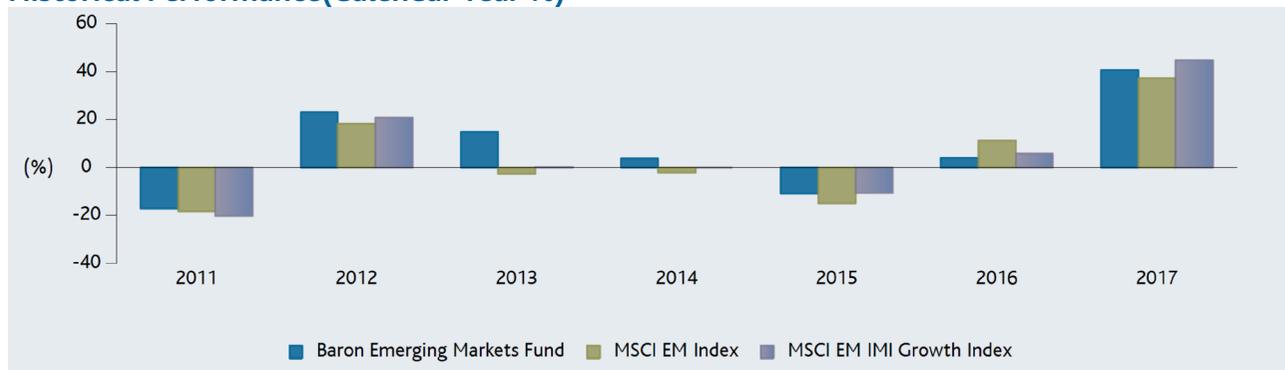
Performance as of March 31, 2018



	Total Returns(%)				Annualized Returns(%)											
	1st Q 2018		Year to Date		1 Year		3 Years		5 Years		10 Years		Since Inception 12/31/2010			
	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -		
BEXIX - Institutional Shares	0.85		0.85		25.48		9.66		8.92		N/A		6.73			
MSCI EM Index	1.42	-0.57	1.42	-0.57	24.93	0.55	8.81	0.85	5.03	3.89	N/A		2.67	4.06		
MSCI EM IMI Growth Index	1.20	-0.35	1.20	-0.35	30.11	-4.63	10.04	-0.38	6.78	2.14	N/A		4.10	2.63		
Morningstar Div. EM Cat. Avg.	2.01	-1.16	2.01	-1.16	22.90	2.58	8.23	1.43	4.45	4.47	N/A		N/A			

The blue shading represents Fund outperformance vs. the corresponding benchmark. The yellow shading represents underperformance.

Historical Performance(Calendar Year %)

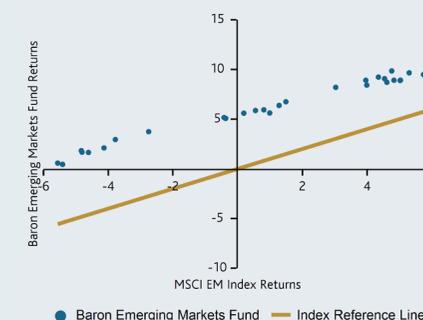


	2011	2012	2013	2014	2015	2016	2017
BEXIX - Institutional Shares	-17.00	23.22	15.02	3.75	-10.97	4.08	40.63
MSCI EM Index	-18.42	18.22	-2.60	-2.19	-14.92	11.19	37.28
MSCI EM IMI Growth Index	-20.04	20.72	0.10	-0.15	-10.51	5.84	44.70

Country Breakdown

	% of Net Assets		% of Net Assets
Emerging	86.4	Emerging (Cont'd)	
China	31.8	Malaysia	1.3
India	17.8	Indonesia	0.9
Brazil	7.1	Thailand	0.7
Korea	6.6	Developed	2.4
Taiwan	5.6	Hong Kong	1.5
South Africa	4.6	United Kingdom	0.9
Mexico	4.1	Frontier	4.3
Russia	4.0	Argentina	3.3
Philippines	1.9	Panama	0.9
		Nigeria	0.1

BEXIX has outperformed the MSCI EM Index 100% of the time (since its inception and using rolling 5-year annualized returns).



Risk/Return Comparison²



1 - Source: FactSet SPAR.



Review and Outlook

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.

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 twofold. 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.

To us, the above supports our view that the record low volatility environment of recent years should not be expected. However, a return to more normalized volatility is not necessarily a bad thing and would likely present attractive opportunities. Further, while we believe that the recent increase in equity risk premium is largely appropriate, in our view driven by questions regarding the longer-term growth outlook as well as broad uncertainty related to Trump's trade policy proposals and cabinet restructurings, we note that 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 continue to believe EM equities likely remain poised for a sustainable period of outperformance. We remain quite 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. Further, 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.

Top Contributors/Detractors to Performance for the Quarter Ended March 31, 2018

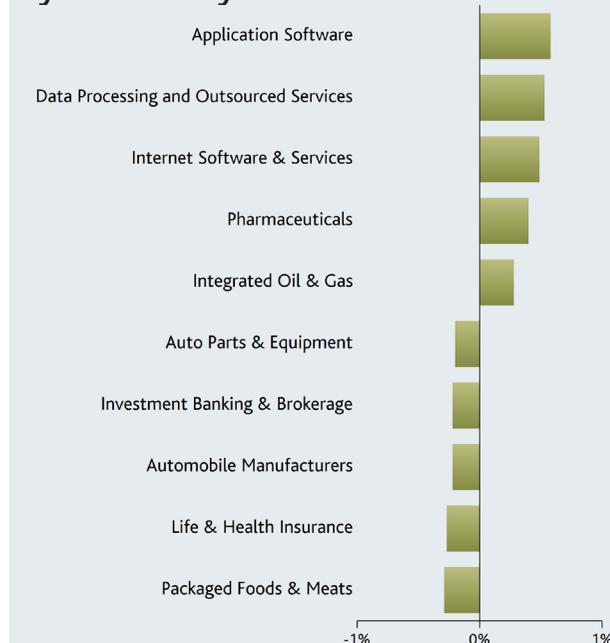
Contributors

- 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 a 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 Q1 due to lower perceived risk around Brazil's presidential elections and progress on a transfer-of-rights resolution with a 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.

Detractors

- Shares of **Tata Global Beverages Limited**, the world's second largest tea company, declined due to profit-taking and earnings growth that missed analyst consensus. We retain conviction in Tata Global Beverages. The company's new leadership at Tata Sons recently introduced restructuring initiatives that we think will 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 and disclosure. While the company denied any wrongdoing, we are evaluating the situation very 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 the ability to make potentially 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.

Contribution to Return¹ By Sub-Industry



By Holdings

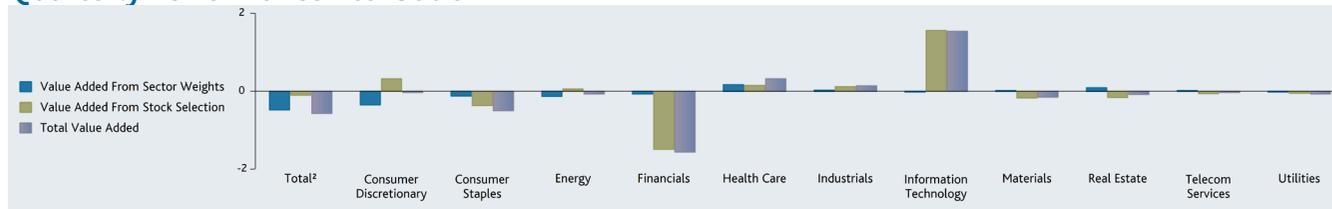
Top Contributors	Average Weight(%)	Contribution(%)
Kingdee International Software Group Co. Ltd.	0.90	0.58
PagSeguro Digital Ltd.	0.80	0.42
Petróleo Brasileiro S.A. - Petrobras	1.32	0.35
MyEG Services Berhad	1.15	0.33
Sunny Optical Technology Group	0.81	0.32

Top Detractors	Average Weight(%)	Contribution(%)
Tata Global Beverages Limited	1.37	-0.29
Vakrangee Limited	0.25	-0.22
Motherson Sumi Systems Limited	0.88	-0.19
Edelweiss Financial Services Limited	0.83	-0.19
Max Financial Services Limited	0.67	-0.19

1 - Source: FactSet PA.

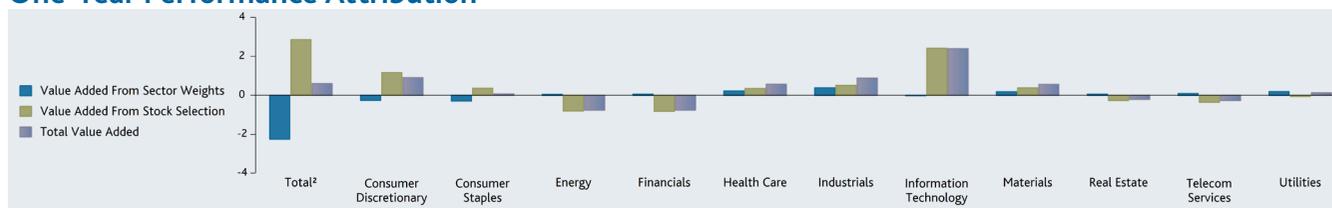


Quarterly Performance Attribution¹



Sector Average Weights(%)	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Telecom Services	Utilities
Baron Emerging Markets Fund	14.19	10.18	4.82	22.06	5.56	3.72	24.06	3.53	1.03	4.11	1.09
MSCI Emerging Markets Index	9.87	6.37	7.04	24.07	2.72	5.18	27.65	7.38	2.80	4.61	2.32
Over/Underweight	4.32	3.81	-2.22	-2.01	2.84	-1.46	-3.59	-3.85	-1.76	-0.50	-1.22
Total Return(%)											
Baron Emerging Markets Fund	-4.06	-4.46	8.91	-2.98	9.18	3.17	9.06	-4.80	-11.37	-5.16	-0.33
MSCI Emerging Markets Index	-6.12	-0.82	7.51	4.17	7.04	-0.75	2.10	0.70	-2.14	-3.70	3.00
Relative Return	2.06	-3.64	1.40	-7.14	2.14	3.93	6.96	-5.51	-9.23	-1.46	-3.33

One-Year Performance Attribution¹



Sector Average Weights(%)	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Telecom Services	Utilities
Baron Emerging Markets Fund	16.36	9.74	3.99	20.67	4.40	3.28	25.29	2.39	1.87	4.60	1.33
MSCI Emerging Markets Index	10.30	6.55	6.86	23.69	2.44	5.51	27.06	7.26	2.74	5.07	2.52
Over/Underweight	6.06	3.19	-2.87	-3.02	1.95	-2.23	-1.78	-4.87	-0.87	-0.46	-1.19
Total Return(%)											
Baron Emerging Markets Fund	24.44	19.81	4.25	20.55	45.28	26.14	53.98	46.34	15.64	-2.85	1.46
MSCI Emerging Markets Index	16.49	16.19	24.70	25.57	34.60	9.33	40.22	20.01	32.53	4.53	9.22
Relative Return	7.95	3.62	-20.45	-5.02	10.68	16.81	13.76	26.33	-16.89	-7.38	-7.76

Return calculations for the Portfolio are transaction based and are calculated from the underlying security-level data; they may not correspond with published performance information based on NAV per share.

1 - Attribution analysis for other periods or versus another index will be provided upon request. Source: FactSet PA.

2 - Fund total returns include cash, fees and unassigned securities.

When reviewing performance attribution on our portfolio, please be aware that we construct the portfolio from the bottom up, one stock at a time. Each stock is included in the portfolio if it meets our rigorous investment criteria. To help manage risk, we are aware of our sector and security weights, but we do not include a holding to achieve a target sector allocation or to approximate an index. Our exposure to any given sector is purely a result of our stock selection process.

Quarterly Analysis

Baron Emerging Markets Fund rose 0.85% in the first quarter, yet trailed the MSCI EM Index by 57 basis points largely due to relative country exposures.

On a country level, favorable stock selection in China, Malaysia, South Africa, and Russia was overshadowed by the underperformance of investments in India, Argentina, Hong Kong, the Philippines, and Mexico. In addition, meaningfully higher exposure to lagging Indian equities, which fell 7.0% in the index, detracted 82 basis points from relative performance. Indian equities were hurt by the risk of higher inflation and the potential impact it will have on the Indian economy given its standing as the largest net importer of commodities.

On a sector level, stock selection in Information Technology added the most value, led by the outperformance of Kingdee International Software Group Co. Ltd. of China and PagSeguro Digital Ltd. of Brazil. Kingdee and recent addition PagSeguro were the two largest contributors on an absolute basis. Strength in the sector also came from Malaysian e-services player MyEG Services Berhad, Chinese integrated optical solutions provider Sunny Optical Technology Group, and Russian search engine Yandex N.V. MyEG's stock price benefited from a strong earnings report while Sunny's shares went up after its camera module and lens business outperformed Street expectations due to market share gains and margin expansion. New business initiatives such as its 3D sensing module provided additional upside. Yandex's share price rose on sustained market share gains in core search and increasing penetration by Yandex Taxi following its merger with Uber. Health Care and Industrials also contributed to relative performance. Within Health Care, higher exposure to this strong performing sector and outperformance of Chinese pharmaceutical holdings Sino Biopharmaceutical Ltd. and CSPC Pharmaceutical Group Limited added value. Industrials outperformed after increasing 3.2% as a group, driven by South African conglomerate Bidvest Group Ltd.

Financials and Consumer Staples holdings and greater exposure to the lagging Consumer Discretionary sector weighed the most on relative performance. Investments in Indian wealth managers pushed Financials down more than 3%, with Edelweiss Financial Services Limited, Max Financial Services Limited, and JM Financial Limited driving the decline. These and other Indian holdings in the sector were hurt by the introduction of a capital gains tax and the emergence of a major bank fraud case. Weakness in the sector was also attributable to the underperformance of diversified banks, led by BDO Unibank, Inc. of the Philippines, PT Bank Negara Indonesia (Persero) Tbk, and Banco Macro S.A. of Argentina. Within Consumer Staples, underperformance of Indian packaged foods & meats holdings Tata Global Beverages Limited and Manpasand Beverages Ltd. detracted the most from relative results.



Top 10 Holdings as of March 31, 2018

Company

Investment Premise

Tencent Holdings Ltd. (700.HK) is a leading internet service company and the top game developer in China. Its primary platforms include QQ for instant messaging (815 million media access units (MAUs)), WeChat for mobile messaging (500 million MAUs), and Qzone for social networking (654 million MAUs).

We are bullish on Tencent's ability to grow EPS at over 25%+ in the long term. Tencent benefits from virtuous network effects, and we think it has a long runway to monetize its large user base by pushing value-added services and advertising through its platforms. Gaming comprises over 50% of Tencent's revenue, but we think advertising is its next major growth driver, through in-feed ads on WeChat. Tencent also invests in online-to-offline services by leveraging its payment solutions across a number of industries including restaurants, ticketing, and travel.

Alibaba Group Holding Limited (BABA) is the largest e-commerce company in the world. Alibaba owns and operates the two largest online shopping platforms in China, Taobao and Tmall. It also participates in the profits of Ant Financial, which owns China's largest third-party online payment vendor Alipay.

With over 500 million active buyers and over 10 million merchants, we believe Alibaba is poised to benefit disproportionately from the increased penetration of internet, mobile, and e-commerce in China. It enjoys more than 50% market share of all e-commerce transactions in China, and we expect it to continue growing at a rate of more than 20% for years to come. We also see significant positive optionality in Alibaba's cloud computing, data management, and electronic payments platforms.

Sberbank of Russia PJSC (SBER.LI) is the largest bank in Russia, with over 16,000 outlets throughout the country and dominant market share in assets, loans, and deposits. The bank also has operations in Turkey, Central Europe, and other former Soviet Union countries, accounting for about 14% of total assets.

In our view, Sberbank is well positioned for a potential improvement in the macro environment and from expansion of the Russian banking sector longer term. We believe the bank's profitability has bottomed out and ROE is set to recover from 10% in 2015 to about 18-20% by 2020, driven by a rebound in net interest margin, lower provision expenses, and recently announced initiatives to reduce operating costs.

Samsung Electronics Co, Ltd (005930.KS) is a leading consumer electronics manufacturer and the largest handset maker in the world. It is also a key player in the semiconductor and display industries.

Samsung benefits from tremendous scale, which gives it a cost advantage and allows it to outspend competitors in R&D. Its investment in innovation has accelerated new product introductions and improved Samsung's global brand positioning. We think Samsung's in-house capabilities with display, memory, and semiconductors are also a key differentiator, as vertical integration lowers Samsung's product costs and gives it a time-to-market advantage. We believe the sustainability of these advantages is underestimated, and Samsung is undervalued relative to its earnings prospects.

KB Financial Group, Inc. (105560.KS) provides commercial and consumer financial services in South Korea. It also offers asset management, life insurance, and securities brokerage through subsidiaries. The bank has over 1,200 branches and over 26 million customers, about half of the population of South Korea.

KB is undergoing a major shift in profitability, driven by a normalization of interest rates, cost initiatives, and stable credit risk. After years of declining margins due to lower benchmark rates, we are seeing clear signs of improvement in asset yields and spreads. As a leader in share of low-cost deposits, KB is in a position to benefit most from this trend, in our view. KB has a solid balance sheet and is consolidating ownership in its subsidiaries. We believe recently appointed management has a strong focus on profitability and the right incentives to deliver.

Company

Investment Premise

China Construction Bank (939.HK) is the second largest commercial bank in China. It previously focused on lending to large corporate clients, but has increasingly built exposure to consumer and small and medium enterprise segments. It currently is the largest residential mortgage lender in China.

China's banking sector is benefiting from several structural changes, including the government's focus on reducing financial leverage in the system, supply-side reforms, and rising interest rates. We believe China Construction Bank is positioned to benefit from this environment due to its strong balance sheet, conservative asset quality management, large deposit base, and relatively low exposure to shadow banking.

Baidu, Inc. (BIDU) is the leading search engine provider in China.

We believe Baidu is positioned to return to 20% annual earnings growth in 2018 and sustain a similar growth rate over the next three to five years in its core business. We expect the company to continue to spin out online video platform iQiyi over the next 12 months, a process we believe could be a positive catalyst for the stock. We also believe the company will deliver improved execution under the new CEO Qi Lu, formerly of Microsoft.

Taiwan Semiconductor Manufacturing Company Ltd. (TSM) is the world's largest independent semiconductor foundry, manufacturing chips on behalf of other companies.

Taiwan Semiconductor benefits from economies of scale and a superior cost structure. It also deploys new technology faster than its competition, allowing it to enjoy higher average sales prices and gross margins. We believe Taiwan Semiconductor is poised to gain market share, driven by increased dominance in advanced nodes (10 nanometers and 7 nanometers), while maintaining superior profitability.

Housing Development Finance Corporation Limited (HDFC.IN) is India's largest mortgage lender with three trillion rupees in assets. It has a strong brand name and has consistently received industry recognition. Through its subsidiaries, it provides financial services such as banking and life insurance.

We believe the Indian housing market will experience high growth, given low levels of mortgage penetration, favorable demographics, improvements in affordability, and policy support. Housing Development's competitive advantages in risk management, cost efficiency, and distribution will be key beneficiaries of that growth, in our view. In addition, we see significant value in the company's subsidiaries, which the public can unlock via liquidity events such as the listing of HDFC Life Insurance.

Sino Biopharmaceutical Ltd. (1177.HK) is a leading R&D-focused pharmaceutical manufacturer in China. The company specializes in therapeutic areas such as hepatitis B, oncology, and cardio-cerebral disease.

We believe the company is well positioned to benefit from secular demand for health care services in China, driven by an aging population and a growing incidence of chronic diseases. A fast-changing regulatory landscape should also favor established, innovative pharma companies such as Sino Bio. Strong R&D capabilities and a robust product pipeline could potentially generate double-digit earnings growth over the next three to five years, in our view.



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