

DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:

PERFORMANCE

Baron Emerging Markets Fund (the "Fund") retreated 3.34% (Institutional Shares) for the third quarter of 2019, while its principal benchmark index, the MSCI EM Index, declined 4.25% for the quarter, and the MSCI EM IMI Growth Index declined 2.19%. The Fund has outperformed its principal benchmark index for the year-to-date period. During the quarter, emerging market ("EM") equities underperformed U.S. and global indexes, while remaining hostage to an uncertain geopolitical and trade outlook as well as tepid global economic growth. A supporting factor, global policymakers have marshalled considerable support, and we believe several countries capable of fiscal easing are currently evaluating such measures. Economic and market behavior suggests that for now, policymakers in aggregate remain "behind the curve," with the status of the U.S./China strategic and trade relationship, in our view, a critical variable in the near term. While investor perception of the likelihood of a compromise between the U.S. and China continues to oscillate, we think that some form of reconciliation is more likely than not in the near future, and we believe the associated market impact could be material depending on the scope of a compromise. From a longer-term perspective, we reiterate that we believe EM and international equities are likely bottoming on a relative return basis after a sustained period of underperformance. As always, we are confident that we have invested in many well-positioned and well-managed companies on a bottom-up basis, with the potential for attractive returns over the long term.

Table I.
Performance

Annualized for periods ended September 30, 2019

	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	(3.42)%	(3.34)%	(4.25)%	(2.19)%
Nine Months ³	8.29%	8.52%	5.89%	9.14%
One Year	1.59%	1.84%	(2.02)%	0.13%
Three Years	4.26%	4.51%	5.97%	6.08%
Five Years	2.69%	2.94%	2.33%	3.40%
Since Inception (December 31, 2010)	3.72%	3.98%	0.88%	1.88%

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, 2018 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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

¹ The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. 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 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. 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.



MICHAEL KASS

PORTFOLIO MANAGER

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

For the third quarter of 2019, we outperformed our primary benchmark, the MSCI EM Index, while trailing our all-cap EM growth proxy. During the quarter, positive relative performance was driven by stock selection and, to a lesser extent, allocation effect in the Financials sector, which was largely a result of our India wealth management and housing & consumer finance themes. Several of our investments contributed positive absolute performance when the performance of the overall sector declined. **SBI Life Insurance Company Limited, Kotak Mahindra Bank Ltd., Reliance Nippon Life Asset Management Limited, and Bajaj Finance Limited** led absolute returns, aided late in the quarter by the unexpected and material corporate tax cut announced by the Modi administration. In addition, positive stock selection in the Communications Services, Industrials, and Health Care sectors also contributed modestly to relative performance during the quarter. Partially offsetting the above, adverse stock selection in the Energy sector detracted from relative performance. This was mostly due to a material decline in **YPF S.A.**, which was related to the surprise adverse outcome of the initial round of voting in Argentina's presidential election. Stock selection effect in the Information Technology sector also detracted modestly during the quarter. From a country perspective, stock selection in Brazil and India drove positive relative performance, which we address in more detail in the Outlook section of this letter. This was partially offset by adverse relative performance in Taiwan and Argentina.



Baron Emerging Markets Fund

Table II.

Top contributors to performance for the quarter ended September 30, 2019

	Percent Impact
Taiwan Semiconductor Manufacturing Company Ltd.	0.37%
PagSeguro Digital Ltd.	0.34
PT Tower Bersama Infrastructure, Tbk.	0.21
SBI Life Insurance Company Limited	0.15
Tata Communications Limited	0.15

Shares of **Taiwan Semiconductor Manufacturing Company Ltd.** were boosted by a category-wide rally as investors shifted into certain cyclical stocks. As global semiconductor demand turns positive due to 5G related investments in telecommunications equipment and smartphones, Taiwan Semiconductor remains the partner of choice for leading technology companies seeking cutting edge solutions for next-generation chips. Further, Taiwan Semiconductor is a clear beneficiary of any perceived improvement in U.S./China trade relations.

PagSeguro Digital Ltd. provides digital payment solutions to small and micro merchants in Brazil. Shares contributed to performance due to strong momentum in key performance indicators, including net client additions and average take rate. These indicators suggest the company is less susceptible to competition than feared. During the quarter, PagSeguro also announced strong traction in its recently launched banking offering, PagBank, which increases the company's addressable market and provides a new avenue for growth.

Shares of **PT Tower Bersama Infrastructure, Tbk.**, the second largest owner and operator of wireless telecommunications towers in Indonesia, appreciated during the quarter due to in-line second quarter results with a slight increase in tenancy expectations for the full year, as well as long-term benefits from carrier network build-outs in Indonesia.

Shares of **SBI Life Insurance Company Limited** contributed to performance in the quarter. Gains were driven by strong premium growth, along with improving margins led by favorable product mix shift. We retain conviction in SBI Life due to its prevalence across India and large addressable market opportunity. We expect the company's embedded value to sustain mid-to-high teens growth over the next three-to-five years. As a leading life insurance player in India, the company should benefit from growing demand for individual protection and other insurance-linked savings products.

Shares of **Tata Communications Limited** contributed to performance in the third quarter. As the world's leading sub-sea fiber network operator, the company is benefiting from structural growth in data usage. Gains were driven by the successful spin-out of certain land assets that led to a meaningful re-rating of the core enterprise business, which was grossly undervalued. We retain conviction in Tata, as we think the company is well positioned to scale its high-growth data services business and leverage its global fiber optic network.

Table III.

Top detractors from performance for the quarter ended September 30, 2019

	Percent Impact
YPF S.A.	-0.42%
Sasol Limited	-0.31
Tencent Holdings Limited	-0.28
RBL Bank Limited	-0.26
Edelweiss Financial Services Limited	-0.23

YPF S.A. is an integrated oil & gas company focused on developing hydrocarbon fields in Argentina. Shares of YPF declined during the quarter after an opposition party candidate won primary elections by a surprisingly large margin. Election results led to significant devaluation of the local currency and expectations of significant deterioration in macro-economic conditions. We sold our shares in the company, given the greater uncertainty about the investment climate and the policy path on fuel prices.

Sasol Limited is an integrated petrochemicals and energy company based in South Africa. Shares detracted from performance after the company announced further delays for its Lake Charles chemical plant project in the U.S. We remain positive as Sasol is approaching free cash flow inflection with the launch of the new plant. We do not think the stock is being accurately valued by the market, and we expect to see multiple re-rating as the company executes on its growth strategy.

Tencent Holdings Limited operates the leading social network and messaging platforms in China (QQ, WeChat), the largest online entertainment and media business in China, and the largest online PC and mobile gaming business in China. Shares detracted given second quarter revenue growth that fell short of investor expectations and gross margin compression against the backdrop of trade war-related news. That said, we believe Tencent can grow each of its large business segments for years to come given its track record of execution, scale, and unique and diversified online assets.

RBL Bank Limited is one of India's fastest growing private sector banks, serving corporate and retail clients. Shares detracted from performance due to concerns over stress in the company's corporate loan portfolio that tempered expectations for credit growth and attainment of profitability targets. We retain conviction in RBL as a long-term winner due to its promising digital strategy, partnership approach to retail lending, and strong management team.

Shares of **Edelweiss Financial Services Limited**, a leading non-bank financial company ("NBFC") in India, declined in the quarter due to concerns over asset quality trends and a tight liquidity environment for real estate-focused NBFCs. We remain invested as we believe the company is well positioned to benefit from growing demand for retail lending, distressed asset services, and brokerage services. However, we are actively monitoring business performance along with liquidity conditions and are reevaluating the investment thesis accordingly.

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of September 30, 2019

	Percent of Net Assets
Alibaba Group Holding Limited	4.6%
Taiwan Semiconductor Manufacturing Company Ltd.	3.0
Samsung Electronics Co., Ltd.	3.0
Tencent Holdings Limited	2.6
Sberbank of Russia PJSC	2.2
Petroleo Brasileiro S.A. Petrobras	1.9
B3 S.A. – Brasil, Bolsa, Balcão	1.8
PagSeguro Digital Ltd.	1.8
China International Travel Service Limited	1.7
Reliance Industries Limited	1.7

EXPOSURE BY COUNTRY

Table V.
Percentage of securities by country as of September 30, 2019

	Percent of Net Assets
China	33.3%
India	16.7
Brazil	10.0
Taiwan	8.4
Korea	5.0
South Africa	3.7
Mexico	3.6
Philippines	2.9
Russia	2.9
Thailand	2.3
Indonesia	1.3
United Kingdom	1.3
Panama	1.3
Hong Kong	1.1
Argentina	1.0
United Arab Emirates	0.8
Hungary	0.6
Finland	0.5
Nigeria	0.0

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 2019, the Fund's median market cap was \$10.0 billion, and we were invested 76.0% in large- and giant-cap companies, 20.0% in mid-cap companies, and 0.5% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash and private securities.

RECENT ACTIVITY

In recent quarters, we have endeavored to increase our position concentration with an emphasis on quality and compound return potential, while reducing the overall number of investments in the portfolio. Further, given the increasing unpredictability of foreign policy and geopolitical

events, we have attempted to moderate our exposure to companies whose earnings could be directly disrupted by an escalation of the U.S./China trade dispute, as well as de-emphasize themes and investments with higher sensitivity to macro-driven conditions or events. While our portfolio turnover to date modestly exceeds historical levels, this is deliberate and temporary, and during the third quarter, we made 5 new investments while exiting 16. On the margin, we hope to reduce our total number of positions further, largely by eliminating smaller positions and adding to our higher conviction long-term investments.

Our largest new investment in the quarter was **Azul S.A.**, a leading low-cost airline operator in Brazil. Founded in 2008 by JetBlue founder David Neeleman, Azul is one of the world's most profitable airlines, with attractive long-term competitive advantages and many years of growth potential ahead. Azul has transformed Brazil's air traffic industry, focusing on secondary markets where it often is the sole operator, thereby creating new routes that have never existed, tapping into latent, pent-up demand, and gaining share from alternative modes of transportation. Further, unlike its principal domestic competitors, the company has the balance sheet strength to consistently invest in fuel-efficient, modern aircraft, which drives capacity and revenue expansion while reducing unit costs. While the investment case is attractive on its surface, we believe the recent shutdown of Avianca Brazil, a former local competitor with a 13% domestic share, and the recently announced air cargo agreement with **MercadoLibre, Inc.**, the country's leading e-commerce operator, are likely to accelerate the rate of operating margin expansion and earnings growth in the near term.

China Conch Venture Holdings Ltd. is an emerging leader in hazardous and solid waste treatment that is leveraging its unique and proprietary cement co-processing and waste-to-energy technologies to offer remediation services at a fraction of the cost of existing solutions. A cleaner environment is a major policy priority in China, and China Conch, which is structured and operates as a quasi-private entity with state sponsorship, is uniquely positioned to dominate market share given its affiliation and/or partnership agreements with the country's leading cement manufacturers. Cement co-processing is estimated to grow rapidly over the next decade as its share of the hazardous waste treatment industry rises from its current 3% level, and we believe China Conch will directly benefit from volume growth in its core operations of over 30% per annum in the next five years.

Meituan Dianping operates China's leading online food delivery platform, while also providing online travel and other consumer services. Online food delivery in China is essentially a duopoly, with Meituan, backed by the internet giant Tencent, consistently gaining market share by out-executing Alibaba's Ele.me, leading to a near two-thirds market share. Having followed Meituan and its impressive management team since its IPO last year, we initiated a position in the recent quarter based on evidence that Alibaba had begun to dial down the competitive intensity, likely in recognition that material cash subsidies were not eroding Meituan's advantage or market share, and we believe the industry is now poised to exhibit operating leverage as delivery density, order frequency, and take rates continue to improve. Meituan currently delivers over 20 million food orders per day nationwide, so we expect small improvements in unit profitability to reverse operating losses and drive attractive margins over our investment horizon.

During the quarter we exited several positions, most notably **China Tower Corporation Limited** and **StoneCo Ltd.** We believe the nature of China's 5G expansion and other tower capacity additions will prove less additive to China Tower's earnings than we and the market have anticipated. StoneCo is a disruptive Brazilian payment provider, and we believe the company's

Baron Emerging Markets Fund

operating and market share momentum have deteriorated as competition has escalated in its core market. In addition, we exited **Banco do Brasil S.A.**, as we have identified what we believe are more attractive bottom-up earnings-driven investments in Brazil, and **YPF S.A.** and **Loma Negra Compania Industrial Argentina Sociedad Anonima**, as a result of the surprising first round results of the presidential election in Argentina. Finally, we also exited several small positions consistent with our effort to drive greater position concentration within the portfolio.

OUTLOOK

In our second quarter letter, we stated that while this year's pivot to central bank accommodation, led by the U.S. Federal Reserve, was a clear support for global equities as well as international and EM economies and currencies, geopolitical and foreign policy risks remained heightened and could overwhelm such accommodation as the year progressed. Further, we suggested that the cadence of the strategic and trade confrontation between the U.S. and China remained the most important variable for the near-term outlook for EM equity performance. Three months have passed, and investors basically remain on the same treadmill, while EM equities have spent much of the year consolidating in a broad trading range following an impressive recovery in January. Like last quarter, rising expectations of a U.S./China trade compromise were dashed in early August as the U.S. accused China of failing to honor a good faith commitment to purchase soybeans, and then immediately scheduled tariffs on the remaining \$300 billion of imported goods from China. This sparked a series of tariff and non-tariff escalation and hostile rhetoric on both sides: "Wash, Rinse, Repeat." The brief period of respite that followed as trade negotiators agreed to meet in October was punctured in the final days of the quarter by the Trump administration's threat of capital controls on U.S.-listed Chinese equities. All of the above injected uncertainty and contributed to fears of a global recession, as global equities ended the third quarter toward the low end of this year's trading range.

While the environment remains volatile and stocks appear hostage to such headlines, we see the recent rhetoric as a likely precursor to a compromise. First, we believe it is increasingly clear that extending tariffs further, particularly to the core of U.S. consumer goods that comprise the final \$300 billion bucket, would likely exert more harm on U.S. corporations and consumers than on China, while doing so would likely trigger further RMB depreciation, leaving U.S. constituents as the predominant losers. Second, further restricting the flow of high-technology components and semiconductors to China/Huawei will cause material disruption across the U.S. and global technology sector. Third, and perhaps most important as we near the Presidential election window, we believe it is critical for President Trump to fortify the midwestern vote, likely in the form of a massive soybean purchase commitment from China, as the midwestern swing states are likely to drive the 2020 election outcome. Finally, a year after China began a broad stimulus campaign, recent negative economic surprises appear more significant in the U.S. than in China or elsewhere. U.S. equities

and the dollar have recently begun to underperform international counterparts, suggesting to us that it is an opportune time for the U.S. to reach a compromise.

While policy and politics are unpredictable, we view the window for a pre-election trade deal as the next three to six months. Should any such deal be announced, we believe investors' perception that global policymakers remain "behind the curve" would likely shift and begin to discount an improving global economic outlook—with particular benefit to international and EM economies, currencies, and equities. Greater confidence in China and EM currency stability would additionally catalyze capital flows back into EM bonds, which offer attractive yield premiums to developed world counterparts. Longer term, we continue to believe that U.S. weaponization of U.S. foreign policy and the dollar suggests the dollar bull market is likely near peaking, and we believe a key consequence would be the trough in EM relative underperformance.

Despite the difficult geopolitical backdrop, several pockets of the EM universe and our portfolio have exhibited solid performance and give us cause for optimism. Brazil remains the standout jurisdiction, in our opinion, as policy initiatives such as Social Security and other fiscal reforms as well as a mass privatization agenda have materially enhanced the sovereign credit profile, reduced inflation expectations and interest rates, and driven material upgrades in earnings expectations. We believe Brazil is now transitioning from a macro-driven to a bottom-up stock pickers' market, where select companies will achieve attractive earnings growth in coming years. Our investments in Brazil have driven strong absolute and relative returns over the past year.

In contrast, India, our largest overweight, has been a drag on performance. Even though the lingering effects of last year's liquidity squeeze continue to plague economic and credit growth and asset quality in the near term, we remain optimistic that during Prime Minister Modi's second term his policy agenda and reforms will likely provoke a virtuous investment cycle. During the quarter, several policy initiatives were introduced (the first since Modi's landslide re-election), the most significant of which was a large and unexpected corporate tax cut. We believe this signals a willingness to do "whatever it takes" to stabilize financial conditions and return to growth potential. As such, we think that our significant investments in India can enhance our returns in coming quarters.

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 1-800-99BARON or visiting www.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.

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