Dear Baron Emerging Markets Fund Shareholder:

Performance

Baron Emerging Markets Fund (the "Fund") declined 6.15% (Institutional Shares) for the final quarter of 2018, while its principal benchmark index, the MSCI EM Index, retreated 7.47% for the quarter and the MSCI EM IMI Growth Index declined 8.25%. For the full year of 2018, the Fund was down 18.49%, closely approximating the decline of the MSCI EM IMI Growth Index, while underperforming the principal benchmark MSCI EM Index, which declined 14.58%. In the fourth quarter, emerging market ("EM") equities notably outperformed U.S. and global indexes. In our view this was as a result of several factors outlined in our third quarter letter, in which we suggested a period of mean reversion in performance was a reasonable likelihood.

In last quarter's letter, we proposed that the principal catalysts driving poor EM equity returns were not related to company fundamentals, but rather macroeconomic and geopolitical forces; we also suggested that, while a legitimate agreement between the U.S. and China on trade or a change in U.S. Fed rhetoric would likely spark a reversal in EM relative and absolute performance, a subtle catalyst could be a perceived peak in President Trump's political currency, as any dilution to the more aggressive elements of his "America First" policy would likely trigger a mean reversion in the year-to-date divergence of performance between U.S. and EM equities. We also noted that the EM correction was well advanced, and that we did not believe the U.S. markets or economy could remain insulated from the global liquidity and protectionist squeeze indefinitely. Contagion to the U.S., which was likely in our view, could trigger a bottom in international and EM assets and currencies as these markets would begin to discount a change in the cadence of trade policy and/or Fed rhetoric. We would now suggest that the conditions outlined above are increasingly being anticipated and discounted by market developments worldwide.

MICHAEL KASS

PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended December 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]	(6.19)%	(6.15)%	(7.47)%	(8.25)%
One Year	(18.67)%	(18.49)%	(14.58)%	(18.44)%
Three Years	5.80%	6.06%	9.25%	7.70%
Five Years	1.71%	1.96%	1.65%	2.22%
Since Inception (December 31, 2010)	3.05%	3.30%	0.24%	0.95%

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.

[1] The indexes are unmanaged. 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.

BARON FUNDS

Baron Emerging Markets Fund

For the final quarter of 2018, we outperformed both our primary benchmark MSCI EM Index as well as our all-cap EM growth proxy. While encouraged by our recent quarterly results, we were disappointed with our full-year performance, which closely tracked the all-cap EM growth proxy, but trailed the MSCI EM Index. While we would characterize the earnings results across the bulk of our portfolio as solid, many of our investments suffered material multiple contraction resulting from a rise in risk premium on EM equities, a concern over future regulatory or policy tightening, or additional risks related to future earnings growth for highly-profitable private sector companies, particularly relating to China. In this regard, as 2018 progressed we would characterize investor sentiment as increasingly hostile towards the equity values of private sector corporations and successful entrepreneurs, and more acutely so in the smaller, mid-cap and lower end of large-cap universe, which of course forms the core of our investment portfolio. While we believe a principal catalyst has been escalating pressure as a result of unconventional U.S. aggression in the form of foreign policy, trade protectionism, and threatened sanctions, the good news is that any de-escalation would likely relieve such pressure and allow risk premium on EM and international assets to normalize, and multiples on private sector companies in particular, to rise.

During the fourth quarter, our positive relative performance was led by strong stock selection effect in the Industrials, Consumer Discretionary, and Financials sectors; while positive performance was fairly broad based, returns were paced by strength following the positive election results in Brazil, with notable appreciation in **Rumo S.A.**, **Localiza Rent a Car S.A.**, **B3 S.A. – Brasil**, **Bolsa, Balcao**, and **Itaú Unibanco Holding S.A**., and a rebound in India from the third quarter liquidity crisis, where **Kotak Mahindra Bank Ltd.**, **SBI Life Insurance Company Limited**, **Max Financial Services Limited**, **Housing Development Finance Corporation Limited**, and **JM Financial Limited** all achieved solid double-digit returns. The largest single contributor to positive relative performance was **China Tower Corporation Limited**, a recent addition to the portfolio that we profiled in our third quarter letter. Our cash position in a weak market also contributed to fourth quarter relative performance. Offsetting a portion of the above, adverse stock selection effect in the Utilities sector was the principal detractor from relative performance, as **Infraestructura Energetica Nova S.A.B. de C.V.** suffered a material decline upon the decision by the newly elected Mexican president to cancel plans to complete an upgrade of the Mexico City airport, raising questions regarding the integrity of existing infrastructure-related contracts and related growth potential in the country.

For the full year 2018, our adverse performance relative to the benchmark EM Index was driven most by poor stock selection effect in India, where several of our theme-related investments retraced gains achieved in the prior year, and adverse allocation effect in Argentina, where our related reform theme suffered under an abrupt change in liquidity conditions. Partially offsetting the above was positive stock selection effect in Consumer Discretionary, paced by our thematic concentration in value-added Asian textile manufacturers **Shenzhou International Group Holdings Ltd.**, **Makalot Industrial Co., Ltd.**, and **Eclat Textile Co., Ltd.**, all seen as beneficiaries of a likely shift in manufacturing capacity from China to Vietnam and other Southeast Asian domiciles, as well as our cash position in a declining market.

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

	Percent Impact
China Tower Corporation Limited	0.51%
Rumo S.A.	0.26
Itaú Unibanco Holding S.A.	0.23
B3 S.A. – Brasil, Bolsa, Balcao	0.21
Housing Development Finance Corporation Limited	0.21

Shares of **China Tower Corporation Limited** appreciated in the quarter as fears of a merger between two important customers eased after the government announced a plan to distribute 5G spectrum. China Tower is the largest owner of wireless towers globally with dominant market share in China. We continue to believe that China Tower will be a significant beneficiary of the carrier 5G network build in China, and should be able to compound value in the double-digit range for more than five years.

Shares of **Rumo S.A.** rose during the quarter as the company continued to execute on its capacity enhancement strategy and its competitive advantages against the trading industry. Rumo is the leading industrial and agricultural rail operator in Brazil. We continue to believe that Rumo's capacity enhancement program will allow the company to take market share from inefficient truck operators, which we think could drive potential double-digit growth for several years to come.

Itaú Unibanco Holding S.A. is Brazil's largest private sector bank. Shares of Itaú rose along with Brazilian equities in general following the October election of Jair Bolsonaro as the country's next president. Mr. Bolsonaro's election marks a market-friendly swing to the right for Brazil, with promises to fix the country's main issues, including a broken social security system, rampant violence, and corruption. Itaú's shares rose on optimism the new administration's agenda will spur a new economic cycle for the country, driving better earnings for the banking sector.

B3 S.A. – Brasil, Bolsa, Balcao operates exchanges in Brazil for trading financial products and provides registration of non-standard derivatives contracts and bank funding instruments. The stock performed well after reporting good third quarter results with revenue growth of 14% and EBITDA growth of 17%. The election of Jair Bolsonaro as Brazil's new president was viewed positively by investors and contributed to market appreciation. We continue to own the stock because we believe B3 will benefit from the long-term development of the Brazilian capital markets.

Housing Development Finance Corporation Limited is India's premier housing finance company. Shares increased as liquidity conditions in the short-term funding market began to normalize following a squeeze triggered by a large credit downgrade in the system in September. In addition, a decline in oil prices and a lower inflation rate tempered the outlook for higher benchmark rates, which helped ease expectations for the company's funding costs. Lastly, the company reported results that showed continued steady earnings growth despite a difficult operating environment.

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

	Percent Impact
Tullow Oil plc	–0.50%
Alibaba Group Holding Limited	–0.46
Baidu, Inc.	–0.46
PagSeguro Digital Ltd.	–0.43
Kangde Xin Composite Material	–0.42

Tullow Oil plc is an international exploration and production company primarily focused on operations in West and East Africa. Shares declined in the quarter due to falling oil prices. We remain investors due to the company's operational improvements, ramp up of production at TEN field in Ghana, the deleveraging of its balance sheet, exploration upside in South America, and potential monetization of Kenya assets.

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China, with shopping platforms Taobao and Tmall. Alibaba also owns 33% of Ant Financial, owner of Alipay, the largest third-party online payment provider in China. Shares of Alibaba were down in the quarter due to macro and trade war uncertainty and a postponement of incremental monetization on its China marketplaces. We believe Alibaba's core business remains highly profitable and continues to grow rapidly, with tailwinds to the overall company from strong mobile and advertising growth.

Baidu, Inc. is the dominant search engine company in China with leadership in online video, AI, and autonomous driving. Shares of Baidu were down in the quarter due to regulatory headwinds to the gaming and financial industries, trade war tensions, and cautious Q4 guidance. We maintain conviction as we believe Baidu continues to be focused on leveraging its cross-platform data to provide improved search experiences, with meaningful runway to improve monetization given its relatively small ad load and low levels of monetization vs. Google.

Shares of **PagSeguro Digital Ltd.** fell during the quarter because of Brazilian macroeconomic volatility and concerns over the competitive environment. PagSeguro is a Brazilian payment processor that exclusively serves the un-banked small customer segment. While we continue to monitor the competitive environment closely, we remain excited about the potential for PagSeguro to enable credit, debit, and other electronic payment mechanisms in a large portion of the economy that is significantly underserved by the traditional banking sector.

Kangde Xin Composite Material is a leading specialty film producer based in China. Shares fell as economic weakness pressured the company's downstream customers in consumer electronics and auto. In addition, negative sentiment around Kangde's pledged shares continued to weigh on share performance. Kangde continues to gain share in the domestic market and has received local government backing to ensure balance sheet liquidity. We continue to admire Kangde's long-term prospects as a leader in specialty and optical materials.

Portfolio Structure

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

	Percent of Net Assets
Tencent Holdings Limited	3.3%
Alibaba Group Holding Limited	2.4
Taiwan Semiconductor Manufacturing Company Ltd.	2.4
China Tower Corporation Limited	2.3
Samsung Electronics Co., Ltd.	2.3
Petróleo Brasileiro S.A. – Petrobras	2.1
China Mobile Ltd.	1.7
KIA Motors Corporation	1.7
Rumo S.A.	1.7
WH Group Limited	1.6

Exposure By Country

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

	Percent of Net Assets
China	28.3%
India	16.2
Brazil	10.2
Taiwan	8.8
Korea	7.5
Mexico	5.8
South Africa	5.4
Philippines	2.6
Thailand	2.2
Argentina	2.0
Russia	1.9
United Kingdom	1.1
Hong Kong	0.9
Panama	0.7
Finland	0.7
Hungary	0.5
Malaysia	0.3
Indonesia	0.3
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 fourth quarter of 2018, the Fund's median market cap was $8.8 billion, and we were invested 78.0% in large- and giant-cap companies, 17.3% in mid-cap companies, and 0.2% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash.

Baron Emerging Markets Fund

Recent Activity

During the recent quarter, we deployed a meaningful balance of our cash position in a declining market as we began to perceive attractive value, particularly in our quality growth arena. A new theme has materialized in recent months related to the impending rollout of 5G wireless networks. We currently have investments in **China Tower Corporation Limited, China Mobile Limited,** and **Nokia Corporation**, and hope to identify additional attractive opportunities in months ahead. More generally, we established several new beginning positions while also adding to several existing investments. **YY Inc.** is our second China-based live streaming investment that also holds a majority interest in HUYA Inc., a fast-growing and leading e-sports platform in China. Additionally, in China, we took initial positions in **KunLun Energy Company Limited**, a leading player in the generation, transportation, and storage of natural gas and LNG, which the government has targeted for high growth in coming years as a mechanism to shift energy content to more environmentally-friendly sources, and in **New Oriental Education & Technology Group Inc.**, a leading diversified educational services provider which is gaining share in a highly-fragmented market. We also took positions in **HDFC Bank Limited**, the leading high-quality private sector bank in India, and **Wizz Air Holdings Plc**, a fast growing and leading low-cost airline operator in Central and Eastern Europe. We have followed both companies for quite some time and viewed the recent corrections in the shares as an attractive entry point. Finally, we also made an investment in **Nokia Corporation**, a Finnish wireless communications equipment vendor which we believe will likely be a major beneficiary of the trade-related conflicts occurring between the U.S. and China. While not an emerging market domiciled company, we believe Nokia potentially stands to gain material market share and enhanced earnings power at the expense of Huawei Technologies, the current China-based global leader that we believe will be somewhat compromised in accordance with the trade negotiations playing out between the U.S. and China. Huawei increasingly appears a pawn in this drama due to a host of violations of international norms. Capital spending on 5G wireless networks is poised to accelerate worldwide beginning later this year, supporting our broader 5G theme. In addition to the above, we also added to several investments, most notably **China Tower Corporation Limited**, **Taiwan Semiconductor Manufacturing Company Ltd.**, **Delta Electronics, Inc.**, **Hangzhou Hikvision Digital Technology Co., Ltd.**, **Han's Laser Technology Co., Ltd.**, and **PagSeguro Digital Ltd.**, all of which are technology-related growth companies that have experienced significant selling pressure in recent months.

During the quarter, we sold our positions in **Titan Company Limited**, a leading jewelry manufacturer and retailer in India based on concerns related to India's recent liquidity crisis, and **TAL Education Group**, a fast-growing and high-multiple educational and tutoring services provider in China, as we had concerns over government regulatory tightening and earnings quality. Finally, we also reduced several positions, including **Tencent Holdings Limited**, **Amorepacific Corporation**, **Momo Inc.**, **Sberbank of Russia PJSC** and **Yandex N.V.**, also based on concerns over heightened government regulatory risk and policy aggression.

Outlook

In our third quarter letter, we suggested several potential catalysts that could likely trigger a mean reversion in leadership where EM equities would begin to outperform. In our view, such catalysts included indications of a credible truce between the U.S. and China on trade, market recognition that U.S. corporate profits and equities were exposed to disruption from escalating tariffs and foreign policy tensions, and finally, a peak in unconstrained executive privilege, or what we termed "peak Trump political currency." In our view, during the fourth quarter, the above catalysts have all come into play, and as a result, EM outperformed the U.S. and global indexes for the first time in several quarters. We believe such outperformance is a welcome precondition to forming a durable bottom and a return to positive absolute returns.

Our expectation was that the above conditions would increase the likelihood that the U.S. would seek a compromise in trade relations with China and perhaps a return to more conventional foreign policy, and/or help coerce Fed behavior to become less restrictive, either of which would also reduce risk premium associated with EM assets and equities. We now enter 2019 with various risks to U.S. corporate earnings increasingly priced in and speculative and leveraged positioning in equities, bonds, and oil having corrected and normalized. Our conclusion is that much that could go wrong has now been priced in, particularly in mid-cap growth stocks globally, which suffered an outsized correction during the fourth quarter. Consistent with the above conditions, as well as our view that the U.S. midterm elections might represent an important inflection point where going forward we begin to see constraints on U.S. executive privilege, during the quarter we became considerably less defensive and exited the quarter with a much-reduced cash position. Looking ahead, in the near term, we believe a rally in global equities is more likely than a further decline, as markets begin to anticipate a de-escalation of protectionist measures and improving global trading conditions, as well as a more flexible Fed mandate. Such a development would likely suggest a peak in the U.S. dollar and further outperformance by EM and international equities. While this is our base case expectation for now, we remain cautious because global capital markets remain exposed to the elevated risk of policy error: Will the U.S. and China reach a credible compromise by the imposed March 2nd deadline? Will the Fed follow through in tempering expectations of future tightening if trade relations improve? Could a shift to positive global economic surprises, in the aftermath of a large decline in oil and long-term government bond yields, force the Fed to return to a more restrictive bias? Lastly, and indicative of a market environment where non-economic risks may ultimately "overwhelm the fundamentals," what can we expect in the coming months from the ongoing Mueller investigation and what sort of unpredictable response could it provoke?

While we have written in recent quarters that we believe unconventional U.S. foreign policy initiatives have driven international and EM equity risk premium higher and earnings multiples lower in the short term, we nonetheless are encouraged by several emerging bright spots. Brazil, in particular, has demonstrated market leadership and material positive returns as the incoming Bolsonaro administration has articulated a market-friendly doctrine emphasizing material privatization activity and a commitment to enhanced fiscal orthodoxy. In addition, while certain Asian equity markets remain closely correlated to the outlook for China's economy and policy direction, many markets, such as Indonesia, Thailand, South Africa, and much of Latin America remain more sensitive to the outlook for the U.S. dollar and Treasury yields, where recent developments suggest we have already entered a bottoming phase. Should the outlook for foreign and trade policy reduce pressure on China, and Fed policy shift to a marginally more accommodative stance, we believe many of our existing investments offer material upside from current levels. As always, we remain confident that our forward-looking and bottom-up fundamental approach positions us to discover exciting long-term investment opportunities regardless of the market environment.

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.

Risks: In addition to the general stock market risk that securities may fluctuate in value, investments in developing countries may have increased risks due to a greater possibility of: settlement delays; currency and capital controls; interest rate sensitivity; corruption and crime; exchange rate volatility; and inflation or deflation. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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