

**DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:  
PERFORMANCE**

Baron Emerging Markets Fund (the "Fund") appreciated 0.29% (Institutional Shares) for the second quarter of 2019, while its principal benchmark index, the MSCI EM Index, gained 0.61% for the quarter and the MSCI EM IMI Growth Index appreciated 0.07%. The Fund has outperformed both indexes for the year-to-date period. During the quarter, emerging market ("EM") equities underperformed U.S. and global indexes, though global equity returns moderated to nominal gains following a strong first quarter. In our view, the principal catalysts for EM and global equities remained the shift in U.S. Federal Reserve posture, which confirmed a clear easing bias as the quarter progressed, as well as the tone of trade and geopolitical relations between the U.S. and China. Early in the quarter, equities succumbed to a material correction as an expected trade agreement was not consummated and non-tariff retaliation measures quickly escalated; however, as the counterparties reached a détente at the G20 meeting in Japan in the final days of the quarter, equities closed at or near year-to-date highs. As we enter the second half of 2019, we suspect equity returns will hinge on how much further U.S. and global growth slows, whether the Fed follows through with expected interest rate cuts, and if a commercial trade agreement can be reached between the U.S. and China, allowing the larger, more fundamental strategic differences to be pushed out to a future negotiation. Ongoing unpredictable U.S. foreign policy will likely continue to play a role in the outlook for market returns and volatility. As we suggested in our first quarter letter, we reiterate that we believe EM and international equities are likely bottoming on a relative return basis, and we see a mean reverting phase of outperformance in coming years as likely. 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 June 30, 2019

	Baron Emerging Markets Fund Retail Shares <sup>1,2</sup>	Baron Emerging Markets Fund Institutional Shares <sup>1,2</sup>	MSCI EM Index <sup>1</sup>	MSCI EM IMI Growth Index <sup>1</sup>
Three Months <sup>3</sup>	0.29%	0.29%	0.61%	0.07%
Six Months <sup>3</sup>	12.13%	12.27%	10.59%	11.59%
One Year	(0.08)%	0.11%	1.21%	(3.12)%
Three Years	7.97%	8.23%	10.66%	10.10%
Five Years	2.40%	2.66%	2.49%	3.17%
Since Inception (December 31, 2010)	4.26%	4.51%	1.42%	2.20%

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](http://www.BaronFunds.com) or call 1-800-99BARON.

<sup>1</sup> 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.

<sup>1</sup> 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.

<sup>2</sup> The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

<sup>3</sup> Not annualized.



**MICHAEL KASS**  
PORTFOLIO MANAGER

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

For the second quarter of 2019, we performed roughly in line with both our primary benchmark, the MSCI EM Index, as well as our all-cap EM growth proxy. While encouraged by our year-to-date outperformance, we acknowledge that the past several quarters have been marked by elevated volatility, reflecting an unpredictable geopolitical, foreign policy, and macroeconomic environment. We view the year-to-date pivot in U.S. Federal Reserve posture as a material and offsetting positive, which we believe signals an improving relative backdrop for EM equities. If, as we suspect, we are exiting the period of excess dollar liquidity withdrawal that characterized the past year, then EM equities are likely bottoming on a relative basis after a multi-year downturn.

During the quarter, positive relative performance was led by stock selection effect in the Consumer Discretionary sector, driven by our investments in **China International Travel Service Limited**, the dominant operator of duty-free retail stores in mainland China, and **KIA Motors Corporation**, due to its significant success in new model introductions. In addition, **Copa Holdings, S.A.**, the highly profitable LATAM airline based in Panama, **Rumo S.A.**, the Brazilian rail and logistics operator with a near monopoly, and **Techtronic Industries Co. Ltd.**, a branded power-tool manufacturer based in Hong Kong, powered strong relative performance in the Industrials sector. From a country perspective, Korea and our Brazil and Argentina reform themes delivered positive relative performance during the quarter.



# Baron Emerging Markets Fund

Offsetting a portion of the above, adverse stock selection in the Energy sector was driven by **Tullow Oil plc** of the U.K. and **KunLun Energy Company Limited** of China. In addition, an overweight position Health Care, the worst performing sector in the Fund's index for the quarter, also detracted from relative performance. Finally, from a country perspective, poor stock selection effect in India, largely related to our India financial inclusion, wealth management and affordable housing themes was a drag during the quarter, as liquidity strains lingered and impacted the near-term earnings outlook. We are confident that the recent Modi election victory and anticipated reform agenda will alleviate such strains in coming quarters.

**Table II.**  
Top contributors to performance for the quarter ended June 30, 2019

	Percent Impact
PagSeguro Digital Ltd.	0.51%
Sberbank of Russia PJSC	0.41
B3 S.A. – Brasil, Bolsa, Balcao	0.31
CP All Plc.	0.24
KIA Motors Corporation	0.24

Shares of **PagSeguro Digital Ltd.**, a payment processor and merchant acquirer, rose in the quarter due to improving sentiment in Brazil and minimal competitive intensity among the company's micro-merchant customer base. We retain conviction, as we believe PagSeguro will continue to build out a product ecosystem allowing it to offer digital banking products to customers.

**Sberbank of Russia PJSC** is the largest bank in Russia, with dominant market share in loans and deposits. Sberbank advanced during the quarter as the company continued to report strong operating results and reaffirmed its commitment to a higher dividend payout. The stock also benefited from a significant decline in Russia's country-related risk. In addition to its dominant market position, superior profitability, and high dividend payment capacity, Sberbank's early adoption of technology to compete in the changing landscape for financial services is an advantage, in our view.

**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 contributed to performance as Brazil's ongoing economic recovery drove higher trading volumes for equities and derivatives. The company reported strong first quarter results with revenue growth of 24% and EBITDA growth of 27%. We continue to own the stock because we believe B3 will benefit from the long-term development of the Brazilian capital markets.

Shares of **CP All Plc.**, Thailand's largest 7-Eleven convenience chain operator, rose in the quarter following consumer spending data that exceeded analyst estimates and early signs of progress on the internal "offline-to-online" strategy. We expect CP All to continue its store footprint growth strategy and augment its service portfolio with a greater variety of ready-to-eat options that should boost spending in the store. Over time, we believe these stores will form the "last mile" logistics network for many e-commerce vendors.

Shares of **KIA Motors Corporation** contributed to performance due to financial results that beat Street estimates. We believe KIA has built a strong

pipeline of new models that will lead to earnings growth over the next two to three years. Recent success of the Telluride SUV in the U.S. has been cheered by investors, and we expect KIA to continue driving significant growth with new product launches.

**Table III.**  
Top detractors from performance for the quarter ended June 30, 2019

	Percent Impact
Alibaba Group Holding Limited	-0.33%
Sasol Limited	-0.26
Hangzhou Hikvision Digital Technology Co., Ltd.	-0.24
Piramal Enterprises Limited	-0.22
Tullow Oil plc	-0.19

**Alibaba Group Holding Limited** is the largest retailer and e-commerce company in China. The company owns and operates shopping platforms Taobao and Tmall as well as 33% of Ant Financial, which operates Alipay, the largest third-party online payment provider in China. Shares declined in the quarter on a softer revenue outlook given accounting and strategy changes at subsidiaries Cainiao and Lazada. However, we believe Alibaba's core business remains nicely profitable and continues to grow rapidly, with tailwinds to the overall company from strong mobile and advertising growth.

**Sasol Limited** is an integrated petrochemical and energy company. Shares declined after the company announced an increase in capital expenditures for its LCCP chemical plant project in the U.S. We remain positive, as Sasol is approaching free cash flow inflection with the launch of the LCCP 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 chemicals growth strategy.

Shares of **Hangzhou Hikvision Digital Technology Co., Ltd.**, the world's largest security surveillance equipment manufacturer, fell due to concerns over U.S.-China trade tensions that may adversely affect its business outlook and ability to procure key components. While we do not see any fundamental shift in its ability to deliver long-term sustainable growth in its AI and automation products, we have reduced the position to mitigate the potential short-term volatility in its earnings. Long term, we believe in Hikvision's leading position in China's multi-year manufacturing upgrade cycle.

Shares of **Piramal Enterprises Limited** detracted from performance due to near-term headwinds in the Indian real estate sector, including regulatory changes and tightening liquidity. However, as India's leading financier, the company is benefiting from growing demand for mortgage lending and corporate banking. We believe Piramal is well positioned to weather near-term volatility and benefit from industry consolidation, and we retain conviction due to the company's strong long-term growth outlook and solid risk management.

**Tullow Oil plc** is an international exploration and production company with operations in Africa and South America. Shares fell because of a decline in oil prices. We like the company due to operational improvements, ramp up of production at the TEN field in Ghana, the deleveraging of its balance sheet, potential monetization of Kenya assets, and exploration upside in South America.

## PORTFOLIO STRUCTURE

**Table IV.**  
Top 10 holdings as of June 30, 2019

	Percent of Net Assets
Alibaba Group Holding Limited	3.8%
Tencent Holdings Limited	3.8
Sberbank of Russia PJSC	2.2
Samsung Electronics Co., Ltd.	2.1
Petroleo Brasileiro S.A. Petrobras	1.8
PagSeguro Digital Ltd.	1.8
B3 S.A. – Brasil, Bolsa, Balcao	1.7
Rumo S.A.	1.6
China Mobile Ltd.	1.6
Taiwan Semiconductor Manufacturing Company Ltd.	1.5

## EXPOSURE BY COUNTRY

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

	Percent of Net Assets
China	32.2%
India	15.5
Brazil	10.0
Taiwan	7.2
South Africa	6.2
Korea	5.1
Mexico	3.4
Russia	3.1
Philippines	2.8
Thailand	2.4
Argentina	2.0
Hong Kong	1.2
Panama	1.2
Finland	1.1
United Kingdom	1.1
United Arab Emirates	0.7
Hungary	0.5
Indonesia	0.4
Malaysia	0.3
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 second quarter of 2019, the Fund's median market cap was \$9.3 billion, and we were invested 76.5% in large- and giant-cap companies, 19.2% in mid-cap companies, and 0.7% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash.

## RECENT ACTIVITY

During the quarter, we initiated and/or increased several positions associated with our existing themes:

- Mobile e-commerce/artificial intelligence: **Xiaomi Corporation** and **Alibaba Group Holding Limited**
- India financialization: **Bandhan Bank Limited**, **Reliance Nippon Life Asset Management Limited**, and **Edelweiss Financial Services Limited**
- EM consumption: **China International Travel Service Limited**, **Copa Holdings, S.A.**, and **CP All Plc.**
- Fintech/digital payments: **Network International Holdings Ltd.**, **StoneCo Ltd.**, **Lexifintech Holdings Ltd.**, and **Qudian Inc.**

On balance, we approached market volatility during the quarter as offering attractive entry points, as U.S./China trade and strategic relations continued to oscillate, and a wide range of potential outcomes in India's general election were contemplated prior to Modi's convincing victory.

We also exited several positions, most notably **China Construction Bank Corporation**, **Itau Unibanco Holding S.A.**, **Coal India Ltd.**, and **Smiles Fidelidade S.A.** In general, we aim to increase concentration in holdings where we have highest conviction in quality and return potential, while eliminating lower conviction or smaller holdings over time.

Rather than present the investment thesis for a select number of new investments as we normally do, we would like to use this mid-year letter to review several of our key investment themes, which in aggregate represent roughly 50% of the Fund's capital. Themes are an important part of our idea generation process whereby we seek the highest likelihood of the greatest value creation based on an important long-term inflection point, change or trend at an industry or country level. Recent themes include China value-added, Brazil reform & privatization, and India financialization & wealth management. A brief summary of several current themes and total exposure is provided below.

**Mobile e-commerce/Artificial Intelligence/Cloud (13%):** In our view, these technologies are key drivers of productivity worldwide; new technology platform companies are flourishing in EM as well as in Silicon Valley. Examples include Alibaba Group Holding Limited, Tencent Holdings Limited, GDS Holdings Limited, MercadoLibre, Inc., Reliance Industries Limited, and Yandex N.V.

**EM Consumption/Per Capita Income Growth (13%):** Most EM countries are generally shifting their emphasis from export and infrastructure activity to domestic consumption and per capita income growth. Examples include Wal-Mart de Mexico, S.A.B. de C.V., Copa Holdings, S.A., China International Travel Service Limited, CP All Plc., and Britannia Industries Limited.

**India Financialization/Wealth Management (9%):** Post demonetization, India seeks to vastly increase participation in the formal financial system, capturing private sector assets historically hiding in cash, gold, or unregistered real estate, and recycling such assets into productive investments, unleashing a virtuous cycle. Examples include Kotak Mahindra Bank Ltd., JM Financial Limited, Edelweiss Financial Services Limited, SBI Life Insurance Company Limited, and Bandhan Bank Limited.

# Baron Emerging Markets Fund

*China Value-Added (9%):* China has prioritized a shift in resources and emphasis towards value-added sectors, seeking a fair share of profits in industries previously dominated by multi-nationals, such as semiconductors, software development, automation/robotics, auto/electronic vehicles and batteries, biotechnology/pharmaceuticals, and domestic consumer goods. Examples include Midea Group Co., Ltd., Han's Laser Technology Co., Ltd., Yunnan Baiyao Group Co., Ltd., Zai Lab Limited, Hangzhou Hikvision Digital Technology Co., Ltd., and Kingdee International Software Group Co. Ltd.

*Brazil Reform & Privatization (7%):* The election of Jair Bolsonaro ushers in a profound change in political direction, whereby private sector participation will greatly increase, alongside material fiscal, regulatory, and financial reforms. Beneficiary investments include B3 S.A. – Brasil, Bolsa, Balcao, Petroleo Brasileiro S.A. – Petrobras, Rumo S.A., and Banco do Brasil S.A.

## OUTLOOK

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In our first quarter letter, we questioned whether global economic conditions could underwrite further material gains in the near term, particularly given our view that the U.S. and global economy, and related corporate earnings, appeared likely to continue to slow or stall. In the end, the second quarter progressed largely in line with our expectations, as gains in global equities moderated from their first quarter pace, albeit with a return to significant volatility during the quarter. On the one hand, slowing global growth and inflation readings, as well as trade uncertainties, allowed the U.S. Federal Reserve to complete its pivot from last year's tightening to an easing cycle, which is now being discounted as certain in the forward interest rate markets. This generally provides cover for coincident easing measures by central bankers worldwide, a clear support for global equities, and signals an improvement in risk conditions for international and emerging market economies and currencies. On the other hand, U.S. and global economic conditions continue to slow, and leading indicators suggest this trend may continue into early 2020. Geopolitical and foreign policy risks remain heightened, and, in our view, these risks may offset and could possibly overwhelm central bank accommodation as the current year

progresses. We believe whether and how the U.S./China trade and strategic confrontation progresses is likely the most important variable in the near term, as improved financial conditions are largely discounted, and the U.S./China outlook remains uncertain, notwithstanding the recent détente.

During the quarter, despite a bumpy path, Brazil made material political progress towards a wholesale reform of its Social Security program, which we have viewed as not only a highly likely, but also a necessary precondition for sustained investor confidence in the country and its longer-term prospects. We remain enthusiastic and are likely to continue to add to our exposure in this dynamic market. In addition, Narendra Modi and the NDA alliance secured a second five-year term in a landslide election victory in May, suggesting ongoing reforms are likely, and in our view confirming our positive bias towards India. While liquidity conditions remain challenged and somewhat of an overhang in the near term, we remain enthusiastic and anticipate an improving economic and investment cycle is likely to take root in coming quarters. We are also encouraged by evidence of stabilization in China, particularly in the consumer and value-added sectors which represent the bulk of our exposure, after many months of stimulus, regulatory easing, and tax relief. We continue to believe we are nearing the end of a protracted period of EM equity underperformance, and are confident we own a portfolio of quality growth companies poised to benefit from inherent competitive advantages and long-term tailwinds.

Thank you for investing in the Baron Emerging Markets Fund.

Sincerely,



Michael Kass  
Portfolio Manager

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*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](http://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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