MICHAEL KASS

PORTFOLIO MANAGER

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

Dear Baron Emerging Markets Fund Shareholder:

Performance

Baron Emerging Markets Fund (the "Fund") advanced 10.10% (Institutional Shares) for the third quarter of 2017, while its principal benchmark index, the MSCI EM IMI Growth Index, gained 9.49% for the quarter. For the year-to-date period, emerging market ("EM") equities further extended their leadership while posting enviable gains. We believe such performance has been fueled by solid global growth and trade flows, broad-based improvement in profit margins, expectations for continued interest rate cuts, and improved sentiment, particularly with regard to growth, stability, and rebalancing in China. Finally, political risks in countries such as Brazil, Argentina, and South Africa were also largely diffused in the recent quarter, providing support to returns. In our view, while we largely credit the cyclical earnings expansion which we have referenced for the past 18 months for the leadership of EM equities over that time frame, a broadening list of support factors has increased our confidence that a longer-term, more secular phenomenon may well be taking root. We are pleased with our year-to-date absolute and relative performance, and we remain optimistic that our differentiated discipline and process position us well to take advantage of substantial investment opportunities across our broad universe over the long term.

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

	Baron Emerging Markets Fund Retail Shares[1,2]	Baron Emerging Markets Fund Institutional Shares[1,2]	MSCI EM IMI Growth Index[1]	MSCI EM Index[1]
Three Months[3]	10.07%	10.10%	9.49%	7.89%
Nine Months[3]	32.28%	32.47%	33.77%	27.78%
One Year	21.29%	21.56%	23.97%	22.46%
Three Years	6.92%	7.17%	7.07%	4.90%
Five Years	8.15%	8.42%	6.11%	3.99%
Since Inception (December 31, 2010)	5.91%	6.17%	3.02%	1.57%

For the third quarter of 2017, we outperformed both our key EM benchmark growth index as well as the broader MSCI EM Index. During the quarter, the largest driver of relative performance was stock selection effect in the Consumer Discretionary, Consumer Staples, and Materials sectors. Consumer Discretionary strength was paced by strong gains in core, long-term holdings **TAL Education Group**, a leading tutoring/education services provider in China, and **Smiles SA**, the Brazilian loyalty reward program operator; **Kroton Educacional SA** of Brazil also made a notable contribution to relative performance. Within Consumer Staples, **China Mengniu Dairy Co. Ltd**. was the standout contributor, as pricing power returned to the China dairy industry. Materials sector performance was paced by **Sociedad Química y Minera de Chile SA**, one of the world's leading lithium producers, as several announcements drove higher long-term expectations for lithium-based electronic vehicle penetration. From a country perspective, strong relative performance in Chile, China, and Russia reflected solid stock selection effect. On the negative side, both poor stock selection and allocation effect in the Telecommunication Services sector drove adverse relative performance, where several of our holdings, such as **Tata Communications Limited** of India, **China Mobile Ltd.**, **Far EasTone Telecommunications Co., Ltd.** of Taiwan, and **PT Tower Bersama Infrastructure, Tbk.** of Indonesia, all posted flat to modestly negative returns in a strong market.

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, 2016 was 1.38% and 1.13%, 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 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. 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 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 Emerging Markets Fund

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

	Percent Impact
Alibaba Group Holding Limited	1.06%
TAL Education Group	0.94
Baidu, Inc.	0.84
Tencent Holdings, Ltd.	0.72
Sociedad Química y Minera de Chile SA	0.59

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

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

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

Shares of **Tencent Holdings, Ltd.** increased on the strength of robust quarterly results in both advertising and gaming. Tencent is one of the two largest internet companies in China, reaching almost 900 million monthly users. It operates the country's leading social network and messaging platform (QQ and WeChat), largest online entertainment and media business, and largest online pc and mobile gaming business. We estimate Tencent will grow each of its business segments for years to come given its scale track record of execution, and unique online intellectual property and assets.

Sociedad Química y Minera de Chile SA is a specialty commodity provider and one of the world's leading lithium producers. Shares appreciated during the quarter, driven by a solid second quarter earnings report as well as a series of announcements by several countries and leading automotive manufacturers regarding intent to accelerate the penetration of electric vehicles, most of which are powered by lithium ion batteries.

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

	Percent Impact
Catcher Technology Co., Ltd.	–0.19%
Amara Raja Batteries Limited	–0.11
LG Household & Health Care Ltd.	–0.10
PVR Ltd.	–0.08
Max Financial Services Limited	–0.08

Shares of **Catcher Technology Co., Ltd**., an electronic component provider specializing in metal casings, declined in the quarter. Catcher's stock was adversely affected by the new iPhone series launch that disappointed investors. We retain conviction. We believe that Catcher's long-term competitiveness remains intact as it gains share with new iPhone models.

Amara Raja Batteries Limited sells automotive and industrial batteries across India. Shares of Amara Raja fell during the quarter after the company's second quarter earnings results highlighted pressure from elevated lead costs and weak industrial battery demand. We continue to believe the company will gain market share against a backdrop of India's demonetization policy. However, we are evaluating our position in light of the recent management transition that followed the appointment of a new CEO in March.

LG Household & Health Care Ltd. is one of the premier companies in South Korea with expertise in cosmetics, home & personal care, and beverages. The company has been one of many Korean firms benefiting from China consumption and has suffered in recent months due to the geopolitical tension between the two countries. We retain conviction as LG's business is more balanced between China and Korea than many of its peers.

Shares of **PVR Ltd.** fell on below-consensus earnings growth as ticket sales were negatively affected by disappointing movie releases. In addition, Indian tax reforms that were expected to be favorable to PVR did not have a significant bottom-line impact. As India's largest multiplex operator, PVR is benefiting from growing consumption of movie content in the country. PVR is also taking market share from single screen cinemas as consumers are spending more to enjoy a high-quality multiplex movie-going experience. We retain conviction owing to strong secular growth opportunities in the multiplex industry.

Shares of **Max Financial Services Limited** declined as a result of investor overhang after a potential merger with HDFC Life Ltd. fell through. As one of India's leading life insurance providers, the company is benefiting from growing consumer demand for term protection and financial savings products. It is also a key beneficiary of the ongoing financialization of India's household savings. We think the company will benefit from strong secular growth opportunities in India's life insurance industry and expect mid-teens earnings growth over the next three to five years.

Portfolio Structure

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

	Percent of Net Assets
Alibaba Group Holding Limited	5.3%
Tencent Holdings, Ltd.	4.1
Baidu, Inc.	3.3
Samsung Electronics Co., Ltd.	2.2
KB Financial Group Inc.	1.9
Smiles SA	1.9
Taiwan Semiconductor Manufacturing Company Ltd.	1.8
TAL Education Group	1.7
WH Group Limited	1.7
YPF S.A.	1.6

Exposure By Country

Table V.
Percentage of securities by country as of September 30, 2017

	Percent of Net Assets
China	31.5%
India	16.7
Taiwan	7.0
Korea	6.3
Brazil	5.1
Mexico	4.7
South Africa	3.5
Russia	3.0
Argentina	2.7
Indonesia	2.4
Philippines	2.3
Chile	2.0
Hong Kong	1.8
Panama	1.4
Singapore	1.2
Malaysia	0.9
United Kingdom	0.7
Thailand	0.6
United States	0.2
Nigeria	0.2

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 third quarter of 2017, the Fund's median market cap was $10.0 billion, and we were invested approximately 78.0% in large- and giant-cap companies, 14.9% in mid-cap companies and 1.3% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash.

Recent Activity

Due to significant inflows into the Fund during the recent quarter, we increased many positions, with **Baidu, Inc.**, **Alibaba Group Holdings Limited** and **Tencent Holdings, Ltd.**, the triumvirate of dominant Chinese internet platforms, standing out. We have gained conviction that such companies are particularly well positioned to help carry out the country's rebalancing and reform objectives. These are now clearly our top three positions, comprising nearly 13% of net assets at quarter end. In addition, we meaningfully added to **KB Financial Group Inc**., a leading Korean banking group with a low-cost deposit base, which is experiencing a significant improvement in profitability due to a normalization of interest rates, rising net interest margins, cost-saving initiatives, and stable credit cost. A key catalyst for KB was the arrival of a new management team, which is prioritizing profit margins over market share, and has instituted management incentive compensation to benefit from sustained profit growth. We also added to our position in **Britannia Industries Limited**, a leading biscuit and packaged food producer in India, which we have long followed and admired. We believe the company's CEO is best-in-class with an emphasis on product innovation and cost rationalization. Given opportunities to drive further premiumization and distribution into rural markets, we believe the company can grow earnings at an attractive rate for several years. While it was a fairly quiet quarter in terms of meaningful, newly established positions, we did initiate a position in **Tongda Group Holdings Limited,** a leading China-based component and solution provider for the global smartphone supply chain. We believe the company is positioned to benefit from significant market share gains, as well as from rising penetration of advanced smartphone design features, including 3D glass and water proofing. We also participated in the IPO of **SBI Life Insurance Company Limited**, adding to our India wealth management theme, as we are attracted to the company's strong market share and profitability, as well as its attractive growth potential driven by enhanced distribution and what we believe is the beginning of a secular trend towards financialization of wealth and savings in India.

During the quarter, we also exited several positions. We viewed with caution the fact that **Momo Inc.**, the Chinese live streaming video platform operator**,** appeared unable to convert a steep ramp in marketing expense into new users, and we chose to protect our considerable profit. We also sold our remaining holding in **NAVER Corporation**, another Asian social media and search engine platform, on signs of deteriorating fundamentals. In addition, we completed the exit of holdings in **Multiplus SA**, a Brazilian loyalty program operator, **Life Healthcare Group Holdings Limited** of South Africa, **PetroChina Co. Ltd.**, and **Magnit PJSC**, the Russian retail conglomerate, as a result of failing to meet our expectations.

Outlook

In our last letter we suggested that, for a variety of reasons, EM equities were likely in a sweet spot for the time being. As if on cue, during the third quarter, such equities further extended already impressive year-to-date gains. Looking ahead, we believe fresh catalysts have emerged which, in our opinion, suggest that EM outperformance may still be in an early stage. While global growth and trade flows remain constructive and supportive, the visibility and implementation of ongoing productivity-enhancing reforms in many EM countries, and particularly in the ability of China to progress with rebalancing without financial sector or currency instability, to us has emerged as a key catalyst. In summary, while we suspect the cyclical earnings expansion which we have discussed over the past 18 months has propelled EM equities in recent quarters, we are gaining confidence that a more secular investment opportunity is developing, supported broadly by reform, productivity, and greater private sector participation. Such long-term trends would play to the strengths of our investment orientation, discipline, and process.

With regard to China, many strategists and investors have been skeptical, particularly in light of the broad tightening of credit to the speculative financial economy, the increased tolerance for debt restructuring, and the clear reversal of stimulus to the property development, infrastructure and automotive sectors. Last quarter, we remarked that we viewed such tightening as intentional and likely related to the all-important and now imminent Party Congress meeting, where future leadership and policy direction will be cemented. In the past, we harbored concerns that a likely "re-upping" of China's commitment to reform as a focus of the Party Congress could be interpreted negatively for growth both in China and globally, potentially initiating a market consolidation in ensuing quarters. However, more recently, increased evidence of deft management by Chinese authorities is commanding greater respect from market participants and investors. More specifically, for the first time in our memory, we have seen credit quality and bank Non-Performing Loan exposure *improving* during a tightening phase, while credit extended to the real economy, and thus economic growth, have not been compromised. In our view, this is largely due to careful administration of offsetting support through targeted expansion of asset-backed consumer lending, deep capacity cuts to low-productivity/high-polluting sectors such as steel and coal, and material support to anticipated capital flows due to initiatives such as the Hong Kong bond connect and A-share inclusion in the MSCI EM equity index. We are impressed by what Chinese authorities have been able to achieve and this story is still developing.

Related to the on-ground developments in China, most Latin American ("Latam") equity markets demonstrated leadership during the quarter, materially outperforming all other countries ex-China. While the de-escalation of risks to the reform-driven political leadership in Brazil, Chile, and Argentina were a material factor, the scale of China's commitment to capacity closures and increased visibility of economic growth and commodity demand in China was also a key driver of Latam equity returns in the recent quarter. To us, this serves to underscore the importance of China to the prospects for broader EM, and global, equity returns. In addition, the ongoing moderation of inflation readings across Latam (and additional EM countries) continues to give scope to expectations for additional interest rate cuts, which also has supported EM outperformance, particularly versus the U.S. and other markets where the monetary policy cycle is more likely becoming a headwind for equities.

Looking forward, and in conclusion, we believe we remain in a sweet spot for EM equities. Fundamentals and policy flexibility have improved, while valuations remain reasonable. While we suspect there is a reasonable likelihood of an overshoot to the upside in the months or quarters ahead, there is also the possibility that a rise in inflation expectations takes root, particularly in the U.S. and other developed markets, which could trigger a notable increase in interest rates globally. Such a scenario would likely cause an eventual consolidation or correction in global equities as markets price in the impact of higher rates and tighter liquidity, regardless of perceived solid economic growth and corporate earnings. Should this scenario play out, we believe EM equities could likely perform better than expected based on historic precedent, as we now anticipate greater reinforcement in the form of long-term productivity reforms, and we would view such a consolidation as an opportunity for investors who may be underweight EM to position for what we believe would be a return to solid outperformance once global liquidity and interest rate conditions stabilize. Looking at the big picture, we have increased conviction that EM economies and policies in the aggregate are shifting from populist and left-leaning ideology to embrace more free market ideals in favor of growth and investment and supporting corporate interests and capital owners, while certain developed world countries, led by the U.S., are shifting orientation away from the interests of corporations and capital owners; to us, this suggests a significant shift in long-term investment appeal towards EM and international equities.

Sincerely,

Michael K

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.

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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