Baron Emerging Markets Strategy

December 31, 2019

Dear Investor:

Performance

Baron Emerging Markets Strategy gained 9.57% (net of fees) for the fourth quarter of 2019 and 19.05% for the full year, while its principal benchmark index, the MSCI EM Index (the "Index"), appreciated 11.84% for the quarter and 18.42% for the year. The MSCI EM IMI Growth Index gained 13.25% for the fourth quarter and 23.60% for the full year. The Strategy modestly outperformed its Index for 2019. During the quarter, emerging market ("EM") equities outperformed the U.S. and global indexes, as progress on U.S./China trade relations sparked a strong quarter for global equity performance. As we suggested in our third quarter letter, despite escalating rhetoric, some form of trade compromise was increasingly likely, and we anticipated a potentially material market impact pending the scope of compromise. We now believe pent-up policy support and relief from trade frictions will drive a positive revision to global growth expectations and a further decline in associated risk premia. The likely result would be a sustained return to market leadership by EM equities, at least in the year ahead. From a longer-term perspective, we reiterate that we believe EM equities are likely bottoming on a relative return basis after nearly a decade 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 December 31, 2019

	Baron Emerging Markets Strategy (net)[1]	Baron Emerging Markets Strategy (gross)[1]	MSCI EM Index[1]	MSCI EM IMI Growth Index[1]
Three Months[2]	9.57%	9.83%	11.84%	13.25%
One Year	19.05%	20.17%	18.42%	23.60%
Three Years	11.02%	12.09%	11.57%	13.41%
Five Years	4.93%	5.96%	5.61%	6.68%
Since Inception (January 31, 2011)[3]	5.58%	6.32%	2.45%	3.65%

For the year 2019, we modestly outperformed the Index, while trailing our all-cap EM growth proxy. During the year, positive relative performance was driven by stock selection effect in the Industrials, Financials, Communication Services, and Health Care sectors. Within Industrials, performance was led by **Rumo S.A.**, the near-monopoly Brazilian rail transport provider; **Copa Holdings, S.A.**, a leading Latin American airline; and **Techtronic Industries Co., Ltd.**, a leading power tools manufacturer. In the Financials sector, performance was driven by **B3 S.A. – Brasil, Bolsa, Balcao**, the leading securities exchange and registrar in Brazil; **SBI Life Insurance Company Limited** of India; and **Sberbank of Russia PJSC**, the

For strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of December 31, 2019, total Firm assets under management are approximately $31.1 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in the Firm's Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund, a collective investment fund, and a subadvised account managed by BAMCO; and a separately managed account and a private offshore fund managed by BCM. The Strategy invests mainly in non-U.S. companies of all sizes. The majority of investments are in companies domiciled in developing countries. The Strategy may invest up to 20% in companies in developed and frontier countries. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies or a GIPS-compliant presentation please contact us at 1-800-99BARON.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

[1] The MSCI EM (Emerging Markets) IMI indexes cited are unmanaged, free float adjusted market capitalization weighted indexes reflected in U.S. dollars. The MSCI EM (Emerging Markets) IMI Growth Index Net USD and the MSCI EM (Emerging Markets) IMI Index Net USD are designed to measure equity market performance of large-, mid- and small-cap securities in the emerging markets. The MSCI EM (Emerging Markets) IMI Growth Index Net USD screens for growth-style securities. The indexes and Baron Emerging Markets Strategy include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results.

[2] Not annualized.

[3] The Strategy has a different inception date than its underlying portfolio, which is December 30, 2010.

leading retail bank in Russia that is aggressively integrating internet, cloud, and big data technology content into its core banking and associated businesses. Each of these stocks gained over 55%. Finally, relative performance in the Communication Services sector was led by our 5G theme, with **China Tower Corporation Limited** contributing the most, while our Health Care outperformance was led by **Zai Lab Limited** and **Sino Biopharmaceutical Ltd.**, research-driven Chinese biotechnology/pharmaceutical companies, as well as **Notre Dame Intermedica Participacoes S.A.**, a leading Brazilian integrated managed care services provider. Offsetting a portion of the above was poor stock selection effect in the Energy sector. This was largely attributed to a recent disturbing and disappointing reversal of **Tullow Oil plc**'s prospects which suggested management impropriety. Our cash position in a strong recovery year also detracted.

From a country perspective for the full year 2019, stock selection effect in Brazil and China powered a solid majority of relative outperformance, as our investment performance in these markets was broad based across several principal themes. Our large overweight position in underperforming India resulted in adverse allocation effect and detracted the most from relative performance. Our underweight position in strong-performing Taiwan and adverse selection effect there also had a negative effect on relative performance in 2019.

For the fourth quarter, we underperformed our Index in a very strong period for equity returns. While disappointed, we are not surprised, as we view the de-escalation of the U.S./China trade dispute as a significant inflection point, and we often lag in such periods as shifting investor allocations initially bid up the largest index heavyweights, while participation often broadens out in subsequent months and quarters. In addition, our fourth quarter performance was negatively impacted to an unusual degree by the decline in **Tullow Oil plc** (referenced above and elsewhere in this letter), as well as by a retracement of prior period gains in **PagSeguro Digital Ltd.**, a holding related to our Fintech disruption theme.

Table II.
Top contributors to performance for the quarter ended December 31, 2019

	Percent Impact
Alibaba Group Holding Limited	1.29%
Taiwan Semiconductor Manufacturing Company Ltd.	0.81
Samsung Electronics Co., Ltd.	0.54
Tencent Holdings Limited	0.43
GDS Holdings Limited	0.39

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Financial, which operates Alipay, the largest third-party online payment provider in China. Shares of Alibaba were up in the quarter on healthy revenue growth helped by traction in less developed areas, continued cost discipline, and an aggressive reinvestment strategy. We believe Alibaba's core business remains extremely profitable and continues to grow rapidly, with tailwinds from strong mobile and advertising growth.

Shares of **Taiwan Semiconductor Manufacturing Company Ltd.** increased as global demand for semiconductor continues to accelerate thanks to rising adoption of 5G applications, internet-of-things, and high-performance computing. In particular, Taiwan Semiconductor remains the partner of choice for leading-edge process nodes for global technology companies and continues to enjoy favorable pricing and margin for its service offerings. We believe Taiwan Semiconductor will continue to widen its technology leadership compared to its competition and deliver sustained growth in the next 5 to 10 years.

Samsung Electronics Co., Ltd. contributed to performance as global demand for semiconductors driven by cloud and 5G-related spending accelerated. As the dominant player in the memory sector, Samsung's earnings directly benefit from improvement in supply/demand dynamics and the operating leverage it brings to earnings. In addition to memory, the display segment is poised to generate better profitability in the next one to two years as global adoption for OLED screens further increases. We remain confident in Samsung's near- and long-term prospects.

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 appreciated on increased visibility around media advertising headwinds and continued rapid growth in fintech and business services. 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.

GDS Holdings Limited is a leading Chinese data center operator within Tier 1 cities. Shares contributed to performance during the fourth quarter due to strong third quarter earnings and a solid outlook, accelerating bookings growth, more benign China trade war rhetoric, and continued strong cloud growth in China. We retain conviction due to durable secular tailwinds in cloud adoption (early innings in China), increased visibility of growth/funding, and its status as a provider of choice to China's leading technology companies.

Table III.
Top detractors from performance for the quarter ended December 31, 2019

	Percent Impact
Tullow Oil plc	–0.93%
PagSeguro Digital Ltd.	–0.47
CP All Plc.	–0.11
Metro Pacific Investments Corp.	–0.09
Ayala Land, Inc.	–0.08

Tullow Oil plc is an international exploration and production company focused on operations in Africa and South America. Shares declined after the company disclosed new data that questioned the commerciality of a previously announced oil discovery in Guyana. Tullow also significantly downgraded oil production and capital spending guidance and eliminated its dividend. Both the CEO and exploration director have resigned from the company following these updates. We have exited our position given concerns over the company's governance and balance sheet after the production downgrade.

PagSeguro Digital Ltd. is a financial technology company in Brazil providing payment solutions and banking services. Shares declined after PagSeguro announced a secondary offer by its controlling shareholder coincident with third quarter earnings results that suggested the company is facing some margin pressure due to higher investment associated with the roll-out of new products. We retain conviction in PagSeguro given its focus on the underserved micro-merchant segment, marketing advantage, and revenue opportunities from its financial ecosystem.

CP All Plc., operator of 7-11 convenience stores in Thailand, declined during the fourth quarter on concerns that high same-store sales in the fourth quarter of 2018 implied tough compares for this quarter. There was also some speculation that CP All was interested in buying a local supermarket business, which would be a large, expensive acquisition. We reduced our position during the quarter, but we remain invested, as CP All continues to drive high ROI unit growth in its core c-store segment and international investments in the cash-and-carry business have been rationalized.

Metro Pacific Investments Corp., a Philippine infrastructure holding company, detracted from performance during the quarter due to regulatory risk around its water concession. Philippine President Duterte proposed contact reviews and changes that called into question the concession's ability to realize a financial return on past investments and to make additional investments. The stock sold off due to political risk, and we sold the position.

Ayala Land, Inc. is the leading multi-use and integrated property developer in the Philippines, with expertise in residential, commercial, retail and hotel development. Shares declined modestly during the quarter in concert with the Philippines All Share Index. There was no fundamental development that led to the modest decline, while reported earnings growth remained steady and in line with market expectations. We retain conviction is this well-run and long-term holding.

Portfolio Structure

Table IV.
Top 10 holdings as of December 31, 2019

	Percent of Net Assets
Alibaba Group Holding Limited	5.6%
Taiwan Semiconductor Manufacturing Company Ltd.	3.5
Tencent Holdings Limited	3.4
Samsung Electronics Co., Ltd.	3.2
Sberbank of Russia PJSC	2.4
Petroleo Brasileiro S.A. Petrobras	2.0
Reliance Industries Limited	1.8
GDS Holdings Limited	1.7
Azul S.A.	1.7
Midea Group Co., Ltd.	1.6

Exposure By Country

Table V.
Percentage of securities by country as of December 31, 2019

	Percent of Net Assets
China	37.1%
India	16.7
Brazil	10.6
Taiwan	7.0
Korea	5.1
Mexico	4.1
South Africa	3.4
Russia	2.9
Philippines	2.5
Thailand	1.5
Argentina	1.4
Panama	1.4
Indonesia	1.2
Hong Kong	1.2
United Arab Emirates	0.9
Japan	0.7
Hungary	0.6
Nigeria	0.0

Exposure by Market Cap: The Strategy 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 fourth quarter of 2019, the Strategy's median market cap was $13.1 billion, and we were invested 76.7% in large- and giant-cap companies, 21.0% in mid-cap companies, and 0.4% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash and private securities.

Recent Activity

During the fourth quarter, we continued to modestly reduce our total number of positions, as we continue to seek greater portfolio concentration in our higher conviction investments and themes. New investments include two private sector additions to our China value-added theme, **Glodon Company Limited** and **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**, both of which are A-Share listings. Glodon dominates China's construction cost estimation software industry, and we believe it is positioned to benefit from the ongoing digitization of the industry as well as a transition to cloud-based Software-as-a-Service delivery. We also believe the company's nascent digital construction management platform has the potential to transform the massive project development industry while driving substantial productivity gains for its customers. The company's founders collectively own over 40% of the company, which ensures a proper alignment of interests and safeguards corporate governance. Shenzhen Mindray Bio-Medical is one of China's leading medical device vendors having grown at over a 20% compound rate over the past 15 years. The company is research driven, has built a large export business, and has been consistently gaining share from multi national competitors while leveraging domestic research and manufacturing cost advantages. We believe Shenzhen Mindray Bio-Medical's domestic growth opportunity has a long runway as China has only recently committed considerable resources to build out a quality health care and hospital services network and establish public and private health insurance.

We also added to our automation and robotics theme by initiating a position in **Keyence Corporation**, a leading developer of sensor-based systems and instruments used in factory automation applications worldwide. While Keyence is based in Japan, it operates globally, and penetrating China and broader developing world opportunity is key to its long-term growth. We believe Keyence's expertise and leadership in imaging and vision-based systems will make the company a leading beneficiary of China's shift towards value-added industries such as electronic vehicles and batteries, semiconductors, automated driving, and advanced logistics systems. We are also encouraged by the recent promotion of the head of the company's sensor division to CEO, which we believe signals much improved transparency, investor communication, and governance.

During the quarter, we initiated a position in **Grupo Mexico, S.A.B. de C.V.**, a conglomerate that operates copper mines, railroads, and infrastructure projects in Mexico and South America. It is still majority owned by its founder & CEO. We believe Grupo Mexico is a well-managed company that is trading at a 40% discount to its net asset value due to investors' concerns over the risk of global recession and trade disruption. In our opinion, these concerns should be abating. In addition, we are bullish on the long-term growth outlook for copper and expect demand to benefit from major structural trends such as the electrification of transportation (EV batteries) and growth in energy storage. Grupo Mexico controls one of the largest, lowest cost copper producers in the world, and has the highest production growth potential among its peers. The railroad subsidiary, GMXT, is the largest railroad operator in Mexico, with a market share in excess of 60%. Despite its high cash flow margins and growth potential, GMXT also trades at a material discount to its railroad peers. We expect GMXT to benefit from margin expansion in addition to higher shipping volumes as rail continues to gain market share from trucking, much as we have observed through our successful investment **Rumo S.A.** of Brazil.

We also established a position in **CNOOC Limited**, an exploration & production company focused on developing oil & gas fields offshore China and internationally. CNOOC is the lowest cost producer in China and has a deep pipeline of projects both domestically and overseas. National energy security is one of the top policy initiatives in China, and we believe CNOOC is well positioned to deliver 6% compound annual production growth–a global industry high rate. We expect acceleration of production growth in the near term led by the development of offshore oilfields in Guyana and Brazil. We also believe the market underestimates the company's potential to grow natural gas production offshore. Switching energy production from coal to natural gas is a major environmental policy priority in China, and we expect CNOOC to benefit from favorable terms and cost leadership.

We exited several positions during the quarter, both as an effort to increase position concentration as well as in response to adverse fundamental developments. **Piramal Enterprises Limited** and **RBL Bank Limited**, both part of our India housing and consumer credit theme, pursued dilutive capital raises to address rising non-performing assets amid the country's recent liquidity crisis. As a result, we think they will be adversely impacted for some time. We added to other positions that have successfully navigated India's liquidity crisis and are better positioned to participate in the recovery phase. We sold **China Mobile Ltd.**, one of our 5G investments, as we no longer believe the government will allow higher data tariffs to be charged to consumers to fully fund the substantial capex required to build out a nationwide 5G network. We also exited **Nokia Corporation**, another 5G-related investment, based on a disappointing near-term outlook as well as our perception that improving U.S./China trade relations would materially reduce the likelihood that Nokia would gain global market share at the expense of Huawei. During the quarter, **China Everbright Ltd.** announced a corporate restructuring, which includes the potential divestment of its large stakes in non-core assets, triggering a substantial gain in the stock. We chose to sell out of the position and reinvest the proceeds in higher conviction investments. Finally, we sold **Tullow Oil plc** after its management materially revised its outlook for production growth and capital spending.

Outlook

In our third quarter letter, we suggested that the escalation of trade friction as the quarter ended was likely a precursor to a compromise. We also said that any such deal would likely catalyze a change in investor perception regarding the effectiveness of central bank policy as well as the outlook for global growth, with particular benefit to EM economies, currencies, and equities. As the fourth quarter progressed, the details of a Phase I trade deal began to take shape, and while not all is clear at the time of this writing, we believe progress on several issues is likely more substantive than currently perceived and discounted by the markets. As such, we remain optimistic that an important shift in market leadership is taking place, and we are enthusiastic regarding the outlook for EM equities and currencies in the year ahead.

We now believe we have entered a "sweet spot" for EM equities where global policymakers have committed to remain accommodative, while global growth and trade are likely to begin to recover and accelerate. In fact, key central banks have suggested a desire to allow inflation to exceed median targets in the near to intermediate term, following a lengthy period of below-desired levels. To us, this circumstance, along with the multi-faceted benefits of an improved U.S./China trading relationship, suggests a likely reversal of capital flows into international risk assets as economic growth and corporate earnings re-accelerate from historically low levels. We believe catalysts are in place that can enhance earnings recovery in China, India, and Brazil in particular, where approximately 65% of the Strategy's net assets are currently invested. Finally, we believe elements are in place that suggest a longer-term peak in the U.S. dollar, which would support the case for a sustainable period of EM equity outperformance.

Regarding the trade compromise, we believe negotiations are more substantive and advanced than markets expect. However, conditionality tests have limited the scope of announcements to date. Much like a reality TV drama, we believe Episode 1 (Phase 1) will soon drop, but we suspect the scenes from Episode 2 will reveal that both sides are targeting greater benefits/compromise in the areas of agricultural, commodity, and manufactured goods purchases, market access, currency stability, intellectual property protection, and potentially new laws that would criminalize certain activities. In fact, China has already begun to deliver on several of these points so as not to appear to be doing so under direct pressure from the U.S. We currently expect the Trump administration to gradually release new episodes of the U.S./China drama in the run-up to the 2020 election. We believe a commitment by China in the nearer term to prevent further currency depreciation would likely trigger considerable flows of capital into EM sovereign bonds given their significantly higher yields and currency appreciation potential subsequent to a trade compromise. This could trigger a virtuous cycle of falling bond yields and stronger currencies, driving upside economic and earnings surprises in such jurisdictions, much like the period from the second quarter of 2016 through the end of 2017. On the first trading day of the new year, the U.S. launched a drone attack that resulted in the assassination of the highest ranking official in the Iranian military and intelligence theatres. While markets have acclimated to uncertainty and volatility in the geopolitical and foreign policy environment under the current U.S. administration, this development has the potential to impact our outlook. At this point, we do not foresee this event overwhelming the positive backdrop that we have outlined in this letter and have alluded to over the past several months. As always, we have enthusiasm and confidence regarding the outlook for the themes and companies in which we are invested, and we look forward to the year ahead, as well as to our next communication.

Sincerely,

Michael Kass
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

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 Strategy 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 Strategy 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.