MICHAEL KASS

PORTFOLIO MANAGER

Retail Shares: BIGFX
Institutional Shares: BINIX
R6 Shares: BIGUX

DEAR BARON INTERNATIONAL GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron International Growth Fund (the "Fund") gained 9.08% (Institutional Shares) for the fourth quarter of 2019 and 29.39% for the full year, while its principal benchmark index, the MSCI ACWI ex USA Index (the "Index"), appreciated 8.92% for the quarter and 21.51% for the year. The MSCI ACWI ex USA IMI Growth Index gained 9.79% for the fourth quarter and 26.98% for the full year. The Fund outperformed its Index for the year 2019, while performing basically in line for the final quarter of the year. During the quarter, international equities performed in line with global and U.S. equities (as defined by the S&P 500 Index), while emerging market ("EM") equities outperformed the U.S. and global indexes as progress on U.S./China trade relations sparked a strong quarter for 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. Also during the fourth quarter, the path toward resolution of Brexit and U.K. parliamentary leadership was essentially determined, which substantially eliminated tail risk. We now believe pent-up policy support and relief from trade frictions and Brexit uncertainty 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 international and EM equities, at least in the year ahead. From a longer-term perspective, we reiterate that we believe international and EM equities are likely bottoming on a relative return basis after nearly a decade of underperformance, while their respective relative valuations remain near historic lows. 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 International Growth Fund Retail Shares[1,2]	Baron International Growth Fund Institutional Shares[1,2,3]	MSCI ACWI ex USA Index[1]	MSCI ACWI ex USA IMI Growth Index[1]
Three Months[4]	9.00%	9.08%	8.92%	9.79%
One Year	29.06%	29.39%	21.51%	26.98%
Three Years	13.21%	13.52%	9.87%	12.61%
Five Years	8.24%	8.51%	5.51%	7.34%
Ten Years	8.01%	8.29%	4.97%	6.36%
Since Inception (December 31, 2008)	10.92%	11.19%	7.85%	9.11%

For the full year 2019, we outperformed our Index by a wide margin, while also outperforming our all-cap international growth proxy. During a strong year with nearly a 30% return, positive relative performance was broad based, driven by stock selection in the Consumer Discretionary sector.

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 1.34% and 1.07%, but the net annual expense ratio was 1.20% and 0.95% (net of the Adviser's fee waivers), respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The index performance is not Fund performance; one cannot invest directly into an index. The MSCI ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI ACWI ex USA Index Net USD measures the equity market performance of large- and mid-cap securities across developed and emerging markets, excluding the United States. The MSCI ACWI ex USA IMI Growth Index Net USD measures the equity market performance of large-, mid- and small-cap growth securities across developed and emerging markets, excluding the United States. The indexes and Baron International Growth Fund include reinvestment of dividends, net of foreign 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 Performance for the Institutional Shares prior to 5/29/2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to 5/29/2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

BARON FUNDS 1987

Strength in the sector came from our investments in niche Brazil education companies **Arco Platform Limited** and **Afya Limited**; **Trainline Plc,** the leading U.K. online commuter travel app; **The Stars Group Inc.**, a Canadian online gaming operator that agreed to a merger late in the year; and **B&M European Value Retail S.A.**, a U.K.-based low-price retailer. **LVMH Moet Hennessy Louis Vuitton SE** and **Industria de Diseno Textil, S.A.** also contributed in this sector. Strong stock selection and overweight exposure in the Information Technology sector also contributed to relative returns, led by cloud/digitization theme investments including **RIB Software SE**, **Endava plc, Wix.com Ltd.**, **GDS Holdings Limited**, and **InterXion Holding N.V.** Positive stock selection effect in Health Care, led by our biotechnology theme investments **argenx SE** and **Zai Lab Limited**, and in Communication Services, also contributed meaningfully. Modestly offsetting the above, the only sector detractor from relative performance was adverse stock selection in Energy, driven by material declines in **Tullow Oil plc**, **Golar LNG Ltd.**, and **Encana Corp.**, which disappointed expectations during a year of material multiple contraction across the sector. In addition, our cash position in a strong year for equity returns also negatively impacted relative results.

From a country perspective, for calendar year 2019, strong stock selection in Brazil, enhanced by the Bolsonaro administration's privatization agenda and productivity enhancing reforms as well as in the U.K., as the country navigated towards a Brexit resolution, contributed the most to positive relative performance. Our cash position in a strong year, as well as our modest allocation to Argentina, where the election outcome defied expectations, were the largest detractors in a solid year for performance.

Table II.

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

	Percent Impact
The Stars Group Inc.	0.74%
argenx SE	0.74
Trainline Plc	0.51
BNP Paribas S.A.	0.37
Ryanair Holdings plc	0.37

Shares of **The Stars Group Inc.**, a global leader in online poker, especially in Europe, appreciated on the October announcement of an all-share merger between the company and online gambling competitor Flutter Entertainment to create the world's largest online gaming operator. With transaction close expected in the second or third quarter of 2020, we view this as a positive outcome for The Stars Group given the combined company's market share advantage, strong U.S. positioning, and potential for revenue synergies and interest savings beyond the cost synergy guidance provided.

argenx SE is a Dutch biotechnology company dedicated to developing biologics to treat immunological disorders and cancer. Investor enthusiasm about the company's pipeline of new treatments for patients with autoimmune diseases and cancer drove share price gains. We believe that argenx's FcRn platform is one of the most valuable assets in the biotechnology development space, and we retain conviction.

Trainline Plc provides tickets, journey planning, and booking solutions for rail and bus travel primarily in the U.K. and throughout Europe. Shares appreciated on solid financial results which saw strong ticket volumes driven by increased app and e-ticket adoption in the U.K., healthy international customer growth, and the launch of new ancillary revenue streams. We continue to see substantial opportunity ahead for continued top-line and EBITDA growth driven by international expansion, increased mix of e-ticketing, and take rate expansion.

BNP Paribas S.A. is a France-based universal bank with operations across multiple international markets. Shares of BNP rose after posting strong third quarter results. The company beat earnings expectations due to strong revenue trends across most business units, particularly in its fixed income and corporate banking operations. Cost control and capital build trends were also better than investors expected in the quarter. This suggests the bank is closer to meeting its 2020 profitability targets and its shares appear undervalued. We retain conviction in our long-term thesis for BNP.

Ryanair Holdings plc is an ultra low-cost airline that operates in continental Europe. Shares increased as investors turned more positive on the outlook for airfare prices in Western Europe and on the reduction of Brexit-related risk following U.K. elections. We believe the company will continue to gain market share from legacy carriers saddled with inefficient cost structures given its use of lower-cost regional airports that facilitate quicker turnarounds.

Table III.

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

	Percent Impact
Tullow Oil plc	–0.92%
PagSeguro Digital Ltd.	–0.25
Arco Platform Limited	–0.20
KOSE Corporation	–0.13
Banco Inter SA	–0.13

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 which 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.

Arco Platform Limited is a Brazilian technology company providing educational content and software solutions to private K-12 schools. The company has grown rapidly and currently serves more than 1,000 schools. Despite reporting successful bookings for 2020, shares declined during the fourth quarter on profit taking after the stock doubled in 2019. We maintain conviction in Arco as it is in the early stages of disrupting a legacy industry with a modern learning platform, enabling better results for students and schools.

Shares of Japanese cosmetics company **KOSE Corporation** fell during the quarter following disappointing earnings results. Weakness in Japan from inbound Chinese travelers, sluggish Tarte makeup sales growth in the U.S., and higher marketing investments drove down earnings. Changes to e-commerce law in China should continue to pressure Japan inbound sales growth from Chinese consumers in the near term. Longer term, we remain positive on growth prospects in mainland China and Korea, which have been sources of strength.

Banco Inter SA is a Brazilian lender with a digital banking strategy. Shares declined during the quarter following third quarter earnings that missed investor forecasts. We expect earnings growth to remain subdued in the near term as the company invests in growing its user base and rolling out new products. However, we see a promising future for Banco Inter in the long term as it builds the next generation of retail banking with superior technology, data analytics, and a better user experience compared to the existing offerings from legacy financial institutions in Brazil.

Portfolio Structure

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

	Percent of Net Assets
RIB Software SE	2.6%
AstraZeneca PLC	2.5
argenx SE	2.3
Trainline Plc	2.0
B&M European Value Retail S.A.	1.9
Takeda Pharmaceutical Company Limited	1.9
BNP Paribas S.A.	1.8
Eurofins Scientific SE	1.8
FANUC Corp.	1.7
Keyence Corporation	1.7

Table V.
Top five holdings as of December 31, 2019 – Emerging and Frontier Countries

	Percent of Net Assets
Afya Limited	2.1%
Alibaba Group Holding Limited	1.5
Zai Lab Limited	1.3
Sberbank of Russia PJSC	1.3
Copa Holdings, S.A.	1.2

Table VI.
Percentage of securities in developed markets as of December 31, 2019

	Percent of Net Assets
United Kingdom	14.0%
Japan	12.8
France	6.9
Germany	5.3
Canada	4.2
Switzerland	3.8
Netherlands	3.8
United States	3.6
Israel	2.7
Spain	2.7
Norway	2.0
Ireland	1.7
Italy	1.1
Belgium	1.0
Sweden	0.9
Australia	0.8

Table VII.
Percentage of securities in emerging and frontier markets as of December 31, 2019

	Percent of Net Assets
China	11.9%
Brazil	6.9
India	5.9
Russia	2.1
Panama	1.2
Mexico	1.1
United Arab Emirates	0.8
Argentina	0.5
Indonesia	0.4

Exposure by Market Cap: The Fund may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. At the end of the fourth quarter, the Fund's median market cap was $9.4 billion, and we were invested 48.7% in large- and giant-cap companies, 34.7% in mid-cap companies, and 14.7% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the fourth quarter, we continued to seek greater portfolio concentration in our higher conviction investments and themes. New investments include two positions in Europe, **Clariant AG** and **UniCredit S.p.A**. We believe the outlook for European domestic businesses is improving due to greater certainty regarding Brexit, fiscal support, and declining political risks. Clariant is a Swiss diversified chemicals company which is transforming into a more focused specialty chemicals business. The company is a leading global manufacturer of high-performance catalysts used in the chemicals industry and is a leading supplier of specialty chemicals used in the production of natural resources. It is also a producer of personal care specialty chemicals. Clariant is in the process of selling its lower margin plastics & coatings ("P&C") businesses in order to focus on higher value-add, more differentiated areas. The company's recently announced divestment of a significant part of its P&C segment has exceeded market value expectations. We think the corporate restructuring will lead to a more focused, higher-growth business, with margin expansion potential, which in turn will lead to a higher-earnings multiple in line with Clariant's quality specialty chemical peers.

UniCredit is Italy's second-largest banking group. We believe UniCredit presents an attractive combination of self-help/productivity gains and capital return, complemented by an improving top-down environment for European financials. After completing a two-year restructuring program that included cleansing the balance sheet of bad debts, optimizing the cost structure, and strengthening the capital base, the company is set to enter a new phase of growth that should deliver higher profitability and returns on capital to shareholders. We believe the company also stands to benefit from an improving top-down environment for European equities due to the receding risks of Brexit and domestic politics, a more favorable growth outlook driven by the prospect of fiscal stimulus, and a potential integration of the European Banking Union. This integration would greatly reduce risk across the banking sector, particularly in Italy. The potential bottoming out of interest rate expectations resulting from aforementioned factors would also bring additional upside to our net interest margin and earnings outlook for UniCredit.

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.

We are also enthusiastic about a recent investment in **China Conch Venture Holdings Ltd**., an emerging leader in hazardous and solid waste treatment that is leveraging its unique and proprietary cement co-processing and waste-to-energy technologies to offer remediation services at a fraction of the cost of existing solutions. A clean environment is a major policy priority in China, and China Conch, which is structured and operates as a quasi-private entity with state sponsorship, is uniquely positioned to dominate this market given its affiliation and/or partnership agreements with the country's leading cement manufacturers. Cement co-processing is estimated to grow rapidly over the next decade as its share of the hazardous waste treatment industry rises from 3% currently, and we believe China Conch will directly benefit with volume growth in its core operations of over 30% per annum in the next five years. During the quarter, we also made 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 the transition to cloud-based software as a service delivery. However, we 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, and has built a large export business, 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 exited several positions during the quarter, both as an effort to increase position concentration as well as in response to adverse fundamental developments. We sold our position in **CyberAgent, Inc.**, the Japanese digital marketing and media firm, as we believe they are losing share in the core digital advertising business while continuing to aggressively invest in the live video broadcasting enterprise. We also exited **Nokia Corporation**, a 5G theme investment, based on a disappointing near-term outlook as well as our perception that a U.S./China trade resolution was likely, which would materially reduce the likelihood that Nokia would gain global market share at the expense of Huawei. Finally, we sold **Tullow Oil plc** after its management materially revised its outlook for production growth and capital spending. In addition, we exited **Sodexo S.A.** and **KIA Motors Corporation**, locking in gains, and **Futu Holdings Limited**, all in favor of higher conviction investments from a forward-looking perspective.

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 suggested 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 international and 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 international and EM equities and currencies in the year ahead.

We now believe we have entered a "sweet spot," particularly for international and 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 and the elimination of Brexit tail-risk, 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 the U.K., Europe, China, India, and Brazil, where the bulk of our overweight exposure lies. 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 international and 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 which 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 near term to prevent further currency depreciation would trigger considerable flows of capital into EM sovereign bonds given their significantly higher yields and currency appreciation potential. This could trigger a virtuous cycle of falling bond yields and stronger currencies, driving upside economic and earnings surprises in such jurisdictions as well as in the developed international countries more leveraged to global trade and emerging market economies, 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 we, and 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.

Thank you for investing in the Baron International Growth Fund.

Sincerely,

Michael Kass
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets. This may result in greater share price volatility. Securities of small and medium-sized companies may be thinly traded and more difficult to sell. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.