DEAR BARON INTERNATIONAL GROWTH FUND SHAREHOLDER:

PERFORMANCE

Baron International Growth Fund (the "Fund") appreciated 16.74% (Institutional Shares) for the first quarter of 2019, while its principal benchmark index, the MSCI ACWI ex USA Index, gained 10.31% for the quarter and the MSCI ACWI ex USA IMI Growth Index appreciated 12.21%. In the first quarter, while exhibiting a strong rebound from the prior quarter's weakness, international and emerging market ("EM") equities underperformed U.S. indexes, in our view a period of mean reversion after outperformance in the prior three months. As we anticipated in our year-end 2018 letter, the current year has begun with an impressive rally in global equities, as geopolitical and monetary policy risks have receded. Notably, the U.S. administration has declared that it is seeking compromise in its trade dispute with China, and Fed Chairman Powell has reversed previous comments and has clearly articulated a shift from a tightening bias to neutral. We are pleased to see the risk premium on equities normalize; however, given an ongoing global economic slowdown, additional material absolute gains in international equities may be on hold until the Fed shifts its posture to easing. Given that we believe the epicenter of the slowdown may well be shifting to the U.S., we reiterate that we believe international and EM equities are likely bottoming on a relative return basis, and we see a mean reverting phase of outperformance in coming years as likely. Regardless, 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 March 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]	16.68%	16.74%	10.31%	12.21%
One Year	(6.05)%	(5.80)%	(4.22)%	(3.97)%
Three Years	10.48%	10.76%	8.09%	8.20%
Five Years	5.26%	5.52%	2.57%	4.00%
Ten Years	11.70%	11.98%	8.85%	9.75%
Since Inception (December 31, 2008)	10.67%	10.94%	7.43%	8.50%

MICHAEL KASS
PORTFOLIO MANAGER

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

For the first quarter of 2019, we outperformed both our primary benchmark, the MSCI ACWI ex USA Index, as well as our all-cap international growth proxy. While encouraged by our recent quarter results, we were also pleased that during the quarter we nearly recovered the relative underperformance of the last two quarters. While we expect earnings performance to be subpar across pockets of our portfolio in the near term, we believe the equity markets are looking through the dip and correctly anticipating an earnings recovery later in the year, particularly in China and related EM markets as well as international companies that are particularly sensitive to global trade. If, as we suspect, we are exiting the period of excess dollar liquidity withdrawal that characterized the past year, then international equities and currencies are likely bottoming on a relative basis after a multi-year downturn.

During the quarter, our positive relative performance was led by broad stock selection effect across several sectors, most notably in Information Technology ("IT"), Communication Services, Consumer Discretionary, and Health Care. Within IT, several investments appreciated more than 30% for the quarter, including: disruptive Brazilian payment platform **PagSeguro**

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 with an 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.*

† 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.

1 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 Not annualized.

Digital Ltd., which rose 59%; **Constellation Software, Inc.**; **Worldpay, Inc.**, also a payment platform provider that received a takeover offer during the quarter; **Wix.com Ltd.**, the Israel-based website developer and e-commerce enabler; and **BlackBerry Limited**. Within Communication Services, relative outperformance was driven by: **Square Enix Holdings Co., Ltd.**, a Japanese video game developer; **China Tower Corporation Limited**, a key component of our 5G theme and highlighted in our last letter; as well as **Momo Inc**. and **YY Inc.**, both leaders in the live streaming media segment in China with new catalysts emerging in allied businesses. Within Consumer Discretionary, performance was led by: **Arco Platform Limited**, a Brazilian digital education platform developer; **Mercari Inc.**, a fast-growing online operator of a second-hand goods marketplace in Japan; and **B&M European Value Retail S.A.**, predominantly a U.K. value retail leader. Our Health Care outperformance was driven by continued gains in: **argenx SE**, a biotechnology company with an antibody discovery platform; **Dechra Pharmaceuticals PLC**, a leading veterinary pharmaceutical player; **Takeda Pharmaceutical Company Limited** of Japan; and **Zai Lab Limited**, a China-based and research driven biotechnology developer.

In a quarter characterized by unusually broad strength across the portfolio, with many investments rebounding strongly from the prior period, there were no sectors with meaningful offsetting underperformance, however our cash position in a strong market detracted from relative performance during the quarter.

From a country perspective, strong relative performance was driven by our investments in Japan, China, and Brazil; and was offset modestly by positions in Argentina, India, and Finland.

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

	Percent Impact
argenx SE	0.78%
Constellation Software, Inc.	0.66
PagSeguro Digital Ltd.	0.63
Arco Platform Limited	0.58
Futu Holdings Limited	0.58

argenx SE is a Dutch biotech company developing innovative antibody therapies for cancer and auto-immune diseases. Recent strong performance comes from a previously undisclosed milestone payment from AbbVie on an underfollowed asset in argenx's pipeline and the signing of an exclusive licensing deal with Halozyme to utilize Halozyme's subcutaneous technology that practically assures argenx's lead in the FcRn market. We believe argenx's FcRn platform is one of the most valuable assets in the biotechnology development space.

Constellation Software, Inc. is a holding company that owns and operates approximately 200 small- and medium-sized software businesses. Shares rose after Constellation reported a record year of capital deployment at stable returns, along with a special dividend, indicating the company is open to returning excess capital to shareholders. We believe Constellation will have ample opportunity to deploy capital, as it has more than 30,000 acquisition targets in its funnel and a motivated, decentralized employee base that can leverage unique niche industry relationships over time.

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

Arco Platform Limited is a Brazilian technology company providing educational content and software solutions to private K-12 schools. Arco is a one-stop shop for schools, replacing several publishing and system vendors. The company has grown rapidly and currently serves more than 1,000 schools. Shares increased after Arco reported successful bookings, which accelerated organic growth. Arco is in the early stages of disrupting a legacy industry with a modern learning platform, enabling better results for students and schools.

Futu Holdings Limited is a China-based financial technology company with an online brokerage platform that enables individual investors in China, Hong Kong, and the U.S. to trade securities listed in China and abroad. Shares of Futu rose following its IPO in March. We see attractive growth opportunities for Futu given its tech-driven background, robust trading platform, and relationship with Tencent, a major shareholder in the company.

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

	Percent Impact
Sony Corporation	–0.13%
Cimpress N.V.	–0.11
Horizon Discovery Group plc	–0.11
Adaptimmune Therapeutics plc	–0.10
Bolsas y Mercados Argentinos S.A.	–0.09

Shares of **Sony Corporation** detracted during the quarter due to concerns over gaming growth sustainability following a record year in its Playstation network segment. In addition, competing platforms announcing next generation streaming created uncertainty around Sony's leadership in the ever-changing world of digital entertainment. We continue to believe in Sony's ability to adapt to new market environments, and we remain confident in the stock's long-term prospects.

Cimpress N.V. is an e-commerce company selling mass customized printing products at a lower unit cost and at higher gross margins than other printing companies. Shares declined in the quarter after the company reduced its annual guidance due to execution difficulties on its marketing initiatives, increasing competition on ads, and pricing competition on products. We sold our shares as we believe the growing competitive intensity could result in lower returns.

Horizon Discovery Group plc is a U.K.-based diagnostics company organized around the marketing of CRISPR-based solutions for research biologists. With the appointment of a new CEO, and a completely undeveloped end market that is ripe for growth, we think Horizon is in the early phases of long-term value creation, and we retain conviction despite recent weakness in the stock price.

Adaptimmune Therapeutics plc is a U.K.-based biotechnology company developing cellular therapies against solid tumors. Shares declined due to an update of early data that showed limited response in the first six patients dosed with cellular therapy. More meaningful updates are expected in the second quarter of 2019, at which point we expect to be able to make a more informed assessment. We retain our modest-sized our position in the company due to the high-risk nature of this investment.

Bolsas y Mercados Argentinos S.A. is Argentina's only fully integrated securities market and depository institution. Shares declined after Bolsas missed estimates due to lower financial income and weak volumes in equities and assets under custody. In addition, Argentine equities were impacted by high inflation, resulting in currency devaluation, higher benchmark rates, and slowed economic growth. We retain conviction, as Argentina's capital markets are underdeveloped, there is an improved regulatory framework for listings, and we see unexploited revenue opportunities for Bolsas.

Portfolio Structure

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

	Percent of Net Assets
argenx SE	2.6%
Constellation Software, Inc.	2.1
Takeda Pharmaceutical Company Limited	1.9
AstraZeneca PLC	1.8
RIB Software SE	1.8
Nestle S.A.	1.8
KEYENCE CORPORATION	1.7
Aena SME, S.A.	1.7
Linde Public Limited Company	1.7
Experian plc	1.6

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

	Percent of Net Assets
Arco Platform Limited	1.7%
Futu Holdings Limited	1.6
PagSeguro Digital Ltd.	1.4
Zai Lab Limited	1.2
Petroleo Brasileiro S.A. Petrobras	1.0

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

	Percent of Net Assets
Japan	12.4%
United Kingdom	11.8
France	6.6
Canada	5.8
Germany	5.7
Netherlands	4.4
United States	3.8
Israel	3.0
Norway	2.6
Switzerland	2.5
Ireland	2.4
Spain	2.4
Finland	1.4
Sweden	1.1
Australia	1.1
Belgium	1.1

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

	Percent of Net Assets
China	10.7%
India	5.1
Brazil	4.8
Mexico	1.3
Argentina	1.1
Russia	1.0
Korea	0.9
Panama	0.4
Indonesia	0.3
Nigeria	0.1

The Fund may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. As of 3/31/2019, the Fund's median market cap was $8.8 billion, and it had approximately 51.0% in large- and giant-cap companies, 31.9% in mid-cap companies, and 10.9% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the quarter, we initiated several positions, many in the EM arena, as we perceive catalysts in place to form a relative bottom in this asset class. Within the developed international markets, we initiated a position in **Telefonaktiebolaget LM Ericsson**, the Swedish wireless telecom equipment vendor, as an additional investment in our 5G theme, **NEXON Co., Ltd.**, a Japan-based video game developer that we believe is well positioned to leverage its intellectual property subsequent to a strategic tie-up in process, and **Okamoto Industries, Inc.**, a Japanese manufacturer of high-end condoms, which has successfully entered the China market. We also participated in the IPO of **Futu Holdings Limited**, a financial technology company whose proprietary online trading platform allows its clients, largely in Hong Kong and China, to invest and trade worldwide. During the quarter, we took advantage of market weakness to add materially to our India financialization theme, with new investments in **Max Financial Services Limited**, a leading insurance player, and **RBL Bank Limited**, a fast-growing private sector bank with, in our view, a capable management team, while also adding to our existing position in **HDFC Bank Limited**. In addition, within our China value-added theme, we initiated positions in **GDS Holdings Limited**, a leading data center operator and **Hangzhou Hikvision Digital Technology Co., Ltd.**, a global leader in security and surveillance systems, while adding to our position in internet giant **Tencent Holdings Limited**. Finally, we initiated a position in **Reliance Industries Limited**, which is engaged in what we see as an exciting transformation, leveraging and investing its considerable cash flow from oil refining into a disruptive position in data communications, modern retail, e-commerce and media & entertainment. Given recent government and regulatory rulings that we believe favor domestic internet companies, we believe Reliance will emerge as the most likely "Amazon of India" in coming years. During the quarter, we also added meaningfully to our existing investments in **Nestlé S.A**. of Switzerland, **RIB Software SE**, the German engineering and construction software leader, and **Takeda Pharmaceutical Company Limited** of Japan.

During the quarter, we exited several investments, including **Mitsubishi UFJ Financial Group, Inc.**, **America Movil, S.A.B. de C.V.**, **ZOZO, Inc.** and **Intertek Group plc** largely due to deteriorating longer-term earnings growth visibility, in our view. We also reduced exposure to several investments, including **Nokia Corporation**, **Danone SA**, **AstraZeneca PLC**, and **Abcam plc**, as recent appreciation and/or the potential for deteriorating fundamentals caused us to favor alternative investments.

Outlook

Our year-end 2018 letter proved prescient as we posited, "[L]ooking ahead, in the near term, we believe a rally in global equities is more likely than a further decline, as markets begin to anticipate a de-escalation of protectionist measures and improving global trading conditions, as well as a more flexible Fed mandate." Further, "[S]hould the outlook for foreign and trade policy reduce pressure on China, and Fed policy shift to a marginally more accommodative stance, we believe many of our existing investments offer material upside from current levels." During this year's first quarter, many of the most impaired equities and currencies of the prior six months staged impressive recoveries as the above catalysts materialized much as we had anticipated–though most remain well below their highs from the prior year. We view the recent reversal in performance of global equities as largely justified, as policy and economic tail risks have de-escalated, and China has continued to incrementally introduce targeted stimulus measures and broad reforms.

While we are certainly encouraged with the turn of events, as we look forward from here, we question whether global economic conditions will underwrite further gains for global equities in the near term. While we are increasingly confident that we are at or near an important inflection point in market leadership, where international and EM equities and currencies can begin a period of sustained outperformance, we are less confident in the near-term outlook for the U.S. economy, corporate earnings, and equities. While global equities have re-priced to reflect declining policy tail risks and now discount forward Fed rate cuts, we suspect that the Fed's shift to neutral also suggests rising risks to the U.S. economy and corporate earnings, and we believe capital markets may need to retest lower levels in order to coax the Fed into full-scale easing mode. In our view, China's increasingly aggressive response to weak domestic conditions suggests a bottom and enhanced forward-looking earnings, while we suspect U.S. corporate earnings expectations may be peaking. The U.S. equity market has vastly outperformed its international peers as the U.S. is driven by domestic consumption and has further benefited from fiscal stimulus and tax-incented investment, and we believe we are likely entering a period where the waning of such effects will lead to a mean reversion in equity performance.

Regarding the international and EM outlook, we believe the near-term resolution of at least a portion of Brexit uncertainty would be a welcome catalyst for U.K. and European equity markets, as valuation discounts in many cases are extreme and economic expectations remain quite low. While we agree with consensus that earnings growth in such markets will likely remain uninspiring in the near term, the larger question for these markets is whether this outlook is more than discounted in the price. Certain companies with brighter growth prospects, which are investment candidates for us given our discipline have, in our opinion, become undervalued and overlooked. We believe that in general, the developed international markets favor bottom-up stock selection-based strategies such as ours, where active managers can identify companies, entrepreneurs, and themes with attractive value creation potential in a low macroeconomic growth environment, thereby driving outperformance. With respect to EM, we remain enthusiastic towards and overweight Brazil, anticipating a cyclical recovery and longer-term structural reforms; however, we anticipate volatility in the coming months as the social security reform makes its way through the legislative process. We also believe China can continue to surprise to the upside this year. We are expecting its earnings outlook to improve and U.S. trade aggression to remain suppressed, as the U.S. economy slows and the President shifts his focus to the next general election. Finally, we have recently increased our position in India, where the recent military provocation with Pakistan has raised political support for Modi and the NDA alliance, suggesting a greater likelihood of both a re-election victory and a legislative majority sufficient to continue an aggressive reform agenda. In short, while we would not be surprised by, and perhaps expect, some near-term retracement of recent gains, we also believe we are likely entering a significant phase of international and EM equity outperformance.

Thank you for investing in the Baron International Growth Fund.

Sincerely,

Michael Kass
Portfolio Manager

Kyuhey August
V.P., Assistant Portfolio Manager

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