

## DEAR BARON INTERNATIONAL GROWTH FUND SHAREHOLDER: PERFORMANCE

Baron International Growth Fund (the "Fund") declined 2.15% (Institutional Shares) for the second quarter of 2018, while its principal benchmark index, the MSCI ACWI ex USA Index, retreated 2.61% for the quarter. International and emerging market equities underperformed the U.S. and global indexes, in our view a symptom of the ongoing withdrawal of liquidity which we have referenced in prior letters, as well as more recently, the change in tone of U.S. trade policy and threatened protectionism. While we cautioned in our prior letter regarding the potential for a consolidation phase that could develop into a market correction, we surmise that most international equity markets are now advancing in that correction, with certain markets and currencies appearing already quite advanced. The recent quarter was quite volatile, with pressures in certain countries leading to near-term political challenges and/or rising opposition support, as well as an increased equity risk premium. Italy is notable in this regard in the developed world, while Brazil and Argentina stand out in the developing world. We are not revising our view that many international countries such as Japan, India, Brazil and Argentina have undergone a positive and supportive evolution of political direction in recent years which suggests to us the likelihood of improved relative earnings growth and equity performance, however we will be following several upcoming elections for signs of confirmation. While we currently believe the scope of the anticipated correction may be larger than we had anticipated, we are beginning to see value and opportunity emerging. We stand prepared to take advantage of ongoing market volatility in the coming months and remain optimistic that our differentiated discipline and process position us well over the long term.

**Table I.**  
**Performance**  
**Annualized for periods ended June 30, 2018**

	Baron International Growth Fund Retail Shares <sup>1,2</sup>	Baron International Growth Fund Institutional Shares <sup>1,2,3</sup>	MSCI ACWI ex USA Index <sup>1</sup>	MSCI ACWI ex USA IMI Growth Index <sup>1</sup>
Three Months <sup>4</sup>	(2.26)%	(2.15)%	(2.61)%	(1.46)%
Six Months <sup>4</sup>	(0.33)%	(0.17)%	(3.77)%	(2.07)%
One Year	15.97%	16.27%	7.28%	10.43%
Three Years	9.13%	9.41%	5.07%	6.84%
Five Years	10.05%	10.35%	5.99%	7.51%
Since Inception (December 31, 2008)	12.02%	12.30%	8.23%	9.50%

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, 2017 was 1.41% and 1.13%, but the net annual expense ratio was 1.20% and 0.95% (restated to reflect management fee reduction from 1.00% to 0.88% and current expense 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 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](http://www.BaronFunds.com) or call 1-800-99BARON.*

<sup>1</sup> 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.

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

<sup>3</sup> Performance for the Institutional Shares prior to May 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 May 29, 2009 did not reflect this fee, the returns would be higher.

<sup>4</sup> Not annualized.



MICHAEL KASS

PORTFOLIO MANAGER

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

For the second quarter of 2018, we modestly outperformed our benchmark MSCI ACWI ex USA Index, and we are pleased with our solid relative performance midway through the year. The second quarter was a volatile period for international equities, with significant adverse developments impacting certain emerging markets in particular. During the quarter, the largest driver of relative outperformance was stock selection effect in the Information Technology sector, largely a result of our investments in **Wix.com Ltd.**, **Constellation Software, Inc.**, **Mellanox Technologies Ltd.** and **RIB Software SE**. Within this sector, a notable retracement in **PagSeguro Digital Ltd.**, the Brazilian digital payment services provider, offset a portion of the above. Stock selection in Consumer Discretionary also contributed positively, paced by substantial gains in **Domino's Pizza Enterprises Ltd.** of Australia, and **START TODAY CO., LTD.**, an innovative e-commerce company based in Japan. Finally, positive stock selection effect in the Industrials sector, which was broad-based across several companies, also contributed.



# Baron International Growth Fund

We largely view country-specific catalysts as responsible for the majority of underperforming investments during the quarter. A stronger U.S. dollar, higher interest rates, and a significant rise in oil prices created a macroeconomic storm which compromised our Argentina reform theme during the quarter; here, **YPF S.A.** and **Bolsas y Mercados Argentinos S.A.** retraced a large portion of their material gains since early 2017 as flight capital rushed to exit. Late in the quarter, several of our China-based investments experienced substantial pullbacks in reaction to the change in the Trump Administration's rhetoric with regard to trade policy and protectionism. Finally, our Russian investments, **Sberbank of Russia PJSC** and **Yandex N.V.**, detracted from relative performance as they retreated in sympathy with the unexpected extension of U.S. sanctions on certain Russian corporations for the first time. While we note that emerging market ("EM") equities are often volatile, we believe the recent quarter was somewhat unusual as several unpredictable geopolitical events acted as principal catalysts.

**Table II.**

**Top contributors to performance for the quarter ended June 30, 2018**

	Percent Impact
Wix.com Ltd.	0.51%
Constellation Software, Inc.	0.32
Domino's Pizza Enterprises Ltd.	0.31
Mellanox Technologies Ltd.	0.25
MonotaRO Co., Ltd.	0.22

Shares of **Wix.com Ltd.**, an Israeli internet company providing an operating system to small businesses for building and maintaining websites and e-commerce operations, increased in the quarter. Wix, which has over 125 million registered users and over 3 million premium subscribers, demonstrated improvements in its conversion rate and grew its database collections, while expanding its profitability. As a leader in its industry, Wix enjoys a recognized brand name, innovative culture, large market opportunity, and strong cohort economics, in our view.

**Constellation Software, Inc.** owns and operates small- and medium-sized software businesses. Shares rose during the quarter on news of the company's robust acquisition pace for the year that exceeded Street expectations. We continue to believe Constellation's capital deployment strategy will yield long-term benefits to shareholders, and that the global pipeline for similar software acquisition targets is significant.

**Domino's Pizza Enterprises Ltd.** is the largest master franchiser of Domino's Pizza, with operations in Australia/New Zealand, select European countries, and Japan. Its share price had been suffering due to a rare earnings miss, wage inflation concerns, and possible regulation risks. The share price has begun to recover, and we continue to hold conviction that the company's competitive advantages and growth opportunities are intact.

**Mellanox Technologies Ltd.** is a supplier of high-performance switch systems, adapters, cables, and software supporting InfiniBand and Ethernet networking technologies. Shares increased in the quarter as the company continued to benefit from a strong upgrade cycle to 25G, 50G, and 100G speeds in Ethernet and the ramp-up of its switch system business. We think Mellanox has a long-term growth opportunity due to its technological leadership in high-speed InfiniBand and Ethernet interconnects, which are becoming increasingly relevant in a world of big data and AI.

Shares of **MonotaRO Co., Ltd.**, an online distributor of repair tools and consumables in Japan, rose during the quarter on an earnings update that demonstrated an expanded product set and ongoing market share gains. We continue to believe MonotaRO's low-cost online infrastructure will allow it to continue to take market share from higher-cost middlemen in the B2B distribution business not only in Japan, but also in neighboring start-up markets like Korea and potentially China longer term.

**Table III.**

**Top detractors from performance for the quarter ended June 30, 2018**

	Percent Impact
YPF S.A.	-0.42%
Bolsas y Mercados Argentinos S.A.	-0.42
PagSeguro Digital Ltd.	-0.37
FANUC Corp.	-0.28
Sberbank of Russia PJSC	-0.27

**YPF S.A.** is an oil & gas company developing conventional and unconventional hydrocarbon fields in Argentina. Shares slumped on Argentina's challenging macroeconomic conditions, devaluation of its currency, and YPF's plans to temporarily freeze fuel prices to help address inflation. We believe Argentina will remain committed to fuel price liberalization, which would support an attractive growth opportunity for its energy sector. YPF is leading the efforts to unlock the value of Argentinean unconventional oil and gas resources, arguably the best shale resource outside of North America.

**Bolsas y Mercados Argentinos S.A.** is Argentina's only vertically integrated stock exchange and sole custodian for securities. Shares of the company declined due to deterioration in Argentina's macroeconomic conditions and a significant devaluation of the local currency, which outweighed strong bottom-up trends reported in Bolsas' most recent quarter. We remain excited about the company's growth prospects, as Argentina's capital markets are underdeveloped, there is an improved regulatory framework for listings, and there are still unexploited revenue opportunities for the company.

**PagSeguro Digital Ltd.** is a Brazilian payment processor that exclusively serves small enterprises and the unbanked population. Shares detracted on Brazilian macroeconomic volatility and investor concerns about rising competition and the company's decision to raise capital. While we continue to monitor the competitive environment closely, we remain excited about PagSeguro's potential to enable credit, debit, and other electronic payment mechanisms in a large portion of the economy that has been significantly underserved by the traditional banking sector.

Shares of **FANUC Corp.**, the leading manufacturer of factory automation equipment and tools, declined in the second quarter after the global machine tool industry began to show early signs of cyclical weakness. Growing global trade tensions have also weighed on the stock, given the company's significant presence in China and the U.S.

**Sberbank of Russia PJSC** is Russia's largest and most dominant bank. Shares of Sberbank declined after the U.S. Treasury issued sanctions against certain Russian oligarchs and related corporate entities in April. Concerns over the impact of these sanctions and the potential for additional sanctions triggered a broad and significant sell-off across all Russian assets. While sensitive to the geopolitical risks, we believe Sberbank is one of the strongest EM banks from a fundamental perspective and deserves a much higher valuation than it currently receives.

## PORTFOLIO STRUCTURE

Table IV.

## Top 10 holdings as of June 30, 2018 – Developed Countries

	Percent of Net Assets
Wix.com Ltd.	2.6%
Constellation Software, Inc.	2.4
argenx SE	2.0
Mellanox Technologies Ltd.	2.0
TechnoPro Holdings, Inc.	1.9
Domino's Pizza Enterprises Ltd.	1.8
Danone SA	1.8
AstraZeneca PLC	1.8
Golar LNG Ltd.	1.7
Abcam plc	1.6

Table V.

## Top five holdings as of June 30, 2018 – Emerging and Frontier Countries

	Percent of Net Assets
Tencent Holdings, Ltd.	1.4%
Alibaba Group Holding Limited	1.2
Amorepacific Corporation	1.2
Sberbank of Russia PJSC	1.1
Momo Inc.	1.1

Table VI.

## Percentage of securities in developed markets as of June 30, 2018

	Percent of Net Assets
Japan	15.3%
United Kingdom	9.5
France	5.7
Germany	4.6
Israel	4.6
Canada	4.6
Netherlands	4.2
United States	3.9
Australia	2.9
Spain	2.5
Norway	2.4
Switzerland	2.1
Finland	1.5
Ireland	1.1
Belgium	0.8

Table VII.

## Percentage of securities in emerging and frontier markets as of June 30, 2018

	Percent of Net Assets
China	8.6%
India	5.1
Russia	2.1
Korea	1.9
Mexico	1.9
Brazil	1.4
Argentina	1.3
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 June 30, 2018, the Fund's median market cap was \$11.3 billion, and it had approximately 49.3% in large- and giant-cap companies, 31.8% in mid-cap companies, and 7.3% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

## RECENT ACTIVITY

During the second quarter, we initiated several new positions amid a period of significant cash inflows. **AstraZeneca PLC** is a leading global pharmaceutical and life sciences company that we believe is pursuing a pipeline-driven transformation with a focus on three main therapy areas based on its core competencies: Oncology, Cardiovascular and Metabolic diseases (CVMD), and Respiratory. We believe the company's growth potential is misunderstood by the market as we see several potential blockbuster drugs in the portfolio, particularly in the Oncology space. We further believe that successful introductions in coming years would likely drive material operating margin expansion and industry-leading earnings growth.

We also established an investment in **Nokia Corporation**, a leading global telecommunications equipment and infrastructure vendor which also holds a highly profitable patent portfolio which provides recurring smartphone-related licensing revenue. Nokia has been a major market consolidator, acquiring Alcatel Lucent in 2016, which we believe has improved the competitive landscape and will likely lead to synergy benefits and margin expansion in the coming years. While 4G/LTE deployments have peaked and the industry has recently slowed, telcos will continue to increase spend on this technology in emerging markets, and we believe the 5G upcycle in the developing world markets will likely kick off by next year and meaningfully ramp over the next several years.

**Amorepacific Corporation** is a Korea-based cosmetics and beauty products company with a collection of internationally recognized brands and a significant presence in China. After a difficult year triggered by a temporary decline in China outbound tourist flows to Korea, a direct response to the South Korea/U.S. deployment of the THAAD system, we believe a thawing of relations and solid underlying China consumer demand for the company's products is likely to lead to a strong recovery and expansion in the months and years ahead. We believe growth potential remains solid in the home Korea market, while Amore's proven capabilities in product innovation, premiumization and the rapidly growing and profitable duty-free channel bode well for sustainable long-term growth and margin expansion.

We also initiated an investment in **América Móvil, S.A.B. de C.V.**, a leading Mexican and Latin American telecommunications and wireless services provider, on price weakness in advance of the recent Mexican presidential election. In our view, Mexico's economy is likely to improve in the aftermath of a year of political uncertainty and apprehension. We have increased our Mexican exposure this year on the view that the fear of an AMLO victory was well discounted, while the new president's policies are likely to be constrained by a variety of factors and thus more mainstream than many have feared. Initial communication from the new administration appears encouraging. Further, we believe development of a broadband communications infrastructure in the underserved southern Mexican territories can be reasonably expected to be a significant investment plank of the new leadership. We believe América Móvil stands likely to be a material beneficiary of any such infrastructure investment plan.



# Baron International Growth Fund

During the quarter, we also initiated positions in **Momo Inc.** and **Midea Group Co., Ltd.** of China, **Rentokil Initial plc**, the U.K.-based pest control and hygiene services vendor, **The Stars Group Inc.**, a Canadian online gaming platform operator, and **Kotak Mahindra Bank Ltd.** of India.

In the recent quarter, we also sold several positions, including **UniCredit S.p.A.** over concerns regarding the deteriorating political environment in Italy, **Man Wah Holdings Ltd.**, a China-based furniture manufacturer and exporter on concerns over a slowing of market share gains and rising risk of protectionism in the U.S. market, as well as our remaining positions in **SoftBank Group Corp.** of Japan, **TAL Education Group** of China and **Copa Holdings, S.A.** of Panama. In addition, we took profits in **KOSE Corporation** and **Square Enix Holdings Co., Ltd.** of Japan, significantly reducing our position size.

## OUTLOOK

In our first quarter letter, we suggested that a notable slowing of forward-looking, leading indicators of global economic activity, as well as a more aggressive posture towards protectionist measures by the Trump administration likely confirmed that we had entered a more volatile market environment. In our view, such an environment presented the risk of a Fed policy error and global equity market correction. Several months later we reiterate our base-case view, while also recognizing that the correction has already advanced in certain international and emerging market equities. We now believe there is a rising risk of a larger correction should trade friction continue to escalate through the U.S. midterm elections. However, in our view, international equities and currencies are exhibiting reasonably normal volatility, and we suspect conditions could improve quickly should trade tensions de-escalate and/or should the U.S. Fed temper expectations of future tightening measures.

We would characterize the recent deterioration of international equity performance as multi-faceted. First is the broad withdrawal of liquidity, particularly in the form of cheap dollar funding in non-U.S. markets which has continued to slowly recede, while money growth and financial conditions in Europe and China have reached recent lows. We view this liquidity withdrawal as an undertow that is slowly exposing the weakest links. Second, and more recently, is the risk of more aggressive protectionist measures, which has served to amplify the existing tightening of financial conditions in several international markets. Finally, the reversal this year of macroeconomic conditions in the countries that have attempted to address fiscal or current account imbalances via policy initiatives has threatened the positive political and reform momentum in such markets; here, Italy, Brazil and Argentina would be notable examples. We believe evidence of an improvement in the tone of trade negotiations, a moderation of Fed tightening expectations, or renewed visibility of the longevity of market friendly political leadership and policy reform is likely required before a return to a phase of international and emerging market leadership. We are not revising our longer-term view that many international and EM countries have undergone a positive and supportive evolution of political direction in recent years which suggests to us a reasonable likelihood of improved relative earnings growth and equity performance. We continue to believe our unique forward-looking and bottom-up, fundamental approach positions us well to identify attractive investments as they arise, and we would likely view any further correction opportunistically.

Thank you for investing in the Baron International Growth Fund.

Sincerely,



Michael Kass  
Portfolio Manager



Kyuhey August  
V.P., Assistant 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](http://www.BaronFunds.com). Please read them carefully before investing.*

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