Baron International Growth Strategy

June 30, 2019

Dear Investor:

Performance

Baron International Growth Strategy appreciated 2.70% (net of fees) for the second quarter of 2019, while its principal benchmark index, the MSCI ACWI ex USA Index, gained 2.98% for the quarter and the MSCI ACWI ex USA IMI Growth Index appreciated 4.01%. The Strategy has comfortably exceeded both indexes for the year-to-date period. During the second quarter, global equity returns moderated following a strong first quarter, while emerging market ("EM") equities underperformed global and international indexes. In our view, the principal catalysts for international and global equities remained the shift in U.S. Federal Reserve posture, which confirmed a clear easing bias as the quarter progressed, as well as the tone of trade and geopolitical relations between the U.S. and China. Early in the quarter, equities succumbed to a material correction as an expected trade agreement was not consummated and non-tariff retaliation measures quickly escalated; however, as the counterparties reached a détente at the G20 meeting in Japan in the final days of the quarter, equities closed at or near year-to-date highs. As we enter the second half of 2019, we suspect equity returns will hinge on how much further U.S. and global growth slows, whether the Fed follows through with expected interest rate cuts, and if a commercial trade agreement can be reached between the U.S. and China, allowing the larger, more fundamental strategic differences to be pushed out to a future negotiation. Ongoing unpredictable U.S. foreign policy will likely continue to play a role in the outlook for market returns and volatility. As we suggested in our first quarter letter, we reiterate that we believe international equities are likely bottoming on a relative return basis, and we see a mean reverting phase of outperformance in coming years as likely. 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 June 30, 2019

	Baron International Growth Strategy (net)[1]	Baron International Growth Strategy (gross)[1]	MSCI ACWI ex USA Index[1]	MSCI ACWI ex USA IMI Growth Index[1]
Three Months[2]	2.70%	2.91%	2.98%	4.01%
Six Months[2]	19.96%	20.42%	13.60%	16.72%
One Year	(0.99)%	(0.23)%	1.29%	1.36%
Three Years	11.29%	12.20%	9.39%	9.52%
Five Years	5.58%	6.49%	2.16%	3.93%
Ten Years	10.78%	11.72%	6.54%	7.75%
Since Inception[3] (March 31, 2009)	12.38%	13.32%	8.94%	9.92%

For the second quarter of 2019, we performed roughly in line with our primary benchmark, the MSCI ACWI ex USA Index, while trailing our all-cap international growth proxy. We remain comfortably ahead of each benchmark for the year-to-date period. While encouraged by such outperformance, we acknowledge that the past several quarters have been marked by elevated volatility, reflecting an unpredictable geopolitical, foreign policy, and macroeconomic environment. We view the year-to-date pivot in U.S. Federal Reserve posture as a material and offsetting positive, which we believe signals an improving relative backdrop for equities, and for international equities in particular. If, as we suspect, we are exiting the period of excess dollar liquidity withdrawal that characterized the past year, then non-U.S. equities are likely bottoming on a relative basis after a multi-year downturn.

During the quarter, positive relative performance was led by stock selection effect in the Information Technology sector, driven by our investments in

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 June 30, 2019, total Firm assets under management are approximately $30.0 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 our 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 managed by BAMCO. The Strategy invests mainly in non-U.S. companies of all sizes, but focuses on small and mid-sized non-U.S. growth companies of developed nations and those benefiting from growth in developing countries. The mutual fund may invest up to 30% in companies of developing 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.

† The Strategy'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 Strategy'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 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 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 indexes and Baron International Growth 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 12/31/2008.

Endava plc, **Opera Limited**, **RIB Software SE**, and **PagSeguro Digital Ltd.,** each of which appreciated over 25% during the quarter on strong fundamental progress. In addition, positive stock selection in Consumer Discretionary, led by **Arco Platform Limited**, a Brazilian educational platform company, and **Trainline Plc,** a recent U.K.-based IPO and dominant consolidator of Europe-wide train & travel information and ticketing, contributed materially. From a country perspective, our Brazil reform theme led the way and our U.K.-based holdings, again driven by Endava and Trainline, also contributed positively to relative returns.

Offsetting a portion of the above, adverse stock selection in the Financials sector was largely attributed to a steep correction in **Futu Holdings Limited**, a China-based online and mobile financial information and trading platform. Futu, which was one of our top five contributors overall in the first quarter, reversed prior gains as investors reacted to a near-term slowdown in subscriber growth. In our view, this is due to the escalation of trade tensions and is likely to be temporary. Adverse stock selection in the Energy sector also detracted as our growth-oriented holdings, **Encana Corp.**, **Tullow Oil plc**, and **Golar LNG Ltd.**, suffered corrections in sympathy with oil prices as expectations for global growth were downgraded. From a country perspective, our Canadian energy holdings and our China-related investments detracted.

Table II.
Top contributors to performance for the quarter ended June 30, 2019

	Percent Impact
Endava plc	0.64%
Arco Platform Limited	0.61
Opera Limited	0.60
RIB Software SE	0.46
PagSeguro Digital Ltd.	0.40

Shares of **Endava plc**, a provider of outsourced software development to business customers, appreciated after reporting excellent quarterly results and raising full-year guidance. In March, revenue grew 25% and EPS grew 46% due to strong client demand and significant margin expansion. The share price also likely benefited from a secondary offering that increased liquidity, removed an overhang from pre-IPO shareholders, and increased awareness to new investors. We believe Endava will continue gaining share in a large global market for IT services.

Arco Platform Limited is a Brazilian education technology company providing educational content and software solutions to K-12 private schools. Arco has grown rapidly and currently serves more than 4,500 schools throughout Brazil. Shares appreciated in the second quarter after the company announced the transformative Positivo acquisition, more than doubling its scale. We remain excited about Arco's future, as it remains in the early stages of disrupting legacy book publishers with a modern learning platform, generating better results for students and higher rankings for schools.

Opera Limited is a leading internet browser and newsfeed company in several emerging markets. Shares contributed to performance due to strong user growth and regulatory tailwinds from Google's agreement with the European Union to offer browser choices on Android phones. Opera has over 150 million monthly active users of its newsfeed product globally, which we believe could double in the next three to five years, with runway for meaningfully improved monetization. Furthermore, given Opera's relatively low cost base, we expect the company to drive improving profitability going forward.

RIB Software SE is a German software developer that enables construction and engineering firms to integrate project bids, supply chain management, scheduling, and execution on a real-time basis, driving material productivity enhancements for its clients. Shares contributed to performance due to solid operating results and license activity, as well as ongoing progress in consolidating go-to-market distribution for the company's MTWO initiative. We remain enthusiastic, as we believe we are in the early innings of RIB's potential growth opportunity.

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

Table III.
Top detractors from performance for the quarter ended June 30, 2019

	Percent Impact
Futu Holdings Limited	–0.66%
InflaRx N.V.	–0.39
Encana Corp.	–0.37
Takeda Pharmaceutical Company Limited	–0.29
WANdisco plc	–0.22

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 declined during the quarter as the company reported weak first quarter financial results, and growth in the number of active users and margin finance balances lagged Street expectations set during the IPO.

InflaRx N.V. is a German biotechnology company developing a drug to treat patients with hidradenitis suppurativa, a painful skin disease. Shares detracted from performance, as the quarter saw a failure of InflaRx's asset in Phase 2 trials that called into question the thesis for future investments in the development of its treatment for this disease.

Encana Corp. is a Canada-based energy producer with primary operations in Western Canada, Texas, and Oklahoma. Shares fell due to a decline in oil and natural gas liquids prices. Encana has restructured its portfolio and has one of the top positions in the lowest cost oil and natural gas basins in the Permian, Anadarko, and Montney. In our opinion, Encana is one of the most attractively valued exploration & production companies, and we believe investors still underappreciate the company's free cash flow and returns potential.

Shares of **Takeda Pharmaceutical Company Limited** detracted from performance due to earnings that fell short of Street expectations and ongoing concerns over the company's acquisition of a large, U.S.-based pharmaceutical company. However, we believe that as a leading global pharmaceutical player, Takeda is well positioned to benefit from growing incidences of gastrointestinal, oncological, and central nervous system-related disorders. We retain conviction due to Takeda's strong management team that has improved profitability and is steering the company in a shareholder-friendly direction.

WANdisco plc is a leading infrastructure software company that develops and sells distributed software solutions for data replication across disparate computing environments. Shares of WANdisco declined in the quarter due to perceived risks around the company's ability to close second half bookings. We continue to believe WANdisco's technology offers a compelling value proposition to enhance live data consistency and streamline the data management process, particularly within hybrid environments of on-premises, private cloud, and public cloud platforms.

Portfolio Structure

Table IV.
Top 10 holdings as of June 30, 2019 – Developed Countries

	Percent of Net Assets
argenx SE	2.6%
RIB Software SE	2.2
Constellation Software, Inc.	2.2
Trainline Plc	2.1
AstraZeneca PLC	2.1
Takeda Pharmaceutical Company Limited	2.0
Endava plc	1.8
Experian plc	1.8
Nestle S.A.	1.8
Linde Public Limited Company	1.7

Table V.
Top five holdings as of June 30, 2019 – Emerging and Frontier Countries

	Percent of Net Assets
Arco Platform Limited	1.9%
PagSeguro Digital Ltd.	1.4
Zai Lab Limited	1.3
Sberbank of Russia PJSC	1.2
Copa Holdings, S.A.	1.2

Table VI.
Percentage of securities in developed markets as of June 30, 2019

	Percent of Net Assets
United Kingdom	14.5%
Japan	11.1
France	6.7
Germany	5.7
Canada	4.7
Netherlands	4.2
United States	3.8
Israel	2.9
Switzerland	2.5
Spain	2.4
Norway	2.3
Australia	2.2
Ireland	2.2
Sweden	1.3
Finland	1.2
Belgium	0.9

Table VII.
Percentage of securities in emerging and frontier markets as of June 30, 2019

	Percent of Net Assets
China	9.4%
India	4.9
Brazil	4.5
Russia	2.7
Panama	1.2
Mexico	1.2
Argentina	1.2
Korea	1.1
United Arab Emirates	0.6
Indonesia	0.2
Nigeria	0.0

Exposure by Market Cap: The Strategy may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. At the end of the second quarter, the Strategy's median market cap was $7.9 billion, and we were invested 51.8% in large- and giant-cap companies, 30.9% in mid-cap companies, and 12.9% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the quarter, we initiated, and/or increased several positions associated with our existing themes:

- Mobile e-commerce/artificial intelligence/cloud: **Xiaomi Corporation, Yandex N.V.,** and **Trainline Plc**
- India financialization: **Reliance Nippon Life Asset Management Limited** and **Max Financial Services Limited**
- EM consumption: **China International Travel Service Limited** and **Copa Holdings, S.A.**
- Fintech/digital payments: **TCS Group Holding PLC, Network International Holdings Ltd.,** and **Endava plc**

While we have increased our developing world exposure in recent quarters towards the higher end of our normal range, we also selectively and opportunistically added to various developed world investments:

- Japan: **NEXON Co., Ltd.** and **Takeda Pharmaceutical Company Limited**
- Europe/U.K.: **Symrise AG, Telefonaktiebolaget LM Ericsson, Ryanair Holdings plc**, and **AstraZeneca PLC**
- Australia: **NEXTDC Limited**

We also exited several positions, most notably **SoftBank Group Corp.**, **TechnoPro Holdings, Inc.**, **Suncor Energy Inc.**, and **Itau Unibanco Holding S.A.** In general, we aim to increase concentration in holdings where we have the highest conviction in quality and return potential, while eliminating lower conviction or smaller holdings over time.

Rather than present the investment thesis for a select number of new investments as we normally do, we would like to use this mid-year letter to review several key investment themes, which represent a significant portion of the Strategy's capital. Themes are an important part of our idea generation process, a forward-looking metaphor for the screening process often employed by many of our peers, whereby we seek the highest likelihood of the greatest value creation based on an important long-term inflection point, change or trend at an industry or country level. Recent themes include 5G network development, fintech/digital payments, biotechnology/gene editing, and India financialization & wealth management. A brief summary of several current themes and total exposure is provided below.

Mobile e-commerce/Artificial Intelligence/Cloud: (13%): In our view, these technologies are key drivers of productivity worldwide; new technology platform companies are flourishing internationally as well as in Silicon Valley. Examples include RIB Software SE, Wix.com Ltd., NEXTDC Limited, Recruit Holdings Co., Ltd., Alibaba Group Holding Limited, Tencent Holdings Limited, MercadoLibre, Inc., Reliance Industries Limited, and Yandex N.V.

Biotechnology/Gene Editing (6%): DNA sequencing, antibody discovery, and gene editing are driving rapid progress in personalized medicine and addressing many disease states. Examples include argenx SE, Abcam plc, Horizon Discovery Group plc, and Zai Lab Limited.

Digital Payments/Fintech (5%): Disruptive, low-cost new players are entering the financial services and payments sphere and attacking huge revenue centers previously controlled by slow-moving oligopolies. Examples include Worldpay, Inc., PagSeguro Digital Ltd., TCS Group Holding PLC, and Network International Holdings Ltd.

Industrial Automation/Robotics (4%): Automation/robotics, another key driver of global productivity, is expected to gain a new leg of momentum as 5G and internet of things platforms proliferate in coming years. Beneficiaries include Keyence Corporation, FANUC Corp., Blue Prism Group plc, and Midea Group Co., Ltd.

5G Network Development (4%): 5G networks will transform smart manufacturing, smart cities, automated driving, as well as consumer and commercial applications such as video streaming. The strategic confrontation between the U.S. and China will raise the stakes and could accelerate deployment, particularly in China. Examples include Nokia Corporation, Telefonaktiebolaget LM Ericsson, China Tower Corporation Limited, Reliance Industries Limited, and Telesites, S.A.B. de C.V.

India Financialization/Wealth Management (4%): Post demonetization, India seeks to vastly increase participation in the formal financial system, capturing private sector assets historically hiding in cash, gold, or unregistered real estate, and recycling such assets into productive investment, unleashing a virtuous cycle. Examples include Kotak Mahindra Bank Ltd., HDFC Bank Limited, JM Financial Limited, Max Financial Services Limited, and Reliance Nippon Life Asset Management Limited.

Outlook

In our first quarter letter, we questioned whether global economic conditions could underwrite further material gains in the near term, particularly given our view that the U.S. and global economy, and related corporate earnings, appeared likely to continue to slow or stall. In the end, the second quarter progressed largely in line with our expectations, as gains in global equities moderated from their first quarter pace, albeit with a return to significant volatility during the quarter. On the one hand, slowing global growth and inflation readings, as well as trade uncertainties, allowed the U.S. Federal Reserve to complete its pivot from last year's tightening to an easing cycle, which is now being discounted as certain in the forward interest rate markets. This generally provides cover for coincident easing measures by central bankers worldwide, a clear support for global equities, and signals an improvement in risk conditions for international and emerging market economies and currencies. On the other hand, U.S. and global economic conditions continue to slow, and leading indicators suggest this trend may continue into early 2020. Geopolitical and foreign policy risks remain heightened, and, in our view, these risks may offset and could possibly overwhelm central bank accommodation as the current year progresses. We believe whether and how the U.S./China trade and strategic confrontation progresses is likely the most important variable in the near term, as improved financial conditions are largely discounted, and the U.S./China outlook remains uncertain, notwithstanding the recent détente.

Regarding the developed international markets, conditions continue to reward stock selection, as the macroeconomic and political environment remains challenged; most of Europe and Japan remain quite weak, and negative bond yields suggest that markets expect such conditions to persist for some time. In the U.K., the Brexit drama, in our view, took a turn for the worse, with Theresa May's plan finally invalidated and with it, her tenure as Prime Minister. While anything could still happen, the most likely outcome is a somewhat more abrupt version of Brexit; yet with the British pound retreating near all-time lows and businesses in the U.K. and Europe taking precautions, we suspect a near-worst case outcome is already priced in. Many domestic-facing U.K. businesses carry modest expectations and offer discounted valuations, and, as we have reported, we have increased our exposure here in recent quarters, though most of our U.K. exposure is comprised of high-quality, international-facing businesses with modest direct exposure to the U.K. economy and currency. In contrast, we reduced our exposure to Japan in recent quarters, as we suspect this market is most challenged by a return to subpar growth and inflation expectations. We have generally reduced our holdings of domestic businesses that have delivered on our expectations, but where previous tailwinds appear to have peaked, as is the case with our Japan wage inflation theme. We reiterate that the weak growth backdrop in much of the developed international world offers bottom-up and growth-oriented investors more than ample opportunity to stand out with a select portfolio of investments, and further suggest that these markets offer significant value and are likely beneficiaries of a U.S. Fed easing cycle.

During the quarter, despite a bumpy path, Brazil made material political progress towards a wholesale reform of its Social Security program, which we have viewed as not only a highly likely, but also a necessary precondition for sustained investor confidence in the country and its longer-term prospects. We remain enthusiastic and are likely to continue to add to our exposure in this dynamic market. In addition, Narendra Modi and the NDA alliance secured a second five-year term in a landslide election victory in May, suggesting ongoing reforms are likely, and in our view confirming our positive bias towards India. While liquidity conditions remain challenged and somewhat of an overhang in the near term, we remain enthusiastic and anticipate an improving economic and investment cycle is likely to take root in coming quarters. We also are encouraged by evidence of stabilization in China, particularly in the consumer and value-added sectors which represent the bulk of our exposure, after many months of stimulus, regulatory easing, and tax relief. We continue to believe we are nearing the end of a protracted period of international equity underperformance, and are confident we own a portfolio of quality growth companies poised to benefit from inherent competitive advantages and long-term tailwinds.

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.