Baron International Growth Strategy

December 31, 2018

Dear Investor:

Performance

Baron International Growth Strategy declined 15.36% (net of fees) for the final quarter of 2018, while its principal benchmark index, the MSCI ACWI ex USA Index, retreated 11.46% for the quarter and the MSCI ACWI ex USA IMI Growth Index declined 12.70%. For the full year of 2018, the Strategy was down 17.51%, while the MSCI ACWI ex USA Index declined 14.20% and the MSCI ACWI ex USA IMI Growth Index retreated 14.96%. In the fourth quarter, international developed equities, and particularly emerging market equities, outperformed their U.S peers. In our view, this was due to several factors outlined in our third quarter letter, in which we suggested a period of mean reversion in performance was a reasonable likelihood.

In last quarter's letter, we proposed that the principal catalysts driving poor international and EM equity returns were not related to company fundamentals, but rather macroeconomic and geopolitical forces; we also suggested that while a legitimate agreement between the U.S. and China on trade or a change in U.S. Fed rhetoric would likely spark a reversal in international and EM relative and absolute performance, a subtle catalyst could be a perceived peak in President Trump's political currency, as any dilution to the more aggressive elements of his "America First" policy would likely trigger a mean reversion in the year-to-date divergence of performance. We noted that the international and EM correction was well advanced, and that we did not believe the U.S. markets or economy could remain insulated from the global liquidity and protectionist squeeze indefinitely. Contagion to the U.S., which was likely in our view, could trigger a bottom in international and EM assets and currencies, as these markets would begin to discount a change in the cadence of trade policy and/or Fed rhetoric. We now suggest that the conditions outlined above are increasingly being anticipated and discounted by market developments worldwide.

Table I.
Performance†
Annualized for periods ended December 31, 2018

	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]	(15.36)%	(15.20)%	(11.46)%	(12.70)%
One Year	(17.51)%	(16.88)%	(14.20)%	(14.96)%
Three Years	4.93%	5.82%	4.48%	4.01%
Five Years	2.94%	3.84%	0.68%	1.76%
Since Inception[3] (March 31, 2009)	10.96%	11.89%	7.99%	8.72%

For the final quarter of 2018, we underperformed both our primary benchmark MSCI ACWI ex USA Index and our all-cap international growth proxy. While disappointed by our recent quarterly results, which also drove our full-year relative performance, our longer-term returns remain ahead of our benchmarks and peers. The fourth quarter confirmed our view that while appreciation and leadership often accumulate over time, corrections and underperformance can be abrupt. During the fourth quarter, higher-quality growth stocks across the globe suffered mightily after a protracted period of outperformance. We recognized profits on certain positions consistent with our active risk management process, although our quarterly results remained disappointing. While we would characterize the earnings results across the bulk of our portfolio as solid, many of our investments suffered material multiple contraction resulting from a rise in risk premium on international equities in general, a concern over the outlook for global trade and tariffs, future regulatory or policy tightening, or additional risks related to the outlook for growth in China. In this regard, as 2018 progressed, we view investor sentiment as increasingly hostile towards the equity values of private sector corporations, and more acutely so in the smaller, mid-cap,

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of December 31, 2018, total Firm assets under management are approximately $24.0 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.

and lower end of large-cap universe, which forms the core of our investment portfolio. While we believe a principal catalyst has been escalating pressure due to unconventional U.S. aggression in the form of foreign policy, trade protectionism, and threatened sanctions, the good news is that any de-escalation would likely relieve such pressure and allow risk premium on international and EM assets to normalize, and earning multiples to rise.

During the fourth quarter, our relative performance was driven by poor stock selection effect in the Consumer Discretionary, Energy, and Communication Services sectors. While negative absolute returns were fairly broad based across both the portfolio and quality growth stocks throughout the markets, poor returns and stock selection were concentrated in our Japanese holdings, where all of our positions declined by double-digits, and in the Energy sector, where declines were largely driven by a major correction in the price of crude oil. In most cases, we would attribute the weak performance to macroeconomic and foreign policy issues, particularly in energy-related and Japanese equities, several of which have a high correlation with global economic and consumption expectations, and perhaps more directly to China. Within Consumer Discretionary, concerns over a hard Brexit outcome drove significant weakness in **B&M European Value Retail S.A.** and **Glenveagh Properties PLC**, while classic growth stocks such as **Domino's Pizza Enterprises Ltd.** of Australia and **The Stars Group Inc.**, a Canadian online gaming operator, suffered large corrections. Partially offsetting the above, several company-specific developments triggered positive returns across several holdings. Most notable was **argenx SE**, a Dutch biotech firm that announced encouraging safety data on its core ARGX-113 molecule and introduced a second potentially commercial molecule during the quarter, driving material gains in the stock. In addition, **Mellanox Technologies Ltd.**, an Israeli silicon and systems provider to the high-performance computing and data center markets, announced it had hired an investment bank to review a potential sale of the company, and **China Tower Corporation Limited**, a recent addition to the portfolio that we profiled in our third quarter letter, appreciated meaningfully as the government unveiled a plan to distribute 5G spectrum and begin deploying network capacity.

For the full year 2018, our adverse performance relative to the MSCI ACWI ex USA Index was driven most by poor stock selection effect in the Energy and Financials sectors, which we attribute largely to macroeconomic and geopolitical factors rather than company-specific or theme-based developments. On the positive side, and partially offsetting the above, strong stock selection in the Information Technology sector, largely occurring in the first nine months of the year, and our cash position, drove the bulk of our positive relative performance for the year.

Table II.
Top contributors to performance for the quarter ended December 31, 2018

	Percent Impact
argenx SE	0.42%
Mellanox Technologies Ltd.	0.35
China Tower Corporation Limited	0.31
Zai Lab Limited	0.19
Housing Development Finance Corporation Limited	0.10

argenx SE is a Dutch biotech company focused on developing antibodies to treat patients with cancer and severe autoimmune diseases. Recent positive performance comes from resolution of some confusion regarding a bleeding safety concern. This was amplified by a large licensing deal from Johnson & Johnson for argenx's asset to treat acute mylegenous leukemia. We believe argenx's antibody platform is one of the most valuable assets in the biotech development space.

Mellanox Technologies Ltd. is a supplier of high-performance switch systems, adapters, cables, and software supporting InfiniBand and Ethernet networking technologies. Mellanox shares were up in the quarter following the company's strong quarterly results, which exceeded its guidance on top line and margins, in addition to rumors around a potential takeout deal. We believe Mellanox is an attractive long-term investment due to its technological leadership in high-speed interconnects, which are becoming increasingly relevant in a world of big data and AI.

Shares of **China Tower Corporation Limited** appreciated in the quarter as fears of a merger between two important customers eased after the government announced a plan to distribute 5G spectrum. China Tower is the largest owner of wireless towers globally with dominant market share in China. We continue to believe that China Tower will be a significant beneficiary of the carrier 5G network build in China, and should be able to compound value in the double-digit range for more than five years.

Zai Lab Limited is a China-based biotech firm focused on becoming a large player in the newly emerging Chinese health care system. Recent positive performance is attributed to China's quick regulatory acceptance of lead asset Zejula, whose Chinese rights are in-licensed from Tesaro, a company that was also acquired by GlaxoSmithKline for a hefty premium in the quarter. We expect continued strong performance as Zai becomes one of the go-to biotechs in China to commercialize western medications.

Housing Development Finance Corporation Limited is India's premier housing finance company. Shares increased as liquidity conditions in the short-term funding market began to normalize following a squeeze triggered by a large credit downgrade in the system in September. In addition, a decline in oil prices and a lower inflation rate tempered the outlook for higher benchmark rates, which helped ease expectations for the company's funding costs. Lastly, the company reported results that showed continued steady earnings growth despite a difficult operating environment.

Table III.
Top detractors from performance for the quarter ended December 31, 2018

	Percent Impact
Encana Corp.	–0.75%
Fresenius Medical Care AG & Co. KGaA	–0.61
Eurofins Scientific SE	–0.51
Recruit Holdings Co., Ltd.	–0.48
Tullow Oil plc	–0.47

Encana Corp. is a Canadian-based exploration and production company with primary operations in Western Canada and Texas. Shares declined after the company announced the acquisition of Newfield Exploration, which has limited geographic overlap with Encana's core position in the U.S. In our opinion, Encana is one of the most attractively valued E&Ps. We believe investors underappreciate the company's long-term free cash flow, return potential in the Permian and the Montney, and potential operational synergies and cash flow accretion from the Newfield acquisition.

Shares of **Fresenius Medical Care AG & Co. KGaA** declined in the quarter. As the world's leading provider of dialysis products and services, the company is a beneficiary of increased onset of End Stage Renal Disease due to growing rates of diabetes and obesity. Earnings weakness owing to unfavorable reimbursement trends pressured shares. The company also issued below-consensus 2019 earnings guidance as it plans to incur upfront costs to drive future growth. We retain conviction as Fresenius is a stable, defensive, cash generative health care business in our view.

Shares of **Eurofins Scientific SE** detracted from performance in the quarter. Eurofins provides analytical testing services to clients in the food, pharmaceutical, and environmental industries. Shares fell due to questions about the sustainability of Eurofin's organic growth and its ability to make acquisitions given current leverage levels. We believe the company's organic growth remains attractive and is sustainable in the mid-single digits, and further maintain confidence in the company's management and acquisition-led growth strategy.

Recruit Holdings Co., Ltd. operates recruiting and temporary staffing businesses in Japan, the U.S., and Europe. While it reported strong earnings, shares fell on macro concerns. A weak economy would negatively affect employment-related businesses as employment levels and wages are direct inputs into the earnings outlook for these companies. While macro conditions are a near-term risk, we believe Recruit is also a long-term play on efficiency, as it utilizes technology to create a match between a job opportunity and qualified worker, at a a substantial cost savings relative to the traditional agent recruiting model.

Tullow Oil plc is an international exploration and production company primarily focused on operations in West and East Africa. Shares declined in the quarter due to falling oil prices. We remain investors due to the company's operational improvements, ramp up of production at TEN field in Ghana, the deleveraging of its balance sheet, exploration upside in South America, and potential monetization of Kenya assets.

Portfolio Structure

Table IV.

Top 10 holdings as of December 31, 2018 – Developed Countries

	Percent of Net Assets
AstraZeneca PLC	2.9%
argenx SE	2.6
Nokia Corporation	2.5
Danone SA	2.2
Constellation Software, Inc.	2.2
Mellanox Technologies Ltd.	2.1
Golar LNG Ltd.	1.8
Linde Public Limited Company	1.6
Aena SME, S.A.	1.6
Abcam plc	1.6

Table V.

Top five holdings as of December 31, 2018 – Emerging and Frontier Countries

	Percent of Net Assets
China Tower Corporation Limited	1.5%
Arco Platform Limited	1.4
Petróleo Brasileiro S.A. – Petrobras	1.3
WH Group Limited	1.1
Zai Lab Limited	1.1

Table VI.

Percentage of securities in developed markets as of December 31, 2018

	Percent of Net Assets
United Kingdom	14.0%
Japan	12.6
France	7.2
Canada	5.2
Netherlands	4.8
Germany	4.6
United States	3.8
Israel	3.7
Norway	3.5
Spain	3.0
Finland	2.5
Ireland	2.3
Switzerland	2.1
Australia	1.7
Belgium	1.2

Table VII.

Percentage of securities in emerging and frontier markets as of December 31, 2018

	Percent of Net Assets
China	8.0%
Brazil	4.7
India	3.8
Mexico	2.0
Korea	1.5
Argentina	1.5
Russia	0.9
Panama	0.4
Indonesia	0.3
Nigeria	0.1

The Strategy may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. As of December 31, 2018, the Strategy's median market cap was $7.3 billion, and it had

approximately 52.1% in large- and giant-cap companies, 31.9% in mid-cap companies, and 11.4% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the recent quarter, we deployed a meaningful balance of our cash position in a declining market as we began to perceive attractive value. A new theme has materialized in recent months related to the impending rollout of 5G wireless networks. We currently have investments in **Nokia Corporation** and **China Tower Corporation Limited**, and hope to identify additional attractive opportunities in months ahead. New investments in general were predominantly emerging markets related, while we added to several existing developed world positions. Our largest new investment was **Petróleo Brasileiro S.A. – Petrobras**, the dominant integrated oil and gas operator in Brazil, which we believe will be a major beneficiary of strategic and governance changes recently affirmed by the new Bolsonaro administration. **YY Inc.** is our second China-based live streaming investment that also holds a majority interest in HUYA Inc., a fast-growing and leading e-sports platform in China. We see **KIA Motors Corporation** of Korea as a likely beneficiary of Chaebol reform, while also entering a period of accelerated new model introductions. We believe the company's earnings are likely to post strong growth in the current year, and we think the valuation is quite attractive. We also took positions in **HDFC Bank Limited**, the leading high-quality private sector bank in India, **Copa Holdings, S.A.**, a leading low-cost airline operator in Latin America with enviable competitive advantages, and **Nestlé S.A.**, which we believe is likely to demonstrate improved operating performance and monetize attractive assets in response to activist shareholder pressure. We initiated a position in **B&M European Value Retail S.A.**, a U.K.-based retailer that came under market pressure largely in response to Brexit proceedings during the quarter. We also increased existing investments in Norwegian company **Opera Limited**, which we believe will capture materially higher monetization rates via its mobile web browsing and newsfeed platforms in the coming years, and **Nokia Corporation**, a Finnish wireless communications equipment vendor, which we believe will likely be a major beneficiary of the trade-related conflicts occurring between the U.S. and China, while also benefitting from the global rollout of 5G networks beginning this year. In addition, we added to current holdings in **Golar LNG Ltd.**, **Square Enix Holdings Co., Ltd.**, **Industria de Diseño Textil, S.A.**, and **Dechra Pharmaceuticals PLC**, in our view, all high-quality growth businesses that suffered significant corrections in recent months.

During the quarter, we sold our positions in **Amorepacific Corporation**, a leading Korean cosmetics manufacturer over concerns regarding deteriorating fundamentals in both its home market as well as in China, which has been driving the company's substantial growth, and **Titan Company Limited**, a leading jewelry manufacturer and retailer in India, based on concerns related to India's recent liquidity crisis. Finally, we also reduced several positions, including **Domino's Pizza Enterprises Ltd.**, **InterXion Holding N.V.**, **Momo Inc.**, and **Landis+Gyr AG**, based on concerns over slowing growth and/or heightened government regulatory risk.

Outlook

In our third quarter letter, we suggested several potential catalysts that could likely trigger a mean reversion in leadership where international and EM equities would begin to outperform. In our view, such catalysts included indications of a credible truce between the U.S. and China on trade, market recognition that U.S. corporate profits and equities were quite exposed to disruption from escalating tariffs and foreign policy tensions, and finally, a peak in unconstrained executive privilege, or what we termed "peak Trump political currency." In our view, during the fourth quarter, the above catalysts have all come into play, and as a result, international and EM equities outperformed the U.S. for the first time in several quarters. We believe such outperformance is a welcome precondition to forming a durable bottom and a return to positive absolute returns.

Our expectation was that the above conditions would increase the likelihood that the U.S. would seek a compromise in trade relations with China and perhaps a return to more conventional foreign policy, and/or help coerce Fed behavior to become less restrictive, either of which would also reduce risk premium associated with international assets and currencies. We now enter 2019 with various risks to U.S. corporate earnings increasingly priced in and speculative and leveraged positioning in equities, bonds, and oil having corrected and normalized. Our conclusion is that much that could go wrong has now been priced in, particularly in mid-cap growth stocks globally, which suffered an outsized correction during the fourth quarter. Consistent with the above conditions, as well as our view that the U.S. midterm elections might represent an important inflection point where going forward we begin to see constraints on U.S. executive privilege, during the quarter we became considerably less defensive and exited the quarter with a much-reduced cash position. Looking 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. Such a development would likely suggest a peak in the U.S. dollar and further outperformance by international equities. While this is our base case expectation for now, we remain cautious because global capital markets remain exposed to the elevated risk of policy error: Will the U.S. and China reach a credible compromise by the imposed March 2nd deadline? Will the Fed follow through in tempering expectations of future tightening if trade relations improve? Could a shift to positive global economic surprises, in the aftermath of a large decline in oil and long-term government bond yields, force the Fed to return to a more restrictive bias? Lastly, and indicative of a market environment where non-economic risks may ultimately "overwhelm the fundamentals," what can we expect in the coming months from the ongoing Mueller investigation and what sort of unpredictable response could it provoke?

While we have written in recent quarters that we believe unconventional U.S. foreign policy initiatives have driven international and EM equity risk premium higher and earnings multiples lower in the short term, we nonetheless are encouraged by several emerging bright spots. Brazil, in particular, has demonstrated market leadership and material positive returns as the incoming Bolsonaro administration has articulated a market-friendly doctrine emphasizing material privatization activity and a commitment to enhanced fiscal orthodoxy. We built an overweight position in Brazil during the fourth quarter. We believe we are nearing a conclusion to the Brexit drama, and suspect something close to a worst-case scenario is expected and largely priced into markets. During the quarter we increased our domestic U.K. exposure and currently see both attractive risk/reward and a catalyst likely to emerge soon. In addition, while certain Asian equity markets remain closely correlated to the outlook for China's economy and policy direction, many EM markets remain more sensitive to the outlook for

the U.S. dollar and Treasury yields, where recent developments suggest we have already entered a bottoming phase. Should 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. As always, we remain confident that our forward-looking and bottom-up fundamental approach positions us to discover exciting long-term investment opportunities regardless of the market environment.

Sincerely,

Michael Kass
Portfolio Manager

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Assistant 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.