

**DEAR BARON EMERGING MARKETS FUND SHAREHOLDER:
PERFORMANCE**

Baron Emerging Markets Fund (the "Fund") appreciated 4.83% (Institutional Shares) during the second quarter of 2021, while its principal benchmark index, the MSCI EM Index, gained 5.05%. The MSCI EM IMI Growth Index gained 5.17% for the quarter. The Fund performed roughly in line with its principal benchmark index, as well as the all-cap growth proxy, during a solid quarter for global equities. Emerging market ("EM") and international equities modestly trailed their U.S. counterparts, defined as the S&P 500 Index. It was a relatively uneventful quarter, with the Fed's confirmation of its modest hawkish tilt late in the quarter contributing to a cooling of the interest rate and inflation fever witnessed earlier in the year. As we suggested in our previous letter, this turn of events supported the performance of quality growth stocks for the quarter. Also, during the quarter, the U.S. showed solid progress on ramping COVID-19 vaccine penetration, while several international jurisdictions lagged, creating the perception of relatively greater U.S. earnings visibility. We believe this distinction will likely prove temporary, and we remain optimistic that corporate earnings are likely to deliver on a global basis, though we believe a mid-cycle pause is increasingly likely given a sustained slowdown in China credit growth and the marginal Fed tightening referenced above. We welcome the cooling of inflation expectations and believe such tightening is likely necessary given ongoing COVID-19-related labor and supply bottlenecks in order to prolong the global expansion. As always, we are confident that we have invested in many well-positioned and well-managed companies on a bottom-up basis that are poised to benefit from long-term and attractive investment themes.

**Table I.
Performance**

Annualized for periods ended June 30, 2021

	Baron Emerging Markets Fund Retail Shares ^{1,2}	Baron Emerging Markets Fund Institutional Shares ^{1,2}	MSCI EM Index ¹	MSCI EM IMI Growth Index ¹
Three Months ³	4.81%	4.83%	5.05%	5.17%
Six Months ³	4.59%	4.67%	7.45%	6.54%
One Year	42.12%	42.40%	40.90%	42.45%
Three Years	12.48%	12.76%	11.27%	14.34%
Five Years	12.38%	12.66%	13.03%	15.54%
Ten Years	7.43%	7.70%	4.28%	6.34%
Since Inception (December 31, 2010)	6.98%	7.24%	4.16%	6.07%

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, 2020 was 1.35% and 1.09%, respectively. The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2031, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

¹ The MSCI EM (Emerging Markets) Index Net USD is designed to measure equity market performance of large and mid-cap securities across 23 Emerging Markets countries. The MSCI EM (Emerging Markets) IMI Growth Index Net USD is a free float-adjusted market capitalization index designed to measure equity market performance of large, mid and small-cap securities exhibiting overall growth characteristics across 23 Emerging Markets countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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.



MICHAEL KASS

PORTFOLIO MANAGER

Retail Shares: BEXFX
Institutional Shares: BEXIX
R6 Shares: BEXUX

For the second quarter of 2021, we performed roughly in line with our primary benchmark, the MSCI EM Index, as well as the all-cap EM growth proxy. From a broad market perspective, second quarter trends were mixed. While markets continued to support economically cyclical stocks, there was an increase in investor appetite for quality growth stocks toward the latter part of the quarter. From a sector and theme perspective, strong stock selection in the Financials sector, led by our fintech theme (**TCS Group Holding PLC**) and India wealth management/consumer finance investments (**Max Financial Services Limited** and **Bajaj Finance Limited**) contributed the most to relative performance. In addition, favorable stock selection in the Health Care sector, led by our China value added/localization theme (**Zai Lab Limited**, **Hangzhou Tigermed Consulting Co., Ltd.**, and **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**) also bolstered relative results. Offsetting the above was adverse stock selection effect in the Industrials sector, most notably **China Conch Venture Holdings Ltd.**, a leading hazardous/solid waste management company in China, whose shares came under pressure due to a decline in the value of its non-core stake in Anhui Conch Cement. Weak stock selection in the Information Technology sector, primarily attributable to some of our China valued-added/SaaS software investments (**Kingsoft Corporation Ltd.** and **Venustech Group Inc.**), and digitization theme (**GDS Holdings Limited**) also stood out.



Baron Emerging Markets Fund

From a country perspective, our overweight positioning and solid stock selection in India was a key contributor to relative performance this quarter. In our view, the worst of COVID-related disruptions in India is likely behind us, which together with the implementation of economic reforms, should support higher relative earnings growth and solid equity performance going forward. Our overweight positioning in Brazil and Russia, and lack of exposure to South Africa, also contributed to relative results. This was broadly offset by our underweight positioning, together with poor stock selection, in Korea and Taiwan, and adverse stock selection effect in Mexico and China.

Table II.
Top contributors to performance for the quarter ended June 30, 2021

	Percent Impact
Zai Lab Limited	0.64%
Max Financial Services Limited	0.29
TCS Group Holding PLC	0.29
Bajaj Finance Limited	0.29
Hangzhou Tigermed Consulting Co., Ltd.	0.27

Zai Lab Limited is a leader in the development of a biopharmaceutical industry in China. Shares increased given continued execution of deals, most recently highlighted by in-licensing of Mirati's KRAS G12C inhibitor. We believe Zai Lab can be a leader among China pharmaceuticals, a market that is growing as the Chinese government continues to grow health care spending as a percentage of total GDP.

Max Financial Services Limited is India's leading life insurance player. Shares increased on solid earnings growth and market share gains following the renewal of its distribution agreement with Axis Bank that recently became a strategic investor in the company. We remain investors based on strong and growing consumer demand for term protection and financial savings products. We expect mid-teens earnings growth over the next three to five years.

TCS Group Holding PLC is a Russian financial and lifestyle services platform ecosystem with over 13 million active users. Through its subsidiaries, TCS is exposed to digital banking as well as fast-growing verticals including online and offline merchant acquisitions, retail brokerage, and insurance. Shares rose during the quarter after the company reported results for the first five months of 2021 that exceeded Street estimates. TCS also started providing detailed information about its verticals, allowing investors to better value the company.

Bajaj Finance Limited, a leading, data-driven, non-bank financial company in India, contributed to performance in the quarter as the worst of COVID-19-related disruptions in the country appeared to be over. The anticipated post-pandemic pick-up in economic activity should benefit Bajaj, as we think it is well positioned to benefit from growing demand for consumer financial services in the country. We remain investors due to Bajaj's best-in-class management team, robust long-term growth outlook, and conservative risk management frameworks.

Hangzhou Tigermed Consulting Co., Ltd. is China's largest clinical research organization. Shares increased in the quarter on solid earnings growth and improving business fundamentals. The company is benefiting from secular growth opportunities owing to China's booming biotechnology and pharmaceutical industry. We believe Tigermed will continue to gain market share in the high-growth biotechnology services sector and expect 25% to 30% earnings growth over the next three to five years.

Table III.
Top detractors from performance for the quarter ended June 30, 2021

	Percent Impact
Tencent Holdings Limited	-0.25%
Ping An Insurance (Group) Company of China, Ltd.	-0.20
Lufax Holding Ltd.	-0.15
Galaxy Entertainment Group Limited	-0.15
Kingsoft Corporation Ltd.	-0.13

Tencent Holdings Limited operates the leading social network and messaging platforms (QQ, WeChat), the largest online entertainment and media business, and the largest online gaming business in China. Shares of Tencent were down following increased regulatory scrutiny by the Chinese government of suspected monopolistic behavior across large corporations. Despite the current regulatory environment, we believe Tencent can grow each of its large businesses for years to come given its track record of execution, scale, and unique and diversified online assets, and we retain conviction.

Ping An Insurance (Group) Company of China, Ltd. is one of China's largest insurance companies. Shares declined during the quarter after the company reported new sales of life insurance that missed Street estimates due to weak demand and a shrinking agency salesforce. Ping An's participation in the restructuring of Founder Group, a bankrupt state-owned conglomerate, also weighed on investor sentiment. We have reduced our position.

Lufax Holding Ltd. operates a technology-empowered platform focused on credit and wealth management for individuals and small and medium businesses in China. Despite posting solid first results and raising guidance for the year, shares declined after the Chinese government imposed wide-ranging restrictions on the financial divisions of major technology companies and subjected them to more rigorous supervision in April. Despite the regulatory overhang, we believe Lufax will be a beneficiary of deepening financial penetration in its target segments.

Shares of Macao-based casino company **Galaxy Entertainment Group Limited** fell in the quarter on new travel restrictions between Macau and Guangdong due to an uptick in COVID-19 cases in China. Macau gaming's ultimate recovery will come when vaccinations in China and Hong Kong achieve critical mass. Until then, we are unconcerned by minor fluctuations in depressed gaming revenue, as Galaxy's net cash balance sheet (unlike peers) and upcoming room additions make it better positioned both to weather the current storm and to ultimately recover revenue when tourist flows normalize.

Kingsoft Corporation Ltd. is a Chinese internet service and software company operating in the gaming, office software (WPS), and cloud services segments. Shares fell during the quarter due to multiple contraction in global software stocks. In addition, subsidiary Kingsoft Cloud was pressured by rumors that a key client was establishing its own cloud hosting function. We retain conviction as WPS, Kingsoft's key value driver, continued to demonstrate solid growth momentum due to robust demand for enterprise software coupled with China's software localization policy.

PORTFOLIO STRUCTURE

Table IV.
Top 10 holdings as of June 30, 2021

	Percent of Net Assets
Tencent Holdings Limited	4.4%
Taiwan Semiconductor Manufacturing Company Ltd.	3.5
Alibaba Group Holding Limited	3.4
Samsung Electronics Co., Ltd.	3.2
Bajaj Finance Limited	2.3
Zai Lab Limited	2.2
Korea Shipbuilding & Offshore Engineering Co., Ltd.	2.1
Reliance Industries Limited	2.1
Novatek PJSC	1.9
Sberbank of Russia PJSC	1.8

EXPOSURE BY COUNTRY

Table V.
Percentage of securities by country as of June 30, 2021

	Percent of Net Assets
China	34.1%
India	22.4
Brazil	9.2
Russia	7.1
Korea	5.3
Taiwan	4.9
Hong Kong	2.1
Mexico	2.1
United Kingdom	1.7
Philippines	1.2
Poland	1.1
Hungary	1.0
Japan	0.7
Norway	0.6
Peru	0.4
United States	0.3
United Arab Emirates	0.3

Exposure by Market Cap: The Fund may invest in companies of any market capitalization, and we have generally been broadly diversified across large-, mid-, and small-cap companies as we believe developing world companies of all sizes can exhibit attractive growth potential. At the end of the second quarter of 2021, the Fund's median market cap was \$16.4 billion, and we were invested 44.3% in giant-cap companies, 38.7% in large-cap companies, 10.2% in mid-cap companies, and 1.3% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash.

RECENT ACTIVITY

During the second quarter of 2021, we initiated new ideas to our existing themes while also increasing exposure to several positions that we established in prior quarters. We added to our fintech theme during the quarter, most notably by initiating positions in **Pine Labs Pte. Ltd.** and

Banco Inter S.A. We participated in a late-stage private funding round of Pine Labs, which is a leading merchant commerce solutions provider in India with a network of roughly 600,000 POS devices across 150,000+ merchants. The company is led by industry veteran and serial entrepreneur, Amrish Rau, who took over as CEO just over a year ago and is fast transforming the business into a dominant, cloud native, omnichannel merchant commerce platform. Pine Labs partners with leading banks and other financial institutions to offer their customer base the option to Buy Now Pay Later ("BNPL") while transacting through its merchant network. It has developed best-in-class infrastructure with superior consistency, stability, after-sales service, and downtime versus peers. Bank partners throughout India today have over 60 million pre-approved debit card users (versus over 850 million outstanding) who can access BNPL through the Pine Labs network. The company aspires to become a "one app solution" that provides a comprehensive service to its merchant base and has integrated over 400 billing software/ERP vendors, providing a more seamless experience for its customers. In our view, merchant digitization/BNPL in India is still in its infancy and will be a high-growth sector over the next decade (and beyond) driven by accelerating digital payments adoption and growing consumption/disposable income by a tech savvy and aspirational Indian population. Pine Labs is also fast expanding into Southeast Asia, which provides significant upside potential as they scale operations in countries such as Malaysia.

We also participated in a follow-on offering for Banco Inter, a digital bank turned financial and lifestyle services ecosystem in Brazil. Through its "Super App," Banco Inter delivers a wide range of financial products to its clients including credit, no-fee deposit accounts, investments, and insurance. The company also manages an e-commerce marketplace where its users are can shop online and take advantage of incentives offered in connection with its financial products. With a strong value proposition and solid user experience, Banco Inter is enjoying fast growth with modest client acquisition costs. It has seen its user base surge in the past few years, reaching over 10 million clients, up from 1.4 million at the end of 2018. The company is enjoying increasing user engagement as more clients are using Banco Inter as their main banking relationship, and the number of products per client is steadily increasing. Banco Inter is disrupting the financial services sector in Brazil, which is characterized by high fees and poor customer service. In our view, over the past two years, the company has gained a strong following as a preeminent player in digital banking and is poised to continue gaining share from incumbent players.

During the quarter, we also participated in a follow-on offering for **Aarti Industries Ltd.** as part of our China supply chain diversification theme. Aarti is a leading specialty chemical manufacturer in India with a key focus on benzene-based derivatives. The company is vertically integrated and is a top four global producer for approximately 75% of its product portfolio. Aarti has little to no dependence on Chinese vendors for its raw material supply, which is a key competitive advantage in our view. Due to the ongoing geopolitical tensions between the U.S. and China, global corporations are actively looking to diversify supply chains outside of China. This creates significant opportunity for Aarti to win new customers and gain market share from its Chinese counterparts. In addition, Aarti also stands to potentially benefit from recently implemented economic reforms in India that provide tax incentives to support local manufacturing/capex as part of the country's "Make in India" initiative. In our view, the company is well positioned to sustain high-teens earnings growth for at least the next five years driven by an expanding customer base and higher revenue contribution from value-added products and contract manufacturing services.

Baron Emerging Markets Fund

We added to several of our existing positions during the quarter, most notably **Tencent Holdings Limited**, **StoneCo Ltd.**, **Korea Shipbuilding & Offshore Engineering Co., Ltd.**, **Ozon Holdings PLC**, **Novatek PJSC**, **Sino Biopharmaceutical Ltd.**, **Itau Unibanco Banco Holding SA**, **InPost S.A.**, **Godrej Properties Limited**, and **TCS Group Holding PLC**.

During the quarter, we also exited a few positions due to concerns regarding fundamental developments or valuation, or due to our endeavor to increase concentration where we have the highest conviction in quality and return potential. Stocks sold during the period include **ZTO Express (Cayman) Inc.**, **New Oriental Education & Technology Group Inc.**, **Hong Kong Exchanges and Clearing Limited**, and **Kuaishou Technology Co., Ltd.**

OUTLOOK

The second quarter of 2021 was relatively uneventful. The volatility we saw in the first quarter moderated and global equities traded within a narrower range. U.S. equities led global returns as the U.S. dollar firmed and treasury yields retreated on expectations that Fed tapering and rate hikes would be pulled forward.

We quote from our first quarter letter: "In our view, bond yields have already priced in a materially tighter Fed than both what is being communicated and what is likely. We suspect bond market vigilantes may have gone too far, too soon, and note that a peak in bond yields would favor growth stocks after a substantive first quarter correction." In recent months, bond yields and inflation fever indeed peaked, as an ongoing slowdown in Chinese credit growth, the spread of the Delta variant of COVID-19, and rising conviction that the Fed would not fall too far behind the curve, coalesced to cool both global growth expectations and spiraling commodity prices. As we alluded to above, these conditions resulted in growth stocks, particularly in the U.S., outperforming during the recent quarter. Meanwhile, EM and international equities lagged modestly in U.S. dollar terms amid mixed signals, though we remain optimistic regarding their relative appeal, particularly on a multi-year basis. In the shorter term, we believe that as the U.S. was an early leader in COVID vaccination penetration (along with the

U.K. and Israel), recent strength in the U.S. economy and U.S. equities may be more likely the result of a timing difference than a structural difference relative to other countries, and we suspect many EM and international jurisdictions will catch up in coming quarters.

There has been much consternation regarding the re-emergence of inflation at above the long-term optimal rate of 2.0% to 2.5%. At this point, we believe it is far too early in the global recovery/expansion cycle to raise concern that this will have a material or lasting impact on equities. We remain optimistic regarding the outlook for corporate earnings, though we reiterate that equity returns should moderate as we believe earnings expectations are already high in the near term, and multiple compression is more likely than expansion from here given our view that over the longer term we anticipate a modest rise in both real and nominal interest rates. We view recent growth and inflation above targeted levels as having both transitory and structural drivers. COVID-19-related supply and labor bottlenecks will likely prove transitory and contain inflation readings in coming months, while the marked increase in global fiscal spending will have more of a structural impact, leading to marginally higher economic growth, inflation, and interest rates in coming years. With sovereign bond yields remaining historically low and real interest rates still negative in most developed markets, we believe equities can likely continue to be supported by capital flows at the expense of sovereign bonds for some time.

Thank you for investing in the Baron Emerging Markets Fund.

Sincerely,



Michael Kass
Portfolio Manager

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

Risks: 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 Fund 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 Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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