Baron Emerging Markets Strategy

September 30, 2021

Dear Investor:

Performance

Baron Emerging Markets Strategy retreated 6.41% during the third quarter of 2021, while its principal benchmark index, the MSCI EM Index, declined 8.09%. The MSCI EM IMI Growth Index declined 9.97% for the quarter. The Strategy comfortably outperformed its principal benchmark index, as well as the all-cap growth proxy, during a difficult quarter for emerging market ("EM") equities. The EM asset class meaningfully trailed U.S. and global indexes in a period marked by regulatory and policy tightening in China and a return to inflation and central bank tightening concerns in general. COVID-related disruptions and supply constraints continued during the quarter, but on the positive side, Delta-variant infections and hospitalizations appeared to peak in several jurisdictions, though in the short term, we suspect this may be adding fuel to the fire of supply/demand imbalances. The focal point for global investors during the quarter was a series of adverse regulatory measures and an escalation of stress in the property sector in China, which triggered a major correction in Chinese equities as well as related weakness in many EM markets. We believe the correction in China is likely well advanced, with such equities poised to outperform when policymakers begin to relent on aggressive tightening measures. We address these subjects in more detail in the Outlook section of this letter. We reaffirm the view from our previous letter that a mid-cycle global economic slowdown is likely underway and is necessary to address supply/demand imbalances, though U.S. and developed equities are earlier in the process of discounting a coincident pause in earnings momentum. We would welcome a cooling of growth, inflation, and earnings expectations, which we believe would allow time for supply shortages to normalize and accommodate a prolonged phase of global expansion. Such a scenario would likely favor EM and international equity performance over a multi-year term. 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 September 30, 2021 (Figures in USD)

	Baron Emerging Markets Strategy (net)[1]	Baron Emerging Markets Strategy (gross)[1]	MSCI EM Index[1]	MSCI EM IMI Growth Index[1]
Three Months[2]	(6.41)%	(6.19)%	(8.09)%	(9.97)%
Nine Months[2]	(1.96)%	(1.26)%	(1.25)%	(4.08)%
One Year	18.24%	19.36%	18.20%	12.40%
Three Years	12.40%	13.46%	8.58%	12.46%
Five Years	9.80%	10.85%	9.23%	11.14%
Ten Years	9.32%	10.18%	6.09%	8.08%
Since Inception[3] (January 31, 2011)	7.02%	7.81%	3.54%	5.26%

For the third quarter of 2021, we outperformed our primary benchmark, the MSCI EM Index, while also comfortably outperforming the all-cap EM growth proxy. Within the EM landscape, third quarter trends were marked

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. 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 the Firm's 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, a Collective Investment Trust, a multipartner SICAV fund, and a subadvised account managed by BAMCO; and a separately managed account and a private offshore fund managed by BCM. The Strategy invests mainly in non-U.S. companies of all sizes. The majority of investments are in companies domiciled in developing countries. The Strategy may invest up to 20% in companies in developed and frontier 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.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results. Returns could be reduced, or losses incurred, due to currency fluctuations.

[1] The **MSCI Emerging Markets Index** is an unmanaged float-adjusted market capitalization index designed to measure equity market performance of large and mid cap securities in the emerging markets. 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 27 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 Strategy include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. The index performance is not Strategy performance; one cannot invest directly into an index.

[2] Not annualized.

[3] The Strategy has a different inception date than its underlying portfolio, which is December 31, 2010.

with increased volatility, primarily driven by China's growing regulatory scrutiny over its technology, education, health care, and property sectors. Solvency concerns relating to China Evergrande Group, a large Chinese conglomerate and property developer, also weighed on markets. China's energy supply shortages and COVID-related supply chain disruptions also contributed to increased uncertainty. We are pleased with our recent performance, which reflects the active risk management element of our process. During the quarter, our large overweight positioning in India together with good stock selection across various themes powered the vast majority of relative outperformance. As expressed in the second quarter letter, the worst of COVID-related disruptions in India are likely behind us, which together with the fruits of many ongoing economic reforms, should continue to support structurally higher relative earnings growth and solid equity performance over the long run. In addition, our underweight positioning in China and Korea, and our overweight in Russia, contributed notably to relative performance during the quarter. Offsetting a portion of the above was our overweight positioning and poor stock selection effect in Brazil. Our underweight sizing in Taiwan together with adverse stock selection, and our lack of exposure to Saudi Arabia also detracted from relative performance. From a sector or theme perspective, solid stock selection in the Consumer Discretionary sector (**Titan Company Limited**, **Jubilant FoodWorks Limited**, and **Think & Learn Private Limited**) and Financials, led by our India wealth management/consumer finance investments (**Bajaj Finance Limited** and **SBI Life Insurance Company Limited**) and fintech theme (**Sberbank of Russia PJSC**) contributed the most to relative performance. In addition, favorable stock selection in the Communication Services sector (**Bharti Airtel Limited** and **Tata Communications Limited**) and Real Estate (**Godrej Properties Limited**) also bolstered relative results. Partially offsetting the above was weak stock selection effect in the Information Technology sector, primarily attributable to some of our China value-added/SaaS software investments (**Kingsoft Corporation Ltd.** and **Will Semiconductor Co., Ltd.**), and select investments in our fintech (**StoneCo Ltd.**) and digitization (**GDS Holdings Limited**) themes. Adverse stock selection in the Health Care sector (**Zai Lab Limited**, **Notre Dame Intermedica Participacoes S.A.**, and **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**) also detracted from relative performance.

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

	Percent Impact
Bajaj Finance Limited	0.66%
Godrej Properties Limited	0.40
Reliance Industries Limited	0.39
Novatek PJSC	0.37
Hyundai Heavy Industries Co., Ltd.	0.29

Bajaj Finance Limited is a leading, data-driven, non-bank financial company in India. Share gains were driven by improving earnings visibility and growth prospects as the worst of COVID-19 in India appeared to be over. We retain conviction. The company is well positioned to benefit from growing demand for consumer financial services such as personal and credit card loans, mortgages, and other related products. It benefits from a best-in-class management team, robust long-term growth outlook, and conservative risk management frameworks.

Godrej Properties Limited is a leading residential real estate developer in India. Shares rose on market share gains and improving earnings visibility as the worst of COVID-19 in India appears to be over. The real estate sector is also entering an upcycle which should further support long-term growth prospects. We retain conviction due to Godrej's strong brand positioning, best-in-class management team, and solid execution track record. In our view, Godrej will continue to gain market share and sustain pre-sales growth of 20% or more over the next three to five years.

Reliance Industries Limited is India's leading conglomerate, with business interests that include oil refining, petrochemicals, retail, and telecommunications. Shares increased on recently announced government relief measures to support the telecommunications industry and improving earnings visibility as the worst of COVID-19 in India appears to be over. Reliance is fast transforming into a digital services company, leveraging its telco network to offer digital and e-commerce services. We believe earnings will sustain high double-digit growth over the next three to five years.

Novatek PJSC is one of the largest and lowest-cost liquified natural gas ("LNG") producers in the world. A sharp rise in natural gas prices in China and Europe drove up the share price. We are bullish on the long-term growth outlook for natural gas as a substitute for coal, diesel, and other more environmentally unfriendly carbon fuel sources. We expect demand to benefit from progressive environmental policies in China, India, and many other emerging markets. Novatek has a deep pipeline of LNG export projects, which should allow LNG sales to triple by 2030.

Hyundai Heavy Industries Co., Ltd. is the world's largest shipbuilder and global leader in LNG-powered ships and other high-end vessels. Shares increased after a successful IPO. We think Hyundai Heavy will be the leading beneficiary of the decarbonization of shipping. The company has technological leadership in eco-friendly LNG-powered, as well as ammonia-, methanol-, and hydrogen-powered, ships. We expect tightening international maritime carbon emission regulations to drive higher demand for LNG fuel-propelled ships and carbon-free ammonia-fueled ships.

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

	Percent Impact
Alibaba Group Holding Limited	–1.31%
Zai Lab Limited	–0.79
Tencent Holdings Limited	–0.78
Korea Shipbuilding & Offshore Engineering Co., Ltd.	–0.63
StoneCo Ltd.	–0.58

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Group, which operates Alipay, China's largest third-party online payment provider. Shares of Alibaba were down given anticipated regulatory tightening in China that may impact the company's growth and profit potential. Despite the regulatory uncertainty, we retain conviction that Alibaba will benefit from growth in cloud services, logistics, and retail.

Zai Lab Limited is a leading biotechnology company helping to modernize the Chinese health care industry. Zai Lab's initial focus centered around in-licensing western medicines for commercialization in China; this has expanded into internal pipeline efforts. Shares fell alongside the broader

Chinese equity markets given concerns around regulations the government has enacted in education, technology, and real estate. While we are paying attention to these developments, so far, we think innovative and research driven health care companies will not be subject to any draconian rulings.

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 given anticipated regulatory tightening in China that may impact the company's growth and profit potential. Despite the near-term regulatory uncertainty, we retain conviction that Tencent can sustain durable growth given its track record of execution, scale, and unique and diversified online assets.

Korea Shipbuilding & Offshore Engineering Co., Ltd. is the world's largest shipbuilder. Shares fell after the IPO of subsidiary Hyundai Heavy and a widening HoldCo/OpCo discount. We like Korea Shipbuilding's strategy in eco-friendly LNG, ammonia, and hydrogen shipbuilding. We expect tightening maritime carbon emission regulations to drive higher demand for LNG fuel-propelled ships and carbon-free ammonia-fueled ships. The company has technological leadership in LNG dual-fueled ships and will effectively operate as a duopoly after its merger with DSME is completed.

StoneCo Ltd. is a leading Brazilian financial technology company offering merchants payment, software, and e-commerce solutions. Shares declined after it disclosed problems in its credit business that forced it to book large provisions against potential losses and halt origination of new loans. We believe Stone will be able to address these issues and relaunch the product under a better risk-reward framework. We are confident in Stone's ability to penetrate the small-to-medium-sized business market, given its superior technology, customer service, and data insights.

Portfolio Structure

Table IV.
Top 10 holdings as of September 30, 2021[1]

	Percent of Net Assets
Taiwan Semiconductor Manufacturing Company Ltd.	3.6%
Bajaj Finance Limited	3.1
Tencent Holdings Limited	3.0
Samsung Electronics Co., Ltd.	2.9
Reliance Industries Limited	2.5
Alibaba Group Holding Limited	2.4
Novatek PJSC	2.1
Sberbank of Russia PJSC	2.1
Glencore PLC	1.7
Korea Shipbuilding & Offshore Engineering Co., Ltd.	1.7

Exposure By Country

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

	Percent of Net Assets
China	28.9%
India	26.8
Russia	7.8
Brazil	6.2
Korea	5.1
Taiwan	4.6
Hong Kong	2.2
Mexico	1.9
United Kingdom	1.7
Hungary	1.2
Philippines	1.2
Japan	1.1
Poland	0.9
Norway	0.4
United States	0.4
Peru	0.4
United Arab Emirates	0.3

Exposure by Market Cap: The Strategy 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 third quarter of 2021, the Strategy's median market cap was $14.3 billion, and we were invested 45.0% in giant-cap companies, 35.9% in large-cap companies, 8.9% 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 third quarter of 2021, we initiated new ideas to our existing themes while also increasing exposure to a few positions established in prior quarters. We added to our China value-added theme during the quarter, most notably by initiating positions in **Zhejiang Dingli Machinery Co., Ltd.**, **WuXi Biologics Cayman Inc.**, and **NARI Technology Co. Ltd.** Dingli is China's largest manufacturer of Aerial Work Platforms ("AWPs") with a roughly 40% market share. An AWP is a mechanical device used to provide temporary flexible access in construction and maintenance and is designed to be operated by a single person. The AWP market is significantly underpenetrated in China, and, in our view, there is a long-term structural growth opportunity for rising AWP adoption in the country. This is due to increased affordability of AWP rentals as compared to rising labor costs and a growing priority for corporates to focus on worker safety and productivity. China's AWP fleet expanded at a 40% compound rate over the past five years, resulting in greater than 50% AWP equipment sales volume. Dingli is the first mover and largest player in the industry with premium quality products and is the only Chinese manufacturer to successfully compete with foreign brands abroad.

[1] Top 10 holdings, exposures by country and market cap, portfolio characteristics, and recent activity are based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversify of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

WuXi is China's largest outsourced manufacturer of biologics drug development with over 75% market share. The company is a key beneficiary of China's booming biotechnology industry as local biotechnology/pharmaceutical players are increasingly outsourcing development and manufacturing to trusted partners such as WuXi. The company has four key innovative technical platforms: 1) WuXiBody Bispecific platform; 2) WuXia (cell line development); 3) WuXiUP (continuous perfusion cell culture); and 4) WuXi Bio ADC. These platforms enable WuXi to provide a superior service offering to clients and maintain market leadership and high growth over the next several years. We expect the company to deliver over 40% EBITDA growth per annum over the next three to five years.

NARI is a leading player in China's power grid automation industry. The company has about a 40% market share in automation equipment and communication technology solutions for the grid. In our view, NARI should be a key beneficiary from the upgrade of China's power grid infrastructure to accommodate more renewable energy to meet the country's carbon neutrality pledge by 2060. The rapid growth in renewable energy requires investments in more flexible, reliable grid systems to enable the handling of greater daily variations in electricity supply. The Chinese government also plans to shift investments from conventional electrical hardware to smart grid, software, and automation equipment that directly benefits NARI given its technological edge from over two decades of R&D spending. We expect the company to deliver 20% compound earnings growth over the next five years while maintaining at least a 15% return on equity.

As part of our sustainability theme, we recently participated in the IPO of **Hyundai Heavy Industries Co., Ltd.**, which is the main subsidiary of an existing portfolio holding, **Korea Shipbuilding & Offshore Engineering Co., Ltd.** Hyundai Heavy is the world's largest shipbuilder based on orderbook size, and it is the global leader in high-end vessels including LNG powered ships. In our view, the company is well positioned to become a key beneficiary of "decarbonization of shipping." Hyundai Heavy has technology leadership and a dominant market position in eco-friendly LNG dual fueled ships as well as first mover advantage in next generation ammonia, methanol, and hydrogen shipbuilding. We expect tightening international maritime carbon emission regulations to drive much higher demand for LNG-propelled ships and carbon free ammonia-fueled ships. Hyundai Heavy owns the largest ship engine maker in the world and its vertically integrated business model differentiates it from peers.

We added to several of our existing positions during the quarter, most notably **Taiwan Semiconductor Manufacturing Company Ltd.**, **Bharti Airtel Limited**, **Alibaba Group Holding Limited**, **Bajaj Finance Limited**, **China Conch Venture Holdings Ltd.**, and **Midea Group Co., Ltd.**

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 **Itau Unibanco Holding SA**, **Ping An Insurance (Group) Company of China, Ltd.**, **Lufax Holding Ltd.**, and **PagSeguro Digital Ltd.**

Outlook

Something happened on the way to the mid-cycle slowdown. As we remarked in our previous letter, "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… (T)hese conditions resulted in growth stocks, particularly in the U.S., outperforming during the recent quarter." While the second quarter was characterized by cooling of inflation fever, as we progressed through the third, the peaking of Delta-variant infections coincident with increasing supply bottlenecks in various forms–labor, commodities, materials, oil, natural gas, inventories, and transportation and logistics capacity–remained a challenge and sparked a return to concerns over inflation and more aggressive central bank tightening. This round of supply-related concerns has emerged coincident with an apparent economic slowdown, and since we believe it will be difficult and will take some time for central bankers to address these issues, we suspect the correction in global equities that began in early September may have some room to run, particularly among the top-performing equities in the year-to-date period. We believe cost pressures may lead to margin compression for many companies at a time of slowing revenue growth; a tough combination given existing elevated earnings expectations and valuations. We believe a period of moderating growth, which will allow imbalances to correct, would be healthy, and we remain optimistic that a multi-year period of global economic expansion and a flow of capital from fixed income to equity assets, which favors EM and international markets, remains likely.

From our EM/international perch, the seminal event during the quarter was the manifestation and aggressive discounting of the regulatory and credit tightening China started late in 2020. While the financial media offers no shortage of skeptics on the subject, we believe the policy measures China is undertaking make sense in the context of its stated goal of enhancing the social, political, economic, and financial stability of the country. These measures have been in development for some time and their implementation was delayed by the COVID crisis last year. Given next year's Party Congress, during which President Xi will strive to achieve the rare third term, we believe we are witnessing the peak in tightening as the Party will want to facilitate economic momentum in advance of the Party Congress. While many biased commentators suggest that "China has become un-investible," we strongly disagree. Policy makers are merely shining a light on the divide in China that we have been discussing for some time. We believe recent events illuminate the importance of active stock selection in China, and enhance the case for investing in the value-added, intellectual capital-based companies that further China's goal of becoming self-sufficient in strategic sectors such as semiconductors, software, artificial intelligence, electronic vehicles and autonomous driving, biotechnology and innovative health care products and services, and automation and robotics. Then there are the companies that have come under regulatory pressure given their potential long-term threat to China's social, political, and financial stability due to the high cost of education/tutoring, the high cost of housing, excessive leverage or speculation, or perceived monopoly-like market concentration and/or ownership and leverage of strategic data. We believe that China's regulatory and credit tightening was intentional and is well advanced. The panic selling during the third quarter, particularly by international and U.S. investors, represents the capitulation phase, at least on a relative basis. We believe China has the capacity to arrest contagion and spark a targeted economic recovery. China views episodes such as Evergrande's likely restructuring as necessary to guard against moral hazard and reinforce the deleveraging message that is a consistent objective of Xi's stability strategy. While the correction in China may not be over, we are confident we are in its late innings and believe a legitimate policy easing signal would trigger a strong recovery and outperformance phase for China equities. We believe a moderation of tightening will spark a significant rally even in the industries that have come under direct regulatory scrutiny because we believe China's final requirements will not impact the fundamentals of these businesses as much as currently feared. At current levels many of these stocks are trading well below their intrinsic values under even more draconian assumptions.

While events in China captivated investor attention throughout the third quarter, we would be remiss not to mention the strength of Indian equities, many of which broke out to significant new highs based improving COVID-19 trends and strong fundamentals. Better fundamentals largely reflect the positive reform backdrop engineered by the Modi administration in recent years. We have often reported on these reforms and the many bottom-up beneficiaries in which we have invested, and we credit our outperformance in the recent quarter largely to such holdings.

Looking forward, we remain optimistic regarding our portfolio of investments and, though year-to-date performance of EM equities is poor relative to U.S. equity performance, we caution investors not to overlook the attractiveness of this asset class, particularly at current valuations. Rather than conclude that "China has become un-investible," we suggest that the global economy, corporate earnings, and asset prices are influenced by the two major axes of macroeconomic activity and liquidity–China and the U.S. As we mention above, China's regulatory and credit tightening cycle is nearing its trough, and, in our view, this campaign can be considered a success based on the stress already apparent in economic activity and asset prices. The stability and discipline message has been delivered. On the other hand, the U.S. appears to be passing through a near-term peak, with a phase of moderation in growth and/or financial tightening increasingly inevitable. While we suspect that the current global correction may have to run a bit further to address imbalances, we are increasingly confident that EM and international equities are poised for a period of mean-reverting outperformance.

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.

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 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.