Baron Emerging Markets Strategy

December 31, 2020

Dear Investor:

Performance

Baron Emerging Markets Strategy gained 20.60% for the fourth quarter of 2020, while its principal benchmark index, the MSCI EM Index, appreciated 19.70%. The MSCI EM IMI Growth Index gained 17.18% for the quarter. The Strategy modestly outperformed its principal benchmark index, while exceeding the all-cap growth proxy, in a strong quarter for global equities. Emerging market ("EM") equities notably outperformed their U.S. counterparts, with the exception of U.S. small-cap stocks. Market leadership by sector continued to ebb and flow, with more economically cyclical and interest rate sensitive sectors exhibiting a powerful rally following the U.S. Presidential election and promising news regarding the efficacy and timing of multiple COVID-19 vaccines. For the full-year 2020, we were pleased with the Strategy's performance, which, at nearly a 30% gain, strongly outperformed its principal benchmark index. Looking forward, we believe that the COVID-19 crisis has pushed global policymakers through the portal of "Modern Monetary Theory." We further believe that this, concurrent with the transfer of policy/stimulus leadership to politicians and elected officials, suggests to us a sustainable period of dollar weakness and relative outperformance for EM equities. We reiterate our view that the pivot to value-added economic activity in China, notwithstanding escalating political rhetoric and national security concerns, presents compelling opportunity for dedicated long-term and bottom-up fundamental investors. As always, we are confident that we have invested in many well-positioned and well-managed companies on a bottom-up basis, which are poised to benefit from long-term and attractive investment themes.

Table I.
Performance
Annualized for periods ended December 31, 2020

	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]	20.60%	20.88%	19.70%	17.18%
One Year	29.58%	30.79%	18.31%	30.75%
Three Years	7.97%	8.99%	6.17%	9.64%
Five Years	13.07%	14.15%	12.81%	15.08%
Since Inception[3] (January 31, 2011)	7.78%	8.57%	3.95%	6.11%

For the year 2020, we significantly outperformed our primary benchmark, the MSCI EM Index, while modestly trailing our all-cap EM growth proxy. While we had solid performance and stock selection across the portfolio, from a sector or theme perspective, our digitization/cloud/SaaS software theme (**Kingdee International Software Group Co. Ltd.**, **Meituan Inc.**, **Glodon Company Limited**, **GDS Holdings Limited**, **Kingsoft Corporation Ltd.**, **Reliance Industries Limited**, **Tata Communications Limited**) and China value added/localization theme (**Zai Lab Limited**, **China Tourism Group Duty Free Corporation Limited**, **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**, **Midea Group Co., Ltd.**, **Hua Hong Semiconductor Limited**, **Hangzhou Tigermed Consulting Co., Ltd.**) contributed the most. Our fintech/disruption theme (**StoneCo Ltd.** and **PagSeguro Digital Ltd.**) was also a key contributor to relative performance. Offsetting a portion of the above was adverse stock selection effect in the Industrials sector. This was largely attributed to our exposure to Latin American airlines such as **Azul S.A.** and **Copa Holdings, S.A.** whose earnings were materially impacted due to COVID-19-related travel disruptions. Our modest cash position in a favorable environment for EM equities, along with weak stock selection in the Consumer Discretionary sector, primarily attributable to **Cogna Educacao SA** and **Guangzhou Automobile Group Company Limited**, were also notable detractors from relative performance.

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, 2020, total Firm assets under management are approximately $47.7 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 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 a U.S. mutual fund, a Collective Investment Trust, a 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.

1 The MSCI EM (Emerging Markets) IMI indexes cited are unmanaged, free float adjusted market capitalization weighted indexes reflected in U.S. dollars. The MSCI EM (Emerging Markets) IMI Growth Index Net USD and the MSCI EM (Emerging Markets) IMI Index Net USD are designed to measure equity market performance of large-, mid- and small-cap securities in the emerging markets. The MSCI EM (Emerging Markets) IMI Growth Index Net USD screens for growth-style securities. The indexes and Baron Emerging Markets 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 December 31, 2010.

From a country perspective for the full-year 2020, stock selection effect in China and India powered a solid majority of relative outperformance, as our investment performance in these markets was broad-based across several principal themes. Gains in China stood out in particular, supporting our view that increasing foreign policy friction and political rhetoric does not diminish the attractiveness or potential of domestic Chinese equities. Our underweight positioning in strong-performing Korea and Taiwan resulted in adverse allocation effect and detracted the most from relative performance. Adverse stock selection in South Africa and Korea also offset a portion of the relative outperformance noted above for the year.

For the fourth quarter, we modestly outperformed our principal MSCI EM Index and significantly outperformed the EM all-cap growth proxy in a strong period for equity returns. We are encouraged with our performance as we often lag the core index in such periods, during which investors pursue index heavyweights and shift towards more economically cyclical stocks. Our underweight exposure to the lagging Consumer Discretionary sector, which was hurt by the poor performance of **Alibaba Group Holding Limited**, and positive stock selection effect in Health Care (Zai, Hangzhou Tigermed, **Notre Dame Intermedica Participacoes S.A.**) and Materials (**Grupo Mexico, S.A.B. de C.V.**, **Asian Paints Limited**, **Suzano S.A.**) were additive to relative outperformance in the fourth quarter. Partially offsetting the above, relative performance was negatively impacted by a retracement of prior period gains in **Reliance Industries Limited**, classified in the Energy sector, as well as by our modest cash position amid a strong equity rally.

Table II.
Top contributors to performance for the quarter ended December 31, 2020

	Percent Impact
Samsung Electronics Co., Ltd.	1.84%
Taiwan Semiconductor Manufacturing Company Ltd.	1.27
Zai Lab Limited	1.23
Bajaj Finance Limited	0.94
Midea Group Co., Ltd.	0.63

Shares of South Korea-based conglomerate **Samsung Electronics Co., Ltd.** increased during the quarter as demand recovered heading into 2021, driven by continued strength in smartphone and hyperscale spending. In addition, Samsung gained share from Huawei with the successful launch of its new flagship smartphone series while its foundry business is set to accelerate due to increasing demand. Potential shareholder returns via share buybacks and dividends continued to support investor sentiment. We are confident Samsung will remain a global leader in semiconductor and 5G/6G smartphones.

Leading semiconductor manufacturer **Taiwan Semiconductor Manufacturing Company Ltd.** contributed during the quarter as demand for its 5N processing node remained robust while development for its next generation nodes progressed smoothly. The market is beginning to price in the additional revenue contribution from Intel's potential outsourcing, which further strengthens Taiwan Semi's market share and competitive moat. We believe the company will deliver above its 5% to 10% growth target in the next three to five years.

Zai Lab Limited is a leading biotechnology company in the growing Chinese health care market. Although the fourth quarter was relatively quiet, shares have continued their strong run alongside the Chinese health care indexes. We think Zai is well positioned to become a leader in the delivery of drugs to the Chinese market.

Bajaj Finance Limited is a leading data-driven, non-bank financial company in India. Shares increased on operating profits that beat consensus and improved guidance. Bajaj is fast transforming into India's largest fintech player by leveraging its proprietary technology platform to provide a "supermarket of financial products" and is well positioned to benefit from growing demand for consumer financial services. We retain conviction in Bajaj due to its best-in-class management, robust growth outlook, and conservative risk management frameworks.

Shares of **Midea Group Co., Ltd.**, a China-based global home appliances manufacturer, increased as the Chinese economy's recovery from COVID-19 and the rebound in consumer spending drove solid, double-digit performance. Midea maintained share in air conditioning while it improved its product mixes in its Toshiba-branded high-end appliances. The work-from-home impact produced strong sales outside of China with increasing penetration of Midea's self-branded products. Lastly, its Toshiba division benefited from robust sales in Japan and Southeast Asia.

Table III.
Top detractors from performance for the quarter ended December 31, 2020

	Percent Impact
Alibaba Group Holding Limited	–1.09%
Reliance Industries Limited	–0.41
Sino Biopharmaceutical Ltd.	–0.14
Hemisphere Properties India Limited	–0.08
Venustech Group Inc.	–0.07

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 were down on the news that Chinese regulators had suspended the listing of ANT Group and also launched an investigation into Alibaba for potential monopolistic behavior. We continue to believe Alibaba's core business remains highly profitable, complemented by rapid growth in the cloud business and inflection in the Cainiao logistics and New Retail segments.

Reliance Industries Limited is India's leading conglomerate, with business interests in telecommunications, digital services, retail, oil refining, and petrochemical. Shares were negatively impacted due to a retracement of earlier gains when the company raised over $20 billion from strategic (Facebook, Google) and financial investors in its Jio Platforms and Reliance Retail business verticals. We retain conviction in Reliance, as it is a key beneficiary of the "Digital India" theme with immense potential to emerge as the "Amazon/Facebook/Netflix" of India, in our view.

Sino Biopharmaceutical Ltd. is China's leading biopharmaceutical player with a key focus on R&D. Performance was adversely impacted after financial results missed analyst estimates due to pandemic-related restrictions in hospital visits that resulted in decreased pharmaceutical sales. We retain conviction as we think the company's strong R&D capabilities and robust product pipeline should generate double-digit earnings growth for the next three to five years.

Hemisphere Properties India Limited is a real estate holding company in India that owns over 750 acres of land assets in various regions of the country. The company was recently spun out to shareholders of its parent entity, Tata Communications Limited. Shares were negatively impacted as a result of material divestments by key shareholders of the parent entity that broadly view Hemisphere as a non-core investment with uncertainty around the monetization of land assets. We are evaluating our investment.

Shares of China-based cybersecurity firm **Venustech Group Inc.** fell during the quarter as government tenders for cybersecurity solutions slowed due to COVID-19-related restrictions. We remain confident that the expansion of the total addressable market in the cloud security IT segment in China combined with Venustech's leading position in product and service will drive 20%-plus sustainable growth in the next three years.

Portfolio Structure

Table IV.
Top 10 holdings as of December 31, 2020[1]

	Percent of Net Assets
Samsung Electronics Co., Ltd.	4.7%
Tencent Holdings Limited	4.0
Taiwan Semiconductor Manufacturing Company Ltd.	3.9
Alibaba Group Holding Limited	3.7
Zai Lab Limited	2.7
Reliance Industries Limited	2.3
Bajaj Finance Limited	2.2
GDS Holdings Limited	1.8
Midea Group Co., Ltd.	1.7
Sberbank of Russia PJSC	1.6

Exposure By Country

Table V.
Percentage of securities by country as of December 31, 2020

	Percent of Net Assets
China	41.3%
India	21.2
Brazil	11.0
Korea	5.8
Taiwan	5.5
Russia	4.4
Mexico	2.9
Hong Kong	1.9
Philippines	1.2
Japan	1.0
Hungary	0.8
United Kingdom	0.8
Norway	0.5
Thailand	0.4
United Arab Emirates	0.4

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 fourth quarter of 2020, the Strategy's median market cap was $20.4 billion, and we were invested 49.7% in giant-cap companies, 41.5% in large-cap companies, 6.9% in mid-cap companies, and 1.0% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash and private securities.

Recent Activity

During the fourth quarter, we added several new investments within existing themes while also increasing several investments that were established earlier in the year. We continue our endeavor to add to our highest conviction ideas.

We were active in filling out our sustainability/ESG theme, most notably by adding **Aeris Industria Comercio Equipamentos Geracao Energia SA** and **Suzano S.A.**, both of which are domiciled in Brazil. Aeris is a leading global producer of rotor blades for wind energy turbines. Renewable energy is playing an increasing role in the world's energy mix and is essential in meeting carbon reduction goals. Wind power installation rates are expected to grow at nearly a double-digit rate over the next decade, while rotor blades are mission critical components of wind turbines with technological barriers to entry and an industry consolidated among few leading players. As a result, Aeris enjoys an over 25% return on capital and strong cash margins. The company has a dominant share in Brazil, controlling roughly 65% of the market, and has a rapidly growing presence and market share internationally. Aeris is a well-managed company that is still majority-owned by its founders and management team. For the next few years, at a minimum, we expect the company to continue to gain market share while growing revenue at 30% and maintaining industry leading margins. Suzano is the world's largest and lowest cost producer of pulp, which is primarily used in paper, tissue, and packaging. The company is also expanding into new, higher-margin sustainability markets with fossil-to-fiber substitution across textiles, plastics, fuels, and chemicals. Suzano's pulp production removes more greenhouse gas emissions from the atmosphere than it emits. The company has a goal to remove 40 million tons of carbon dioxide over the next decade, and we see an opportunity in the future to monetize these carbon credits. In addition to maintaining a positive view on pulp prices, we expect sustainability/ESG factors to drive a higher-earnings multiple for Suzano.

Further adding to our sustainability/ESG theme, and related to our EV supply chain investments, we initiated positions in **Glencore PLC** and **China Molybdenum Co., Ltd.** during the quarter. Both companies are large producers of key energy metals (copper/cobalt) enabling the electrification of transportation (EV batteries) and growth in energy storage systems. We remain bullish on the long-term growth opportunity for copper, evidenced by our previous investment in Grupo Mexico, and expect multi-year supply deficits driven by the structural demand increase from electrification. EVs on average require four times the amount of copper compared to ICE vehicles, while wind/solar power plants use five times the copper per megawatt compared to conventional power plants. We are also positive on the outlook for cobalt, a critical element used in high-performance batteries. Glencore and China Molybdenum are the world's largest producers of the metal, together controlling 40% of global cobalt resources. We also like the portfolio transition at both companies with a focus on increasing net share of battery metals in the overall production mix. Glencore also recently became the first major miner to set out goals aligned with the Paris agreement and is targeting net zero emissions by 2050.

[1] Top 10 holdings, percentages of securities by country, 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.

As part of our fintech theme, we recently participated in the IPO of **Lufax Holding Ltd.**, a leading financial technology company based in China. Lufax focuses on lending to underserved small- and medium-sized companies and provides wealth management solutions to the middle-income and affluent segments of the population. As a subsidiary of Ping An Insurance (Group) Company of China, Ltd., which we also own, Lufax benefits from the group's finance and technology DNA. In addition to providing a strong technological backbone, this relationship brings many synergies, including efficient customer acquisition support, a reliable credit guarantee partner, and access to customer insights from the Ping An ecosystem. We believe these competitive advantages would be difficult to replicate by smaller competitors. Lufax has a solid track record in risk management, which makes it an attractive partner in the loan facilitation business, where third-party financial institutions fund loans and share underwriting risk. While the sector has undergone regulatory scrutiny, we believe Lufax is better positioned than peers to navigate these challenges given its conservative risk sharing policies and history of successfully adapting to regulatory changes.

During the quarter, we also participated in the IPO of **Ozon Holdings PLC** as part of our digitization theme. Ozon is the second largest domestic e-commerce marketplace operator in Russia. Since successfully transitioning from a first-party e-retailer to a hybrid first-party and third-party marketplace in 2018, while layering in logistics and fulfillment capabilities, Ozon has grown gross merchandise value by over 100% per year over the last three years and achieved positive contribution margins this year. In our view, outsized growth will continue over at least the next half decade as Russian e-commerce is underpenetrated at less than 10% of retail, accelerating, and fragmented. In fact, the top three players currently have less than 25% of e-commerce market share compared to 40% to 80% in most markets, setting the stage for Ozon to continue aggressively consolidating market share. Russia is a particularly large country, which makes it difficult to serve, and we believe Ozon's large and ongoing investments to develop its own logistics infrastructure will establish an effective competitive moat once it is built out. Fintech and advertising solutions that can ride on top of the marketplace are additional potential sources of long-term growth.

Finally, we added to several of our existing high-conviction positions during the quarter, most notably **Bajaj Finance Limited**, **Sberbank of Russia PJSC, XP Inc.**, **Housing Development Finance Corporation Limited**, **ZTO Express (Cayman) Inc.**, and **Ping An Insurance (Group) Company of China, Ltd.**

During the quarter, we also exited several positions, most notably **China Literature Limited**, **Bid Corporation Ltd.**, **Tencent Music Entertainment Group**, and **Bidvest Group Ltd**. In our endeavor to increase concentration where we have the highest conviction in quality and return potential, we also exited positions in **Xiaomi Corporation**, **LexinFintech Holdings Ltd.**, **Wizz Air Holdings Plc**, and **Nongfu Spring Co., Ltd.**

Outlook

The year 2020 proved to be unpredictable and unforgettable. Early in the year, we witnessed the epoch of economic and market uncertainty, while the year ended in a pinnacle of confidence and optimism. In our view, this remarkable year, its challenges, and the collective response, are likely to impact the economic and investment environment for several years to come. Indeed, we believe the financial legacy of the COVID-19 crisis will be that it finally vaulted global policymakers through the portal of Modern Monetary Theory, while also allowing politicians and elected officials to assume the primary levers of policy, leaving central bankers in a supporting, if still substantive role. "Populist QE" will likely be a game changer, ultimately challenging consensus expectations for incredibly well-anchored inflation and interest rates.

In early November, the U.S. election coincided with positive news on the timing and efficacy of multiple COVID-19 vaccines, triggering an explosive rally in global financial markets. While the Trump administration challenged the surface results of the Presidential election, in our view, perhaps more relevant than reduced election uncertainty was the absence of a "blue wave," suggesting low risk of major policy changes regarding corporate tax rates or unhinged fiscal spending on social programs. While the balance of the year was marked by rising COVID-19 cases and related risk of curtailment of economic activity, financial markets remained squarely focused on the longer-term beneficial impact of high vaccine efficacy and the return to economic and social normalcy. If anything, greater near-term COVID-19-related disruption proved a benefit to equity markets and forward economic growth expectations, as it necessitated a large and immediate fiscal support package to bridge the gap to anticipated herd immunity by virtue of vaccines.

In our previous letter, we remarked that "we remain believers that global authorities will continue to underwrite adequate policy support to provide a bridge to a full recovery, and that most publicly traded businesses will ultimately arrive at earnings potential without the need for dilutive capital issuance. In other words, notwithstanding some near-term noise, policymakers have rolled out a shiny bazooka, and we remain optimistic, particularly with regard to the companies in which we are invested." In our view, as highlighted in the above paragraph, the recent U.S. election results and news on virus efficacy represented the moment when the critical mass of investor consensus came to recognize a material improvement in forward-looking fundamentals must be discounted. We have stated for several quarters that the profound policy changes taking place suggested to us eventual fundamental improvement, and with it escape velocity for inflation and growth expectations and the beginning of a U.S. dollar bear market. We now believe we have entered a period of sustainable outperformance for equities over fixed income and for EM equities and currencies. We highlight that the benchmark emerging markets ETF (U.S. dollar return) outperformed the S&P 500 Index by over 800 basis points in the second half of 2020.

To us, the immediate question, post the historic fourth quarter rally, is how much of this good news has already been priced into markets? In our view, while the strong performing areas of the markets in 2020 are likely to sustain gains given solid fundamentals and a reluctance of policymakers to tighten liquidity, several underperforming areas are now likely to deliver significant earnings surprises, potentially sparking a mean reversion in leadership in more economically cyclical sectors for a temporary period – much as they did in 2016. Irrespective of sector leadership, we are enthusiastic regarding EM equities, as we expect a material improvement in relative earnings and capital flows and a likely recovery in relative valuation. In our view, investors and markets remain too skeptical regarding the potential for much-improved relative growth, and particularly, earnings for EM equities vs. U.S./global equities. We expect multi-year catalysts from major reforms in countries such as India, China, and Brazil, as well as from China's pivot to consumption and value-added economic development, and away from low-value manufacturing, infrastructure, and export-oriented activity. While we believe this pivot can drive higher returns domestically and benefit China's trading partners, we suspect it may simultaneously have an adverse effect on the relative earnings growth of many U.S. multi-national corporations that have benefited for years from access to and the growth of demand for value-added manufactured goods in China, from semiconductors to software to automobiles. With relative valuations near historic lows, and the risk-premium on non-dollar assets elevated after years of U.S. foreign policy aggression, we currently believe we have entered the early innings of a typical EM relative bull market.

Sincerely,

Michael Kass
Portfolio Manager

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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.

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