Baron Emerging Markets Strategy

March 31, 2020

Dear Investor:

Performance

Baron Emerging Markets Strategy declined 24.95% for the first quarter of 2020, while its principal benchmark index, the MSCI EM Index, declined 23.60%. The MSCI EM IMI Growth Index retreated 20.34% for the first quarter. The Strategy underperformed its principal benchmark index for the quarter as market conditions soured in the final weeks on concerns over the severity and duration of COVID-19 and related economic disruption. Global equities logged one of the largest quarterly declines in history as a host of uncertainties sparked an acute and widespread liquidity crisis, and the market sell-off was particularly abrupt. While we suspect it will be some time before investors can gain confidence in the scope and timing of an economic and earnings recovery, we do believe that markets can at a minimum stabilize as greater clarity emerges regarding: a peak in case counts, availability of testing for symptomatic patients and the presence of antibodies in the general population, therapeutic options, and progress towards a vaccine. We see evidence that the unprecedented and global policy response is achieving its desired effect in supporting markets and will act as a bridge to the restart of economies worldwide. During the quarter, emerging market ("EM") equities underperformed U.S. equities as defined by the S&P 500 Index, but performed roughly in line from the S&P 500's peak. EM equities also performed roughly in line with the Dow Jones Industrial Average for the quarter. We consider such recent performance as potentially positive and consistent with our view that the multi-year period of EM relative underperformance may be nearing its end. We have suggested that the most significant phase of underperformance likely passed some years ago, and we will be carefully watching how relative performance progresses in the context of the massive policy measures and fiscal expansion now underway in the U.S. As always, we are comforted by the fact that we have invested in many well positioned and well managed companies on a bottom-up basis, and we believe many will be poised to consolidate market share when the current crisis subsides.

Table I.
Performance
Annualized for periods ended March 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]	(24.95)%	(24.77)%	(23.60)%	(20.34)%
One Year	(20.23)%	(19.47)%	(17.69)%	(11.70)%
Three Years	(3.15)%	(2.23)%	(1.62)%	1.07%
Five Years	(0.86)%	0.10%	(0.37)%	1.12%
Since Inception[3] (January 31, 2011)	2.17%	2.90%	(0.58)%	1.02%

For the first quarter of 2020, we trailed our primary benchmark, the MSCI EM Index, as well as the all-cap EM growth proxy. After a strong start to the year for the Strategy's relative performance, March trading extracted a substantial toll on both relative and absolute returns, as a COVID-19-related liquidity crisis rapidly spread globally and particularly impacted holdings in our India and Brazil reform themes. In short, when corporations and investors encounter sudden uncertainty and an abrupt reversal of credit availability, all actors move from emphasizing growth opportunities to ensuring adequate cash, liquidity, and balance sheet integrity. In this case, the pivot from an equity orientation to a focus on sovereign and corporate credit penalized the higher growth, domestic consumption, and reform-oriented jurisdictions the most, as they require greater working capital and/or dollar liquidity to fund that growth, while economic reforms are often being implemented specifically to address previous weakness in fiscal or current account balances. While we continue to have high conviction in the businesses and management teams in which we have invested, there are select cases where a near-total halt to revenue due to COVID-19 shutdowns has resulted in a short-term impairment of

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 March 31, 2020, total Firm assets under management are approximately $24.2 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 one mutual fund, a collective investment 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 30, 2010.

value. While all portfolio managers have faced this challenge, within our portfolios, airline and education services holdings have been the principal source of underperformance from a sector or sub-industry perspective. Specifically, during the quarter, poor stock selection in Industrials, driven by airline holdings **Azul S.A.**, **Copa Holdings, S.A.**, and **Wizz Air Holdings Plc**, detracted the most from relative performance. In addition, an underweight position in the Communication Services sector led to poor allocation effect here, while the COVID-19 shutdown led to a disappointing outlook for **Cogna Educacao SA**, a Brazilian education provider, which resulted in adverse stock selection effect in the Consumer Discretionary sector. Offsetting a portion of the above, a substantial overweight position in the Health Care sector, led by our China value-added holdings **Zai Lab Limited** and **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**, as well as strong stock selection effect and an overweight position in Information Technology, led by China cloud software and data center holdings **GDS Holdings Limited**, **Glodon Company Limited**, and **Kingdee International Software Group Co. Ltd**., contributed solid relative outperformance during the quarter. From a country perspective for the first quarter, China was the standout performer, which was more than offset by an overweight position as well as poor selection effect in Brazil.

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

	Percent Impact
Zai Lab Limited	0.24%
Shenzhen Mindray Bio-Medical Electronics Co., Ltd.	0.23
Tencent Holdings Limited	0.22
GDS Holdings Limited	0.19
Kingdee International Software Group Co. Ltd.	0.18

Zai Lab Limited is a China-based biotechnology company in-licensing drugs from developed countries to bring to the Chinese health care market that is still massively underdeveloped. Shares contributed to performance as Zai has benefitted from its transition to a commercial stage company with both Zejula and Optune launched or launching in cancer indications, and from increased investor awareness of the future potential of a Chinese health care/biotechnology market.

Shares of **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**, a leading medical device manufacturer of patient monitoring systems, ventilators, invitro diagnostics, and ultrasounds in China, rose in the quarter as the spread of COVID-19 created significant demand for Mindray's products. The company is well positioned to benefit from the growing global demand for medical equipment, and we believe Mindray can sustain 20% to 25% earnings growth over the next few years as it continues to expand its product offering and gain market share from smaller competitors.

Tencent Holdings Limited operates the leading social network and messaging platforms (QQ, WeChat), the largest online entertainment and media business, and the largest online PC and mobile gaming business in China. Shares rose this quarter on strong fourth quarter financial results and the potential increase in user activity on its platforms during the COVID-19 pandemic. In the long term, we believe Tencent can grow each of its large business segments for years to come given its track record of execution, scale, and unique and diversified online assets.

GDS Holdings Limited is a leading Chinese data center operator within Tier 1 cities. Shares increased on robust quarterly results and full-year outlook, accelerating bookings growth, continued strong cloud growth from its core customers, and several M&A opportunities to augment growth. We retain conviction in GDS due to durable secular tailwinds in cloud adoption (early innings in China), increased visibility of growth/funding, and its status as a provider of choice to China's leading technology companies.

Kingdee International Software Group Co. Ltd. is a leading enterprise resource planning ("ERP") software company in China with an emphasis on the small/medium enterprise sector. Shares appreciated during the quarter as COSMIC Cloud, a key growth product for large clients, performed better than investors expected. Overall demand for Kingdee's ERP services remained resilient and margin outlook remained positive despite the COVID-19-related market disruption. We remain confident in Kingdee's ability to excel in the vastly underpenetrated enterprise software market.

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

	Percent Impact
Azul S.A.	–1.23%
Cogna Educacao SA	–1.19
Petroleo Brasileiro S.A. Petrobras	–1.15
Bajaj Finance Limited	–0.85
Sberbank of Russia PJSC	–0.75

Azul S.A. is one of the leading airlines in Brazil. Shares declined sharply due to the COVID-19 pandemic, with airlines in Brazil grounding up to 90% of flights. We think the company has enough liquidity to weather this storm and believe Azul's competitive advantages, such as its leading market position on many destinations and limited-to-no competition for 72% of its routes will drive above industry margins and returns during the recovery period.

Cogna Educacao SA is the leading post-secondary company in Brazil offering on-site and distance learning programs for higher education as well as a smaller K-12 program. It has been a leader in its business with high Ministry of Education quality metrics for many years. However, the stock declined sharply after the company had to shut down its campuses due to the COVID-19 pandemic. We are in the process of re-assessing our position and Cogna's ability to withstand the disruption.

Petroleo Brasileiro S.A. Petrobras, one of the largest integrated oil & gas companies in the world focused on developing deep-water oil fields in offshore Brazil, detracted in the quarter. Shares declined due to the collapse in oil prices driven by to the COVID-19 pandemic's negative impact on demand. Further weighing on the stock were concerns over Russia's decision to ramp oil supply into a declining demand environment. We sold our position in the company due to supply/demand uncertainty in the current environment.

Shares of **Bajaj Finance Limited**, a leading non-bank financial company in India, detracted from performance in the quarter. Shares declined over concerns of a broad market slowdown and the expected negative impact on the company's near-term growth outlook. We think Bajaj is well positioned to benefit from the growing demand for consumer financial services, and we retain conviction in the company due to its best-in-class management team, robust long-term growth outlook, and conservative risk management frameworks. We believe Bajaj's earnings can compound at 25% to 30% CAGR over the next three to five years.

Sberbank of Russia PJSC is the largest bank in Russia with operations in Central Europe and other former Soviet Union countries. Shares declined in part due to Russia's decision to withdraw from the OPEC+ agreement, which led to a significant decline in the price of oil and a large devaluation in the currency. Concerns over rising loan defaults and declining demand for banking services due to the COVID-19 pandemic also pressured share prices. We believe Sberbank's strong balance sheet and liability franchise should allow it to withstand these temporary shocks.

Portfolio Structure

Table IV.
Top 10 holdings as of March 31, 2020

	Percent of Net Assets
Alibaba Group Holding Limited	6.8%
Tencent Holdings Limited	4.9
Taiwan Semiconductor Manufacturing Company Ltd.	3.9
Samsung Electronics Co., Ltd.	3.6
Zai Lab Limited	2.2
China Conch Venture Holdings Ltd.	2.2
GDS Holdings Limited	2.2
Reliance Industries Limited	1.9
Ping An Insurance (Group) Company of China, Ltd.	1.8
Sberbank of Russia PJSC	1.5

Exposure by Country

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

	Percent of Net Assets
China	44.5%
India	17.6
Brazil	7.1
Taiwan	5.8
Korea	5.4
Mexico	4.0
Russia	3.1
Philippines	1.9
South Africa	1.5
Hong Kong	1.3
Argentina	1.2
Indonesia	1.0
Japan	0.9
Panama	0.8
Thailand	0.8
United Arab Emirates	0.7
Hungary	0.6
Norway	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 first quarter of 2020, the Strategy's median market cap was $8.9 billion, and we were invested 84.4% in large- and giant-cap companies, 12.3% in mid-cap companies, and 1.7% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash and private securities.

Recent Activity

During a quarter of extreme volatility, we added several new positions, mostly comprising companies we have researched over a long period of time and are related to existing themes. After material price corrections, we perceived a considerable buying opportunity. During the quarter, we initiated a position in **Galaxy Entertainment Group Limited**, a Hong Kong-listed operator of integrated casino resorts in Macau. Macau is coming off a difficult 2019, as a slowdown in Chinese economic growth due to trade tensions with the U.S. caused VIP revenue to decline significantly; 2020 had an even tougher start, as the COVID-19 outbreak has driven a near-total collapse in visitation and revenue since January. This shock presented a unique long-term buying opportunity, in our opinion. Galaxy has one of the best balance sheets in global leisure, with $6.5 billion of net cash on hand, more than enough to weather even an extended shutdown lasting several quarters or more. Beyond 2020, we believe Macau will recover and grow steadily, as mainland Chinese visitation continues its secular growth on the back of increased Macau hotel supply and improved high-speed rail and border crossing access. In particular, we note that Galaxy's business is essentially driven by the mass segment, which has much higher profitability and less cyclicality than the VIP segment. The mass segment now accounts for over 80% of Galaxy's EBITDA and represents essentially all the company's growth. Galaxy has some of the best assets in Macau and among the best growth pipeline, with two new phases of its flagship Galaxy Macau cluster coming online in the next three years. Given the company's legacy in construction and the success of its previous developments on Cotai, we believe these additions will be highly accretive to shareholder earnings.

We also initiated a position in **Bharti Airtel Limited**, which is a dominant mobile services provider in India. While we typically shy away from more capital intensive and competitive businesses such as telecommunications & data, we view the investment in Bharti as unique because the Indian telecommunications industry is undergoing accelerated consolidation and transitioning into a quasi-duopoly. The industry's weakest player, Vodafone Idea, has reached the verge of bankruptcy amid ongoing pricing pressure and a leveraged balance sheet. We believe Bharti stands to benefit from market share gains along with government intervention that is likely to mandate a data pricing floor and several other industry relief measures. We believe mobile tariffs should double over the next four to five years in order to ensure that existing providers can both serve customers and meet financial and government obligations, which should generate meaningful upside for Bharti's shareholders.

During the quarter, we established a position in **Novatek PJSC**, after the abrupt disagreement between Russia and Saudi Arabia regarding oil production cuts sparked a major correction in the company's share price. Novatek is one of the largest and lowest cost liquified natural gas ("LNG") producers in the world. We are bullish on the long-term growth outlook for LNG as a substitute for coal, diesel, and other much more environmentally unfriendly carbon fuel sources. In particular, we expect natural gas demand to benefit from progressive environmental policies in China, India, and many emerging markets. Novatek is a well-managed and competitively advantaged company with a proven track record and proprietary technology, while its founder/CEO remains a major shareholder. Novatek has a deep pipeline of LNG export projects, which we believe remain well funded even in the current low LNG pricing environment, which should allow LNG sales to triple by 2030.

We have been following **Hindustan Unilever Limited**, the largest consumer goods businesses in India, for several years. We initiated a position during the quarter after the market offered a rare and opportunistic entry price. Hindustan Unilever has a deep and talented management team and is a best-in-class company with an established presence in India for over 100 years. The company's strong parentage (Unilever Plc) enables it to remain at the forefront of product innovation while its economies of scale and near ubiquitous pan-India distribution delivers quality products at affordable prices. The company continues to gain market share from smaller, sub-scale competitors that have been adversely impacted by the implementation of the GST tax reform in India, and we believe it is well positioned to generate mid- to high-teens earnings growth over the next several years driven by India's favorable consumer demographics, distribution expansion, and premiumization of product portfolios.

Related to our China value-added theme, we initiated positions in **Kingsoft Corporation Ltd**. and **Hangzhou Tigermed Consulting Co., Ltd.** Kingsoft, our third China software investment, is a cloud internet services, gaming, and productivity software developer. Kingsoft Cloud and WPS Office are set to capture strong secular growth in data demand and software penetration, while WPS Office, in particular, is a 20-year old household name in productivity software with over 400 million users and currently a low level of monetization. We believe the market underappreciates Kingsoft's industry leadership and the substantially untapped software industry in China that could drive meaningful earnings growth in the coming years. Hangzhou Tigermed is a provider of clinical trial and research services for global and domestic pharmaceutical and related firms. The company has earned consistent market share expansion via strong performance and additional capabilities, and we believe Hangzhou Tigermed's domestic opportunity is at the beginning of a long runway as China's early-stage biotechnology development is now exploding from a small base.

As always, changes in perceived longer-term fundamentals, emerging government or regulatory challenges, or disappointing capital allocation and/or corporate governance cause us to reassess certain holdings. During the first quarter, we exited **Momo Inc.**, **Petroleo Brasileiro S.A. Petrobras**, **Taiwan Mobile Co., Ltd.**, **CNOOC Limited**, **Bangkok Bank Public Co. Ltd.**, and **Pepkor Holdings Limited** in favor of what we perceived as superior opportunities.

Outlook

In our year end 2019 letter, we suggested that EM and international equities were likely entering a period of enhanced earnings recovery, as global policymakers had pledged to remain accommodative, while the trade compromise among the U.S. and China suggested an acceleration in global trade and economic conditions. Further, we believed that such improving conditions, as well as a de facto commitment by China to not allow further RMB depreciation as part of the trade compromise, would likely mark the beginning of a reversal of the material capital outflows from EM assets that had occurred in recent years and that had been exacerbated by U.S. foreign policy aggression.

By and large, the year began on solid footing for global equities, as markets looked through the U.S. airstrike that killed Qassem Soleimani and remained stable when confronting the initial COVID-19 outbreak in Wuhan, China. While EM equities, led by China, began to lag as details of the virus and the measures taken to combat it became evident, global investors largely remained of the view that virus-related disruption would not likely be orders of magnitude greater than the several previous epidemics encountered over the past 30 years, and that the likely near-term earnings impact would be transitory and not materially impair longer-term asset and equity values. In the last week of February, it became clear that Italy and other European countries were encountering a parabolic rise in cases, and a global crisis and associated market panic were underway within days.

In our view, this economic and market shock is different from any that any current investor has experienced and in many ways is unprecedented. Bear markets generally occur when, after an extended period of prosperity and credit expansion, asset price, consumer or commodity inflation requires central bankers to act to tighten credit conditions. If managed well, this will slow credit and economic growth and trigger a stock market correction, but if credit tightens too much, it will provoke a credit contraction/liquidity crisis, an economic recession, and an equity bear market. This type of recession sends advance warning signals and results in weak corporate revenue and a contraction in earnings, but not a near total loss of revenue generation. In this case, an exogenous shock has provoked a complete economic halt, albeit temporary, which in turn has precipitated an acute global liquidity crisis. In a matter of a couple weeks, global credit markets turned dysfunctional, and a breakdown of traditional correlations forced leveraged investment pools to de-lever and sell into an illiquid market. The good news here is that global policymakers, and particularly the U.S. Federal Reserve, have responded with unprecedented speed and force. If the U.S. credit markets were the epicenter of the liquidity crisis at its recent peak, the relatively quick recovery of those markets and return to smoother functioning is a positive forward-looking signal, suggesting the liquidity strains are likely abating and equities can at a minimum stabilize. We believe the global policy support is currently playing defense, but as we gain clarity on the peak in cases worldwide, adequate testing capacity, antibody presence in the general population, and potential therapeutics and vaccines, we believe the policy stimulus in the pipeline can begin to play offense. Finally, we recognize how uncertain the world has become on many fronts, but forced selling, deleveraging, fear, and bearishness have all reached extreme levels. The fact that this crisis has no direct analogue suggests that we are also not likely to know when the market has substantially fully priced in the disruption and damage to earnings and/or balance sheets, and we must also consider that the global economy is likely to "turn back on" only several weeks from now, when balancing health, mortality, and economic risks will become more nuanced.

Turning to EM markets, while there is no shortage of commentary on the scope of the challenge the virus presents to such countries, we also believe there are several offsetting positives. First, many developing world countries, notably India, have much younger populations, suggesting the mortality risk could be materially lower. Many also have warm climates which may mute the viral spread. Second and shifting from the health challenge to financial stress, while most EM countries lack the fiscal room to maneuver that the U.S. or Germany are exercising, most are quickly advancing lesser-magnitude measures supportive to their real economies. Further, we believe the emerging markets are economically and financially integrated with the world to an extent that the U.S. Federal Reserve understands it must act to inject liquidity support. We believe Fed measures thus far support their responsibility to the international financial system as the issuer of the world's reserve currency and, by extension, will continue to move to satiate offshore dollar liquidity demand. This should help EM countries combat the pressures on their currencies and bond yields that have resulted from the liquidity shortage. Third, the U.S. must now lead the world through the portal of Modern Monetary Theory, or fiscal easing funded by money printing and central bank balance sheet expansion. We believe a dollar bear market likely resides on the other side of the current crisis, which would very likely favor EM and international assets and equities. Last, we can look to China, the largest EM economy and second largest in the world. China was first into the COVID-19 curve, but by most accounts is now well on the way to a return to a near-normal economic environment. While certain activities remain curtailed, industries and businesses have restarted operating and schools are reopening. Testing, monitoring, and contact tracing are the norm, but China has for now moved well beyond lockdown, and it is no coincidence that China has been one of the top performing equity markets and currencies in the world year-to-date. With little existing foreign institutional ownership of China's huge bond and equity markets, and interest rates substantially higher than what is available in the developed world, we believe it may have increasing appeal should the world begin to contemplate dollar weakness.

Sincerely,

Michael Kass
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

In addition to the general stock market risk that securities may fluctuate in value, investments in developing countries may have increased risks due to a greater possibility of: settlement delays; currency and capital controls; interest rate sensitivity; corruption and crime; exchange rate volatility; and inflation or deflation. The Strategy invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. The Strategy may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.