Baron Emerging Markets Strategy

March 31, 2021

Dear Investor:

Performance

Baron Emerging Markets Strategy declined a modest 0.15% during the first quarter of 2021, while its principal benchmark index, the MSCI EM Index, appreciated 2.29%. The MSCI EM IMI Growth Index gained 1.30% for the quarter. The Strategy underperformed its principal benchmark index, as well as the all-cap growth proxy, after a strong period of absolute and relative performance in the second half of 2020. Emerging market ("EM") and international equities modestly trailed their U.S. counterparts, consolidating the outperformance of the second half of 2020. Market leadership by sector continued to ebb and flow, with strength in quality growth stocks in the first half of the quarter giving way to notable outperformance by more economically cyclical stocks in the second half. In our view, with the exception of a couple of outlier countries, investors largely looked through ongoing COVID-19 disruption and focused on vaccine penetration and sustained fiscal largesse, anticipating positive corporate earnings momentum in future periods. The rise in longer-term sovereign bond yields that began late last year accelerated midway through the quarter, coincident with the sector rotation noted above. In our view, this signals the market's passage through the most favorable post-COVID-19 market environment, where risk aversion and low expectations met massive policy stimulus and positive vaccine developments. Going forward, equities will be much more sensitive to growth and inflation expectations, though we note that bond yields have already priced in a materially tighter Fed than what has been officially communicated. In short, to sustain solid gains, equities will need the affirmation of strong earnings performance and guidance, while in our view, multiples are unlikely to expand from here. We remain optimistic that corporate earnings are likely to deliver, particularly for the companies in which we have invested, and we continue to anticipate a sustainable period of dollar weakness and relative outperformance for EM and international equities. 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 March 31, 2021

	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]	(0.15)%	0.08%	2.29%	1.30%
One Year	72.39%	73.99%	58.39%	66.27%
Three Years	7.61%	8.62%	6.48%	9.68%
Five Years	12.83%	13.91%	12.07%	14.71%
Ten Years	7.72%	8.52%	3.65%	5.77%
Since Inception[3] (January 31, 2011)	7.57%	8.35%	4.08%	6.09%

For the first quarter of 2021, we underperformed our primary benchmark, the MSCI EM Index, while also modestly trailing our all-cap EM growth proxy. From a broad market perspective, first quarter trends were largely a continuation of the previous quarter, wherein investors increasingly allocated capital toward more economically cyclical stocks. Our performance was in line with our expectations as we often lag the core index during such periods. From a sector or theme perspective, our relative underperformance resulted mainly from adverse stock selection effect in the Information Technology ("IT") and Financial sectors. Within IT, a correction following strong 2020 performance in our fintech (**StoneCo Ltd.** and **PagSeguro Digital Ltd.**), China value-added (**Kingdee International**

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, 2021, total Firm assets under management are approximately $49.6 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 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.

† The Strategy's 1Q 2021 historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs and secondary offerings will be the same in the future.

1 The **MSCI 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 23 Emerging Markets countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. MSCI is a trademark of Russell Investment Group. 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.

Software Group Co. Ltd., **Glodon Company Limited**, and **Hua Hong Semiconductor Ltd.**), and digitization (**GDS Holdings Limited**) themes stood out. Within Financials, concerns related to the re-emergence of COVID-related disruption, triggered a correction in several investments, notably **Itau Unibanco Holding SA** and **B3 S.A. – Brasil, Bolsa, Balcao** in Brazil, and **Kotak Mahindra Bank Ltd.** and **Bajaj Finance Limited** in India. Partially offsetting the above, solid gains from several of our investments related to our sustainability/EV supply chain theme (**Korea Shipbuilding & Offshore Engineering Co., Ltd.**, **Techtronic Industries Co. Ltd.**, **Grupo Mexico, S.A.B. de C.V.**, and **Glencore PLC**) contributed positively. In addition, positive stock selection effect in the Consumer Discretionary (**Ozon Holdings PLC** and **Galaxy Entertainment Group Limited**) and Energy (**Novatek PJSC**) sectors contributed positively to relative performance. From a country perspective, our overweight positioning together with weak stock selection in Brazil, and adverse stock selection in India were key detractors from relative performance this quarter. In our view, this weakness was driven by the re-emergence of COVID-19-related concerns in these countries and is likely to be temporary, however we have reduced aggregate exposure to Brazil and will continue to monitor the situation as COVID-19 challenges have begun to threaten the favorable reform agenda.

Table II.
Top contributors to performance for the quarter ended March 31, 2021

	Percent Impact
Tencent Holdings Limited	0.40%
Taiwan Semiconductor Manufacturing Company Ltd.	0.36
Korea Shipbuilding & Offshore Engineering Co., Ltd.	0.28
Max Financial Services Limited	0.28
Beijing Oriental Yuhong Waterproof Technology Co., Ltd.	0.27

Tencent Holdings Limited operates the leading social network and messaging platforms, the largest online entertainment and media business, and the largest online gaming business in China. Shares of Tencent were up on broad-based strength across segments, continuation of robust investment activity, and significant optionality going forward across cloud, gaming, SaaS, video, and education. We believe Tencent can grow each of its businesses over the long term given its track record of execution, scale, and unique and diversified online assets.

Semiconductor giant **Taiwan Semiconductor Manufacturing Company Ltd.** continued to outperform the broader technology sector as demand for next generation chips remained strong, and global chip shortages led to industry price increases. In addition, investors viewed Taiwan Semi's planned $100 billion capital expenditure over the next three years as a strong vote of confidence that the company will continue to offer leading edge development and stay ahead of its peers. We believe Taiwan Semi will grow on the high end of its 10% to 15% growth target.

Korea Shipbuilding & Offshore Engineering Co., Ltd. is the largest shipbuilder in the world. Shares rose after an analyst day revealed a growth strategy in eco-friendly LNG, ammonia, and hydrogen shipbuilding in addition to plans to develop offshore wind farms. We expect tightening international maritime carbon emission regulations to drive much 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 in a duopoly after its merger with DSME is completed.

Max Financial Services Limited contributed to performance after gaining regulatory approval to consummate a strategic investment by Axis Bank, its key distribution partner, coupled with a demonstrated increase in market share. As India's leading life insurance player, the company is benefiting from strong consumer demand for term protection and financial savings products. We retain conviction owing to secular growth opportunities in India's life insurance industry and expect mid-teens earnings growth over the next three to five years.

Beijing Oriental Yuhong Waterproof Technology Co., Ltd. is China's leading provider of waterproofing and other advanced building materials to the real estate and infrastructure sectors. Shares rose after the company beat consensus estimates and raised guidance. We expect structural growth in the waterproofing industry to accelerate as China pushes for higher-quality standards. In our view, Beijing Oriental Yuhong has the best product quality, track record, and pricing power in the industry and is well positioned to sustain 30% earnings growth over the next several years.

Table III.
Top detractors from performance for the quarter ended March 31, 2021

	Percent Impact
Kingdee International Software Group Co. Ltd.	–0.28%
StoneCo Ltd.	–0.25
InPost SA	–0.24
GDS Holdings Limited	–0.22
Localiza Rent a Car S.A.	–0.22

After achieving record growth in 2020, shares of enterprise management software provider **Kingdee International Software Group Co. Ltd.** gave up some gains during the quarter. While the underlying growth in core cloud products remained strong, the market rotation from growth to value and margin pressure from its cloud transition weighed on the stock. We maintain our conviction in Kingdee's ability to deliver growth in the vastly underpenetrated customer relationship management segment in China given its long-standing leadership and R&D capability.

StoneCo Ltd. is a leading financial technology services company in Brazil. Shares declined on results that were weaker than analyst forecasts coupled with macro factors, including a devaluation in the Brazilian real and a resurgence of COVID-19 in Brazil, which will likely impact near-term payment volumes in Stone's core small- and medium-sized enterprise segment. We believe Stone has the best value proposition for clients through its solutions in payments, software, and e-commerce, driving higher lifetime customer value and market share gains vs. peers.

InPost SA, a Poland-based operator of automated parcel locker networks, detracted on reports that its largest customer in Poland, Allegro, will roll out a small parcel locker network of its own, potentially cannibalizing its business with InPost. We initiated a position and added to it during the quarter, as we believe InPost's network density and efficiency in Poland offers unmatched unit economics, and we are excited about its growth potential across Western Europe.

GDS Holdings Limited is a leading Chinese data center operator within Tier 1 cities. The stock was a detractor in the quarter due to the broader sell-off in technology-related companies, growth to value market rotation, and escalation of tensions between the U.S. and China. Fundamentals, however, remained robust, and growth visibility has improved. 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.

Localiza Rent a Car S.A. is the largest car rental and fleet rental company in Brazil. It has pioneered the integrated business model from car purchases, through car and fleet rentals, to used car sales. Shares fell due to uncertainty around the regulatory approval of its proposed merger with Unidas as well as macro concerns. We maintain conviction in the stock. Localiza enjoys competitive advantages in buying and selling vehicles and should continue to gain market share due to its scale and cost structure. We also expect its new car subscription (leasing) service to enhance the company's growth potential.

Portfolio Structure

Table IV.
Top 10 holdings as of March 31, 2021[1]

	Percent of Net Assets
Tencent Holdings Limited	4.6%
Samsung Electronics Co., Ltd.	4.1
Taiwan Semiconductor Manufacturing Company Ltd.	3.8
Alibaba Group Holding Limited	3.6
Reliance Industries Limited	2.2
Bajaj Finance Limited	2.2
Korea Shipbuilding & Offshore Engineering Co., Ltd.	2.0
Zai Lab Limited	2.0
Sberbank of Russia PJSC	1.7
Glencore PLC	1.6

Exposure by Country

Table V.
Percentage of securities by country as of March 31, 2021

	Percent of Net Assets
China	37.3%
India	21.2
Brazil	8.2
Russia	6.1
Korea	6.1
Taiwan	5.3
Hong Kong	2.5
Mexico	2.5
United Kingdom	1.6
Philippines	1.1
Hungary	0.8
Poland	0.8
Japan	0.7
Norway	0.5
United Arab Emirates	0.3
United States	0.2

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 2021, the Strategy's median market cap was $17.5 billion, and we were invested 49.0% in giant-cap companies, 35.7% in large-cap companies, 8.9% in mid-cap companies, and 1.6% in small- and micro-cap companies as defined by Morningstar, with the remainder in cash.

Recent Activity

During the first quarter of 2021, we added several new ideas to existing themes while also increasing exposure to several positions that we established in prior quarters. We continue our endeavor to add to our highest conviction investments.

We added to our digitization theme during the quarter, most notably by initiating positions in **Lojas Americanas S.A.**, **InPost SA**, and **Think & Learn Private Limited**. Lojas Americanas operates a leading chain of Brazilian discount retail stores and is the majority owner of the B2W e-commerce assets, its publicly traded subsidiary. The stock sold off materially in the second half of last year as B2W's growth trailed that of its closest Brazilian e-commerce peers. We believe that some of the underperformance was product mix-related, as the coronavirus pandemic benefited certain categories in which B2W is underexposed, and which we believe will normalize over time. We viewed the severely discounted valuation relative to peers as an attractive entry point ahead of what we believe can be a reacceleration of e-commerce growth this year and continued high ROI unit growth for the retail chain when the pandemic subsides. The two companies (Lojas Americanas and B2W) also announced they are exploring a merger during the quarter, which we think would ignite operational synergies in the intermediate term, particularly in fulfillment and logistics, and potentially narrow its valuation gap to other omni-channel retailers.

We also participated in the IPO of InPost, a Poland-based but increasingly pan-European operator of logistics networks that emphasizes technology-enabled automated parcel lockers. InPost operates the largest automated parcel locker network in Poland with a dominant market share, increasingly the preferred method among Poles to receive and return online purchases. The company's dense, technology-enabled logistics network has facilitated efficient package delivery times and e-commerce frequency levels generally not seen in any other emerging market outside of China. In our view, InPost's density of lockers, couriers, and pickup points, and merchant-neutral network creates unit economics that new entrants are unlikely to be able to replicate. The company is also expanding to new markets, with a nascent position in the U.K. and via a recently announced acquisition of Mondial Relay, a logistics network in France, from which we believe InPost will extract synergies by overlaying its technology and onboarding pan-European customers from its Polish and U.K. businesses. We believe continued fast growth in Poland, as well as international expansion, will power annual revenue growth in excess of 30% over the next five years.

[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.

Finally, during the quarter, we participated in the Series F private funding round of Think & Learn, which is the parent entity of BYJU's–the Learning App, India's largest education technology company with over 90% market share. Think & Learn is our first private investment, and we are excited to partner with founder Byju Raveendran and his entrepreneurial team as the company continues to grow its user base and diversify into new business verticals and expand internationally. BYJU's has made a string of strategic acquisitions to give it an omnichannel presence across the entire product cycle (toddlers/K-12/post-K-12/programming). In our view, India's education technology industry is still in its infancy and is expected to scale significantly over the next several years, driven by an ever-growing focus on education in India, rising disposable income to support premium services, and higher smartphone/4G penetration that is accelerating online education and expanding the total addressable market beyond the largest cities.

During the quarter, we also initiated several investments related to our long-held EM consumer theme. **Budweiser Brewing Company APAC Limited** (Anheuser-Busch InBev's listed Asian subsidiary) operates a premium-branded beer business across most of InBev's Asian markets. Approximately 80% of operating income is earned in China and the remaining 20% in Korea, while other operations in Southeast Asia and India are currently small but offer upside potential, particularly via M&A opportunities. In our view, China is one of the most attractive beer markets globally as the penetration of premium and super premium beer brands is growing off a very low base of only 15% of total consumption. Bud APAC is the largest, if not dominant, player in the premium and super premium categories, with respective market shares of 50% and 25%, owing to decades of brand investment. As such, we believe the company is best positioned to capitalize on what we believe will be a decade of premiumization in beer consumption in China. The company's business suffered from a slowdown in the core nightlife channel in late 2019 as well as from its exposure to on premise consumption during the COVID-19 pandemic in 2020. Having passed on the IPO 18 months ago, we viewed the subsequent sell-off as providing an attractive entry point to invest in the best brand portfolio in Chinese beer, and we now expect temporary pandemic-related headwinds to offer easy comparisons over the next couple of years.

We also recently initiated a position in **Jubilant FoodWorks Limited**, the sole and exclusive master franchisee of Domino's Pizza in India, Bangladesh, Sri Lanka, and Nepal. Jubilant owns and operates over 1,300 stores located across over 280 cities in India with plans to open 100 to 150 new stores annually to cater to rising consumer demand for fast food dining. Jubilant is emerging as an "India food-tech" proxy by leveraging its best-in-class, in-house delivery & logistics network. With over 50 million app downloads, online delivery now accounts for about 70% of revenue, and we believe the online channel will continue to drive growth going forward due to a structural shift in consumer preferences post the onset of COVID-19 and the current work from home environment. In our view, Jubilant is well-positioned to sustain mid-to high teens earnings growth over the next five to seven years driven by new store openings, market share gains from unorganized and less hygienic restaurant competitors, and accelerating adoption of online food delivery in India.

Finally, we participated in the IPO of **Fix Price Group Ltd.** Fix Price is the largest multi-category deep discount retailer in Russia, a category that it essentially owns with over 90% market share. The company has carved out a highly profitable niche, evidenced by top tier unit economics in global retail, by offering consumers a limited but deeply discounted assortment of fast-moving SKUs in small, standardized, and highly capital-efficient stores. By focusing on private label and working closely with suppliers to engineer costs out of products, Fix Price carries a relatively unique assortment that drives savings of 30% to 40% for Russian consumers, who are price conscious after a period of stagnation in real discretionary income. The company is founder-led by respected retail executives and has outlined a vision to more than triple its store count at an annual unit growth pace of 15% to 20% for many years. Negative working capital and short paybacks on store buildout make this fast pace of growth entirely self-funding, and we expect an attractive dividend payout concurrent with such growth.

We added to several of our existing positions during the quarter, most notably **Korea Shipbuilding & Offshore Engineering Co., Ltd.**, **Glencore PLC**, **Will Semiconductor Co., Ltd.**, **Bajaj Finance Limited**, **Sberbank of Russia PJSC**, **Suzano S.A.**, **Novatek PJSC**, and **Galaxy Entertainment Group Limited**.

During the quarter, we also exited several 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. Positions sold during the quarter include **B3 S.A. – Brasil, Bolsa, Balcao**, **Rumo S.A.**, **Li Auto Inc.**, **Britannia Industries Limited**, **Fomento Economico Mexicano, S.A.B. de C.V.**, **GRUMA, S.A.B. de C.V.**, **Hangzhou Hikvision Digital Technology Co., Ltd.**, and **CP All Plc**.

Outlook

The first quarter of 2021 was volatile, with more speculative and higher growth stocks advancing briskly to reach a peak in mid-February, only to reverse and end the quarter relatively flat. Quality growth stocks performed similarly, albeit with less volatility. This reversal coincided with the acceleration of the rise in longer-term sovereign bond yields that began late last year. In our view, this is a reflection of growing market conviction around vaccine penetration, economic reopening, and the re-upping of global fiscal stimulus. Although the earnings outlook remains buoyant across most sectors, more economically sensitive stocks have recently benefited from rising conviction around growth expectations, while quality growth stocks were more vulnerable to multiple compression when interest rates rose abruptly. We view the first quarter market behavior as evidence that we have likely passed through the most favorable phase of the post-COVID-19 market recovery, where risk aversion, low expectations, and pent-up demand met massive policy stimulus, positive vaccine developments, and increasingly, economic reopening and normalization. Going forward, we expect equity investors to be more sensitive to the pace of growth and inflation expectations, while skeptical of central bank tightening, and real economic growth and earnings will replace policy stimulus as the primary catalyst for future gains. 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.

We often say that whether looking at a particular company, a country/currency, or an asset class such as equities, what matters in assessing the attractiveness of an investment is not only the likely forward evolution of fundamentals, but also, and often critically, what has already been priced in. We view the current market environment as unique in the context of prior post-economic/financial crises. The COVID-19 crisis was not provoked by excessive leverage or speculation, but rather was an exogenous pandemic event that triggered historic stimulus and fiscal expansion to create a bridge to recovery. Also unusual after a major economic disruption, the global banking system remains largely healthy and pent-up demand is well primed, particularly at the consumer level. However, because investors now express near certainty that following mass vaccination the global economy and corporate earnings will return to potential, if not overshoot due to stimulus in the pipeline, equity values have recovered well in advance of earnings. In other words, even for the most COVID-19-impacted sectors and stocks, a substantive if not full recovery has largely been discounted, in this case sooner than what is typically observed following an economic disruption. This presents a challenge for investors as we believe the key question now is whether the earnings evolution will merely meet, or *exceed*, what has already been discounted. While we have high conviction that very good earnings news likely lies ahead, we believe stocks may have already entered a digestion or consolidation phase after stellar returns from the lows of a year ago and gains are likely to moderate from here.

In recent months, as growth and inflation expectations have firmed, longer-term bond yields have risen while more economically cyclical and value-oriented stocks have outperformed secular growth stocks. We certainly are not surprised by this turn of events, having anticipated and communicated our expectation of such a mean reversion for some time. While we cannot predict when this reversion will have run its course to find equilibrium, we suspect this sector rotation would likely subside or inflect when either longer-term bond yields rise to a level that suggests a peak in economic growth momentum, or when rising inflation expectations coerce the Fed to signal an openness to rate hikes. We believe the abrupt move higher in U.S. Treasury yields may have already approached this threshold, and we reiterate our view that in the longer term, a vast majority of value creation resides in secular growth sectors such as digitization (semiconductor/software-related/internet platforms/e-commerce/logistics/AI/cloud), fintech, health care/biotechnology, smart manufacturing, automation/robotics, and sustainability/carbon reduction. Further, we remain confident that the transition to fiscal expansion and "Modern Monetary Theory" as the primary means of global stimulus, alongside the ongoing development of EU mutualization, suggest a sustainable improvement in global growth expectations and a likely dollar bear market ahead, and we continue to believe EM and international equities have likely entered a longer-term phase of 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.