Baron Emerging Markets Strategy

September 30, 2022

Dear Investor:

Performance

Baron Emerging Markets Strategy declined 11.23% during the third quarter of 2022, while its principal benchmark index, the MSCI EM Index, declined 11.57%. The MSCI EM IMI Growth Index retreated 11.35% for the quarter. The Strategy performed essentially in line with both its principal benchmark index and the all-cap growth proxy during the quarter, which was characterized by global weakness in both equities and bonds due to elevated inflation readings, rising rate-hike expectations, and a deteriorating outlook for global economic growth. The return of isolated lockdown measures in China triggered a reversal of the second quarter rally there, while, in our view, India surprised with solid absolute and relative performance in a period of global weakness. We reiterate that China's macroeconomic, liquidity, and policy cycle has decoupled from that of the U.S./developed world, and that China-related equities likely experienced a capitulation phase in the Spring of 2022, while we believe India has entered a virtuous cycle of growth and productivity attributed to the implementation of major economic reforms over the past several years. We remain optimistic regarding the relative performance potential of emerging market (EM) equities when taking a multi-year, forward-looking view, and anticipate material absolute returns as the Fed pivots toward an easing posture in the intermediate term. As always, we are confident that we have invested in many well-positioned and well-managed companies on a bottom-up basis that are poised to benefit from long-term and attractive investment themes.

Table I.
Performance†
Annualized for periods ended September 30, 2022

	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]	(11.23)%	(11.02)%	(11.57)%	(11.35)%
Nine Months[2]	(31.64)%	(31.15)%	(27.16)%	(30.34)%
One Year	(34.42)%	(33.80)%	(28.11)%	(31.37)%
Three Years	(3.00)%	(2.08)%	(2.07)%	(0.85)%
Five Years	(2.98)%	(2.06)%	(1.81)%	(1.26)%
Ten Years	2.76%	3.67%	1.05%	2.36%
Since Inception[3] (January 31, 2011)	2.62%	3.40%	0.35%	1.47%

For the third quarter of 2022, we performed broadly in line with our primary benchmark, the MSCI EM Index, as well as our all-cap growth proxy. From a broad market perspective, EM equities underperformed both U.S. and other developed markets primarily due to a retracement of prior period gains in China, as market sentiment soured again on near-term challenges with the country's "Zero COVID" policy. As suggested in previous letters, we continue to believe that China's COVID-related uncertainties are likely transitionary with many of our Chinese investments trading at deep discounts to fair value. Growing concerns of a global slowdown and the relentless strength of the U.S. dollar owing to the perception that the Fed

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 September 30, 2022, total Firm assets under management are approximately $36.0 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 10-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs will be the same in the future.

1 The **MSCI Emerging Markets Index** is designed to measure equity market performance of large and mid cap securities across 24 Emerging Markets countries. The **MSCI EM (Emerging Markets) IMI Growth Index** 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 24 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.

remains behind the curve also weighed on EM equities. From a sector or theme perspective, strong stock selection in the Consumer Discretionary sector, most notably investments in our digitization theme (**Coupang, Inc.**, **Bundl Technologies Private Limited**, **Think & Learn Private Limited**, and **Afya Limited**) contributed the most to relative performance this quarter. Favorable stock selection in the Financials sector also added value, led by our India wealth management/consumer finance holdings (**Bajaj Finance Limited**, **SBI Life Insurance Company Limited**, **JM Financial Limited**, and **HDFC Bank Limited**). In addition, positive allocation effect and solid stock selection in the Communication Services sector, driven once again by our digitization-related positions (**Tata Communications Limited** and **Bharti Airtel Limited**) also bolstered relative results. Lastly, our cash position in a weak market also stood out as a contributor during the quarter.

Partially offsetting the above was adverse stock selection effect in the Industrials sector, primarily attributable to our sustainability/ESG (**Korea Shipbuilding & Offshore Engineering Co., Ltd.** and **Hyundai Heavy Industries Co., Ltd.**) and China valued-added (**Estun Automation Co. Ltd.**, **Zhejiang Dingli Machinery Co., Ltd.**, **Han's Laser Technology Industry Group Co., Ltd.**, and **Jiangsu Hengli Hydraulic Co., Ltd.**) themes. Poor stock selection in Materials (**Beijing Oriental Yuhong Waterproof Technology Co., Ltd.**) and our underweight positioning and adverse stock section in Energy also detracted from relative performance.

From a country perspective, solid stock selection combined with our overweight positioning in India drove most of the positive relative performance this quarter. Favorable stock selection and our lower exposure to Taiwan also stood out as key contributors.

Partly offsetting the above were adverse stock selection effect and our overweight positioning in China. Our lack of exposure to Saudi Arabia and unique exposure to Hong Kong also detracted from relative results.

We remain excited about our investments in India as landmark economic reforms implemented by the Modi administration are now supporting higher sustainable GDP growth while also accelerating the formalization and digitization of the economy. We also remain optimistic regarding the return potential of our China holdings and suspect that any signal that China is laying the groundwork for reopening would prove a material catalyst. In our view, current prices do not reflect fundamental intrinsic value for many of our investments, particularly within our China value-added theme.

Table II.
Top contributors to performance for the quarter ended September 30, 2022

	Percent Impact
Bajaj Finance Limited	0.46%
Coupang, Inc.	0.25
Bharti Airtel Limited	0.19
PJSC Polyus	0.19
Hapvida Participacoes e Investimentos S.A.	0.17

Bajaj Finance Limited is a leading, data-driven, non-bank financial company in India. Shares recouped prior losses driven by improving earnings visibility and growth prospects as Bajaj continued to scale its digital services platform. With its best-in-class management team and conservative risk management frameworks, we believe Bajaj is well positioned to benefit from growing demand for consumer financial services such as mortgages and personal and credit card loans.

Coupang, Inc., the largest e-commerce platform in South Korea, contributed after reporting a sizable beat on second quarter earnings and raising annual EBITDA guidance. Upside was concentrated in e-commerce, where Coupang is now driving sequential margin expansion while maintaining a growth rate that is triple that of the industry average, lending credence to the investment case that Coupang will consolidate the fragmented e-commerce industry in Korea across both general merchandise and grocery, with healthy long-term margins to follow.

Bharti Airtel Limited contributed during the quarter driven by steady earnings performance and Bharti's completion of 5G spectrum auctions that should lead to additional market share gains. As India's dominant mobile operator, the company is benefiting from ongoing industry consolidation. In particular, Vodafone Idea, a key player and competitor, is on the verge of bankruptcy amid severe pricing pressure and an unsustainable balance sheet. We retain conviction as Bharti transforms into a digital services company and benefits from rising mobile tariffs.

PJSC Polyus is a Russian gold mining company. Shares of Polyus collapsed following Russia's invasion of Ukraine and subsequent package of economic sanctions including those on the Central Bank of Russia. London-listed depository receipts of Polyus were suspended from trading and marked close to zero. We successfully exited our position during the quarter and were able to recover some of the value of our holdings.

Hapvida Participacoes e Investimentos S.A. contributed during the quarter driven by improving earnings visibility primarily as a result of a recovery in new memberships. As Brazil's largest health maintenance organization, the company is well positioned to benefit from growing demand for affordable health care services in the country. We believe the company will gain market share from traditional insurers that typically have higher cost structures and lack the nationwide scale to offer attractively priced plans like those of Hapvida.

Table III.
Top detractors from performance for the quarter ended September 30, 2022

	Percent Impact
Alibaba Group Holding Limited	–0.96%
Tencent Holdings Limited	–0.82
Taiwan Semiconductor Manufacturing Company Ltd.	–0.72
Korea Shipbuilding & Offshore Engineering Co., Ltd.	–0.66
Beijing Oriental Yuhong Waterproof Technology Co., Ltd.	–0.54

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 declined this quarter given macroeconomic weakness across the company's business units. Longer term, we retain conviction that Alibaba will benefit from an improving macroeconomic environment and the ongoing growth in online commerce in China.

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 this quarter given broader macroeconomic concerns as well as potential weakness in gaming. Despite the near-term uncertainty, we retain conviction that Tencent can sustain durable growth given its track record of execution, scale, and unique and diversified online assets.

Semiconductor giant **Taiwan Semiconductor Manufacturing Company Ltd.** detracted from performance due to the global macroeconomic slowdown and softening demand for consumer electronics. We retain conviction that Taiwan Semi's technological leadership, pricing power, and exposure to secular growth markets, including high-performance computing, automotive, and IoT, will allow the company to deliver strong revenue growth over the next several years.

Korea Shipbuilding & Offshore Engineering Co., Ltd. is the holding company of Hyundai Heavy, the largest shipbuilder in the world. Shares declined due to weak quarterly results and rising expectations of a global recession potentially impacting demand. We expect continued strength in orders for liquified natural gas (LNG) carrier shipbuilding, LNG dual-fueled containerships, and tankers where Korean shipbuilders have an oligopoly. Tightening regulations on carbon emissions worldwide should drive higher demand for LNG dual-fueled ships as well as carbon-free ammonia fueled ships.

Beijing Oriental Yuhong Waterproof Technology Co., Ltd. is China's leading producer of waterproofing and other advanced building materials. Shares fell due to concerns that demand from major customers would decline given weakness in the Chinese real estate market. We remain investors. Yuhong has the best product quality and pricing power in its peer group and has been rapidly gaining share in a fragmented industry. We expect structural growth in the waterproofing industry to accelerate as China pushes for higher-quality standards and stricter construction regulations.

Portfolio Structure[1]

Table IV.
Top 10 holdings as of September 30, 2022

	Percent of Net Assets
Taiwan Semiconductor Manufacturing Company Ltd.	4.2%
Samsung Electronics Co., Ltd.	3.1
Bajaj Finance Limited	2.8
Alibaba Group Holding Limited	2.8
Tencent Holdings Limited	2.7
Reliance Industries Limited	2.7
Baidu, Inc.	1.9
Bharti Airtel Limited	1.9
Suzano S.A.	1.8
Korea Shipbuilding & Offshore Engineering Co., Ltd.	1.7

Table V.
Percentage of securities by country as of September 30, 2022

	Percent of Net Assets
China	30.8%
India	26.9
Korea	7.3
Brazil	6.2
Taiwan	5.4
Hong Kong	4.0
Indonesia	2.6
Mexico	2.4
Philippines	1.5
South Africa	1.3
United Kingdom	1.2
Peru	1.2
Italy	1.1
Japan	1.0
Poland	0.9
United Arab Emirates	0.3
United States	0.2
Spain	0.1
Russia	0.0*

* *The Strategy's exposure to Russia was less than 0.1%.*

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 2022, the Strategy's median market cap was $10.0 billion, and we were invested 47.5% in giant-cap companies, 32.5% in large-cap companies, 13.4% in mid-cap companies, and 1.1% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the third quarter, we did not initiate new positions in the portfolio as we prioritized capital allocation towards our highest conviction ideas within existing themes. We highlight below some of our existing representative investments where we maintain high conviction regarding long-term return potential.

[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.

We increased exposure to our India wealth management/consumer finance theme primarily by adding to **Bajaj Finance Limited**, which is one of our highest conviction ideas that we have owned for nearly four years and currently constitutes a top five position in the Strategy. As a leading, data-driven, non-bank financial company in India, the company is well positioned to benefit from growing demand for consumer financial services such as mortgages, personal and credit card loans, vehicle financing, and other related products. Consumer credit penetration in India is currently under 15% of GDP, which creates a multi-year growth opportunity for well-managed financial institutions such as Bajaj. CEO Rajeev Jain is a best-in-class leader who is fast transforming the company to become India's largest fintech player by leveraging its proprietary technology platform to create an omnichannel "supermarket of financial services." In our view, Bajaj is well positioned to generate 25% to 30% compound earnings growth over the next five years as the company continues to gain market share from capital-constrained public sector banks while also deploying a conservative risk-management framework to generate superior risk-adjusted returns for shareholders.

As part of our digitization theme, we reiterate our conviction in **Baidu, Inc.** and **InPost S.A.** Baidu is a leading Chinese artificial intelligence company, which, in our view, is trading well below intrinsic value due to short-term economic and geopolitical uncertainties. We expect significant long-term upside given the company's strong competitive position across several of China's key growth industries. Baidu's mobile ecosystem, which includes China's dominant search engine, has over 620 million monthly active users. In our view, this ecosystem will benefit from the secular growth of China's digital advertising industry, as well as the expansion of searchable content from established social media and e-commerce platforms resulting from recent regulatory reforms regarding data interoperability. Beyond its core search business, Baidu has invested heavily in cutting-edge technologies including cloud, autonomous driving, smart devices, and AI semiconductor chips. The company's cloud business is one of the largest and fastest growing in China and is differentiated by its AI solutions and higher-value PaaS/SaaS offerings. Baidu has also developed leading autonomous driving technologies that it is commercializing through partnerships with top-tier Chinese auto manufacturers. We expect the company to sustain solid double-digit earnings growth over the next three to five years.

InPost is one of the largest logistics companies in Poland, where it operates the dominant network of automated parcel lockers (APMs) through which consumers can send and receive e-commerce packages. In recent years the company has expanded organically into the U.K. and via acquisition last year in France. The stock has underperformed since its IPO due to slowing e-commerce volumes in Europe, which has been exacerbated by a sharp increase in energy prices in the aftermath of the war in Ukraine that has reduced consumer discretionary income, as well as an upward revision in investment requirements in the French and U.K. businesses. Double-digit inflation in Poland has also hit current year operating margins, as InPost's contracts with large merchants stipulate a lag between cost realization and inflation-based price adjustments. Despite these headwinds, the company continues to significantly outgrow the industry in each of its markets. The Polish business has leveraged network effects to achieve a dominant market share with attractive and improving operating margins, and the current year's margin compression will be recovered in subsequent years as contract prices reset. Despite some early challenges in the U.K., we think the opportunity outside Poland is vast as both consumers and merchants look to out-of-home delivery options like InPost's APMs to reduce cost and increase convenience. In our view, earnings should grow multiple fold over the next five to seven years which makes InPost a high-conviction investment.

We are also excited about our investment in **Estun Automation Co., Ltd.**, as part of our China value-added theme. Estun is China's leading domestic manufacturer of industrial robots, and, in our view, is the most advanced robotics player with a blue-chip customer base. According to our estimates, the company has pricing power and can command premiums of up to 20% relative to domestic competitors owing to its superior product offering and R&D capabilities. We believe Estun is well positioned to consolidate the domestic robotics industry and triple its market share to 12% by 2025, in a market that we expect to grow at least 15% per year over the same period. As a result, we anticipate robust double-digit earnings growth for Estun over the next three to five years. The company's recent business performance is also impressive as industrial robot volumes grew 50% despite industry volumes contracting by low double digits owing to COVID-related economic disruptions in China. In our view, Estun should also improve operating margins, driving return on equity from the current mid-single digits towards 20% over time, as a result of economies of scale, increased vertical integration, and localization of supply chains.

Finally, we added to several existing positions during the quarter, including **Lufax Holding Ltd**, **Naspers Limited**, **Godrej Consumer Products Limited**, and **PT Bank Negara Indonesia (Persero) Tbk**. During the quarter, we also exited positions in **Will Semiconductor Co., Ltd.** and **PJSC Polyus**.

Outlook

In our previous letter, we highlighted a perceived transition in market sentiment from fearing inflation to fearing recession. We believed we were likely passing through peak inflation expectations, but inflation fears returned with vigor late in the third quarter. Intermediate-term forward-looking inflation indicators, such as energy and commodity prices, two- and five-year breakeven inflation readings, goods inventories, and shipping rates, imply that the recent panic over inflation may be misguided. In our view, the spike in bond yields and the reversal of equity prices during the quarter was less driven by the actual inflation data, than it was driven by the Fed's fixation on backward-looking data points and the concurrent and rising likelihood that they may commit another policy error. In other words, after failing to be data dependent during the post-COVID recovery and keeping rates too low for too long, the Fed has abruptly hiked rates and now appears to lack patience, focusing squarely on the rearview mirror as inflation reports are notoriously a lagging indicator. As financial market participants increasingly perceive a rising likelihood of over tightening and the near certainty of recession, a lack of confidence in the Fed has exacerbated the recent retreat in equities as well as relentless U.S. dollar strength. In support of our view, we note that one-year breakeven inflation expectations entered the quarter at 4.28% and steadily declined to 1.72% at quarter end, hardly a level that should require the Fed to further escalate rate-hike expectations.

While rising interest rates can take time to impact the real economy and inflation readings via curtailing demand, consumption, and investment, tightening financial conditions often have a more immediate impact on the financial economy. In the last days of the quarter, we began to surmise that regardless of current intentions, Fed hawkishness is likely reaching a zone of practical constraint. The spectacular decline of the British pound, stress on the integrity of British pension funds and other long-duration investment pools, scrutiny around Credit Suisse Group AG, and an acceleration in U.S. dollar currency appreciation and real interest rates are all signals that we have entered an elevated financial risk scenario. Without a more flexible Fed, financial contagion is increasingly likely. In financial markets, bad news can be "good news," as we believe this elevated financial risk can now act as a constraint on the Fed and provoke the patience that seemed unlikely just several weeks ago. Just as it appeared to us that the Fed was locked on course to a policy error, the markets' discounting of this reality began to trigger financial instability, which suggests that we are now likely at or near peak hawkishness. We are carefully watching for a peak in the U.S. dollar, real interest rates, and sovereign bond yields for confirmation, which would also suggest a peak in equity risk premium and a likely trough in earnings multiples.

While the global rate-hike cycle will certainly impede economic growth and curtail corporate earnings, we reiterate that this tightening began much earlier in many EM jurisdictions, while COVID-related stimulus there was also much more measured. As such, we believe the adjustment to both interest rates and earnings expectations is more advanced for such economies, while the inflation impulse is generally more measured. China, the largest EM economy, has already embarked on an easing campaign. If we are correct that we are experiencing peak hawkishness, then a coincident peak in the U.S. dollar would likely trigger improving relative performance of EM equities. We are encouraged that after this month's Party Congress in China, authorities will likely begin to emphasize vaccination and perhaps lay the groundwork for the eventual emergence from its "Zero COVID" policy, which has impaired economic activity and earnings power while overwhelming China's easing measures over the past year. As we look to 2023, we believe China stands out as a jurisdiction with perhaps the most likely prospect for earnings stabilization and recovery, which would further support EM equities in a period of widespread global earnings weakness. In the longer term, we reiterate that EM relative performance is a story of relative earnings growth and valuation, and we believe both are at trough levels given fundamental developments within EM economies as well as the global capital investment cycle that is necessary to fund the new priorities of global security, de-globalization, and sustainability. In short, we believe now is a time to take a contrarian view of the EM equity asset class.

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.