Baron International Growth Strategy

September 30, 2021

Dear Investor:

Performance

Baron International Growth Strategy retreated 1.01% during the third quarter of 2021, while its principal benchmark index, the MSCI ACWI ex USA Index, declined 2.99%. The MSCI ACWI ex USA IMI Growth Index retreated 3.06% for the quarter. The Strategy comfortably outperformed its principal benchmark index, as well as the all-cap growth proxy, and stands well ahead of both benchmarks for the year-to-date period. It was a difficult quarter for international equities, and particularly emerging market ("EM") equities, both of which meaningfully trailed U.S. equities, as defined by the S&P 500 Index. The quarter featured a return to inflation and central bank tightening concerns in general, while COVID-related disruptions and supply constraints continued. On the positive side, Delta-variant infections and hospitalizations appeared to peak in several jurisdictions, though in the short-term, we suspect this may be adding fuel to the fire of supply/demand imbalances. The focal point for global investors during the quarter was a series of adverse regulatory measures and an escalation of stress in the property sector in China, which triggered a major correction in Chinese equities as well as weakness in many related markets and sectors. We believe the correction in China is well advanced, with such equities poised to outperform when policymakers begin to relent on aggressive tightening measures. We address these subjects in greater detail in the Outlook section of this letter. We reaffirm the view from our previous letter that a mid-cycle global economic slowdown is likely underway and is necessary to address supply/demand imbalances, though U.S. and developed country equities are earlier in the process of discounting a coincident pause in earnings momentum. We would welcome a cooling of growth, inflation, and earnings expectations, which we believe would allow time for supply shortages to normalize and accommodate a prolonged phase of global expansion. Such a scenario would likely favor international and EM equity performance over a multi-year term. We are confident that we have invested in many well-positioned and well-managed companies on a bottom-up basis that are poised to benefit from long-term and attractive investment themes.

Table I.
Performance
Annualized for periods ended September 30, 2021

	Baron International Growth Strategy (net)[1]	Baron International Growth Strategy (gross)[1]	MSCI ACWI ex USA Index[1]	MSCI ACWI ex USA IMI Growth Index[1]
Three Months[2]	(1.01)%	(0.79)%	(2.99)%	(3.06)%
Nine Months[2]	9.97%	10.69%	5.90%	3.75%
One Year	30.41%	31.54%	23.92%	18.51%
Three Years	16.48%	17.43%	8.03%	12.07%
Five Years	14.77%	15.71%	8.94%	11.31%
Ten Years	12.44%	13.41%	7.48%	9.45%
Since Inception March 31, 2009[3]	14.01%	14.96%	9.23%	10.89%

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, 2021, total Firm assets under management are approximately $54.7 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 our 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 managed by BAMCO. The Strategy invests mainly in non-U.S. companies of all sizes, but focuses on small and mid-sized non-U.S. growth companies of developed nations and those benefiting from growth in developing countries. The Strategy may invest up to 30% in companies of developing 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 ACWI ex USA indexes cited are unmanaged, free float-adjusted market capitalization weighted indexes. The MSCI ACWI ex USA Index Net USD measures the equity market performance of large- and mid-cap securities across developed and emerging markets, excluding the United States. The MSCI ACWI ex USA IMI Growth Index Net USD measures the equity market performance of large-, mid- and small-cap growth securities across developed and emerging markets, excluding the United States. 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 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 12/31/2008

For the third quarter of 2021, we outperformed our primary benchmark, the MSCI ACWI ex USA Index, as well as the all-cap international growth proxy. Within the international markets landscape, third quarter trends were marked with increased volatility, primarily driven by China's growing regulatory scrutiny over its technology, education, health care, and property sectors. Solvency concerns relating to China Evergrande Group, a large Chinese conglomerate and property developer, also weighed on markets. China's energy supply shortages and COVID-related supply chain disruptions also contributed to increased uncertainty. We are pleased with our recent performance, which reflects the active risk management element of our process. From a sector perspective, strong stock selection in Communications Services, driven by our digitization-related investments (**S4 Capital plc**, **Future plc**, and **Vivendi SA**) powered a solid majority of relative outperformance. The Real Estate sector, led by our long-held investment in **Godrej Properties Limited**, India's leading residential real estate developer, also contributed meaningfully. Finally, Indian non-bank financial company **Bajaj Finance Limited** was mostly responsible for favorable stock selection in the Financials sector. Offsetting a portion of the above was adverse stock selection effect in the Information Technology sector, most notably driven by a decline in **Wix.com Ltd.** resulting from a slowdown in new customer additions as COVID tailwinds abated, and **StoneCo Ltd.** after the company disclosed unexpected asset-quality issues in its credit business, which triggered loss provisions and a temporary halt in new loans.

From a country perspective, positive allocation effect together with strong stock selection in the U.K. and India, led by the above-mentioned investments, contributed the most to relative performance during the quarter. Our overweight exposure, along with weak stock selection effect, in Brazil was the largest detractor from relative performance during the period. Adverse stock selection in China, Israel, Sweden, Germany, and Korea also negatively impacted relative results.

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

	Percent Impact
S4 Capital plc	0.67%
Godrej Properties Limited	0.44
Bajaj Finance Limited	0.41
Future plc	0.41
Endava plc	0.31

S4 Capital plc is a global marketing services business founded by Sir Martin Sorrell, the founder and former CEO of WPP, the largest ad agency in the world. S4 encompasses creative production firm MediaMonks and data-driven media consultancy MightyHive. Shares of S4 were up on recovering global ad spend, continued M&A, and increasing investor awareness. We believe S4 has meaningful potential over the long term to grow revenue at north of 25% annually at high-teens EBITDA margins, benefiting from digital transformation across industries and geographies.

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

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

Future plc is a special-interest publisher of digital content, magazines, and events with a brand portfolio including TechRadar, PC Gamer, and Gizmodo. Shares of Future were up on tailwinds to e-commerce in Future's largest categories – tech, gaming, music, sports, home, and lifestyle – as well as continued strength in the broader advertising environment. We believe Future can continue to grow both organically and through M&A, with potential to compete meaningfully in the $150 billion global B2B market with lead generation and business intelligence offerings.

Endava plc provides outsourced software development for business customers. Shares increased on quarterly results and guidance that exceeded Street expectations. Following a brief slowdown in the early months of the pandemic, business has fully rebounded and accelerated as clients recognize the need for greater investment in digital transformation. Management expects organic revenue growth to exceed 20%, with upside from accretive acquisitions. We believe Endava will continue gaining share in a large global market for IT services.

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

	Percent Impact
Zai Lab Limited	–0.59%
Alibaba Group Holding Limited	–0.45
Korea Shipbuilding & Offshore Engineering Co., Ltd.	–0.43
Wix.com Ltd.	–0.35
StoneCo Ltd.	–0.30

Zai Lab Limited is a leading biotechnology company helping to modernize the Chinese health care industry. Zai Lab's initial focus centered around in-licensing western medicines for commercialization in China; this has expanded into internal pipeline efforts. Shares fell alongside the broader Chinese equity markets given concerns around regulations the government has enacted in education, technology, and real estate. While we are paying attention to these developments, so far, we think innovative and research-driven health care companies will not be subject to any draconian rulings.

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

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

Wix.com Ltd. is the leading provider of software that helps micro-businesses build and maintain their websites. Shares of Wix declined after the company reported quarterly results that showed some slowdown in new customer additions as a result of abating positive COVID-19 trends. We retain conviction in Wix's long-term opportunity, as it enables small businesses to transition online in a post-pandemic world.

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

Portfolio Structure

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

	Percent of Net Assets
Future plc	3.0%
S4 Capital plc	2.7
BNP Paribas S.A.	2.3
Keyence Corporation	2.0
Endava plc	1.8
argenx SE	1.8
Eurofins Scientific SE	1.6
Linde plc	1.6
Nestle S.A.	1.6
Befesa S.A.	1.5

Table V.
Top five holdings as of September 30, 2021 – Emerging Countries[1]

	Percent of Net Assets
Bajaj Finance Limited	1.9%
TCS Group Holding PLC	1.8
Novatek PJSC	1.2
Tencent Holdings Limited	1.2
Godrej Properties Limited	1.2

Table VI.
Percentage of securities in Developed Markets as of September 30, 2021[1]

	Percent of Net Assets
United Kingdom	17.5%
Japan	9.2
France	6.7
Netherlands	5.2
Switzerland	4.4
Germany	4.0
Spain	3.1
Israel	2.7
United States	2.3
Sweden	2.1
Canada	2.0
Italy	1.0
Denmark	1.0
Hong Kong	0.8
Australia	0.7
Norway	0.6

Table VII.
Percentage of securities in Emerging Markets as of September 30, 2021[1]

	Percent of Net Assets
China	8.8%
India	7.5
Russia	3.9
Brazil	3.0
Korea	1.1
Poland	0.8
Mexico	0.5

The tables above do not include the Strategy's exposure to Uruguay (1.1%) because the country falls outside of MSCI's developed/emerging/frontier framework.

Exposure by Market Cap: The Strategy may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. At the end of the third quarter of 2021, the Strategy's median market cap was $14.6 billion. We were invested 60.2% in large- and giant-cap companies, 23.4% in mid-cap companies, and 6.4% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

[1] Portfolio characteristics, top holdings in developed and emerging markets, country and market cap exposures, top net purchases, and top net sales 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 diversity 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.

Recent Activity

During the third quarter of 2021, we added a few new investments while also increasing position sizes in several existing holdings. We initiated a position in **Stevanato Group S.p.A**, a 70-year old company and leading provider of drug containment products, such as vials and syringes, among other products and services. The company serves many of the world's largest pharmaceutical and biotechnology companies. Its products are included in the regulatory filings for the drugs they contain, which results in high switching costs and provides recurring revenue for the life of the drug. We believe Stevanato has a stable growth business that should benefit from product mix shifts toward higher-value, higher-priced, higher-margin products such as EZ Fill (ready-to-fill products provided to customers after they have been washed, sterilized, and depryogenated), Alba (a material that reduces silicon oil particle leaks and delamination), and Nexa (a material that provides high mechanical resistance). In our view, the business can grow sales at high single-digit rates to low double-digit rates with EBITDA margins expanding to the high 20% range over time.

We were also active in adding to our China value-added theme, most notably via a new investment in **Zhejiang Hangzhou Dingli Machinery Co., Ltd.** Dingli is China's largest manufacturer of Aerial Work Platforms ("AWPs") with a roughly 40% market share. An AWP is a mechanical device used to provide temporary flexible access in construction and maintenance and is designed to be operated by a single person. The AWP market is significantly underpenetrated market in China, and, in our view, there is a long-term structural growth opportunity for rising AWP adoption in the country. This is due to increased affordability of AWP rentals as compared to rising labor costs and a growing priority for corporates to focus on worker safety and productivity. China's AWP fleet expanded at a 40% compound rate over the past five years, resulting in greater than 50% AWP equipment sales volume. Dingli is the first mover and largest player in the industry with premium quality products and is the only Chinese manufacturer to successfully compete with foreign brands abroad.

During the quarter, we participated in the IPO of **Mister Spex SE**, a founder-led, German eyewear retailer. The company was founded in 2007 as an online-only seller of sunglasses and has pivoted in recent years to opening physical stores (42 today) in order to shift its mix toward prescription eyewear. European prescription eyewear is a large addressable market (€6 billion in Germany, €23 billion in targeted western European countries) with high gross margins (70% to 90%) served by a fragmented base of independent opticians and chains with low online presence/ capability. These characteristics in other retail categories have historically translated into substantial opportunities for a disruptive, digital-first challenger. Mister Spex is such a challenger, and we expect the company to grow revenue at over 20% per annum at attractive returns on invested capital for several years. Plans to rapidly roll out stores to 250 over the next 5 years will drive profitability through its mix shift to more prescription eyewear sales, which carry higher ASPs and margins, and a gradual increase in own-brand penetration. In our view, Mister Spex's 2% market share in Germany can quintuple in the long run, and early indications regarding its expansion into Austria, Switzerland, and Nordic countries are encouraging.

We also added to several existing positions, notably **Keyence Corporation**, **Nestle S.A.**, **eDreams ODIGEO SA**, **Alibaba Group Holding Limited**, **Midea Group Co., Ltd.**, **InPost S.A.**, **SMS Co., Ltd.**, and **TeamViewer AG**. Based on our goal to increase portfolio concentration and/or due to shifting fundamentals or valuations reaching levels inconsistent with our view of fundamentals, we exited positions in **FANUC Corp.**, **Detsky Mir PJSC**, **Tower Semiconductor Ltd.**, **Itau Unibanco Holding SA**, **Winning Health Technology Group Co., Ltd.**, **Sony Corporation**, **NEXON Co., Ltd.**, **GDS Holdings Limited**, **Kotak Mahindra Bank Ltd.**, **Network International Holdings Ltd.**, and **Hemnet Group AB**.

Outlook

Something happened on the way to the mid-cycle slowdown. As we remarked in our previous letter, "In recent months, bond yields and inflation fever indeed peaked, as an ongoing slowdown in Chinese credit growth, the spread of the Delta variant of COVID-19, and rising conviction that the Fed would not fall too far behind the curve, coalesced to cool both global growth expectations and spiraling commodity prices… These conditions resulted in growth stocks, particularly in the U.S., outperforming during the recent quarter." While the second quarter was characterized by cooling of inflation fever, as we progressed through the third, the peaking of Delta-variant infections coincident with increasing supply bottlenecks in various forms – labor, commodities, materials, oil, natural gas, inventories, and transportation and logistics capacity – remained a challenge and sparked a return to concerns over inflation, rising interest rates, and more aggressive central bank tightening. This round of supply-related concerns has emerged coincident with an apparent economic slowdown, and since we believe it will be difficult and will take some time for central bankers to address these issues, we suspect the correction in global equities that began in early September may have more room to run, particularly among the top-performing equities in the year-to-date period. We believe cost pressures may lead to margin compression for many companies at a time of slowing revenue growth; a tough combination given existing elevated earnings expectations and valuations. We believe some time to allow imbalances to correct would be healthy, and we remain optimistic that a multi-year period of global economic expansion, and a flow of capital from fixed income to equity assets, which favors international and EM markets, remains likely.

From our international perch, the seminal event during the quarter was the manifestation and aggressive discounting of the regulatory and credit tightening China started late in 2020. While the financial media offers no shortage of skeptics on the subject, we believe the policy measures China is undertaking make sense in the context of the stated goal of enhancing the social, political, economic, and financial stability of the country. These measures have been in development for some time and their implementation was delayed by the COVID crisis last year. Given next year's Party Congress, during which President Xi will strive to achieve the rare third term, we believe we are witnessing the peak in tightening as the Party will want to facilitate economic momentum in advance of the Party Congress. While many biased commentators suggest that "China has become un-investible," we strongly disagree. Policy makers are merely shining a light on the divide in China that we have been discussing for some time. We believe recent events illuminate the importance of active stock selection in China and enhance the case for investing in the value-added, intellectual capital-based companies that further China's goal of becoming self-sufficient in strategic sectors such as semiconductors, software, artificial intelligence, electronic vehicles and autonomous driving, biotechnology and innovative health care products and services, and automation and robotics. Then there are the companies that have come under regulatory pressure given their potential long-term threat to China's social, political, and financial stability due to the high cost of education/

tutoring, the high cost of housing, excessive leverage or speculation, or perceived monopoly-like market concentration and/or ownership and leverage of strategic data. We believe that China's regulatory and credit tightening was intentional and is well advanced. The panic selling during the third quarter, particularly by international and U.S. investors, represents the capitulation phase, at least on a relative basis. We believe China has the capacity to arrest contagion and spark a targeted economic recovery. China views episodes such as Evergrande's likely restructuring as necessary to guard against moral hazard and reinforce the deleveraging message that is a consistent objective of Xi's stability strategy. While the correction in China may not be over, we are confident we are in the late innings and believe a legitimate policy easing signal would trigger a strong recovery and outperformance phase for Chinese equities.

Looking forward, we remain optimistic regarding our portfolio of investments and, notwithstanding the dominance of U.S. equities in recent years, we caution investors not to overlook the attractiveness of the international asset class, particularly at current valuations. We think that the global economy, corporate earnings, and asset prices are influenced by the two major axes of macroeconomic activity and liquidity – China, which tends to correlate more closely to international economies and equities, and the U.S., which tends to be more insular. As we mention above, China's regulatory and credit tightening cycle is nearing its trough, while the U.S. appears to be passing through a near-term peak, with a phase of moderating growth or tightening increasingly inevitable. While we suspect that the current correction may have to run a bit further to correct imbalances, we are increasingly confident that international and EM equities are poised for a period of mean-reverting outperformance.

Sincerely,

Michael Kass
Portfolio Manager

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

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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