Baron International Growth Strategy

December 31, 2020

Dear Investor:

Performance

Baron International Growth Strategy gained 18.58% for the fourth quarter of 2020, while its principal benchmark index, the MSCI ACWI ex USA Index, appreciated 17.01%. The MSCI ACWI ex USA IMI Growth Index gained 14.22% for the quarter. The Strategy outperformed its principal benchmark index, while handily exceeding the all-cap growth proxy, in a strong quarter for global equities. For the quarter, international equities notably outperformed their U.S. counterparts, with the exception of U.S. small-cap stocks. Market leadership by sector continued to ebb and flow, with more economically cyclical and interest rate sensitive sectors exhibiting a powerful rally following the U.S. Presidential election and promising news regarding the efficacy and timing of multiple COVID-19 vaccines. For the full-year 2020, we were pleased with the Strategy's performance, which at over a 30% gain strongly outperformed its principal and all-cap growth benchmarks. Looking forward, we believe the COVID-19 crisis has pushed global policymakers through the portal of "Modern Monetary Theory," and that this, concurrent with the transfer of policy/stimulus leadership to politicians and elected officials, suggests to us a sustainable period of dollar weakness and relative outperformance for international equities. The possibility of debt mutualization and the easing of fiscal constraints in Europe, in addition to the recent Brexit resolution and U.K. trade pact, should further support the relative return potential of international equities. We also reiterate our view that the pivot to value-added economic activity in China, notwithstanding escalating political rhetoric and national security concerns, presents compelling opportunity for dedicated long-term and bottom-up fundamental investors. As always, we are confident that we have invested in many well-positioned and well-managed companies on a bottom-up basis, which are poised to benefit from long-term and attractive investment themes.

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

	Baron 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]	18.58%	18.84%	17.01%	14.22%
One Year	31.01%	32.08%	10.65%	22.40%
Three Years	11.88%	12.77%	4.88%	9.74%
Five Years	14.43%	15.37%	8.93%	11.83%
Ten Years	9.14%	10.09%	4.92%	6.94%
Since Inception[3] (March 31, 2009)	14.04%	14.99%	9.31%	11.28%

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of December 31, 2020, total Firm assets under management are approximately $47.7 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in 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 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. 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 indexes and Baron International Growth 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 12/31/2008

Baron International Growth Strategy

For the full-year 2020, we outperformed our principal benchmark index by a wide margin, while also comfortably outperforming our all-cap international growth proxy. During a strong year with over a 30% return, positive relative performance was broad-based, led by our overweight exposure to and strong stock selection in Information Technology ("IT"). Strength in the sector was driven by our digitization/cloud/SaaS software theme investments including **RIB Software SE**, **Wix.com Ltd.**, **Kingdee International Software Group Co. Ltd.**, and **NEXTDC Limited**. Stock selection in Health Care also contributed significantly to relative returns, led by our biotechnology theme investments **Zai Lab Limited** and **argenx SE**. **Eurofins Scientific SE**, a global bioanalytical testing services provider; **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**, a leading Chinese medical equipment manufacturer; **Agilent Technologies, Inc.**, a leader in life sciences, diagnostics and applied chemical markets; and **AstraZeneca PLC** also performed well. In addition, **S4 Capital plc** and **Spotify Technology S.A.**, also related to our digitization theme, but classified in the Communications Services sector, contributed meaningfully to positive relative performance. Modestly offsetting the above was adverse stock selection in Consumer Staples, primarily driven by a decline in **Treasury Wine Estates Limited**, a consequence of COVID-19 disruption and China levying high import tariffs on Australian wines. In addition, adverse stock selection in the Energy sector, also in our view COVID-19 related, negatively impacted relative performance.

From a country perspective, for calendar year 2020, strong stock selection in the U.K. and China powered a solid majority of relative outperformance, as our investment performance in these markets was broad-based across several principal themes, but particularly led by our digitization/cloud/SaaS software investments. Our underweight position along with poor stock selection in strong-performing Korea was the largest detractor to relative results. Our overexposure to declining Brazilian equities, lack of exposure to better performing Taiwanese stocks, and adverse stock selection in Norway and Italy also negatively impacted relative performance.

For the fourth quarter, we outperformed our benchmark in a very strong period for equity returns. We are encouraged with our performance as we often lag in such periods, during which investors pursue index heavyweights and shift towards more economically cyclical stocks. Positive stock selection in the Health Care and Industrials sectors were key drivers of relative outperformance in the fourth quarter, while relative performance was negatively impacted by our cash position in a period of strong market returns, as well as by adverse stock selection in the IT and Energy sectors.

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

	Percent Impact
Zai Lab Limited	0.94%
BNP Paribas S.A.	0.91
CAE Inc.	0.91
Farfetch Limited	0.77
S4 Capital plc	0.62

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

Shares of France-based universal bank **BNP Paribas S.A.** appreciated as investors gained clarity on the impacts of the pandemic on its business. In its third quarter review, management's view on potential losses and additional provisioning needs were less than Street expectations. A more benign outlook also fueled optimism that the European Central Bank would reverse a ban on dividend payments, driving a sector-wide rally. BNP outperformed the broader index of EU banks due to its solid capital position and its credible plan to improve profitability over the mid-term period.

CAE Inc. is the leading provider of simulators and pilot training, with 70% share of global flight simulator production and the largest global network of simulators for pilot training. Shares rallied after news of COVID-19 vaccines improved visibility for airline travel recovery. We believe there will be increasing demand for pilot training due to post-pandemic fleet reactivation and the return of the 737 MAX to service in the near term and from pilot retirements over the long term.

Farfetch Limited, a global luxury fashion e-commerce marketplace, contributed to performance following its announced partnership in China with Alibaba and Richemont. The deal was well received by investors. The company remains focused on expanding its reach in China, which is one of the world's most important luxury marketplaces. We retain conviction in Farfetch's continued growth as the leading global online luxury marketplace.

S4 Capital plc is a global marketing services business founded by Sir Martin Sorrell, the founder and former CEO of WPP, the world's largest ad agency. S4 encompasses creative production firm MediaMonks and data-driven media consultancy MightyHive. Shares of S4 were up in the quarter 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 north of 25% annually with high-teens EBITDA margins as it benefits from digital transformation across industries and geographies.

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

	Percent Impact
Alibaba Group Holding Limited	–0.32%
Reliance Industries Limited	–0.20
AstraZeneca PLC	–0.13
Square Enix Holdings Co., Ltd.	–0.10
Arco Platform Limited	–0.09

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Group, which operates Alipay, China's largest third-party online payment provider. Shares were down on the news that Chinese regulators had suspended the listing of ANT Group and also launched an investigation into Alibaba for potential monopolistic behavior. We continue to believe Alibaba's core business remains highly profitable, complemented by rapid growth in the cloud business and inflection in the Cainiao logistics and New Retail segments.

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

AstraZeneca PLC is a multi-national pharmaceutical company developing drugs across multiple therapeutic areas such as oncology and respiratory diseases. Shares were impacted by news of AstraZeneca's joint development with Oxford University of a viral-based COVID-19 vaccine. Given a mixed data set due to an unforeseen error in dosing that occurred in the Brazilian market, the vaccine timelines slipped, hurting share performance. Our investment thesis on AstraZeneca is not dependent on COVID-19 but rather its best-in-class large-cap growth profile, and we retain conviction.

Square Enix Holdings Co., Ltd. is a Japanese video game company. Shares fell during the quarter due to a lack of new titles post the record launch of the remake of Final Fantasy VII and delays in new titles due to COVID-19-related restrictions. We remain confident in the company's ability to generate sustainable returns for shareholders with its leading IP portfolio and increasing revenue contribution from its high-margin digital content.

Arco Platform Limited is a Brazilian education technology company providing content and software solutions to K-12 private schools. Shares fell after bookings guidance for 2021 missed analyst estimates as a result of a pandemic-generated delay in its sales cycle. We retain conviction in Arco as it remains in the early stages of disrupting the industry with a modern learning platform that generates better results for students and higher rankings for schools and should drive rapid growth at high profitability over the long term.

Portfolio Structure

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

	Percent of Net Assets
BNP Paribas S.A.	2.4%
Credit Suisse Group AG	2.3
argenx SE	2.1
S4 Capital plc	1.9
FANUC Corp.	1.7
Keyence Corporation	1.6
Telefonaktiebolaget LM Ericsson	1.6
Future plc	1.6
Lloyds Banking Group plc	1.6
LVMH Moet Hennessy Louis Vuitton SE	1.5

Table V.
Top five holdings as of December 31, 2020 – Emerging Countries

	Percent of Net Assets
Zai Lab Limited	2.0%
Bajaj Finance Limited	1.6
Tencent Holdings Limited	1.2
Grupo Mexico, S.A.B. de C.V.	1.1
Alibaba Group Holding Limited	1.1

Table VI.
Percentage of securities in Developed Markets as of December 31, 2020

	Percent of Net Assets
United Kingdom	15.9%
Japan	13.4
France	7.2
Switzerland	4.2
Netherlands	3.7
Germany	3.6
Sweden	3.5
United States	2.9
Canada	2.7
Israel	2.4
Spain	1.7
Australia	1.5
Hong Kong	1.3
Denmark	0.7
Norway	0.7

Table VII.
Percentage of securities in Emerging Markets as of December 31, 2020

	Percent of Net Assets
China	13.2%
India	7.3
Brazil	5.4
Russia	3.0
Mexico	1.6
Korea	0.9
United Arab Emirates	0.3

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 fourth quarter of 2020, the Strategy's median market cap was $16.0 billion, and we were invested 68.6% in large- and giant-cap companies, 20.3% in mid-cap companies, and 8.2% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the fourth quarter of 2020, we added several new positions toward existing themes while also increasing several investments that were established earlier in the year. We continue our endeavor to add concentration to our high conviction ideas.

[1] Top percentage of securities, holdings, 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.

We were active in filling out our sustainability/ESG theme, most notably via three new positions in Europe: **Befesa S.A.**, **AMG Advanced Metallurgical Group N.V.**, and **Epiroc AB**. Befesa is a leading environmental services provider, as collector of hazardous steel dust and aluminum waste with a 50% market share in Europe. The company recycles EAF steel dust from customers for a fee and recovers valuable by-products such as zinc. Befesa's scale, technological advantage, and customer retention helps to generate very high returns on capital. It is pioneering steel dust recycling in China, with two plants being commissioned this year that will expand its total recycling capacity by 20%. Befesa has a first mover advantage in the virtually untapped Chinese market, which in the longer term could support 10 to 20 times the recycling capacity that the company is building today. We expect stricter environmental policies in China, and potentially India and other EM countries, to help sustain high double-digit growth rates over the next decade. AMG is a European specialty metals company producing critical materials such as vanadium and titanium alloys. AMG also recycles spent catalysts from oil refinery into ferrovanadium using proprietary technology. Much like Befesa, the company has a captive customer base with long-term contracts, and demand for its services grows from environmental regulations to reduce hazardous waste. In addition, we like the company's growth opportunity in lithium, an essential metal used in EV batteries and energy storage. AMG wants to build its own lithium chemical capacity in Europe, which we think should lead to a much better margin profile for its lithium business. Epiroc is a leading global manufacturer of mine drilling and underground loading equipment. The company has a leading position in upstream mining capital equipment, a highly concentrated duopoly market. The company has some of the highest cash margins and premium returns among European industrials, with attractive exposure to the faster-growing underground mining segment. Epiroc has been innovating and advancing sustainability goals by reducing carbon emissions through electrification of mining equipment. We think there is a secular growth rerating opportunity from acceleration of mine digitization and automation which should significantly boost higher margin aftermarket sales.

During the quarter, we also initiated a position in **Suzano S.A.**, adding further to our sustainability/ESG investments. Headquartered in Brazil, Suzano is the world's largest and lowest cost producer of pulp, which is primarily used in paper, tissue, and packaging. The company is also expanding into new, higher-margin sustainability markets with fossil-to-fiber substitution across textiles, plastics, fuels, and chemicals. Suzano's pulp production removes more greenhouse gas emissions from the atmosphere than it emits. The company has a goal to remove 40 million tons of carbon dioxide over the next decade, and we see an opportunity in the future to monetize these carbon credits. In addition to maintaining a positive view on pulp prices, we expect sustainability/ESG factors to drive a higher earnings multiple for Suzano.

We also made an investment in **Pernod Ricard SA**, a France-based global spirits company whose brands include Jameson, Martell, Chivas, and Glenlivet, among many others. Lockdowns across most global markets in 2020 drove a decline in gatherings and travel-related consumption and in turn Pernod's stock price, which in our view offered an attractive entry point for a company whose intermediate-term earnings power is likely unchanged and whose results should thus normalize at some point this year as vaccines are deployed and markets reopen. The premium spirits industry is characterized by secular growth, premiumization and pricing power that drives a high and rising return on capital for superior brands. In addition, Pernod has assets that offer appealing structural growth, including the best and most profitable premium whisky business in India, the leading cognac brand (Martell) in China, and a strong global brand in Jameson, which has grown revenue at double-digit rates for over a decade. Management is competent as brand owners and incubators, and we believe there is also a margin expansion opportunity over the next three to five years that will drive above-industry earnings growth.

In anticipation of improving prospects of a Brexit resolution, we initiated a position in **Lloyds Banking Group plc**, one of Britain's largest lenders. Through its subsidiaries, the company provides a wide range of banking services including retail banking, mortgages, pensions, asset management, and insurance, among others. We believe Lloyds' earnings are set to rebound after hitting a recent trough, driven by positive trends in mortgage underwriting and lower provision requirements. Demand for homes has soared in the U.K. since the onset of COVID-19, driving higher real estate prices and lending spreads on new mortgages. The bank has also built a comfortable cushion of reserves to contend with potential COVID-19 related credit losses. These factors suggest earnings have troughed and are set to rebound sharply. In addition, we believe the company's valuation was heavily discounted due to lingering fears of a failed Brexit resolution and a central bank-imposed ban on dividend payments. In our view, the recent Brexit resolution and likely reinstatement of dividends are positive catalysts that could propel the stock back to historic valuations at a minimum.

During the quarter, we also added to several existing positions, notably **Credit Suisse Group AG**, **BNP Paribas S.A.**, **Bajaj Finance Limited**, **XP Inc.**, **Cellnex Telecom, S.A.**, **FANUC Corp.**, and **Vivendi SA**, and exited **Hangzhou Hikvision Digital Technology Co., Ltd.** and **Brookfield Asset Management, Inc.** in favor of higher conviction positions.

Outlook

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

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

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

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

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.