Baron International Growth Strategy

June 30, 2020

Dear Investor:

Performance

Baron International Growth Fund Strategy gained 28.43% (net of fees) for the second quarter of 2020, while its principal benchmark index, the MSCI ACWI ex USA Index, appreciated 16.12%. The MSCI ACWI ex USA IMI Growth Index gained 20.09% for the second quarter. The Strategy handily outperformed its principal benchmark index for the quarter, during what proved to be a reversal of conditions from a first quarter marked by COVID-19-related disruption. In our first quarter letter, we suggested that markets should at a minimum stabilize as greater clarity emerges regarding a peak in case counts, availability of testing, therapeutic options, and progress towards a vaccine. We noted evidence that the unprecedented and global policy response was achieving its desired effect, and could act as a bridge to the restart of economies and the normalization of corporate earnings. After lagging early in the quarter, we were encouraged that international equities finished quite strong and largely kept pace with U.S. and global equity benchmarks for the period. Looking forward, we continue to believe that COVID-19 will be the catalyst that likely confirms a policy shift through the portal of Modern Monetary Theory, or what we call populist quantitative easing ("QE"), which we expect will lead to a shift in relative performance in favor of non-U.S. equities, as well as a U.S. dollar bear market. We also believe the COVID crisis may prove the watershed event to catalyze Europe to pursue debt mutualization, which, in our view, would materially improve confidence in the Euro and narrow the significant discount on Euro area equities. We have taken advantage of recent market events to further concentrate our portfolio in attractive long-term themes and companies that are well positioned to prosper from significant catalysts, reforms, and trends that we believe will remain in place for many years. Also, we believe the evolving and complex relationship between the U.S. and China represents a tectonic shift in geopolitics that is by no means a reason to disfavor investing in non-U.S. equities, rather it is creating exciting long-term investment opportunities for forward looking and bottom-up investors such as ourselves.

Table I.
Performance
Annualized for periods ended June 30, 2020

	Baron International Growth Strategy (net)[†]	Baron International Growth Strategy (gross)[†]	MSCI ACWI ex USA Index[1]	MSCI ACWI ex USA IMI Growth Index[1]
Three Months[2]	28.43%	28.67%	16.12%	20.09%
Six Months[2]	0.85%	1.24%	(11.00)%	(3.06)%
One Year	8.95%	9.82%	(4.80)%	5.47%
Three Years	7.92%	8.77%	1.13%	5.69%
Five Years	7.34%	8.24%	2.26%	5.45%
Ten Years	9.27%	10.21%	4.97%	7.05%
Since Inception[3] (March 31, 2009)	12.07%	13.00%	7.64%	9.52%

For the second quarter of 2020, we comfortably outperformed our primary benchmark, the MSCI ACWI ex USA Index, as well as the all-cap International growth proxy, and remain well ahead of both benchmarks for the year-to-date period. From a broad market perspective, second quarter performance was largely a reversal of the first quarter performance. Under the surface, however, the second quarter was marked by broad swings in relative performance between groups we define as COVID beneficiaries, COVID-impacted, and COVID-impaired businesses, countries and currencies. Early in the quarter, COVID beneficiaries staged impressive rallies, while the impacted and impaired businesses began to catch up late in the quarter. We were pleased to deliver a strong quarter of absolute and relative performance with broad-based participation across several themes, and we initiated, or added to, several high-quality positions even though the COVID disruption impacted them in the short term. In addition, we sold some COVID-impaired investments, such as travel-related businesses, late in the quarter on strength, thereby upgrading the overall portfolio quality in a post-COVID context. While we had solid performance and stock selection

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 June 30, 2020, total Firm assets under management are approximately $32.5 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 mutual fund 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.

† The Strategy's 3-, 5-, and 10-year historical performance was impacted by gains from IPOs and/or secondary offerings and 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 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.

across the portfolio, from a sector perspective our Information Technology investments, led by our mobile e-commerce, digital transformation and cloud/SaaS software themes (**Wix.com Ltd.**, **Kingdee International Software Group Co. Ltd.**, **Endava plc**, **TeamViewer AG**, and **Glodon Company Limited**) contributed the most. In addition, strong stock selection in the Health Care sector, led by our biotechnology holdings (**argenx SE** and **Zai Lab Limited**) as well as in the Communications Services sector, led by our recent addition of **Spotify Technology S.A.**, also contributed meaningfully. From a country perspective, strong stock selection in the U.K. (**S4 Capital plc** and **B&M European Value Retail S.A.**) and China, driven by our China value-added/localization theme (**Hua Hong Semiconductor Limited**, **China Tourism Group Duty Free Corporation Limited**, **Midea Group Co., Ltd.**, and **GDS Holdings Limited**), contributed the most. Adverse stock selection in the Materials sector and our cash position in a strong market detracted from relative performance.

Table II.
Top contributors to performance for the quarter ended June 30, 2020

	Percent Impact
argenx SE	1.68%
Wix.com Ltd.	1.48
Spotify Technology S.A.	1.35
Zai Lab Limited	1.18
S4 Capital plc	0.71

argenx SE contributed to performance after reporting positive results from its Phase 3 trial in Myasthenia Gravis, a long-term neuromuscular disease. These results helped de-risk the investment as it was argenx's first successful Phase 3 trial ever and the data quality all but ensures regulatory approval and commercial launch over next 12 months. Given this important inflection point, shares were once again rewarded, and we maintain strong conviction in argenx.

Wix.com Ltd. provides software to help micro-businesses build and maintain websites and operate their businesses. Wix has over 170 million registered users and 4.5 million premium users. Shares were up in the second quarter as Wix's business benefited from the accelerating pace of digitization due to COVID-19. We remain investors as Wix expands its platform to target professional website builders and agencies in addition to its core do-it-yourself customers, increasing its total addressable market multi-fold while continuing to rapidly introduce new features and products.

Spotify Technology S.A. is a leading digital music service available in 79 international markets, offering on-demand audio streaming through paid premium subscriptions as well as a free ad-supported model. Shares were up on robust user growth across all regions and recovering engagement in areas impacted by the pandemic. We view Spotify as a long-term winner in music streaming with potential to go from 130 million paying subscribers today to over 250 million in four years driven by its scalable core music product and its growing library of spoken-word content.

Zai Lab Limited is a Chinese biotechnology company in-licensing drugs from developed countries to introduce to the Chinese health care market. Shares increased given a favorable reception to its recent in-licensing deal with Regeneron. The deal continues to cement Zai as a partner of choice for Western medicines in the China market. Recent commercial launches of two drugs for cancer treatment by Zai and a strong China health care market broadly should also help drive positive sentiment toward the company, in our view.

S4 Capital plc is a global marketing services business founded by Sir Martin Sorrell, the founder and ex-CEO of the world's largest ad agency WPP Group. S4 has two primary businesses: MediaMonks, a creative production firm; and MightyHive, a consultancy focused on media buying technologies and data and analytics. Shares of S4 were up in the quarter on recovering global ad spend and continued M&A in the data and analytics practice. We believe S4 has a meaningful runway for growth ahead as secular tailwinds drive digital transformation across industries and geographies.

Table III.
Top detractors from performance for the quarter ended June 30, 2020

	Percent Impact
Golar LNG Ltd.	–0.09%
UniCredit S.p.A.	–0.09
Haitong Securities Co., Ltd.	–0.07
MercadoLibre, Inc.	–0.07
Titan Company Limited	–0.04

Golar LNG Ltd. is engaged in transportation and regasification of liquefied natural gas. Golar also operates floating liquefaction unit Hilli ("FLNG"). Shares fell due to continued weakness in the shipping market. We retain conviction. Golar has announced plans to spin off its shipping business, and we expect Golar to convert more vessels into FLNG units at attractive returns. We believe Golar is trading below its asset value and can create significant equity value going forward.

UniCredit S.p.A. is a Pan-European, full-service banking institution headquartered in Italy. Shares of UniCredit declined on concerns about the long-term economic impacts of COVID-19 and uncertainty about the European Council's policy response to the pandemic. We decided to exit our position, as we saw a more challenging outlook for financial institutions in Europe underpinned by lower growth forecasts, lower-for-longer interest rates, and tighter capital regulation.

Haitong Securities Co., Ltd. is a securities firm in China primarily focused on brokerage, asset management, and investment banking. Shares declined due to a weaker outlook for brokerage and investment income as suggested by interim operating figures. The announced removal of Haitong from the Hang Seng China Enterprises Index also weighed on shares. We exited our position, as the benefits of China's capital markets reform are taking longer than we anticipated, and company earnings remain tied to market volatility and cyclical factors.

We sold **MercadoLibre, Inc.**, a leading e-commerce and digital payments platform in Latin America, early in the quarter given the company's exposure to highly discretionary e-commerce categories during an economic recession and offline payments during COVID-19 lockdowns. We were also concerned about currency devaluations.

Shares of **Titan Company Limited**, India's largest organized jewelry retailer, declined in the quarter due to the COVID-19 pandemic's negative impact on business operations and temporary store closures. We exited our position.

Portfolio Structure

Table IV.
Top 10 holdings as of June 30, 2020 – Developed Countries

	Percent of Net Assets
argenx SE	3.2%
AstraZeneca PLC	2.1
Keyence Corporation	2.0
Telefonaktiebolaget LM Ericsson	2.0
TeamViewer AG	1.9
NEXTDC Limited	1.8
Wix.com Ltd.	1.8
Constellation Software, Inc.	1.7
Takeda Pharmaceutical Company Limited	1.7
Experian plc	1.7

Table V.
Top five holdings as of June 30, 2020 – Emerging Countries

	Percent of Net Assets
Zai Lab Limited	2.2%
Tencent Holdings Limited	1.6
Alibaba Group Holding Limited	1.5
Reliance Industries Limited	1.3
Afya Limited	1.3

Table VI.
Percentage of securities in Developed Markets as of June 30, 2020

	Percent of Net Assets
United Kingdom	15.6%
Japan	15.0
France	5.3
Netherlands	4.7
Switzerland	4.2
United States	3.8
Sweden	3.6
Germany	3.2
Canada	3.0
Israel	3.0
Australia	2.6
Hong Kong	1.3
Spain	0.9
Norway	0.6

Table VII.
Percentage of securities in Emerging Markets as of June 30, 2020

	Percent of Net Assets
China	14.1%
India	5.7
Brazil	4.2
Russia	2.5
Mexico	1.3
Korea	0.7
United Arab Emirates	0.5

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 second quarter of 2020, the Strategy's median market cap was $11.7 billion, and we were invested 58.6% in large- and giant-cap companies, 26.2% in mid-cap companies, and 11.0% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During a quarter of continued market volatility, we increased exposure to several themes and high-conviction investments. Given the economic uncertainty related to COVID-19, we opportunistically exited positions whose earnings potential we deemed impaired for an unquantifiable time owing to disruption in global travel and other related services. We continue our endeavor to modestly reduce the number of positions in the portfolio.

As part of our China value-added/technology localization theme, we initiated positions in **Tokyo Electron Limited** and **Advantest Corporation**, both Japan-based advanced semiconductor equipment/test providers. While these companies are not domiciled in China, we believe that, in addition to rising U.S./China geopolitical tension in general, the recent move by the U.S. government to restrict U.S. technology content from China's efforts to develop their own semiconductor design and production will likely result in substantial opportunities for non-U.S. suppliers such as Tokyo Electron and Advantest. Tokyo Electron is a market leader in photoresist coating, developer, and etching equipment serving the global logic and memory makers, and we believe the company's growth is poised to accelerate in the next several years, independent of emerging opportunities in China, driven by the rising complexity of semiconductor manufacturing, which requires increasingly sophisticated, high-end tooling. Advantest is a leading global provider of semiconductor testing equipment and services with almost a 50% market share. As customized chips are increasingly adopted to drive performance in high-end System-on-Chip in logic, memory, high performance computing, and 5G-related applications, demand for system-level testing will accelerate and directly benefit Advantest. Advantest is also poised to capture incremental growth from China's production ramp up in memory, while gaining share from U.S.-based Teradyne, its chief global competitor.

Early in the quarter, we initiated a position in **GRUMA, S.A.B. de C.V.**, a Mexico-domiciled global manufacturer and distributor of tortillas and associated corn flour serving retail and food service customers across Central America, the U.S., and Europe. GRUMA's dominant #1 positions in the Mexican corn flour market (serving tortilla bakeries) and in the U.S. finished tortilla market has driven persistent growth and attractive 20% plus returns on equity over time. The shares sold off during the first quarter as Coronavirus infections accelerated in the U.S. and Mexico, and that sell-off was exacerbated in U.S. dollar terms by the roughly 25% devaluation of the Mexican peso at the peak of the COVID-crisis. While the shares were declining, GRUMA's business was in fact accelerating due to rising eat-at-home consumption while operating margins were expanding due to a revenue mix shift from lower-margin food service to higher-margin retail demand. The stock price and consensus earnings estimates also failed to reflect that some two-thirds of earnings are generated in U.S. dollars, which had substantially appreciated in local terms as a result of peso depreciation. We established a position as GRUMA entered the quarter trading at one of the lowest valuations against real earnings power in recent memory, and at a material discount to North American packaged food peers, which we viewed as an attractive entry point for a growing, quality, conservatively capitalized business that also returns all of its free cash flow to shareholders in dividends and share repurchases.

We also initiated a position during the quarter in **Hong Kong Exchanges and Clearing Limited** ("HKEX"), which operates the only stock exchange, futures exchange, and related clearinghouses in Hong Kong. In our view, and again largely due to rising geopolitical tension between the U.S. and China, HKEX will gain relative attractiveness versus U.S. peers as a primary listing destination for major Chinese ADRs and primary offerings. U.S.-listed China ADRs currently account for a significant percentage of daily trading value on U.S. exchanges, and the migration of such liquidity to HKEX would drive a material enhancement to its earnings power. We see this trend likely accelerating given the recent passing of the Holding Foreign Companies Accountable Act in the U.S., which places new requirements on foreign ADRs and is directed at China. In addition, new product opportunities such as the listing of MSCI Index futures and potential inclusion of A-share derivatives will drive higher volumes and revenue growth at HKEX, beyond base case market expectations.

During the quarter, we also added to several existing positions. Most notably, we increased our stake in **Telefonaktiebolaget LM Ericsson**, as it plays into our 5G theme and because of the global campaign waged by the U.S. to impair Huawei's market access. We see **Credit Suisse Group AG** and **BNP Paribas S.A.** as beneficiaries of potential debt mutualization in Europe in response to the COVID crisis, so we added to these holdings. Opportunistically, we added to longtime, quality growth compounders **Nestle S.A.**, **Arch Capital Group Ltd.**, and **Eurofins Scientific SE**.

During the quarter, we opportunistically exited several positions, including **Aena SME, S.A.**, **Copa Holdings, S.A.**, and **Azul S.A.** We believe the COVID-19-related impact to global airlines and travel-related companies has impaired their earnings trajectories indefinitely, and we do not have visibility into traffic and revenue normalization trends. In our endeavor to increase the weighting of holdings in which we have highest conviction in quality and return potential, while simultaneously eliminating lower conviction or smaller holdings over time, we also exited positions in **Danone SA**, **Glenveagh Properties PLC**, **UniCredit S.p.A.**, **The Stars Group Inc.**, and **Haitong Securities Co., Ltd.**

Outlook

In our first quarter letter, we suggested that as COVID-related liquidity strains were likely abating, equities should, at a minimum, stabilize, and that as COVID cases peaked, testing capacity increased, and focus shifted to potential therapies, vaccines, and economic reopening, the policy stimulus in the pipeline would likely shift from defense to offense. We suggested at the time that the lack of confidence in the ability of international or EM countries to manage the COVID crisis likely led to a market mispricing, and speculated that investors were overlooking several positives such as creative policy measures and credit moratoriums in lieu of fiscal stimulus, younger populations, and a history of balancing health, mortality, and economic risks. In addition, we noted that China, a very large non-U.S. index weight, was one of the best-placed countries to return to economic normalcy. While much of the above came to pass and international and EM equities recovered strongly, the second quarter remained volatile and bifurcated during much of the period.

During the peak of the global market crisis in March, global equity correlations neared 1.0, with most equities rapidly moving towards distressed levels given uncertainties regarding employment, consumer spending, corporate and personal bankruptcies, real estate occupancy, and bank solvency. However, as the U.S. Federal Reserve (the "Fed"), Congress, and a chorus of global policymakers moved in unison to construct a fiscal and liquidity bridge to economic reopening, a hierarchy of performance in the recovery began to take hold. As policymakers effectively underwrote the largest insurance policy we have ever seen, capital began to flee towards the explicitly underwritten assets. This included various credit markets and assets targeted directly by the Fed, which had effectively countered the forced deleveraging and asset deflation that was well underway in mid-March. Countries with room for fiscal expansion, or with current account and FX reserve surpluses, and industries or companies with strong credit quality, were also early beneficiaries. By mid-April, it was becoming clear to us that investors were discerning between certain industries and companies as perceived beneficiaries of COVID-disruption such as those associated with e-commerce/logistics, remote access/working from home, digitization beneficiaries (internet data centers, online education, and cloud software providers) essential consumption, home improvement, and health care/pharmaceuticals/diagnostics; COVID-survivors (other industries and companies that were adversely impacted but likely to remain going concerns); and a third group considered COVID-impaired, which maintained an extraordinarily high risk premium given liquidity and solvency risks such as businesses associated with airline/travel, physical real estate, retail/restaurants, and banks. Like most equity managers, our portfolio had exposure to each category, and our strategy was to hold our COVID-impaired investments given what we viewed as steep and overly punitive discounts, with a goal of exiting should they return to our assessment of fair value or higher on enthusiasm over reopening or vaccine/therapy developments (the viability of which currently remain unpredictable, in our view). During the quarter, we assessed opportunities to add to COVID-impacted investments, given our view that they would eventually return to normal conditions with earnings power intact, and also analyzed COVID-beneficiaries on a case-by-case basis, to determine whether we perceived the benefit as being long term, permanent, or transitory. Similarly, markets also assigned a hierarchy of performance by country, depending on perceived ability to manage the health care, economic, and liquidity crises, with certain countries, largely EM-related, at the short end of the stick. In our communications during the quarter, we suggested that selling COVID-impacted or COVID-impaired EM equities, particularly those with long-term appeal, such as those domiciled in India or Brazil, would turn out to be poor decisions. Given that capital markets and currencies had *already been repriced*, capital chasing those assets carrying the greatest insurance premium had created an attractive arbitrage opportunity for investing in the perceived riskier securities and businesses. To us, either the insurance policy would perform, providing a bridge to vaccinations/therapies and economic normalization, in which case buying/holding more steeply discounted COVID-impacted companies, countries, and currencies would lead to attractive returns, or the insurance policy would fail as fiscal resources became exhausted, and the underwritten assets would likely have more downside in such a scenario than those already trading at discounted or distressed levels.

As the second quarter progressed, global economies increasingly pursued reopening and businesses and world health agencies announced progress towards various potential vaccines and the lagging COVID-impacted and impaired equities and currencies began to outperform. Capital finally began to migrate from the consensus underwritten and beneficiary assets. This drove high volatility and significant mean reversion in performance within the capital markets. Strong performance by our COVID-beneficiaries throughout the quarter, combined with the subsequent significant recovery across the rest of our portfolio, led to a strong quarter of performance for our strategy, while allowing us to opportunistically upgrade the quality of our holdings as appropriate in a post-COVID environment.

Looking forward, we cannot predict the duration of COVID-related impact on economic activity. However, we believe we have taken advantage of recent market events to further concentrate our portfolio in attractive long-term themes and companies that are well positioned to prosper from significant catalysts, reforms, and trends that we believe will remain in place for many years. Examples include mobile e-commerce, artificial intelligence, digitization and cloud migration, fintech disruption, debt mutualization and fiscal union in Europe, wage-inflation targeting in Japan, China's shift in emphasis to value-added economic activity, and wealth management and consumer finance in India, to name a few. We believe the evolving and complex relationship between the U.S. and China represents a tectonic shift in geopolitics that is creating significant long-term investment opportunities across many of the markets in which we invest. The scaling back of globalization and the localization of supply chains, technology standards, and capabilities are not reasons to avoid investing in China/EM or international markets; rather they are catalysts for potentially enormous value creation. Our research team has been focused on these evolving themes and we have already made several related investments. Finally, we remain optimistic that the COVID crisis will prove to be the event that pushes the world's policymakers through the portal of Modern Monetary Theory, or fiscal expansion funded by printing money and central banks expanding their balance sheets. This populist QE should prove to be a very different type of stimulus, one that we believe will provoke a dollar bear market, which typically would suggest an extended period of international and EM equity outperformance.

Sincerely,

Michael K

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.