Baron International Growth Strategy

June 30, 2021

Dear Investor:

Performance

Baron International Growth Strategy appreciated 8.53% during the second quarter of 2021, while its principal benchmark index, the MSCI ACWI ex USA Index, gained 5.48%. The MSCI ACWI ex USA IMI Growth Index gained 6.62% for the quarter. The Strategy outperformed its principal benchmark index, as well as the all-cap growth proxy, during a solid quarter for global equities. International equities modestly trailed their U.S. counterparts, defined as the S&P 500 Index. It was a relatively uneventful quarter, with the Fed's confirmation of its modest hawkish tilt late in the quarter contributing to a cooling of the interest rate and inflation fever witnessed earlier in the year. As we suggested in our previous letter, this turn of events supported the performance of quality growth stocks for the quarter. Also, during the quarter, the U.S. showed solid progress on ramping COVID-19 vaccine penetration, while several international jurisdictions lagged, creating the perception of relatively greater U.S. earnings visibility. We believe this distinction will prove temporary, and we remain optimistic that corporate earnings are likely to deliver on a global basis, though we believe a mid-cycle pause is increasingly likely given a sustained slowdown in China credit growth and the marginal Fed tightening referenced above. We welcome the cooling of inflation expectations and believe such tightening is necessary given ongoing COVID-19-related labor and supply bottlenecks in order to prolong the global expansion. 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 June 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]	8.53%	8.76%	5.48%	6.62%
Six Months[2]	11.09%	11.57%	9.16%	7.03%
One Year	44.32%	45.56%	35.72%	35.13%
Three Years	15.90%	16.83%	9.38%	13.04%
Five Years	16.73%	17.69%	11.08%	13.36%
Ten Years	10.10%	11.05%	5.45%	7.36%
Since Inception[3] (March 31, 2009)	14.41%	15.36%	9.70%	11.41%

For the second quarter of 2021, we outperformed our primary benchmark, the MSCI ACWI ex USA Index, as well as the all-cap international growth proxy. From a broad market perspective, second quarter trends were mixed. While markets continued to support economically cyclical stocks, there was an increase in investor appetite for quality growth stocks toward the latter part of the quarter. From a sector perspective, strong stock selection in Communications Services, driven by our digitization related investments (**Future plc** and **S4 Capital plc**) was a key contributor to relative outperformance. The Financials sector, led by our fintech theme (**TCS Group Holding PLC**) and India wealth management/consumer finance investments (**Max Financial Services Limited** and **Bajaj Finance Limited**) also contributed meaningfully. Another noteworthy contributor of our fintech theme, but classified within the Information Technology sector, was **Dlocal Ltd.**, a Uruguay-based financial technology company that facilitates cross-border and local-to-local e-commerce payments in emerging markets

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, 2021, total Firm assets under management are approximately $53.5 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 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 global enterprise merchants. Offsetting a portion of the above was adverse stock selection effect in the Materials sector, primarily driven by a decline in **AMG Advanced Metallurgical Group N.V.** and **Grupo Mexico, S.A.B. de C.V.**, due to a near-term correction in underlying commodity metals prices.

From a country perspective, positive allocation effect together with strong stock selection in the U.K., Uruguay, and Russia, led by several of our above-mentioned investments, powered a good majority of relative performance during the quarter. Our underweight exposure in Canada and Switzerland, along with weak stock selection effect in those countries as well as in Japan and the Netherlands were the largest detractors to relative performance. In addition, adverse stock selection in Brazil and Mexico also negatively impacted relative results.

Table II.

Top contributors to performance for the quarter ended June 30, 2021

	Percent Impact
Future plc	1.18%
Dlocal Ltd.	0.91
TCS Group Holding PLC	0.77
Zai Lab Limited	0.49
S4 Capital plc	0.46

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

Dlocal Ltd. is a Uruguay-based financial technology company that enables cross-border and local-to-local e-commerce payments in 29 EM countries for global enterprise merchants. The company is experiencing fast growth, driven by increasing globalization of commerce, higher penetration of digital payments, and increasing purchasing power from middle-class consumers. Dlocal went public at the beginning of June at an attractive valuation and shares rose as demand exceeded supply.

TCS Group Holding PLC is a Russian financial and lifestyle services platform ecosystem with over 13 million active users. Through its subsidiaries, TCS is exposed to digital banking as well as fast-growing verticals including online and offline merchant acquisitions, retail brokerage, and insurance. Shares rose during the quarter after the company reported results for the first five months of 2021 that exceeded Street estimates. TCS also started providing detailed information about its verticals, allowing investors to better value the company.

Zai Lab Limited is a leader in the development of a biopharmaceutical industry in China. Shares increased given continued execution of deals, most recently highlighted by in-licensing of Mirati's KRAS G12C inhibitor. We believe Zai Lab can be a leader among China pharmaceuticals, a market that is growing as the Chinese government continues to grow health care spending as a percentage of total GDP.

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 spending, 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 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 June 30, 2021

	Percent Impact
NEXON Co., Ltd.	–0.24%
AMG Advanced Metallurgical Group N.V.	–0.24
TeamViewer AG	–0.13
Takeda Pharmaceutical Company Limited	–0.13
MonotaRO Co., Ltd.	–0.13

NEXON Co., Ltd. is a leading gaming developer based in Japan. Shares fell during the quarter as the core Dungeon Fighter franchise continued to experience lack of user momentum in China while the fast-growing Korea market faced tougher comparables. The release date of its highly anticipated mobile Dungeon Fighter title remains elusive. While we continue to like NEXON and its visionary management team, we are trimming the position given near-term uncertainties.

AMG Advanced Metallurgical Group N.V. is a European specialty metals company producing key materials such as vanadium and titanium alloys. AMG also recycles spent catalysts from the oil refinery process into ferrovanadium using proprietary technology. Shares fell after an equity raise to strategy strategic growth investments including lithium, an essential metal used in EV batteries and energy storage. We continue to like the shares. AMG plans to build its own lithium chemical capacity in Europe, which we think should lead to a much better margin profile for its lithium business.

TeamViewer AG, a leading global software connectivity platform, detracted from performance. The company reported solid first quarter earnings and reiterated 2021 guidance, but the stock lagged as the market continued to digest two large sponsorship partnerships that will take down margins in the near term and as investors tried to gauge near-term comparables coming out of the pandemic. We retain conviction as we believe the company has a compelling combination of strong growth prospects and attractive margins.

Takeda Pharmaceutical Company Limited is a leading global pharmaceutical company. Shares fell following modest earnings results along with limited visibility into the launch of blockbuster drugs that would drive an inflection in its growth trajectory. We retain conviction. We think Takeda is well positioned to benefit from growing incidences of gastrointestinal, oncology, and central nervous system disorders. Current management has improved profitability via ongoing cost-cutting initiatives and repositioned the company to be more shareholder friendly.

MonotaRO Co., Ltd. is an online distributor of machine tools, engine parts, and consumables for maintenance, repair, and operations activity in Japan. Shares fell in the quarter on a broader market rotation out of stocks that benefited from pandemic-related digitization trends. The company came off a record 2020 as digitalization of B2B maintenance purchases reached a historical high. We believe the current weakness is temporary and

MonotaRo is well positioned for market share gains in industrial e-commerce via product and customer base expansion.

Portfolio Structure

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

	Percent of Net Assets
BNP Paribas S.A.	2.8%
Future plc	2.7
S4 Capital plc	2.2
TCS Group Holding PLC	2.2
argenx SE	1.8
Lloyds Banking Group plc	1.8
Zai Lab Limited	1.6
Linde plc	1.6
LVMH Moet Hennessy Louis Vuitton SE	1.6
Bajaj Finance Limited	1.6

Table V.
Top five holdings as of June 30, 2021 – Emerging Countries

	Percent of Net Assets
TCS Group Holding PLC	2.2%
Zai Lab Limited	1.6
Bajaj Finance Limited	1.6
Korea Shipbuilding & Offshore Engineering Co., Ltd.	1.5
Tencent Holdings Limited	1.4

Table VI.
Percentage of securities in Developed Markets as of June 30, 2021

	Percent of Net Assets
United Kingdom	16.9%
Japan	10.0
France	8.1
Switzerland	4.3
Netherlands	4.2
Israel	3.6
Germany	3.6
Sweden	2.8
Spain	2.6
United States	2.3
Canada	1.9
Denmark	1.0
Australia	0.8
Norway	0.8
Hong Kong	0.8

Table VII.
Percentage of securities in Emerging Markets as of June 30, 2021

	Percent of Net Assets
China	10.9%
India	6.8
Russia	4.8
Brazil	4.6
Korea	1.5
Mexico	0.8
Poland	0.7
United Arab Emirates	0.2

The tables above do not include the Strategy's exposure to Uruguay (1.5%) 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 second quarter of 2021, the Strategy's median market cap was $16.8 billion. We were invested 65.9% in large- and giant-cap companies, 22.6% in mid-cap companies, and 7.0% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the second quarter of 2021, we added a few new positions while also increasing position sizes in several existing investments. We were active in adding to our fintech theme, most notably via two new positions in Latin America: **Dlocal Ltd.** and **StoneCo Ltd.** We participated in the recent IPO of Dlocal, a Uruguay-based financial technology company that facilitates cross-border and local-to-local e-commerce payments in emerging markets for global enterprise merchants. The company's proprietary technology platform enables global merchants to connect seamlessly with millions of consumers in emerging markets through one API and one platform. Dlocal addresses several pain points for global merchants looking to expand sales in emerging markets. It facilitates adherence to complex regulatory and tax requirements, enables acceptance of the relevant local payment methods, increases authorization rates versus existing alternatives, and helps reduce fraud. In our view, these factors have allowed Dlocal to create a strong competitive moat, which has led to fast growth in merchant partners and an increase in wallet share for existing clients, as evidenced by a high net revenue retention rate of over 150% in 2020. Dlocal is benefiting from secular trends including the globalization of commerce, growing penetration of alternative digital payment methods, and increasing purchasing power of middle-class consumers in the markets it serves. In addition, the company's processed volumes are tied to the sales growth of the largest global enterprise merchants around the world. With strong tailwinds for revenue growth and improving operating leverage, we believe Dlocal has the potential to deliver exciting earnings growth for many years to come.

[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.

We also initiated a position in Stone, a leading financial technology services company in Brazil offering payments, software, and e-commerce solutions to merchants in the country. Stone has a differentiated client-centric business model which combines technology, hyper-local distribution, and superior customer service to deliver a better value proposition to its customers. Beyond payments, Stone offers a complete financial platform where clients can access traditional banking solutions and tools to digitize their business while also building omni-channel distribution capabilities. The company recently enhanced its software services to clients via the acquisition of Linx, a top tier software development company with an emphasis on retail clients in Brazil. In our view, these offerings will open new revenue opportunities for the company and will enable it to deliver higher client retention versus peers. Lastly, Stone is also benefiting from the secular trends of increasing digital payments and penetration of e-commerce, which provide a long runway for growth.

We also made an investment in **Compagnie Financiere Richemont SA**, a global luxury conglomerate widely known for its hard luxury brands, most notably Cartier and Van Cleef & Arpels. In our view, the highest quality, most iconic luxury brands will continue to gain market share, and Richemont owns two of the most prominent ones in luxury jewelry in Cartier and Van Cleef (the other two being Bulgari and Tiffany, both owned by LVMH, another position held in the Strategy). Richemont has underperformed luxury peers in the last half decade, as strong performance in the jewelry maisons was offset by declines in other businesses, such as luxury watches and Yoox/Net-A-Porter. However, in our view, these segments are now at or near their nadir, with Cartier and Van Cleef likely constituting well over 100% of consolidated profits. We believe the shares can compound at the rate of growth of these two jewelry maisons plus potential improvement or value crystallization of the other businesses, to which the market currently ascribes negative value given their combined losses. In effect, we believe we bought Cartier and Van Cleef at healthy discounts to their intrinsic value with optionality on loss mitigation or improvement in the other businesses.

During the quarter, we also initiated a position in **InPost S.A.**, a Poland-based but increasingly pan-European operator of logistics networks including technology-enabled automated parcel lockers. As it is an existing position in the Baron Emerging Markets Strategy, we know the business well, and a sell-off during the quarter allowed us to initiate a position in the Baron International Growth Strategy at an attractive entry point. InPost operates the largest automated parcel locker network in Poland with a 98% market share, increasingly the preferred method among Poles to receive and return goods bought online. InPost's highly dense, technology-enabled logistics network has powered package delivery times and e-commerce frequency levels generally not seen in other emerging markets (other than China). We believe the company's density (of lockers, couriers, and pick-up points) and merchant-neutral network creates unit economics that new entrants will be unable to replicate. The company is also expanding into new markets, with a nascent position in the U.K. and its recent acquisition of Mondial Relay, a logistics network in France, from which we believe InPost will extract synergies by overlaying its technology and onboarding pan-European customers from its Polish and U.K. businesses. We believe continued fast growth in Poland as well as international expansion will power annual revenue growth in excess of 25% over the next four to five years.

Lastly, we also added to several existing positions, notably **AMG Advanced Metallurgical Group N.V.**, **Nestle S.A.**, **Korea Shipbuilding & Offshore Engineering Co., Ltd.**, **Koninklijke DSM N.V.**, **Novatek PJSC**, **Cellnex Telecom, S.A.**, and **S4 Capital plc**. Based on our goal to increase portfolio concentration and our practice of selling when valuations reach levels inconsistent with our view of fundamentals, we exited positions in **Glodon Company Limited**, **PagSeguro Digital Ltd.**, and **Hong Kong Exchanges and Clearing Limited**.

Outlook

The second quarter of 2021 was relatively uneventful. The volatility we saw in the first quarter moderated and global equities traded within a narrower range. U.S. equities led global returns as the U.S. dollar firmed and treasury yields retreated on expectations that Fed tapering and rate hikes would be pulled forward.

We quote from our first quarter letter: "In our view, bond yields have already priced in a materially tighter Fed than both what is being communicated and what is likely. We suspect bond market vigilantes may have gone too far, too soon, and note that a peak in bond yields would favor growth stocks after a substantive first quarter correction." 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. As we alluded above, these conditions resulted in growth stocks, particularly in the U.S., outperforming during the recent quarter. Meanwhile, international equities lagged modestly in U.S. dollar terms amid mixed signals, though we remain optimistic regarding their relative appeal, particularly on a multi-year basis. In the shorter term, we believe that as the U.S. was an early leader in COVID-19 vaccination penetration (along with the U.K. and Israel), recent strength in the U.S. economy and U.S. equities may be more likely the result of a timing difference than a structural difference relative to other countries, and we suspect many international jurisdictions are due for a catch-up phase in coming quarters.

There has been much consternation regarding the re-emergence of inflation at above the long-term optimal rate of 2.0% to 2.5%. At this point, we believe it is far too early in the global recovery/expansion cycle to raise concern that this will have a material or lasting impact on equities. We remain optimistic regarding the outlook for corporate earnings, though we reiterate that equity returns should moderate as we believe earnings expectations are already high in the near term, and multiple compression is more likely than expansion from here given our view that over the longer term we anticipate a modest rise in both real and nominal interest rates. We view recent growth and inflation above targeted levels as having both transitory and structural drivers; COVID-19-related supply and labor bottlenecks will likely prove transitory and contain inflation readings in coming months, while the marked increase in global fiscal spending will have more of a structural impact, leading to marginally higher economic growth, inflation, and interest rates in coming years. With sovereign bond yields remaining historically low and real interest rates still negative in most developed markets, we believe equities can likely continue to be supported by capital flows at the expense of sovereign bonds for some time.

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.