Baron International Growth Strategy

September 30, 2020

Dear Investor:
Performance

Baron International Growth Strategy gained 9.55% (net of fees) for the third quarter of 2020, while its principal benchmark index, the MSCI ACWI ex USA Index, appreciated 6.25%. The MSCI ACWI ex USA IMI Growth Index gained 10.54% for the quarter. The Strategy outperformed its principal benchmark index, while modestly trailing the all-cap growth proxy, in a quarter that was in many ways an extension of the previous one, as global equities delivered solid returns with broad-based participation. International equities largely kept up with their U.S. counterparts, while various sectors exhibited pockets of intermittent leadership with no clear change in the market's overall tone. Progress continued with clinical trials for vaccines and therapies to address the COVID-19 health crisis, though some uncertainty remains as to when large-scale vaccination may be achievable and whether adequate scale of fiscal support will be forthcoming in the interim. Though a global market correction began late in the third quarter, in our view largely related to uncertainty regarding a U.S. "Phase 5" fiscal stimulus package as well as the upcoming election, we remain optimistic. Looking forward, we have increasing conviction that COVID-19 will prove to have been the catalyst that pushed global policymakers through the portal of "Modern Monetary Theory," or what we call "populist QE." We believe this, together with the emergence of government-directed lending programs, credit guarantees and grants, may well usher in a regime change for market leadership, favoring equities over fixed income, and sparking a sustainable period of outperformance for international equities and currencies. Further, progress towards debt mutualization in Europe could likely trigger meaningful outperformance for related equities. Finally, we reiterate our view that the changing tone of relations between the U.S. and China presents many compelling opportunities both within and outside of China for long-term and bottom-up fundamental investors. As always, we are confident that we have invested in many well-positioned and well-managed companies, which are poised to benefit from several long-term and attractive investment themes.

Table I.
Performance
Annualized for periods ended September 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]	9.55%	9.78%	6.25%	10.54%
Nine Months[2]	10.48%	11.14%	(5.44)%	7.16%
One Year	20.56%	21.52%	3.00%	17.65%
Three Years	8.24%	9.10%	1.16%	7.03%
Five Years	11.62%	12.55%	6.23%	10.01%
Ten Years	8.57%	9.51%	4.00%	6.41%
Since Inception[3] (March 31, 2009)	12.68%	13.62%	8.04%	10.26%

For the third quarter of 2020, we outperformed our primary benchmark, the MSCI ACWI ex USA Index, while modestly trailing our all-cap International growth proxy. We remain well ahead of both benchmarks for the year-to-date period. We had solid performance and stock selection results across the portfolio. From a sector perspective, Communication Services, led by our digital media & gaming investments (**Future plc**, **S4 Capital plc**, and **Square Enix Holdings Co., Ltd.**) contributed the most. In addition, strong stock selection in the Energy sector, led by our large overweight position in **Reliance Industries Limited** was a key contributor to relative outperformance. We think classifying Reliance in the Energy sector is a misnomer, as we remain excited about the company not so much for its energy assets but for it being a play on "Digital India." Reliance is well positioned to emerge as the "Amazon/Facebook/Netflix" of India, and we believe the company's digital and retail businesses already represent a solid majority of its value. Strong stock selection effect in the Health Care sector, driven by our investments in **Eurofins Scientific SE** and **argenx SE,** also contributed notably to relative performance. From a country perspective, strong stock selection in the U.K. (Future, S4, **B&M European Value Retail**

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, 2020, total Firm assets under management are approximately $38.2 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- 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.

S.A., **Endava plc**, **Linde plc**, and **Dechra Pharmaceuticals PLC**) contributed the most. Stock selection in the Netherlands, Australia, Japan, Hong Kong, and France also contributed positively. While the breadth of portfolio performance was very good during the quarter, adverse stock selection in the Information Technology and Consumer Discretionary sectors detracted from relative performance, while from a country perspective, as our minimal exposure to strong performing Taiwanese and Korean equities and poor performance in the UAE and Korea were key detractors from relative performance.

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

	Percent Impact
Future plc	0.86%
S4 Capital plc	0.75
Alibaba Group Holding Limited	0.55
NEXTDC Limited	0.50
B&M European Value Retail S.A.	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 pandemic-related tailwinds to e-commerce in Future's largest categories – tech, gaming, music, sports, home, and lifestyle – as well as recovery in the broader advertising environment. We believe Future can continue to grow both organically and through M&A, with potential to complete meaningfully in the $150 billion-plus global B2B market with its lead generation and business intelligence offerings.

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 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 annual revenue north of 25% at high-teens EBITDA margins as it benefits from digital transformation across industries and geographies.

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 soon-to-be publicly traded Ant Financial, which operates Alipay, China's largest third-party online payment provider. Shares of Alibaba were up on a sustained recovery in e-commerce driven by an increase in purchase frequency and spend per order. We 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.

NEXTDC Limited is a provider of network-dense, carrier-neutral colocation data center services across Australia. Shares contributed to performance during the third quarter due to strong full-year results and robust large-scale lease signings with the world's premier cloud companies, which provides multi-year cash flow growth visibility. We retain conviction due to durable secular tailwinds in cloud adoption and IT outsourcing, strong pre-leasing trends, and the high likelihood of its being acquired as a pure-play Australian operator.

Shares of **B&M European Value Retail S.A.**, a discount retailer of general merchandise in the U.K., rose during the third quarter after reporting successive increases to near-term guidance on sales and EBITDA over the last several months. The onset of the pandemic drove a spike in demand during the spring that has continued since on elevated demand for home improvement products and heightened price consciousness by U.K. consumers. We believe B&M's discount format will be a share-taker over the intermediate term and remain invested.

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

	Percent Impact
WANdisco plc	–0.19%
TeamViewer AG	–0.15
Network International Holdings Ltd.	–0.15
BNP Paribas S.A.	–0.14
J D Wetherspoon plc	–0.12

WANdisco plc is an infrastructure software company that develops and sells distributed software solutions for data replication across disparate computing environments. Shares of WANdisco were down on perceived risks around the company's ability to close second-half bookings given uncertainty around client purchasing decisions. We continue to believe WANdisco's technology offers a compelling value proposition to enhance live data consistency and streamline data management within hybrid environments of on-premises, private cloud, and public cloud platforms.

TeamViewer AG, a leading global software connectivity platform, detracted from performance. While second quarter earnings results were solid, the stock pulled back on profit-taking after a very large run up in the second quarter driven by investor sentiment that TeamViewer is a major work-from-home beneficiary. We remain shareholders as believe the company has a compelling combination of strong growth prospects and attractive margins.

Network International Holdings Ltd. is a leading payment processor in the Middle East and Africa. Weakness in the share price was driven by first half financial results that were negatively impacted by the pandemic. Revenue fell 12% and EBITDA fell 31% due to a rapid drop in spending and tourism. The company also announced an acquisition that received a mixed reaction from investors and required an equity raise. We remain invested because we believe the pandemic's impact on performance is temporary and the company should benefit from increasing adoption of electronic payments.

BNP Paribas S.A. is a full-service financial institution with operations throughout Europe and the U.S. Shares of BNP declined during the quarter in line with the broader sector of European banks. The economic impact of the pandemic has depressed the short-term outlook for revenue growth and increased the need for provisions to absorb credit losses across the banking sector. We believe BNP is better positioned to withstand these headwinds due to a solid balance sheet, diversified revenue streams, and cost cutting initiatives outlined in its strategic plan.

Shares of **J D Wetherspoon plc**, an owner and operator of pubs across the U.K., declined during the period held as a re-acceleration in U.K. coronavirus cases drove a new series of government-imposed restrictions around large gatherings and restaurant curfews. We believe current depressed prices are an attractive entry point for the best operator in the business. J D Weatherspoon's strategy of reinvesting volume growth into lower prices for customers has created a self-reinforcing loop of share gains that we believe will resume once the pandemic has passed.

Portfolio Structure

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

	Percent of Net Assets
argenx SE	2.4%
Telefonaktiebolaget LM Ericsson	2.1
Future plc	2.1
NEXTDC Limited	1.8
S4 Capital plc	1.8
AstraZeneca PLC	1.7
B&M European Value Retail S.A.	1.7
Keyence Corporation	1.6
Endava plc	1.5
Eurofins Scientific SE	1.5

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

	Percent of Net Assets
Alibaba Group Holding Limited	1.8%
Zai Lab Limited	1.7
Reliance Industries Limited	1.5
Tencent Holdings Limited	1.3
Afya Limited	1.1

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

	Percent of Net Assets
United Kingdom	15.3%
Japan	13.0
France	5.1
Netherlands	3.4
Switzerland	3.4
United States	3.3
Sweden	3.2
Canada	2.8
Germany	2.5
Israel	2.1
Australia	1.8
Hong Kong	1.5
Spain	1.5
Norway	0.4

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

	Percent of Net Assets
China	12.5%
India	5.4
Brazil	3.4
Russia	2.6
Mexico	1.3
Korea	0.7
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 third quarter of 2020, the Strategy's median market cap was $13.1 billion, and we were invested 53.4% in large- and giant-cap companies, 22.6% in mid-cap companies, and 9.5% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the third quarter of 2020, we added several new ideas toward existing themes while also increasing position sizing on new investments made earlier in the year. We continue our endeavor to modestly reduce the number of positions in the portfolio while adding concentration to our highest-conviction ideas.

In recent quarters, we have endeavored to increase our holdings of local European businesses as we anticipate policy and structural changes that could enhance confidence in the Euro and the growth potential of local economies. During the quarter, we established a position in **Cellnex Telecom, S.A.**, which is Europe's largest independent tower company with market leading positions in countries such as Spain, France, Italy, Switzerland, Portugal, the U.K., and the Netherlands. We participated in Cellnex's €4 billion capital raise in August that was issued against the backdrop of an €11 billion potential near-term deal pipeline. Cellnex has a large addressable market opportunity with only approximately 30% of towers owned by independent tower operators in Europe vs. 90% in the U.S. We believe the shift of tower portfolios from carrier-owned to independent ownership will be a key growth engine for Cellnex and important source of capital for telecom carriers to fund necessary 5G investment and network upgrades. In addition to external growth, the company has strong underlying organic growth prospects due to the upcoming 5G investment cycle and further necessary network densification requirements underpinned by robust growth in mobile data usage.

We also initiated a position in **J D Wetherspoon plc**, an owner and operator of pubs across the U.K., during the quarter. The onset of the COVID-19 pandemic and associated government restrictions on public gatherings drove a decline of 50% in Wetherspoon's share price from the end of last year to the third quarter of 2020, which we viewed as an attractive entry point for the best operator in its industry. Wetherspoon has consistently generated mid-single-digit same-store sales growth over the last half-decade while the rest of the industry has generally seen declining volumes. Its approach of reinvesting traffic growth back into ever lower prices has created a virtuous circle of market share gains and a volume-based business model that allows Wetherspoon's assets to be profitable at prices well below anything competitors can offer. We have seen this strategy drive success in other geographic markets and in other retail categories, and we believe it will also work here. Once the COVID-19 pandemic passes, we expect Wetherspoon's growth and market share gains will accelerate as a large fraction of the restaurant estate in the U.K. likely has or will close permanently this year, which will benefit food-led pub operators like Wetherspoon. We anticipate multiple expansion from current trough levels over the next 12 months, followed by attractive compound returns from both earnings growth and free cash flow generation.

We have been researching many investment candidates related to our fintech/financial services disruption theme. During the quarter, we initiated a position in **TCS Group Holding PLC**, an online financial services firm in Russia. TCS is a pioneer in digital banking and currently holds the #2 position in credit card loans in the country. The company is diversifying its credit portfolio into consumer secured loans and is building an online ecosystem to offer its clients a full suite of financial products. We are excited about the prospects of this new strategy, particularly in the outlook for its online brokerage, wealth management, and insurance distribution initiatives, that offer a significant runway for growth. We expect the company to deliver at least 20% earnings growth in the next few years with the potential for multiple expansion as revenues from non-lending verticals grow in relation to the total. TCS recently disclosed it has entered negotiations to be acquired by Yandex, which operates the largest internet search portal in Russia.

As part of our China value add/localization theme, we initiated a position in **Han's Laser Technology Industry Group Co., Ltd.**, a leading integrated laser equipment manufacturer in China. In our view, the company's earnings will continue to expand over the next several years driven by form factor change in 5G smartphones, localized production of PCBs, general demand acceleration post COVID-19, and long-term investment in advanced technologies. The company is accelerating R&D efforts in mission critical segments such as EuV machines to help drive China's technology localization efforts. We maintain conviction in Han's Laser's competitive positioning as one of the best direct plays in China's manufacturing upgrade theme.

During the quarter, we also added to several existing positions, notably **Credit Suisse Group AG**, **BNP Paribas S.A.**, **CAE Inc.**, **SMS Co., Ltd.**, **Telefonaktiebolaget LM Ericsson**, **Advantest Corporation**, and **Hong Kong Exchanges and Clearing Limited**. We exited several investments in favor of higher conviction positions, including **Treasury Wine Estates Limited**, **Julius Baer Group Ltd.**, **Koninklijke Vopak N.V.**, **TechnoPro Holdings, Inc.**, and **WH Group Limited**.

Outlook

The third quarter of 2020 was in many ways an extension of the second, with global equities delivering solid returns with broad-based participation. International and EM equities largely kept up with their U.S. counterparts, while various sectors exhibited pockets of intermittent leadership with no clear change in the market's overall tone. Progress continued with clinical trials for vaccines and therapies to address the COVID-19 health crisis, though some uncertainty remains as to when large-scale vaccination may be achievable and whether adequate scale of fiscal support will be forthcoming in the interim.

The market's message through much of the past quarter, however, has been clear. The global economy is progressing towards reopening and normalization. In most countries, consumer spending and utilization measures of public and private transportation are recovering substantially, while certain activities such as travel remain subdued. With few signs of troubling credit issues and a fair portion of record stimulus still in the pipeline, markets are largely looking through ongoing COVID disruption in favor of long-term earnings potential and full normalization over a reasonable time frame.

Late in the quarter, a global market correction emerged, in our view largely a result of the failure of the U.S. Congress to pass a meaningful "Phase 5" stimulus package, uncertainty regarding Brexit and economic growth in Europe, as well as the U.S. election, its integrity, and how the immediate post-election period will play out. Finally, as the fourth quarter began, indications of a potential second wave of virus began to emerge in various countries, notably including Europe, the U.K. and the U.S. While we see this market consolidation as part of the ongoing ebb and flow of the interplay between the path of the virus, the near-term outlook for economic growth, interest rates and inflation, and the U.S. election and related politics, 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 last quarter's letter we described how we had strategically approached COVID beneficiaries and COVID-impacted and COVID-impaired businesses. Companies in which we are invested that are benefitting from the COVID-related and accelerated penetration of digitization, mobile e-commerce and advanced logistics, artificial intelligence, contactless payments, cloud-based architecture, and software-as-a-service remain key drivers of our year-to-date performance. In addition, higher-quality growth companies with strong market positions and healthy balance sheets are consolidating markets and gaining share. This is a global phenomenon benefitting many of our portfolio companies which also helps reconcile the performance of many publicly traded equities with COVID-challenged economic growth. Finally, we suggested last quarter that rising geopolitical tension between the U.S. and China was creating significant opportunities for investors not only in domestic Chinese businesses and their supply chains seeking to displace profit share from Western multi-nationals in a variety of value-added industries, but also in companies that can offer diversification of manufacturing or supply away from China. We believe we are in the early innings of substantial value creation in the beneficiaries of shifting global geopolitics.

Finally, we reiterate our view that the COVID crisis has vaulted the world's policymakers through the portal of "Modern Monetary Theory," or fiscal expansion funded by money printing and central bank balance sheet expansion. More recently, we appear to have entered the early stages of politicians hijacking the levers of monetary policy through targeted and subsidized lending, credit guarantees and government grants, particularly in Europe and the U.S. This "populist QE" will likely prove to be a very different type of stimulus, one that could challenge consensus views on inflation expectations and sustainable nominal economic growth, and ultimately lead to a change in capital allocation and market leadership favoring equities over fixed income, and in particular international equities and currencies. We are increasingly confident, that as the end of COVID disruption eventually comes into view, we are likely to enter a sweet spot for international equities.

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.