Baron International Growth Strategy

September 30, 2022

Dear Investor:

Performance

Baron International Growth Strategy declined 11.49% during the third quarter of 2022, while its principal benchmark index, the MSCI ACWI ex USA Index, declined 9.91%. The MSCI ACWI ex USA IMI Growth Index retreated 9.17% for the quarter. The Strategy lagged both its principal benchmark index and the all-cap growth proxy during the quarter, which was characterized by global weakness in both equities and bonds due to elevated inflation readings, rising rate-hike expectations, and a deteriorating outlook for global economic growth. In our view, dollar strength, energy supply disruptions, and the rising likelihood of recession have had an outsized impact on growth equities in Europe, the U.K., and the export-oriented Asian countries; however we believe we may be at or near the peak of this source of pressure. The return of isolated lockdown measures in China triggered a reversal of the second quarter rally there, while, in our view, India surprised with solid absolute and relative performance in a period of global weakness. We remain optimistic regarding the relative performance potential of international equities when taking a multi-year, forward-looking view, and anticipate material absolute returns as the Fed eventually pivots toward an easing posture in the intermediate term. As always, we are confident that we have invested in many well-positioned and well-managed companies on a bottom-up basis that are poised to benefit from long-term and attractive investment themes.

Table I.
Performance†
Annualized for periods ended September 30, 2022

	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]	(11.49)%	(11.30)%	(9.91)%	(9.17)%
Nine Months[2]	(36.64)%	(36.24)%	(26.50)%	(32.13)%
One Year	(36.64)%	(36.09)%	(25.17)%	(30.68)%
Three Years	(0.13)%	0.71%	(1.52)%	(1.13)%
Five Years	0.94%	1.77%	(0.81)%	0.15%
Ten Years	5.40%	6.30%	3.01%	4.02%
Since Inception[3] (March 31, 2009)	9.15%	10.07%	6.21%	7.10%

For the third quarter of 2022, we underperformed our primary benchmark, as well as our all-cap international growth proxy. Within the international markets landscape, EM equities underperformed developed market peers primarily due to a retracement of prior period gains in China, as market sentiment soured on near-term challenges with the country's "Zero COVID" policy. As suggested in our previous letter, we continue to believe that China's COVID-related uncertainties are unlikely to impair longer-term corporate earnings power. Growing concerns of an economic slowdown,

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, 2022, total Firm assets under management are approximately $36.0 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 please contact us at 1-800-99BARON. For a GIPS-compliant report, click here.

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.

† The Strategy's 3-, 5-, and 10-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Strategy's level of participation in IPOs will be the same in the future.

1 The **MSCI ACWI ex USA Index** is designed to measure the equity market performance of large and mid cap securities across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. The **MSCI ACWI ex USA IMI Growth Index** is designed to measure the performance of large, mid and small cap growth securities exhibiting overall growth style characteristics across 22 of 23 Developed Markets (DM) countries (excluding the United States) and 24 Emerging Markets (EM) countries. 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

especially in Europe owing to the acute energy crisis in the aftermath of the war in Ukraine, and the relentless strength of the U.S. dollar, largely attributed to policy tightening by the Fed, also weighed on international equities. From a sector or theme perspective, the vast majority of relative underperformance was driven by adverse stock selection in the Industrials sector, primarily attributable to our sustainability/ESG theme (**Korea Shipbuilding & Offshore Engineering Co., Ltd.**, **Befesa S.A.**, **Hyundai Heavy Industries Co., Ltd.**, **Ceres Power Holdings plc**, and **Aker Carbon Capture AS**). Weak stock selection and adverse allocation effect in the Communication Services sector, led by our digitization-related investments (**Future plc**, **S4 Capital plc**, **Baidu, Inc.**, and **Vivendi SA**), also stood out as relative detractors during the quarter.

Partially offsetting the above, solid stock selection in the Financials sector, notably from our India wealth management/consumer finance-related holdings (**Bajaj Finance Limited**, **JM Financial Limited**, and **Edelweiss Financial Services Limited**), was a key contributor to relative performance. Positive stock selection in the Information Technology sector, primarily led by our digitization theme (**Wix.com Ltd.** and **WANdisco plc**) also bolstered relative results. In addition, our cash position in a weak market was a positive contributor to relative performance during the quarter.

From a country perspective, poor stock selection in the U.K., Germany, and Spain, led by many of the above-mentioned investments, and negative allocation effect and adverse stock selection in China, drove the majority of relative underperformance this quarter.

Partly offsetting the above was positive stock selection effect in Italy, Israel, and Denmark along with favorable allocation effect in Brazil, India, and the U.S.

We remain optimistic about a recovery in our China holdings. In our view, current stock prices do not fully reflect the fundamental intrinsic value for many of our investments, especially within our China value-added theme.

Table II.
Top contributors to performance for the quarter ended September 30, 2022

	Percent Impact
Bajaj Finance Limited	0.24%
Coupang, Inc.	0.21
Afya Limited	0.19
WANdisco plc	0.18
Wix.com Ltd.	0.14

Bajaj Finance Limited is a leading, data-driven, non-bank financial company in India. Shares recouped prior losses driven by improving earnings visibility and growth prospects as Bajaj continued to scale its digital services platform. With its best-in-class management team and conservative risk management frameworks, we believe Bajaj is well positioned to benefit from growing demand for consumer financial services such as mortgages and personal and credit card loans.

Coupang, Inc., the largest e-commerce platform in South Korea, contributed after reporting a sizable beat on second quarter earnings and raising annual EBITDA guidance. Upside was concentrated in e-commerce, where Coupang is now driving sequential margin expansion while maintaining a growth rate that is triple that of the industry average, lending credence to the investment case that Coupang will consolidate the fragmented e-commerce industry in Korea across both general merchandise and grocery, with healthy long-term margins to follow.

Afya Limited is a Brazilian for-profit education company specializing in medicine, including undergraduate and graduate coursework, residency preparatory and specialization programs, and digital solutions for physicians. Shares rose on strong financial results driven by maturation of its year-old undergraduate medical campus, pricing power, and a post-pandemic recovery in continuing education. We anticipate long-term growth driven by Afya's robust pricing power, continued maturation of its undergraduate program, and expansive digital offerings.

WANdisco plc is an infrastructure software company that develops and sells distributed solutions for data replication across disparate computing environments. Shares of WANdisco were up in the quarter on strong first half 2022 results and the announcement of the execution of several significant contracts. 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-premise, private cloud, and public cloud platforms.

Wix.com Ltd. is a leading provider of website software for small companies. Shares were up as investors responded positively to the company's increased focus on profitability, which more than offset continued weakness in new customer additions following rapid growth early in the pandemic. We retain conviction in the company's long-term opportunity, as it serves a large addressable market (small businesses seeking a web presence) with leading product solutions and an attractive, subscription-based revenue model.

Table III.
Top detractors from performance for the quarter ended September 30, 2022

	Percent Impact
Korea Shipbuilding & Offshore Engineering Co., Ltd.	–0.57%
Future plc	–0.45
Befesa S.A.	–0.43
AstraZeneca PLC	–0.41
Hyundai Heavy Industries Co., Ltd.	–0.37

Korea Shipbuilding & Offshore Engineering Co., Ltd. is the holding company of Hyundai Heavy, the largest shipbuilder in the world. Shares declined due to weak quarterly results and rising expectations of a global recession potentially impacting demand. We expect continued strength in orders for liquified natural gas (LNG) carrier shipbuilding, LNG dual-fueled containerships, and tankers where Korean shipbuilders have an oligopoly. Tightening regulations on carbon emissions worldwide should drive higher demand for LNG dual-fueled ships as well as carbon-free ammonia fueled ships.

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 down on the news that Future's long-time CEO plans to leave the company at the end of 2023 along with ongoing concerns about the U.K. macroeconomic environment. Future has demonstrated strength in the digital advertising space with organic growth outpacing peers. Longer term, we believe Future can continue to grow both organically and through M&A, although we await updates on the leadership transition.

Befesa S.A. is a leading environmental services provider with 50% share of its niche market in Europe. The company recycles hazardous steel dust and aluminum waste from customers for a fee and recovers valuable by-products such as zinc. Shares declined due to a drop in zinc and aluminum prices as well as rising energy costs in Europe. We remain investors. Befesa is pioneering steel dust recycling in the virtually untapped Chinese market, and we expect stricter environmental policies in EM countries to help sustain high double-digit growth rates over the next decade.

AstraZeneca PLC is a global pharmaceutical company focused on oncology, respiratory, cardiovascular, and metabolism drugs. Despite incremental positive news flow, shares got caught up in the broader flight to safety that started late in the quarter. We retain conviction in AstraZeneca given its best-in-class growth profile combined with its strong pipeline and commercial launch characteristics. We highlight breast cancer drugs Enhertu and Dato-DXd as two promising near-term opportunities.

Hyundai Heavy Industries Co., Ltd. is the largest shipbuilder in the world. Shares declined due to weak quarter results and rising expectations of a global recession that would potentially impact demand. We expect continued strength in orders for liquified natural gas (LNG) carrier shipbuilding, LNG dual-fueled containerships, and tankers, where Korean shipbuilders have an oligopoly. Tightening regulations on carbon emissions worldwide should drive higher demand for LNG dual-fueled ships as well as carbon-free ammonia fueled ships.

Portfolio Structure[1]

Table IV.
Top 10 holdings as of September 30, 2022 – Developed Countries

	Percent of Net Assets
Arch Capital Group Ltd.	2.5%
argenx SE	2.5
AstraZeneca PLC	2.5
Linde plc	2.1
Pernod Ricard SA	1.8
Waga Energy SA	1.7
Keyence Corporation	1.7
Nestle S.A.	1.7
Constellation Software, Inc.	1.7
Koninklijke DSM N.V.	1.4

Table V.
Top five holdings as of September 30, 2022 – Emerging Countries

	Percent of Net Assets
Bajaj Finance Limited	1.7%
Reliance Industries Limited	1.6
Korea Shipbuilding & Offshore Engineering Co., Ltd.	1.4
Taiwan Semiconductor Manufacturing Company Ltd.	1.4
Suzano S.A.	1.4

Table VI.
Percentage of securities in Developed Markets as of September 30, 2022

	Percent of Net Assets
United Kingdom	13.1%
Japan	8.1
France	8.0
Netherlands	5.6
Switzerland	4.7
United States	3.8
Spain	3.2
Canada	2.6
Germany	2.3
Italy	2.3
Israel	1.6
Hong Kong	1.5
Sweden	1.2
Denmark	1.1
Norway	0.6
Australia	0.5

Table VII.
Percentage of securities in Emerging Markets as of September 30, 2022

	Percent of Net Assets
China	10.5%
India	7.5
Brazil	3.7
Korea	3.0
Poland	1.7
Taiwan	1.4
Peru	0.8
Mexico	0.7
South Africa	0.2

The table above does not include the Strategy's exposure to Uruguay (0.5%) and Russia (less than 0.1%) because these countries fall outside of MSCI's developed/emerging/ frontier framework.

Exposure by Market Cap: The Strategy may invest in companies of any market capitalization, and we strive to maintain broad diversification by market cap. At the end of the third quarter of 2022, the Strategy's median market cap was $10.9 billion. We were invested 60.2% in large- and giant-cap companies, 18.4% in mid-cap companies, and 11.5% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the third quarter, we prioritized capital allocation toward our highest conviction ideas within existing themes while also increasing exposure to a few positions that were established in earlier periods. In addition to highlighting a recent purchase, we feature below some of our investments that, in our view, have the highest likelihood of material value creation going forward.

As part of our EM consumer theme, we initiated a position in **AIA Group Limited**. AIA is the largest Pan-Asian life insurance company with over 55 million customers and over $330 billion of assets. The company operates in 18 Asian markets including China, Hong Kong, Thailand, Philippines, Taiwan, among others. In our view, AIA is uniquely positioned to benefit from long-term structural growth opportunities in Asia's insurance sector. Penetration of life and protection insurance remains low throughout the region. An aging population and low fertility rates create a higher need for protection and savings insurance products. At the same time, a growing middle class and rising levels of income per capita across the region suggest there will be higher demand and affordability for such products. AIA is a well-recognized brand and has the largest agency distribution network, which provides a competitive advantage and supports new business growth. In addition, the company is one of the only foreign-owned entities with licenses to operate in select regions of mainland China, allowing it to compete in this large addressable market. With a conservative balance sheet and a history of delivering consistent growth, we believe AIA will yield long-term and high-quality compound returns. The resurgence of COVID cases and new mobility restrictions in China and Hong Kong have negatively impacted near-term growth expectations, which, in our view, creates an attractive opportunity to build a position given our primary focus on the long-term growth opportunity ahead.

During the quarter, we also increased exposure to our India wealth management/consumer finance theme primarily by adding to **Bajaj Finance Limited**, which is one of our highest conviction ideas in the portfolio. As a leading data-driven, non-bank financial company in India, the company is well positioned to benefit from growing demand for consumer financial services such as mortgages, personal and credit card loans, vehicle financing, and other related products. Consumer credit penetration in India is currently under 15% of GDP, which creates a multi-year growth opportunity for well-managed financial institutions such as Bajaj. CEO Rajeev Jain is a best-in-class leader who is fast transforming the company to become India's largest fintech player by leveraging its proprietary technology platform to create an omnichannel "supermarket of financial services." In our view, Bajaj is well positioned to generate 25% to 30% compound earnings growth over the next five years as it continues to gain market share from capital-constrained public sector banks while also deploying conservative risk management frameworks to generate superior risk-adjusted returns for shareholders.

As part of our digitization theme, we reiterate our conviction in **Baidu, Inc.** and **InPost S.A.** Baidu is a leading Chinese artificial intelligence company, which, in our view, is trading well below intrinsic value due to short-term economic and geopolitical uncertainties. We expect significant long-term upside given the company's strong competitive position across several of China's key growth industries. Baidu's mobile ecosystem, which includes China's dominant search engine, has over 620 million monthly active users. In our view, this ecosystem will benefit from the secular growth of China's digital advertising industry, as well as the expansion of searchable content from established social media and e-commerce platforms resulting from recent regulatory reforms regarding data interoperability. Beyond its core search business, Baidu has invested heavily in cutting-edge technologies including cloud, autonomous driving, smart devices, and AI semiconductor chips. The company's cloud business is one of the largest and fastest growing in China and is differentiated by its AI solutions and higher-value PaaS/SaaS offerings. Baidu has also developed leading autonomous driving technologies that it is commercializing through partnerships with top-tier Chinese auto manufacturers. We expect the company to sustain solid double-digit earnings growth over the next three to five years.

InPost is one of the largest logistics companies in Poland, where it operates the dominant network of automated parcel lockers (APMs) through which consumers can send and receive e-commerce packages. In recent years the company has expanded organically into the U.K. and via acquisition last year in France. The stock has underperformed since its IPO on slowing e-commerce volumes in Europe, which has been exacerbated by a sharp increase in energy prices in the aftermath of the war in Ukraine that reduces consumers' discretionary income, and on higher required investments in both the French acquisition and the U.K. business than the market initially expected. Double-digit inflation in Poland has also reduced margins in 2022, as InPost's contracts with large merchants stipulate a lag between cost realization and inflation-based price adjustments. Despite these headwinds, the company continues to significantly outgrow the industry in all its markets. The Polish business is dominant and benefits from network effects, outgrowing its competitors while simultaneously generating high and generally rising margins. The current year's margin compression will be recovered in subsequent years as contracted price resets adjust for inflation on a lag. Despite some fits and starts in the U.K., we think the opportunity outside Poland is vast, particularly in France, as both consumers and merchants look to out-of-home delivery options, like InPost's APMs, to reduce cost and increase convenience. In our view, earnings can quadruple over the next five to seven years, which makes it a high-conviction idea for us.

We are also excited about our recent investment in **Meyer Burger Technology Ltd**, which forms part of our sustainability/ESG theme. Meyer is a Swiss-based supplier of solar modules. Its next generation, heterojunction solar modules are more efficient and result in premium prices and margins. Meyer has strong order momentum for these new products and is currently ramping up capacity at both its German and U.S. facilities. In our view, the company is a long-term beneficiary of greater localization of energy supply chains as nations across the globe strive to reduce reliance on Russia and China. As an example, the recently passed Inflation Reduction Act gives companies attractive incentives to bring manufacturing of solar modules and cells back to the U.S. Meyer recently announced plans to significantly expand capacity in the U.S., supported by long-term off-take agreements with key customers.

Finally, we added to a few of our other existing positions during the quarter, including **MonotaRO Co., Ltd.**, **Taiwan Semiconductor Manufacturing Company Ltd.**, **HDFC Bank Limited**, **Future plc**, and **Korea Shipbuilding & Offshore Engineering Co., Ltd**. During the quarter, we also exited positions in **CAE Inc.** and **Will Semiconductor Co., Ltd.**

Outlook

In our previous letter, we highlighted a perceived transition in market sentiment from fearing inflation to fearing recession. We believed we were likely passing through peak inflation expectations, but inflation fears returned with vigor late in the third quarter. Intermediate-term forward-looking inflation indicators, such as energy and commodity prices, two- and five-year breakeven inflation readings, goods inventories, and shipping rates imply that the recent panic over inflation may be misguided. In our view, the spike in bond yields and the reversal of global equity prices during the quarter was less driven by the actual inflation data, than it was driven by the Fed's fixation on backward-looking data points and the concurrent and rising likelihood that they may commit another policy error. In other words, after failing to be data dependent during the post-COVID recovery and keeping rates too low for too long, the Fed has abruptly hiked rates and now appears to lack patience, focusing squarely on the rearview mirror as inflation reports are notoriously a lagging indicator. As financial market participants increasingly perceive a rising likelihood of over tightening and the near certainty of recession, a lack of confidence in the Fed has exacerbated the recent retreat in global equities as well as relentless U.S. dollar strength. In support of our view, we note that one-year breakeven inflation expectations entered the quarter at 4.28% and steadily declined to 1.72% at quarter end, hardly a level that should require the Fed to further escalate rate-hike expectations.

While rising interest rates can take time to impact the real economy and inflation readings via curtailing demand, consumption, and investment, tightening financial conditions often have a more immediate impact on the financial economy. In the last days of the quarter, we began to surmise that regardless of current intentions, Fed hawkishness is likely reaching a zone of practical constraint. The spectacular decline of the British pound, stress on the integrity of British pension funds and other long-duration investment pools, scrutiny around Credit Suisse Group AG, and an acceleration in U.S. dollar currency appreciation and real interest rates are all signals that we have entered an elevated financial risk scenario. Without a more flexible Fed, financial contagion is increasingly likely. In financial markets, bad news can be “good news,” as we believe this elevated financial risk scenario can now act as a constraint on the Fed and provoke the patience that seemed unlikely just several weeks ago. Just as it appeared to us that the Fed was locked on course to a policy error, the markets’ discounting of this reality began to trigger financial instability, which suggests that we are now likely at or near peak hawkishness. We are carefully watching for a peak in the U.S. dollar, real interest rates, and sovereign bond yields for confirmation, which would also suggest a peak in equity risk premium and a likely trough in earnings multiples.

While the global rate-hike cycle will certainly impede economic growth and curtail corporate earnings, we reiterate that this tightening began much earlier in several international and EM jurisdictions, while COVID-related stimulus there was also much more measured. As such, we believe the adjustment to both interest rates and earnings expectations is more advanced for such economies, while the inflation impulse is generally more measured. China, the largest international economy, has already embarked on an easing campaign. If we are correct that we are experiencing peak hawkishness, then a coincident peak in the U.S. dollar would likely trigger improving relative performance of international equities. We are encouraged that after this month’s Party Congress in China, authorities will likely begin to emphasize vaccination and perhaps lay the eventual groundwork for emerging from its “Zero COVID” policy, which has impaired economic activity and earnings power while overwhelming China’s easing measures over the past year. As we look to 2023, we believe China stands out as a jurisdiction with perhaps the most likely prospect for earnings stabilization and recovery, which would further support the equities of the companies and countries most exposed to this axis of macroeconomic activity. In the longer term, we reiterate that international relative performance is a story of relative earnings growth and valuation, and we believe both are at trough levels given fundamental developments within such economies as well as the global capital investment cycle that is necessary to fund the new priorities of global security, de-globalization, and sustainability. As international economies and markets have historically benefitted during such periods, we believe now is a time to take a contrarian view of the international equity asset class.

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.