



INVESTOR

Baron International Growth Fund

Investing in the International Equity Markets

It is a well-known bias among investors that most prefer to keep their assets close to home. U.S. investors, for instance, hold almost three-quarters of their equity assets in U.S. securities. We think investors who underallocate to international securities may be missing out. There are more than 47,000 companies on foreign exchanges, versus roughly 10,600 companies listed on U.S. exchanges. The number of public U.S. companies has also been trending downward for the past decade, while their foreign counterparts have increased over the same time period. Moreover, the world’s fastest growing economies are outside the U.S. In 2001, the U.S. accounted for 31% of global GDP; by 2022, this percentage had declined to about 25%. We think these trends will likely continue.

A Differentiated Fund

Baron International Growth Fund is our international investment option. Portfolio Manager Michael Kass takes a truly differentiated approach to investing in international equities.

As demonstrated in the table to the left, this strategy has produced outstanding results during the 13 years of the Fund’s existence. In the period since inception, the Fund ranks in the 16th percentile of its international multi-cap growth equity peer group as defined by Lipper.



Michael Kass
Portfolio Manager

Baron International Growth Fund
Performance as of 12/31/22 (annualized)*

	1-Year	3-Year	5-Year	10-Year	Since Inception**
Baron International Growth Fund	-27.29%	1.49%	2.17%	6.50%	9.04%
MSCI ACWI ex USA Index	-16.00%	0.07%	0.88%	3.80%	6.13%
MSCI ACWI ex USA IMI Growth Index	-23.49%	-0.26%	1.39%	4.77%	7.04%
Lipper International Multi-Cap Growth Category Average	-24.55%	-0.91%	0.82%	4.54%	6.33%

* Institutional shares. For Retail and R6 Shares, visit www.BaronFunds.com

**Performance encompasses the inception of the Institutional shares to most recent quarter end, as well as extended performance from the Fund’s inception, 12/31/2008, to 5/29/2009.

The Fund is differentiated by its high active share and relatively lower average market cap, as well as its manager’s expertise in developing markets and emphasis on private sector entrepreneurs. In addition, we believe a unique, forward-looking approach to theme identification and stock selection, backed by extensive due diligence, is a key differentiator and has driven long-term outperformance against peers. Finally, we take a multi-faceted approach to risk management, which we believe is critical to successful investing in this complex space.

High active share The Fund has always maintained high active share. Its current active share is 88.0%.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Institutional Share Class as of 12/31/2021 was 0.96%, but the net annual expense ratio was 0.95% (net of the Adviser’s fee waivers).

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor’s shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2033, unless renewed for another 11-year term and the Fund’s transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

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

The Lipper International Multi-Cap Growth Category Average is not weighted and represents the straight average of annualized returns of each of the funds in the category. As of December 31, 2022, the category consisted of 255, 246, 222, 155, and 127 funds for the 1-, 3-, 5-, 10-year and since inception periods respectively. Lipper ranked Baron International Growth Fund Institutional Share Class in the 70th, 14th, 22nd, 13th, and 16th percentiles, respectively, in the category. The number of funds in the category may vary depending on when Baron made the calculation.

Note that the 1st percentile represents the “Best” Lipper ranking while the 99th percentile represents the “Worst.”

Lower average market cap As seen in the chart below, the Fund has a significantly lower percentage of giant-cap companies than its peer funds. While we own giant caps if they make sense from a fundamental growth perspective, we are more focused on mid-cap and smaller large-cap companies, where we believe the growth opportunities are greater.

Market Cap Exposure

	Giant	Large	Mid	Small	Micro
Baron International Growth Fund	31.3%	34.3%	21.1%	12.9%	0.4%
Morningstar Foreign Large Growth Category Average	48.9%	33.1%	13.2%	0.6%	0.0%

Source: FactSet PA, Morningstar Direct and MSCI, Inc.

Expertise in developing markets Internationally, we think significant growth opportunity lies with the emerging markets, and, while we actively manage our exposure to developed versus developing countries, our exposure to EM has historically been close to that of the MSCI ACWI ex USA Index, the standard international benchmark. In contrast, our peer group tends to be underweight EM. As of December 31, 2022, the Fund is 28.6% EM and Frontier countries by weight, compared with the index's 28.5% and our peer group average of 11.1%.

More importantly, we believe our demonstrable expertise in EM differentiates the Fund. A core group of five dedicated research analysts cover investments in both Baron International Growth Fund and Baron Emerging Markets Fund, which is also managed by Michael Kass. The Fund is also able to leverage the extensive capabilities of the other research analysts and portfolio managers at Baron. Our research capabilities are the bedrock of our investment approach. All of the holdings in Baron International Growth Fund, including its EM holdings, are the product of fundamental, bottom-up stock selection based on extensive company-specific research, often informed by compelling investable themes. The result is a differentiated portfolio consisting of companies that we think have exceptional growth and value-creation potential, many of which are not the well-known giant caps that dominate the index by weight.

In contrast to our approach, it is not uncommon for an otherwise actively managed international fund to index its EM holdings, resulting in an overweight in giant-caps in the region.

Multi-Faceted Approach to Risk

The complex interplay and uncertainties inherent in the geopolitical, macro- and micro-economic, and industry dynamics that impact the international markets require a disciplined approach to risk management. Our approach is four-fold.

First, we invest in higher-quality businesses, with high returns on capital, relatively under-leveraged balance sheets, and less need for external capital to fund the targeted growth rate. These businesses tend to be less negatively impacted when the cost of capital rises or access to capital closes. We believe this investment approach is the major factor behind our historic outperformance in deteriorating or fair economic conditions.

Second, we think the likelihood of improving financial returns or accelerated growth potential for a company or industry is bolstered by our use of investable themes. If that proves to be the case, this approach provides a margin of safety. If we understand correctly the

factors at play and likely to play out over the next year or several years, we should see improving fundamentals in the companies we own. This margin of safety may decline as the theme matures and is discounted by the market. At this time, we will ask ourselves whether we should decrease our allocation to or exit the stocks in the theme.

Third, we pay close attention to the potential impact of global liquidity conditions and individual currency and sovereign credit risks. We view these risks through a fixed income lens, looking to anticipate and understand the potential impacts of the dynamics at play *before* the environment is already repriced.

Finally, we think it is worth pointing out that we take a disciplined approach to initiating, building, and exiting positions. This approach reflects, in part, Kass' hedge fund background, with an emphasis on absolute returns and avoidance of the permanent loss of capital.

Distinct and Forward-Looking Investment Process

Given the breadth of the international equity universe, we often begin the process of finding our investments by searching for and developing defined, long-term investment themes. We look for conditions precedent to improving financial returns and accelerating growth on a forward-looking basis. We do not use quantitative screens because we consider them to be coincident or backward looking, identifying companies already exhibiting improved returns, which are more likely to be already recognized and more fully valued.

Our themes are based on important changes or trends that suggest the potential for a significant improvement in profitability, return on capital, or growth potential, often for an entire industry or group of companies. They fall into two broad categories. The first involves industry-wide trends which are often global, such as a shift toward consolidation or vertical integration or technology-driven transformation. The second category involves region- or country-specific trends or developments, which are most often driven by political developments and/or productivity-enhancing policy reforms that present material opportunities to targeted industries or companies. In addition, we factor in global macroeconomic developments to better balance opportunity and risk.

Major investment themes include:

- Digitization
- Sustainability/ESG
- Biotechnology/Diagnostics
- Global Security
- Luxury
- India Wealth Management
- EM Consumer
- Best-in-Class/High-Quality Growth

We take a forward-looking approach to investing in the international markets. We look for what we consider to be the characteristics of best-in-class companies: high-quality businesses with strong and rising market share, high barriers to entry, strong management leadership, revenue visibility, profit margin stability, and significant long-term growth potential.

In addition, given the nuances of the international equity markets, we emphasize the following as a part of our extensive due diligence process.

Entrepreneurial management

- Founders with significant ownership stakes
- Leaders with strategic vision and financial sophistication
- Management that thinks and acts as an “owner”

Capital efficiency

- High return on invested capital
- Asset-light business models

Shareholder-friendly governance

- Alignment of interests between management and minority equity shareholders
- Independent directors

Following are some examples of our integrated thematic and bottom-up investment approach.

Mobile e-Commerce

A subset of our digitization theme is mobile e-commerce (m-commerce). We think many of the leading companies engaged in m-commerce are just now hitting their stride, with strong revenue and earnings growth.

While increasing overall, the rate of adoption varies significantly by country and region. For example, m-commerce has a higher penetration in China than in the U.S., due in part to the Chinese government’s early efforts to support the technology sector and an increasingly sophisticated IT talent base in the country. Chinese consumers are also moving directly from cash to electronic payments such as Tencent’s WeChat or Ant Financial’s Alipay, skipping credit cards altogether. China’s mobile payment user penetration rate in 2021 was 87.3%, double the U.S.’s rate of 43.2%. On the other end of the spectrum there are countries such as Indonesia where m-commerce is in its relative infancy.

The Fund has positions in a number of companies that fall into the m-commerce theme. While our investments include several well-known names such as China-based **Alibaba Group Holding Limited**, and **Tencent Holdings Limited**. We also hold less familiar names such as **Wix.com Ltd.**, an Israeli website and mobile site builder for smaller businesses and merchants, and **MonotaRO Co., Ltd.**, a Japan-based online distributor of equipment and replacement parts for maintenance, repair, and operations.

Biotechnology/Diagnostics

As the cost and time to sequence a human genome has declined to roughly \$600 in under a day, the applications for DNA sequencing are expanding, most notably in cancer diagnostics and treatment, as well as in the development of innovative new drugs for autoimmune diseases and consumer genomics. Scientists are increasingly able to target the genetic cause of a disease and repair it by replacing or editing genes or introducing genetically engineered cells. We have identified a number of promising companies that are driving rapid progress in personalized medicine and addressing many disease states.

Netherlands-based **argenx SE** is developing drugs for autoimmune disorders and cancer. The company’s lead molecule Efgartigimod can be

Baron International Growth Fund Top 10 Holdings as of December 31, 2022

Holding	Sector	% of Net Assets
Arch Capital Group Ltd.	Financials	2.9
AstraZeneca PLC	Health Care	2.8
argenx SE	Health Care	2.5
Linde plc	Materials	2.4
Meyer Burger Technology AG	Information Technology	2.2
Keyence Corporation	Information Technology	1.8
BNP Paribas S.A.	Financials	1.7
Pernod Ricard SA	Consumer Staples	1.7
Constellation Software, Inc.	Information Technology	1.7
Industria de Diseno Textil, S.A.	Consumer Discretionary	1.7
Total		21.5

* Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

characterized as a pipeline within a product, meaning it has potential to be a platform product treating a laundry list of diseases much like AbbVie’s multi-blockbuster drug Humira. The company is studying Efgartigimod in three “beachhead” severe autoimmune diseases, one each in hematology, neurology, dermatology, as a gateway to treating a larger list of diseases in each of these underlying indications. The common thread connecting all these disorders is pathogenic auto-antibodies, or the body’s own antibodies attacking it, which Efgartigimod can abrogate. Early data has lived up to the scientific rationale behind the drug design.

Zai Lab Limited is a China-based biotechnology company in-licensing drugs from developed countries to bring to the Chinese health care market which is still massively underdeveloped. Zai Lab is a leader in the early days of reforming the Chinese health care system. Given broad Chinese health care reforms via the NRDL (Chinese reimbursement list), CFDA (Chinese FDA) and ICH (International Council of Harmonization), and a recently opened financing avenue, we believe China is primed for extensive growth in the health care space. We believe Zai Lab, led by veteran CEO Samantha Du, is in a prime position to in-license U.S. drugs and sell them into the Chinese market.

Global Security

In our view, Russia’s unprecedented invasion of Ukraine has triggered a paradigm shift in capital allocations worldwide, toward energy, commodity, and food/agricultural security and infrastructure, as well as an increase in defense spending, especially by European countries such as Germany and Italy. The discrediting of Russia as a reliable trade partner coupled with ongoing de-globalization requires redundancy and localization of key commodities and investments in commercial and industrial supply chains. Accordingly, we seek to identify and invest in businesses that we believe will be key beneficiaries of such investments. An example is **Tenaris S.A.**, which manufactures seamless steel pipe products with operations in the U.S., Latin America, and the Middle East. Most of its products are specialized oil country tubular goods supplied to the energy industry. The war in Ukraine highlights the need to reorient supply chains away from reliance on Russia.

Sustainability/ESG

We have been investing in companies that stand to benefit from the growing need to deploy renewables to combat climate change. Russia's invasion of Ukraine will likely accelerate plans by many nations, particularly in Europe, to shift to renewables as part of their energy security agenda. Recent investments include **Aker Carbon Capture AS**, **Ceres Power Holdings plc**, and **Meyer Burger Technology AG**, all of which are also derivative beneficiaries of the global security theme outlined above. Aker develops carbon capture products that reduce CO₂ emissions from industrial flue gases. The company is a market leader in Europe and has a proprietary low-cost technology ("Just Catch") to capture CO₂ from small industrial plants. Ceres is a fuel cell technology and engineering company. Hydrogen fuel cells and electrolyzers could potentially help reduce emissions in the power, steel, trucking, marine shipping, and other hard to de-carbonize industries. Meyer is a Swiss-based supplier of solar modules. The company's next generation, heterojunction solar modules are more efficient than competing products, thereby garnering premium pricing. In our view, Meyer is a long-term beneficiary of greater localization of alternative energy supply chains as nations seek to reduce reliance on China, which currently produces roughly 80% of global solar modules.

Conclusion

We believe international equities may be poised for a sustained period of outperformance. After a 30-year period of globalization that led to subdued capital investment, the changing nature of U.S./China relations and Russia's aggression necessitate a global capital investment cycle. Such a cycle has nearly always correlated with international outperformance as these economies and markets are more sensitive to the beneficiaries of such an environment. We view this scenario as a transfer of wealth from global consumers and toward the owners of real assets and producers of industrial goods, which are more concentrated in international jurisdictions. We also remain encouraged by longer-term fundamental factors, including the passing of peak global dollar demand, which, coupled with an increase in the supply of U.S. treasuries/dollars, suggests a dollar bear market awaits, which has historically favored international assets. As always, we are confident we have invested in well-positioned and well-managed companies with substantial long-term investment return potential.

You should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The prospectus and summary prospectus contain this and other information about the Fund and can be obtained from the Fund's distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron International Growth Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such offer or solicitation.

Risk: Non-U.S. investments may involve additional risks to those inherent in U.S. investments, including exchange-rate fluctuations, political or economic instability, the imposition of exchange controls, expropriation, limited disclosure and illiquid markets. This may result in greater share price volatility. Specific risks associated with investing in small and medium-sized companies include that the securities may be thinly traded and they may be more difficult to sell during market downturns.

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.

Portfolio holdings as a percentage of total investments as of December 31, 2022 for securities mentioned are as follows: **Alibaba Group Holding Limited** – 1.0%; **Tencent Holdings Limited** – 0.7%; **Wix.com Ltd.** – 0.6%; **MonotaRO Co., Ltd.** – 0.7%; **Zai Lab Limited** – 0.4%; **Tenaris S.A.** – 1.4%; **Aker Carbon Capture AS** – 0.5%; **Ceres Power Holdings plc** – 0.4%.

The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The **MSCI ACWI ex USA Index** 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** measures the 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 Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

Active Share is a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).

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PRODUCTS WE OFFER

We offer 19 mutual funds in retail, institutional, and R6 share classes, collective investment trusts, separately managed accounts, sub-advisory services, UCITS, and other offshore vehicles.

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BARON FOCUSED GROWTH STRATEGY
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MUTUAL FUNDS

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