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Ukraine Russia Conflict

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Baron Emerging Markets Fund
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Events surrounding the Ukraine Russia conflict have both evolved very quickly and unfavorably from every perspective. The current situation is outside the likely worst-case scenarios we or most observers would have anticipated. Word that Vladimir Putin "is not well" is unsettling and helps explain why this geopolitical event has taken such a shocking turn and out of line with rational "odds making" on what were Putin's true intentions.

The full-scale invasion and unified Western reaction/sanctions are far more significant, but at this point we believe they are priced in. Most Russia equities have traded down at least 80% from their peaks prior to the earliest signs of Putin's gambit. Therefore, Russian equities are now trading at what we would deem "warrant value" and we are seeing indiscriminate selling/divestment into poor liquidity, as the local Russian exchange, GDRs and US listed Russian ADRs have either been halted for trading or are having trade settlement issues.

Since early signs in November of a potential emerging geopolitical initiative by Putin, we have reduced our Russian equity holdings quite substantially.

We see Putin's position as increasingly untenable, and we believe a settlement/cease-fire and de-escalation is much more probable than not. The status quo now appears a lose-lose situation for both sides, but Putin increasingly risks being exposed at home for many lost lives after, it would seem, fabricating the pretext for the invasion, and potentially stranding mass numbers of troops in Ukraine as the spring thaw arrives.

In our view, Putin made an extreme miscalculation regarding the ease of advancing on the major cities and overthrowing the democratically elected government. He is rapidly exhausting the available heavy artillery and financial resources to wage this campaign, at an estimated cost of $10 billion a day.

This is oversimplifying, but we see three alternative ways forward:

1. Settlement talks/de-escalation and some form of compromise with Russia perhaps gaining official control of the Russian speaking/leaning eastern regions that they already control through proxy, but the large majority of Ukraine would likely remain independent, with the current government retaining power – Ukraine agrees not to seek admittance to NATO for at least a long period of time if not indefinitely.

2. Putin presses on and likely suffers more loss of life, while recently imposed harsh sanctions inflict great pain on the Russian population and the oligarchs. Popular support for Putin erodes and he becomes increasingly paranoid and vulnerable which could lead to a loss of power in some form.

3. Russian military successfully advances on the major cities in Ukraine, installs a Russia-friendly puppet government but then must manage a 40 million population−the majority of which does not support the government and seeks a return to democracy.

While there are other remote possibilities, we think scenario 1 is the most likely given current information as of February 28, and talks are already ongoing. We see a more limited decline in the ruble and global equities than what was feared, and tepid rally in oil/commodities as validation that a relatively near-term settlement is the most likely scenario for now. Scenario 1 would likely result in some recovery in Russian and related equities though not near the levels pre-existing the conflict.

Scenario 2 is much less likely in our view, but diminished power or a dismissal of Putin could trigger a much greater asset recovery.

Scenario 3 appears more likely on the margin as of March 1. This scenario would result in equities remaining at warrant value or moving lower as more institutions look to exit, though we are now talking about the remaining ~20% or less of original value.

Again, this is a fluid situation so we will send updates as events unfold.

Baron Capital has committed to divesting from all Russian securities as soon as possible. As of February 28, 2022, the total percentage of Russian securities owned across all Baron Funds constitutes .02% of assets.

Baron Emerging Market Funds and Baron International Growth Fund
Russian securities as of 2/28/22

Security	BEMF Weight	BIGF Weight
Fix Price Group Ltd.	0.05%	
Novatek PJSC	0.15%	0.05%
Ozon Holdings PLC	0.14%	
PJSC Polyus	0.19%	
Sberbank of Russia PJSC	0.03%	0.01%
TCS Group Holding PLC	0.02%	0.02%
Yandex NV	0.11%	
Totals	0.69%	0.08%

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

Risks: 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. 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 Funds invest 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.

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

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