BARON FUNDS

January 19, 2023

Baron Emerging Markets Fund – 4Q23 and 2023 Update

Performance and positions: fourth quarter 2023

Baron Emerging Markets Fund gained 6.81% in the fourth quarter of 2023, while its primary benchmark, the MSCI EM Index (the Primary Benchmark), appreciated 7.86%. The MSCI EM IMI Growth Index (the Proxy Benchmark) gained 7.72% for the quarter.

For the fourth quarter, we modestly underperformed our benchmarks. Our underweight positioning and adverse stock selection in Taiwan, together with a one-off markdown of the fair value of Think & Learn Private Limited, a private Indian investment, were key detractors. Our modest cash position in a market rally also adversely impacted performance, while our underweight position in China and overweight in India were the largest offsetting positive contributors. From a sector or theme perspective, adverse stock selection effect in Information Technology and Communication Services was a slight drag on relative results. Positions in interest-rate sensitive sectors such as Materials, Real Estate, and Financials contributed.

Performance and positions: full year 2023

The Fund appreciated 8.29% in 2023, while its Primary Benchmark gained 9.83% and the Proxy Benchmark increased 8.09%.

For the full year, we modestly underperformed our Primary Benchmark while performing essentially in-line with our Proxy Benchmark. Given our quality growth bias, we are not all that surprised by the underperformance of our Primary Benchmark, as value-oriented equities within the EM landscape outperformed growth peers by a wide margin for the third consecutive year. From a sector or theme perspective, relative underperformance was largely a result of adverse stock selection in Information Technology, primarily driven by a correction in some software-related holdings within our China value added theme. Adverse stock selection effect together with our underweight positioning in the Energy sector, driven by select positions in our global security theme and digitization theme also stood out as a detractor. Lastly, unfavorable stock selection in Consumer Staples owing to a decline in a few of our China consumer investments also weighed on relative results.

On the plus side, solid stock selection effect in the Financials sector, pertaining to select positions in our fintech theme and more broadly our India consumer finance/wealth management theme, helped lift relative performance. Favorable stock selection combined with our underweight positioning in Materials also bolstered relative performance during the year.

From a country perspective, adverse stock selection in China and our exposure to Hong Kong drove the majority of relative underperformance. Our underweight positioning in Taiwan was also a notable detractor. In our view, the weakness in China was primarily driven by the general lack of material earnings recovery post the dismantling of the country's zero-COVID policy in late 2022. Such a recovery was anticipated and partially priced into markets in late 2022, which presented a difficult setup for China-related equities when earnings failed to deliver. The ongoing liquidity strain in China's property sector and geopolitical friction also weighed on broad economic growth and investor sentiment. While we are disappointed with developments in China and have accordingly moved to a modest underweight position there, we continue to believe that current market values remain well below the fundamental intrinsic values for many of our investments. We are closely monitoring ongoing developments related to government stimulus as well as monetary and regulatory policy that could potentially serve as a catalyst for a positive repricing of Chinese equities.

Partly offsetting the above was favorable allocation effect in India, which is now our largest absolute (and relative) weighting in the portfolio. Positive stock selection and allocation effect in South Africa and Brazil also stood out as contributors to relative results during the year.

Risk view / dry powder or cash deployment

As active equity growth managers focused on the long term, we do not typically hold a significant percentage of cash. Rather, we deploy assets according to the industries, countries, and particularly individual companies where we see the most promising risk/reward potential. While the potential risks inherent in the geopolitical, economic, and financial conditions that impact the emerging markets are always a key aspect of our portfolio management, and we apply a complex, multi-faceted approach to risk management, we do not aggressively use cash as either dry powder or a safe harbor.

At the end of 2023, cash comprised 3.05% of assets, which fell within our typical range of 3% to 5% cash.

Major themes for 2024

We are enthusiastic about portfolio positioning as we enter 2024, which we believe may mark the beginning of a multi-year upcycle for EM equities.

Early in the fourth quarter, an increasingly restrictive rise in real-yields and slowing employment and inflation momentum triggered a re-evaluation of likely U.S. Federal Reserve policy, which was confirmed by Fed comments suggesting its hiking cycle was complete. The Fed then surprised markets by communicating that rate cuts would likely occur sooner and in larger magnitude than expected. Bond yields and financial conditions reacted swiftly, pricing in rate cuts and easing liquidity conditions. The Fed's pivot meaningfully increased the likelihood of a soft landing, in effect declaring it was shifting its attention from pure inflation fighting to a dual-mandate and a desire to balance growth and inflation. While markets cheered the news, we believe this event also likely foreshadows the end of the 14-year U.S. dollar bull market and will usher in a cycle of relative outperformance by non-U.S. equities. Although we suspect financial markets may have moved a bit too far, too fast, and expect some consolidation of gains and market volatility, we believe the time has come for investors to rebalance portfolios in favor of EM equities.

We expect the emerging markets in general, and particularly those economies and companies most geared to the improvement in domestic growth, consumption, and investment that we expect to result from declining interest rates and appreciating currencies, to benefit most from this inflection point in financial conditions and capital flows. We anticipate a sustainable period of enhanced relative earnings growth potential in EM – essentially a mean reversion or mirror image of the past several years.

We research and invest in equities using a combination of defined, long-term, forward-looking themes and research-intensive, bottom-up stock selection. These themes currently include: digitization/cloud/AI; India productivity enhancing economic reforms (wealth management/consumer finance, digitization, and formalization); China's pivot to value-added industries; global security and supply chain diversification; fintech, sustainability/EV; EM consumer; and labor, manufacturing, and business productivity. Built into each theme is an assessment of regional geopolitical conditions and trends, which, in turn, factors into where we invest within the emerging markets.

Historically, the interest-rate and bond-yield sensitive markets such as Latin America (particularly Brazil), India, and Southeast Asia are disproportionate beneficiaries in the current environment, and we believe our portfolio is well positioned to benefit, given our overweight positions in India and Brazil, and our structural and thematic bias towards domestic consumer, financial, and industrial leaders. We believe India, our largest overweight exposure, has reached escape velocity after years of productivity-enhancing reforms and stands out as a material beneficiary in the evolving global geopolitical environment.

Recent EM performance and sentiment have been masked by ongoing skepticism toward China. Consistent with our view that global markets have reached an important inflection point, we note that EM ex-China outperformed the S&P 500 Index from the recent market low on October 27 through year end. Yet, China remains the elephant in the EM room. While inconsistent policy signals and geopolitical developments have been frustrating for investors, we believe China's policymakers have the tools and capacity to engineer a recovery, and we remain cautiously optimistic that ongoing incremental efforts will render current valuation and skepticism as too conservative.

Baron Emerging Markets Fund's annualized returns for the Institutional Shares as of December 31, 2023: 1-year, 8.29%; 5-year, 2.99%; and 10-year, 2.48%. Annual expense ratio for the Institutional Shares as of December 31, 2022 was 1.12%.

The **MSCI EM Index**'s annualized returns as of December 31, 2023: 1-year, 9.83%; 5-year, 3.68%; and 10-year, 2.66%.

The **MSCI EM IMI Growth Index** annualized returns as of December 31, 2023: 1-year, 8.09%; 5-year, 4.67%; and 10-year, 3.44%.

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.*

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 may reimburse certain 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.

Baron Emerging Markets Fund Top 10 Holdings as of December 31, 2023

Holding	Sector	% of Net Assets
Taiwan Semiconductor Manufacturing Company Limited	Information Technology	6.9
Samsung Electronics Co., Ltd.	Information Technology	5.3
Tencent Holdings Limited	Communication Services	3.7
Bajaj Finance Limited	Financials	2.5
Suzano S.A.	Materials	2.3
Alibaba Group Holding Limited	Consumer Discretionary	2.2
HDFC Bank Limited	Financials	2.2
HD Korea Shipbuilding & Offshore Engineering Co., Ltd.	Industrials	2.0
Bharti Airtel Limited	Communication Services	2.0
Bundl Technologies Private Limited	Consumer Discretionary	1.9
Total		30.9

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

Risks: 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 Fund 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 discussion of market trends and companies is not intended as advice to any person regarding the advisability of investing in any particular security. Some of our comments are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change any time based on market and other conditions, and we have no obligation to update them.

The **MSCI EM (Emerging Markets) Index Net (USD)** is designed to measure equity market performance of large and mid-cap securities across 24 Emerging Markets countries. The **MSCI EM (Emerging Markets) IMI Growth Index Net (USD)** is a free float-adjusted market capitalization index designed to measure equity market performance of large-, mid- and small-cap securities exhibiting overall growth characteristics across 24 Emerging Markets countries. 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.

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