Baron Emerging Markets Strategy

March 31, 2024

Dear Baron Investor:

Performance

Baron Emerging Markets Strategy® (the Strategy) gained 2.82% during the first quarter of 2024, while its primary benchmark index, the MSCI Emerging Markets Index (the Benchmark), was up 2.37%. The MSCI Emerging Markets IMI Growth Index (the Proxy Benchmark) gained 2.98% for the quarter. The Strategy outperformed the Benchmark while modestly underperforming the Proxy Benchmark during the quarter.

In recent letters, we have suggested that weaker global growth and a peak in bond yields would be a likely precursor to global central bank easing and an inflection point in emerging markets (EM) equity performance relative to the U.S. As we discussed in our year-end 2023 letter, November's U.S. Federal Reserve (the Fed) pivot suggested such conditions had likely been triggered, and investors fairly quickly discounted a soft landing towards the end of 2023. Illustrating the inherent reflexivity of the easing of liquidity/credit and economic expectations, year to date, we have witnessed a notable uptick in U.S. growth and inflation expectations, as well as an anticipated delay in the Fed's easing. Given the abrupt rise in bond yields, global equities surprised many during the quarter in continuing to follow through on last quarter's strength.

We believe the recent strength in equities can be attributed to the Fed's indication that while it may delay or moderate, it principally remains on course for multiple rate cuts during the current year. To us, the Fed is suggesting an equity-friendly posture, given its apparent willingness to look through the uptick in growth and inflation in an election year. We suggested

Table I.

Performance for annualized periods ended March 31, 2024 (Figures in USD)[1]

	Baron Emerging Markets Strategy (net)[2]	Baron Emerging Markets Strategy (gross)[2]	MSCI EM Index[2]	MSCI EM IMI Growth Index[2]
Three Months[3]	2.82%	3.06%	2.37%	2.98%
One Year	8.96%	9.96%	8.15%	6.75%
Three Years	(7.85)%	(6.98)%	(5.05)%	(7.54)%
Five Years	1.48%	2.43%	2.22%	3.02%
Ten Years	2.78%	3.76%	2.95%	3.69%
Since Inception (January 31, 2011)[4]	3.84%	4.65%	1.92%	2.82%

Table II.

Calendar Year Performance 2019-2023 (Figures in USD)

	Baron Emerging Markets Strategy (net)[2]	Baron Emerging Markets Strategy (gross)[2]	MSCI EM Index[2]	MSCI EM IMI Growth Index[2]
2019	19.05%	20.17%	18.42%	23.60%
2020	29.57%	30.78%	18.31%	30.75%
2021	(5.95)%	(5.05)%	(2.54)%	(5.50)%
2022	(25.77)%	(25.07)%	(20.09)%	(23.88)%
2023	8.85%	9.85%	9.83%	8.09%

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 March 31, 2024, total Firm assets under management are approximately $43.0 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, a Collective Investment Trust, a multipartner SICAV fund, and a subadvised account managed by BAMCO; and a separately managed account and a private offshore fund managed by BCM. The Strategy invests mainly in non-U.S. companies of all sizes. The majority of investments are in companies domiciled in developing countries. The Strategy may invest up to 20% in companies in developed and frontier 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 Report please contact us at 1-800-99-BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

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.

1 With the exception of performance data, most of the data is based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

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

3 Not annualized.

4 The Strategy has a different inception date than its representative account, which is 12/31/2010.

Table III.
Top contributors to performance for the quarter ended March 31, 2024

	Percent Impact
Taiwan Semiconductor Manufacturing Company Limited	2.36%
Bundl Technologies Private Limited	0.52
Nu Holdings Ltd.	0.49
Bharti Airtel Limited	0.43
Jio Financial Services Limited	0.40

in our last letter that financial markets may have moved too far, too fast in the aftermath of the Fed pivot. However, we noted the improved relative performance of EM equities as a likely foreshadowing of a sustained period of mean reversion. While global equities continued to appreciate in early 2024, the strength was concentrated in the U.S., Japan, mega caps, semiconductors, and other AI proxies. Meanwhile, EM and small-cap equities lagged as global central bank easing expectations moderated. In our view, the shifting conditions referenced above present an interesting setup for non-U.S. equities. We have consistently noted that the global response to COVID-19 was disproportionate, with the U.S. implementing fiscal expansion and monetary support measures orders of magnitude larger than those of most other countries. Consequently, this has led to a stronger recovery and greater inflation pressure in the U.S., which largely persists today. Whether non-U.S. central banks calibrate monetary policy based on their domestic conditions or in response to the Fed and U.S. conditions is likely to influence forward-looking relative performance, as conditions in most foreign jurisdictions warrant substantially more easing than the U.S., in our view. We continue to believe we are at or near an inflection point in relative performance that will favor EM equities. Of course, we remain confident that our diversified portfolio of well-positioned and well-managed companies will capitalize on their attractive growth potential over the coming years regardless of the macro environment.

For the first quarter of 2024, we performed broadly in line with the Benchmark as well as our Proxy Benchmark. From a sector or theme perspective, positive allocation effect and solid stock selection in the Materials sector, primarily driven by investments in our sustainability/ESG theme (**Suzano S.A.** and **Grupo Mexico, S.A.B. de C.V.**), was the largest contributor to relative performance this quarter. In addition, favorable stock selections in the Communication Services sector were notable contributors to relative results due to our digitization-related positions in India (**Bharti Airtel Limited**, **Indus Towers Limited**, and **Tata Communications Limited**). Lastly, good stock selection in the Consumer Discretionary sector across multiple themes (**Bundl Technologies Private Limited**, **Trent Limited**, and **Codere Online Luxembourg, S.A.**) also bolstered relative performance during the quarter. Partially counterbalancing the aforementioned gains was a poor stock selection effect within the Financials sector. This was mainly due to specific holdings related to our fintech disruption (**Pine Labs Pte. Ltd.**) and themes in India's wealth management/consumer finance (**JM Financial Limited, HDFC Bank Limited, Edelweiss Financial Services Limited, Bajaj Finance Limited,** and **Muthoot Finance Limited**). Adverse stock selection, and our underweight positioning in the Information Technology sector also weighed on relative performance.

From a country perspective, strong stock selections in Brazil added the most value this quarter. Within Brazil, a standout contributor was **Nu Holdings Ltd.**, a best-in-class, digitally native financial services player that continues to gain market share from incumbent banks with improving profitability and customer satisfaction scores. The positive allocation effect combined with favorable stock selection in South Africa also contributed to relative results. Lastly, solid stock selections in Taiwan, primarily driven by our overweight positioning in **Taiwan Semiconductor Manufacturing Company Limited**, also bolstered relative performance during the quarter. Broadly offsetting the above was the poor stock selection effect in China, as the private sector, growth-oriented equities in China continued to lag. Concerns related to a general lack of an earnings recovery after China terminated its zero-COVID policy in late 2022, tight liquidity conditions in the property sector, and geopolitical friction resurfaced early in the quarter and continued to weigh on investor sentiment. That said, as the quarter progressed, we were encouraged to witness early signs of stabilization and recovery, driven by recent government stimulus measures along with easing monetary and regulatory policies. These developments supported a positive reversal of Chinese equities in the latter half of the quarter. We believe that many of our China holdings trade well below fundamental intrinsic value and that any ongoing signs of recovery could trigger material repricing.

Semiconductor giant **Taiwan Semiconductor Manufacturing Company Limited** contributed in the first quarter due to investor expectations for a continued strong cyclical recovery in semiconductors and significant incremental demand for AI chips. We retain conviction that Taiwan Semiconductor's technological leadership, pricing power, and exposure to secular growth markets, including high-performance computing, automotive, 5G, and IoT, will allow the company to sustain strong double-digit earnings growth over the next several years.

Bundl Technologies Private Limited is the parent entity of Swiggy, India's leading food delivery platform with a market share of roughly 45%. Shares of Bundl were up during the quarter, driven by increasing penetration of food delivery in India and improving profitability of the company. We retain conviction as we believe India's food delivery industry is still in its infancy and will continue to scale over the next several years, driven by a growing middle class, rising disposable income, higher smartphone penetration, and a structural shift in consumer preference to a tech-savvy younger population.

Nu Holdings Ltd. is a digital bank with operations in Brazil, Mexico, and Colombia. Shares appreciated during the quarter, as the company reported strong balance sheet growth and continued improvement in profitability. Initiatives to deploy new products and accelerate growth in new geographies are yielding strong results, leading to enhanced earnings expectations. Nu also benefited from news that its shares had become eligible for inclusion in the MSCI Brazil Index, which drove technical flows into the name. We remain investors. Nu is disrupting the financial services industry in Latin America via its digital distribution and intense focus on user experience, which has allowed it to reach over 90 million registered users (almost half of the Brazilian adult population) in less than 10 years with little marketing investment. We believe its superior product offering will allow it to take share from incumbents in this massive market.

Table IV.
Top detractors from performance for the quarter ended March 31, 2024

	Percent Impact
Pine Labs Pte. Ltd.	–0.80%
HDFC Bank Limited	–0.34
Zai Lab Limited	–0.34
PDD Holdings Inc.	–0.28
Localiza Rent a Car S.A.	–0.28

Pine Labs Pte. Ltd. is a leading merchant commerce solutions provider in India with a network of more than a million point-of-service checkout points across more than 520,000 merchants. Share price weakness was driven by a marked slowdown in Pine Labs' Buy Now Pay Later (BNPL) business momentum. While we are disappointed with recent developments, we remain investors, as we believe merchant digitization/BNPL in India is still in its infancy and will be a high-growth sector over the next decade (and beyond), driven by accelerating digital payments adoption and growing consumption/disposable income by a tech-savvy and aspirational Indian population.

HDFC Bank Limited is India's largest and most prominent private sector bank. Shares declined after the company reported results that showed slowing deposit growth due to competition and overall tight liquidity conditions. The company will likely have to curtail the pace of asset growth or increase funding costs to attract more deposits in the near term as a result. We think this headwind is temporary. We believe the size and scope of HDFC Bank's distribution network is a competitive advantage that will allow it to grow its funding base at a faster pace than the industry over the long term. We retain conviction in HDFC Bank as one of the best ways to invest in the underpenetrated market for retail lending in India.

Zai Lab Limited is a Chinese biotechnology company dedicated to bringing Western medicines to greater China and to transitioning to a fully integrated company with internal drug development capabilities. While performance as a business has been excellent, shares fell on concerns related to the advance in the U.S. Congress of the BIOSECURE Act, which would prohibit federal agencies from contracting with certain biotechnology firms in China. As a purely domestic player with minimal U.S. export aspirations, we do not believe Zai Lab would be impacted by the legislation, however in the near term, investors have reacted by reducing exposure to essentially all biotechnology-related entities in China.

Portfolio Structure

Table V.
Top 10 holdings as of March 31, 2024

	Percent of Net Assets
Taiwan Semiconductor Manufacturing Company Limited	8.0%
Samsung Electronics Co., Ltd.	4.9
Tencent Holdings Limited	3.8
Bundl Technologies Private Limited	2.6
Suzano S.A.	2.5
Bharti Airtel Limited	2.4
Reliance Industries Limited	2.1
Alibaba Group Holding Limited	2.0
HD Korea Shipbuilding & Offshore Engineering Co., Ltd.	1.9
InPost S.A.	1.9

Table VI.
Percentage of securities by country as of March 31, 2024

	Percent of Net Assets
India	28.0%
China	22.2
Korea	12.6
Taiwan	9.8
Brazil	9.0
Mexico	2.8
Poland	2.3
Philippines	2.2
Hong Kong	1.8
Indonesia	1.8
South Africa	1.5
Peru	1.2
Japan	0.7
Spain	0.4
France	0.2
Russia	0.0*

* *The Strategy's exposure to Russia was less than 0.1%.*

Exposure by Market Cap: The Strategy may invest in companies of any market capitalization, and we have generally been broadly diversified across large-, mid-, and small-cap companies, as we believe developing world companies of all sizes can exhibit attractive growth potential. At the end of the first quarter of 2024, the Strategy's median market cap was $14.7 billion, and we were invested 48.7% in giant-cap companies, 38.1% in large-cap companies, 8.9% in mid-cap companies, and 0.7% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the first quarter, we added several new investments to our existing themes while increasing exposure to various positions we established earlier. We continue our endeavor to add to our highest conviction ideas.

We were most active in adding to our digitization theme by initiating positions in **Indus Towers Limited** and **Tencent Music Entertainment Group** (TME). Indus is a leading telecommunications tower operator in India. The telecom towers sector in India is currently structured as a duopoly, with Indus and a key competitor accounting for approximately 60% of the market share. The company has been a significant beneficiary of ongoing industry consolidation and telecom providers' rollout of 5G services. However, its valuation has remained deeply discounted compared to global tower peers. This is primarily due to a key customer, Vodafone Idea (Vi), which has been experiencing share losses, triggering insolvency concerns for Vi. With its recent improvement in financial viability, Vi resumed monthly payments to Indus, which, in our view, will be a key re-rating catalyst for Indus' stock.

Additionally, as Vi completes an equity raise, Indus will benefit from Vi's planned 4G expansion and 5G rollout. This will drive tower additions, tenancy ratio improvement, and consequently higher operating leverage and free-cash generation. We expect Indus to deliver high single-digit revenue growth and approximately 10% compounded earnings growth over the next three to five years, with nearly all the incremental earnings enhancing distributable free cash flow.

TME, a listed subsidiary of Tencent Holdings Limited, is China's largest online music platform. The company has a dominant 70% share of music streaming and the most comprehensive content library in China. With the decline in its legacy music live-streaming business over the last few years, TME has transitioned to a pure-play music streaming model, improving earnings quality and durability. Music streaming is still in its early stages in China, with paid penetration of only 18% and average revenue per paying user (ARPPU) of only RMB 10.7 (U.S. $1.50) per month, a fraction of global peers. As a result, we believe the company has a long runway to drive at least high-teens subscription revenue growth over the intermediate term via both user growth and increasing ARPPU, driving a doubling of earnings over the next four to five years. As the business scales and the self-produced content mix rises, TME is also poised for margin expansion. China's more fragmented music label landscape compared to other global markets bodes well for the company's long-term profitability.

During the quarter, we also initiated a position in **KB Financial Group Inc.**, which is the holding company for Kookmin Bank, one of South Korea's largest commercial banks. The company's subsidiaries offer a broad range of products, including traditional corporate and retail banking, asset management, life and non-life insurance, and securities-related services. We like KB Financial for several reasons. First, its broad business diversification provides a more resilient earnings stream relative to peers. Second, the company operates with the highest capital ratios among Korean banks and a high provisioning buffer, which we believe will drive a higher total return for shareholders via increasing dividend payout and buybacks. At the current valuation (0.4x price/book), we believe KB Financial is undervalued relative to its ROE potential. We believe the combination of strong capital ratios and a high return profile should drive a re-rating in the company's shares, with further upside potentially triggered by the value-up program that Korea recently established to enhance long-term shareholder value for listed companies.

As part of our China value-added theme, we initiated a position in **Fuyao Glass Industry Group Co., Ltd.**, the world's largest auto glass manufacturer and distributor with a 30% global market share. The company was founded in Fuzhou, China, in 1987 and now has manufacturing facilities in 11 countries with a diverse customer base. Its scale, supply-chain integration, and leading position in high value-add products such as panoramic sunroof and heads-up display glass are sources of competitive advantage, in our view. Electric vehicle (EV) proliferation is an upside driver, carrying up to 70% more glass content at higher average selling prices (ASPs) than traditional internal combustion engine automobiles. We expect Fuyao Glass to deliver high double-digit revenue growth on rising EV and autonomous driving penetration with consistent upward migration in ASP via the positive mix shift. The company also benefits from Chinese EV export growth due to its dominant 65% share in China.

During the quarter, we also increased exposure to our EM consumer theme by initiating an investment in **InterGlobe Aviation Limited** (IndiGo). The company is India's largest airline operator, commanding over 60% market share in the duopolistic domestic aviation market. IndiGo has been a key beneficiary of industry consolidation in the aftermath of the COVID-19 pandemic and ongoing supply-chain challenges that have disproportionately impacted smaller competitors. The company operates a fleet of over 350 aircraft and provides low-cost connections to 86 domestic and 32 international destinations. Leveraging its scale of operation and financial strength, IndiGo has strong negotiating power with commercial airplane manufacturers and consequently enjoys a lower cost of ownership and a younger fleet versus its peers. We are excited about the growing demand for air travel in India, the improving pricing discipline in the market, and IndiGo's vision to expand its international destination network, which is accretive to operating margins. We expect the company to deliver 15% to 20% compounded EBITDA growth over the next three to five years.

We added to several of our existing positions during the quarter, including **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.**, **XP Inc.**, **China Mengniu Dairy Co. Ltd.**, **Kaynes Technology India Limited**, **Samsung SDI Co., Ltd.**, **Shenzhou International Group Holdings Ltd.**, **Galaxy Entertainment Group Limited**, and **Coupang, Inc.**

During the quarter, we also exited several positions, including **Jubilant FoodWorks Limited**, **Muthoot Finance Limited**, **Glodon Company Limited**, **Network International Holdings Plc**, **Yunnan Baiyao Group Co., Ltd.**, **StoneCo Ltd.**, and **AIA Group Limited**, as we continue our endeavor to allocate capital to our highest convictions and ideas.

Outlook

In recent letters, we have suggested that weaker global growth and a peak in bond yields would be a likely precursor to global central bank easing and an inflection point in EM equity performance relative to the U.S. As we discussed in our year-end 2023 letter, November's Fed pivot suggested such conditions had likely been triggered, and investors fairly quickly discounted a soft landing towards the end of 2023. We have witnessed a notable uptick in growth and inflation expectations and an anticipated delay in the Fed's easing, illustrating the inherent reflexivity of liquidity, credit, and economic expectations. Given the abrupt rise in bond yields, global equities surprised many during the quarter in continuing to follow through on last quarter's strength.

In our view, equities have remained strong even in the face of rising bond yields and inflation expectations as a consequence of the Fed's continued messaging that while it may modestly delay or moderate the magnitude, it principally remains on course for multiple rate cuts during the current year. To us, the Federal Reserve's recent signals suggest they might prioritize economic growth and accept some inflation, especially considering the upcoming elections. This could benefit stocks over bonds, and we believe it's highly likely that real interest rates reached their peak in October and will decline in the future. In recent weeks, this has appeared to be the primary cue for equities and gold. Indeed, 10-Year U.S. Treasury real yields ranged from 1.65% to 2.00% for much of the first quarter after spending the majority of the fourth quarter of 2023 well above 2.00%. We believe this yield will ultimately decline towards 1.00%, representing the upper bound for much of the period between 2011 and 2022, as Fed rate cuts kick in.

We suggested in our last letter that financial markets may have moved too far, too fast in the aftermath of the Fed pivot. However, though we noted the improved relative performance of EM equities as a likely foreshadowing of a sustained period of mean reversion. While global equities continued to appreciate in early 2024, the strength was concentrated in the U.S., Japan, mega caps, and semiconductor and other AI proxies, while EM and small-cap equities lagged as global central bank easing expectations moderated and the U.S. dollar firmed. In our view, the shifting conditions referenced above present an interesting setup for non-U.S. equities. We have consistently remarked that the global response to COVID-19 was disproportionate, with U.S. fiscal expansion and monetary support orders of magnitude larger than that of most foreign jurisdictions. This, in turn, led to a stronger recovery and greater inflation pressure in the U.S., which largely remains today. While the Fed is poised to remain *higher for a bit longer*, many international central banks *already appear too tight today*. We reiterate that interest rate sensitive markets such as Latin America (particularly Brazil), India, and Southeast Asia would likely be disproportionate beneficiaries, and we believe our portfolios are well positioned, given our overweight positions in India and Brazil and our structural and thematic bias towards rate-sensitive domestic consumer, financial, and industrial leaders.

Specific to EM, we are encouraged that many companies, including **Taiwan Semiconductor Manufacturing Company Limited**, **Samsung Electronics Co., Ltd.**, and **SK hynix Inc.**, are increasingly recognized as key beneficiaries of the AI phenomenon. These three stocks, all of which are prominent positions in the Strategy, alone comprise about 14% of the Benchmark, and we are researching several additional candidates. India, our largest overweight country exposure, continues to deliver world-leading economic and earnings growth while offering a longer-term geopolitical dividend. In our view, it has many exciting and high-return investment opportunities, notwithstanding high relative valuations. Korea has embarked on an early stage and shareholder-focused initiative resembling the highly successful campaign in Japan, and we believe this could offer new investment candidates in this statistically cheap jurisdiction. Finally, after a weak start to the year, given ongoing questions regarding growth momentum, China's economy and equity markets are exhibiting signs of stabilization and improvement, largely in response to policymakers' stepped-up efforts to restore consumer, business, and investor confidence. As we maintain cautious optimism, we note that any ongoing signs of improving growth would likely trigger significant equity appreciation, given widespread skepticism and depressed valuations.

We continue to believe that EM equities are likely emerging from a long cycle of relative underperformance, and we look forward to our next communication.

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.

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 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.