

## Baron New Asia Fund®

# Targeting Long-Term Growth Opportunities in a Dynamic Region

**B**aron New Asia Fund is a differentiated, all-cap, growth strategy that seeks to leverage Asia's attractive investment opportunities. The region is projected to sustain higher structural growth in comparison to other international markets over the next decade, driven largely by India and China. India is positioned to become the fastest growing large economy in the world this decade, with an estimated compounded annual growth rate of 6% to 7%. China is the world's second largest economy and largest on a PPP (purchasing power parity) basis. Despite a recent slowdown, China's GDP is still projected to grow 4% to 5% annually over the next five years.<sup>1</sup>

### *The Benefit of Active Management*

To find the most promising growth opportunities in this fast-evolving region, we believe an active management approach is critical. We have always contended that an active approach is the better investment strategy in emerging markets due to corporate governance-related concerns, sub-par capital allocation, general lack of transparency, and other risk factors that tend to be more prevalent in developing economies.

In addition to these risk factors, a profound vector shift underway globally further underscores the importance of an active approach in Asia. After a 30-year period of globalization, the changing nature of U.S./China relations and Russia's aggression against Ukraine have resulted in a paradigm shift in global capital allocation toward energy, commodity, food/agricultural, and defense security and infrastructure. This ongoing de-globalization requires redundancy and localization of key commodities and investments in commercial and industrial supply chains. We believe this shift will favor certain emerging market countries such as India owing to the productivity enhancing economic reforms implemented by the Modi administration that provide attractive incentives for multinationals looking to diversify manufacturing and supply chains away from China.

Within China, we are witnessing a pivot in the opportunity set driven by wide-reaching regulatory reforms and recent developments in the geopolitical landscape. Real estate, infrastructure, and the banking sector that supported the initial urbanization and modernization of

China are now being back-burnered in favor of innovation and intellectual capital-based industries with a key focus on advanced manufacturing and technology self-sufficiency. This major and ongoing shift in the industries China is championing on the one hand and disfavoring on the other results in a dynamically evolving investment landscape and also reflects China's priorities in the age of de-globalization. In addition, the de-emphasis on China's vast property and related sector has triggered slower GDP growth and a more challenging investment environment. For these reasons, we firmly believe that an active approach in which a portfolio manager can target the most promising industries and companies while avoiding other, less attractive industries is key to alpha generation in this country.



### *A Differentiated Asia Investment Strategy*

The Fund, which launched in mid-2021, is managed by Michael Kass and Anuj Aggarwal, both of whom bring an extensive background investing in emerging markets to their role. Michael, who has managed Baron Emerging Markets Fund® and Baron International Growth Fund® since inception, has 36 years of investment and research experience. Anuj, who is assistant portfolio manager of Baron Emerging Markets Fund, has 15 years of experience. Michael and Anuj have worked together since Anuj joined Baron in 2012. They are backed by a dedicated team of five EM/international research analysts.

As with the Baron Emerging Markets and International Growth Funds, Baron New Asia Fund combines a long-term perspective and bottom-up, fundamental research approach with forward-looking theme identification to research and invest in companies within the most promising, high-impact growth areas.

<sup>1</sup> Based on projected GDP (PPP), which is the standard metric for comparing the GDP of countries or regions. Source: IMF

We believe the Fund is further differentiated from its benchmark, the MSCI AC Asia ex Japan Index, and most of its peers through its emphasis on higher-growth, strategic, and forward-looking investment opportunities consistent with Asia's pivot in economic development, growing embrace of innovation and intellectual capital, and shift toward greater reliance on domestic consumption.

As part of our differentiated strategy, we concentrate on the next generation of local industry leaders positioned to emerge as national champions in the region. We believe many such companies are under the radar and generally smaller in size and market capitalization than the typical companies populating the benchmark and our peer portfolios. Consistent with this strategy, the Fund has a relatively high active share for a regional fund of 69.2%.

We also emphasize higher-growth and reform-oriented countries, in particular India and China. We are overweight India, with more than 30% of the Fund invested in the country, reflecting our bullish view of the growth opportunities there. Our India-based holdings are typically growth-oriented businesses emerging as dominant players in their respective industry verticals.

Within China, we emphasize companies domiciled on the mainland and trading in the local A-share market. While we are underweight China relative to the index, we still have over a quarter of the portfolio in China-based businesses, with a focus on companies we expect to benefit from China's vision for technology self-sufficiency and shift to value-added industries.

## India – The World's Fastest Growing Economy

India remains a "stand out" investment region as it is poised to be the fastest growing major economy this decade driven by a confluence of several key developments.

Most significantly, the implementation of productivity enhancing economic reforms by the government of Narendra Modi, who has served as prime minister since 2014, are now beginning to produce meaningful results. In our view, these reforms have hit escape velocity, meaning there is no turning back the clock. Such policy initiatives are accelerating formalization of the economy, yielding higher tax collections, attracting foreign direct investment, and driving financialization of household savings, all contributing to the foundation of our investment themes within India.

As a result, we think India is entering a virtuous investment cycle further supported by an increase in domestic consumption owing to attractive demographics, a rising middle class, highly skilled labor, and more disposable income. In addition, we believe India will benefit from improving U.S. relations and supply chain diversification, as well as tax incentives to support greenfield manufacturing.

Our principal investment themes within the country are:

- [Digitization](#)
  - [India consumer finance](#)
  - [Financialization of savings](#)
  - [Supply-chain diversification](#)
  - [Formalization of the economy](#)
- [Digitization](#) India has a large and fast-growing digital ecosystem. More than 600 million residents have access to the internet/mobile

broadband, and that number continues to expand. Yet, we believe digitization in India is 10 to 15 years behind China, implying a long runway for continued growth. We expect significant investment opportunities to evolve over time as the country's digital economy flourishes and scales.

**Reliance Industries Limited** and **Bharti Airtel Limited** are two examples of investments that fall within our digitization theme. As India's leading conglomerate, we believe Reliance is positioned to leverage its broadband telecommunications network to transform into a digital services company, offering internet and e-commerce services to its 400 million-plus mobile subscribers. Reliance is also India's largest organized retailer, with ambitions to become a dominant omnichannel player by scaling its online and logistics/delivery capabilities.

Bharti is India's dominant mobile operator. With more than 30% market share, it is well positioned to benefit from rising smartphone penetration and 4G services in India. We also think Bharti will continue to gain market share from India's third largest mobile operator Vodafone Idea, as the latter is on the verge of bankruptcy amid severe pricing pressure and an unsustainable balance sheet.

- [India consumer finance](#) Secular demand for consumer credit and related financial services in India is growing. We see opportunity for best-in-class privately owned banks and financial institutions to take market share from legacy public sector banks that currently dominate the industry but are unable to offer reliable service due to chronic mismanagement, capital constraints, and asset quality issues.

Investments include **Bajaj Finance Limited** and **HDFC Bank Limited**. Bajaj, a top 10 holding, is a leading non-banking financial corporation that provides housing loans, consumer durables financing, small- and medium-sized enterprise credit, and the like. Bajaj's data analytics platform is a key competitive advantage that enables it to earn high risk-adjusted returns. The company is fast transforming into India's largest fintech player by creating an ecosystem of apps offering credit, insurance, brokerage services, and wealth management, among many other new products and services.

HDFC is India's largest private sector bank. The company is focused on improving customer experience and leveraging data analytics to better tailor product offerings and modernize its mobile banking app. We believe these initiatives will allow HDFC to gain market share, improve efficiencies, and expand the valuation gap versus public sector banks in India.

- [Financialization of savings](#) Indian households have a habit of saving, but the bulk of their savings has traditionally been invested in physical assets such as real estate and gold/jewelry. That has been changing over the last several years, driven by government reforms – in particular, demonetization and financial inclusion – aimed at transforming India to a financial investment-based system where wealth and savings are put to productive use. We own India's leading private life insurance company, **SBI Life Insurance Company Limited**. In our view, SBI's ability to leverage India's largest bank branch network through parent entity State Bank of India is a key competitive advantage in selling its products.
- [Supply chain diversification](#) As discussed earlier, the global economy is in the midst of a massive pivot from 30 years of globalization,

**Baron New Asia Fund**  
**Top 10 Holdings as of September 30, 2023**

Holding	Sector	% of Net Assets
Taiwan Semiconductor Manufacturing Company Limited	Information Technology	6.3%
Samsung Electronics Co., Ltd.	Information Technology	4.9%
Tencent Holdings Limited	Communication Services	4.3%
Alibaba Group Holding Limited	Consumer Discretionary	4.2%
Bajaj Finance Limited	Financials	3.6%
Zomato Limited	Consumer Discretionary	2.6%
Reliance Industries Limited	Energy	2.3%
Trent Limited	Consumer Discretionary	2.1%
Tata Communications Limited	Communication Services	2.1%
Bharti Airtel Limited	Communication Services	2.0%
<b>Total</b>		<b>34.3%</b>

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

which will require significant investments to localize supply chains and create energy/food security. In our view, India will be a key beneficiary of multinational manufacturers' intent to diversify production and supply chains. India is already being viewed as the most obvious backup for the China-plus one strategy of multinationals with China-based manufacturing facilities.

In particular, we see opportunities in pharmaceuticals, specialty chemicals, and electronics. Holdings within this theme include specialty chemicals company **Aarti Pharmed Labs Limited**, electronics/AC contract manufacturers such as **Dixon Technologies Ltd.** and **Amber Enterprises India Ltd.**, and pharmaceuticals contract manufacturer **Divi's Laboratories Limited**.

- **Formalization of the economy** Among the Modi government's initiatives, the Goods and Services Tax (GST) is perhaps the most consequential economic reform in the country in the last 25 years. The tax is imposed in every step of production but is then refunded if the payer can provide a receipt. This has forced a shift from informal cash transactions to formal bank- or credit-based transactions. Demonetisation, along with another government initiative, the Unified Payment Interface (UPI), an app that provides an instant, real-time payment system that enables cashless transactions free of cost, has also helped move transactions from cash to digital, a trend that accelerated during the pandemic.

These reforms are benefiting large, organized, branded players which can more easily access credit to invest in expansion, absorb the increased costs associated with compliance with these reforms, and leverage their brand and efficiencies as an advantage vs. unofficial/unorganized businesses. Examples include **Titan Company Limited**, the largest organized jeweler in India, and **Godrej Consumer Products Limited**, a leader in branded household and personal care goods.

### China Value-Added Investments

The Chinese government is actively seeking to shift the nexus of domestic economic activity from lower-value, capital intensive, property/infrastructure, and export-oriented endeavors towards innovation and intellectual capital-based industries with a key focus on advanced manufacturing and technology self-sufficiency. Our China

value-added theme looks to invest in high-quality companies within strategically important industries that align with China's policy agenda. We have identified several verticals we think will be key beneficiaries and have populated the Fund with entrepreneurial, best-in-class businesses with strong moats that are emerging leaders and/or gaining market share.

Our China value-added investments include:

- **Advanced manufacturing/industrial**
- **Automation/robotics/internet of things (IoT)**
- **SaaS/software/cloud**
- **Biotechnology/health care**
- **Advanced manufacturing/industrial** Historically, Western companies have dominated the higher, more advanced segment of the domestic manufacturing industry as Chinese companies have lagged their Western counterparts by at least a generation. This is starting to change, due, in part, to supportive government policies and, in part, to increasing levels of technological sophistication. Chinese companies are advancing quickly to capture market share by delivering products at lower cost with more precision and to more complex end markets.

One example is **Jiangsu Hengli Hydraulic Co., Ltd.**, a China-based company principally engaged in the manufacture and sales of professional hydraulic components and hydraulic systems. Products mainly include cylinders for diggers and nonstandard cylinders for heavy equipment. With the recent acquisition of a high-precision foundry and a pump and valve factory, Hengli Hydraulic is manufacturing more advanced hydraulic transmission and control components and taking share in both new and existing export markets.

- **Automation/robotics/internet of things (IoT)** With rising wages in China, manufacturers are increasingly turning to automation to cut down on labor costs and create efficiencies. For instance, industry observers expect industrial robots to grow 15% to 20% a year through the rest of the decade.

We own **Estun Automation Co., Ltd.**, the most advanced robotics player in China, with the highest quality products relative to domestic peers. We expect Estun to consolidate the domestic robot space, doubling its current market share of 5%, and drive import substitution of foreign brands. We also expect meaningful EBITDA margin growth as Estun achieves greater scale and vertical integration.

- **SaaS/software/cloud** China's software industry is early in its growth trajectory, and we believe slowing macroeconomic growth and rising labor costs will continue to drive Chinese companies toward technology adoption and digitization to improve efficiencies. We also expect the industry to benefit from government policy support as software will play a pivotal role in upgrading China's economy from labor-intensive to value-added industries.

Positions include **Kingdee International Software Group Company Limited** and **Kingsoft Corporation Ltd.** As a leading Enterprise Resource Planning (ERP) provider in an underpenetrated market, we believe Kingdee will be a major beneficiary of Chinese enterprises' digital transformation and software localization, gaining market share from foreign ERP providers.

Along with Microsoft, Kingsoft operates as a duopoly in the Chinese office software market. The market, which has high barriers to entry, is poised for rapid growth driven by increasing adoption of productivity software and declining piracy levels. Kingsoft should capture an outsized portion of this growth given its strong product offering, cloud collaboration capabilities, and the shift towards domestic software providers.

- **Biotechnology/health care** China has a booming biotechnology and health care industry, a trend that shows no signs of slowing. Holdings include **Zai Lab Limited** and **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.** Zai Lab, a biotechnology company in-licensing drugs from developed countries, is a leader in the early days of reforming the Chinese health care system. Recent health care reforms and a newly opened financing avenue suggest that China is primed for extensive growth in the space.

Mindray, China's leading medical device manufacturer, is benefiting from growing demand for health care services and equipment and gaining share from multinational players due to government policies that encourage substituting imports with high-quality local products and services. Mindray also has a strong execution track record and competitive moat built through its substantial investment in R&D.

## Other Investments in Asia

Beyond our China value-added and India holdings, we invest the balance of the portfolio in other attractive growth businesses across Asia, particularly in Korea, Taiwan, Indonesia, and Japan. We are typically underweight Korea and Taiwan, as their economies are more

mature and dependent on global trade although we have positions in select companies that play into our various investment themes.

For instance, we are invested in **HD Hyundai Heavy Industries Co., Ltd.** and parent company **HD Korea Shipbuilding & Offshore Engineering Co., Ltd.** as part of our sustainability theme, which is predicated on the global transition from fossil fuels to alternative forms of energy. While regulatory momentum varies across countries, the private sector is increasingly pivoting toward a lower carbon global footprint, often outrunning government mandates.

We expect tightening international maritime emission regulations to drive much higher demand for LNG-propelled, and ultimately, carbon-free ships for many years as much of the existing fleet must be replaced. As the world's largest and most technologically advanced shipbuilder, Hyundai Heavy and its parent company are leading the transition from diesel towards lower carbon emitting/lower cost LNG powered ships. They also have first-mover advantage in next generation ammonia, methanol, and hydrogen shipbuilding.

## Conclusion

There is little doubt that the growth investment opportunities in Asia are compelling. At the same time, it is an inherently volatile region that has been – and likely will continue to be – buffeted by economic and geopolitical challenges. For these reasons, we believe a long-term perspective and deep, fundamentally based research married with a nuanced understanding of macroeconomic factors, identification of secular growth themes, and rigorous approach to risk management is key to capitalizing on Asia's opportunities.

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*Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting 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. In addition, 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. Government actions, bureaucratic obstacles and inconsistent economic reform within the Indian government have had a significant effect on the Indian economy and could adversely affect market conditions, economic growth and the profitability of private enterprises in India.

The discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this document reflect those of the respective writer. Some of our comments are based on 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 at any time based on market and other conditions and Baron has no obligation to update them.

Portfolio holdings as a percentage of net assets as of September 30, 2023 for securities mentioned are as follows: **HDFC Bank Limited** – 1.7%; **SBI Life Insurance Company Limited** – 1.7%; **Aarti Pharmalabs Limited** – 0.6%; **Dixon Technologies Ltd.** – 0.8%; **Amber Enterprises India Ltd.** – 0.9%; **Divi's Laboratories Limited** – 0.7%; **Titan Company Limited** – 1.7%; **Godrej Consumer Products Limited** – 2.0%; **Jiangsu Hengli Hydraulic Co., Ltd.** – 1.4%; **Estun Automation Co., Ltd.** – 0.8%; **Kingdee International Software Group Company Limited** – 1.0%; **Kingsoft Corporation Ltd.** – 1.1%; **Zai Lab Limited** – 0.7%; **Shenzhen Mindray Bio-Medical Electronics Co., Ltd.** – 0.5%; **HD Hyundai Heavy Industries Co., Ltd.** – 1.0%; **HD Korea Shipbuilding & Offshore Engineering Co., Ltd.** – 1.9%.

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

The **MSCI AC Asia ex-Japan Index Net (USD)** measures the performance of large and mid cap equity securities representation across 2 of 3 developed markets countries (excluding Japan) and 8 emerging markets countries in Asia. The index and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The index is unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes.

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