March 31, 2024

BARON CAPITAL INVESTOR

Investing in the International Equity Markets

Baron International Growth Fund® | Non U.S./Global

Michael Kass
Portfolio Manager

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 2023, this percentage declined to about 23%.[1] 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.

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 84.7%.

Lower average market cap

As seen in the chart below, the Fund has a significantly lower percentage of giant-cap companies than that of the MSCI ACWI ex USA Index, the standard international benchmark, and our peer group average. 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
as of 3/31/2024

	Giant	Large	Mid	Small	Micro
Baron International Growth Fund	41.8%	28.7%	20.3%	7.5%	1.6%
MSCI ACWI ex USA Index	52.3%	37.3%	10.3%	0.1%	0.0%
Morningstar Foreign Large Growth Category Average	61.2%	28.0%	10.2%	0.6%	0.0%

Source: FactSet PA, Morningstar Direct and MSCI, Inc.
Note: Data is rescaled for cash. Category does not include unassigned securities.

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 index. In contrast, our peer group tends to be underweight EM. As of March 31, 2024, the Fund is 33.1% EM by weight, compared with the index's 27.6% and our peer group average of 10.8%.

More importantly, we believe our demonstrable expertise in EM differentiates the Fund. A core group of six dedicated research analysts cover investments in both Baron International Growth Fund and

[1] Source: World Economics Research, London.

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 Capital. 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.

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/Pharmaceuticals
- Global Security
- Luxury
- India Wealth Management/Consumer Finance
- 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.

Baron International Growth Fund

Top 10 Holdings as of March 31, 2024

Holding	Sector	% of Net Assets
Linde plc	Materials	3.5%
Arch Capital Group Ltd.	Financials	2.8%
eDreams ODIGEO SA	Consumer Discretionary	2.7%
Industria De Diseno Textil, S.A.	Consumer Discretionary	2.6%
Constellation Software Inc.	Information Technology	2.5%
Taiwan Semiconductor Manufacturing Company Limited	Information Technology	2.3%
Tokyo Electron Limited	Information Technology	2.2%
AstraZeneca PLC	Health Care	2.2%
InPost S.A.	Industrials	2.1%
Symrise AG	Materials	1.9%
Total		**24.6%**

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.

Digitization

We are living in an increasingly digital world, a trend that we believe will accelerate rapidly with recent advances in AI. To illustrate how ubiquitous technology has become, there are currently approximately 6.84 billion smartphones in the world. That number is expected to increase to almost eight billion by 2028. In our view, technology is the epitome of growth and opportunity in the 21st century.

Within this theme, we own familiar names such as semiconductor giant **Taiwan Semiconductor Manufacturing Company Limited** as well as less familiar names like Israel-based DIY website and mobile site builder **Wix.com Ltd.** We also have companies that are using technology to disrupt their industries, such as online travel agency **eDreams ODIGEO SA,** and online wellness and cosmetics company **ODDITY Tech Ltd.**

Biotechnology/Pharmaceuticals

The global COVID pandemic of 2020-2021 reinvigorated investor, societal, and governmental focus on the biopharmaceutical industry. Just two years later, in 2023, a major breakthrough in the treatment for obesity – a rapidly growing global crisis -- spurred even greater investor interest in this industry. We see numerous opportunities in the space, ranging from small biotechs targeting orphan diseases to large pharmaceuticals developing mass market drugs.

We own major pharmaceuticals such as **Novo Nordisk A/S,** maker of the blockbuster weight loss drug Ozempic/Wegovy, and **AstraZeneca PLC,** which focuses on drugs for oncology, cardiovascular and metabolic diseases, and respiratory illnesses. An example of a biotech company we like is argenx SE, which is developing antibodies to treat autoimmune disorders and cancer. We think argenx's main product, efgartigimod, which treats a rare muscle weakness disorder, has potentially broad applicability in overactive antibody-based diseases.

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. Examples include biogas production services provider **Waga Energy SA** and Canada-based gold mining company **Agnico Eagle Mines Limited**.

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** and **Ceres Power Holdings plc**, both of which are also derivative beneficiaries of the global security theme outlined above. Aker develops carbon capture products that reduce CO_2 emissions from industrial flue gases. The company is a market leader in Europe and has a proprietary low-cost technology ("Just Catch") to capture CO_2 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.

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 1-800-99-BARON or visiting 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 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 March 31, 2024 for securities mentioned are as follows: **Wix.com Ltd.** – 1.0%; **ODDITY Tech Ltd.** – 1.3%; **Novo Nordisk A/S** – 1.8%; **argenx SE**– 1.8%; **Waga Energy SA** – 1.2%; **Agnico Eagle Mines Limited** – 1.0%; **Aker Carbon Capture ASA** – 0.2%; **Ceres Power Holdings plc** – 0.2%.

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 Net (USD)** 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 Net (USD)** 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.

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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.

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