Dear Baron New Asia Fund Shareholder:

Performance

Baron New Asia Fund® (the Fund) gained 2.09% (Institutional Shares) during the second quarter of 2023, while its primary benchmark index, the MSCI AC Asia ex Japan Index, declined 1.26%. The MSCI AC Asia ex Japan IMI Growth Index declined 1.87% for the quarter. The Fund handily outperformed both the primary benchmark and the all-cap growth proxy in a period of relative macroeconomic and geopolitical calm but moderating global equity gains. The Fund now stands ahead of both indexes midway through the year despite the fact that outside of the U.S., growth equities underperformed value, which is typically a headwind to our relative performance. The quarter began under the influence of fear that the strain on global banks and associated deposit flight would trigger a credit tightening and an abrupt economic slowdown, but such concerns tapered as the quarter progressed. On the contrary, for now, stubbornly strong wage, housing, and services inflation in the U.S. have rekindled expectations that the Fed will resume rate hikes imminently, which drove a significant increase in short- and long-term bond yields during the quarter. While U.S. technology and artificial intelligence (AI)-related shares were the clear standouts in a global context, outside of this narrow universe, market breadth and momentum deteriorated, a potential signal that a consolidation or correction may be near. We remain encouraged over the longer term and maintain the premise that we are passing peak hawkishness and likely entering a period of emerging markets (EM) and Asian equity outperformance.

Table I.
Performance
Annualized for periods ended June 30, 2023

	Baron New Asia Fund Retail Shares[1,2]	Baron New Asia Fund Institutional Shares[1,2]	MSCI AC Asia ex Japan Index[1]	MSCI AC Asia ex Japan IMI Growth Index[1]
Three Months[3]	2.10%	2.09%	(1.26)%	(1.87)%
Six Months[3]	5.00%	4.98%	3.03%	2.83%
One Year	(1.89)%	(1.76)%	(1.15)%	(1.68)%
Since Inception (July 30, 2021)	(12.33)%	(12.16)%	(10.92)%	(13.92)%

ANUJ AGGARWAL — PORTFOLIO MANAGER
MICHAEL KASS — PORTFOLIO MANAGER
Retail Shares: BNAFX
Institutional Shares: BNAIX
R6 Shares: BNAUX

While China-related equities struggled during the quarter as the post-COVID recovery remained subdued, partially due to a second, albeit more moderate, COVID wave, we remain cautiously optimistic and continue to expect a consumption recovery to accelerate into the second half of 2023. Targeted policy easing measures continue to emerge alongside rising calls for more forceful stimulus, and we believe President Xi's new leadership team will ultimately achieve the recovery that they have prescribed. In the near term, we believe China offers attractive risk/reward potential with material upside should the economy either gain traction or provoke more substantial policy support. Indian equities returned to leadership, as valuations reset after two consecutive quarters of underperformance and the economic and earning expansion in the country continued on a healthy course. This reversal was the principal driver of our second quarter outperformance and we maintain conviction that India likely offers the most

Performance listed in the above table is net of annual operating expenses. The gross annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2022 was 8.96% and 7.22%, respectively, but the net annual expense ratio was 1.45% and 1.20% (net of the Adviser's fee waivers), respectively. 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 reimburses 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.

[1] 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 **MSCI AC Asia ex Japan IMI Growth Index Net (USD)** measures the performance of large, mid, and small cap securities exhibiting overall growth style characteristics across 2 of 3 developed markets countries (excluding Japan) and 8 emerging market countries in Asia. 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.

[2] The performance data does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

[3] Not annualized.

attractive long-term investment opportunity in the EM/Asia universe. We believe that several EM/Asian central banks including India are on the cusp of a rate cutting cycle – regardless of how the Fed progresses in the second half of 2023. This is unusual, and we believe can be attributed to the scale of U.S. COVID-related stimulus and resulting inflation, compared to a much more subdued and constrained response outside the U.S. This, along with several other catalysts detailed in the Outlook section of this letter, support our view that Asian equities are poised to enter a period of much improved relative earnings and return potential. As always, we are confident that we have constructed a diversified portfolio of well-positioned and well-managed companies that are also benefiting from the tailwinds of long-term and attractive investment themes.

For the second quarter of 2023, we comfortably outperformed our primary benchmark, the MSCI AC Asia ex Japan Index, as well as our all-cap growth proxy. From a sector or theme perspective, solid stock selection in the Consumer Discretionary sector, across multiple themes including digitization (**Zomato Limited** and **Coupang, Inc.**), global security/supply chain diversification (**Dixon Technologies Ltd.** and **Amber Enterprises India Ltd.**), and Asia consumer (**Titan Company Limited**, **Trent Limited**, and **Midea Group Co., Ltd.**), was the largest contributor to relative performance this quarter. In addition, favorable stock selection effect in the Financials sector, most notably investments in our India wealth management/consumer finance theme (**Bajaj Finance Limited**, **SBI Life Insurance Company Limited**, **HDFC Bank Limited**, **Max Financial Services Limited**, and **JM Financial Limited**), also bolstered relative results. Lastly, positive stock selection (**Godrej Properties Limited**) and our underweight positioning in the Real Estate sector also contributed to relative performance. Partially offsetting the above was adverse stock selection effect in the Information Technology sector, primarily attributable to some of our software investments within the China value-added theme (**Glodon Company Limited**, **Kingdee International Software Group Company Limited**, and **Venustech Group Inc.**).

From a country perspective, strong stock selection effect combined with our overweight positioning in India drove the overwhelming majority of outperformance this quarter. Solid stock selection within Korea and Indonesia were also key contributors to relative results. In addition, our active exposure to Japan, through investments in our digitization theme (**Tokyo Electron Limited** and **Hoya Corporation**) and automation/robotics/AI theme (**Keyence Corporation**) also bolstered relative results. Partly offsetting the above was adverse stock selection effect in China, together with our underweight positioning in Taiwan.

We are encouraged by the earnings-driven outperformance of our India holdings and remain excited about the long-term investment potential within the country. As expressed in previous letters, our optimism about India stems from the productivity enhancing economic reforms implemented by the Modi administration that are now supporting higher GDP growth while also accelerating the formalization and digitization of the economy. In our view, India is also a key beneficiary of the tectonic shifts in the geopolitical landscape that increasingly position the country as an attractive investment destination for global corporates to diversify their supply chains and manufacturing footprint outside of China. Despite the recent underperformance in China, primarily driven by near-term concerns on slowing economic activity, we are encouraged by easing regulatory pressures within the technology and property sectors and improving prospects of government-sponsored stimulus to support economic growth and job creation. Many of our China investments, especially within the digitization theme and select positions in our China value-added and Asia consumer themes, continue to trade at deep discounts to fundamental intrinsic value, setting the stage for a favorable risk/return profile going forward.

Table II.
Top contributors to performance for the quarter ended June 30, 2023

	Percent Impact
HD Korea Shipbuilding & Offshore Engineering Co., Ltd.	0.73%
Bajaj Finance Limited	0.69
Taiwan Semiconductor Manufacturing Company Limited	0.69
Samsung Electronics Co., Ltd.	0.60
Zomato Limited	0.41

HD Korea Shipbuilding & Offshore Engineering Co., Ltd. is a holding company for the largest shipbuilder in the world (based on order book size) and is the global leader in high-end vessels including liquified natural gas (LNG) powered ships. Shares increased as a result of solid performance in new orders at its subsidiary Hyundai Samho, already exceeding full fiscal year guidance. In addition, operating margin expectations have improved given the recent decline in steel prices combined with increases in new build prices. Korean shipbuilders have an oligopoly in LNG carrier shipbuilding, LNG dual-fueled and alternative zero-carbon fueled containerships and tankers. The tightening regulation on carbon emission, which will be fully adopted by the International Maritime Organization (IMO) by 2030, should drive higher demand for LNG dual-fueled ships as well as carbon-free ammonia-fueled ships. We expect a structural shortage of compliant ships to emerge as the IMO deadline nears, which should benefit Korea Shipbuilding given its leading position. We maintain our investment as a core holding within our sustainability/ESG theme.

Bajaj Finance Limited contributed to performance. Shares rose on improving earnings visibility and growth prospects as we near the end of the rate hike cycle in India, and as Bajaj demonstrates early signs of success with the scale up of its digital/omnichannel platform. As a leading data driven, non-bank financial company in India, the company is well positioned, in our view, to benefit from growing demand for consumer financial services such as mortgages, personal & credit card loans, vehicle financing, and other related products. We remain investors due to its best-in-class management team, robust long-term growth outlook, and conservative risk management framework.

Semiconductor giant **Taiwan Semiconductor Manufacturing Company Limited** contributed in the second quarter due to easing geopolitical concerns and expectations for end-demand recovery later in 2023. We retain conviction that Taiwan Semi's technological leadership, pricing power, and exposure to secular growth markets, including high-performance computing, AI, automotive, 5G, and IoT, will allow the company to sustain strong earnings growth over the next several years.

Table III.
Top detractors from performance for the quarter ended June 30, 2023

	Percent Impact
Alibaba Group Holding Limited	–0.80%
Glodon Company Limited	–0.64
Tencent Holdings Limited	–0.57
Kingsoft Corporation Ltd.	–0.40
Wuliangye Yibin Co., Ltd.	–0.27

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba operates shopping platforms Taobao and Tmall and owns 33% of Ant Group, which operates Alipay, China's largest third-party online payment provider. Shares of Alibaba were down this quarter given uncertainty over the pace of China's post-COVID consumption recovery, and limited information around the company's announced plan to split into six units. We believe the restructuring plan has potential to unlock value, particularly in cloud, and the core e-commerce business' market share will stabilize. We retain conviction that Alibaba is well positioned to benefit from China's reopening and the growth in online commerce and cloud in China.

Shares of **Glodon Company Limited**, a leading Chinese construction software provider, decreased during the quarter due to macroeconomic headwinds and relatively slow project starts for property and infrastructure. We retain conviction in Glodon, as we believe the company is uniquely positioned to benefit from increasing software penetration in the construction industry, which is the least digitized industry in China.

Tencent Holdings Limited operates the leading social network and messaging platforms (QQ, WeChat), the largest online entertainment and media business, and the largest online gaming business in China. Shares of Tencent were down this quarter, given investor uncertainty about the macroeconomic recovery following China's post-COVID reopening. We continue to believe in Tencent's ability to compound earnings, which was reinforced by its robust first quarter's earnings, and its ability to compound growth in games, ads, software and fintech. Although still early, we also believe Tencent could be the largest beneficiary of generative AI in China, given its ability to improve its existing products (e.g., content creation in gaming) and enter adjacent and search-related markets with massive scale and distribution.

Portfolio Structure

Table IV.
Top 10 holdings as of June 30, 2023

	Percent of Net Assets
Taiwan Semiconductor Manufacturing Company Limited	6.8%
Samsung Electronics Co., Ltd.	5.1
Tencent Holdings Limited	4.3
Alibaba Group Holding Limited	3.6
Bajaj Finance Limited	3.1
HDFC Bank Limited	2.9
Reliance Industries Limited	2.4
HD Korea Shipbuilding & Offshore Engineering Co., Ltd.	2.1
Godrej Consumer Products Limited	2.1
Yum China Holdings Inc.	2.0

Table V.
Percentage of securities by country as of June 30, 2023

	Percent of Net Assets
India	32.7%
China	30.0
Korea	12.0
Taiwan	9.5
Hong Kong	4.1
Japan	3.8
Indonesia	2.1
France	0.7

Exposure by Market Cap: The Fund 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 companies of all sizes in Asia can exhibit attractive growth potential. At the end of the second quarter of 2023, the Fund's median market cap was $13.0 billion, and we were invested 57.1% in giant-cap companies, 29.7% in large-cap companies, 6.4% in mid-cap companies, and 1.8% in small- and micro-cap companies, as defined by Morningstar, with the remainder in cash.

Recent Activity

During the second quarter, we added a few new investments to our existing themes, while also increasing exposure to various positions that we established in earlier periods. We continue our endeavor to add to our highest conviction ideas.

We were active in adding to our Asia consumer theme by initiating a position in **Trent Limited**, a leading retailer in India that sells private label apparel, direct-to-consumer, through its proprietary retail network. The company also has a joint venture with Spanish fast fashion group, Inditex, operating 20 Zara stores in India while incorporating key learnings into its own retail operations. In our view, Trent's competitive moat is its superior product quality, value-based pricing, and disciplined supply-chain management, which translates into strong brand equity and above industry same-store-sales growth. The company is rapidly scaling up its Zudio value fashion format, with the potential to triple store count to 1,000 in the next three to five years. In addition to the core apparel business, Trent also has a joint venture partnership with British retail chain Tesco to operate its 60-store Star Bazaar grocery chain. We expect the company to generate over 25% revenue growth in the near to medium term, driven by same-store-sales growth and outlet expansion. In addition, we believe operating leverage and higher franchisee mix will lead to better profitability and return on capital, driving more than 30% EBITDA CAGR over the next three to five years.

During the quarter, we also increased exposure to our digitization theme by initiating a position in **SK hynix Inc.**, a South Korean memory semiconductor company specializing in DRAM and NAND chips, which store data temporarily and permanently, respectively. SK hynix is the second-largest global memory vendor, behind Samsung Electronics. In our view, the memory industry has reached a cyclical bottom and is on the cusp of a multi-year growth phase, supported by inventory normalization and production cuts. Memory is a pillar of the data economy and enjoys structural demand growth as servers, smartphones, PCs, and other devices

become ever more computationally intensive. We also believe SK hynix to be a key beneficiary of surging AI-driven demand for high-bandwidth memory (HBM), which uses advanced packaging to vertically stack DRAM chips, resulting in higher bandwidth, improved power efficiency, and smaller form factor. The company has emerged as the industry leader in cutting edge HBM and is the sole supplier for NVIDIA's H100 AI chip, thanks to its superior durability and heat dissipation. We expect SK hynix to generate strong earnings growth over the next several years, with significant upside in incremental long-term memory demand from AI-related applications.

We also initiated an investment in **Max Healthcare Institute Limited**, the second largest hospital chain in India with over 3,200 beds. Under the leadership of CEO and restructuring expert Abhay Soi, management has focused on cutting costs and improving return metrics at poorly managed hospitals. These efforts have helped Max Healthcare stand out among Indian hospital peers with best-in-class EBITDA margins, average revenue per occupied bed, and ROIC. Going forward, the company has laid out plans to accelerate brownfield expansion and double its bed count in the next four to five years. In addition, we believe operating leverage, improving payor mix, medical tourism, an asset-light operation and management model, and optionality from tuck-in acquisitions could drive further earnings upside. We are excited about the multi-year growth opportunity that lies ahead for hospital services in India and believe Max Healthcare will be a key beneficiary of ongoing industry consolidation. We expect the company to more than double EBITDA in the next three to five years, while sustaining mid-teens revenue growth over the same time frame.

We added to several of our existing positions during the quarter, including **Tencent Holdings Limited**, **Alibaba Group Holding Limited**, **Godrej Properties Limited**, **Kingdee International Software Group Company Limited**, **Godrej Consumer Products Limited**, **Bajaj Finance Limited**, **Tata Consumer Products Limited**, **Kanzhun Limited**, and **Reliance Industries Limited.**

During the quarter, we exited a couple of positions including **MediaTek Inc.** and **China Tourism Group Duty Free Corporation Limited**.

Outlook

In our first quarter letter, while we reiterated our view that markets were likely passing through peak hawkishness and surmised that the emergency liquidity injection related to the U.S. regional banking crisis was viewed as a bullish signal for global equities, we also suggested that the anticipation of Fed rate cuts, higher earnings multiples, and a likely phase of earnings vulnerability presented a challenge to further global equity gains. While the recent relative calm in macroeconomic and geopolitical volatility was certainly welcomed, we stand by our end of first quarter outlook and note that outside of large-cap U.S. technology shares, equity appreciation has indeed begun to slow or stall in recent months. While global equities gained for a second quarter, U.S. employment remained too buoyant for the Fed to rule out further hikes, market breadth has deteriorated, and bond yields have risen. Indeed the 10-year U.S. Treasury real yield is now revisiting levels that triggered the deposit flight and regional bank crisis in the first quarter. Rising real yields, and a likely return to Fed rate hikes after a brief pause are not consistent with rising multiples on U.S. and growth-related equities, and thus we believe tightening U.S. liquidity and higher bond yields could trigger a consolidation of recent gains, and particularly cool the rally in technology and AI proxies should inflation measures fail to moderate in the near term. As we have stated in the past, we believe a correction in U.S. equities is likely necessary before global investors and allocators focus on improving ex-U.S. relative earnings potential, and thereby spark the sustainable relative outperformance cycle in EM/Asian equities that we anticipate.

Within the Asian universe, China's post-COVID reopening recovery remained subdued, though ongoing cost and capital discipline by private sector companies are silver linings for equity investors. We have suggested patience, particularly given that President Xi's new team signaled a desire for an economic rebound, and we continue to expect a consumption recovery to accelerate into the second half of 2023. Meanwhile, targeted policy easing measures continue to emerge alongside rising calls for more forceful support from policymakers. We note that several of our portfolio holdings are already showing solid fundamental performance in a challenging macro environment, and we remain cautiously optimistic against a backdrop of historic trough valuations, poor sentiment, and underweight positioning by global investors. We continue to believe that geopolitical concerns are priced into current valuations and that there is far too much to lose for China to initiate a move on Taiwan. We believe China likely represents the most attractive near-term risk/reward potential in the ex-U.S. universe. India equities returned to leadership, reversing first quarter underperformance while handily outperforming the MSCI AC Asia ex Japan Index during the quarter as the economic and earnings expansion continues, and valuations had fully mean-reverted entering the quarter after two consecutive quarters of underperformance. This reversal was the principal driver of our second quarter outperformance, and we remain optimistic regarding our various investments and overweight position, as we believe India offers the most attractive long-term investment opportunity in our universe. We believe that several Asian and EM central banks are on the cusp of a rate cutting cycle – regardless of how the Fed progresses in the second half of 2023. This is unusual, and we believe can be attributed to the scale of U.S. COVID-related stimulus and resulting inflation, compared to a much more subdued and constrained response outside the U.S.

In summary, we remain of the view that after a long period of underperformance, Asian and broader EM equities are poised for a cycle of outperformance, principally driven by the following:

1. An eventual consensus recognition that a U.S. dollar bear market has begun. We believe the longer-term fundamentals for the dollar have been eroding for years, that we are well past peak dollar demand, and that the supply of U.S. Treasuries/dollars in circulation has made an important vector change higher as politicians have seized the levers of stimulus from central bankers (i.e., COVID and infrastructure stimulus). Once this view takes hold, the *tax* on holding non-U.S. assets will shift to a tailwind to returns, sparking a reversal of capital/investment flows which we believe will be stimulative to consumption, investment, and earnings growth in ex-U.S. jurisdictions. We believe this reversal of capital and investment flows will spark a mean-reversion in EM/international equity valuations, which are currently at or near multi-year lows relative to U.S equities.

2. The global capital investment cycle that is necessary to fund de-globalization; security of energy, commodity, agriculture; and national security & defense is by definition a catalyst for outperformance by EM/Asia/international countries, whose economies and markets are simply more geared towards such a capital investment-driven environment. The past 20 years – post-Iron Curtain and China's ascension into the WTO – have been characterized by globalization and the reduction of capital deployed – much to the benefit of wealthy consumers in developed markets:

this will now reverse and favor the owners of real assets and industrial pricing power, and there is simply more of that in the EM/Asian indexes.

3. India is the new China, and it will be the fastest growing major economy in the coming decade and beyond. Economic reforms, digitization, formalization, and rising credit penetration favor the most sophisticated, best-managed, public corporations such as those in which we have invested.

4. China's principal lever to drive necessary productivity gains is a major pivot towards self-sufficiency in the value-added industries that have been largely dominated by western multi-nationals over the past 20 years. The rise of local domestic champions in the auto/electric vehicle, automation/robotics, advanced manufacturing, pharmaceutical/biotechnology, software/AI/semiconductors, and consumer goods industries will move the dial on perceived relative earnings growth potential for China and its ecosystem.

We look forward to our next communication.

Thank you for investing in the Baron New Asia Fund.

Sincerely,

Michael Kass
Portfolio Manager

Anuj Aggarwal
Portfolio Manager

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