

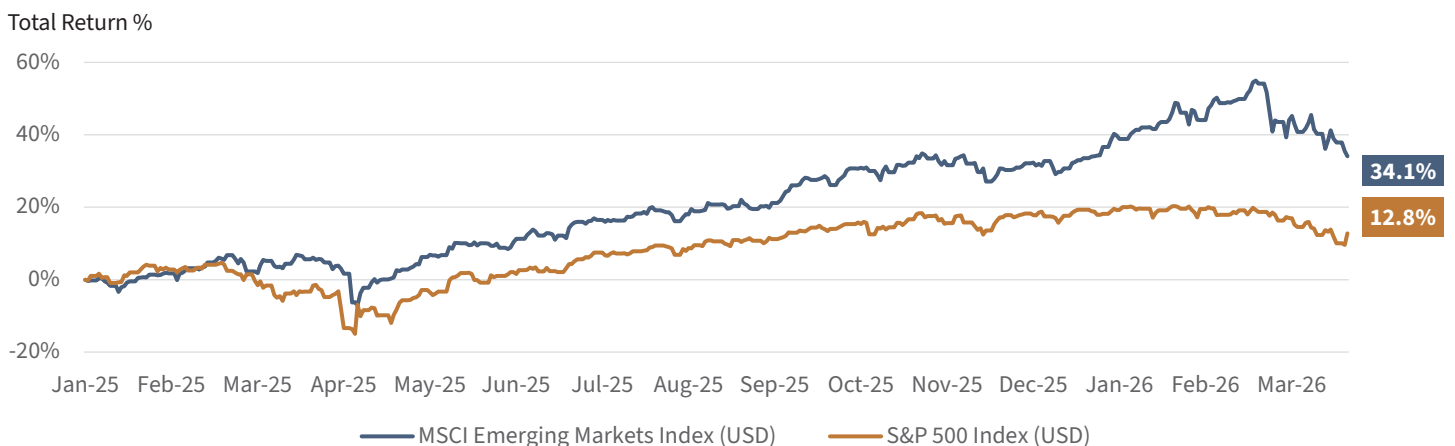
Emerging Markets: A New Investing World

After several years of underperformance, emerging market (EM) equities significantly outperformed U.S. and global stocks in 2025 and Q1 2026. The MSCI Emerging Markets Index rose 34% since last year, more than double the return of U.S. large cap (**Exhibit 1**). In Q1 2026, EM equities were mostly flat while U.S. stocks declined more than 4%.

We believe this outperformance reflects improving earnings potential for EM companies and represents an inflection point. Emerging markets today are benefiting from secular shifts in the global economy and specific catalysts, including a more geopolitically driven world, AI, Indian productivity and growth potential, and Chinese investments in value-add industries. Emerging markets are also being supported by weakness in the U.S. dollar, which has been compounded by U.S. policy changes. We believe the U.S. dollar has likely entered a bear market.

The result, in our view, is a new investing world, defined by geopolitical shifts and security concerns. It is the beginning of an inflection point and vector change, and we believe EM investors need a deep understanding of this context to identify the opportunities going forward.

Exhibit 1: EM Equities Outperformed U.S. Large Caps since 2025



As of 3/31/2026.

Sources: Baron Capital and Morningstar.

Notes: Index performance includes dividends. The performance of the MSCI EM Index is gross, in USD.

The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

EM Equities: Attractive and Offering Growth Potential

EM and developed market equities have alternated market leadership over the past several decades (**Exhibit 2**), and we believe that the recent rebound in EM relative performance represents a sustainable, long-term shift.

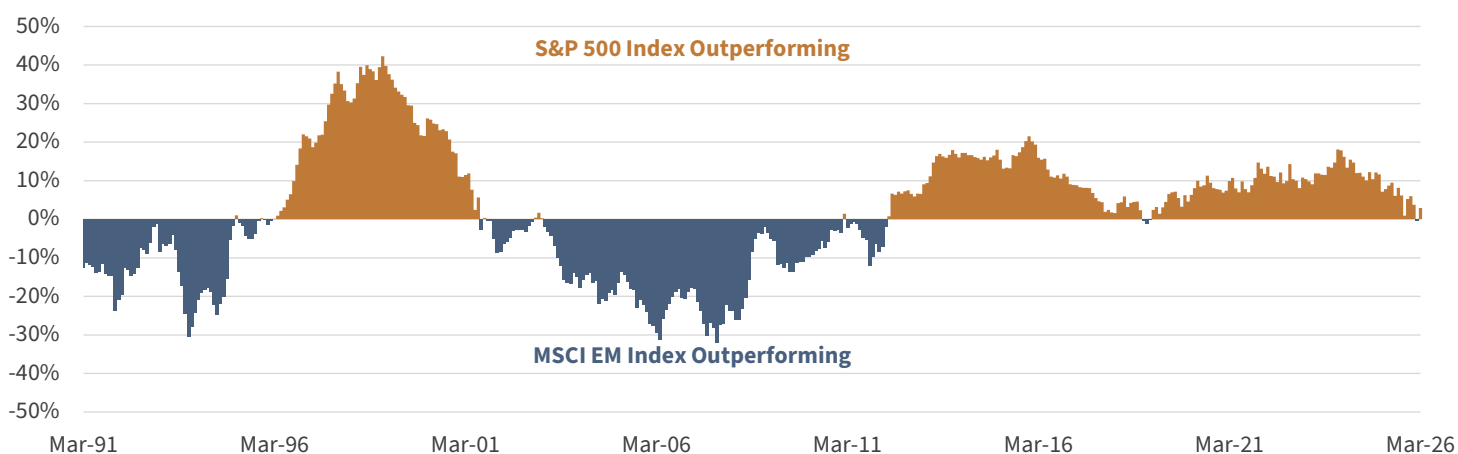
EM equities, even after posting strong outperformance in 2025 and early 2026, remain attractive and well positioned compared to their developed market peers. EM valuations as a percentage of U.S. equities have trended below averages for a decade

(**Exhibit 3**). At current levels, valuations can provide a measure of risk management and a higher potential for outperformance.

We believe EM assets will also benefit from weakness in the U.S. dollar. The U.S. dollar peaked in 2022 and has since declined more than 10%. The recent downward pressure has been largely due to a shift in U.S. foreign and trade policy, as well as uncertainty regarding the independence of the U.S. Federal Reserve. We believe this represents a turning point in the longer-term cycle, and we note that EM equities have traditionally outperformed during periods of U.S. dollar weakness (**Exhibit 4**).

Exhibit 2: EM Equities Are Positioned for Outperformance

3-Year Annualized Excess Return of the S&P 500 Index Minus the MSCI EM Index



As of 3/31/2026.
 Index performance includes dividends. The performance of the MSCI EM Index is gross, in USD.
 Sources: Baron Capital and Morningstar.

Exhibit 3: EM Equities Are Trading at Historic Discounts

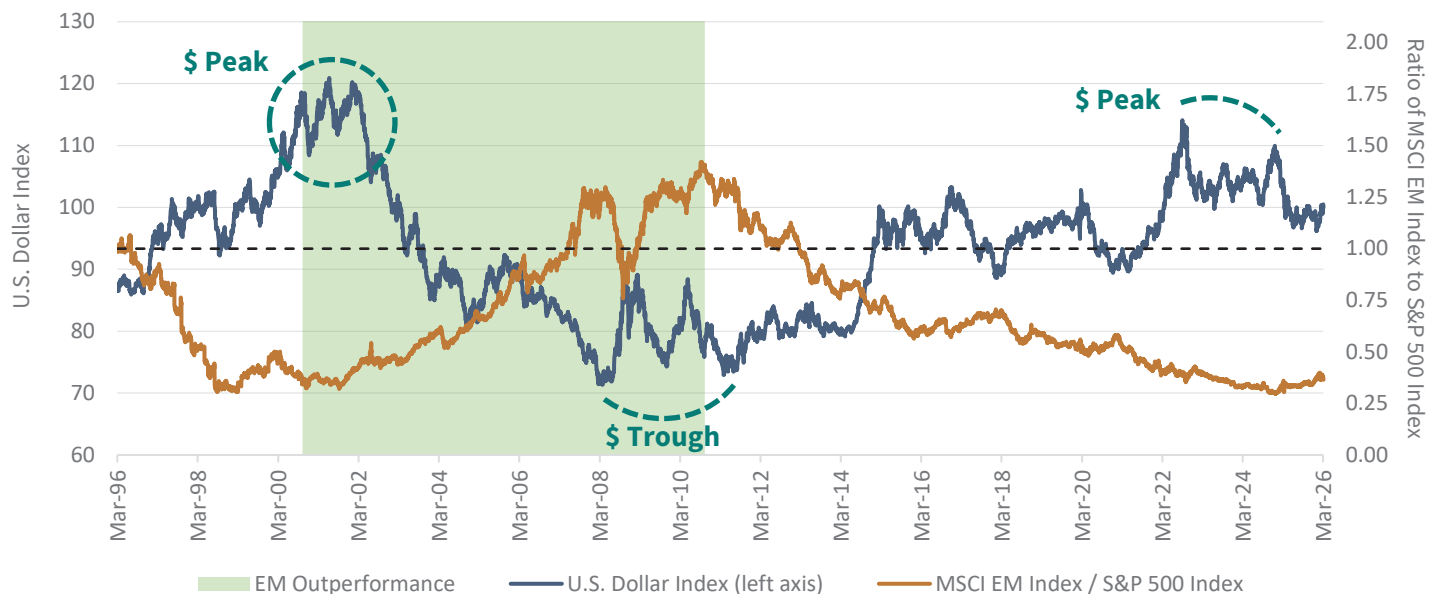
P/E Ratio for EM Equities as Percent of U.S. Equities



As of 3/31/2026.
 Sources: Baron Capital and FactSet Market Aggregates.

The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.
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Exhibit 4: EM Equities Have Historically Outperformed During Periods of U.S. Dollar Weakness



As of 3/31/2026.

Index performance includes dividends. The performance of the MSCI Emerging Markets Index is gross, in USD. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

Sources: Baron Capital, FactSet, and Bloomberg.

Secular Trends

Active managers can identify EM companies that are well positioned to potentially benefit from secular growth themes and inflection points. The objective is to identify trends early, allowing active managers to capture their full return potential before they are reflected in market pricing. This forward-looking approach avoids screens, which tend to be backward-looking and may miss inflection points as they develop.

In the current EM investing environment, we see several potential catalysts, offering opportunities to well-positioned, well-run EM companies and their investors.

A More Geopolitically Driven World

The global macroeconomic environment has become more geopolitically driven as security priorities supersede economic and corporate optimization. This represents a profound shift. An era of deglobalization is driving an industrial renaissance, and wealth and savings are migrating from developed world consumers to the owners of real assets and industrial pricing power. Those industries are benefiting from new security priorities—in manufacturing, energy, commodities, infrastructure, food/agribusiness, technology, and defense. Because emerging markets have higher exposure to these impacted industries than developed markets, the EM asset class is coming back into a leadership position.

AI

AI is remaking the global economy. While the United States is on the cutting edge of GPU and LLM development, EM

leading companies are crucial elements of the AI value chain. Taiwan and Korea are well-known centers of semiconductor manufacturing, and smaller EM companies produce critical enabling technologies for the ongoing development of advanced computing, advanced semiconductor design, manufacturing, packaging, bonding, and testing. China is investing heavily in a range of AI capabilities, and Chinese models have generated significant results with a fraction of the capital deployed in the United States.

Over the past year, moreover, EM companies have begun to outperform the U.S. hyperscalers and the Magnificent 7 complex, given their increasing share of AI spend. This performance, in turn, is attracting global investors, who are seeing emerging markets as a more diversified way to participate in the AI theme.

India

We believe growth opportunities in emerging markets often depend on pro-market governmental reforms, as countries transition from low-wage commodity- and industrial-based economies to higher-wage, consumer-based economies. Reform is critical because emerging markets have historically been inefficient, encumbered by poor capital allocation and “leakage” due to corruption and bureaucracy. While deep and effective reform is rare and always challenging, successful implementation can improve productivity and reduce leakage, which should drive equity share price appreciation as value creation is passed to its rightful owner—the shareholder. In

addition, reform can lead to long-term structural improvements in individual EM economies, which can give them an edge over their peers and help generate investor confidence.

India is benefiting from the implementation of several productivity-enhancing economic reforms by the Modi government over the past several years, which have now reached escape velocity. 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.

India today offers exposure to several powerful growth secular drivers, including digitization, localization, formalization of the economy and leadership businesses, and rising market share concentrated in the best-leading companies and entrepreneurs. It is also a strong beneficiary of the geopolitically driven macroeconomic environment. With a deep pool of skilled labor, the country is attracting attention from multinational companies seeking diversification and risk mitigation from Chinese manufacturing and supply chains. This creates opportunity for domestic growth, the development of an export hub, and expansion in logistics and transportation infrastructure.

China Value-Add

China has reacted to deglobalization by shifting investment to value-add industries—including AI, technology, semiconductor, humanoid robotics, automated driving, robotaxi development, and biotechnology. This structural change offers opportunities for significant productivity gains and value creation.

China, largely independent of the United States, is developing its own AI ecosystem. This system is a couple of years behind the U.S. because the Chinese do not have access to leading-edge semiconductors and technology. However, due to these constraints, the Chinese have been forced to develop solutions that have delivered strong results for significantly less capital than deployed in the United States. Agentic AI capabilities are starting to emerge and be employed across the country, offering opportunities to investors.

China has a number of significant advantages. The Chinese economy offers exposure to more than a billion consumers, and China has aggressively followed a roadmap for energy development and production. China's engineering and technology skillset is deep and its tech hardware is catching up to the United States. We believe this AI opportunity will drive productivity growth within China, creating value and opportunity for investors who are on the ground level looking for bottom-up opportunities.

The U.S. and China are in a competition to see which AI ecosystem is adopted in the rest of the world, since regions like Europe, Canada, and LATAM do not have an organic source of AI potential and development. These regions have been U.S. allies, but, as U.S. foreign policy continues to evolve, they are beginning to explore a deeper relationship with China. The global competition for share remains early, but we believe some applications that are not nationally security dependent could gain popularity in the rest of the world, benefiting select Chinese companies.

An Active Opportunity

Emerging markets, in our view, are an opportunity for active managers. We believe the strength of recent returns likely represents an inflection point, which should lead to a sustained period of outperformance. EM equities are relatively inexpensive by long-term measures, and EM companies have exposure to several catalysts that should support earnings growth potential going forward. The U.S. dollar, which has entered a bear market in our view, should provide additional support for EM assets.

Against this backdrop, active investors with experience, skill, and resources, can identify companies that can deliver strong long-term returns for investors.

About Baron Capital

Baron Capital is a research and asset management Firm focused exclusively on delivering growth equity investment solutions to institutions, financial advisors, and individual investors. Since its founding in **1982**, Baron Capital has been united under one style of investing with a single objective—to be long-term investors in secular growth businesses with durable competitive advantages, run by great management teams. With **\$47.0 billion** in assets under management (as of 4/10/2026) across **25** strategies, Baron Capital prides itself on delivering the best solutions and outcomes for clients globally.

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Important Information

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 **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The S&P 500 Index includes reinvestment of dividends before taxes. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The **MSCI Emerging Markets Index** includes reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

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.

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