BARON CAPITAL

QUARTERLY LETTER | SEPTEMBER 30, 2026

# Baron Emerging Markets Select ETF™

Ticker: BCEM



Michael Kass
Portfolio Manager

## Dear Baron Emerging Markets Select ETF Shareholder,

### Performance

Baron Emerging Markets Select ETF (the Fund) declined 2.07% during the third quarter of 2026, while its primary benchmark, the MSCI Emerging Markets Index (the Benchmark), retreated 0.37%. The MSCI Emerging Markets IMI Growth Index (the Proxy Benchmark) declined 3.10% for the quarter. The Fund underperformed the Benchmark while outperforming the Proxy Benchmark during a quarter in which rising energy prices and a breakout in global bond yields favored value and commodity-oriented stocks over growth, evidenced by the MSCI Emerging Markets IMI Value Index outperforming the comparable Growth Index by 577 basis points.

In our view, the prevailing catalysts giving direction to markets were the increasingly pervasive influence of AI, which is now "crowding out" credit, economic resources and public attention well beyond equity portfolios; the resumption of hostilities with Iran alongside an escalating Russia/Ukraine war; and a resulting breakout in nominal and real bond yields, which we believe is the critical variable for equity returns in the near term. While we are never comfortable trailing our Benchmark, we suspect the recent historic rise in yields is likely overdone, while any reduction in energy risk premium, for which the upcoming U.S. mid-term elections could prove a trigger, would in our view drive a healthy mean reversion in relative returns. Further, just days into the new quarter, a surprise swing to the right in Brazil's elections delivered a potentially significant new catalyst that we believe could help sustain emerging markets (EM) equity outperformance. As always, we remain optimistic that our fundamental, theme-driven, and bottom-up approach can continue to deliver solid results over the long term.

**Cumulative performance (%) for periods ended September 30, 2026**

| | ETF Market Price[1,2] | ETF NAV[1,2] | MSCI Emerging Markets Index[1] | MSCI Emerging Markets IMI Growth Index[1] |
|---|---|---|---|---|
| QTD | (3.64) | (2.07) | (0.37) | (3.10) |
| Since Inception (4/8/2026) | 6.74 | 6.79 | 12.08 | 8.89 |

For the third quarter of 2026, we underperformed the Benchmark, while outperforming our all-cap EM growth Proxy Benchmark. From a sector or theme perspective, our underweight positioning combined with adverse stock selection effect in the Financials sector, owing to a handful of investments across our India wealth management/consumer finance (**Nippon Life India Asset Management Limited**, **Bajaj Finance Limited**, and **Cholamandalam Investment and Finance Company Limited**) and digitization (**Rasan Information Technology Company**) themes, was the largest detractor from relative performance this quarter. In addition, negative allocation effect together with weak stock selection in Industrials, primarily attributable to select holdings in our sustainability/ESG (**Contemporary Amperex Technology Co., Limited**), global security/supply chain diversification (**Cummins India Limited**), and China value-added (**Jiangsu Hengli Hydraulic Co., Ltd.**) themes, was also a notable drag on relative results. Lastly, weak stock selection effect in Utilities, driven by a couple positions in our global security/supply chain diversification theme (**JSW Energy Limited** and **Power Grid Corporation of India Limited**), also weighed on relative performance during the quarter. Partially

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*Performance listed in the above table is net of annual operating expenses. The total annual fund operating expense ratio as of April 30, 2026 was 0.75%. 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. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month-end, visit BaronCapitalGroup.com or call 1-800-99-BARON.*

offsetting the above was favorable allocation effect combined with good stock selection in the Information Technology (**ISC Co., Ltd.**, **HPSP Co., Ltd.**, and **ASPEED Technology Inc.**) and Health Care (**Divi's Laboratories Limited**, **WuXi AppTec Co., Ltd.**, and **Zai Lab Limited**) sectors.

From a country perspective, poor stock selection effect in China was the largest detractor to relative performance this quarter. In addition, negative allocation effect together with adverse stock selection in India and Taiwan were also notable drags on relative results. Partly offsetting the above was solid stock selection effect in Korea, which added the most to relative performance during the period. Lastly, our overweight positioning combined with good stock selection in Peru, primarily driven by our investment in Southern Copper Corporation, also bolstered relative results. We retain our long-term conviction in our India holdings, which in our view, are attractively valued at current market prices and have recently entered an earnings upgrade cycle. Forward-looking economic indicators have turned favorable in India with the recent implementation of government fiscal reforms and monetary stimulus measures. Despite the ongoing Middle East conflict and elevated energy prices, India's real GDP growth continues to sustain above 7% with bank credit currently growing nearly 20% year-over-year, further supporting economic activity and consumer spending.

### Top contributors to performance for the quarter

| | Contribution to Return (%) |
|---|---|
| Divi's Laboratories Limited | 0.54 |
| WuXi AppTec Co., Ltd. | 0.43 |
| ISC Co., Ltd. | 0.42 |
| Southern Copper Corporation | 0.34 |
| HPSP Co., Ltd. | 0.34 |

**Divi's Laboratories Limited** is a leading global manufacturer of active pharmaceutical ingredients (APIs) and intermediates. The stock contributed to performance, driven by stronger-than-expected quarterly revenue and profit and supported by shipments of GLP-1 API validation batches. In our view, the company is a key beneficiary of global supply chain realignment as innovator and generic customers diversify API sourcing away from China. We are encouraged that Divi's has been onboarded by large global pharmaceutical companies as a supplier of complex intermediates and custom-manufactured peptides for oral and injectable GLP-1 therapies. This opportunity underscores Divi's strengths in large-scale, late-stage commercial manufacturing and provides multi-year revenue visibility as GLP-1 demand continues to expand globally. We are also encouraged by the company's commitment to capacity expansion and sustained focus on research and development. We retain conviction and expect Divi's to deliver mid-teens compounded revenue growth and 20% earnings growth over the next three to five years.

**WuXi AppTec Co., Ltd.** is China's leading contract research, development, and manufacturing organization (CRDMO) for small-molecule and peptide drugs. Shares rose after the company reported strong first-half results in early August and nearly doubled its full-year revenue growth guidance, raising the range to 35% to 39%. Results were supported by the largest sequential backlog addition on record and 40% growth in new orders. Small-molecule development and manufacturing grew 73%, driven by increasing drug-manufacturing complexity, while the peptide business continued to scale into the obesity supply chain. Roughly 80% of new late-stage projects originated from WuXi's earlier-stage work, providing further evidence that its follow-the-molecule strategy continues to work as intended. Separately, a federal court blocked enforcement of the U.S. Department of Defense's "Chinese military company" designation that had weighed on shares, finding WuXi likely to succeed on the merits. We remain shareholders and continue to view WuXi as one of the best ways to gain exposure to the structural growth of outsourced drug chemistry.

**ISC Co., Ltd.** is a South Korean manufacturer of semiconductor test sockets and related testing components and materials. Shares rose as ISC reported record quarterly revenue, with AI products accounting for more than 80% of sales as the company gained share in mass-production testing at key data center customers. The company also raised prices and is moving customers to multi-year supply agreements backed by prepayments. We retain long-term conviction in ISC. As AI chips become larger and faster, legacy sockets using spring-loaded metal pins become less reliable for testing them. ISC's silicone rubber sockets can test these chips at lower cost and with less risk of damage. The company holds about 90% of the rubber socket market, which remains a small portion of the overall test socket market. ISC's plants are currently running at full utilization, and management plans to increase capacity 2.5-fold by 2029, which we believe will allow the company to capture business it currently turns away. With higher prices and additional capacity, we expect earnings per share to more than triple over the next five years.

### Top detractors from performance for the quarter

| | Contribution to Return (%) |
|---|---|
| SK hynix Inc. | (1.68) |
| Montage Technology Co., Ltd. | (0.78) |
| Samsung Electronics Co., Ltd. | (0.69) |
| Contemporary Amperex Technology Co., Limited | (0.33) |
| SK Square Co., Ltd. | (0.30) |

South Korean semiconductor company **SK hynix Inc.** is a leading manufacturer of advanced memory chips. Shares declined sharply amid a broader sell-off in memory stocks as second-quarter results missed lofty forecasts, even as revenue more than tripled year-over-year and operating margin reached a record 76%. The shortfall was partly due to shipments of HBM4 high-bandwidth memory for AI chips slipping into later quarters. Management responded by launching a 40 trillion won share buyback and

cancellation program in August and pledging to return more than half of cumulative free cash flow through 2027, with long-term agreements with around 10 key customers adding revenue visibility. We retain long-term conviction in SK hynix given its position as the current leader in high-bandwidth memory, large net cash position, and growing base of contracted customers.

Chinese chip-design company **Montage Technology Co., Ltd.** is the world's largest supplier of memory-interface chips, which enable high-speed communication between server processors and memory. Shares fell due to a company-specific overhang despite continued fundamental strength. In July, South Korean prosecutors opened an investigation into suspected price coordination involving Montage and two competitors. Montage said it is cooperating fully, and no charges have been filed. Meanwhile, the business continued to accelerate, with first-half revenue growing 27% year-over-year and second-quarter revenue increasing 33%, ahead of expectations. Rising adoption of DDR5, the latest generation of server memory, lifted shipments of newer-generation memory-interface chips, while emerging products supporting high-speed server connectivity and data movement continued to gain traction. Alongside these positive developments, the company proposed a share buyback. We retain long-term conviction and continue to view Montage's leading market share, rising interconnect content per AI server, and broadening product portfolio as durable advantages supporting multi-year earnings growth.

**Samsung Electronics Co., Ltd.** is the world's largest memory-chip maker, with major smartphone, display, and contract-manufacturing businesses. After a historic run, memory stocks bore the brunt of the quarter's AI sell-off, with Samsung shares falling as the market debut of a fast-growing Chinese memory maker added to concerns about the outlook for memory pricing. Despite the share price decline, Samsung reported the most profitable quarter in its history. Second-quarter operating profit rose roughly 19-fold year-over-year, driven almost entirely by the chip division, while Samsung scaled up sales of its HBM4 high-bandwidth memory for AI processors and shipped the industry's first samples of next-generation HBM4E. Management expects the memory shortage to persist through 2028 and plans to place most capacity under long-term contracts, providing greater revenue visibility. We retain conviction in Samsung as a core long-term holding, viewing its leadership in advanced memory and increasingly contracted revenue base as durable advantages supporting multi-year earnings growth.

## Portfolio Structure

### Top 10 holdings

| | Percent of Net Assets (%) |
|---|---|
| Taiwan Semiconductor Manufacturing Company Limited | 15.0 |
| Samsung Electronics Co., Ltd. | 8.0 |
| SK hynix Inc. | 5.2 |
| Tencent Holdings Limited | 2.8 |
| Divi's Laboratories Limited | 2.0 |
| Alibaba Group Holding Limited | 2.0 |
| Bajaj Finance Limited | 2.0 |
| Eternal Limited | 1.9 |
| Southern Copper Corporation | 1.8 |
| MediaTek Inc. | 1.8 |

### Fund investments in countries

| | Percent of Net Assets (%) |
|---|---|
| Taiwan | 21.6 |
| Korea | 20.9 |
| India | 20.8 |
| China | 17.6 |
| Brazil | 6.1 |
| Peru | 3.0 |
| South Africa | 2.1 |
| Greece | 1.6 |
| Argentina | 1.2 |
| Hungary | 0.9 |
| Saudi Arabia | 0.6 |
| Philippines | 0.5 |
| Thailand | 0.5 |
| Netherlands | 0.3 |
| Cash and Cash Equivalents | 2.4 |
| **Total** | **100.0*** |

* *Individual weights may not sum to the displayed total due to rounding.*

## Recent Activity

During the third quarter, we added several new investments to our existing themes while also endeavoring to allocate capital to our highest conviction ideas.

We increased exposure to our global security/supply chain diversification theme by initiating a position in **INOX India Limited**, India's largest manufacturer and exporter of cryogenic equipment, offering storage and transport tanks as well as distribution systems for industrial gases and liquefied natural gas (LNG). With approximately 60% domestic market share, the company is a key beneficiary of growth across various end-use industries, including steel, medical, and electronics manufacturing. In our view, INOX is well positioned to benefit from India's increasing focus on energy security by providing LNG storage and transport solutions, as the nation aims to reduce dependence on Middle East energy imports. Beyond the domestic market, the company is also gaining traction in exports driven by global supply chain diversification. Built on its proven quality and reliability, INOX has forged strong relationships with marquee clients such as Air Liquide, Linde, and Air Products. We are also encouraged that the company is increasingly participating in large international projects, including the construction of a mini-LNG terminal in the Bahamas and a more recent big win, a cryogenic storage supply contract with a leading space exploration company, which we believe is SpaceX. We expect INOX to deliver 15% to 20% compounded revenue and EBITDA growth over the next three to five years.

During the quarter, we also accumulated a position in **Bangkok Bank Public Company Limited**, which we believe is an attractively valued beneficiary of an improving operating environment for Thai banks. While economic growth in Thailand remains subdued, we see an increasingly favorable fundamental backdrop, supported by greater political stability, policy rates approaching a floor, improving credit trends, and healthy corporate investment and foreign direct investment. Bangkok Bank stands out given its exposure to large corporates, conservative underwriting practices, and an exceptionally strong balance sheet, including a Common Equity Tier 1 (CET1) ratio of approximately 17% and non-performing loan coverage above 300%. These buffers provide meaningful downside protection while also creating scope for lower credit costs as conditions normalize. We believe modest loan growth, stabilizing net interest margins, and lower provisioning can lift return on equity (ROE) from roughly 7% today toward 8% to 9% over time. Importantly, the shares trade at only about 0.6 times book value, which we believe reflects an overly pessimistic view of Bangkok Bank's long-term profitability. Assuming ROEs normalize toward our expectations, we see significant potential for the valuation to rerate, creating an attractive return profile.

We added to several of our existing positions during the quarter, including **Taiwan Semiconductor Manufacturing Company Limited**, **Samsung Electronics Co., Ltd.**, **SK hynix Inc.**, **Petroleo Brasileiro S.A.**, **Tencent Holdings Limited**, **Vista Energy, S.A.B. de C.V.**, **Gold Fields Limited**, and **Alibaba Group Holding Limited**.

During the quarter, we also exited a handful of positions including **Larsen & Toubro Limited**, **SK Square Co., Ltd.**, **Tencent Music Entertainment Group**, **Samsung Heavy Industries Co., Ltd.**, and **The Japan Steel Works, Ltd.**, as we continue our endeavor to allocate capital to our highest-conviction ideas.

## Outlook

The third quarter of 2026 proved a period of consolidation for EM equities, with the Benchmark finishing roughly flat following an exceptionally strong first half. In our view, the prevailing catalysts giving direction to markets were the increasingly pervasive influence of AI, the resumption of hostilities with Iran alongside an escalating Russia/Ukraine war, and a resulting breakout in global bond yields. Just days into the new quarter, a surprise swing to the right in Brazil's elections offered a potentially significant new catalyst for the asset class.

AI remained front and center, though in our view the impact is shifting from a market phenomenon to a regulatory and macroeconomic one. As we noted last quarter, AI fever has "crowded out" many attractive industries, stocks, and even entire countries; this crowding out now extends well beyond equity portfolios. AI-related investment is estimated to account for a quarter to a third of U.S. GDP growth this year, competing with the broader economy for capital, power, memory/compute, and skilled labor. Morgan Stanley estimates that AI-related debt issuance is on pace to approach $570 billion this year, more than double last year's pace—a meaningful new source of duration supply which in our view is helping drive bond yields higher. We remain convinced of AI's transformative potential, and EM remains the principal supplier of leading-edge logic, memory, and other critical components necessary to deliver compute capacity. However, when a single theme represents this much of economic growth, credit demand, market weight, and investor and public attention, we believe it is wise to remain on guard with respect to the various emerging political, regulatory, and commercial developments that could temper market enthusiasm, while also prioritizing prudent portfolio diversification in the near term.

Regarding geopolitics, last quarter we cautioned that risk premium and oil prices might not fall as far or as fast as anticipated following the cease-fire between the U.S. and Iran. Indeed, hostilities resumed in July, and Iran's de facto closure of the Strait of Hormuz and a retaliatory U.S. blockade remain in place, while Brent again hovers near $100 per barrel. Meanwhile, Ukraine's campaign against Russian refining has cut processing to its lowest level since 2005, halting Russian fuel exports and tightening global diesel markets. The result, in our view, is an unsustainable equilibrium of "neither war nor peace," with energy anxiety feeding directly into inflation expectations and bond yields. We suspect the November 3 U.S. mid-term elections could likely prove a trigger for resolution. The Administration's sensitivity to energy prices is evident in President Trump's public pressure on Ukraine to halt refinery strikes, as well as his signal that renewed action against Iran is possible after the vote. Meanwhile, Trump's leverage may soon diminish should the anticipated shift in Congressional balance manifest—arguing

for a resolution sooner than later. Whether through negotiation or escalation, a reduction in energy risk premium would be a meaningful positive for EM and growth equities in general, and in our view, would likely trigger some mean reversion in relative performance.

This brings us to what we believe is the critical variable for equity returns in the near term: the breakout in nominal and real bond yields. In our year end letter, we suggested 2026 could represent a major test of Fed independence. After months of merely threatening the will to do what is necessary, Fed Chairman Warsh has gestured at orthodoxy over accommodation, raising rates in September for the first time since 2023—in our view as a result of the year-to-date inflationary impact of the Iran war and, to a lesser extent, tariffs. Meanwhile, the U.S. 10-year Treasury yield has breached its 20-year resistance to reach 5.3%. The move has been driven predominantly by real yields, now approaching 3%, while measures of breakeven inflation remain contained. In other words, markets are pricing not an untethering of longer-term inflation expectations but a structurally higher cost of capital, which challenges equity valuations broadly, and long-duration growth assets in particular. Should energy prices ease post-election or should circumstances slow or defer the growth in capital investment related to AI data center development, we would expect yields to retrace meaningfully, broadening market participation and driving a healthy mean-reversion in relative returns. For now, we are watching the bond market closely as we suspect the recent historic rise in yields is likely overdone.

Finally, a word on Brazil, where the first round of elections delivered a genuine surprise. Senator Flávio Bolsonaro topped President Lula da Silva by roughly 47% to 45%, confounding pre-election polls, while right-of-center candidates also outperformed and gained a host of governorships and Senate seats. The Ibovespa Index rallied roughly 8% to a record high on the result, and while the October 25 presidential runoff remains, a Lula victory is highly unlikely, while the breadth of the rightward swing suggests that Brazil's fiscal challenge will more than likely moderate. Readers may recall that in our December 2024 letter, we pointed to increasing odds of a regime change in 2026, which we believed would likely trigger a major reduction in risk premium and substantial upside for Brazil's currency and equities, a scenario that now appears solidly in view. With real policy rates among the highest in the world, a credible fiscal anchor could unlock a substantial easing cycle, with Brazil equities among the most levered to declining rates. We believe Brazil, and Latin America more broadly, is well positioned to help sustain EM equity outperformance.

We look forward to our next communication and thank you for investing in the Baron Emerging Markets Select ETF.

Sincerely,



Michael Kass
Portfolio Manager

[1] 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 MSCI Index(es) and the Portfolio include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The index(es) are unmanaged. Index performance is not Portfolio performance. Investors cannot invest directly in an index.

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

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

The **Common Equity Tier 1 (CET1) ratio** measures a bank's core equity capital against its total risk-weighted assets to gauge financial solvency and loss absorption. **Return on equity** (ROE) is a financial performance ratio that measures how effectively a company uses shareholders' equity to generate net income.

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