DEAR BARON FIFTH AVENUE GROWTH FUND SHAREHOLDER:

PERFORMANCE

We had a great first quarter.

Baron Fifth Avenue Growth Fund (the "Fund") appreciated 7.4% (Institutional Shares) compared to a gain of 1.4% for the Russell 1000 Growth Index, and a *loss* of 0.8% for the S&P 500 Index, the Fund's benchmarks. Since the beginning of last year, "Large Growth" has been the place to be, and we typically do well in favorable investing environments. We had some massive winners without any massive losers, and a high number of solid contributors against a smaller number of detractors. **Amazon, Mastercard, Booking Holding** (formerly known as Priceline), **Alibaba**, and **Red Hat** each contributed over 50 basis points to the quarterly results. We had no 50 basis point detractors. We had 10 additional investments contributing 20 basis points or more against only three investments that detracted over 20 basis points. Stock selection showed particularly well this quarter, accounting for 4.6% of relative outperformance versus the Russell 1000 Growth Index, with 12 double-digit gainers, and 26 investments overall contributing positively to absolute returns.

ALEX UMANSKY

PORTFOLIO MANAGER

Retail Shares: BFTHX
Institutional Shares: BFTIX
R6 Shares: BFTUX

Table I.
Performance
Annualized for periods ended March 31, 2018

	Baron Fifth Avenue Growth Fund Retail Shares[1,2]	Baron Fifth Avenue Growth Fund Institutional Shares[1,2,3]	Russell 1000 Growth Index[1]	S&P 500 Index[1]
Three Months[4]	7.34%	7.41%	1.42%	(0.76)%
One Year	31.13%	31.46%	21.25%	13.99%
Three Years	14.42%	14.73%	12.90%	10.78%
Five Years	17.04%	17.33%	15.53%	13.31%
Alex Umansky Tenure (November 1, 2011)	16.72%	17.01%	15.99%	14.73%
Ten Years	10.33%	10.58%	11.34%	9.49%
Since Inception (April 30, 2004)	9.01%	9.19%	9.65%	8.68%

According to Morningstar*, for the period ended March 31, 2018, the Fund (Institutional Shares) ranked in the top 4% for its year-to-date performance, top 3% for its 1-year performance, top 6% for its 3-year performance, and top 7% for its 5-year performance. The Fund has also been awarded a *5-star Morningstar rating for its 3-year, 5-year, and overall performance*.

Since the current portfolio manager has taken over and restructured the Fund on December 31, 2011, the Fund has returned 182.6% cumulatively, 18.1% annualized, which compares to 159.9%, 16.5% annualized for the Russell 1000 Growth Index and 139.6%, 15.0% annualized for the S&P 500 Index, outperforming the Morningstar US Fund Large Growth Category Average by 40.7%, 3.0% annualized over the 6+ year period.**

Performance listed in the table above is net of annual operating expenses. Annual expense ratio for the Retail and Institutional Shares as of September 30, 2017 was 1.12% and 0.84%, but the net annual expense ratio was 1.00% and 0.75% (net of the Adviser's fee waivers, restated to reflect current fee waivers). 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 has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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 indexes are unmanaged. The Russell 1000® Growth Index measures the performance of large-sized U.S. companies that are classified as growth and the S&P 500 Index of 500 widely held large cap U.S. companies. The indexes and the Fund are with dividends, which positively impact the performance results. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell is a trademark of Russell Investment Group.

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.

3 Performance for the Institutional Shares prior to May 29, 2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to May 29, 2009 did not reflect this fee, the returns would be higher.

4 Not annualized.

* Morningstar calculates the **Morningstar US Fund Large Growth Category Average** using the Morningstar Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of 3/31/2018, the category consisted of 1,436, 1,376, 1,213, 1,099, and 799 share classes for the year-to-date, 1-, 3-, 5-, and 10-year periods. **Baron Fifth Avenue Growth Fund Institutional** Share Class ranked in the 4th, 3rd, 6th, 7th, and 36th percentiles, respectively.

As of 3/31/2018, the category consisted of 1,213, 1,099 and 1,213 share classes for the 3-year, 5-year and overall periods, respectively. Morningstar has awarded **Baron Fifth Avenue Growth Fund Institutional** Share Class 5 stars, 5 stars, and 5 stars for its 3-year, 5-year, and overall performance, respectively.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

** Mr. Umansky became the portfolio manager of the Fund on November 1, 2011. Since that date, the Fund has returned 174.0% cumulatively, which compares to 159.0% for the Russell 1000 Growth Index and 141.5% for the S&P 500 Index, outperforming the Morningstar US Fund Large Growth Category Average by 36.4% over the 6+ year period.

There has been so much drama lately. Where do we start…?

It is never good when you have to spend two full days watching the CEO of one of your larger holdings testify in front of Congress. There is no upside to that. At least Mark Zuckerberg was wise enough to bend the knee. It is even worse when the leader of the free world allegedly asks his close advisors "So… how do we f… with him?" when referring to the CEO of your largest investment. GDPR (General Data Protection Regulation) will disrupt Facebook's monetization model, the U.S. Post Office will hike up prices and affect Amazon's last mile delivery, Alibaba will suffer as a result of a U.S.-China trade war, and so on… FAANG stocks have been a popular subject of debate for years, but it has gotten louder lately. We admit, we have no particular insight on whether the recent negative publicity for Facebook and Google will affect their ad revenues, or whether the increased costs to find engineering solutions to prevent them from being hacked and weaponized by bad actors, will be higher or lower in the short term, or even in the long term. We do, however, believe that the substance of the current debate is largely missing the forest for the trees.

Data is the new oil. It is the energy that underpins almost all of the innovations in the digitization age. Investors continue to underestimate and underappreciate how ubiquitous *Google* and *Facebook* have become for mankind. Between our browser history, our shopping habits, the news we follow, how we interact with one another – they have the data on the planet! Now think about this through the lens of Machine Learning and AI. These companies have been spending billions of dollars year after year collecting, indexing, analyzing data – gleaning insights not only into our preferences, behavior, and desires, but into human nature itself. And now, they will be able to do it at scale. That's a game changer. We're not sure the current mainstream debate is even framed properly. Coincidentally, speaking of Data, and Machine Learning, and AI, the only two companies that we think could give Google and Facebook a run for their money are *Amazon* and *Alibaba*. The "Fantastic Four" have been in an arms race for talent acquisition in all three areas for years, and though we are likely just in the beginning of this technological revolution, we think their competitive advantages today are nearly insurmountable.

The best part is, though we have high conviction that we are right about this, we don't have to be for these stocks to be good investments. According to a market research survey of U.S. teens released last week, YouTube is "the most powerful brand in teenagers' lives." 88% of all teenagers use Instagram daily for an average of 54 minutes. Amazon has the highest mindshare among all retailers, 8x more than its nearest competitor Nike, 25x more than eBay, and nearly infinite more mindshare than Walmart and Target. Paid Prime membership globally has exceeded 100 million households, and AWS, at a $20 billion revenue run rate, remains the runaway leader in the vast and rapidly growing cloud infrastructure market by a wide margin. We think AWS revenues will double by 2020 and will exceed $60 billion by 2022 – with a 30% profit margin – you do the math.

Alibaba continues to be the most exciting investment story in China, in our view, with dominant e-commerce platforms. The company continues to collect and integrate vast amounts of data from its diverse eco-system, which will lead to improved monetization. In the meantime, the *Wall Street Journal* reported recently that Ant Financial's (think Alipay) most recent private round of funding valued the company at $150 billion.

The most fascinating part about these companies is that not only are they not stopping to rest on their laurels, they're not even slowing down. Amazon spent almost $23 billion on R&D last year, up over 40% from the year before, and more than any company in the world. In fact, $6 billion more than the second highest spender… Google! Facebook is number nine on that list and, while Alibaba is playing catchup, they just announced an *incremental* $15 billion in R&D investments to be made over the next few years.

Could any or all four of these companies miss a quarter or underestimate the investments needed to get to where they are going, or have another "Cambridge Analytica" or "You're robbing the U.S. Postal Service of billions and billions of dollars" type event"? Sure. They could also simply revert to the mean after years of sizable outperformance and lag the market for no particular reason. But, we have more conviction that all four will be substantially higher some years down the road and, hence, we expect to continue to own them in significant size.

Table II.
Top contributors to performance for the quarter ended March 31, 2018

	Quarter End Market Cap (billions)	Percent Impact
Amazon.com, Inc.	$700.7	3.35%
Mastercard Incorporated	184.2	0.76
Booking Holdings, Inc.	100.5	0.68
Alibaba Group Holding Limited	470.1	0.56
Red Hat, Inc.	26.5	0.52

Amazon.com, Inc. continued to lead the way, with shares rising 24% even in the face of the relentless assault from our Commander-in-Chief, which would be comical, if it wasn't so sad. Amazon continues to benefit from its flywheel strategy, where more participation from Prime members drives greater loyalty and purchasing on Amazon.com is a prime example (pun intended) of the benefits of the network effect. Paid Prime membership has exceeded 100 million households globally. While penetration of e-commerce is rising rapidly, Amazon continues to increase its total addressable market at an unprecedented pace. Health care spending in the U.S. is over $3 trillion annually, with $450 billion spent on prescription drugs and another $200 billion spent on medical devices. We think Amazon's opportunity here could be significant over time. In the meantime, AWS remains the runaway leader in the vast, and still rapidly growing, cloud infrastructure market by a wide margin. There were so many nuggets in Jeff Bezos' recently released annual shareholder letter. As always, we believe it is a must read, and it can be viewed here: https://www.sec.gov/Archives/edgar/data/1018724/000119312518121161/d456916dex991.htm

Though we continue to sell a few shares every quarter to manage the position size, Amazon remains our highest conviction investment idea, and we think a good bet to become the most valuable company on earth sometime in the future.

Mastercard Incorporated is a leading global payment network. The stock rose 16% during the quarter due to reporting better-than-expected financial results, posting impressive 20% revenue growth, and growing earnings per share by 33%. Management raised guidance for the 2018 to 2020 period, which now calls for 13% to 14% revenue growth and mid-20% EPS growth. We continue to own the stock because we believe Mastercard is a prime beneficiary of global consumer spending growth and the secular shift from cash to electronic payments, with some of the strongest and most durable competitive advantages we have seen anywhere.

Booking Holdings, Inc. is the leading online hotel travel agency with sites that include Booking.com, Priceline.com, RentalCars.com, and Agoda.com. Shares of Booking appreciated 20% in the first quarter due to strong quarterly results and a robust outlook for hotel room night growth and earnings growth. Booking remains the undisputed leader in the global online travel category. We believe that penetration remains relatively low and that the company can continue to take market share from offline bookings globally. We also believe Booking has significant long-term growth opportunities available to it in the U.S., Asia, and Latin America.

Alibaba Group Holding Limited is the largest retailer and e-commerce company in China. Alibaba owns and operates the two largest online shopping platforms in China, Taobao and Tmall. It also owns 33% of Ant Financial, whose brand Alipay is the largest third-party online payment provider in China. Shares of Alibaba rose 6% in the first quarter despite the increased rhetoric regarding a trade war with China. Of course, Alibaba neither manufactures anything, nor exports anything to the U.S., however the economic relations between the two countries seem to have a psychological effect on the price of the shares most of the time. The company benefits from strong mobile and advertising growth (750 million mobile internet users in China with a growing $5 trillion annual mobile payment volume), which drives positive optionality beyond core e-commerce. We expect continued rapid growth in all areas, combined with a high reinvestment rate in newer market segments, such as groceries, logistics, and cloud computing. We continue to be optimistic about Alibaba's long-term prospects, and it remains a high conviction investment idea, second only to Amazon.

Red Hat, Inc. is the leading provider of open source software. It is building and commercializing enterprise-ready software solutions of open source projects, while offering subscription services that include updates, support, and management tools. Red Hat's stock advanced 24% during the quarter as its core business continued to show accelerating growth and its emerging products segment continued to benefit from changes in the infrastructure software market, mainly from the increasing adoption of containers. During the quarter, Red Hat acquired CoreOs, increasing its exposure to containers, expanding its leadership position in infrastructure software, and supporting our conviction in the company's long-term growth story.

Table III.
Top detractors from performance for the quarter ended March 31, 2018

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Naspers Limited	$107.4	–0.45%
Facebook, Inc.	464.2	–0.36
Equinix, Inc.	33.1	–0.32
Brookfield Asset Management, Inc.	38.5	–0.18
Tesla, Inc.	45.0	–0.16

Based in Cape Town, South Africa, **Naspers Limited** is a $110 billion conglomerate with holdings in internet services, television, and digital media, as well as other technology assets. Chinese internet powerhouse, *Tencent Holdings*, in which Naspers holds a 32% ownership stake, is the crown jewel of these holdings. Among the company's other impressive investments are a sizable stake in India's e-commerce leader Flipkart, 29% holding in Russian publicly traded internet company Mail.ru, as well as 140 additional internet assets to which Mr. Market is currently assigning no value, as Naspers is trading at a 40% discount to its stake in the publicly traded Tencent. The stock declined 12% during the quarter as Tencent announced a new multi-year investment cycle and, concurrently, Naspers reduced its stake in Tencent from 34% to 32%, raising over $10 billion in the process but putting more pressure on Tencent's stock, which in turn, put pressure on Naspers' own shares. We are optimistic about Tencent's opportunities, but moreover, we believe that Naspers can win in many different ways, and the presence of unusually large positive optionality is what gives us conviction in this investment.

Shares of **Facebook, Inc.**, the world's largest social network, declined 10% during the quarter as the company had to deal with the fallout of negative publicity from the Cambridge Analytica debacle. We actually trimmed our position size modestly early on in the quarter to mitigate some short-term risk, but, for reasons outlined earlier in this letter, we retain high conviction in Facebook's long-term favorable outlook. The company continues to be the only game in town in "social" and remains the largest beneficiary of consumer engagement. The company utilizes its leadership position in mobile to provide global advertisers targeted marketing capabilities at scale, which we believe will remain unaffected by recent privacy concerns and regulatory risks.

Shares of **Equinix, Inc.** were down 7% during first quarter. We think the main culprit was full year 2018 guidance offered during the company's earnings conference call, which was modestly below expectations, primarily due to reinvestment into the business. Equinix is a global operator of network-dense, carrier-neutral colocation data centers. We like this company due to our belief in its long demand runway behind cloud adoption and IT outsourcing, unique position as one of the only operators that can offer a global platform, and continued execution on strategic M&A transactions to enhance its moat.

Brookfield Asset Management, Inc. is a leading global alternative asset manager and one of the largest investors in real assets in the world. Brookfield focuses on real estate, renewable power, infrastructure, and private equity assets. Shares declined 7% during the period held, as yield oriented stocks with long duration assets sold off given the jump in interest rates and increased inflation fears. After a successful multi-year investment period we decided to exit and re-deploy capital into what we believed were more compelling opportunities.

Tesla, Inc. designs, manufactures and sells fully electric vehicles, solar products, and energy storage solutions. After appreciating 46% last year, Tesla's shares declined 15% in the March quarter due to the company's inability to meet its own, ultra-aggressive goals, as well as some negative headlines. These included a slower than announced/desired ramp of the model 3 program, NTSB's investigation of a fatal Model X accident that followed a fatal autonomous related Uber accident, a downgrade of the bond rating by Moody's, and a recall of approximately 100,000 Model S vehicles. Unpleasant as all of these events were, they had little to do with our long-term thesis on Tesla, which, in a nut-shell, is that Tesla is an incredibly unique company, disrupting multiple trillion dollar markets, and in the process, is creating brand new markets and opportunities that could become very large and profitable in the future.

Portfolio Structure

The Fund's portfolio is constructed on a bottom-up basis with the quality of ideas and conviction level (rather than benchmark weights) determining the size of each individual investment. Sector weights tend to be an outcome of the portfolio construction process and are not meant to indicate a positive or a negative "view."

The top 10 positions represented 57.2% of the Fund, the top 20 were 82.8%, and we ended the year with 33 investments.

Information Technology, Consumer Discretionary, Health Care and Financials made up 93.2% of the portfolio. The remaining 6.8% is made up of singular investments that happen to fall into some other classifications (like our 3.6% position in Equinix which is classified under Real Estate) as well as cash. Most of the relative outperformance this quarter came from stock selection, with the effect of sector allocation contributing positively to the overall results as well.

Table IV.
Top 10 holdings as of March 31, 2018

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$700.7	$36.2	16.0%
Alibaba Group Holding Limited	470.1	17.0	7.5
Alphabet Inc.	719.1	12.4	5.5
Mastercard Incorporated	184.2	11.4	5.1
Visa, Inc.	246.5	10.0	4.4
Facebook, Inc.	464.2	9.5	4.2
Booking Holdings, Inc.	100.5	9.0	4.0
Naspers Limited	107.4	8.4	3.7
Equinix, Inc.	33.1	8.2	3.6
Illumina, Inc.	34.8	7.3	3.2

Recent Activity

In the last quarterly letter, we wrote about how examining our 12% turnover for 2017 led us to the suspicion that we may have been a bit too content. We entered last year with a sizable list of new ideas, many of them big ideas, that we were hoping to execute on when the opportunity would present itself. But for the first time in history, the S&P 500 rose every month, and there was no decline of even 3% over the course of the entire year. 2018 has, so far, been the opposite, and we have been more active than usual, initiating five new investments. We established a significant position in Activision Blizzard, a medium-sized position in S&P Global, and small-sized positions in Sage Therapeutics, PagSeguro Digital, and Dropbox. Brief discussions about each are included below. We also added to 12 existing holdings, trimmed four, and culled three others. It seems that with volatility back in vogue again, we should have plenty of opportunities to continue to refresh the portfolio for the foreseeable future.

Table V.
Top net purchases for the quarter ended March 31, 2018

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Activision Blizzard, Inc.	$51.2	$6.6
S&P Global Inc.	47.6	3.9
Sage Therapeutics, Inc.	7.4	2.4
PagSeguro Digital Ltd.	12.1	1.9
Vertex Pharmaceuticals Incorporated	41.4	1.6

We initiated a position in **Activision Blizzard, Inc.**, a leading video game publisher whose key game franchises include Call of Duty, Destiny, World of Warcraft, Overwatch, and Candy Crush. While there is some concern that the popularity of Fortnite (a new video game from a different publisher) will impact near-term performance, we believe that Activision Blizzard has the opportunity to consistently grow revenues, continue to expand margins, and effectively allocate capital for years to come. We believe the company has an excellent management team and stands to be a major beneficiary from a number of tailwinds benefiting the video game industry, including the shift to higher-margin digital revenue, mobile gaming, in-game advertising, eSports, and international expansion.

S&P Global Inc. is a diversified provider of financial and business information. About half of the company's revenue comes from its credit rating agency business, where it provides opinions on the likelihood that corporate and government issuers will meet their financial obligations. A quarter of revenue comes from maintaining benchmark prices for commodities and the S&P and Dow Jones indexes. The other quarter of revenue comes from providing data, analytics, and third-party research for financial professionals through Capital IQ and SNL Financial.

We purchased the stock because we believe S&P Global enjoys significant competitive advantages and has numerous growth opportunities. Credit ratings are a critical part of the world's financial infrastructure by providing investors with independent benchmarks and issuers with access to the capital markets. The industry is an effective duopoly where both players are exercising pricing power commensurate with the significant value they add to the debt capital markets. While debt issuance can be volatile in the near term, we expect that issuance will continue to grow over time, with economic growth and the rising share of rated debt. Many financial products and commodity contracts rely on pricing data from S&P, Dow Jones indexes, and Platts benchmarks, resulting in high switching costs. The index business benefits from the ongoing shift from active to passive investing. The Capital IQ and SNL Financial businesses provide critical data at lower costs than competing products and benefit from meaningful switching costs as users grow accustomed to their platforms. Growth is coming from user growth and a shift to enterprise pricing. Margins should continue expanding from efficiency initiatives and inherent operating leverage. S&P Global generates significant free cash flow that is being deployed into acquisitions and returned to shareholders through dividends and share repurchases. We believe S&P Global will continue to generate strong earnings growth for many years to come.

Sage Therapeutics, Inc. is focused on developing novel drugs for central nervous system disorders. We have been following the positive developments of the clinical trial results of its lead assets Sage-547/Sage-217 in post-partum depression and major depressive disorder, respectively. In addition, Sage has announced expansion into disease indications, like Parkinson's and tremors, and we believe the maturation of the pipeline combined with eventual commercial execution bode well for the company's future prospects.

PagSeguro Digital Ltd. is a Brazilian payment processor, focused on facilitating small- and micro- merchants in Brazil to accept forms of credit, debit, and digital currency transactions. For a majority of its merchant customers, PagSeguro's simple product offering – an internet-enabled payment device along with a mobile wallet – allows the merchant to instantly accept credit transactions without the need of a bank account. We believe that PagSeguro's platform, advertised widely across the country given the media relationships of a strong corporate parent, has the potential to dramatically lower transaction costs for these small merchants. Over time, we expect PagSeguro to gain significant market share from the bank-controlled incumbent payment processors who continue to underservice this growing merchant community.

Vertex Pharmaceuticals Incorporated is the leading developer of treatments for cystic fibrosis. Given continued success in developing its "triple," the name given to the three-drug combination that will allow broad cystic fibrosis patient treatment (currently approved for 50% to 60% of the addressable market), we now believe Vertex will have an opportunity to be a leader in the cystic fibrosis treatment market for years to come. Given this backdrop, we believe revenues and margins will continue to expand, with cash generation expected to surpass $2 billion per year by 2021, from approximately $400 million today. We think Vertex is in a uniquely strong competitive position, where we see no viable competition for years to come. For these reasons, we continue to grow the underlying size of our initial investment in Vertex.

Table VI.
Top net sales for the quarter ended March 31, 2018

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
First Republic Bank	$ 14.9	$3.4
Brookfield Asset Management, Inc.	38.5	3.3
Regeneron Pharmaceuticals, Inc.	36.5	1.8
Amazon.com, Inc.	700.7	1.1
Facebook, Inc.	464.2	1.0

First Republic Bank provides banking and wealth management to affluent clients in metropolitan areas of the U.S. The bank has grown assets and deposits much faster than peers due to its attractive customer demographic and strong focus on client service. However, recent tax law changes related to the deductibility of mortgage interest and state and local taxes has created uncertainty about mortgage demand in the bank's coastal markets. Also, a flattening of the yield curve from rising short-term rates is putting upward pressure on the bank's funding costs without a commensurate benefit from higher loan yields. We exited the position during the quarter to focus on other opportunities.

Brookfield Asset Management, Inc. is a leading global alternative asset manager and one of the largest investors in real assets in the world. Brookfield focuses on real estate, renewable power, infrastructure, and private equity assets. After a successful multi-year investment period, we decided to exit and re-deploy capital into what we believed were more compelling opportunities.

Regeneron Pharmaceuticals, Inc. develops novel antibody therapeutics. Regeneron was an industry leader for many years, but we felt that this phase of its lifecycle may have passed. While management continues to advertise its own R&D efforts as industry leading, we are acutely aware of the number of competitors angling to compete in Regeneron's commercial markets, and we project that Regeneron has not done an adequate job of protecting its market positions for lead assets Eylea and Dupixient. With an otherwise unremarkable pipeline, we have decided to exit this investment and re-deploy capital into Sage and Vertex.

We hope that every sale/reduction in our position size in **Amazon.com, Inc.** will continue to be a terrible sale, since it remains the largest investment in the portfolio as we exercise our fiduciary duty in managing risk by controlling the size of our largest positions.

We modestly reduced our position in **Facebook, Inc.** during the quarter as we thought the fallout from the negative publicity and potential regulatory hurdles would keep a lid on the stock for a while, and we had other investment ideas that needed funding.

Outlook

With the Fund up 7.4% (Institutional Shares) in the first three months of the year, on top of last year's 41% rise, this has undeniably been a favorable environment for the way in which we invest. After good earnings growth last year, economists are predicting even better growth for S&P 500 earnings in 2018, driven by a reduction in corporate tax rates and improved backdrop for Financials, Energy, and Industrials companies. The outlook for corporate earnings growth into 2019 appears favorable as well. Though helpful if it were to happen, we are not counting on any of this. More relevant to our portfolio are digital ad spending and e-commerce growth, which are continuing to accelerate, with spending on cloud computing still growing more than 60%. The digitization phenomenon, while still early, is starting to reach inflection points in many new areas (not only media and retail, but medicine, transportation, and consumer banking are in the midst of full blown disruptions now). We believe this should favor many of the companies in which we are invested.

Every day we live and invest in a world full of uncertainty. Fed policy, Putin's Russia, China's economy, energy prices, politics, terrorism – these are all serious challenges with clearly uncertain outcomes. History would suggest that most will prove passing or manageable. The business of capital allocation (or investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create. We are confident that our process is the right one, and we believe that it will enable us to make good investment decisions over time.

Our goal remains to maximize long-term returns without taking significant risks of a permanent loss of capital. We focus on identifying and investing in what we believe are unique companies with sustainable competitive advantages that have the ability to compound capital at high rates of return for extended periods of time. We are optimistic about the long-term prospects of the companies in which we are invested and continue to search for new ideas and investment opportunities.

Sincerely,

Alex Umansky
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contains this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

The Fund invests primarily in large cap equity securities which are subject to price fluctuations in the stock market. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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