Baron Real Estate Strategy

September 30, 2017

Dear Investor:

Performance

We are pleased to report that the Baron Real Estate Strategy (the "Strategy") generated solid performance, gaining 19.86% for the nine months ended September 30, 2017, exceeding its primary benchmark index, the MSCI USA IMI Extended Real Estate Index Net (the "MSCI Real Estate Index"), which gained 11.51%.

The Strategy's 19.86% nine-month gain also exceeded that of the MSCI U.S. REIT Index, which increased 2.68% and that of the S&P 500 Index, which increased 14.24%.

Table I.
Performance
Annualized for periods ended September 30, 2017

	Baron Real Estate Strategy (net)[1]	Baron Real Estate Strategy (gross)[1]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]	S&P 500 Index[1]
Three Months[2]	3.48%	3.74%	2.23%	0.63%	4.48%
Nine Months[2]	19.86%	20.75%	11.51%	2.68%	14.24%
One Year	19.98%	21.18%	11.73%	(0.69)%	18.61%
Three Years	7.21%	8.27%	10.80%	8.28%	10.81%
Five Years	12.41%	13.50%	12.28%	8.23%	14.22%
Since Inception (January 31, 2010) (Annualized)[3]	16.50%	17.32%	14.18%	12.35%	14.16%
Since Inception (January 31, 2010) (Cumulative)[2,3]	222.49%	260.25%	176.48%	144.18%	175.94%

In the most recent quarter ended September 30, 2017, the Strategy generated a 3.48% return, also outperforming the MSCI Real Estate Index, which gained 2.23%, and the MSCI U.S. REIT Index, which gained 0.63%. The Strategy underperformed the S&P 500 Index, which gained 4.48%.

Since the Strategy's inception on January 31, 2010, the Strategy's average annual return of 16.50% has outperformed the average annual return of the MSCI Real Estate Index (14.18%), the MSCI U.S. REIT Index (12.35%), and the S&P 500 Index (14.16%).

Additionally, the Strategy's cumulative return was 222.49% during this 7¾ year period, surpassed each of the cumulative returns of the MSCI Real Estate Index (176.48%), the MSCI U.S. REIT Index (144.18%), and the S&P 500 Index (175.94%).

We remain optimistic about the prospects for real estate and the Baron Real Estate Strategy. Please see the "Outlook" section at the end of this letter for our forward-looking views for the Strategy.

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of September 30, 2017, total Firm assets under management are approximately $25.3 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO and three separately managed accounts managed by BCM.

BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies or a GIPS-compliant presentation please contact us at 1-800-99BARON.

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

[1] The indexes are unmanaged. The MSCI USA IMI Extended Real Estate Index is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The S&P 500 Index measures the performance of 500 widely held large-cap U.S. companies. The indexes and the Strategy include reinvestment of interest, capital gains and dividends, which positively impact the performance results.

[2] Not annualized.

[3] The Strategy has a different inception date than its underlying portfolio, which is 12/31/2009.

Table II.
Top contributors to performance for the quarter ended September 30, 2017[1]

	Quarter End Market Cap (billions)	Percent Impact
InterXion Holding N.V.	$ 3.6	0.66%
Hilton Worldwide Holdings, Inc.	22.3	0.33
Home Depot, Inc.	192.8	0.30
American Tower Corp.	58.7	0.28
Equinix, Inc.	34.8	0.23

In the recently concluded third quarter of 2017, our investments across a variety of real estate categories contributed to the Strategy's solid performance.

The Strategy's holdings in data center real estate companies **InterXion Holding N.V.** and **Equinix, Inc.** generated solid share price returns. We are bullish about the prospects for real estate data center companies, because, in our opinion, we are in the early stages of dynamic data center growth opportunities. This is due to the outsourcing by a growing number of companies of their technological needs to high-tech and state-of-the-art data center firms. This outsourcing is also propelled by explosive growth in data and cloud computing.

For example, according to Gartner, Inc., the world's leading Information Technology research and advisory company, cloud computing is projected to grow at a 30% annual rate between 2016 and 2021. Additionally, according to Cisco Systems Inc., data growth is projected to grow 40% annually over the next five years. We also anticipate a more rational supply of data center facilities than in previous cycles. We are currently witnessing more pre-leasing by data center developers, and less speculative development than in the past.

The shares of leading hotel operator, **Hilton Worldwide Holdings, Inc.,** performed strongly in the third quarter due, in part, to expectations that the company would be a key beneficiary if global economic prospects continue to improve.

Hilton's appeal also stems, in part, from its attractive business model that is driven primarily by a strong pipeline of new hotel growth whereby third-party developers provide the majority of the capital to build the hotels. Additionally, Hilton generates contracted fees for the management of the hotels and the use of its leading hotel brands. Hilton's "asset light" and "capital light" business model generates significant cash flow that can be targeted for dividends and share repurchases. We remain optimistic about the long-term prospects of the company.

Home Depot, Inc., the world's largest home improvement chain, continued to gain in the most recent quarter, driven by strong management execution, solid business results, continued gains in new and existing home sales, and increased consumer spending on home repair and remodeling.

American Tower Corp., the world's largest real estate-related owner, operator, and developer of wireless communications and broadcast towers, continued to trend higher in the third quarter. Since September, however, the shares have pulled back somewhat, likely reflecting some concerns that a potential merger of two of its largest customers, T-Mobile and Sprint, might result in a loss of some leasing revenues (we estimate that at less than 4%) from the de-commissioning of overlapping tower-based sites as the two mobile carriers integrate their networks. We are not concerned about a T-Mobile and Sprint merger because we anticipate that the combined company, with its improved financial profile, would have a greater capacity to increase capital expenditures on wireless equipment, thereby offsetting any meaningful loss of income to American Tower.

Overall, we maintain that American Tower is well-positioned to take advantage of large secular growth opportunities as global wireless data consumption accelerates. We may look to acquire more shares in this high-quality company.

Table III.
Top detractors from performance for the quarter ended September 30, 2017[1]

	Quarter End Market Cap (billions)	Percent Impact
Acuity Brands, Inc.	$ 7.2	–0.20%
Martin Marietta Materials, Inc.	13.0	–0.17
Macquarie Infrastructure Corporation	6.0	–0.15
Vulcan Materials Company	15.8	–0.15
Masonite International Corp.	2.0	–0.13

The shares of **Acuity Brands, Inc.**, a leading producer of lighting solutions, underperformed in the most recent quarter due to a moderation in the growth of its business resulting from labor shortages in the construction industry; uncertainty related to infrastructure spending, tax, and trade policies; and competitive pressures. We have trimmed our position, and may look to reallocate capital to higher conviction investment opportunities.

Martin Marietta Materials, Inc. and **Vulcan Materials Company** share performance lagged in the most recent quarter due to speculation that construction business may have been disrupted by the recent hurricanes in Texas and Florida. We maintain our bullish view on the attractive prospects for both companies because the key demand drivers for their businesses–government spending on infrastructure projects, residential and non-residential construction levels–are all moving in the right direction. We see a long pathway for growth for both Martin Marietta and Vulcan Materials.

The shares of **Macquarie Infrastructure Corporation** declined in the most recent quarter. We maintain that Macquarie owns and operates high-quality real estate-like infrastructure assets. The company has a clear path to continue to grow its free cash flow per share by approximately 15% annually, and is attractively valued while offering a 7.6% current dividend yield.

Masonite International Corp., the largest manufacturer of residential doors in North America, declined in the most recent quarter due to disappointing quarterly business results. The company cited a shortfall in its North American residential door business and its European and architectural businesses. We are reassessing our long-term outlook for the company.

[1] Top contributors, top detractors, investments in real estate categories, top net purchases, top net sales, and top 10 holdings are based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

Portfolio Structure

We have continued to structure the Strategy to take advantage of seven compelling investing themes. They are:

1. Emphasis on companies that we expect to perform well as economic growth continues to improve and interest rates rise (e.g., hotel and timeshare companies);
2. Prioritization of residential real estate-related companies that should benefit from the ongoing rebound in the U.S. housing market (e.g., homebuilders and building products/services companies);
3. Concentration in real estate-related companies that should benefit from the technology revolution and evolution (e.g., data centers and tower operators);
4. Identification of additional real estate categories and companies that we expect to benefit from secular and/or cyclical tailwinds (e.g., construction materials companies);
5. Moderation of our REIT exposure due to tempering growth in some segments of commercial real estate, and the possibility of rising interest rates;
6. Emphasis on Las Vegas–one of the best real estate markets in the U.S. (e.g., gaming and casino companies); and
7. International real estate opportunities that offer an attractive combination of improved growth prospects, low interest rates, and attractive stock valuations.

Investment Categories

The Baron Real Estate Strategy currently has investments in 11 real estate-related categories (see Table IV below).

Table IV.
Fund investments in real estate-related categories as of September 30, 2017[1]

	Percent of Net Assets
REITs	29.1%
Building Products/Services	28.8
Hotel & Leisure	14.1
Casinos & Gaming Operators	6.7
Data Center Operating Companies[2]	6.2
Real Estate Service Companies	4.7
Real Estate Operating Companies	2.5
Infrastructure-Related Real Estate Companies	2.1
Homebuilders & Land Developers	1.3
Tower Operators[3]	1.2
	96.7
Cash and Cash Equivalents	3.3
	100.0%

[1] Based on the representative account.
[2] Total would be 10.9% if included data center REIT Equinix, Inc.
[3] Total would be 8.8% if included tower REITs American Tower Corp. and SBA Communications Corp.

At September 30, 2017, we were invested in 50 companies. Our 10 largest holdings represent 42.2% of the Strategy.

We invest in companies with a variety of market capitalizations. As of September 30, 2017, the median market capitalization of the portfolio was $7.8 billion. Companies with a market capitalization of less than $2.5 billion represented only 5.6% of the Strategy.

Table V.
Top 10 holdings as of September 30, 2017[1]

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
InterXion Holding N.V.	$ 3.6	$62.3	6.2%
American Tower Corp.	58.7	62.2	6.2
Mohawk Industries, Inc.	18.4	59.1	5.9
Equinix, Inc.	34.8	47.9	4.8
Home Depot, Inc.	192.8	45.5	4.5
Vulcan Materials Company	15.8	35.7	3.5
MGM Resorts International	18.7	29.3	2.9
Wyndham Worldwide Corp.	10.8	28.0	2.8
Hilton Worldwide Holdings, Inc.	22.3	27.7	2.7
The Sherwin-Williams Company	33.4	27.3	2.7

[1] Based on the representative account.

Recent Activity

Table VI.
Top net purchases for the quarter ended September 30, 2017[1]

	Quarter End Market Cap (billions)
Beacon Roofing Supply, Inc.	$ 3.4
SL Green Realty Corp.	10.2
Red Rock Resorts, Inc.	2.7
Boston Properties, Inc.	19.0
Vulcan Materials Company	15.8

[1] Based on the representative account.

We continue to identify several attractive investment opportunities. Of our top net purchases for the most recent quarter, we initiated positions in three companies (**Beacon Roofing Supply, Inc., SL Green Realty Corp.,** and **Boston Properties, Inc.**). The Strategy also acquired additional shares in two current holdings (**Red Rock Resorts, Inc.** and **Vulcan Materials Company**). In our opinion, all five companies are attractively valued.

We acquired shares in Beacon Roofing Supply, Inc. following its recently announced $2.6 billion acquisition of Allied Building Products. The combined company will become one of the largest building product distributors in North America with $7 billion in sales from its 593 locations. Approximately 71% of its sales will be generated from residential and non-residential roofing products, 15% from interior building materials, such as gypsum wallboard, acoustical ceiling tiles, and 14% from other complementary building materials such as windows and doors, siding, insulation, and waterproofing.

We are optimistic about the outlook for Beacon shares for three key reasons:

First, we think Beacon is well positioned to benefit from the continued rebound in U.S. residential real estate. We expect both home sales and consumer

spending on home repair and remodeling to continue to increase as a result of several years of pent-up demand, low home inventory levels, attractive mortgage rates, increasing home prices, and strength in the economy. New home construction and residential repair and remodeling spending account for approximately two-thirds of the company's combined sales.

Second, we believe Beacon's acquisition of Allied Building Products creates a powerful and diverse building materials distribution platform with multiple avenues for growth. Management is targeting to more than double its revenues from $7 billion to $15 billion over time, given its opportunities to increase market share in the roofing, sidewall, and wallboard segments (i.e., management is aiming for a 30% market share of an estimated $55 billion addressable market). Management also believes there are significant opportunities for the combined company to cut costs and improve profitability margins through branch consolidation, overhead efficiencies, and the acquisition of additional companies.

Third, we believe Beacon's shares are attractively valued at less than nine times 2019 estimated cash flow. We see a path to generating mid-teen annual returns in the next few years, although we cannot guarantee this.

We recently began acquiring shares in both SL Green Realty Corp. and Boston Properties, Inc., two of the leading office landlords and developers in the U.S.

SL Green is a midtown Manhattan-focused office REIT that has ownership interests in a $20 billion real estate portfolio. Boston Properties owns a $30 billion portfolio of top-quality office buildings in high barrier-to-entry markets such as Manhattan, Boston, Washington D.C., San Francisco, and West Los Angeles.

In our opinion, both companies own high-quality real estate assets. They both have potential for accelerated cash flow growth in the next few years, and are attractively valued in the public markets. SL Green and Boston Properties both have strong management teams, each with a track record of prudent capital allocation and balance sheet management. We are optimistic about the prospects for the Strategy's investments in both companies.

Red Rock Resorts, Inc. is a Las Vegas-focused gaming, development, and management company that operates 22 casino and entertainment properties. Approximately 80% of the company's business is generated in Las Vegas. We are optimistic about the company's prospects for the following three key considerations:

First, we are bullish on Las Vegas' growth prospects. It is benefiting from strong visitor trends, an improving local economy, and limited new construction activity. Second, its management team has instituted several strategic investment initiatives that should result in the acceleration of the company's growth in the latter part of 2018, and in 2019. Third, we believe Red Rock's shares are attractively valued with a path to generating a 50% return in the next few years.

In the most recent quarter, we took advantage of weakness in the share price of construction materials company Vulcan Materials Company to accumulate additional shares. Vulcan's short-term business trends have likely been negatively impacted by the recent hurricanes in Texas and Florida. We believe these issues are transitory and maintain our bullish view on the prospects for the company.

The three key demand drivers for Vulcan's business–government spending on infrastructure projects, residential and commercial construction levels–are moving in the right direction. We believe there is a credible path for management to double the company's cash flow in the next five years without having to rely on big federal infrastructure legislation. If management is successful in meeting its growth targets, we think the shares could reach at least $200 per share in the next four years, contrasted with a recent price of approximately $118 per share.

Table VII.
Top net sales for the quarter ended September 30, 2017[1]

	Quarter End Market Cap or Market Cap When Sold (billions)
Lowe's Companies, Inc.	$61.8
American Campus Communities, Inc.	6.0
Masco Corporation	12.4
Boyd Gaming Corporation	2.9
CoStar Group, Inc.	9.6

[1] Based on the representative account.

In the most recent quarter, we exited the Strategy's investment in **Lowe's Companies, Inc.** due, in part, to a series of management execution glitches. We have reallocated the capital to higher conviction residential-related investment opportunities.

We have reduced our position in student housing company **American Campus Communities, Inc.** because we believe that competitive pressures have increased.

Following strong share price performance in **Masco Corporation, Boyd Gaming Corporation,** and **CoStar Group, Inc.**, we have trimmed our positions in these companies. Nevertheless, we remain optimistic about the long-term prospects for each company.

Outlook

We remain optimistic about the outlook for real estate and the Baron Real Estate Strategy:

- Business conditions are generally solid for our real estate-related categories and companies;
- We anticipate that the duration of this real estate cycle will persist for another few years since the wide-ranging forewarnings that typically signal the end of a cycle are not evident;
- We continue to own attractively valued companies across several segments of real estate; and
- We have structured the Strategy to capitalize on what we believe are several compelling investment themes.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

In addition to general market conditions, the Strategy will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Strategy invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. The Strategy may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio manager only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.