October 10, 2019

Baron Real Estate Fund 3Q19 Performance Review and Portfolio Positioning

3Q19 Performance Review

- Baron Real Estate Fund gained 4.87% in the third quarter and modestly underperformed its primary benchmark, the MSCI USA IMI Extended Real Estate Index, which gained 5.52%. (In the first nine months of 2019, Baron Real Estate Fund gained 30.17%, outperforming the MSCI USA IMI Extended Real Estate Index, which gained 25.71%)
- Fund performance was led by **D.R. Horton, Inc., Equinix, Inc., and Brookfield Asset Management, Inc.**
  - ➢ Shares of D.R. Horton, the leading homebuilder in the U.S., increased 22% due to solid new home order growth, reduced home price incentives, the return of modest pricing power, and improved margins.
  - ➢ Shares of Equinix, the world's largest data center company and a long-term holding of the Fund, increased 15%, driven by strong business momentum, continued improvement in its balance sheet, and a $1 billion partnership with the Singapore government.
  - ➢ Brookfield Asset Management, a leading alternative asset manager, contributed on strong cash flow per share growth, recent fundraising, strong performance of listed partnerships, and a lower interest rate environment.
- Top detractors included **Royal Caribbean Cruises Ltd., Boyd Gaming Corporation,** and **Norwegian Cruise Line Holdings, Ltd.**
  - ➢ Market concerns regarding a global slowdown in economic growth weighed on the share prices of a portion of the Fund's holdings that are cyclically and consumer oriented, including cruise lines such as Royal Caribbean and Norwegian and casino and gaming companies such as Boyd Gaming. In addition, shares of cruise line operators were pressured by the ban on cruise travel to Cuba and hurricane Dorian. Casinos also suffered from unfavorable weather conditions in the second quarter and part of the third quarter.
  - ➢ At current share prices, we find the valuations of many of the Fund's most cyclical real estate companies highly compelling.

Portfolio Positioning

We continue to maintain that our philosophy of structuring a more inclusive and unique real estate fund – one that includes REITs, but is more expansive, balanced, and diversified than a typical "REIT only" fund – is a compelling long-term strategy. The Fund's current portfolio structure is as follows:

- **Real estate-related categories** The Fund has investments in REITs plus eight additional real estate-related categories. The Fund's diversification is in stark contrast to most other real estate funds that limit their investments primarily to one real estate category–REITs.

- **REITs and non-REITs** The Fund has 29% of net assets invested in REITs and 71% in other real estate-related categories. At this time, we believe many of our non-REIT investments present higher return potential than most REITs, because of their discounted share prices and greater growth prospects.
- **Commercial and residential real estate categories** Residential companies include homebuilders, building product and services companies, land developers, construction material companies, home centers, and senior housing operators. We maintain that the 2018 housing market slowdown only represented a pause in what should continue to be a multi-year housing recovery, and have continued to increase our exposure to housing-related companies.
- **Exposure to the U.S. consumer and cyclical growth** We believe the unusual and favorable combination of the "four 3s" bodes well for the Fund's consumer-related investments. The "four 3s" include unemployment (3.5%), wage growth (3%), home price appreciation (greater than 3%), and mortgage rates (3.7%). We think these tailwinds are a positive for economic growth and consumer spending. We continue to prioritize real estate-related categories that usually perform well if the "four 3s" persist, including homebuilders, building product and services companies, casino and gaming companies, cruise lines, timeshare companies, and hotels. In our opinion, valuations for many of these companies are compelling.
- **Emphasis on real estate secular and megatrend growth companies** Specialized real estate sectors, including data center companies, wireless tower companies, and industrial REITs, are well positioned to benefit for several years from the technological revolution in cloud computing, the internet, artificial intelligence, autonomous vehicles, mobile data, cell phones, and wireless infrastructure, in our view.

Baron Real Estate Fund's annualized returns for the Institutional Shares as of September 30, 2019: 1-year, 9.01%; 5-year, 6.50%; Since Inception (12/31/2009), 13.42%. Annual expense ratio for the Institutional Shares as of December 31, 2018 was 1.06%.

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

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

Risks: In addition to general market conditions, the value of the Fund 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 Fund 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 discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this presentation reflect those of the respective speaker. Some of our comments are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

MSCI USA IMI Extended Real Estate Net Index is an unmanaged custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate related GICS classified 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 index performance is not fund performance; one cannot invest directly into an index.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).

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

Portfolio holdings as a percentage of total investments as of September 30, 2019 for securities mentioned are as follows: **Boyd Gaming Corporation** – 2.8%; **Brookfield Asset Management, Inc.** – 4.2%; **D.R. Horton, Inc.** – 4.3%; **Equinix, Inc.** – 5.1%; **Norwegian Cruise Line Holdings, Ltd.** – 4.3%; **Royal Caribbean Cruises Ltd.** - 3.2%.

Top 10 Holdings as of September 30, 2019

Holding	GICS Sector	% of Net Assets
CBRE Group, Inc.	Real Estate	7.4
Equinix, Inc.	Real Estate	5.1
Masco Corporation	Industrials	4.9
MGM Resorts International	Consumer Discretionary	4.8
GDS Holdings Limited	Information Technology	4.8
D.R. Horton, Inc.	Consumer Discretionary	4.3
Norwegian Cruise Line Holdings, Ltd.	Consumer Discretionary	4.3
Brookfield Asset Management, Inc.	Financials	4.2
InterXion Holding N.V.	Information Technology	4.8
Royal Caribbean Cruises Ltd.	Consumer Discretionary	3.2