

December 31, 2017  
Institutional Shares (BREIX)

# Baron Real Estate Fund Fact Sheet

BAMCO, Inc., Registered Investment Adviser



The Fund may not achieve its objectives. Portfolio holdings may change over time.

Definitions (provided by BAMCO, Inc.): 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 indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The **MSCI US REIT Index** is an unmanaged free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The indexes and the Fund include reinvestment of interest, capital gains and dividends, which positively impact the performance results. As of 8/31/2017, Morningstar calculates the **Morningstar US Fund Real Estate Category Average** using its Fractional Weighting methodology. The Fund's Institutional Shares have been included in the category since December 31, 2010. © 2018 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Standard Deviation (Std. Dev.):** measures the degree to which a fund's performance has varied from its average performance over a particular time period. The greater the standard deviation, the greater a fund's volatility (risk). **Sharpe Ratio:** is a risk-adjusted performance statistic that measures reward per unit of risk. The higher the Sharpe ratio, the better a fund's risk adjusted performance. **Alpha:** measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta:** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. **R-Squared:** measures how closely a fund's performance correlates to the performance of the benchmark index, and thus is a measurement of what

portion of its performance can be explained by the performance of the index. Values for R-Squared range from 0 to 100, where 0 indicates no correlation and 100 indicates perfect correlation. **Tracking Error:** measures how closely a fund's return follows the benchmark index returns. It is calculated as the annualized standard deviation of the difference between the fund and the index returns. **Information Ratio:** measures the excess return of a fund divided by the amount of risk the fund takes relative to the benchmark index. The higher the information ratio, the higher the excess return expected of the fund, given the amount of risk involved. **Upside Capture:** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture:** explains how well a fund performs in time periods where the benchmark's returns are less than zero. **EPS Growth Rate (3-5 year forecast):** indicates the long-term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance. **Price/ Earnings Ratio (trailing 12-months):** is a valuation ratio of a company's current share price compared to its actual earnings per share over the last twelve months. **Price/Book Ratio:** is a ratio used to compare a company's stock price to its tangible assets, and it is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. **Price/Sales Ratio:** is a valuation ratio of a stock's price relative to its past performance. It represents the amount an investor is willing to pay for a dollar generated from a particular company's operations. Price/Sales is calculated by dividing a stock's current price by its revenue per share for the last 12 months. Historical portfolio characteristics are provided by Compustat and FactSet Fundamentals. **Weighted Harmonic Average:** is a calculation that reduces the impact of extreme observations on the aggregate calculation by weighting them based on their size in the fund.

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Not bank guaranteed, may lose value, not FDIC insured.



## Portfolio Facts and Characteristics

	Fund	MSCI USAIMI Extended Real Estate Index
# of Equity Securities / % of Net Assets	53 / 98.3%	-
Turnover (3 Year Average)	50.19%	-
Median Market Cap†	\$10.07 billion	\$2.66 billion
Weighted Average Market Cap†	\$28.14 billion	\$42.03 billion
EPS Growth (3-5 year forecast)†	14.8%	10.7%
Price/Earnings Ratio (trailing 12-month)*†	28.6	23.7
Price/Book Ratio*†	2.9	2.3
Price/Sales Ratio*†	2.7	2.3

\* Weighted Harmonic Average

† Source: FactSet PA – Compustat, FactSet and BAMCO. Internal valuations metrics may differ.

R6 Shares are also available for this Fund.

## Performance Based Characteristics<sup>2</sup>

	3 Years	5 Years	Since Inception
Std. Dev. (%) - Annualized	13.94	13.06	15.75
Sharpe Ratio	0.49	0.97	1.03
Alpha (%) - Annualized	-2.52	-0.03	2.40
Beta	1.10	1.05	1.01
R-Squared (%)	75.72	76.82	84.04
Tracking Error (%)	6.96	6.31	6.29
Information Ratio	-0.30	0.06	0.42
Upside Capture (%)	99.31	102.70	106.41
Downside Capture (%)	116.86	102.58	95.31

## Top 10 Holdings

## % of Net Assets

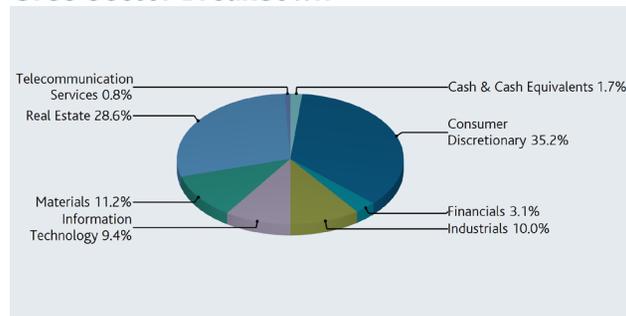
InterXion Holding N.V.	6.6
Mohawk Industries, Inc.	6.1
American Tower Corp.	5.7
Home Depot, Inc.	4.8
Equinix, Inc.	4.5
Vulcan Materials Company	4.5
Macquarie Infrastructure Corporation	3.6
MGM Resorts International	3.0
The Sherwin-Williams Company	2.7
Hilton Worldwide Holdings, Inc.	2.6
<b>Total</b>	<b>44.1</b>

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.

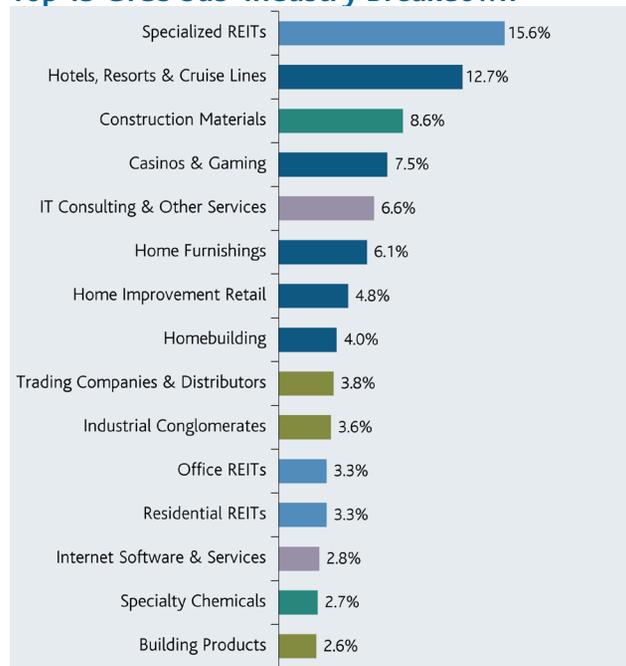
1 - Industry sector or sub-industry group levels are provided from the Global Industry Classification Standard ("GICS"), developed and exclusively owned by MSCI, Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P"). All GICS data is provided "as is" with no warranties. The Adviser may have reclassified/classified certain securities in or out of a sub-industry. Such reclassifications are not supported by S&P or MSCI.

2 - Source: FactSet SPAR. Except for Standard Deviation and Sharpe Ratio, the performance based characteristics above were calculated relative to the Fund's benchmark.

## GICS Sector Breakdown<sup>1</sup>



## Top 15 GICS Sub-Industry Breakdown<sup>1</sup>



Colors of Sub-Industry bars correspond to sector chart above.

## Investment Strategy

The Fund invests broadly in real estate businesses with significant growth potential. It maintains exposure across different industries and all capitalization ranges. Diversified.

## Portfolio Manager

Jeff Kolitch has been portfolio manager of the Baron Real Estate Fund since its inception in December 2009, and has 26 years of research experience. He joined the firm in 2005 as a research analyst specializing in real estate. Previously, Jeffrey was with Goldman Sachs & Co. from 1995 to 2005, where in 2002 he was named a managing director of its Equity Capital Markets group. Jeffrey graduated from the Wharton School, University of Pennsylvania with a B.S. in Economics in 1990, and from the Kellogg Graduate School of Management, Northwestern University with a Masters of Management in 1995.

## Investment Principles

- Long-term perspective allows us to think like an owner of a business
- Independent and exhaustive research is essential to understanding the long-term fundamental growth prospects of a business
- We seek appropriately capitalized open-ended growth opportunities, exceptional leadership, and sustainable competitive advantages
- Purchase price and risk management are integral to our investment process

## Fund Facts

Inception Date	December 31, 2009
Net Assets	\$1.09 billion
<b>Institutional Shares</b>	
CUSIP	06828M801
Expense Ratio (as of FYE 12/16)	1.07%



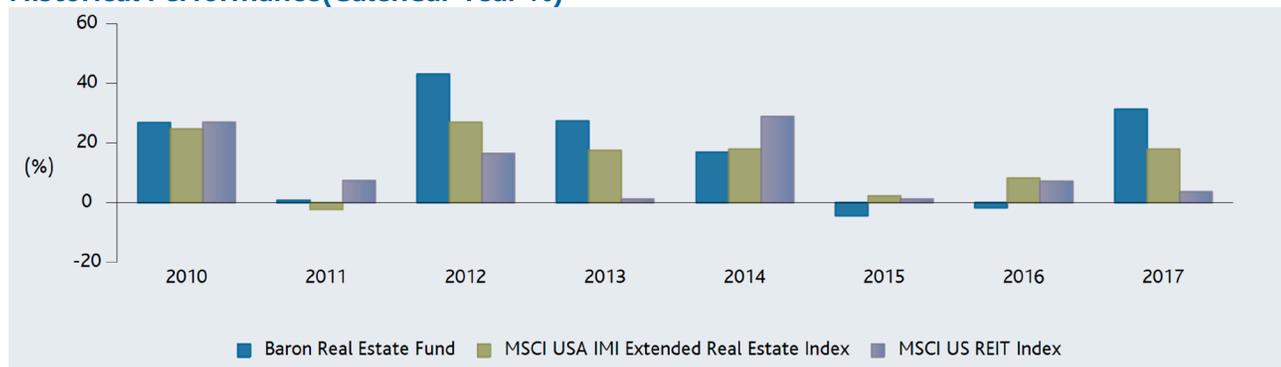
## Performance as of December 31, 2017



	Total Returns(%)				Annualized Returns(%)											
	4th Q 2017		Year to Date		1 Year		3 Years		5 Years		10 Years		Since Inception 12/31/2009			
	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -	Return	+ -		
BREIX - Institutional Shares	9.69		31.42		31.42		7.26		12.96		N/A		16.38			
MSCI USA IMI Extended Real Estate Index	5.85	3.84	18.04	13.38	18.04	13.38	9.33	-2.07	12.60	0.36	N/A		13.76	2.62		
MSCI US REIT Index	1.04	8.65	3.74	27.68	3.74	27.68	4.03	3.23	7.99	4.97	N/A		11.18	5.20		
S&P 500 Index	6.64	3.05	21.83	9.59	21.83	9.59	11.41	-4.15	15.79	-2.83	N/A		13.92	2.46		
Morningstar Real Estate Category Average	2.09	7.60	6.22	25.20	6.22	25.20	5.14	2.12	8.68	4.28	N/A		N/A			

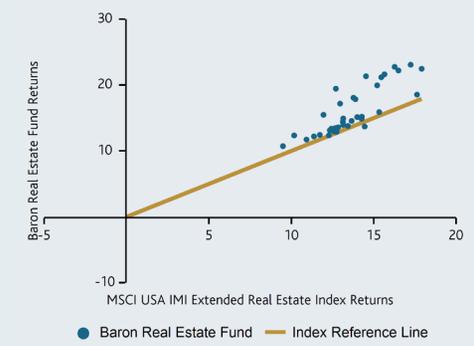
The blue shading represents Fund outperformance vs. the corresponding benchmark. The yellow shading represents underperformance.

## Historical Performance(Calendar Year %)



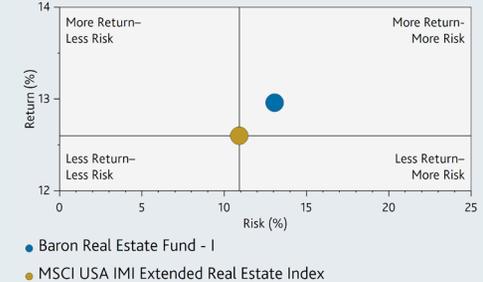
	2010	2011	2012	2013	2014	2015	2016	2017
BREIX - Institutional Shares	26.90	0.80	42.99	27.48	16.93	-4.42	-1.75	31.42
MSCI USA IMI Extended Real Estate Index	24.81	-2.26	27.00	17.44	17.96	2.27	8.24	18.04
MSCI US REIT Index	26.98	7.48	16.47	1.26	28.82	1.28	7.14	3.74

BREIX has outperformed the MSCI USA IMI Extended Real Estate Index 97% of the time (since its inception and using rolling 5-year annualized returns).



## Risk/Return Comparison<sup>1</sup>

12/31/2012 - 12/31/2017



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](http://www.BaronFunds.com) or call 1-800-99BARON.

You should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The prospectus and summary prospectus contain this and other information about the Fund and can be obtained from the Fund's distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting [www.BaronFunds.com](http://www.BaronFunds.com). Please read them carefully before investing.

1 - Source: FactSet SPAR.



## Top Contributors/Detractors to Performance for the Quarter Ended December 31, 2017

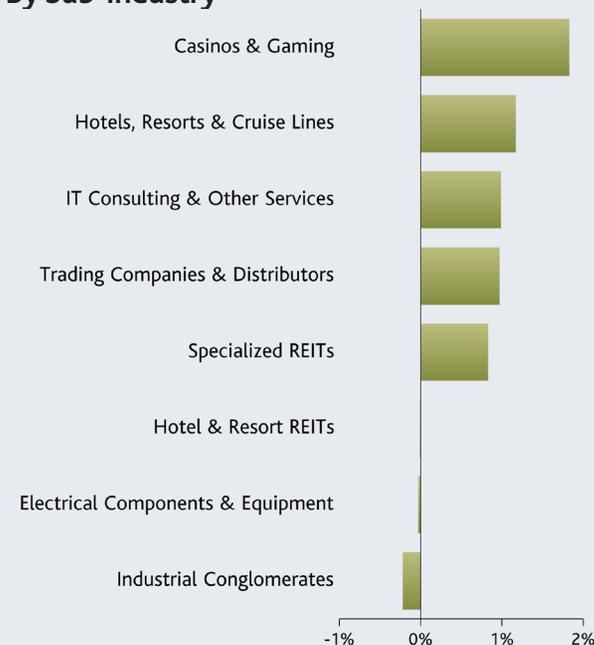
### Contributors

- **InterXion Holding N.V.** is a provider of network-dense, carrier-neutral colocation data center services across Europe. Shares increased, driven by robust Q3 results, year-over-year growth acceleration, and continued strong customer demand from cloud providers. We believe durable secular tailwinds in cloud adoption and IT outsourcing, strong pre-leasing trends, increasing ability to capture U.S. cloud deployments, and a high likelihood that it will be an M&A target as the last pure-play European operator of scale will drive continued strong performance of the stock.
- Shares of regional casino operator **Pinnacle Entertainment, Inc.** increased in the quarter after the company announced it was being bought for cash and stock by Penn National Gaming. The \$2.8 billion deal is expected to close in the second half of 2018. We think Penn is paying a fair value for Pinnacle and believe the acquisition will successfully close and regulators will approve it with the divestiture of four assets to Boyd Gaming.
- **Home Depot, Inc.** is the largest home improvement retailer in the U.S. Shares appreciated during the fourth quarter, driven by strong operational and financial performance that beat analyst expectations and positive full-year guidance. We remain excited about our investment in Home Depot.

### Detractors

- **Macquarie Infrastructure Corporation** owns a diversified group of U.S. infrastructure assets, including bulk liquid storage spaces, fixed base airport operations, and energy generation hubs. Shares fell due to quarterly earnings noise in the contracted power sector and a slight reduction in free cash flow growth. We retain conviction due to its infrastructure asset base's high barrier to entry and its ability to generate predictable cash flows and deploy substantial capital at attractive low double-digit returns.
- **Extended Stay America, Inc.**, which owns about 600 hotels across the U.S. dedicated to longer-duration stays, was a slight detractor from performance during the fourth quarter. Shares fell after the company reported Q3 earnings that missed analyst expectations and management lowered full-year guidance for 2017. We retain conviction in Extended Stay due to its high operating margins, anticipated acceleration of non-core asset sales, focus on capital returns to shareholders and free cash flow generation, franchise growth opportunities, and CEO transition.
- **MGM Growth Properties LLC** owns the underlying real estate of seven Las Vegas assets and five regional gaming assets. Shares fell modestly as a result of a move-up in treasury yields that caused many "yield-play" assets to lose ground. We retain conviction due to the company's strong credit tenant in MGM, robust pipeline of external growth opportunities, and solid evidence of organic cash flow growth.

## Contribution to Return<sup>1</sup> By Sub-Industry



## By Holdings

Top Contributors	Average Weight(%)	Contribution(%)
InterXion Holding N.V.	6.47	0.99
Pinnacle Entertainment, Inc.	1.63	0.72
Home Depot, Inc.	4.58	0.72
Mohawk Industries, Inc.	6.11	0.69
Red Rock Resorts, Inc.	1.51	0.62

Top Detractors	Average Weight(%)	Contribution(%)
Macquarie Infrastructure Corporation	2.29	-0.22
Extended Stay America, Inc.	1.02	-0.05
MGM Growth Properties LLC	1.34	-0.04
Acuity Brands, Inc.	0.05	-0.03
Equity Residential	1.39	-0.03

1 - Source: FactSet PA.

## Top 10 Holdings as of December 31, 2017

### Company

### Investment Premise

**InterXion Holding N.V. (INXN)** is a European provider of cloud and carrier-neutral colocation data center services. It has 50 data centers across 13 cities in 11 countries, over 118,000 square meters of equipped space and 1,600 customers.

With its expansive, pan-European footprint, we think InterXion is well positioned to benefit from strong secular tailwinds as the European market is still in the early stages of cloud adoption and IT outsourcing, roughly two years behind the U.S. InterXion has a sticky customer base with low churn and network effects and 95% recurring revenue. In our view, it also benefits from significant barriers to entry, as it takes three to four years to plan, permit, and build a data center.

**Mohawk Industries, Inc. (MHK)** is the largest player in the \$18 billion U.S. flooring industry, with 22% market share. Flooring categories include carpets, rugs/mats, ceramic, stone, counter-tops, and laminate/hardwood.

We believe Mohawk is an exceptionally well-run company that is poised to benefit from a recovery in the U.S. housing and commercial construction markets. Approximately 80% of its sales are tied to residential construction and 70% are tied to the U.S. Mohawk has leading positions in consolidated industries, and we see a competitive advantage in its best-in-class distribution network. In our opinion, the company has ample liquidity and strong free cash flow conversion.

**American Tower Corp. (AMT)** is the largest independent wireless tower operator worldwide, with 144,000 towers in 13 countries on five continents.

Increasing demand for wireless voice and data coverage is driving leasing activity for wireless carriers. Because zoning for new towers is difficult to obtain, leasing on an existing tower (tenant colocation) is typically the best option. American Tower has been expanding internationally, bringing the U.S. tower model to new markets. We expect new tenants and higher colocation activity to drive continued strong organic cash flow growth. In addition, we believe American Tower will continue to acquire tower portfolios opportunistically.

**Home Depot, Inc. (HD)** is the largest home improvement retailer in the U.S. It operates 2,270 stores in the U.S., Canada, and Mexico.

In our view, Home Depot is a best-in-class company, and its sales and profits should benefit from an increase in U.S. repair and remodel spending, which is in the early stages of recovery. We believe that the company can grow earnings per share by 15-20% over the next several years, as growth in home improvement spending accelerates, margins expand, and free cash flow is used for dividends and share repurchases.

**Equinix, Inc. (EQIX)** is a network neutral operator of state-of-the-art data centers across North America, Europe, and Asia-Pacific. It provides highly reliable facilities and offers low latency interconnection to and among business partners, networks, and cloud service providers, among others.

We believe Equinix continues to benefit from a number of key long-term trends, including growth in internet traffic, globalization, IT outsourcing, cloud computing, and mobility. Equinix began operating as a REIT in early 2015 and with the improved cost of capital, has announced several strategic acquisitions across the globe. We believe these acquisitions will create meaningful cost and revenue synergies, further enhancing Equinix's global platform. We also believe Equinix can continue to outgrow the market organically and supplement growth with prudent acquisitions.

### Company

### Investment Premise

**Vulcan Materials Company (VMC)** is a leading supplier of aggregates products (crushed stone, sand, and gravel) for the construction industry, used for infrastructure, nonresidential, and residential projects.

In our view, Vulcan is a high quality company in a high barrier to entry industry. We think the company is poised to grow significantly over the next several years from a continued cyclical recovery across its construction end markets and price increases. Vulcan should also benefit from the recently enacted federal highway bill and associated state spending, which should provide a secular growth tailwind over the next several years, in our view. We believe the valuation is reasonable relative to the quality of the company and growth potential.

**Macquarie Infrastructure Corporation (MIC)** owns a diversified group of infrastructure assets in the U.S. including: IMTT (bulk liquid storage for petroleum & chemicals), Atlantic Aviation (70 airport operators), Hawaii Gas (regulated gas utility), and Contracted Power & Energy (renewable power generation).

We believe Macquarie benefits from i) high value, diversified, and long life physical assets with significant barriers to entry; ii) multi-year contracted cash flows; iii) high return opportunities to deploy excess cash in existing business segments; iv) attractive total return through a 8-9% dividend yield and low-double-digit to mid-teens free cash flow growth; v) high potential of adding a complementary fifth business vertical; and vi) proven management team focused on free cash flow per share generation.

**MGM Resorts International (MGM)** is a casino hospitality company with properties in Macau, Las Vegas, and regions across the U.S. 80% of its EBITDA is in the U.S., while 20% is from Macau. The company owns a 76% stake in gaming REIT MGM Growth Properties and a 56% stake in MGM China.

MGM Resorts has a strong pipeline of projects with the December 2016 opening of National Harbor, upcoming openings of casinos in 2018 in Macau and Massachusetts, and the redevelopment of its Monte Carlo casino in Las Vegas. We think these projects, combined with a recovery in Macau, will add significant value over time. We also believe the ongoing recovery in Las Vegas will drive results. While the company is levered, we believe it will be able to pay down debt on its balance sheet this year and continue to return capital to shareholders through dividends and buybacks.

**The Sherwin-Williams Company (SHW)** is the largest global coatings company in the world following its \$11 billion acquisition of Valspar in early 2017. Sherwin-Williams has \$16 billion of pro forma revenue and leading positions in paints and coatings, with 76% of sales stemming from the U.S.

Sherwin-Williams is a best-in-class, vertically integrated coatings company, with a proven track record of industry-leading growth and returns on capital and a respected management team. We think coatings is an excellent business that benefits from high barriers to entry and pricing power. We expect growth to stem from the recovery in U.S. construction and renovation spending and from improved outlooks in other key geographies and verticals. The integration of Valspar should offer significant opportunities for revenue and cost synergies over the next few years, in our view.

**Hilton Worldwide Holdings, Inc. (HLT)** is the second largest hotel company in the world with 5,100 properties and 840,000 rooms across 103 countries. The company has 14 brands, including its flagship Hilton, Conrad, and Waldorf brands, across high-barrier-to-entry urban, convention, and resort destinations.

Hilton executed on its plan to unlock shareholder value by separating into three companies in January 2017. The remaining company is largely an asset-light fee business with 90% of management fees derived from top-line revenues. In our view, Hilton has a strong runway to grow its fee base with a pipeline of 335,000 rooms, 69 million loyalty members, and industry-leading brands. Given the substantial cash generation of the business, Hilton initiated a stock buyback plan and a modest dividend payout as an additional lever for shareholder returns.





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