Dear Baron Energy and Resources Fund Shareholder:

JAMES STONE

PORTFOLIO MANAGER

Retail Shares: BENFX
Institutional Shares: BENIX
R6 Shares: BENUX

Performance

While my colleagues here at Baron would most likely disagree with us, the first thing we would like to say about 2017 is we are happy it is over. It was one of the most frustrating years of our career as we felt we were very well positioned for the energy industry recovery that unfolded, but which did not lead to the equity performance we expected. While our forecasts for the industry proved to be very much in line with how things played out, the stocks did not perform as expected, which coupled with a steady stream of outflows (particularly the redemptions that we wrote about last quarter), wreaked havoc on our portfolio and our performance for the year. With more stable albeit negative fund flows in the fourth quarter, and even greater clarity on the improving supply/demand situation in the oil market, we did see a bit of a return to normalcy in the performance of energy shares and the Fund in the fourth quarter. Nevertheless, the actual correlation between oil prices and energy stock price performance deteriorated in the quarter relative to what it had been in the first nine months of the year, and energy shares continued to underperform the recovery in the commodity, the improvement in industry cash flows and the rise in the rig count/well count and oil and gas production.

As we look back at last year's year-end shareholder letter, we targeted several items in our outlook for the upcoming year including our view that the energy recession had ended, the U.S. energy renaissance was alive and well, and energy shares were significantly under-owned by institutional investors. Each of these views proved correct and, in the case of the first two, the evidence is overwhelming that industry conditions bottomed in 2016 and improved substantially in 2017. As Table I below shows, oil prices both on an average and year-end to year-end basis gained significant strength during the year, oil inventories declined and ended the year well below the peak levels experienced in 2016, global oil demand continued to rise and outpace expectations, and industry cash flows and capital investment levels were materially higher in 2017 boosting the rig count and the well count, especially in the U.S. So, while evidence of an industry recovery was abundant in 2017, the only sub-industry within Energy that produced strong results were independent refining & marketing companies, which helped us last year but not enough to offset the sharp share price declines experienced by independent exploration & production (E&P) companies, oilfield service & equipment companies and midstream (pipeline, processing, storage and shipping related) companies that make up the majority of the Energy exposure in our Fund.

While most of the stats shown below should have resulted in a more bullish tenor last year, the one that sticks out and contradicted our view from last year is the fact that the Energy sub-industry weighting within the S&P 500 Index fell to 6.07% from 7.37%, and it approached 30-year lows in August when it fell to 5.67%. With much of the rest of the equity markets soaring last year while energy lagged, it is not surprising that mutual funds, index funds, and hedge funds generally continued to reduce ownership within the sector. The low weighting of Energy in the S&P 500 at the end of August represented the third lowest level since 1990 following slightly lower weightings in January 1999 and November 2003, and well below peak levels in June 2008. Unlike 2015 and 2016 when Energy sub-industry profits and cash flows were falling relative to the rest of the market and therefore a lower weighting could be justified on an earnings basis, this was not the case in 2017 as the recovery in Energy sub-industry earnings and cash flows appeared to be disregarded by investors.

Baron Energy and Resources Fund

Table I.
Energy Industry Statistics

	2017	2016	% Change
U.S. oil price average ($/bbl)	$ 50.85	$ 43.47	17.0%
U.S. oil price at year end ($/bbl)	$ 60.40	$ 53.70	12.5%
U.S. natural gas price average ($/mmbtu)	$ 3.02	$ 2.55	18.4%
OECD oil inventories (mmb)('17E)	1,121.7	1,176.7	–4.7%
U.S. oil inventories (mmb)	1,088.2	1,174.1	–7.3%
Global oil demand (mbd)	97.9	96.3	1.7%
Change in oil demand growth estimate for '17 (mbd)	1.6	1.3	23.1%
U.S. rig count average	876	509	72.1%
U.S. shale well completions	11,277	8,060	39.9%
U.S. oil production (4Q/4Q) (mbd)	9.9	8.8	12.5%
U.S. gas production (4Q/4Q) (bcfd)	83.8	76.0	10.3%
Oil industry operating cash flow ($bn)	$ 458.6	$ 320.2	43.2%
U.S. exploration & production capex ($bn)	$ 77.5	$ 70.7	9.6%
Energy as a % of the S&P 500 Index	6.07%	7.37%	–17.5%

Sources: Bloomberg, FactSet, International Energy Agency, U.S. Energy Information Administration, Baker Hughes

Note: Operating cash flow and capex figures were calculated from composite sampling of publicly traded U.S. and international oil companies.

Table II.
Performance†
Annualized for periods ended December 31, 2017

	Baron Energy and Resources Fund Retail Shares[1,2]	Baron Energy and Resources Fund Institutional Shares[1,2]	S&P North American Natural Resources Sector Index[1]	S&P 500 Index[1]
Three Months[3]	5.27%	5.32%	5.94%	6.64%
One Year	(8.90)%	(8.68)%	1.23%	21.83%
Three Years	(7.38)%	(7.17)%	0.11%	11.41%
Five Years	(2.78)%	(2.56)%	1.07%	15.79%
Since Inception (December 30, 2011)	(3.22)%	(3.01)%	1.25%	15.83%

Table III.
Top contributors to performance for the quarter ended December 31, 2017

	Year Acquired	Percent Impact
Golar LNG Ltd.	2012	1.45%
RSP Permian, Inc.	2014	1.26
Concho Resources, Inc.	2012	1.03
Parsley Energy, Inc.	2014	0.87
Encana Corp.	2016	0.85

Golar LNG Ltd. is engaged in transportation and regasification of Liquefied Natural Gas using specialized tanker ships. Shares increased in the fourth quarter, driven by the launch of production tests on the world's first Floating Natural Gas liquefaction ship and by signs of long-awaited improvement in natural gas shipping rates. In 2018, we anticipate further improvement in the shipping business and financing of additional projects, giving us continued confidence in the company's ability to grow earnings.

RSP Permian, Inc. is an independent exploration and production company focused on the Permian Basin in West Texas. Shares increased on a solid operations update and maintained capital discipline despite service cost pressures. We retain conviction due to ongoing improvements in operating results and prudent cost management, coupled with the strength of RSP's resource base and balance sheet. We expect RSP will continue to execute operationally on its acreage, generate peer-leading production growth, and successfully integrate the recently acquired Silver Hill properties.

Concho Resources, Inc. is an independent exploration and production (E&P) company focused on West Texas and New Mexico. Shares appreciated in the fourth quarter after the company reported a solid operations update, beat analyst consensus on production and natural gas margin estimates, and raised its production guidance. In our view, Concho continues to be one of the best-run mid-cap E&P companies and is well positioned, relative to its peers, to exploit the deep economic inventory of drilling locations in the two states. We believe investors under-appreciate its free cash flow and multi-year growth potential.

Parsley Energy, Inc. is an independent exploration and production (E&P) company focused on the Permian Basin in West Texas. Parsley has a superior acreage footprint in the most prolific part of the play that generates some of the highest rates of return in the U.S. Shares increased after the

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2016 was 1.70% and 1.46%, respectively, but the net annual expense ratio was 1.35% and 1.10% (net of the Adviser's fee waivers), respectively. *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.

† The Fund's historical performance was impacted by gains from IPOs and/or secondary offerings. There is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

[1] The indexes are unmanaged. The S&P North American Natural Resources Sector Index measures the performance of U.S.-traded natural resources related stocks 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.

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

[3] Not annualized.

company beat oil production and cash costs estimates and delivered a solid operations update. We expect Parsley to continue to deliver peer leading operational performance, improvements in well productivity and lowering of cash costs.

Table IV.
Top detractors from performance for the quarter ended December 31, 2017

	Year Acquired	Percent Impact
NCS Multistage Holdings, Inc.	2017	–1.08%
Tesla, Inc.	2015	–0.80
Infraestructura Energetica Nova S.A.B. de C.V.	2016	–0.28
TPI Composites, Inc.	2017	–0.26
Noble Midstream Partners LP	2016	–0.10

NCS Multistage Holdings, Inc. is an oilfield equipment company based in Canada. NCS's patented completions tools technology compares favorably to the traditional completions used on most U.S. wells. Shares fell on fourth quarter guidance that missed investor forecasts. NCS is a proven player in Canada with 25%+ market share, and we see a huge opportunity in the U.S., where market penetration is still in an early phase. We like NCS' differentiated technology, free cash flow generation capability, and low capital intensity and expect it will potentially generate top returns relative to peers.

Tesla, Inc. makes electric vehicles (EVs), solar products and energy storage solutions. Shares fell on news of production issues with the Model 3 EV. As the slowed ramp-up negatively impacts cash flow, investor expectations that Tesla will look to raise cash put pressure on the stock. Though the company unveiled two promising new products, Model 3 continues to be the main driver for the stock as it will take time to bring these to production. We believe Tesla will solve its production issues and expect Model 3 to play a key role in its strategy to bring EVs to the mass market.

Shares of **Infraestructura Energetica Nova S.A.B. de C.V.**, a Mexican energy infrastructure asset operator, declined during the quarter with the depreciation in the Mexican peso against the U.S. dollar. The company also endured operational delays related to one project. However, we retain conviction because the delays were offset by prospects for the company's additional 25% stake acquisition in a key pipeline system. In addition, contract payments continued unabated.

Shares of **TPI Composites, Inc.**, the largest U.S.-based independent manufacturer of composite wind blades, fell during the fourth quarter. The stock was volatile due to concerns regarding the new federal tax law's possible impact on alternative energy. In addition, at an analyst day, the company provided projections that were moderately below Street expectations. We continue to hold TPI as we believe that the company will benefit from the growth of wind energy, the outsourcing of wind blade production by turbine manufacturers, and increased profitability as it fully scales.

Portfolio Structure

At the end of the year, the portfolio breakdown in the key sub-industries was as follows:

Oil & Gas Exploration & Production: The E&P sub-industry represented 39.8% of the Fund's assets at the end of the quarter, and continued to be focused on North American-based producers that operate primarily in developing unconventional oil & gas reservoirs. Companies that primarily operate in the Permian Basin in Texas and New Mexico are our largest focus for E&P investments, as we see the greatest and most profitable growth potential from the development of stratigraphic zones within the Permian Basin. While these companies tend to perform better when oil & gas prices are rising, we believe that most of our investments in this sub-industry are well positioned to grow strongly and deliver shareholder returns even if oil prices remain flat over the next several years. This is a testament to the improvement in the asset bases and opportunity sets of these companies.

Oil & Gas Storage & Transportation: This sub-industry, which is a mix of MLPs, publicly traded general partnerships, and C-Corp structured companies that own and operate critical oil & gas processing, storage, and transportation infrastructure often referred to as the "midstream," is the second largest sub-industry for the Fund, representing 20.2% of its assets at the end of the quarter. The renewed growth expectations for U.S. oil & gas production along with reduced concerns regarding the financial health of this sub-industry's customers have driven an improved outlook for these stocks.

Oil & Gas Equipment & Services: At 11.6%, our exposure to this sub-industry was slightly higher than at the end of last quarter. We are largely focused on companies that will benefit from growth in shale well completion activity where industry capacity utilization is high and the opportunity for pricing gains and margin expansion should drive upward revisions in earnings expectations.

Renewable Energy: Renewable or alternative energy is not a specific GICS sub-industry, but we think this is really the appropriate classification for our investments in the Utilities, Information Technology, Consumer Discretionary, and Industrials sectors, since our investments in these areas are primarily companies involved in the construction and operation of solar and wind electricity generation assets and battery storage systems. Investments in this area accounted for 19.4% of the Fund at the end of the quarter, and we continue to expand our research efforts into this area as we expect renewable energy-related businesses to have some of the best long-term growth prospects among any of the sub-industries in which the Fund invests.

Materials: Our exposure to Materials was 2.8% at quarter end and consisted solely of our investment in **Flotek Industries, Inc.** While classified as a Materials company because it is a chemical supplier, most of its chemicals are used in the drilling and completion of oil & gas wells, so it has the same business drivers as an oil & gas equipment & service company.

Oil & Gas Refining & Marketing: Independent refiners represented 6.2% of Fund assets at the end of the quarter. This was a net increase from last quarter due to continued strong performance of refining stocks in the quarter, particularly following the disruptions to refined product supply and the widening of refining margins due to Hurricane Harvey and to a lesser extent Hurricanes Irma and Maria. Fortunately, the long-term damage from these storms was not significant for any of our holdings, yet the impact on inventories and the overall supply chain led to a better earnings outlook over the next several quarters. Furthermore, refining companies continue to lead the energy industry in returning cash to shareholders through dividends and buybacks as free cash flow generation remains strong.

Table V.
Top 10 holdings as of December 31, 2017

	Year Acquired	Market Cap When Acquired (billions)	Quarter End Market Cap (billions)	Amount (millions)	Percent of Net Assets
RSP Permian, Inc.	2014	$ 1.5	$ 6.5	$4.4	7.9%
Tesla, Inc.	2015	30.3	52.3	4.4	7.9
Parsley Energy, Inc.	2014	2.5	9.3	4.2	7.6
Concho Resources, Inc.	2012	10.1	22.3	4.2	7.6
Encana Corp.	2016	5.2	13.0	4.0	7.2
Golar LNG Ltd.	2012	3.5	3.0	3.1	5.5
Halliburton Co.	2012	31.4	42.6	2.4	4.3
Andeavor	2017	9.8	17.8	2.3	4.1
Aspen Technology, Inc.	2015	3.3	4.8	2.2	4.0
Noble Midstream Partners LP	2016	0.8	2.0	1.9	3.5

Recent Activity

We made only modest purchases during the fourth quarter as much of our portfolio activity in the quarter was related to managing Fund outflows, rather than inflows. We did however add three new companies to the portfolio during the quarter, two of which were new purchases and a third through its acquisition of an existing position. We acquired our position in **EQT Corporation** because EQT purchased **Rice Energy Inc**. in the fourth quarter. The merger consideration consisted of a combination of stock and cash and we elected to hold onto our EQT shares as we like the growth and return prospects for the combined company. The potential for a corporate restructuring of EQT could result in further value creation by fully separating its E&P subsidiary from its publicly traded midstream MLP and GP.

In addition to holding onto EQT following the Rice acquisition, we also added to our position in **NCS Multistage Holdings, Inc.** after the stock fell following disappointing third quarter results and fourth quarter guidance. We believe that the issues that caused NCSM's earnings shortfall in the second half of 2017, will prove to be transitory, and we anticipate a resumption of strong growth for the company in 2018 as market penetration of its pinpoint fracture stimulation systems grows and the company introduces new products into the market. Its earnings were particularly impacted by a revenue slowdown in the second half of the year that we believe was largely a matter of timing related to many new potential customers finishing test trials and beginning to ramp up commercial operations and some customers experiencing a seasonal slowdown at year-end.

Our largest new purchase in the quarter was **Siemens Gamesa Renewable Energy, S.A.**, which is the second largest supplier of wind turbine systems in the world following last year's merger of the wind turbine businesses of Siemens AG and Gamesa Renewable Energy. Although the merger brings together two complementary businesses and offers the potential for significant cost savings, product rationalizations, and market share gains, a series of disappointing events followed the deal's closing including profit warnings, management turmoil, and uncertain industry demand following regulatory and tax changes in key markets. We began accumulating the stock after most of these negative events and after the shares had fallen nearly 50% from the post-merger highs in early April 2017. While the near-term earnings outlook for the company continues to have some uncertainty, we believe that the long-term demand growth for wind power is going to be significant. The combination of strong demand growth over the next five years and rationalization of the combined company's cost structure and product portfolio should result in improving margins, cash flows and earnings and drive shares materially higher during this period.

Toward the end of the quarter, we initiated a new position in **Select Energy Services, Inc.** Select is the largest publicly traded supplier of water sourcing, transfer, recycling, and disposal services to the U.S. oil & gas exploration and production industry. The company has a presence in every major shale basin in the U.S and is especially strong in the Permian Basin in Texas/New Mexico and in the Williston Basin in North Dakota. The demand for fresh water and for recycled water to be used during hydraulic fracturing operations has been rising strongly in recent years as fracturing jobs get bigger (i.e., use more fluid to pump more sand over longer lateral lengths) and Select has been growing accordingly. In mid-2017, the company completed a merger with its largest competitor (Rockwater Energy Solutions, Inc.) increasing its access to proprietary water sources, lay flat hose, completion and production chemicals, and water recycling capabilities. The combined company is poised to grow organically over the next several years as each of its three principal business segments (Water, Oilfield Chemicals, and Wellsite Services) are each well positioned to take advantage of the increasing rate of well completion activity and the increasing size of well completions (depth, lateral length, water used, proppant loading etc.…) anticipated over the next several years. In addition, unlike other services or materials that are tightly linked to completions like pressure pumping and sand, Select operates in a less fragmented market with higher barriers to entry and has a bigger relative market presence. We are excited about the growth opportunities for Select over the next several years and the potential for improving margins and returns on invested capital.

Table VI.
Top net purchases for the quarter ended December 31, 2017

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Siemens Gamesa Renewable Energy, S.A.	$9.3	$0.6
Select Energy Services, Inc.	1.2	0.3
NCS Multistage Holdings, Inc.	0.6	0.2
WPX Energy, Inc.	5.6	0.2
Landis + Gyr AG	2.4	0.1

Table VII.
Top net sales for the quarter ended December 31, 2017

	Amount Sold (millions)
Newfield Exploration Co.	$1.0
Targa Resources Corp.	0.4
Energy Transfer Equity, L.P.	0.3
Concho Resources, Inc.	0.3
RSP Permian, Inc.	0.2

For the most part, our top sales in the quarter were driven by outflows during the quarter and our need to raise cash or were the result of merger activity (**Rice Energy Inc**. sale to **EQT Corporation** closed in November). In fact, the only top sale in the quarter where we were consciously reducing our position size and shifting capital into some of the names that we added during the quarter was our sale activity in **Newfield Exploration Co.** We have owned Newfield since the energy market bottom in February 2016 and, while we like the improvements that management has made to the company's asset base and we see good prospects for improved returns in 2018, we felt that our new investment ideas had better risk/reward characteristics and therefore used Newfield as a source of funds for some of those purchases.

OUTLOOK

Last quarter we wrote an extensive section that outlined our outlook for the next 12-24 months. Since little has changed in our investment themes or outlook since our last quarterly report, we thought it would be appropriate and convenient to republish those comments below with minor updates.

As we review our outlook for 2018, there are four major topics that we think will shape the investment landscape in Energy and related sub-industries over the next 12 to 24 months:

1) Continued improvement in the supply/demand balance for oil, which should limit the downside price risk and create the potential for higher-than-expected prices.

   - Global oil inventories continued to decline in the fourth quarter beyond seasonal norms following the counter-seasonal declines in both the second and third quarters. By year end greater than 50% of the crude oil surplus inventory that was built up in 2014 to 2016 and most of the petroleum products surplus have been drained from the market. The improvement in inventory resulted from stronger-than-expected demand as the global economy strengthened, limited supply growth following the OPEC cuts earlier this year, and slower-than-expected non-OPEC supply growth despite robust growth in the U.S.
   - As noted, the "term structure" of the Brent and WTI oil markets (a key indicator of the oil market's health) shifted from contango (forward prices higher than spot prices) to backwardation (spot prices higher than forward prices) for the first time since July 2014, or just before the massive decline in oil prices that has plagued energy markets for three years.

2) Concerns about "peak oil demand" have been growing in the market and, while we are bullish on the potential for electric vehicles ("EV"), we think these "peak oil demand" fears are overblown and could result in higher, not lower, oil prices in the future.

   - Most forecasts for future oil demand indicate that by 2025, oil demand will be impacted by 500,000 barrels per day to 1 million barrels per day from lower gasoline consumption as EV sales rise toward 10 million units per year from 0.5 million in 2016 and EV fleet penetration moves toward about 3% globally. However, gasoline is only 25% to 26% of the barrel, and demand for gasoline along with the rest of the barrel has been growing at the fastest rate in the past five years (off of the biggest base) than nearly any other five-year period in the last 30 to 40 years.
   - While we don't disagree that future gasoline demand could peak in the next 10 years, we think investors need to have the perspective that a peak in gasoline demand by 2025 or so may also coincide with another 10 million barrels per day of overall oil demand growth, which, coupled with an annual production decline rate of 3% to 6%, create a need for significant ongoing investment in new production capacity and production growth. However, if fears of a looming "peak oil demand" cause companies to limit investment or cap investment, we may see the opposite of what happened when "peak oil (supply)" was the theory du jour 10 years ago. That view contributed to aggressive spending on deepwater, oil sands, and unconventional oil technology that resulted in the oil glut of the past several years. This could be a case of "be careful what you wish for" or an example of the law of unintended consequences. Either way, we think it is too early to proclaim the death of the oil industry, to say nothing of the gas industry, which is gaining prominence in many parts of the world as an alternative to coal and a bridge/complement to renewables.

3) The oil & gas industry appears to be transitioning from a period of overinvestment and a focus on growth at any cost to a more disciplined investment environment, where return-based metrics and balance sheet management garner more focus.

   - One of the biggest knocks on the major oil companies and independent E&Ps has been their chasing production and resource growth over the past decade at the expense of returns and the lack of returns-based metrics within the compensation structures for most management teams. In fact, this phase of unrestrained investment and unrestrained growth could be characterized as "Shale 1.0." With the results of this strategy on full display in the underperformance of energy stocks over the last several years, numerous bankruptcies, and poor financial returns, it is not surprising that investors want change.
   - As a result, there is a growing movement among investors to rightfully try to get oil & gas companies to be more focused and more disciplined in their capital allocations. This includes trying to live and invest within cash flow under conservative commodity price assumptions to limit the issuance of dilutive equity or debt, and altering compensation schemes to shift away from production growth towards metrics that help ensure companies are investing wisely, generating better returns, and beginning to return cash to shareholders. We think it is important that boards of directors look at recent research that shows that production growth alone has no correlation to total shareholder return and focus on those factors and metrics that have been shown to increase total shareholder return. If this shift occurs, it could be the beginning of the "Shale 2.0" phase where growth may be slower, but company financial performance is better, and shareholder value creation is improved.
   - A potential, and not insignificant benefit of a transition to greater capital discipline and more managed growth may be a more stable oil market in which U.S. supply growth is a prominent and needed source of future supply growth, but not an overwhelming force.

4) Renewable energy is gaining a growing share of the capital investment directed toward the overall energy industry, and this should create and foster interesting investment opportunities for us.

   - While investment levels in the oil & gas industry have fallen in the past three years, investing activity in renewable energy has soared and renewable energy costs have continued to fall. This is mostly a good thing as it is accelerating the penetration of clean energy in many parts of the globe and creating strong demand for supplies of wind turbines, solar equipment, and in the not too distant future, energy storage products.

- As the costs fall and the efficiencies of new equipment rise, the competitiveness and, therefore, the addressable market for renewable products should continue to increase. We expect this will reduce the need for government support and allow a more natural functioning of these markets. Over the next several years, we expect that policy changes will continue to influence the demand for these products and technologies. However, in the period beyond 2020 we think policies like tax subsidies and feed-in-tariffs, among others, become less prevalent and less impactful to these markets. This should result in demand forecasts becoming more transparent and handicapping winners and losers easier.
- We are currently invested in companies that supply equipment to the wind power market, energy storage manufacturers, and companies that develop and own renewable power assets with long-term contracts. We see the renewable power industry as one that has undergone significant change in the past five years and will continue to go through a significant evolution in the next 10 years or more, and we will continue to look for companies that we believe have strong growth profiles, competitive advantages, entrepreneurial managements, and either strong current returns or potential for a significant improvement in financial returns over our investment time horizon.

In conclusion, we continue to see an industry in recovery and we see significant value in the shares of energy and energy-related companies. We are bullish on the long-term demand for renewable energy, especially in the form of wind and solar combined with battery storage as well as the opportunity for smart grids and smart homes to proliferate. We expect that the disconnect that occurred last year between commodity prices and energy share prices will revert as the upside potential in share prices now exceeds that of the commodity, in our opinion, and your Fund is well positioned to capitalize on this outcome. Lastly, the fact that energy share weightings in major indices like the S&P 500 are at or near historic lows is even more true today than it was a year ago. We think the move to passive investing in recent years coincided with a period of falling commodity prices and combined with surging markets in other industries to create a major headwind for energy shares as capital left the industry and rotated to other parts of the stock market. This process could very well work in reverse and given the more limited market capitalization and liquidity that remains among energy shares, such a reversal could turn that headwind into a powerful tailwind for energy shares.

Sincerely,

James Stone
Portfolio Manager

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