DEAR BARON FIFTH AVENUE GROWTH FUND SHAREHOLDER:

PERFORMANCE

2017 was a good year for U.S. equities. Rising tides lifting all boats with "growth" stocks in vogue again proved to be a favorable environment for most of our investments. Baron Fifth Avenue Growth Fund (the "Fund") appreciated 6.0% in the fourth quarter and 41.0% (Institutional Shares) in 2017. The Russell 1000 Growth and the S&P 500 Indexes, the Fund's benchmarks, returned 7.9% and 6.6%, respectively, for the quarter, and 30.2% and 21.8%, respectively, for the full year.

While our largest positions made the highest contributions to overall results, we had 15 investments that contributed *at least 120 basis points* to returns for the year. A staggering number for a portfolio that averaged 32 holdings during the year. Equally importantly, we managed to avoid any serious mistakes with the largest detractor taking away just 35 basis points. You put many big winners together with lack of any big losers, and more often than not, you're pleased with the outcome.

Surprisingly, that's not the case here this year. We had a big list of new ideas (many of them – big ideas), which we were hoping to execute on entering the year. For the most part, we never got the chance. For the first time in history, the S&P 500 Index was up every month, and there was no decline of even 3%. Because our process requires a margin of safety at the time of purchase (which we define as a 20% discount to our estimate of the company's intrinsic value), we were unable (or unwilling) to pull the trigger on most of these new ideas. We chose not to force any shots and ended up with a portfolio turnover ratio of just 12% – that's approaching Ron territory. In hindsight, our estimates in many cases will likely prove to be too conservative as we underestimated the impact of an accelerating economy (home and abroad), and we may have missed some fat pitches that, ordinarily, we at least put good swings on. Though it is silly to complain about an up 41% year, the investing environment was so favorable for the style that we employ that we could, and likely should, have done considerably better. Time will tell whether these missed opportunities were of the temporary or permanent variety.

ALEX UMANSKY

PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended December 31, 2017

	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]	5.95%	6.01%	7.86%	6.64%
One Year	40.64%	40.97%	30.21%	21.83%
Three Years	13.56%	13.87%	13.79%	11.41%
Five Years	16.48%	16.77%	17.33%	15.79%
Ten Years	8.38%	8.61%	10.00%	8.50%
Since Inception (April 30, 2004)	8.62%	8.79%	9.72%	8.91%

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.

Baron Fifth Avenue Growth Fund

According to Morningstar*, for the period ended December 31, 2017, the Baron Fifth Avenue Growth Fund (Institutional Shares) ranked in the top 2% for its 1-year performance, top 13% for its 3-year performance, top 24% for its 5-year performance, and top 14% over the 6-year period that the current management team has been in place. Since taking over and restructuring the Fund at the end of 2011, it has returned 163.1% cumulatively, which compares to 156.3% 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 31.1% over the 6-year period. A reasonable result, but one we think we can improve on over time.

Normally, this section of the letter is devoted to explaining what we have done with the portfolio over the last 12 months and why. As mentioned above, this year we pretty much sat on our hands. We swapped out six smaller positions for six other small positions. The sales of Under Armour, Allergan, and Verisk proved prescient, as did the buys of Tesla and Vantiv. On the other hand, sales of Alexion and Concho Resources were timed poorly, and we waited too long to pull the trigger on Vertex Pharmaceuticals, Wix.com, and Veeva Systems. All in all, we think it was a wash, and actions we took over the last 12 months had no material impact on performance in the context of an up 41% year.

As we enter 2018, we think the environment remains favorable. Buoyed by synchronized accommodative central bank policies, the global economy is picking up steam. Here at home, fundamentals appear to be particularly attractive with low unemployment, low inflation, low absolute levels of interest rates, and recently passed tax reform providing a meaningful tailwind to both corporate investments and earnings growth. At the ground level, we continue to focus on platform businesses that benefit from the digitization trend. Advertising, retail (e-commerce), transportation, banking and finance, health care – everything is getting digitized and there is no turning the clock back. Waiters take food orders on iPads that communicate with kitchens wirelessly over broadband. Digital maps underpin the feasibility of self-driving cars. Breakthroughs in biotechnology enable targeted therapies designed to match our genetic fingerprints. These advancements and innovations are unstoppable in our view, and so, we think this may continue to be a favorable investing environment for some time.

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

	Quarter End Market Cap (billions)	Percent Impact
Amazon.com, Inc.	$563.5	2.94%
Naspers Limited	122.6	1.03
Alphabet Inc.	729.3	0.56
The Charles Schwab Corp.	68.9	0.46
Visa, Inc.	258.4	0.40

Amazon.com, Inc. continued to lead the way for the third year in a row, with shares rising 22% in the quarter and 56% in 2017. Amazon continues to benefit from its flywheel strategy, where more participation from Prime members drives greater loyalty and purchasing on Amazon.com in a prime example (pun intended) of the benefits of network effect. During the last quarter, Amazon has closed its $13.7 billion acquisition of Whole Foods and provided more details on its intentions to enter the auto parts and the health care sectors, with the latter likely prompting CVS's acquisition of Aetna. 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. We expect the $17 billion in last year's revenues to more than double by 2020 and to approach $60 billion in five years, by 2022. 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.

Based in Cape Town, South Africa, **Naspers Limited** is (now) a $123 billion conglomerate with assets in internet services, television, and digital media, as well as other technology assets. The stock rose 29% in the fourth quarter, and 90% during the year largely due to appreciation in shares of the Chinese internet powerhouse Tencent, in which Naspers holds a 34% ownership stake. 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. We are optimistic about Tencent's opportunities, but moreover, believe that Naspers can win in many different ways, and the presence of unusually large positive optionality is what gives us conviction in sizing this as the eighth largest investment in the Fund.

Alphabet Inc. is the parent company of Google, the world's largest search and online advertising company. Shares of Alphabet increased by 9% in the quarter and rose 35% in 2017, modestly underperforming the rest of the portfolio. We maintain high conviction in the merits of this investment as, in our opinion, Google possesses the greatest collection of human intellectual capital anywhere in the world and is the undisputed front runner in the areas of artificial intelligence (AI), autonomous driving (via Waymo), life sciences (via Calico), not to mention it's core revenue and profit producing assets like the search engine and YouTube videos.

Shares of discount brokerage firm **The Charles Schwab Corp.**, appreciated 18% in the quarter. Schwab's core operations continue to perform very well. Net new assets are growing steadily, and new clients are joining the firm at a record pace. Schwab has been very focused on sharing the benefits of economies of scale with clients through price reductions, rebates, and low-cost products. Despite these lower fees, operating margins continue to expand to record levels through its scale and efficiencies, which we think bodes well for its continued abilities to grow the number of clients and assets.

* As of 8/31/207, 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 12/31/2017, the category consisted of 1,363, 1,216, 1,109, 1,026, and 787 share classes for the 1-, 3-, 5-, 6- and 10-year periods. **Baron Fifth Avenue Growth Fund Institutional** Share Class ranked in the 2nd, 13th, 24th, 14th and 44th percentiles, respectively.

Visa, Inc. is a leading global payments network. The stock rose 9% in the December quarter and 47% in 2017 as the company continued to deliver strong financial results with mid-teens growth in revenue and earnings. The integration of Visa Europe is well ahead of management's initial expectations and financial projections. The company provided solid guidance for fiscal year 2018 with mid-teens EPS growth, which may prove conservative given accelerating global growth and favorable currency trends. We continue to own the stock because Visa is a prime beneficiary of global consumer spending growth and the secular shift of transaction volumes moving from cash to electronic forms of payments.

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

	Quarter End Market Cap (billions)	Percent Impact
Ctrip.com International, Ltd.	$22.6	-0.42%
Expedia, Inc.	18.2	-0.38
First Republic Bank	13.9	-0.34
Wix.com Ltd.	2.6	-0.28
Regeneron Pharmaceuticals, Inc.	40.4	-0.20

Ctrip.com International, Ltd. is the dominant online travel agent (OTA) in China. The shares underperformed in the most recent quarter (down 16%) due to concerns about pricing pressure in the company's air ticket business and its ability to cross-sell various products. A Chinese regulatory body imposed certain restrictions on the way in which OTAs could cross-sell certain types of products. We think after a reasonably short transitionary period, the company will adjust to this regulatory change without much detriment to its business. Additionally, the international air business, which carries a higher margin and is growing rapidly, will offset the negative impact of the new cross-selling rules. Chinese travelers now represent the fastest growing and largest segment of travelers globally, and Ctrip remains the best positioned company to capitalize on that trend.

Shares of **Expedia, Inc.**, the world's second largest global travel agency, declined 17% in the most recent quarter. The company decided to accelerate investments into calendar 2018, causing management to take down margin and profitability guidance. While these investments will adversely impact profitability for next year, they should provide the company with a higher growth rate and improved monetization potential going forward. The cloud investments should ultimately reduce the company's capital expenditures, and yield higher levels of free cash flow. We are watching their execution carefully and have maintained a medium-size position in the company for the time being. The shares could prove to be substantially undervalued by investors should the current investment cycle play out the way we think it will.

First Republic Bank provides banking and wealth management to affluent clients in metropolitan areas of the U.S. The stock underperformed (down 17%) likely due to recent tax law changes related to the deductibility of mortgage interest and state and local taxes that could adversely impact mortgage lending in the bank's 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 maintained our (relatively small) position in the stock because we believe the bank has a strong management team, an attractive market position, and a long runway for growth.

Wix.com Ltd. provides an operating system to help micro businesses build and maintain websites and operate their businesses more efficiently. Wix has over 110 million registered users, and 3 million premium users, and is the leader in the industry. Shares of Wix declined 20% in the fourth quarter after the company increased guidance for future R&D spend (leading to lower near-term margins) on the most recent quarterly earnings call. We retain a small position in Wix, due to our belief in the large market opportunity, strong cohort economics, and its innovative culture.

Regeneron Pharmaceuticals, Inc. develops novel antibody therapeutics. Led by its ophthalmology franchise, Eylea, Regeneron has expanded into cardiovascular and inflammatory diseases. Most recently we have seen shares underperform (down 16% in the fourth quarter). We believe this is largely due to data released for RTH258 from competitor Novartis, that implied a potential competitive threat to Eylea's long-term revenue growth. We retain a small position in the stock based on our belief that Regeneron has a unique R&D advantage that we think will drive innovation and growth over the coming years.

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 60.7% of the Fund, the top 20 were 84.0%, and we exited the year with 31 investments.

Information Technology, Consumer Discretionary, Financials, and Health Care comprise 91.1% of the portfolio. The remaining 8.9% is comprised of singular investments that happen to fall into some other classifications (like a 4.5% position in Equinix is now classified under Real Estate) as well as cash. Virtually all the relative outperformance during the year came from stock selection, with sector allocation effect contributing modestly to overall results.

Baron Fifth Avenue Growth Fund

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Amazon.com, Inc.	$563.5	$30.2	15.1%
Alibaba Group Holding Limited	441.6	16.0	8.0
Alphabet Inc.	729.3	12.6	6.3
Facebook, Inc.	515.0	11.5	5.7
Mastercard Incorporated	160.2	9.9	4.9
Visa, Inc.	258.4	9.5	4.8
Equinix, Inc.	35.5	8.9	4.4
Naspers Limited	122.6	8.8	4.4
The Priceline Group, Inc.	84.7	7.5	3.8
Illumina, Inc.	31.9	6.5	3.3

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Vantiv, Inc.	$ 13.1	$1.3
Tesla, Inc.	52.3	1.1
Vertex Pharmaceuticals Incorporated	37.9	1.0
Naspers Limited	122.6	0.4
Veeva Systems Inc.	7.8	0.2

We increased the size of our position in **Vantiv, Inc.** after gaining more conviction in the strategic and financial merits of the acquisition of U.K.-based Worldpay which we used to own in the Baron Global Advantage Fund. The transaction increases Vantiv's exposure to fast-growing e-commerce customers and provides further opportunities to expand internationally. Integrating the U.S. segments of both companies should lead to meaningful cost savings, while the global scale of the combined company better positions Vantiv to win new multi-national customers.

Tesla, Inc. designs, manufactures, and sells fully electric vehicles; solar products; and energy storage solutions. After initial deliveries of Tesla's new Model 3 vehicle in mid-2017, the company faced production ramp challenges, resulting in slower-than-expected production and deliveries of its highly anticipated vehicle. Though the company is still working through these issues, we expect Tesla will eventually solve production bottlenecks and reach its 5,000 vehicles per week production goal during 2018. With positive vehicle reviews, large book of orders, and increasing product variety with lower price tag, we expect Tesla will experience significant growth opportunities in revenue and profitability. We believe that recent pressure on the stock price due to production issues presented a buying opportunity for long-term investors and we modestly increased the size of our investment.

Vertex Pharmaceuticals Incorporated is the leading developer of treatments for cystic fibrosis. Vertex is in the process of commercializing the first ever disease modifying treatments for cystic fibrosis. Our research suggests the company's second generation follow-on to Orkambi, called TEZ/IVA, and its third generation triple therapy are either approvable (former) or potentially curative (latter). We believe there is significant opportunity for growth and share appreciation given Vertex's monopoly in cystic fibrosis.

We added to our already significant investment in **Naspers Limited** this quarter, as we continue to be excited by its asset portfolio, which we believe is meaningfully mispriced by the market. Only the fact that this is a U.S. focused portfolio prevents us from making this an even larger position. This is without a doubt, one of our highest conviction long-term investment ideas.

Veeva Systems Inc. is the market leader in cloud-based Customer Retention Management (CRM) solutions for the *life sciences* market. With > 60% share in its core market, Veeva is leveraging its deep vertical knowledge and existing customer base to expand its total addressable market by offering new products that are customized to the specific needs of the life sciences market in areas such as content and data management, collaboration, and marketing. Today, the company is starting to address significantly larger market opportunities than it could with its original CRM product. Though currently close to 100% of Veeva's customer base is within the life sciences market, the company is looking to deploy its quality management products to other markets such as automotive, chemicals, and consumer goods. These industries are highly regulated and have intensive manufacturing processes with potentially larger market opportunities than the life sciences market. We believe that the existing customer base will continue to generate growth through cross-selling, demonstrated by the growing average number of products per customers as customers are looking to benefit from the efficiencies encapsulated within the integration of Veeva's 20+ different products. Beyond its large market opportunity and its leadership position, Veeva offers an attractive combination of growth and profitability. In the past three years, the company presented > 37% revenue compounded annual growth rate while it expanded its adjusted margins by more than 700 basis points. With ~80% of revenue derived from recurring subscriptions and Veeva's vertical focus, allowing for a more efficient sales and R&D investments, we expect the company to continue to generate significant cash flow.

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

	Quarter End Market Cap (billions)	Amount Sold (millions)
Monsanto Co.	$ 51.5	$1.0
Amazon.com, Inc.	563.5	0.7

We continue to reduce **Monsanto Co.** as its share price is approaching the accepted, all-cash acquisition offer price made by Bayer. 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.

Outlook

2017 will undoubtedly go down in history as one of the better years for U.S. equity markets. As we enter 2018, most investors we speak to seem to belong to one of two camps: the physicists (gravity – what goes up, must come down) believe that the nine-year bull market is running out of steam, everything is expensive (stocks, bonds, real estate, art, even cryptos), and while they cannot point to a specific time or a specific catalyst, they believe we are ripe for a correction and that one is coming soon. The chemists, on the other hand (a powerful cocktail of historically accommodative monetary policy, fiscal stimulus, and tax reform), believe that the market will continue to perform exceedingly well due to unprecedented tailwinds created by the central banks (low interest rates) and the unusually pro-business administration in Washington D.C. As usual, we offer no opinion on the matter, and have little to add to the debate. However, we do point out that we really like the competitive positioning of the companies in the portfolio and we are very optimistic about their long-term prospects.

The digitization phenomenon that we believe will continue for years to come 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, 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 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 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

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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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