DEAR BARON REAL ESTATE FUND SHAREHOLDER:

PERFORMANCE

The Baron Real Estate Fund (the "Fund") generated exceptionally strong performance in the full year and fourth quarter of 2017.

2017 Full Year Performance

The Fund gained 31.42% (Institutional Shares), significantly outperforming:

- Its primary benchmark Index, the MSCI USA IMI Extended Real Estate Index Net (the "MSCI Real Estate Index"), that gained 18.04%;
- The MSCI US REIT Index, that increased only 3.74%; and
- The S&P 500 Index, that increased 21.83%.

Fourth Quarter Performance

In the most recent quarter ended December 31, 2017, the Fund generated a 9.69% return, also outperforming the:

- MSCI Real Estate Index that gained 5.85%;
- MSCI US REIT Index that gained 1.04%; and
- S&P 500 Index that gained 6.64%.

Special Recognition

We are pleased to report that, according to both **Morningstar*** and **Lipper****, the Baron Real Estate Fund has earned special recognition for its following achievements for the trailing periods ended December 31, 2017:

- **8-Year Ranking:**
  - **Ranked #1** by **Morningstar** among 159 funds and #1 by **Lipper** among 155 real estate funds for achieving the highest total average annual return of 16.38% (Institutional Shares) for the eight-year period since inception on December 31, 2009.
- **5-Year Ranking:**
  - **Ranked #1** by **Morningstar** among 199 funds and #1 by **Lipper** among 200 real estate funds for achieving the highest total average annual return of 12.96% (Institutional Shares) for the five-year period.
- **1-Year Ranking:**
  - **Ranked #1** by **Morningstar** among 257 funds and #3 by **Lipper** among 260 real estate funds for achieving the highest total return of 31.42% (Institutional Shares) for the one-year period.

JEFFREY KOLITCH

PORTFOLIO MANAGER

Retail Shares: BREFX
Institutional Shares: BREIX
R6 Shares: BREUX

- **Morningstar Performance Rating:**
  - **Awarded highest 5-star Morningstar rating** for the Fund's overall and five-year performance ended December 31, 2017.

Since Inception (December 31, 2009)

The Baron Real Estate Fund has outperformed as follows:

- **8-Year Cumulative Return:** The Fund's cumulative return was 236.46%, exceeding the cumulative returns of the MSCI Real Estate Index (180.44%), the MSCI US REIT Index (133.40%), and the S&P 500 Index (183.69%).
- **8-Year Average Annual Return:** The Fund's average annual return of 16.38% during this 8-year period surpassed the average annual return of the MSCI Real Estate Index (13.76%), the MSCI US REIT Index (11.18%), and the S&P 500 Index (13.92%).

Now on to 2018! We remain energized, focused, and optimistic about the prospects for real estate-related companies and the Baron Real Estate Fund. Please see the "Outlook" section at the end of this letter for our forward-looking views for the Fund.

*As of 8/31/2017, Morningstar calculates the **Morningstar US Fund Real Estate Category** Average using its 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 257, 199, and 159 share classes for the 1-year, 5-year, and since inception (12/31/2009) periods. Morningstar ranked **Baron Real Estate Fund Institutional** Share Class in the 1st (#1 fund), 1st (#1 fund) and 1st (#1 fund) percentiles, respectively, in the category.

As of December 31, 2017, Morningstar has awarded **Baron Real Estate Fund Institutional** Share Class 4 stars, 5 stars, and 5 stars for its 3-year, 5-year, and overall performance respectively.

The Morningstar RatingTM for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

The **Lipper Real Estate Fund Category Average is not weighted and represents the straight average of annualized returns of each of the funds in the category. As of 12/31/2017, the category consisted of 260, 200, and 155 share classes for the 1-year, 5-year, and since inception (12/31/2009) periods. Lipper ranked **Baron Real Estate Fund Institutional** Share Class in the 2nd (#3 fund), 1st (#1 fund), and 1st (# 1 fund) percentiles, respectively, in the category.

Source: Lipper Analytical Services, Inc.

Baron Real Estate Fund

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

	Baron Real Estate Fund Retail Shares[1,2]	Baron Real Estate Fund Institutional Shares[1,2]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]	S&P 500 Index[1]
Three Months[3]	9.60%	9.69%	5.85%	1.04%	6.64%
One Year	31.04%	31.42%	18.04%	3.74%	21.83%
Three Years	6.98%	7.26%	9.33%	4.03%	11.41%
Five Years	12.66%	12.96%	12.60%	7.99%	15.79%
Eight Years and Since Inception (December 31, 2009) (Annualized)	16.08%	16.38%	13.76%	11.18%	13.92%
Eight Years and Since Inception (December 31, 2009) (Cumulative)[3]	229.74%	236.46%	180.44%	133.40%	183.69%

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

	Quarter End Market Cap (billions)	Percent Impact
InterXion Holding N.V.	$ 4.2	0.99%
Pinnacle Entertainment, Inc.	1.9	0.72
Home Depot, Inc.	221.3	0.72
Mohawk Industries, Inc.	20.5	0.69
Red Rock Resorts, Inc.	3.9	0.62

We are pleased that our investments across a broad spectrum of our real estate categories contributed to the Fund's solid performance both in the fourth quarter and for the full year.

Several companies announced excellent business results and exciting developments, which led to strong stock performance.

InterXion Holding N.V., a European-centric data center company, has consistently delivered strong business results since we began acquiring its stock two years ago. The shares have been among the Fund's best performers in both 2016 and 2017. In 2017 alone, these shares gained 68%.

We remain optimistic about InterXion's prospects. The data center market in Europe is growing approximately twice as fast as in the U.S. because Europe is at an earlier stage in outsourcing information technology. Various estimates put the outsourcing of information technology workloads at 10% to 20% in Europe, compared to 30% to 40% in the U.S. Additionally, competitive barriers to entry in Europe are high, as it can take up to four years for a new entrant to obtain approvals to build a data center, and the diverse European markets present challenges due to different languages, tax regimes, and permitting processes.

InterXion also has plenty of additional growth potential resulting from the company's steady and ongoing buildout of its various development sites and from increased occupancies and rents. If the company continues along its organic growth path by selectively building out and leasing up its existing footprint, we believe it can increase annual cash flow (EBITDA) by 50% over the next three years.

We are also encouraged by InterXion's early January announcement of new expansion projects in seven cities across its European footprint. In conjunction with previously announced development projects, the company is currently expanding in each of the 11 countries in which it operates. We estimate the company can increase its data center footprint by more than 25%, which translates into an almost doubling of annual cash flow in approximately five years. Ultimately, we wouldn't be surprised if the company itself became an attractive acquisition candidate for larger global players looking to expand in Europe.

In the most recent quarter, **Pinnacle Entertainment, Inc.**, an owner and operator of real estate gaming and entertainment facilities, announced it had entered into a definitive agreement to be acquired by Penn National Gaming, Inc. Pinnacle's shares increased 54% in the fourth quarter and 126% in 2017!

We are optimistic about the prospects for the combined company. Following its acquisition, Penn National Gaming will become the largest regional real estate gaming company in the U.S. with significant operational and geographic diversity. In the next few years, we anticipate that Penn National Gaming will generate substantial free cash flow that it can utilize for debt repayment and growth initiatives. Please see our "Top Net Purchases" later in this letter for additional thoughts regarding Penn National Gaming.

Home Depot, Inc., the world's largest home improvement retailer, continued to advance in the most recent quarter, driven by solid business results, continued gains in new and existing home sales, and increased consumer spending on home improvement products.

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 1.33% and 1.07%, 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.*

[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 MSCI US REIT Index is a 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.

[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] Not annualized.

We remain optimistic about Home Depot's prospects primarily because we expect the key demand drivers of its business – consumer spending, home sales, and home prices – should continue to improve in 2018. We also anticipate that Home Depot will be a major beneficiary of the recently enacted tax bill as its corporate tax rate may decrease from 35% to 21%, and lower personal taxes may result in more consumer spending on home improvement materials.

Mohawk Industries, Inc. is the worldwide leader in almost all flooring categories, including carpet, ceramic tile, laminate, wood, vinyl and stone. Its shares rose in the most recent quarter driven by strong business results, the announcement of the strategic acquisition of Godfrey Hirst Group (the leading flooring company in Australia and New Zealand), and the continued rebound in the housing market and commercial construction activity.

We remain bullish about the prospects for Mohawk because we believe the company will continue to be a prime beneficiary of the positive cyclical trends we see both in housing and commercial construction. Further, we expect that Mohawk will continue to benefit from initiatives to increase capacity, upgrade its production equipment, and its multi-year program of acquisitions that extend its geographic and product reach.

The shares of **Red Rock Resorts, Inc.,** a real estate gaming, development, and management company that generates approximately 80% of its business in Las Vegas, rose sharply in the fourth quarter due to strong business results and the anticipation that its investment initiatives will result in accelerated growth in the latter part of 2018 and in 2019.

We continue to favor the prospects for Red Rock because its hotels and casinos, which cater primarily to the local Las Vegas market (consisting of hotels/casinos and other real estate that is not located on the Las Vegas Strip), are well positioned to benefit from favorable demand-supply dynamics and the company's renovation and development plans. On the demand side, the improving local economy (low unemployment, high weekly wages, and stable housing) bodes well for consumer spending. On the supply side, no new major gaming facilities have opened in the "locals" market since 2009, and no new competitive developments have been announced. Further, the company is in the midst of a major renovation program at two of its resorts (The Palms Casino Resort and The Palace Station) that should result in an acceleration in cash flow growth over the next few years.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Macquarie Infrastructure Corporation	$ 5.4	-0.22%
Extended Stay America, Inc.	3.7	-0.05
MGM Growth Properties LLC	7.5	-0.04
Acuity Brands, Inc.	6.9	-0.03
Equity Residential	23.4	-0.03

Macquarie Infrastructure Corporation, an owner and operator of high-quality real estate-like infrastructure assets such as bulk liquid storage terminals and fixed base operations at airports, declined primarily because its shares have been highly correlated to energy-related master limited partnerships that were under pressure this past year. We think the stock is oversold.

In our opinion, the shares are attractively valued with its 8.7% dividend yield, especially given that the company has a clear path to continue to grow its free cash flow per share by approximately 15% annually. Please see "Top Net Purchases" later in this letter for more thoughts regarding Macquarie Infrastructure.

Extended Stay America, Inc. is a hotel owner and operator of mid-priced extended stay hotel rooms. The shares declined in the most recent quarter following the company's third quarter report of lower-than-expected results and disappointing fourth quarter earnings guidance. Later in the fourth quarter, the company announced the appointment of a new CEO, Jonathan Halkyard, and raised fourth quarter earnings guidance. Following our recent meeting with management, we are optimistic about the strategic direction of the company and believe the shares are attractively valued.

MGM Growth Properties LLC is a REIT that owns the real estate of 11 high-quality MGM Resorts International (MGM) assets including 7 real estate assets on the Las Vegas Strip (Mandalay Bay, The Mirage, New York-New York, Luxor, Monte Carlo, Excalibur, and The Park). The company's shares declined modestly in the fourth quarter, but performed well for the full year. We remain optimistic about the long-term growth prospects for MGM Growth Properties because we anticipate that the company will continue to acquire MGM real estate assets and will also begin to acquire non-MGM real estate assets. Future acquisitions should result in increases in rent, cash flow, and dividends to shareholders. We believe the shares are attractively valued with its almost 6% dividend yield.

Acuity Brands, Inc., a leading U.S. provider of lighting solutions, underperformed in the most recent quarter and in 2017 due to disappointing results for non-residential construction projects, particularly smaller retrofit projects. We have been perplexed by the continued weakness in the company's business results. We have exited our position and reallocated the capital to companies that we believe have superior near- to medium-term business prospects.

Equity Residential is the largest apartment REIT in the U.S. with investments in 305 properties consisting of more than 78,000 apartment units located primarily in urban and high density suburban locations in Southern California, San Francisco, Seattle, New York, Washington D.C., and Boston. The company was founded by and is currently chaired by Sam Zell, one of the leading commercial real estate investors globally. The shares declined modestly in the fourth quarter due to concerns that an increase in apartment construction and supply may temper near-term cash flow growth. While we will continue to monitor business prospects, we believe the shares are reasonably valued and the long-term prospects for the company are attractive.

Portfolio Structure

In 2017, we structured the Fund to take advantage of seven compelling investing themes. Six of our seven themes performed well this past year. The one theme that did not come to fruition in 2017 – our prioritization of real estate construction materials companies that we expected to benefit from the anticipated increase in U.S. infrastructure spending – we believe may rebound in 2018.

As we peer into 2018, our sense is that it is premature to pivot away from the Fund's themes. Generally, we believe that growth prospects and share price appreciation potential remain compelling, particularly for residential real estate-related companies, technology-related real estate companies such as data center and wireless tower operators, construction materials

companies, and select Las Vegas-focused and international real estate companies.

As a reminder, the Fund's current investing themes 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. Identification of REITs with strong growth prospects, liquid and appropriately capitalized balance sheets, attractive valuations, which are led by management teams who are prudent allocators of capital;
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.

Table IV.
Fund investments in real estate-related categories as of December 31, 2017

		Percent of Net Assets
Building Products/Services		28.6%
REITs		26.3
Hotel & Leisure		12.8
Hotels & Timeshare/Leisure	10.0%	
Cruise Lines	2.8	
Casinos & Gaming Operators		7.5
Data Center Operating Companies[1]		6.6
Real Estate Service Companies		5.7
Homebuilders & Land Developers		4.0
Infrastructure-Related Real Estate Companies		3.6
Real Estate Operating Companies		2.4
Tower Operators[2]		0.8
		98.3
Cash and Cash Equivalents		1.7
		100.0%

[1] Total would be 11.1% if included data center REIT Equinix, Inc.

[2] Total would be 7.9% if included tower REITs American Tower Corp. and SBA Communications Corp.

At December 31, 2017, we were invested in 53 companies. Our 10 largest holdings represent 44.1% of the Fund.

We invest in companies with a variety of market capitalizations. As of December 31, 2017, the median market capitalization of the portfolio was $10.1 billion. Companies with a market capitalization of less than $2.5 billion represented only 4.7% of the Fund.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
InterXion Holding N.V.	$ 4.2	$72.1	6.6%
Mohawk Industries, Inc.	20.5	65.9	6.1
American Tower Corp.	61.2	61.6	5.7
Home Depot, Inc.	221.3	52.7	4.8
Equinix, Inc.	35.5	48.7	4.5
Vulcan Materials Company	17.0	48.5	4.5
Macquarie Infrastructure Corporation	5.4	39.3	3.6
MGM Resorts International	18.9	32.2	3.0
The Sherwin-Williams Company	38.3	28.9	2.7
Hilton Worldwide Holdings, Inc.	25.6	28.0	2.6

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Lennar Corporation	$14.6	$22.6
Macquarie Infrastructure Corporation	5.4	20.3
Glenveagh Properties PLC	0.9	12.2
Vulcan Materials Company	17.0	9.8
Penn National Gaming, Inc.	2.9	6.7

We are optimistic about the Fund's recent purchases. In the most recent quarter, we initiated positions in five new companies and added to positions in nine companies.

We have long admired the management team of **Lennar Corporation**, a leading national home building company. Its management team, led by CEO Stuart Miller, has an excellent track record of delivering strong operating results, acquiring public and private companies, and creating shareholder value. We began to acquire Lennar shares following its recent announcement that it is acquiring CalAtlantic Homes.

In addition to our favorable view of management, we are optimistic about the prospects for Lennar for three key reasons:

- First, we remain positive about the prospects for the U.S. housing market. The current residential annual construction rate of approximately 1.2 million new homes remains 20% below the 60-year annual average of 1.5 million new homes even though the U.S. population is approximately 90% larger today (approximately 325 million) than it was 60 years ago (approximately 172 million)!

  The large imbalance between pent-up housing demand and low construction levels bodes well for new single-family home purchases and prices. Additional factors that bode well for the housing market include currently low mortgage rates, an improvement in job and wage growth, signs that the millennial generation has begun to buy homes, lower personal income taxes, and the recent uptick in the rate of home ownership.

- Second, we believe the strategic merits of a Lennar/CalAtlantic combination are compelling. The combined company will become the largest U.S. homebuilder by revenue. It will be a "top three" ranked homebuilder in 24 of the most attractive markets in the U.S. and the "number one-ranked" homebuilder in 15 markets.

  With its significantly increased scale and a leading market position, Lennar anticipates that it will be able to generate meaningful savings in purchasing costs and significant improvements in profitability margins. Further, Lennar will now be able to offer home buyers a more complete geographic footprint and a broader product mix with a wider range of price points.

- Third, we see a path to meaningful earnings growth and share price appreciation in the shares. Our emergent view is that a combination of a further rebound in the U.S. housing market, the combined company's significant cost and revenue synergies, and new reductions in corporate and personal taxes could result in earnings per share of approximately $8.00 in 2019 versus $4.17 in 2017.

  Lennar currently trades at approximately 13 times 2018 estimated earnings. If we value the shares at what we believe is a conservative valuation of only 12 times 2019 estimated earnings, the shares could appreciate approximately 35% in the next two years to $96 per share versus a current price of $71 per share.

In the most recent quarter, we acquired additional shares of **Macquarie Infrastructure Corporation.** In our opinion, the shares are a bargain and offer compelling upside. In the last five years, the company's average dividend yield has been approximately 6%. Today, however, the shares are valued at an 8.7% dividend yield mainly because the stock performed poorly in 2017 primarily because it was incorrectly perceived by some as a master energy limited partnership. We anticipate that the company will pay shareholders a $6.10 per share dividend in 2018. If we are correct and the stock is revalued at only a 7% dividend yield, the shares would appreciate to $87 per share versus a current price of $65 per share (and $93 per share inclusive of the 2018 anticipated dividend) for a total one-year shareholder return of 43%.

In the fourth quarter, we began acquiring shares in **Glenveagh Properties PLC**, a compelling European homebuilding company. Glenveagh is an Irish homebuilder that develops single and multi-family houses and apartments.

We are bullish on the prospects for Glenveagh for four primary reasons:

- First, the Irish homebuilding market reminds us of the U.S. housing market five years ago when, at that time, it was severely imbalanced and in the very early stages of a multi-year housing recovery. Today, the annual national housing demand in Ireland is estimated at 36,000 to 53,000 homes per year, yet only 10,000 homes are being built annually. Glenveagh is one of only two publicly listed Irish homebuilders (the other is Cairn Homes PLC). In our opinion, Glenveagh has the financial capacity and operational ability to build much needed homes in Ireland.

- Second, the growth prospects for Glenveagh are significant. Management believes it can increase its annual home deliveries five-fold in the next three years from an estimated 200 home deliveries in 2017 to 1,000 home deliveries in 2020. We believe management can achieve its long-term target of 2,000 deliveries or a 10-fold increase by 2023, or in only six years!

- Third, Glenveagh is led by a highly capable management team. We have had a series of conversations with Founder and CEO Justin Bickle. We are impressed. Prior to joining Glenveagh, Justin led Oaktree Capital's $7 billion European private equity business. He has several years' experience in the Irish real estate sector. He left Oaktree for what he believes is one of the most compelling growth and value creating opportunities he has witnessed in his long and successful career. His interests are closely aligned with shareholders as a large portion of his compensation is based on achieving annual shareholder return targets of at least 12.50% annually.

- Fourth, we believe Glenveagh is attractively valued. Its shares are currently trading at only 1.2 times book value versus its closest Irish homebuilder peer, Cairn Homes, which trades at 1.9 times book value. We believe this wide discount is unwarranted. Further, Glenveagh's stock trades at a significant discount to U.K. and U.S. homebuilders despite its superior growth prospects.

In the most recent quarter, we accumulated additional shares in **Vulcan Materials Company** to take advantage of the recent decline in the share price of this construction materials company that has been negatively impacted by the recent hurricanes in Texas and Florida. We believe this transitory situation presents a further buying opportunity, and maintain our bullish view on the prospects for the company.

The key demand drivers for Vulcan's business – government spending on infrastructure projects, and residential/commercial construction levels – are moving in the right direction. We believe management can 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, in contrast to our recent purchases at approximately $124 per share.

We recently began acquiring shares in **Penn National Gaming, Inc.** following its announcement that it is acquiring Pinnacle Entertainment. We are optimistic about the prospects for Penn because we believe: (i) the combined company, with its 41 casino and gaming properties in 20 jurisdictions, will be the largest U.S. regional gaming operator in the U.S. with a geographically compelling portfolio; (ii) there are significant opportunities to benefit from synergies in both revenue and expenses, and to accelerate cash flow growth; and, (iii) the shares are attractively valued.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Pinnacle Entertainment, Inc.	$1.9	$9.2
Acuity Brands, Inc.	6.9	9.2
Toll Brothers, Inc.	7.4	8.9
Masonite International Corp.	2.1	6.5
Hudson Pacific Properties, Inc.	5.3	4.9

We recently reduced our position in **Pinnacle Entertainment, Inc.** following the run-up in the stock price after it announced the company would be acquired by Penn National Gaming, Inc. Pinnacle has been a very successful investment for the Fund – the shares appreciated 126% in 2017! Pinnacle's management team, led by CEO Anthony Sanfilippo, has done an outstanding job creating value for shareholders.

Following a more than 50% gain in homebuilder **Toll Brothers, Inc.** share price in 2017, we reduced our position. We sold out of **Acuity Brands, Inc.**

as business trends have continued to disappoint and confound us. We reduced our position in **Masonite International Corp.** and reallocated the capital to higher conviction building product companies. We also reduced our position in **Hudson Pacific Properties, Inc.** and reallocated the capital to higher conviction REITs.

Outlook

In our opinion, the outlook for the stock market remains compelling supported by an unusually attractive combination of generally solid business conditions, an improving global economy, low interest rates, modest inflation, supportive central bank policies, tax reform, and the possibility of an acceleration in corporate mergers and acquisition activity.

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

- Business conditions are solid for our Fund's real estate-related categories and companies;
- We anticipate that the duration of this real estate cycle will persist since we see little evidence of the wide-ranging forewarnings that typically signal the end of a cycle; and
- We continue to own and purchase attractively valued companies across several segments of real estate to capitalize on what we believe are several compelling investment themes.

Our team remains intently focused on researching, assembling, and monitoring a high-quality portfolio of companies with, in our view, excellent management teams, strong growth prospects, leading competitive positions, liquid balance sheets, and attractive valuations.

Thank you for your past and continuing support. I remain a major shareholder of the Baron Real Estate Fund, alongside you.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

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

In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets. Factors that could affect the value of the Fund's holdings include the following: overbuilding and increased competition; increases in property taxes and operating expenses; declines in the value of real estate; lack of availability of equity and debt financing to refinance maturing debt; vacancies due to economic conditions and tenant bankruptcies; losses due to costs resulting from environmental contamination and its related cleanup; changes in interest rates; changes in zoning laws, casualty or condemnation losses; variations in rental income; changes in neighborhood values; and functional obsolescence and appeal of properties to tenants. 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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