Dear Baron Real Estate Fund Shareholder:

Performance

We are pleased to report that the Baron Real Estate Fund (the "Fund") has earned special recognition by both **Morningstar and Lipper** for its achievements marking its 10-year anniversary on December 31, 2019 as follows:

- **Morningstar 10-Year Star Rating:** Awarded highest 5-star Morningstar performance rating for its full 10-year performance*
- **Morningstar 3-Year Star Rating:** Awarded highest 5-star Morningstar performance rating for its most recent full 3-year performance*
- **Morningstar 10-Year Ranking:** Ranked in top 2% among 136 funds for achieving a total return of 278.89%**
- **Morningstar 3-Year Ranking:** Ranked in top 1% among 221 funds for achieving a total return of 47.99%**
- **Morningstar 1-Year Ranking:** Ranked in top 2% among 256 funds for achieving a total return of 44.44%**
- **Lipper 10-Year Ranking:** Ranked in top 3% among 133 funds for achieving a total return of 278.89%***
- **Lipper 3-Year Ranking:** Ranked in top 2% among 224 funds for achieving a total return of 47.99%***
- **Lipper 1-Year Ranking:** Ranked in top 2% among 256 funds for achieving a total return of 44.44%***
- **MSCI USA IMI Real Estate Index:** The Fund's 10-Year cumulative return of 278.89% exceeded its MSCI primary benchmark return of 226.01%
- **MSCI US REIT Index:** The Fund's 10-Year cumulative return of 278.89% exceeded the MSCI US REIT Index return of 173.28%

In the most recent full year and fourth quarter of 2019, the Baron Real Estate Fund generated particularly strong returns as follows:

2019 Full Year Performance

The Fund gained 44.44%, thus significantly outperforming:

- Its primary benchmark Index, the MSCI USA IMI Extended Real Estate Index Net, which gained 30.21%; and,
- The MSCI US REIT Index, which increased 24.33%.

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

Fourth Quarter Performance

The Fund generated a 10.97% return, also outperforming the:

- MSCI USA IMI Extended Real Estate Index Net, which gained 2.91%; and
- MSCI US REIT Index, which declined 1.10%.

The Fund's strong performance in 2019 was aided by several positive factors:

- Business results for most commercial and residential real estate companies have been positive.
- The U.S. economy grew at a moderate pace following its rapid growth in 2018, when it was largely propelled by fiscal stimulus, such as broad-based tax cuts.

* The Morningstar Rating™ 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.

As of 12/31/2019, the **Morningstar US Fund Real Estate Category** consisted of 221, 197, 136, and 221 share classes for the 3-year, 5-year, 10-year, and overall periods, respectively.

Morningstar has awarded **Baron Real Estate Fund Institutional** Share Class 5 stars, 2 stars, 5 stars, and 4 stars for its 3-year, 5-year, 10-year, and overall performance, respectively.

** 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 12/31/2019, the Category consisted of 256, 221, 197, and 136 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked **Baron Real Estate Fund** Institutional Share Class in the 2nd,1st, 50th, and 2nd percentiles, respectively.

*** 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 12/31/2019, the category consisted of 256, 224, 197, and 133 share classes for the 1-, 3-, 5-, and 10-year periods. Lipper ranked **Baron Real Estate Fund Institutional** Share Class in the 2nd, 2nd,46th, and 3rd percentiles, respectively, in the category.

Source: Lipper Analytical Services, Inc.

BARON FUNDS 1987

- Interest rates, which spiked in 2018, turned much lower in 2019. For example, the U.S. 10-year Treasury yield, which peaked at 3.24% in November 2018, declined by 55% during 2019 to a low of 1.47% and ended the year at 1.92%.
- The 30-year fixed mortgage rate, which peaked at 4.94% in November 2018, declined by 145 basis points to 3.49% in September 2019, providing a needed boost to the U.S. housing market.
- Central banks globally pivoted to a more dovish stance. The Federal Reserve cut interest rates three times in 2019. This should provide additional stimulus for the economy, including real estate, and should benefit the stock market.
- Inflation has remained at modest levels.
- The stock valuations of many real estate companies have been moderate and, in some cases, cheap.
- Corporate takeovers picked up, fueling anticipation of robust M&A activity in the months ahead.

REFLECTIONS ON THE PAST 10 YEARS

We thought this would be an appropriate time to reflect on the Fund's history.

Ten years ago, we launched the Baron Real Estate Fund with a long-term strategy of structuring and maintaining a more expansive and unique real estate fund–one that contains REITs, but also invests in various other real estate-related categories.

Our thesis at that time was that the Baron Real Estate Fund would be highly complementary to traditional REIT dominated funds (and eventually to our Baron Real Estate Income Fund which we launched two years ago) and would have the potential to produce strong long-term returns.

General Observations and Results

The past ten years have been an unconventional environment for business, including real estate. For much of this timeframe, the persisting effects from the Great Recession–a sluggish economy, a stubborn and lackluster housing market, subpar wage growth, a dearth of capital investment by the business community, and other factors–have combined to restrain a comprehensive U.S. economic recovery.

A key consequence of this global occurrence has been that interest rates today are incredulously 50% lower than they were at the beginning of the recovery, some 10 years ago!

For example, at the launch of the Fund on December 31, 2009, the 10-year U.S. Treasury yield was **3.85%**. However, this was followed by an astonishing yield decline to an all-time low of just **1.37%** by July 2016, before finally settling at the 2019 decade-ending historically low yield of only **1.92**%. This phenomenon compares to a 50-year average Treasury yield of **6.3%**!

Importantly, if interest rates remain low (globally there is approximately *$11 trillion* of government debt that now comprises *negative yields*!), we anticipate they will continue to benefit residential and commercial real estate in the years ahead.

The Fund

During this 10-year period of predominantly sluggish growth and declining interest rates, the performance of the Baron Real Estate Fund has nevertheless been quite strong in several years, yet somewhat less satisfactory in others. Notably, the Fund's overall 10-year performance and more recent 3-year and 1-year performance have been quite strong, as indicated by Morningstar and Lipper.

We hope you will agree that the Baron Real Estate Fund, with its investments in several categories of real estate-related companies, in addition to REITs, has successfully navigated the highly unusual interest rate environment and challenging business cycle of the last 10 years. Yet, we do acknowledge that there have been certain times when we did not fully achieve our desired results. We will continue to hone our skills and will strive to continue our record of good sound results!

THE NEXT 10 YEARS

We have stated in prior letters that **no one has a crystal ball regarding the outlook** for the stock, bond, and real estate markets. Certainly, any number of factors can influence market direction and performance, such as geopolitical developments, central bank actions, and macroeconomic factors such as GDP growth, interest rates, inflation, the U.S. dollar, and oil prices.

Nevertheless, **as we peer into 2020 and the decade ahead, we continue to believe that the prospects for the equity market, real estate, and the Baron Real Estate Fund remain attractive. We do not believe that the precursors for a sustained market correction are evident.**

We remain optimistic and bullish!

We encourage you to read the "Outlook" section at the conclusion of this letter for our forward-looking views for the Fund. There, we address three questions:

Q: Real estate has performed well in the last 10 years. What is the outlook for the real estate market going forward?
Q: What are the prospects for the Fund over the next few years?
Q: What would cause us to turn cautious?

Finally, we provide some concluding thoughts on our 10-year anniversary and prospects for the future.

Table I.
Performance
Annualized for periods ended December 31, 2019

	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]
Three Months[3]	10.92%	10.97%	2.91%	(1.10)%
One Year	44.11%	44.44%	30.21%	24.33%
Three Years	13.67%	13.96%	11.12%	6.70%
Five Years	6.54%	6.80%	8.72%	5.68%
Ten Years and Since Inception (December 31, 2009) (Annualized)	13.97%	14.25%	12.54%	10.58%
Ten Years and Since Inception (December 31, 2009) (Cumulative)[3]	269.59%	278.89%	226.01%	173.28%

Table II.
Top contributors to performance for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Percent Impact
GDS Holdings Limited	$ 7.8	1.28%
CBRE Group, Inc.	20.5	1.01
MGM Resorts International	17.1	0.93
Penn National Gaming, Inc.	3.0	0.91
Boyd Gaming Corporation	3.3	0.76

In the most recent quarter, the shares of **GDS Holdings Limited**, the leading developer and operator of data centers in China, continued to perform well. In fact, the shares appreciated by more than 120% in 2019!

In our ongoing meetings with management, they continue to report that business conditions are strong. We remain bullish on the company's long-term prospects for the following reasons:

- The Chinese digital economy is in its early growth phase, with relatively low national internet access penetration. However, it is predicted that China will experience the sharpest universal growth in public cloud spending in the next few years.
- GDS is the leading data center provider to the fastest growing companies in China including Baidu, Alibaba, and Tencent. Moreover, GDS has been designated as the preferred data center provider for Alibaba and Tencent.
- Its data centers are concentrated in the "Tier 1" major cities of China including Beijing, Shanghai, Shenzhen, Guangzhou, and Chengdu.
- The company maintains a strong and liquid balance sheet.
- Management has attracted credible and deep-pocketed capital providers including GIC (Singapore's sovereign wealth fund), Temasek Holdings, and Ping An Insurance (Group) Company of China.
- GDS generates an attractive 25% return on investment from its new data center developments.
- We believe the company will grow its cash flow by more than 100% in the next three years. The shares are attractively valued relative to its growth rate.

The shares of **CBRE Group, Inc.**, the largest and leading commercial real estate services firm in the world, gained 15.6% in the fourth quarter due to its strong quarterly business results amid management's expectations for double-digit earnings growth in 2019.

Under the guidance of CEO Bob Sulentic, CBRE has continued to enhance its leading competitive position with its unmatched scale, product breadth, and leadership positions across its diversified real estate business segments. The company continues to pull away from the pack, gaining market share in each of its businesses. It is the "go to" commercial real estate services firm for clients, other real estate brokers, and employees.

We believe CBRE is well positioned to continue to benefit from these four key long-term growth opportunities:

First, a growing number of companies are increasingly looking to outsource their commercial real estate needs. Management estimates that this outsourcing has a market potential of approximately $140 billion. CBRE is the number one player at this early stage of this market expansion. Management believes its outsourcing business will continue to grow revenues at a double-digit annual pace for several years.

Second, the commercial real estate industry remains highly fragmented, and will, in our opinion, continue to consolidate. Customers tend to prefer

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, 2018 was 1.32% and 1.06%, 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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. 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 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.

commercial real estate companies that can provide a broad set of services. Only two firms have the capability to provide the full array of real estate offerings on a global scale (CBRE and Jones Lang LaSalle Incorporated).

Third, CBRE is well positioned to capitalize on ample attractive acquisition opportunities in the years ahead given its highly desirable global platform and strong balance sheet. The company boasts the strongest balance sheet in the commercial real estate services industry. Its ratio of net debt-to-cash flow is only 0.6 times, with zero debt maturing in the next three years. It also has approximately $3.3 billion of available liquidity.

Fourth, institutional ownership of commercial real estate continues to accelerate. CBRE is well positioned in this regard to serve client needs given its array of capabilities in property management, appraisal and valuation services, and property brokerage services.

We believe CBRE's shares are attractively valued at its current valuation of 14.5 times our estimate of 2020 earnings per share versus its historical average valuation of approximately 16 times.

The shares of **MGM Resorts International**, a leading global hotel and casino company, gained 20.0% in the fourth quarter of 2019. Strong business results, bullish management forward-looking commentary, and a discounted valuation contributed to strong share gains.

We remain optimistic about MGM's potential for share price appreciation. The company's domestic real estate assets are trading at a valuation of less than 8 times 2020 estimated cash flow–much cheaper than its casino and gaming peers. MGM offers an appealing combination of high-quality real estate assets, a leading presence in Las Vegas (one of the stronger real estate markets in the U.S.), a solid growth outlook, dividend growth prospects, and improving free cash flow.

Management has reiterated its confidence in growing cash flow by approximately 35% in the two-year period from $2.8 billion in 2018 to a range of $3.6 billion to $3.9 billion in 2020. Management believes that the recent opening of three new MGM properties, its ongoing focus on improving operating efficiencies through cost cutting, and organic growth will propel MGM to achieve its growth targets.

In the last few months, we have met with Jay Snowden, the newly appointed CEO of **Penn National Gaming, Inc.**, the largest U.S. regional casino and gaming company, on a few occasions. We think Jay is an outstanding selection to lead Penn and believe he and his team will create maximum shareholder value in the years ahead.

We believe management is highly focused on capitalizing on opportunities to improve profitability margins, sell real estate at highly attractive valuations, repay debt and improve its balance sheet, and pursue additional opportunities to drive cash flow growth. At its most recent price of $26 per share, we believe Penn's valuation of only 7 times 2020 estimated cash flow and its 13% free cash flow yield are attractive.

In the most recent quarter, we also met with the management team of **Boyd Gaming Corporation,** a casino and gaming company that operates 29 casino properties in Nevada and 10 other U.S. states. Our sense is that current business conditions remain solid and do not portend a slowdown in business activity. With Boyd's shares trading at only 7.9 times 2020 estimated cash flow (EBITDA) and a 13% free cash flow yield, we think the shares are highly compelling in large part because the company owns the real estate at 25 of its 29 properties. In our opinion, Boyd's owned real estate would be valued at a significant premium to its public market price in the private market.

Table III.
Top detractors from performance for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Percent Impact
Americold Realty Trust	$ 6.7	–0.13%
Vulcan Materials Company	19.1	–0.10
Home Depot, Inc.	238.2	–0.06
Trex Company, Inc.	5.2	–0.03
SBA Communications Corp.	27.1	–0.01

The shares of **Americold Realty Trust**, **Vulcan Materials Company**, **Home Depot, Inc.**, **Trex Company, Inc.**, and **SBA Communications Corp.** each generated strong returns in 2019. The shares of the companies gained 40%, 39%, 29%, 51%, and 47%, respectively. In the most recent quarter, however, the shares took a "breather" and declined modestly. We remain bullish about the long-term prospects for each company.

PORTFOLIO STRUCTURE

Since the launch of the Fund, we have maintained that our philosophy of structuring a more inclusive and unique real estate fund–one that includes REITs, but also comprises other diversified real estate-related categories, is a compelling long-term strategy.

The Baron Real Estate Fund currently has investments in REITs, plus eight additional real estate-related categories. Our percentage allocations to these categories vary, and they are based on our research and assessment of opportunities in each category (see Table IV below).

We are presently prioritizing four investment themes:

1. **REITs**

   REITs, in our opinion, may continue to benefit from multiple tailwinds:

   — Moderately improving demand (occupancy/rent)
   — New construction activity that has moderated due to high construction and labor costs
   — Largely domestic real estate portfolios
   — Attractive and well-covered dividend yields
   — Balance sheets that are generally in great shape
   — A wall of private equity capital targeting real estate
   — Reasonable, and in some cases, cheap valuations

   Currently, the Fund has 25% of its net assets invested in REITs.

2. **The Ongoing Recovery of the U.S. Housing Market**

   During the extreme U.S. economic downturn of 2008 and 2009, the residential real estate market experienced a greater decline than the U.S. commercial real estate market. Since the launch of the Fund 10 years ago, residential real estate has yet to recover to the same degree as the commercial real estate market has. For example, the current residential annual construction rate is approximately 1.37 million new homes, compared to a 60-year historical average construction rate of 1.43 million new homes annually. Yet, the U.S. population is more than 90% higher in 2019 (327 million) than it was in 1956 (169 million)! We believe this large imbalance between pent-up housing demand and low construction levels bodes well for new single-family home purchases, so long as mortgage rates do not spike to levels that deter would-be homebuyers.

   In 2019, we have spent considerable time meeting with residential-related companies (homebuilders, building product and services companies, land developers, construction material companies, and home centers). Our research leads us to believe that the 2018 housing market slowdown only represented a pause in what should continue to be a multi-year housing recovery:

— Household formation has picked up with solid job growth and wage growth as catalysts

— There is pent-up demand to buy homes by millennials and other age cohorts

— Homebuilders are building reasonably priced homes

— Home affordability has improved

— The 30-year fixed mortgage rate is only 3.74% versus its long-term average closer to 8%

On December 31, 2019, residential-related real estate companies represented approximately 24% of the Fund's net assets (15.1% building products/services/home center companies, 7.3% homebuilding and land development companies, and 1.3% other residential-related companies).

3. The U.S. Consumer

We believe the unusual and favorable current combination of the *"four 3s"* bodes well for the U.S. consumer and the Fund's consumer-related real estate investments.

The "four 3's" refer to the recently reported 3.5% unemployment rate (a 50-year low!), 3% wage growth, greater than 3% home price appreciation (important given that home purchases are typically the largest investment for a consumer), and historically low 3.7% mortgage rates. In our opinion, these consumer tailwinds are a clear positive for U.S. economic growth and consumer spending prospects.

Consumer-related real estate companies that should benefit from the "four 3s" include:

— Casino and Gaming Operators: **MGM Resorts International**, **Wynn Resorts Ltd.**, **Penn National Gaming, Inc.**, **Boyd Gaming Corporation**, and **Red Rock Resorts, Inc.**

— Vacation Travel Companies: **Marriott Vacations Worldwide Corp.**, **Hyatt Hotels Corp.**, and **Hilton Worldwide Holdings, Inc.**

— Cruise Line Companies: **Royal Caribbean Cruises Ltd.** and **Norwegian Cruise Line Holdings, Ltd.**

— Housing-Related Companies: **Lowe's Companies, Inc.**, **Home Depot, Inc.**, **D.R. Horton, Inc.**, **Lennar Corporation**, **Masco Corporation**, **The Sherwin-Williams Company**, and **Trex Company Inc.**

4. The Intersection of Technology and Real Estate

The impact of technology on real estate is profound. Real estate-related companies that embrace and adopt the latest technological advances and innovations are an important focus for us. The growth in cloud computing, the internet, mobile data and cellphones, and wireless infrastructure are powerful secular drivers that should continue unabated for years. At Baron, we refer to this type of enduring development as a "megatrend."

Key beneficiaries of the technology revolution include:

— Data center companies: **Equinix, Inc.**, **InterXion Holding N.V.**, and **GDS Holdings Limited**

— Wireless tower companies: **American Tower Corp.** and **SBA Communications Corp.**

— Industrial REITs: **Prologis, Inc.**

— Real estate data analytic companies: **CoStar Group, Inc.** and **Zillow Group, Inc.**

Other Portfolio Structure Considerations:

Number of Fund Holdings

As of December 31, 2019, the Fund was invested in 43 companies. Our 10 largest holdings represented 45.0% of the Fund. Our 20 largest holdings represented 70.4% of the Fund.

Market Capitalization

We continue to invest in companies of various market capitalizations. As of December 31, 2019, the median market capitalization of the Fund's investments was $12.4 billion. Companies with market capitalizations of less than $2.5 billion constitute only 2.9% of the Fund. The liquidity of the Fund is strong.

"Best-in-class" Companies

We remain confident about the quality and strong long-term prospects of the Fund's holdings.

"**Best-in-class**" represents our opinion and is not based on a third-party ranking. In our judgment, characteristics of a "best-in-class" real estate company are:

- Owns unique and well-located real estate assets in markets with high barriers to entry combined with attractive long-term demand demographics;
- Enjoys strong long-term growth prospects together with a leading competitive position;
- Maintains a conservative and liquid balance sheet; and, importantly,
- Employs an intelligent and motivated management team whose interests are closely aligned with shareholders.

Table IV.
Fund investments in real estate-related categories as of December 31, 2019

		Percent of Net Assets
REITs		25.5%
Building Products/Services		15.1
Casinos & Gaming Operators		14.2
Real Estate Service Companies		12.7
Data Centers[1]		9.7
Hotels & Leisure		9.7
Cruise Lines	7.0%	
Hotels & Timeshare/Leisure	2.7	
Homebuilders & Land Developers		7.3
Real Estate Operating Companies		4.4
		98.6
Cash and Cash Equivalents		1.4
Total		100.0%

[1] Total would be 14.6% if included data center REIT Equinix, Inc.

Table V.
Top 10 holdings as of December 31, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
CBRE Group, Inc.	$20.5	$44.3	7.1%
GDS Holdings Limited	7.8	32.3	5.2
Equinix, Inc.	49.8	30.3	4.9
MGM Resorts International	17.1	29.4	4.7
InterXion Holding N.V.	6.4	27.8	4.5
Brookfield Asset Management, Inc.	60.5	27.0	4.4
Lowe's Companies, Inc.	91.8	24.1	3.9
Royal Caribbean Cruises Ltd.	28.0	22.0	3.5
Norwegian Cruise Line Holdings, Ltd.	12.4	21.2	3.4
Masco Corporation	13.7	20.9	3.4

Recent Activity

Table VI.
Top net purchases for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Wynn Resorts Ltd.	$14.9	$14.5
Lowe's Companies, Inc.	91.8	11.7
Jones Lang LaSalle Incorporated	9.0	6.9
Zillow Group, Inc.	9.5	6.9
InterXion Holding N.V.	6.4	4.5

In the most recent quarter, we acquired shares in **Wynn Resorts Ltd.**, a leading designer, developer, and operator of integrated resorts, incorporating luxury hotel rooms, high-end retail stores, dining and entertainment options, and gaming. In 2019, Forbes Travel Guide ranked Wynn Resorts as the highest-scoring luxury hotel brand in the world.

We are optimistic about the prospects for the Fund's investment in Wynn for these reasons:

- We acquired the shares, in our opinion, at an attractive price and valuation. In 2018, the shares peaked at slightly more than $200. In the most recent quarter, we acquired Wynn shares at an average cost of $124 per share or approximately 40% below its 2018 peak price. We believe the Fund's cost basis represents an attractive multiple of cash flow (10.5 times 2020 estimated cash flow) and a compelling free cash flow yield.
- We believe the company's real estate assets in Las Vegas and Macau are poised to generate an improvement in growth in the next few years. Further, we anticipate that the company's new Encore Boston Harbor resort (the East Coast's first 5-star integrated resort) will also generate solid cash flow.
- Wynn has plans to renovate and expand its Macau and Las Vegas operations, which we expect will enhance its long-term growth prospects.
- The company is pursuing a new operating jurisdiction in Japan that could offer sizeable new long-term growth opportunities.
- Capital expenditures are expected to decline in 2020 and should lead to an acceleration in free cash flow that could be utilized for share buybacks, debt repayment, dividends, or other uses.

In the most recent quarter, we continued to increase the Fund's exposure to companies that we expect to benefit from the ongoing recovery in the U.S. housing market. We acquired additional shares in **Lowe's Companies, Inc.**, the second largest home improvement center in the U.S.

The company's most recent quarterly results demonstrated that Lowe's new senior management team continues to make meaningful progress improving its business operations and results. We attribute Lowe's continuation of strong same-store sales results to a handful of recent management initiatives that have improved product selection and customer service and convenience.

We believe the company has promising opportunities to improve its gross margins. Management expects to launch a major new price management system later this year.

We believe the company has the potential for significant future profit improvement. Lowe's new operating target of 12% for 2019 versus its recent 9% operating profit margin (inclusive of the recent pricing issues) is expected to generate significant increases in net profit and, when coupled with the company's large share repurchase program, should lead to accelerated future earnings per share growth.

During the quarter, we met with the management of **Jones Lang LaSalle Incorporated** ("JLL") and acquired additional shares of the company. JLL is the second largest commercial real estate ("CRE") services company in the world. The largest CRE firm is **CBRE Group, Inc.**, a long-term holding in the Fund.

We remain bullish on the commercial real estate brokerage category because of the secular growth trends of companies outsourcing their commercial real estate needs and the institutionalization of commercial real estate investing, both of which benefit the large global platforms of JLL and CBRE. More specifically:

1. A growing number of companies are increasingly looking to outsource their commercial real estate needs. JLL estimates that 80% of corporations are currently managing their real estate "in-house," and their prospective outsourcing is expected to present a large growth opportunity for JLL. CBRE estimates that outsourcing has a market potential of approximately $140 billion. CBRE and JLL are far and away the top two players at this early stage of the rapidly expanding market. We believe this may grow revenues at a double-digit annual pace for several years as the primary beneficiaries of outsourcing.
2. Institutional ownership of commercial real estate continues to accelerate. We think JLL is well positioned to serve client needs given its array of capabilities in property management, appraisal and valuation services, and property brokerage services.

The commercial real estate industry remains highly fragmented and will, in our opinion, continue to consolidate. Customers tend to prefer commercial real estate companies that can provide a broad set of services. In our opinion, only two firms, CBRE and JLL, have the capability to provide the full array of real estate offerings on a global scale.

Additionally, we believe JLL is well positioned to capitalize on ample attractive acquisition opportunities in the years ahead given its global platform and strong balance sheet. The company boasts an investment grade balance sheet, its ratio of net debt-to-cash flow is only 1 times, and the company has adequate liquidity to support continued long-term growth.

In March 2019, JLL announced that it had reached an agreement to acquire HFF, Inc. for $2 billion. HFF is a leading U.S.-centric commercial real estate capital markets company with capabilities in debt and equity placement, loan servicing and sales, M&A, and investment advisory. We view this acquisition favorably and believe it strengthens JLL's overall business as its U.S. capital markets business had been a laggard in terms of market share against its largest peers, notably CBRE. The combination of JLL and HFF is highly complementary in terms of geographic and business line mix and should accelerate the growth and scale of JLL's U.S. capital markets business. Together, JLL and HFF will be able to provide deeper and enhanced capabilities for clients and more cross-selling business opportunities in other areas such as property and facilities management.

At its recent price of $173 per share, we believe JLL's shares are attractively valued at only 13 times our estimate of 2020 earnings per share versus its long-term historical average valuation of approximately 16 times.

Zillow Group, Inc. operates one of the largest portfolios of real estate brands on internet sites. Through its portfolio of consumer brands (Zillow, Trulia, StreetEasy, Zillow Home Loans, Zillow Offers, HotPads, RealEstate.com, and others), and a suite of marketing software and technology solutions, the company connects real estate, rental, and mortgage professionals with consumers looking to buy or rent a home or apartment.

In the most recent quarter, we acquired shares in Zillow for two reasons:

First, Richard Barton, the founder and CEO of Zillow Group, decided to return to the company as CEO in 2019. We have known Rich for several years and have tremendous confidence in his business capabilities. Rich co-founded Zillow in 2005 and served as CEO until 2010, when he became the company's executive chairman. Before Zillow, Rich founded Expedia Inc. within Microsoft in 1994 and successfully spun it out as a public company in 1999. He served as president, CEO, and board director of Expedia from 1999 to 2003. Upon returning as CEO in 2019, Rich personally purchased a substantial number of shares in the company.

Second, we are very excited about the next chapter in the evolution of Zillow. Under Rich's leadership, the company is now evolving from a category leader where people turn to search and find real estate data and connect with real estate brokers and agents, to a company that will help people buy, sell, rent, and borrow through advanced technology and streamlined processes and services. We believe the company's transition from a real estate advertising-based revenue model (with its primary customer being a real estate agent/broker) to a real estate transaction revenue model (with its primary customer being the home buyer/seller) with numerous adjacent market opportunities for each home transaction could result in tremendous growth and shareholder value creation in the years ahead.

We expect to have much more to say about Zillow and the transformation of the company in future letters.

InterXion Holding N.V., a European-centric data center company, has been among the Fund's best performers since we first began acquiring shares in 2015.

Under the leadership of CEO David Ruberg, the company has consistently delivered strong cash flow growth by prioritizing a customer-centric focus, expanding its real estate portfolio, and increasing occupancies and rents. The company's highly capable management team has allocated capital wisely to internal development and acquisitions.

On October 29, 2019, the company announced that it entered into a definitive agreement to combine its business with Digital Realty Trust, Inc. to create a leading global data center company. We believe the transaction delivers several strategic and financial benefits.

At the time of the announcement, the transaction valued InterXion at approximately $93.50 per share versus the Fund's cost basis of $29 per share. In the most recent quarter, we acquired additional shares in the low $80s, a price that we believe represents an attractive valuation.

Table VII.
Top net sales for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Amount Sold (millions)
Masco Corporation	$13.7	$11.3
D.R. Horton, Inc.	19.5	8.7
Americold Realty Trust	6.7	6.4
Norwegian Cruise Line Holdings, Ltd.	12.4	6.2
CBRE Group, Inc.	20.5	5.6

During the quarter, we trimmed investments in several companies to take advantage of strong gains in those stocks and to manage the position size of each investment. Examples include **Masco Corporation**, **D.R. Horton, Inc.**, **Americold Realty Trust**, **Norwegian Cruise Line Holdings, Ltd.**, and **CBRE Group, Inc.** We remain optimistic about the long-term prospects for each of these companies.

Outlook

We continue to believe that the prospects for the Baron Real Estate Fund are attractive. We remain bullish.

As mentioned in the introduction, we would like to address three key questions on the minds of real estate investors:

a) What is the outlook for the real estate market?

b) What are the prospects for the Baron Real Estate Fund?

c) What would cause us to turn more cautious?

Q. Real estate has performed well in the last 10 years. What is the outlook for the real estate market going forward?

A: U.S. commercial and residential real estate have been recovering from the Great Recession for approximately 10 years. This raises the obvious question of whether the real estate cycle is in its final innings. Our view is **no**.

We remain bullish about the outlook for real estate for the following reasons:

1. The factors that have fueled the resurgence in real estate largely remain in place:
   - Demand continues to outstrip supply in most U.S. markets and real estate categories (e.g., single-family homes, office buildings, industrial warehouses, data centers, etc.)
   - Balance sheets are in solid shape.
   - Credit remains available at attractive interest rate levels.

2. Business conditions are solid for our real estate investments, and the outlook does not portend a recession.
   - Commercial real estate/REITs:
     — Steady and growing commercial real estate fundamentals
     — New construction activity has moderated due to high construction and labor costs
     — Low leveraged balance sheets
     — Well-covered and attractive dividend yields
     — Partial inflation hedge for well-located real estate
   - Residential real estate:
     — Significant pent-up demand as annual sales of new homes remain low
     — New construction activity remains low
     — Home purchases are rebounding, due in part to improvements in home affordability
     — Strong job and wage growth
     — Home ownership rates continue to rebound

3. We anticipate that the length of the real estate cycle will persist for another few years.

   Real estate is clearly past the 1st or 2nd inning of its recovery – a period that is typically characterized by: (i) the opportunity to buy real estate at distressed prices or large discounts to replacement cost; (ii) low occupancy levels and home sales; (iii) an accommodative Federal Reserve amid declining interest rates; and (iv) the beginning of a new economic cycle.

   We do not believe, however, that real estate is in the 9th inning of its recovery, because we are not witnessing the broad excesses and warning signs that typically signal the end of a cycle such as: (i) overheated economic and business growth; (ii) a number of spikes in construction activity (commercial and residential); (iii) significantly relaxed bank lending standards and overly aggressive assumption of debt; (iv) overexuberance for acquisitions; and (v) euphoric market sentiment (often a telltale sign that a cycle is coming to an end).

   Our view is that the length of the current real estate cycle will continue to last longer than most prior cycles because the cycle to-date has been devoid of the excesses that typically characterize late or mature real estate cycles.

4. Substantial private capital is still in pursuit of real estate and remains supported by widely available debt capital at low interest rates.

   If real estate prices were to correct meaningfully due to economic, interest rate, or other concerns, we believe that large amounts of capital – from private equity investors such as Blackstone Real Estate and Brookfield Asset Management, Inc., as well as sovereign wealth funds, endowments, pension funds, and others – will capitalize on the opportunities to purchase real estate at depressed prices. This "embedded put" scenario should limit downside valuation and pricing.

5. Any chinks in the armor are, in our opinion, manageable.

   Key warning signs that we always monitor include increases in construction activity, deceleration in demand, increased restrictive lending policies, spikes in interest rates, and elevated valuations.

   Construction activity has increased in a few real estate segments and markets, and the real estate cycle is in its 10th year of a sustained recovery.

   While our antenna remains up, we maintain a favorable outlook as our research continues to confirm that the favorable opportunities for real estate outweigh the possible chinks in the armor.

6. We continue to identify several real estate-related companies that are attractively valued with strong growth prospects.

Q: What are the prospects for the Fund over the next few years?

A. We remain optimistic about the prospects for the Baron Real Estate Fund.

Our positive view is due to three key considerations:

1. We believe the quality of the Fund's holdings is as strong as it has ever been.

   The businesses that we continue to emphasize:
   - Are well managed
   - Have market-leading positions
   - Possess quality balance sheets
   - Own well-located real estate
   - Grow cash flow at a faster rate than most peers

   A sampling of the Fund's best-in-class companies includes:

   CBRE Group, Inc.: The world's largest and leading commercial real estate services company

   Equinix, Inc.: The world's leading owner and operator of real estate data centers

   American Tower Corp.: A leading owner, operator, and developer of communications real estate (i.e., wireless towers)

   Brookfield Asset Management, Inc.: A premier global investor, operator, and asset manager of high-quality real estate and infrastructure-related assets

   D.R. Horton, Inc.: The number one homebuilder by volume in the U.S., and the largest and lowest-cost producer in the entry-level home segment

   Hilton Worldwide Holdings, Inc.: One of the largest hotel companies in the world with premier hotel brands including: Hilton, Waldorf Astoria, DoubleTree, Embassy Suites, Hampton, Canopy, Conrad, and others

   Alexandria Real Estate Equities, Inc.: A REIT that is the premier landlord and developer to the life science industry

   Prologis, Inc.: This REIT is the world's largest owner, operator, and developer of industrial logistics real estate

   The Sherwin-Williams Company: Global leader in the manufacture, development, distribution, and sale of paint, coatings, and related products

   Home Depot, Inc.: The largest and leading home improvement center company in the world

2. We have structured the Fund to capitalize on what we believe are compelling investment themes (as discussed above in the "Portfolio Structure" section).

   We expect our real estate-related companies to benefit from:

   - The continuing search for yield in a low interest rate environment (*REITs*)
   - The ongoing recovery of the U.S. housing market (*homebuilders, building product and services companies, land developers, construction material companies, and home centers*)

- The ongoing financial health of the U.S. consumer (*casino & gaming, vacation travel, cruise lines, and housing-related companies*)
- The intersection and application of technology to real estate (*data center, wireless tower, industrial REIT, and real estate data analytic companies*)

3. The Fund's holdings are attractively valued.

   We believe the Fund is chock full of companies that offer a rare combination of high-quality stock investment at "on sale prices." Many of these companies are currently priced at discounts to our assessment of intrinsic value.

Q: What would cause us to turn cautious?

A: We are vigilant about monitoring those factors that would cause us to turn more cautious. Key items that we study closely include construction activity, demand prospects, lending practices, interest rates, bank liquidity, and stock valuations.

As mentioned above, we do not detect the warning signs that typically signal the culmination of a real estate cycle.

Financial conditions are much better today than 10 years ago when we launched the Baron Real Estate Fund amid the "Great Recession." For example, please note these differentiating statistics:

	12/31/2019	10 Years Ago
The U.S. 10-year Treasury Yield	1.92%	3.85%
30-Year U.S. Fixed Mortgage Rate	3.74%	5.14%
Consumer Price Inflation	2.05%	2.72%
U.S. Real GDP growth	2.10%	4.47%

Concluding thoughts on the Baron Real Estate Fund's 10-year anniversary:

There is something about a new year, never mind a new decade, and a 10-year anniversary that makes us more reflective. There are many things that we hope for and many things we are thankful for.

In this letter, we have reflected on our 10-year performance since we launched the Baron Real Estate Fund. It is our sincere hope that you have found our commentary to be interesting and informative.

Now, on our 10-year anniversary, we are energized about 2020 and the next decade!

We are hard at work to meet our goal of continuing to produce strong results for you, our shareholders.

As always, we remain highly focused on researching, assembling, and monitoring a high-quality portfolio of companies with solid executive management, strong growth prospects, leading competitive positions, liquid balance sheets, and attractive valuations. We are enthusiastic about our investments and are optimistic about the prospects for the portfolio.

I would like to thank our primary real estate team–David Baron, David Kirshenbaum, and George Taras. They are all experts in their respective areas of research, highly dedicated, and exhibit an outstanding work ethic.

On this, our 10th anniversary, I would also like to thank you, our current shareholders, and express heartfelt gratitude 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 contain 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.

Risks: 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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