DEAR BARON REAL ESTATE FUND SHAREHOLDER:

PERFORMANCE

We are pleased to report that the Baron Real Estate Fund (the "Fund") generated strong performance for the six months ended June 30, 2019.

During this period, the Fund gained 24.12% (Institutional Shares), exceeding its primary benchmark index, the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), which rose 19.91%. Moreover, the Fund's 24.12% six-month gain also exceeded the MSCI US REIT Index, which appreciated 17.07% and the S&P 500 Index, which increased 18.54%.

Additionally, in the most recent quarter ended June 30, 2019, the Fund generated a 4.22% return, also outperforming the MSCI Real Estate Index, which gained 3.57%, and the MSCI US REIT Index, which gained 0.99%. The Fund's performance during the most recent three-month period was generally in-line with the performance of the S&P 500 Index, which gained 4.30%.

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended June 30, 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]	S&P 500 Index[1]
Three Months[3]	4.17%	4.22%	3.57%	0.99%	4.30%
Six Months[3]	23.98%	24.12%	19.91%	17.07%	18.54%
One Year	0.82%	1.08%	7.82%	9.66%	10.42%
Three Years	8.89%	9.17%	8.22%	2.81%	14.19%
Five Years	4.72%	4.98%	8.79%	6.44%	10.71%
Since Inception (December 31, 2009) (Annualized)	12.95%	13.23%	12.27%	10.46%	13.08%
Since Inception (December 31, 2009) (Cumulative)[3]	217.95%	225.59%	200.21%	157.32%	221.54%

Regarding the overall market, strong year-to-date performance is due to several positive factors. These include:

- Business results for most companies have been positive–certainly better than originally feared.
- Management commentary regarding expectations for the balance of 2019 has largely been constructive.
- The economy now appears to be growing at a moderate pace following rapid growth in 2018, which was largely propelled by fiscal stimulus, including broad-based tax cuts. Consequently, fears of an imminent recession have receded.
- Interest rates, which spiked in 2018 and became a headwind for equities, have turned much lower this year and have become a tailwind. For example, the U.S. 10-year Treasury, which peaked at 3.23% in October 2018, declined considerably this year to 2.00% as of June 30, 2019!

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 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.

BARON FUNDS 1987

- The 30-year fixed mortgage rate, which peaked at 4.94% in November 2018, declined by 121 basis points to 3.73% in June 2019, providing a needed boost to the U.S. housing market.
- Central banks globally have pivoted to a more dovish stance. On July 10, Federal Reserve Chairman Jerome Powell signaled that the Central Bank is ready to cut interest rates later this month. This would provide additional stimulus for the economy, including real estate, and should benefit the stock market.
- Inflation remains at modest levels.
- Trade negotiations between the U.S. and China are back on track, as both parties appear motivated to resolve their differences.
- The stock valuations of many companies are reasonable and, in some cases, cheap.
- Corporate takeovers picked up, and there is anticipation of robust mergers and acquisitions activity in the months ahead.
- Various measures of investor sentiment have been reasonable, yet not too excessive.

Looking forward, although the strong six-month gains of 2019 are likely to moderate and we may see month-to-month volatility, we continue to expect the prospects for the market, real estate, and the Fund to remain positive. Please see the "Outlook" section at the end of this letter for our forward-looking views for the Fund.

Table II.
Top contributors to performance for the quarter ended June 30, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
MGM Resorts International	$15.3	0.62%
Equinix, Inc.	42.4	0.62
InterXion Holding N.V.	5.8	0.59
SiteOne Landscape Supply, Inc.	2.8	0.47
Caesars Entertainment Corporation	7.7	0.35

The shares of **MGM Resorts International**, a leading global hotel and casino company, gained 11.9% in the second quarter of 2019. We believe two key factors propelled the shares higher.

First, MGM's Board of Directors acquired a significant amount of stock in the most recent quarter. For example, Paul Salem, who joined the Board in August 2018, purchased $20 million of MGM stock at $25.40 per share, sending, in our opinion, a strong and positive message regarding the company's valuation and business prospects. He is one of three Directors who have been tasked with evaluating MGM's real estate portfolio and identifying beneficial approaches to unlock shareholder value. A second Board member, Keith Meister, who is also assessing the company's real estate portfolio, acquired several million dollars worth of stock in the second quarter on behalf of Corvex Management LP, a hedge fund that he leads. Corvex has now amassed a $600 million stake in MGM!

Second, management has reiterated its confidence in growing cash flow by approximately 35% over the next two years 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.

We remain optimistic about MGM's potential for additional share price appreciation. The company's domestic assets are trading at an undemanding 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. The company expects to generate free cash flow of $4.5 billion to $5.0 billion between 2018 and 2020. MGM has earmarked $2 billion for share repurchases, which at its recent depressed price of only $29 per share, would equate to buying back approximately 13% of the company.

Our investments in **Equinix, Inc.** and **InterXion Holding N.V.** continued to perform well in the most recent quarter. Equinix is the largest global data center company in the world, and InterXion is a European-centric data center company. Both companies reported strong first quarter business results, and expressed their expectations for sustained strength in demand.

We remain bullish on the long-term prospects for Equinix and InterXion, both best-in-class data center companies, primarily because we expect both to continue to benefit from robust growth resulting from powerful, secular demand prospects. These include:

Strong Growth in Information Technology ("IT") Outsourcing:

We project that 60% to 70% of businesses will be outsourcing their data center requirements in five years, representing a substantial increase from the current outsourcing of 30% to 40%. Many companies have discovered that it is often more cost effective to outsource their data center needs to third-party providers, and to redirect their own capital expenditures to their other corporate initiatives.

Increased Cloud Computing Adoption:

Companies that provide cloud computing services are important data center tenants. They include Amazon, Google, IBM, Microsoft, Alibaba, Tencent, and Baidu. The adoption of cloud computing by enterprises is expected to increase meaningfully in the years ahead. It is estimated that total cloud spending will grow from $70 billion to $240 billion, a clear multi-year tailwind for data centers.

Powerful Data Demand Trends:

We project *U.S. mobile data traffic* to grow 40% annually for the next five years. We project *global internet traffic* to grow 27% annually for the next five years. The *number of connected devices* is projected to grow from 18 billion in 2018 to 34 billion by 2025. The data that is generated needs to be processed, transported, and stored. This is bullish for data centers.

Equinix and InterXion should continue to be prime beneficiaries from these megatrends, and we continue to own these shares.

In the last four months of 2018, the shares of **SiteOne Landscape Supply, Inc.** declined from a peak of approximately $93 to $50. Following this decline, we acquired additional shares in 2019 at an average price of $54. SiteOne is the largest national wholesale distributor of landscape supplies (outdoor lighting, fertilizers, grass seeds, turf care equipment, etc.) in the U.S. with an extensive network of over 540 branch locations across 45 states and six Canadian provinces. SiteOne's sales also equal the combined total sales of its number 2 through number 10 competitors. The company serves both residential and commercial landscape professionals.

We are bullish about the long-term prospects for SiteOne because we expect the company to benefit both from the resumption of the cyclical recovery in the residential real estate market and from its ample opportunities to make acquisitions and consolidate a highly fragmented industry. The company generated $2.1 billion in sales in 2018, representing approximately 11% of the $19 billion U.S. landscape supply market. We believe SiteOne, with its excellent management team, solid balance sheet, and strong free cash flow generation, is well positioned to grow organically and through acquisitions in the years ahead. We expect SiteOne to remain the acquirer of choice in the landscape supply industry. There is $15 billion in potential acquisition targets, which may lead to a more than doubling of its market share over time.

We are pleased to report that one of our investments, **Caesars Entertainment Corporation,** a global casino-entertainment company that operates resorts primarily under the Harrah's, Caesars, and Horseshoe brand names, announced in the most recent quarter that it would be acquired by Eldorado Resorts, Inc. for $12.75 per share or a 28% premium to its prior day's closing price (and a 46% premium to our $8.76 per share cost basis). Its shares had risen sharply following reports that famed activist investor Carl Icahn had been acquiring shares in the company. This acquisition established Eldorado Resorts as the largest U.S. gaming company. We believe the purchase price represents a fair value for Caesars, and have therefore chosen to exit our investment in the company.

Table III.
Top detractors from performance for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Percent Impact
Red Rock Resorts, Inc.	$ 2.5	–0.37%
Lowe's Companies, Inc.	79.0	–0.37
Hilton Grand Vacations Inc.	2.9	–0.30
Penn National Gaming, Inc.	2.3	–0.20
Norwegian Cruise Line Holdings, Ltd.	11.6	–0.14

In the second quarter, shares of **Red Rock Resorts, Inc.**, a real estate gaming, development and management company that operates 21 casino and entertainment properties and generates approximately 86% of its cash flow in Las Vegas, declined primarily due to concerns that the company's recently completed renovation projects at two of its resorts (The Palms Casino Resort and The Palace Station) will not generate sufficient additional cash flow to generate an attractive return on its development investments. If true, it may take longer for the company to repay debt and reach its targeted leverage of 4 times net debt to EBITDA (versus its current 5.4 times net debt to EBITDA).

However, at its recent share price of $21, we believe these concerns are largely discounted in Red Rock's share price. We view the company's valuation of 8 times 2020 estimated cash flow (EBITDA) and its 12% free cash flow yield as highly compelling.

Further, we remain constructive on the outlook for Red Rock for the following reasons:

- Attractive demand-supply trends in Las Vegas: Demand trends in the Las Vegas "locals" market have been solid in recent years due to strong population growth in Nevada (second fastest growing state in 2018). Nevada is one of only seven states in the U.S. without state income taxes, so residents and businesses may be incentivized to relocate. The Vegas economy is also benefiting from low unemployment, high weekly wages, and stable housing. On the supply side, no new major gaming facilities have opened in this area of Las Vegas (the "locals" market) since 2009, and no new competitive developments have been announced.

- Red Rock's high-quality real estate: Red Rock owns 17 fine real estate properties within the Las Vegas area. Notably, the company also owns nine parcels of additional land in Las Vegas and Reno (477 acres), providing Red Rock with several opportunities for future growth projects. Each location has been zoned for casino gaming and other commercial uses.

- Free cash flow is expected to increase significantly over the next few years: Now that Red Rock has virtually completed its multi-year renovation projects at Palace Station (completed) and the Palms (completion by September 2019), we expect capital expenditures to significantly decline, and cash flows at these properties to ramp significantly in the next few years.

In the second quarter, the shares of **Lowe's Companies, Inc.**, the second largest home improvement center in the U.S., declined 8%, due primarily to management's decision to lower earnings expectations for 2019 because of unanticipated cost increases and disappointing pricing. We view the earnings miss as a transitory hiccup and remain confident in the company's newly appointed senior management team. We believe Lowe's has a credible plan to generate strong earnings growth in the next few years, and believe the shares are reasonably valued.

In the most recent quarter, the shares of **Hilton Grand Vacations Inc.**, a leading timeshare company, declined following disappointing first quarter timeshare sales that have been negatively impacted by a shortage of inventory. However, management is addressing this issue by allocating more of its free cash flow toward real estate development. We expect that this will increase the availability of new timeshare properties resulting in the resumption of growth. We sold a significant portion of our shares during the quarter and are currently evaluating our remaining investment in the company.

The shares of **Penn National Gaming, Inc.**, the largest U.S. regional casino and gaming company, declined modestly in the second quarter primarily due to mildly disappointing first quarter earnings results (partly attributable to poor weather and holidays), and some concerns that consumer spending at casinos will slow sharply, perhaps causing promotional activity to increase. Our research leads us to believe that these concerns are more extreme than the reality. Business appears to be stable, and management has stated that the company is on track to achieve its targeted revenue and expense synergies from its acquisition of Pinnacle Entertainment. At its recent price of only $18.50/share, with a 2019 estimated cash flow multiple of only 5.6 times EBITDA, and the company's highly attractive 18% free cash flow yield, we believe Penn's valuation is attractive.

Following a 29% gain in its share price in the first quarter of 2019, the shares of cruise line operator **Norwegian Cruise Line Holdings, Ltd.** declined slightly in the most recent quarter. The company reported strong first quarter business results and cited expectations for continued strength in cruise demand. Early indications suggest that business results in 2019 will remain strong given that consumers have been booking 2019 cruises at an earlier and faster rate than in previous periods. We would note, however, that Norwegian lowered its earnings expectations for 2019 due to new travel regulations that took effect on June 5 that eliminate the ability of cruise lines to offer cruise travel to Cuba. We believe this concern has already been reflected in Norwegian's current share price.

Cruise line stocks historically have traded at an average multiple of 15 times earnings. Currently, Norwegian trades at less than 10 times 2019 estimated earnings! We expect the company to generate earnings growth of approximately 12% to 15% per year between 2018 and 2020. In our judgment, the valuation of Norwegian remains highly attractive.

Portfolio Structure

We continue to maintain 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. We also believe that the Fund is complementary to our Baron Real Estate Income Fund and most other REIT funds.

The Fund's portfolio structure and strategy are as follows:

1. Real Estate-Related Categories

   The Baron Real Estate Fund currently has investments in REITs, plus nine 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).

2. REITs and non-REITs

   Currently, the Fund has 30% of net assets invested in REITs and 70% in its additional real estate-related categories (including 1.9% in cash). We are optimistic about the prospects for both the Fund's REITs and our additional real estate categories. At this time, we believe that some of the Fund's other real estate categories present superior return potential than most REITs, because of their discounted share prices and greater growth prospects.

3. Commercial and Residential Real Estate Categories

   The Fund continues to invest in both commercial and residential real estate-related companies.

   In addition to REITs, residential-related companies that the Fund evaluates for investment include homebuilders, building product and services companies, land developers, construction material companies, home centers, and senior housing operators.

   In the first six months of 2019, we have spent considerable time meeting with several residential-related companies. Our research leads us to believe that many of the factors that slowed sales in 2018 have either eased or improved in the first half of this year, and are beginning to encourage a reacceleration in home purchases and housing-related spending. These include the significant decline in mortgage rates to only 3.7%, the moderation in home price appreciation, solid consumer sentiment, and strong job and wage growth.

   We maintain that the 2018 housing market slowdown only represented a pause in what should continue to be a multi-year housing recovery. As such, we have continued to increase the Fund's exposure to housing-related companies. For our more detailed thoughts, please see the "Top Net Purchases" section later in this letter.

4. Exposure to the U.S. Consumer and Cyclical Growth

   Our research indicates that the consumer is in solid shape (i.e., unemployment is low, wage growth has picked up, mortgage rates have declined, consumer sentiment measures are solid), and business conditions are prospectively stable. We therefore continue to prioritize real estate-related categories that usually perform well when consumer sentiment is strong, and the economy is expanding. These real estate categories include homebuilders and land developers (6.5% of the Fund's assets), building product and services companies (13.7%), casino and gaming companies (12.9%), cruise lines (8.3%), vacation timeshare companies (2.7%), and hotels (0.6%). In our opinion, valuations of most of these cyclical growth categories are compelling.

5. Emphasis on Real Estate Secular and Megatrend Real Estate Growth Companies

   The Fund continues to prioritize real estate categories that we believe are positioned to benefit from durable megatrends and secular growth opportunities. These specialized real estate categories include data center companies, wireless tower companies, and industrial REITs that, in our view, are well positioned to benefit for several years from the technological revolution in cloud computing, the internet, artificial intelligence, autonomous vehicles, mobile data, cell phones, and wireless infrastructure. As of June 30, 2019, 22.6% of the Fund's net assets were invested in data center (15.6%), wireless tower (5.0%), and industrial REITs (2.0%).

6. Number of Fund Holdings

   As of June 30, 2019, the Fund was invested in 45 companies. Our 10 largest holdings represented 46.3% of the Fund. Our 20 largest holdings represented 70.3% of the Fund.

7. Market Capitalization and Liquidity

   We continue to invest in companies of various market capitalizations. As of June 30, 2019, the median market capitalization of the Fund's investments was $8.8 billion. Companies with market capitalizations of less than $2.5 billion constitute only 5.3% of the Fund. The liquidity of the Fund is strong.

8. "Best-in-class" Companies*

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

* Note that "**best-in-class**" represents the manager's opinion and is not based on a third-party ranking. In our opinion, 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 June 30, 2019

		Percent of Net Assets
REITs		30.0%
Building Products/Services		13.7
Casinos & Gaming Operators		12.9
Hotel & Leisure		11.6
Cruise Lines	8.3%	
Hotels & Timeshare/Leisure	3.3	
Data Center Operating Companies[1]		9.7
Real Estate Service Companies		9.0
Homebuilders & Land Developers		6.5
Real Estate Operating Companies		3.6
Tower Operators[2]		1.1
		98.1
Cash and Cash Equivalents		1.9
Total		100.0%

[1] Total would be 15.6% if included data center REITs Equinix, Inc. and QTS Realty Trust, Inc.

[2] Total would be 5.0% if included tower REITs American Tower Corp. and SBA Communications Corp.

Table V.
Top 10 holdings as of June 30, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
CBRE Group, Inc.	$17.3	$43.9	7.5%
MGM Resorts International	15.3	32.4	5.5
Equinix, Inc.	42.4	32.3	5.5
GDS Holdings Limited	5.2	28.2	4.8
Norwegian Cruise Line Holdings, Ltd.	11.6	27.3	4.6
InterXion Holding N.V.	5.8	24.1	4.1
Masco Corporation	11.5	23.1	3.9
Royal Caribbean Cruises Ltd.	25.4	21.6	3.7
Brookfield Asset Management, Inc.	47.6	21.3	3.6
Boyd Gaming Corporation	3.0	18.0	3.1

Recent Activity

Table VI.
Top net purchases for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Masco Corporation	$11.5	$15.7
D.R. Horton, Inc.	16.1	13.8
Trex Company, Inc.	4.2	10.1
Installed Building Products, Inc.	1.8	7.2
Kilroy Realty Corporation	7.5	6.8

In the last six months of 2018, activity in the U.S. housing market slowed dramatically due, in part, to:

- Home price affordability concerns: From 2012 to 2018, home prices appreciated approximately 6% to 7% per year versus annual wage gains of only 2% per year.
- A quick and sharp increase in mortgage rates. The 30-year fixed mortgage rate increased by nearly 100 basis points in 2018, going from 3.95% to start the year to 4.94% in November 2018.
- Tax reform: Tax reform capped property tax and mortgage interest deductions, negatively impacting potential home buyers in several states that tend to have higher-priced homes such as California, New York, New Jersey, and Connecticut.
- Emotional and financial scars from the 2008/09 housing crisis: Several potential home buyers remained cautious before purchasing a home due to the lingering memory of the 2008/09 housing crisis.

In 2019, prospects have improved for home purchase activity and housing-related spending due to the significant decline in mortgage rates (down more than 80 basis points from 4.55% at the end of 2018 to 3.73% in June 2019) and moderation in home price appreciation. The U.S. consumer is also benefiting from solid job growth and wage gains.

Encouragingly, the management of **Lennar Corporation**, a Fund investment and leading national homebuilding company, captured the trend we see by stating that "the market paused in the back half of 2018, corrected in the first quarter of 2019, and is now on solid footing."

In the most recent quarter, we continued to increase the Fund's exposure to companies that we expect to benefit from the resumption of the recovery in the U.S. housing market. We are optimistic about the prospects for our most recent housing-related purchases, including: **Masco Corporation**, **D.R. Horton, Inc.**, **Trex Company, Inc.**, and **Installed Building Products, Inc.**

Masco Corporation is a leading company of branded home improvement and building products, focusing on plumbing, decorative architectural (paint), cabinet, window, and other specialty products. Masco's market-leading brands include Delta faucets and Behr paints.

In June, Masco announced its intention to sell its cabinets and windows businesses. We are pleased with this decision because it will reduce the cyclicality of Masco's business and should lead to an improvement in the company's valuation multiple. Following the divestiture of its cabinets and windows businesses, Masco will have dramatically reduced its exposure to the more cyclical new construction segment of residential real estate. The "new" Masco, which will primarily be a plumbing and decorative architectural company, will have 90% exposure to repair and remodel spending, a segment of the residential real estate market that tends to be more resilient than new construction, and therefore should garner a premium valuation.

We believe Masco's shares could increase 15% annually over the next few years through a combination of double-digit earnings growth (fueled from organic growth, margin expansion, acquisitions, and share repurchases) and an expansion in the company's valuation multiple from 10 times EBITDA currently to 11 or 12 times EBITDA.

D.R. Horton, Inc. is the largest homebuilder by volume in the U.S., and we are quite optimistic about the long-term prospects for the company. We believe D.R. Horton is positioned to perform well given its status as the largest and lowest-cost producer in the entry-level home segment for first-time buyers and baby boomers looking for an affordable home.

We are supportive of D.R. Horton's announced intention to transition to a stronger and more "asset light" balance sheet by outsourcing its land development spending needs to third-party developers such as Forestar Group Inc. Ultimately, D.R. Horton's transition to a less capital-intensive business should generate a higher-valuation multiple.

NVR, Inc., a homebuilder with a 100% "asset light" strategy that avoids the financial requirements and risks associated with direct land ownership and development, is valued at a significant premium to every other homebuilder, including D.R. Horton. We expect that the valuation disparity between D.R. Horton and NVR will close over time as D.R. Horton executes on its own "asset light" strategy.

Following a decline in its share price from a peak of $91 in September 2018 to a low of $59 in 2019, we acquired shares of **Trex Company, Inc.** in the most recent quarter at an average price of $61 per share.

Trex is the largest manufacturer of wood-alternative (composite) outdoor decking and railing in the U.S. with a 40% market share utilizing composite. Many consumers have opted to convert from wood to composite decking because composite looks quite similar to wood, yet performs better. Unlike wood, composite deck boards are engineered to resist fading, scratches, and stains. Most important, composite deck boards do not rot, warp, or splinter, and they do not require seasonal painting, sealing, or staining.

We are optimistic about the long-term growth prospects for Trex for the following reasons:

- Secular growth

  Composite decking, as a relatively new product, currently represents only 17% of the outdoor decking market. Wood decking still leads with an 83% market share. However, in our opinion, newer composite decking will continue to increase its share of the decking market because of its superior performance and lifetime cost advantages relative to wood decking. We believe Trex is well positioned to benefit from this anticipated secular growth opportunity.

- Potential for market share gains

  In our opinion, Trex is poised to continue to increase its industry-leading 40% market share in the years ahead due to its brand leadership and broad array of composite decking products.

- Cyclical growth

  90% of Trex's sales are generated from the residential real estate market. The company should benefit from the ongoing recovery in U.S. new and existing home sales and the growing desire by consumers for outdoor living spaces.

- Growth from new products, new geographies, and acquisitions

  Management has introduced a broader array of composite decking products (i.e., new lower price point decking products that target the do-it-yourself consumer), commercial products (railing), and expanded into international markets (currently less than 10% of sales), all of which should enhance growth in the years ahead. Trex also generates significant free cash flow, which could be used to fund future acquisitions.

Installed Building Products, Inc. (IBP) is one of the nation's largest insulation installers for the residential new construction market. It is also a diversified installer of complementary building products. Its CEO, Jeff Edwards, and his management team have built IBP from a single branch to a national platform with over 175 locations servicing 48 states, revenues of $1.3 billion, and cash flow of more than $160 million.

We are optimistic about the multi-year prospects for IBP for these reasons:

1. Scale and cost advantages

   IBP's national platform provides the company with significant scale and cost advantages. Manufacturers of insulation products prefer to sell their products to IBP at very competitive prices because the company's broad national penetration allows the manufacturers to better plan their production schedules. Homebuilders often choose to subcontract the installation of insulation and certain other building products to IBP because IBP's scale, full-service capabilities, keen knowledge of local building codes and standards, timely delivery, and quality installation serves to eliminate "nuisance" work for the homebuilders.

2. Housing market beneficiary

   We remain bullish about the prospects for a continued recovery in the U.S. housing market. The large imbalance between pent-up housing demand and low construction levels bodes well for a continuation of growth in home construction. IBP should be a prime beneficiary of growth in new home construction as approximately 77% of IBP's business is generated from new housing construction (67% new single-family and 10% new multi-family).

3. Several opportunities for growth

   Management believes it has the potential to grow its sales from $1.3 billion to $5 billion over time by:

   (i) Expanding its 28% market share of new residential construction organically by growing its current business platform of services
   (ii) Acquiring other businesses; IBP has a successful track record of acquiring and integrating more than 140 companies, realizing synergistic cost savings, and enhancing the profitability of these acquired businesses
   (iii) Broadening its residential and commercial building segments which currently represents only 17% of sales

4. Large insider ownership: CEO Jeff Edwards owns 23% of IBP. Accordingly, his interests are aligned with those of shareholders. We believe he is particularly driven to build a much larger and more profitable business.

Although the forthcoming second quarter results may be lower than expected, we expect business to improve in the second half of 2019. We believe our investment in IBP can compound at 15% per year over the next few years.

In the most recent quarter, we also acquired shares in **Kilroy Realty Corporation**, a REIT that owns, develops, acquires, and manages real estate assets (primarily office buildings) in the coastal regions of San Francisco, Seattle, Los Angeles, Orange County, and San Diego. We recently spent time with CEO John Kilroy. John and his management team have positioned Kilroy to grow its net operating income by approximately 70% over the next five years through occupancy gains and rent increases in its operating portfolio and the completion of its development pipeline.

During the company's most recent quarterly earnings conference call, management said that it was witnessing the strongest market conditions the company has seen, because of limited supply and solid demand resulting in declining vacancy rates and higher rents. In our opinion, the shares of Kilroy Realty are currently valued at attractive discounts to their private market values.

Table VII.
Top net sales for the quarter ended June 30, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Hilton Grand Vacations Inc.	$ 2.9	$16.1
Lowe's Companies, Inc.	79.0	14.6
InterXion Holding N.V.	5.8	10.1
Caesars Entertainment Corporation	7.7	8.3
Home Depot, Inc.	228.8	6.6

In the most recent quarter, we significantly reduced our investment in **Hilton Grand Vacations Inc.** following disappointing results. For the last two quarters, management has tempered growth expectations, due to the company's temporary shortage of timeshare inventory. We are reevaluating our holding in the company, but remain optimistic about its long-term prospects.

We also reduced our investments in **Lowe's Companies, Inc.** and **Home Depot, Inc.** reflecting a modest rebalancing of the portfolio and have reallocated the capital to alternative housing-related companies.

Following strong share price performance in the first six months of 2019, we modestly trimmed our investment in data center company **InterXion Holding N.V.** We remain bullish about the company's long-term prospects.

We are pleased to report that **Caesars Entertainment Corporation** announced that it would be acquired by Eldorado Resorts Inc. at a significant premium to our cost basis in the company. Following the announcement, we exited our investment in Caesars.

Outlook

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, central bank actions, and macroeconomic factors such as GDP growth, interest rates, inflation, the U.S. dollar, and oil prices. The first six months of 2019 are certainly a case in point.

For example, in the first half of 2019, we are confident that few would have predicted that:

- The Fed would pivot to a dovish stance on January 4, 2019, less than three weeks after increasing interest rates on December 19, 2018;
- The U.S. 10-Year Treasury yield would fall 123 basis points from its 2018 high to only 2.0% on June 30, 2019;
- Inflation would drop significantly and remain below the Fed's targeted 2% level;
- Geopolitical tensions would dramatically increase with Iran; and
- The S&P 500 advance of 18.54% would be the best six-month start in more than 20 years!

These developments are a strong reminder that it is a fool's game trying to forecast an outlook.

Nevertheless, there are several indicators that lead us to conclude that the current business environment could be supportive of further gains in the stock market, real estate, and the Baron Real Estate Fund:

- Business conditions are generally solid for our real estate-related companies.
- The U.S. economy is experiencing an unusual combination of solid employment growth, decent wage growth, low interest rates, and modest inflation.
- We are not witnessing the wide-ranging forewarnings that typically signal the end of a business and/or real estate cycle such as spikes in economic growth, construction activity, interest rates and/or inflation, and the aggressive use of debt.
- We continue to own several attractively valued quality companies across several segments of real estate.
- We have structured the Fund to capitalize on what we believe are compelling investment themes including companies that should benefit from the ongoing health of the U.S. consumer (casino & gaming and cruise line companies), the resumption of the recovery in the U.S. homebuilding market (home builders and building product and services companies), and the technology revolution (data center, wireless tower, and industrial REIT companies).

In summary, we continue to be of the view that the current environment for stocks and real estate is positive. While we would not expect to replicate our strong first half returns of 2019 in the second half of this year, we do remain optimistic about the potential for further gains.

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

Baron Real Estate Fund

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.

Discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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