DEAR BARON REAL ESTATE FUND SHAREHOLDER:

PERFORMANCE

We are pleased to report that the Baron Real Estate Fund (the "Fund") generated solid performance, gaining 15.75% (Institutional Shares) for the six months ended June 30, 2017, exceeding its primary benchmark index, the MSCI USA IMI Extended Real Estate Index Net (the "MSCI Real Estate Index"), which gained 9.08%. The Fund's 15.75% six-month gain also exceeded the MSCI U.S. REIT Index, which increased 2.04% and the S&P 500 Index, which increased 9.34%.

In the most recent quarter ended June 30, 2017, the Fund generated a 7.45% return, also outperforming the MSCI Real Estate Index, which gained 3.18%, the MSCI U.S. REIT Index, which gained 1.34%, and the S&P 500 Index, which gained 3.09%.

Since the Fund's inception on December 31, 2009, the Fund's average annual return of 15.59% has outperformed the average annual return of the MSCI Real Estate Index (13.54%), the MSCI U.S. REIT Index (11.72%), and the S&P 500 Index (13.27%).

Additionally, during this 7½ year period, the Fund's cumulative return was 196.36%, surpassing each of the cumulative returns of the MSCI Real Estate Index (159.16%), the MSCI U.S. REIT Index (129.56%), and the S&P 500 Index (154.60%).

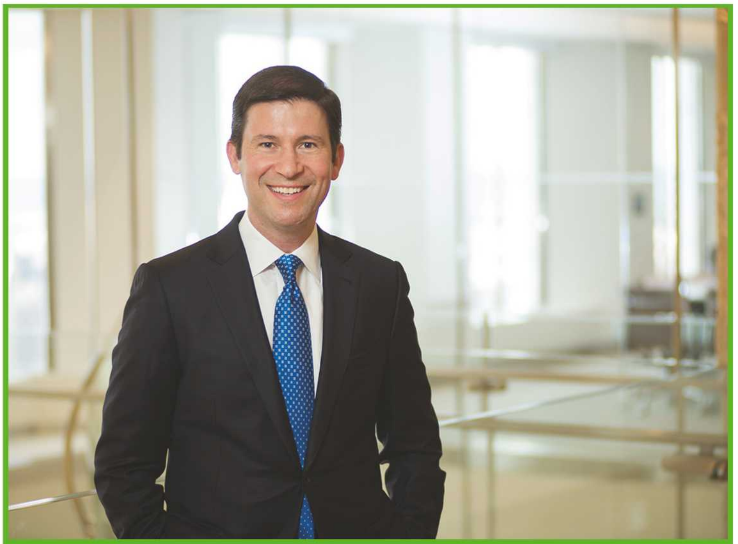
In a recent ***Wall Street Journal*** report, the Fund ranked in the top 2% of 262 real estate funds for the 12 months ended June 30, 2017, based on its total return of 18.41% according to data supplied by ***Lipper***.*

The Baron Real Estate Fund's positive return of 18.41% significantly outperformed the negative 0.39% average return among the 262 funds in the ***Lipper*** real estate category.*

We are also pleased to report that, according to ***Morningstar***, for the period ended June 30, 2017**:

- The Baron Real Estate Fund is ranked in the top 1% of all U.S. real estate funds for both its 5-year and year-to-date performance;
- The Baron Real Estate Fund is ranked in the top 2% of all U.S. real estate funds for its 1-year performance; and,
- The Baron Real Estate Fund is ranked in the top 3% of all U.S. real estate funds since inception more than seven years ago on December 31, 2009.

We continue to maintain that the prospects for the Baron Real Estate Fund are positive. Please see the "Outlook" section at the end of this letter for our forward-looking views for the Fund.



JEFFREY KOLITCH
PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended June 30, 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]	7.42%	7.45%	3.18%	1.34%	3.09%
Six Months[3]	15.63%	15.75%	9.08%	2.04%	9.34%
One Year	18.14%	18.41%	9.41%	(3.05)%	17.90%
Three Years	4.84%	5.09%	9.57%	6.82%	9.61%
Five Years	14.15%	14.43%	13.13%	8.04%	14.63%
Since Inception (December 31, 2009) (Annualized)	15.30%	15.59%	13.54%	11.72%	13.27%
Since Inception (December 31, 2009) (Cumulative)[3]	190.97%	196.36%	159.16%	129.56%	154.60%

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.

* 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. The Fund has been included in the category since inception. As of June 30, 2017, the category consisted of 262, 201, and 160 funds (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, 1st, and 1st percentiles, respectively, in the category.
Source: Lipper Analytical Services, Inc.

** The **Morningstar US Fund Real Estate Category Average** is not weighted and represents the straight average of annualized returns of each of the funds in the Real Estate category. 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 June 30, 2017, the category consisted of 262, 258, 201, and 161 funds (share classes) for the year-to-date, 1-year, 5-year, and since inception (12/31/2009) periods. Morningstar ranked **Baron Real Estate Fund Institutional** Share Class in the 1st, 2nd, 1st, and 3rd percentiles, respectively, in the category.

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Table II.
Top contributors to performance for the quarter ended June 30, 2017

	Quarter End Market Cap (billions)	Percent Impact
InterXion Holding N.V.	$ 3.3	0.84%
CoStar Group, Inc.	8.6	0.72
Wyndham Worldwide Corp.	10.5	0.57
MGM Resorts International	18.0	0.55
American Tower Corp.	56.2	0.48

We are encouraged that in the second quarter of 2017, several of our investments in our various real estate categories continued to contribute to the Fund's solid performance.

Data center companies, such as **InterXion Holding N.V.**, a European-centric data center company, generated solid share price returns. We remain bullish about the prospects for most data center companies primarily because we believe demand prospects are stronger than they have ever been. We anticipate that most companies are well positioned to benefit from the continuing multi-year secular growth in cloud computing, information technology spending, the adoption of the internet, digital video and photos, and increased corporate outsourcing of data center needs.

InterXion is among our favorite data center companies. Our enthusiasm for the company stems from the following considerations:

a) The European data center market is growing approximately twice as fast as the U.S. market because it is in the earlier stages of outsourcing information technology, including the cloud.

b) The barriers to entry in Europe are quite significant as it can take three-to-four years to obtain the various approvals to build a data center, plus an additional three-to-four years to occupy the data center with clients.

c) InterXion may continue to grow cash flow by more than 10% annually through increased occupancies and rents, and may accelerate its growth with the development and acquisition of additional data centers.

d) We believe the company's valuation is attractive relative to other data center companies because its cash flow multiple is the lowest among data center companies despite its above-average growth prospects.

e) We anticipate that InterXion represents an attractive acquisition candidate for non-European data center companies.

f) We are big fans of its highly capable and strategic CEO, David Ruberg, and his management team.

The shares of **CoStar Group, Inc.**, a leading provider of information and marketing services to the commercial real estate industry, performed well in the most recent quarter following strong quarterly business results and management's encouraging commentary regarding its growth and profitability outlook.

Wyndham Worldwide Corp., a leading hospitality company, generated strong gains in the most recent quarter. Its share price appreciation, in our opinion, was triggered by management's acknowledgment that it is reviewing a wide array of strategic options including splitting its businesses into three separately traded public companies. We believe a separation of the three businesses makes strategic sense as it would likely lead to acceleration in growth and unlock value for shareholders.

The shares of **MGM Resorts International**, a leading global hotel and casino company, increased significantly in the most recent quarter. We continue to believe that MGM offers an attractive combination of high quality real estate assets, commands a leading presence in Las Vegas (one of the strongest real estate markets in the U.S.), a strong growth outlook, and an improving balance sheet and free cash flow profile. The company recently initiated a dividend, and we believe the company may also begin to repurchase shares.

We regard MGM to be an attractively valued stock. For more detailed thoughts regarding our bullish outlook for Las Vegas, please see the "Portfolio Structure" section later in this letter.

The shares of **American Tower Corp.**, the largest wireless tower company in the world, continue to trend higher, bolstered by the tailwinds of increasing usage and demand for wireless data-intensive devices such as iPhones, iPads, and other wireless devices. We maintain that the long-term prospects for American Tower are very compelling.

Table III.
Top detractors from performance for the quarter ended June 30, 2017

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Masonite International Corp.	$ 2.3	–0.09%
Acuity Brands, Inc.	8.6	–0.08
Simon Property Group, Inc.	50.7	–0.07
Boston Properties, Inc.	19.3	–0.06
PT Sarana Menara Nusantara Tbk.	2.9	–0.05

The shares of **Masonite International Corp.**, the largest manufacturer of residential doors in North America, declined modestly in the second quarter due to somewhat disappointing quarterly earnings results. In the first quarter of 2017, the company was overstaffed relative to business demand trends. We anticipate that the staffing issues will be resolved soon. We view the shares as attractively valued, and remain optimistic that Masonite is well positioned to benefit from a continued rebound in the housing market.

The shares of **Acuity Brands, Inc.**, a leading producer of lighting solutions, underperformed in the second quarter due to a moderation in the growth of its business. However, in the latter part of June, the company released quarterly results that demonstrated modest improvement. We anticipate that business conditions will continue to improve. In our opinion, Acuity is an attractive long-term investment opportunity because the company is well positioned to capitalize on the multi-year secular growth opportunity in the lighting market that has been transitioning to higher energy efficient, longer lasting, and higher functionality "LED" lighting systems.

The shares of **Simon Property Group, Inc.**, the world's largest mall operator, declined in the most recent quarter. Though we have high regard for CEO David Simon, we have chosen to exit our position primarily due to our view that retail mall and shopping centers will likely continue to be challenged by a slowdown of in-store sales due to the growth of online purchasing by consumers.

The shares of **Boston Properties, Inc.**, a REIT that owns high-quality office buildings in Manhattan, Boston, Washington D.C., San Francisco, and Los Angeles sub-markets, declined modestly in the most recent quarter due to subdued business prospects for occupancy and rent growth. We have exited our position.

PT Sarana Menara Nusantara Tbk. is an Indonesian real estate tower operator. Its shares declined modestly in the most recent quarter. We have chosen to exit our position, and reallocate capital to other higher conviction tower company investments.

Portfolio Structure

Our Compelling Real Estate Investment Themes

In our last few shareholder letters, we have elaborated on what we believe are five compelling investing themes. They are:

1. Emphasis on companies that we expect to perform well if economic growth continues to improve and interest rates rise;
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 and student housing companies); and
5. Moderation of our REIT exposure due to tempering growth in some segments of commercial real estate, and the possibility of rising interest rates.

We remain optimistic about these investing themes and the structure of the Fund.

Two Additional Baron Real Estate Investing Themes:

1. Emphasis on Las Vegas – One of the Best Real Estate Markets in the U.S.

We are bullish on Las Vegas' growth prospects. It is benefiting from strong visitor trends, an improving local economy (low unemployment, high weekly wages, stable housing), and limited new construction activity. Consequently, we view the "Las Vegas Strip" as the hotel market with perhaps the most favorable supply-demand characteristics in the U.S. Here's why:

Supply: The overall U.S. hotel industry is expected to grow room capacity by approximately 2% in 2017 and in each of the next few years.

In Las Vegas, however, no increased room capacity is forecasted for at least the next two years. There has been no new room construction since 2010, and the number of hotel rooms on the Las Vegas Strip is expected to remain flat at approximately 149,000 rooms through 2019, which bodes well for its hotel room rates. We believe the Las Vegas Strip should continue to benefit from the combined effects of low room supply and strong visitor trends.

Demand: On the demand side, the Las Vegas hotel market continues to benefit from growing business group and convention activity, and sound U.S. consumer spending on the leisure side. The average daily rate for hotel rooms on the Las Vegas Strip in 2016 was only $136, which is 30% below the combined average rate in New York, San Francisco, Los Angeles, San Diego, and Chicago. We believe this affordability helps Las Vegas' continuing appeal to both group and leisure guests, and may limit visitor downside to a greater extent than in the more expensive U.S. hotel markets.

We are also optimistic about the prospects for the Las Vegas "locals" market (hotels/casinos and other real estate that is not located on the "Strip," that is catering primarily to local residents). Notably, no new major gaming facilities have opened in the "locals" market since 2009, and no new developments have been announced. This also bodes well for the supply-demand economics.

Currently, 8.5% of the Fund's net assets are invested in real estate-related companies that have a geographic presence in Las Vegas. They are: **MGM Resorts International, Boyd Gaming Corporation, MGM Growth Properties LLC, Gaming and Leisure Properties, Inc.,** and **Red Rock Resorts, Inc.**

2. International Real Estate Opportunities

Since the Fund's inception on December 31, 2009, our primary focus has been on U.S. domiciled real estate-related companies. This was due to the generally superior growth prospects of U.S. companies, with strong central bank support and attractive valuations, compared to non-U.S. companies.

Now, however, with the broadened economic recovery, we believe that many non-U.S. countries and companies now present attractive combinations of: (i) increased growth potential after previously reduced economic and business activity; (ii) lower interest rates and more accommodative central bank support; and, (iii) more attractive stock valuations.

Although we continue to identify attractive U.S. real estate-related investment opportunities, we have also broadened our geographic focus within our mandate by expanding our allocation to include more non-U.S. domiciled real estate companies. (The Fund is permitted to invest up to 25% of its total assets in international real estate companies.) In the most recent quarter, the Fund initiated positions in these two non-U.S. real estate companies:

- **Cellnex Telecom, S.A.** is a Spain-based real estate tower company with operations in Spain, Italy, the Netherlands, U.K., France, and Switzerland.
- **NXTDC Limited** is an Australia-based data center company.

Consistent with our generally favorable view for the long-term prospects for tower and data center companies, we believe both Cellnex and NXTDC are attractive investment opportunities. We plan to discuss both companies more fully in future letters.

The Fund currently has approximately 10% of its net assets invested in real estate-related companies that are domiciled outside the U.S. They are: **Interxion Holding N.V.**, **Brookfield Asset Management, Inc.**, **Cellnex Telecom, S.A.**, and **NXTDC Limited.** We anticipate that the Fund's non-U.S. real estate investments may increase in the future.

Investment Categories

The Baron Real Estate Fund currently has investments in 11 real estate-related categories (see Table IV below). This differentiates the Fund from most other real estate funds that generally limit their investments primarily to one real estate category, REITs.

While we do invest in REITs (as seen below), we maintain that the Fund's additional real estate categories offer a broader, diverse, and more balanced approach, with a long-term benefit.

Table IV.
Fund investments in real estate-related categories as of June 30, 2017

		Percent of Net Assets
REITs		30.2%
Building Products/Services		28.5
Hotel & Leisure		14.4
Hotels & Timeshare/Leisure	10.5%	
Cruise Lines	3.9	
Casinos & Gaming Operators		6.5
Data Center Operating Companies[1]		5.9
Real Estate Service Companies		5.0
Real Estate Operating Companies		2.4
Infrastructure-Related Real Estate Companies		2.4
Homebuilders & Land Developers		1.3
Tower Operators[2]		1.1
		97.7
Cash and Cash Equivalents		2.3
		100.0%

[1] Total would be 10.5% if included data center REIT Equinix, Inc.
[2] Total would be 8.8% if included tower REITs American Tower Corp. and SBA Communications Corp.

At June 30, 2017, the Fund had investments in 47 companies. Our 10 largest holdings represent 42.1% of the Fund.

We invest in companies with a variety of market capitalizations. As of June 30, 2017, the median market capitalization of the portfolio was $8.6 billion. Companies with a market capitalization of less than $2.5 billion represented only 5.5% of the Fund.

Table V.
Top 10 holdings as of June 30, 2017

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
American Tower Corp.	$ 56.2	$60.2	6.2%
Mohawk Industries, Inc.	18.0	57.7	5.9
InterXion Holding N.V.	3.3	57.2	5.9
Equinix, Inc.	33.4	44.7	4.6
Home Depot, Inc.	183.4	43.7	4.5
Vulcan Materials Company	16.7	33.0	3.4
MGM Resorts International	18.0	31.4	3.2
Wyndham Worldwide Corp.	10.5	29.1	3.0
The Sherwin-Williams Company	32.7	27.4	2.8
Hilton Worldwide Holdings, Inc.	20.1	25.6	2.6

Recent Activity

Table VI.
Top net purchases for the quarter ended June 30, 2017

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Summit Materials, Inc.	$ 3.2	$15.6
American Homes 4 Rent	5.8	14.9
American Tower Corp.	56.2	12.6
QTS Realty Trust, Inc.	2.5	12.4
Digital Realty Trust, Inc.	18.3	12.0

We continue to prioritize construction materials companies that should gain from increased government spending on infrastructure projects and increases in residential and commercial construction. Examples include **Vulcan Materials Company** and **Martin Marietta Materials, Inc.** In the most recent quarter, we increased our construction materials exposure with an investment in **Summit Materials, Inc.**

Summit Materials is a heavy construction materials company with exposure to infrastructure, residential, and commercial construction. The firm's operations include materials (aggregates and cements), products (asphalt and ready-mixed concrete), as well as services (paving operations). We believe that Summit's business prospects – from both organic and future acquisitions – are strong. We estimate that the company may double its cash flow in the next three years from $300 million in 2016 to more than $600 million in 2019. We view its shares as attractively valued at approximately nine times 2018 estimated cash flow, and could appreciate 15% annually over the next few years.

American Homes 4 Rent is one of the largest owners and operators of single-family rental homes in the U.S., with more than 48,000 homes located in 22 states. Its primary business strategy is focused on acquiring, renovating, leasing, and operating single-family homes as rentals.

We are optimistic about the prospects for American Homes primarily because we believe the demand outlook for single-family home rentals will outstrip supply, thereby creating a favorable backdrop for strong rent and cash flow growth.

Demand conditions for rental homes are attractive due to increasing household formation and income growth (e.g. millennials are having children and looking to move out of apartments), a decline in home purchase affordability, and an increasing preference for flexibility as home "rentership" has become more socially acceptable. Regarding new construction activity, prospects are positive because there is a limited supply of single-family rental homes in the U.S. housing market.

In our opinion, American Homes, with its well-located real estate portfolio and impressive management team, has a strong runway for growth in the years ahead. We believe the company's operating portfolio is poised to generate increased rental income through increased prices and cash flow growth, and given its strong balance sheet and attractive cost of capital, the company is well positioned to acquire additional homes for rent. We have recently acquired shares of American Homes at prices slightly below the price that was recently paid by the founder of the company.

We have continued to acquire shares in **American Tower Corp.**, the largest wireless tower company in the world, because of our conviction that the company meets our important investment criteria. In our opinion, American Tower is a high-quality business that has: (i) a large secular growth opportunity as wireless data consumption accelerates; (ii) a favorable relationship between surging demand prospects against a backdrop of constrained supply; (iii) an excellent management team; and, (iv) a reasonable valuation.

We recently increased the Fund's exposure to real estate data center companies with the purchase of shares of **QTS Realty Trust, Inc.** and **Digital Realty Trust, Inc.**

Real estate data center companies are benefiting from secular demand that is currently outpacing supply growth. These beneficial tailwinds include the growth in cloud computing, accelerating internet traffic, increased outsourcing of corporate data center functions and needs, greater consumption and utilization of data on mobile devices, and the growth and proliferation of digital photos and video.

Data center tenants have become more sophisticated, and consequently a growing number are requiring data center landlord/operators to have the ability to offer a full suite of data center services (such as QTS Realty and Digital Realty Trust), and to maintain several locations, preferably with a global presence. For these reasons, we expect a more rational and contained new construction outlook than in prior cycles.

Table VII.
Top net sales for the quarter ended June 30, 2017

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
MGM Resorts International	$18.0	$22.3
Simon Property Group, Inc.	50.7	15.8
CoStar Group, Inc.	8.6	11.4
Vornado Realty Trust	17.9	10.8
Macquarie Infrastructure Corporation	6.5	9.9

In the most recent quarter, following strong share performance, we trimmed our positions in **MGM Resorts International** and **CoStar Group, Inc**. Nevertheless, we remain optimistic about the long-term prospects for both companies.

We recently exited investments in **Simon Property Group, Inc.** and **Vornado Realty Trust,** partly due to concerns that both companies may continue to face headwinds in their retail businesses from the slowdown of in-store sales due to the growth of online purchasing by consumers.

We have trimmed our position in **Macquarie Infrastructure Corporation** and reallocated the capital to higher conviction investment opportunities.

Outlook

<u>We remain optimistic about the outlook for real estate and the Baron Real Estate Fund:</u>

- Business conditions are generally solid for our real estate-related companies;
- We continue to anticipate that the duration of this real estate cycle will continue for another few years since we are not witnessing the wide-ranging forewarnings that typically signal the end of a cycle;
- We continue to own attractively valued companies across several segments of real estate; and
- We have structured the Fund to capitalize on what we believe are compelling investment themes.

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

Sincerely,

Jeffrey Kolitch

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.