DEAR BARON REAL ESTATE FUND SHAREHOLDER:

PERFORMANCE

We are pleased to report that the Baron Real Estate Fund (the "Fund") generated solid performance, gaining 19.81% (Institutional Shares) for the nine months ended September 30, 2017, exceeding its primary benchmark index, the MSCI USA IMI Extended Real Estate Index Net (the "MSCI Real Estate Index"), which gained 11.51%.

The Fund's 19.81% nine-month gain also exceeded that of the MSCI U.S. REIT Index, which increased 2.68% and that of the S&P 500 Index, which increased 14.24%.

Table I.
Performance
Annualized for periods ended September 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]	3.40%	3.50%	2.23%	0.63%	4.48%
Nine Months[3]	19.56%	19.81%	11.51%	2.68%	14.24%
One Year	19.58%	19.91%	11.73%	(0.69)%	18.61%
Three Years	6.90%	7.17%	10.80%	8.28%	10.81%
Five Years	12.07%	12.36%	12.28%	8.23%	14.22%
Since Inception (December 31, 2009) (Annualized)	15.27%	15.56%	13.40%	11.41%	13.46%
Since Inception (December 31, 2009) (Cumulative)[3]	200.85%	206.73%	164.94%	131.00%	166.01%

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

In the most recent quarter ended September 30, 2017, the Fund generated a 3.50% return, also outperforming the MSCI Real Estate Index, which gained 2.23%, and the MSCI U.S. REIT Index, which gained 0.63%. The Fund underperformed the S&P 500 Index, which gained 4.48%.

Since the Fund's inception on December 31, 2009, the Fund's average annual return of 15.56% has outperformed the average annual return of the MSCI Real Estate Index (13.40%), the MSCI U.S. REIT Index (11.41%), and the S&P 500 Index (13.46%).

Additionally, the Fund's cumulative return was 206.73% during this 7¾ year period, surpassed each of the cumulative returns of the MSCI Real Estate Index (164.94%), the MSCI U.S. REIT Index (131.00%), and the S&P 500 Index (166.01%).

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.

BARON FUNDS® 1987

According to ***Morningstar***, for the period ended September 30, 2017*:

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

In a recent ***Wall Street Journal*** report, according to data supplied by ***Lipper**:***

- The Baron Real Estate Fund ranked in the top 2% of 261 real estate funds for the 12 months ended September 30, 2017, based on its total return of 19.91%, thus significantly outperforming the 1.08% average return of the 261 funds in the Lipper Real Estate Category.

We remain optimistic about the prospects for real estate and the Baron Real Estate Fund. Please see the "Outlook" section at the end of this letter for our forward-looking views for the Fund.

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

	Quarter End Market Cap (billions)	Percent Impact
InterXion Holding N.V.	$ 3.6	0.66%
Hilton Worldwide Holdings, Inc.	22.3	0.33
Home Depot, Inc.	192.8	0.30
American Tower Corp.	58.7	0.28
Equinix, Inc.	34.8	0.23

In the recently concluded third quarter of 2017, our investments across a variety of real estate categories contributed to the Fund's solid performance.

The Fund's holdings in data center real estate companies **InterXion Holding N.V.** and **Equinix, Inc.** generated solid share price returns. We are bullish about the prospects for real estate data center companies, because, in our opinion, we are in the early stages of dynamic data center growth opportunities. This is due to the outsourcing by a growing number of companies of their technological needs to high-tech and state-of-the-art data center firms. This outsourcing is also propelled by explosive growth in data and cloud computing.

For example, according to Gartner Inc., the world's leading Information Technology research and advisory company, cloud computing is projected to grow at a 30% annual rate between 2016 and 2021. Additionally, according to Cisco Systems Inc., data growth is projected to grow 40% annually over the next five years. We also anticipate a more rational supply of data center facilities than in previous cycles. We are currently witnessing more pre-leasing by data center developers, and less speculative development than in the past.

The shares of leading hotel operator, **Hilton Worldwide Holdings, Inc.,** performed strongly in the third quarter due, in part, to expectations that the company would be a key beneficiary if global economic prospects continue to improve.

Hilton's appeal also stems, in part, from its extremely attractive business model that is driven primarily by a strong pipeline of new hotel growth whereby third-party developers provide the majority of the capital to build the hotels. Additionally, Hilton generates contracted fees for the management of the hotels and the use of its leading hotel brands. Hilton's "asset light" and "capital light" business model generates significant cash flow that can be targeted for dividends and share repurchases. We remain optimistic about the long-term prospects of the company.

Home Depot, Inc., the world's largest home improvement chain, continued to gain in the most recent quarter, driven by strong management execution, solid business results, continued gains in new and existing home sales, and increased consumer spending on home repair and remodeling.

American Tower Corp., the world's largest real estate-related owner, operator, and developer of wireless communications and broadcast towers, continued to trend higher in the third quarter. Since September, however, the shares have pulled back somewhat, likely reflecting some concerns that a potential merger of two of its largest customers, T-Mobile and Sprint, might result in a loss of some leasing revenues (we estimate that at less than 4%) from the de-commissioning of overlapping tower-based sites as the two mobile carriers integrate their networks. We are not concerned about a T-Mobile and Sprint merger because we anticipate that the combined company, with its improved financial profile, would have a greater capacity to increase capital expenditures on wireless equipment, thereby offsetting any meaningful loss of income to American Tower.

Overall, we maintain that American Tower is well positioned to take advantage of large secular growth opportunities as global wireless data consumption accelerates. We may look to acquire more shares in this high-quality company.

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

	Quarter End Market Cap (billions)	Percent Impact
Acuity Brands, Inc.	$ 7.2	–0.20%
Martin Marietta Materials, Inc.	13.0	–0.17
Macquarie Infrastructure Corporation	6.0	–0.15
Vulcan Materials Company	15.8	–0.15
Masonite International Corp.	2.0	–0.13

The shares of **Acuity Brands, Inc.**, a leading producer of lighting solutions, underperformed in the most recent quarter due to a moderation in the growth of its business resulting from labor shortages in the construction industry; uncertainty related to infrastructure spending, tax, and trade policies; and competitive pressures. We have trimmed our position, and may look to reallocate capital to higher conviction investment opportunities.

* As of 8/31/2017, Morningstar calculates the **Morningstar US Fund Real Estate Category Average** using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. As of September 30, 2017, the category consisted of 258, 255, 203, and 159 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, 3rd, 1st, and 2nd percentiles, respectively, in the category.

** 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 September 30, 2017, the category consisted of 261, 203, and 155 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 4th percentiles, respectively, in the category.
Source: Lipper Analytical Services, Inc.

Martin Marietta Materials, Inc. and **Vulcan Materials Company** share performance lagged in the most recent quarter due to speculation that construction business may have been disrupted by the recent hurricanes in Texas and Florida. We maintain our bullish view on the attractive prospects for both companies because the key demand drivers for their businesses–government spending on infrastructure projects, residential and non-residential construction levels–are all moving in the right direction. We see a long pathway for growth for both Martin Marietta and Vulcan Materials.

The shares of **Macquarie Infrastructure Corporation** declined in the most recent quarter. We maintain that Macquarie owns and operates high-quality real estate-like infrastructure assets. The company has a clear path to continue to grow its free cash flow per share by approximately 15% annually, and is attractively valued while offering a 7.6% current dividend yield.

Masonite International Corp., the largest manufacturer of residential doors in North America, declined in the most recent quarter due to disappointing quarterly business results. The company cited a shortfall in its North American residential door business and its European and architectural businesses. We are reassessing our long-term outlook for the company.

Portfolio Structure

We have continued to structure the Fund to take advantage of seven compelling investing themes. They are:

1. Emphasis on companies that we expect to perform well as economic growth continues to improve and interest rates rise (e.g., hotel and timeshare companies);
2. Prioritization of residential real estate-related companies that should benefit from the ongoing rebound in the U.S. housing market (e.g., homebuilders and building products/services companies);
3. Concentration in real estate-related companies that should benefit from the technology revolution and evolution (e.g., data centers and tower operators);
4. Identification of additional real estate categories and companies that we expect to benefit from secular and/or cyclical tailwinds (e.g., construction materials companies);
5. Moderation of our REIT exposure due to tempering growth in some segments of commercial real estate, and the possibility of rising interest rates;
6. Emphasis on Las Vegas–one of the best real estate markets in the U.S. (e.g., gaming and casino companies); and
7. International real estate opportunities that offer an attractive combination of improved growth prospects, low interest rates, and attractive stock valuations.

Investment Categories

The Baron Real Estate Fund currently has investments in 11 real estate-related categories (see Table IV below).

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

		Percent of Net Assets
REITs		29.1%
Building Products/Services		28.8
Hotel & Leisure		14.1
Hotels & Timeshare/Leisure	10.5%	
Cruise Lines	3.6	
Casinos & Gaming Operators		6.7
Data Center Operating Companies[1]		6.2
Real Estate Service Companies		4.7
Real Estate Operating Companies		2.5
Infrastructure-Related Real Estate Companies		2.1
Homebuilders & Land Developers		1.3
Tower Operators[2]		1.2
		96.7
Cash and Cash Equivalents		3.3
		100.0%

[1] Total would be 10.9% 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 September 30, 2017, we were invested in 50 companies. Our 10 largest holdings represent 42.2% of the Fund.

We invest in companies with a variety of market capitalizations. As of September 30, 2017, the median market capitalization of the portfolio was $7.8 billion. Companies with a market capitalization of less than $2.5 billion represented only 5.6% of the Fund.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
InterXion Holding N.V.	$ 3.6	$62.3	6.2%
American Tower Corp.	58.7	62.2	6.2
Mohawk Industries, Inc.	18.4	59.1	5.9
Equinix, Inc.	34.8	47.9	4.8
Home Depot, Inc.	192.8	45.5	4.5
Vulcan Materials Company	15.8	35.7	3.5
MGM Resorts International	18.7	29.3	2.9
Wyndham Worldwide Corp.	10.8	28.0	2.8
Hilton Worldwide Holdings, Inc.	22.3	27.7	2.7
The Sherwin-Williams Company	33.4	27.3	2.7

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Beacon Roofing Supply, Inc.	$ 3.4	$20.9
SL Green Realty Corp.	10.2	6.0
Red Rock Resorts, Inc.	2.7	5.7
Boston Properties, Inc.	19.0	5.0
Vulcan Materials Company	15.8	4.2

We continue to identify several attractive investment opportunities. Of our top net purchases for the most recent quarter, we initiated positions in three companies (**Beacon Roofing Supply, Inc., SL Green Realty Corp.,** and **Boston Properties, Inc.**). The Fund also acquired additional shares in two current holdings (**Red Rock Resorts, Inc. and Vulcan Materials Company**). In our opinion, all five companies are attractively valued.

We acquired shares in Beacon Roofing Supply, Inc. following its recently announced $2.6 billion acquisition of Allied Building Products. The combined company will become one of the largest building product distributors in North America with $7 billion in sales from its 593 locations. Approximately 71% of its sales will be generated from residential and non-residential roofing products, 15% from interior building materials, such as gypsum wallboard, acoustical ceiling tiles, and 14% from other complementary building materials such as windows and doors, siding, insulation, and waterproofing.

We are optimistic about the outlook for Beacon shares for three key reasons:

First, we think Beacon is well positioned to benefit from the continued rebound in U.S. residential real estate. We expect both home sales and consumer spending on home repair and remodeling to continue to increase as a result of several years of pent-up demand, low home inventory levels, attractive mortgage rates, increasing home prices, and strength in the economy. New home construction and residential repair and remodeling spending account for approximately two-thirds of the company's combined sales.

Second, we believe Beacon's acquisition of Allied Building Products creates a powerful and diverse building materials distribution platform with multiple avenues for growth. Management is targeting to more than double its revenues from $7 billion to $15 billion over time, given its opportunities to increase market share in the roofing, sidewall, and wallboard segments (i.e., management is aiming for a 30% market share of an estimated $55 billion addressable market). Management also believes there are significant opportunities for the combined company to cut costs and improve profitability margins through branch consolidation, overhead efficiencies, and the acquisition of additional companies.

Third, we believe Beacon's shares are attractively valued at less than nine times 2019 estimated cash flow. We see a path to generating mid-teen annual returns in the next few years, although we cannot guarantee this.

We recently began acquiring shares in both SL Green Realty Corp. and Boston Properties, Inc., two of the leading office landlords and developers in the U.S.

SL Green is a midtown Manhattan-focused office REIT that has ownership interests in a $20 billion real estate portfolio. Boston Properties owns a $30 billion portfolio of top-quality office buildings in high barrier-to-entry markets such as Manhattan, Boston, Washington D.C., San Francisco, and West Los Angeles.

In our opinion, both companies own high-quality real estate assets. They both have potential for accelerated cash flow growth in the next few years, and are attractively valued in the public markets. SL Green and Boston Properties both have strong management teams, each with a track record of prudent capital allocation and balance sheet management. We are optimistic about the prospects for the Fund's investments in both companies.

Red Rock Resorts, Inc. is a Las Vegas-focused gaming, development, and management company that operates 22 casino and entertainment properties. Approximately 80% of the company's business is generated in Las Vegas. We are optimistic about the company's prospects for the following three key considerations:

First, we are bullish on Las Vegas' growth prospects. It is benefiting from strong visitor trends, an improving local economy, and limited new construction activity. Second, its management team has instituted several strategic investment initiatives that should result in the acceleration of the company's growth in the latter part of 2018, and in 2019. Third, we believe Red Rock's shares are attractively valued with a path to generating a 50% return in the next few years.

In the most recent quarter, we took advantage of weakness in the share price of construction materials company Vulcan Materials Company to accumulate additional shares. Vulcan's short-term business trends have likely been negatively impacted by the recent hurricanes in Texas and Florida. We believe these issues are transitory and maintain our bullish view on the prospects for the company.

The three key demand drivers for Vulcan's business–government spending on infrastructure projects, residential and commercial construction levels–are moving in the right direction. We believe there is a credible path for management to double the company's cash flow in the next five years without having to rely on big federal infrastructure legislation. If management is successful in meeting its growth targets, we think the shares could reach at least $200 per share in the next four years, contrasted with a recent price of approximately $118 per share.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Lowe's Companies, Inc.	$61.8	$8.1
American Campus Communities, Inc.	6.0	4.9
Masco Corporation	12.4	4.1
Boyd Gaming Corporation	2.9	4.0
CoStar Group, Inc.	9.6	3.9

In the most recent quarter, we exited the Fund's investment in **Lowe's Companies, Inc.** due, in part, to a series of management execution glitches. We have reallocated the capital to higher conviction residential-related investment opportunities.

We have reduced our position in student housing company **American Campus Communities, Inc.** because we believe that competitive pressures have increased.

Following strong share price performance in **Masco Corporation, Boyd Gaming Corporation,** and **CoStar Group, Inc.**, we have trimmed our positions in these companies. Nevertheless, we remain optimistic about the long-term prospects for each company.

Outlook

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

- Business conditions are generally solid for our real estate-related categories and companies;
- We anticipate that the duration of this real estate cycle will persist for another few years since the wide-ranging forewarnings that typically signal the end of a cycle are not evident;
- 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 several 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
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.