DEAR BARON REAL ESTATE FUND SHAREHOLDER:

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

We are pleased to report that the Baron Real Estate Fund (the "Fund") generated strong performance for the most recent quarter ended March 31, 2021.

During this period, the Fund gained 11.08% (Institutional Shares), exceeding the MSCI US REIT Index, which appreciated 8.50%, and modestly underperforming the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), which rose 12.20%.

Baron Real Estate Fund Cumulative Return Since Inception
(December 31, 2009 through March 31, 2021)

- **Baron Real Estate Fund: 507.22%**
- MSCI Real Estate Index: 281.17%
- MSCI US REIT Index: 170.70%

We are also pleased to report that as of March 31, 2021, the Fund received a **5-star Overall Morningstar Rating™**.

Morningstar Real Estate Category Rankings *(as of March 31, 2021)*

- **10-year performance**: Ranked as the #1 real estate fund
- **5-year performance**: Ranked as the #1 real estate fund
- **3-year performance**: Ranked as the #1 real estate fund
- **1-year performance**: Ranked in the top 2% of all real estate funds

Barron's

The Fund was recently profiled in the weekly business magazine, *Barron's*, with a favorable review (March 17, 2021). The article, titled "*Keeping Score in Real Estate*," can be accessed on our Baron website in the "News & Events" section at www.baronfunds.com.

We will address the following topics in this letter:

- A chronicle of our active management of the Fund
- Our investment themes and portfolio construction
- The digitalization of real estate
- The performance of the Fund in a rising interest rate environment (*preview*: strong historical performance)
- The prospects for real estate and the Baron Real Estate Fund (*preview*: we remain bullish)

As of 3/31/2021, the Morningstar Ratings™ were based on 225, 201, 145, and 225 share classes for the 3-year, 5-year, 10-year, and Overall periods, respectively. The Baron Real Estate Fund received 5, 5, 5, and 5 stars, respectively. The Morningstar Ratings are for the Institutional Share Class only; other classes may have different performance characteristics.

As of 3/31/2021, the Morningstar Real Estate Category consisted of 248, 225, 201, and 145 share classes for the 1-, 3-, 5-, and 10-year periods.

Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 2nd, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 4th, 2nd, 2nd, and 1st best performing share class in its Category, for the 1-, 3-, 5-, and 10-year periods, respectively.

As of 3/31/2021, the Morningstar Real Estate Category consisted of 248, 225, and 201 share classes for the 1-, 3-, and 5-year periods. Morningstar ranked Baron Real Estate Fund R6 Share Class in the 2nd, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 3rd, 1st, and 1st best performing share class in its Category for the 1-, 3-, and 5-year periods, respectively.

Morningstar calculates the Morningstar Real Estate Category Average performance and rankings 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.

The **Morningstar Rating™** for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10- year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

BARON FUNDS 1987

Baron Real Estate Fund

Table I.
Performance
Annualized for periods ended March 31, 2021

	Baron Real Estate Fund Retail Shares[1,2]	Baron Real Estate Fund Institutional Shares[1,2]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]
Three Months[3]	11.02%	11.08%	12.20%	8.50%
One Year	99.48%	99.99%	64.19%	36.13%
Three Years	23.70%	24.02%	12.79%	8.18%
Five Years	19.22%	19.54%	10.77%	4.02%
Ten Years	15.64%	15.94%	11.25%	7.22%
Since Inception (December 31, 2009) (Annualized)	17.09%	17.39%	12.63%	9.26%
Since Inception (December 31, 2009) (Cumulative)[3]	490.24%	507.22%	281.17%	170.70%

A CHRONICLE OF OUR ACTIVE MANAGEMENT OF THE FUND

In recent shareholder letters, we highlighted that 2020 was a particularly active year for our management of the Fund due to the acceleration and emergence of headwinds and tailwinds in certain segments of real estate, the unprecedented economic and social lockdown, and the resulting stock market volatility.

Our decision to implement a more active and aggressive portfolio management playbook than our more typical Baron lower turnover approach produced strong performance results in an extremely challenging and unpredictable year for numerous categories of real estate.

In 2020, the Fund's 44.28% gain, measured against the 8.70% decline of the MSCI US REIT Index, was the Fund's best annual comparative performance since its inception 11 years ago. The Fund also generated its best annual performance versus its primary benchmark, the MSCI Real Estate Index, which rose only 4.21%.

In the last few months of 2020 and the first few months of 2021, **we have maintained our elevated active approach of managing the Fund in preparation for this year and the years ahead**.

Though the Fund's long-term investment philosophy remains the prioritization of best-in-class real estate growth companies, in recent months we implemented a barbell approach to the Fund's portfolio construction that includes a more balanced mix between best-in-class real estate "growth" companies and real estate "value" opportunities.

We believe our current barbell approach is prudent because COVID-19 led to a wide disparity in share price performance and valuation for several real estate companies.

We have maintained the Fund's investments in competitively advantaged best-in-class real estate companies with long runways for growth. Examples include:

- **Penn National Gaming, Inc., GDS Holdings Limited, American Tower Corp., Equinix, Inc., CBRE Group, Inc., Zillow Group, Inc., CoStar Group, Inc., Prologis, Inc., and Alexandria Real Estate Equities, Inc.**

We have also acquired shares in several real estate companies that are attractively valued and are "on sale." Examples include:

- **Brookfield Asset Management, Inc.**, **Douglas Emmett, Inc.**, **The Howard Hughes Corporation**, **Toll Brothers, Inc.**, **Simon Property Group, Inc.**, **Vornado Realty Trust**, and **Jones Lang LaSalle Incorporated**.

In our 2020 fourth quarter letter, we stated that we believed the valuation gap between the 2020 real estate laggards and winners would narrow if economic activity improved in 2021. This process has begun. In the first quarter, the share prices of many of the 2020 laggards increased sharply (see "Table II") and the share prices of several 2020 winners declined (see "Table III").

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, 2020 was 1.34% and 1.08%, 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, 2031, 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 **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. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. MSCI is a trademark of Russell Investment Group. The indexes and the Fund include reinvestment of interest, capital gains and dividends, which positively impact the performance results. The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index.

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

Table II.
Examples of 2020 Laggards as of March 31, 2021

	2020 Return	YTD 2021 Return
Vornado Realty Trust	–40.47%	23.18%
Simon Property Group, Inc.	–38.95	33.41
The Howard Hughes Corporation	–37.75	20.52
American Assets Trust, Inc.	–34.96	13.23
Douglas Emmett, Inc.	–30.88	8.54
Six Flags Entertainment Corporation	–23.62	36.28
Equity Residential	–23.53	21.84
Wynn Resorts Ltd.	–18.04	11.11
Jones Lang LaSalle Incorporated	–14.77	20.67
Travel + Leisure Co.	–9.05	36.99

Table III.
Examples of 2020 Winners as of March 31, 2021

	2020 Return	YTD 2021 Return	Percent Change from YTD 2021 High Price
Zillow Group, Inc.	182.54%	–0.12%	–35.15%
Opendoor Technologies Inc.	110.39	–6.78	–40.94
NEXTDC Limited	104.03	–15.90	–20.26
GDS Holdings Limited	81.54	–13.40	–29.92
Pool Corporation	76.94	–7.16	–11.70
CoStar Group, Inc.	54.48	–11.08	–12.54
Cellnex Telecom, S.A.	49.86	–3.98	–8.05
Equinix, Inc.	24.23	–4.43	–11.58
SBA Communications Corp.	17.82	–1.39	–1.78
Alexandria Real Estate Equities, Inc.	13.25	–7.21	–7.81

We also said that if the extreme valuation gap between the 2020 real estate winners and laggards narrows over the course of 2021, we would likely reorient the Fund's holdings, once again, toward best-in-class real estate growth companies. Following the sharp divergence in year-to-date performance between real estate value and real estate growth stocks, the risk-reward prospects have started to become more favorable for growth stocks.

We continue to believe, however, that maintaining a mix of value and growth real estate stocks is prudent. We expect several real estate growth stocks may begin to perform better in the months ahead given the recent correction in share prices and our expectation for the continuation of strong business results. We also maintain our positive view on real estate value stocks for the following reasons:

1. Several 2020 real estate laggards remain attractively valued and "on sale."
2. The business results of many of the 2020 real estate laggards–such as office, mall, hotel, and commercial real estate services companies–should improve disproportionately as economic activity rebounds.
3. Attractively valued and economically sensitive companies may continue to perform well if interest rates continue to rise.

Unlike passive real estate strategies that replicate a real estate benchmark or index by owning the entire universe of public real estate companies regardless of the return prospects for individual companies, ***we will continue to actively manage our real estate fund by prioritizing companies with attractive return prospects while de-emphasizing companies with unappealing return prospects***.

Our actively managed approach to investing in real estate has yielded strong long-term results. Since the launch of the Fund more than 11 years ago on December 31, 2009, the Fund has increased 507.22% cumulatively (net of fees) which compares favorably to the performance of the largest real estate passive strategy, the Vanguard Real Estate ETF ("VNQ"), which increased 220.56%.

Our team remains driven to continue to produce strong long-term results for our shareholders. We will stay vigilant, adaptive, and active regarding the management of the Fund.

OUR INVESTMENT THEMES AND PORTFOLIO CONSTRUCTION

We continue to prioritize three investment themes.

2021 investment themes

1. COVID-19 recovery beneficiaries
2. Opportunities in residential real estate
3. The intersection of technology and real estate

1. COVID-19 recovery beneficiaries

This investment theme encompasses what we call the epicenter real estate companies of the 2020 pandemic.

Last year, certain REITs and other real estate-related businesses that rely on the assembly of people were severely impacted by COVID-19 as they were forced to shut down all or a large part of operations almost without exception. The share prices of many of these companies declined last year and remain below peak prices.

Examples of COVID-19 recovery beneficiaries include the following real estate companies:

- Hotels
- Timeshare companies
- Amusement park companies
- Casinos & gaming operators
- Real estate operating companies
- Land development companies
- Senior housing operators
- Commercial real estate services companies
- Certain REITs (e.g., office, apartment, mall, shopping center, hotel, health care, and gaming REITs)

Most of the real estate businesses that we continue to prioritize remain cyclically depressed–not secularly challenged. Consequently, we expect the cash flows of many of these real estate businesses to rebound as people are inoculated with COVID-19 vaccines and economic activity resumes.

Over the course of 2021, we anticipate the release of pent-up consumer and commercial demand for several of the hardest hit segments of real estate–particularly the travel-related segments.

Real estate casino and gaming companies, such as **Wynn Resorts Ltd.**, **Las Vegas Sands Corporation**, **Red Rock Resorts, Inc.**, **Boyd Gaming Corporation**, and **Penn National Gaming, Inc.**, have been in the bullseye of the COVID-19 pandemic. In the past year, their businesses have been hampered both by pandemic-related shutdowns and by consumers' uneasiness congregating in enclosed spaces such as casinos. As properties have opened, we have seen strong signs of pent-up demand and we expect business activity to rebound sharply as an increasing number of people are vaccinated.

Despite a recent rebound in the share prices of many of the "COVID-19 recovery beneficiaries," we believe several companies have significant upside.

Additional examples of the Fund's COVID-19 recovery beneficiaries include hotel companies (**Hilton Worldwide Holdings, Inc.**), vacation timeshare companies (**Travel + Leisure Co.**, **Hilton Grand Vacations Inc.**, and **Marriot Vacations Worldwide Corp.**), amusement park operators (**Six Flags Entertainment Corporation** and **Seaworld Entertainment Inc.**), commercial real estate services companies (**CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated**), real estate operating companies (**Brookfield Asset Management, Inc.**), land development companies (**The Howard Hughes Corporation**), and certain REITs (**Douglas Emmett, Inc.**, **Simon Property Group, Inc.**, **Vornado Realty Trust**, **American Assets Trust, Inc.**, **Equity Residential**, **MGM Growth Properties LLC**, and **Gaming and Leisure Properties**, **Inc.**).

On March 31, 2021, COVID-19 recovery beneficiary companies represented 47.1% of the Fund's net assets.

Table IV.
COVID-19 Recovery Beneficiaries as of March 31, 2021

	Percent of Net Assets
Casinos & Gaming Operators	17.9%
Certain REITs	9.5
Timeshare Companies	5.6
Commercial Real Estate Services companies	3.9
Hotels and OTAs	3.4
Amusement Park Companies	2.6
Real Estate Operating Companies	2.6
Land Development Companies	1.6
Total	47.1%

2. Opportunities in residential real estate

The strength in certain segments of residential real estate was one of the major positive economic surprises of 2020. This strength has continued in the first few months of 2021.

Both cyclical and secular tailwinds are aiding the U.S. housing market.

Cyclical tailwinds

Cyclically depressed levels of construction activity, low inventory levels, pent-up demand, low mortgage rates, higher consumer savings, meaningful stimulus checks, and a rebound in job and economic growth are benefiting the U.S. housing market. The current situation is nothing like what occurred during the global Financial Crisis when our country's inventory of homes was significantly oversupplied relative to demand.

Secular tailwinds

COVID-19 has also given rise to secular tailwinds that may aid the U.S. housing market for several years:

Suburban may become the new urban: More U.S. families have been moving out of urban areas to more suburban towns. Given the sense of safety that comes with owning a single-family home rather than living in an apartment building (no elevators, no shared spaces, more space, less density), we expect demand for single-family homes to remain strong.

The Fund also has investments in REITs that would benefit from this movement out of urban areas into suburban areas. We expect single-family rental REIT **Invitation Homes, Inc.** to benefit as more people opt for single-family home rentals rather than apartment rentals. In the aftermath of the economic impact from the Coronavirus, we expect demand for affordable housing to benefit manufactured housing REIT **Equity Lifestyle Properties, Inc.**

Work from home or anywhere: Should work-from-home arrangements become more permanent, people will have more flexibility to relocate away from urban centers. This should lead to an increase in new home sales and demand for single-family rentals.

More time at home may lead to more investment in the home: Homeowners are likely to spend more time at home than ever before as more employees work from home and people prioritize social distancing. This trend should contribute to homeowners spending more on home repair and remodeling activity (home office, outdoor decks and living spaces, pools, kitchens, and refreshing paint jobs). The Fund currently has investments in several companies that should benefit from this trend including: **Home Depot, Inc.**, **Lowe's Companies, Inc.**, **The Sherwin-Williams Company**, **Fortune Brands Home & Security, Inc.**, **Installed Building Products, Inc.**, **SiteOne Landscape Supply, Inc.**, **Pool Corporation**, **Trex Company, Inc.**, and **The AZEK Company Inc.**

We are mindful of, and will continue to monitor, the potential risks to the Fund's investments in residential real estate-related companies. Many residential-related stocks performed well in 2020 and in the first quarter of 2021, certain valuations are not as compelling, year-over-year growth comparisons may be more challenging later in 2021, and a sharp increase in mortgage rates coupled with double digit home price growth would make homes less affordable.

Should headwinds begin to surface for the housing market, we would expect any correction in the share prices of residential real estate-related companies to be relatively shallow given the powerful cyclical and secular housing-related tailwinds.

We have continued to be struck by the notably optimistic commentary by two of the leading executives in the housing industry.

February 24, 2021: Doug Yearley, Chairman and Chief Executive Officer of Toll Brothers, Inc.

"***Demand for new homes remains incredibly strong*** and we are enjoying pricing power in nearly all of our markets…our results reflect a robust housing market that continues to benefit from favorable demographic trends, a very tight supply of for-sale homes stemming from a decade of underproduction, low mortgage rates and a renewed appreciation for the importance of the home…***we expect fiscal year 2021 to be a tremendous year for Toll Brothers, and we are laying the foundation for an even better 2022***."

March 17, 2021: Stuart Miller, Executive Chairman of Lennar Corporation

"From a macro perspective, ***the housing market remains strong. Demand has continued to strengthen, as the millennial generation which had previously postponed its entry into the housing market has now continued to drive family formation, while at the same time, the supply of new and existing homes remains constrained***."

We remain bullish on the prospects for homebuilders, single-family rental REITs, manufactured housing REITs, residential building products/services companies, apartment REITs, and other residential-related real estate companies.

The Fund's ability to invest in non-REIT residential-related real estate companies such as homebuilders, land developers, building products/services companies, and home centers is one of the important differentiators that affords the Fund the ability to distinguish itself versus REIT funds.

On March 31, 2021, residential-related real estate companies represented 18.0% of the Fund's net assets.

Table V.
Residential-related Real Estate Companies as of March 31, 2021

	Percent of Net Assets
Building Products/Services	6.3%
Homebuilders	5.2
Home Centers	3.9
REITs	
Manufactured Housing	1.3
Single-Family Rental	1.3
Total[1]	18.0%

[1] Total would be 23.5% if included residential-related technology companies Zillow Group, Inc. and Opendoor Technologies Inc.

3. The intersection of technology and real estate

Real estate technology-related companies performed well in 2020. We noted in our 2020 fourth quarter letter that valuations were generally less compelling than one year ago and the performance of the stocks may underperform in the near term relative to laggard real estate categories that should benefit if economic growth accelerates in 2021. This has occurred in the first quarter of 2021. We also cited that we remain bullish on the long-term prospects for several real estate technology companies.

The impact of technology on real estate is undeniable. The growth in cloud computing, the internet, mobile data and cellphones, and wireless infrastructure are powerful secular drivers that should continue unabated for years and are impacting real estate, along with many other industries.

If anything, the pandemic has accelerated these secular trends as more people conduct business, leisure, residential, and commercial activities online.

Real estate-related companies that embrace and adopt the latest technological advances and innovations remain an important focus for us. For our more expanded thoughts on this important topic, please read our comments on "The digitalization of real estate" later in this letter.

Key beneficiaries of the technology revolution include data center companies, wireless tower companies, industrial REITs, real estate data analytics companies, among others.

GDS Holdings Limited is the leading carrier-neutral developer and operator of data centers in China, a market that represents the largest growth potential globally. We believe the company represents one of the most compelling multi-year secular growth stories in all of real estate, as we expect GDS to organically grow its cash flow by more than 40% annually for the next few years. By comparison, U.S. data center companies are expected to grow their annual cash flow by only 5% to 10% per year. A key growth driver is cloud computing, which is earlier in its adoption in China and is expected to grow 35% annually versus 5.5% in the U.S. over the next several years according to industry research. GDS customers include some of the fastest growing cloud, e-commerce, gaming, and social media companies including Alibaba, Tencent, and Baidu as well as financial institutions, enterprise, and other large emerging technology companies in China. We still see a path to more than double our money over the next three to four years combined with a highly attractive near-term upside potential.

Other examples of companies we believe are poised to benefit from the impact of technology on real estate include data center companies **Equinix, Inc.** and **NEXTDC Limited**, wireless tower REITs **American Tower Corp.** and **SBA Communications Corp.**, wireless tower company **Cellnex Telecom, S.A.**, and industrial logistics REITs **Prologis, Inc.** and **Rexford Industrial Realty, Inc.**

On March 31, 2021, technology-related real estate companies represented 19.8% of the Fund's net assets.

Table VI.
Technology-related Real Estate Companies as of March 31, 2021

	Percent of Net Assets
Real Estate Data Analytics Companies	7.9%
Data Centers	5.1
Wireless Tower Operators	0.6
REITs	
Wireless Tower REITs	3.5
Data Center REITs	2.7
Total	19.8%

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

Table VII.
Fund Investments in Real Estate-related Categories as of March 31, 2021

	Percent of Net Assets
REITs	24.6%
Casinos & Gaming Operators	17.9
Real Estate Service Companies	14.4
Building Products/Services	9.0
Hotels & Leisure	8.9
Homebuilders & Land Developers	6.5
Data Centers[1]	5.1
Unclassified	4.8
Real Estate Operating Companies	2.6
Tower Operators	0.6
Cash and Cash Equivalents	5.6
Total	100.0%

[1] Total would be 7.8% if included data center REIT Equinix, Inc.

THE DIGITALIZATION OF REAL ESTATE

The real estate industry, which represents approximately 13% of U.S. GDP, has eschewed decades of technological innovation while many other industries have evolved rapidly. We are seeing evidence of that trend beginning to change as real estate companies are increasingly adopting technology as a source of competitive differentiation and evolution across property sectors.

This collision of real estate and technology has led to a new sub-industry within real estate: real estate technology, also referred to as *proptech*. Proptech is the usage of technology and software to assist in real estate needs.

The emergence of proptech and the digitalization of real estate is an exciting and promising new development for real estate. We believe we are in the early innings of a technology-driven investment cycle centered on data and digitalization that allows real estate-related businesses to drive incremental revenue streams and lower costs. For example, we anticipate an acceleration in online activity for real estate-related transactions in the years ahead.

The digitalization of residential real estate, commercial real estate, casino gambling, hotel bookings, and other segments of real estate are a key focus for the Fund. We have identified several real estate companies that are well-positioned to capitalize on this burgeoning secular growth trend. Examples include **Zillow Group, Inc.**, **Opendoor Technologies Inc.**, **Lennar Corporation**, **CoStar Group, Inc.**, and **Penn National Gaming**.

We are bullish about the long-term prospects for technology-centric housing-related companies such as **Zillow Group, Inc.** and **Opendoor Technologies Inc.** Consumers are seeking streamlined, tech-enabled shopping experiences and both companies are developing a simpler real estate transaction that will enable consumers to buy, sell, rent, and finance residential real estate with the click of a button and save consumers time, money, and stress through technology service and integration. The opportunity is massive as approximately $1.6 trillion of home sales are transacted each year.

Lennar Corporation is a leading national homebuilding company that is at the forefront of the digitalization of real estate with its $\mathrm{LEN}^{\mathrm{X}}$ technology platform. $\mathrm{LEN}^{\mathrm{X}}$ has made, and will continue to make, strategic investments in housing-related technology companies.

On March 17, 2021, Stuart Miller, Executive Chairman of Lennar Corporation, said the following:

"We are no longer just a homebuilding company with technology operating in the background; we are now a focused technology-aware and technology-engaged homebuilder that incorporates effective and new technology solutions to enhance our core operations and our product offering. We invest in technology companies and professionals; we work alongside them to develop products for our industry; we incorporate new ways of doing business; and we profit as well by investing in world-class innovators and entrepreneurs that help illuminate our path forward."

CoStar Group, Inc. is the leader in transforming the $180 trillion real estate industry from offline to digital. The company has built the most comprehensive and proprietary database of essential commercial real estate data in the U.S. Millions of visitors view CoStar's online marketplaces for real estate making them key revenue drivers for the company's clients.

We hold CEO Jay Snowden of **Penn National Gaming, Inc.** in high regard. Jay and his team have engineered one of the best executed strategic business pivots that we have ever encountered. In 2020, Penn supercharged its digital transformation with its investment in Barstool Sports, a well-known sports and lifestyle media brand. This key investment has catapulted Penn to an omni-channel technology-focused casino gaming company that operates 41 regional casinos across 19 states and offers online sports betting, casino gaming, and an evolving media platform that creates meaningful synergies to the entire Penn ecosystem.

Penn remains well funded, and we expect the company to deploy a portion of its $1.9 billion in cash by investing in cutting-edge technology to engage with customers more effectively and solidify its lead in the evolving sports betting market. We believe Penn is poised to grow its pre-pandemic cash flow by more than 100% in the next four to five years.

In the first quarter, we invested in three SPACs, or special purpose acquisition companies, that intend to merge with real estate technology companies. In our opinion, each SPAC is led by a seasoned and highly regarded real estate sponsor.

The Fund's proptech SPAC investments include:

Fifth Wall Acquisition Corp. I

Fifth Wall is among the largest and most active venture capital investors in proptech. Led by co-founder Brendan Wallace, Fifth Wall has developed impressive relationships with the management teams of several exciting public and private real estate companies and has invested in many promising proptech companies.

RXR Acquisition Corp.

Chairman and CEO Scott Rechler and the RXR management team have worked together for over 25 years capitalizing on mega-trends in real estate. Three years ago, Scott built a team of more than 25 professionals that invests in early-stage real estate-related technology companies and has already become a leader in the digitalization of real estate.

Tishman Speyer Innovation Corp. II

As a global real estate firm, Tishman Speyer has a long and successful track record of identifying monumental shifts in the real estate industry. In 2017, Chairman Rob Speyer built a dedicated team to source and make investments in proptech companies. In the last few years, the company has invested in 11 venture proptech investments, several of which we believe have promising long-term growth potential.

THE PERFORMANCE OF THE FUND IN A RISING INTEREST RATE ENVIRONMENT

We are mindful that interest rates are currently a top-of-mind topic.

Since bottoming at a historic low of only 0.50% on March 9, 2020, the U.S. 10-Year Treasury yield has responded to the double-barrel of extremely accommodative fiscal and monetary policy, a steady improvement in economic growth, and a rise in inflation by increasing to 1.74% on March 31, 2021.

While falling interest rates tend to lower the demanded return on assets and contribute to a rise in equity prices (i.e., P/E ratios and other stock valuation metrics expand), an increase in interest rates has the potential to be a source of vulnerability for the prices of certain stocks and other assets (i.e., P/E ratios and other stock valuation metrics may compress).

Following the sharp rise in many stocks in 2020, in part due to the collapse in global interest rates, we are aware that the valuations of some stocks may be vulnerable should interest rates continue to rise in the months ahead.

Our additional observations regarding interest rates are as follows:

1. **No one has a crystal ball**

Although we are always mindful of the macroeconomic environment, we do not base our investment decisions on macro forecasts.

Macro forecasts such as for the direction of interest rates, inflation, the U.S. dollar, and economic growth tend to be hit or miss.

The events of 2020 are a case in point. We are confident that the onset of a global pandemic, a recession, the collapse in interest rates, and the largest ever decline in the S&P 500 Index in a 4 ½ week period (the S&P 500 Index fell 34% from February 19, 2020 to March 23, 2020) were not on the radar of the 2020 macro forecasters.

We have cited on several occasions that we agree with Howard Marks, Co-Chairman of Oaktree Capital Management, who believes that successful macro forecasters are "few and far between." In the past, he has noted that:

- No one knows with clarity the events that are going to transpire
- No one knows what the market's reaction to those events will be

2. **Baron Real Estate Fund – an "all-weather fund"**

More than 11 years ago, we began to prepare for the launch of the Baron Real Estate Fund. Our goal was to structure a real estate fund that would have the potential to perform well in various macro-economic environments such as periods of strong and weak economic growth, declining and rising interest rates, etc. We wanted to build an "all-weather fund."

We chose to create a more inclusive and unique real estate fund–one that is expansive, balanced, and more diversified than typical REIT funds. In addition to investments in REITs, the Baron Real Estate Fund would also invest in a broader group of non-REIT real estate-related categories such as hotel and leisure companies, real estate service companies, homebuilders, building product and services companies, casino and gaming operators, infrastructure companies, and other real estate operating companies.

Our decision to pursue a differentiated real estate investment approach has afforded the Fund a greater ability to navigate and generate strong returns in various macro-economic environments.

3. **Strong performance track record in declining and rising interest rate environments**

Since inception on December 31, 2009, the Fund has generated strong performance in declining and rising interest rate environments.

Declining interest rate environments

The 10-year U.S. Treasury yield has decreased from 3.83% to 1.74% since the launch of the Fund more than 11 years ago through March 31, 2021. During this declining interest rate environment, the Fund has increased 507.22% (net of fees), outperforming both the MSCI US REIT Index (170.70%) and the MSCI Real Estate Index (281.17%) by a wide margin.

In 2020, a year when the 10-year U.S. Treasury yield fell sharply from 1.92% to a low of 0.50% before rebounding to end the year at 0.92%, the Fund increased 44.28% (net of fees), outperforming both the MSCI US REIT Index which declined by 8.70% and the MSCI Real Estate Index which rose only 4.21%.

Rising interest rate environments

Since the launch of the Fund at the end of 2009, there have been six periods when the U.S. 10-year Treasury yield increased by at least 80 basis points. During these rising interest rate periods, the Baron Real Estate Fund:

- Outperformed the MSCI US REIT Index 100% of the time (in six of six periods)
- Generated positive absolute performance and strong relative performance in five of six periods. The only period the Fund did not generate a positive return was a 13-month period when it declined 1.82%.

The following table summarizes the Fund's performance during the periods when interest rates have increased at least 80 basis points.

Table VIII.
Performance of Baron Real Estate Fund When Interest Rates Have Risen

Date	Increase in 10-Year Treasury Yield	Change in Increase in 10-Year Treasury Yield (bps)	Baron Real Estate Fund Performance	MSCI US REIT Index Performance	MSCI USA IMI Extended Real Estate Performance
10/8/2010 to 2/10/2011	2.38% to 3.72%	+ 134 bps	16.61%	9.04%	13.85%
7/24/2012 to 1/1/2014	1.39% to 3.04%	+ 165 bps	60.33%	3.47%	32.83%
1/30/2015 to 6/10/2015	1.64% to 2.48%	+ 84 bps	3.76%	-10.62%	-1.36%
7/8/2016 to 3/13/2017	1.36% to 2.63%	+ 127 bps	5.92%	-8.43%	1.42%
9/7/2017 to 10/5/2018	2.06% to 3.23%	+ 117 bps	-1.82%	-1.97%	4.56%
3/9/2020 to 3/31/2021	0.50% to 1.74%	+ 124 bps	83.59%	12.00%	35.18%

Source: BAMCO and FactSet.

4. **The playbook for a rising interest rate environment**

In the past, the Fund has often benefited from utilizing its playbook for an environment of accelerated economic and business growth and rising interest rates. Our Baron playbook entails five strategies. They include:

(i) Carefully reviewing and updating our allocations to REITs and other dividend-yielding securities. Higher bond yields can limit the attractiveness of dividend stocks such as REITs (although that is not always the case).

(ii) Focusing on short lease duration real estate companies such as hotels that can re-price more often, grow faster, and better offset increases in interest rates.

(iii) Emphasizing real estate-related companies and sectors that will most likely benefit from an improvement in the economy. Examples may include housing-related securities.

(iv) Owning real estate companies with compelling growth prospects, including organic growth (cyclical and/or secular) and external growth (development projects and acquisition prospects).

(v) Investing in companies with strong balance sheets that are less sensitive to interest rate increases.

Our playbook for a rising interest rate environment may require modifications because every market environment is distinct. For example, the share prices of many REITs declined sharply in 2020 despite the drop in interest rates. And, as interest rates have increased in the first few months of 2021, the share prices of many REITs have rebounded sharply.

Baron Real Estate Fund

THE INVESTING PROSPECTS FOR REAL ESTATE AND THE BARON REAL ESTATE FUND

In 2018, Morgan Stanley published a report titled *"The End of Easy."* In that report, the authors noted that the stock market performance in the prior nine years had exceeded the performance of the economy due to multiple positive tailwinds that included low inflation, historically low interest rates, and positive U.S. policy catalysts (e.g., tax reform).

Looking forward, however, the authors predicted that ***"the end of easy"*** stock market performance may be approaching, as the positive effects of moderate growth, low inflation, low interest rates, and an accommodative Fed (the goldilocks environment) start to moderate. The essence of the report was that when this occurs, the economy may outperform the stock market.

Fast forward to 2020 and 2021. Last year, the share price performance of several companies exceeded the performance of the economy. And now, in 2021, perhaps the "end of easy" has arrived once again. Recent reports regarding job growth, consumer confidence, and consumer spending have all been quite strong. Economic growth is accelerating. Interest rates and inflation have been increasing in response to strong economic data. In the first quarter, stock market volatility and the wide divergence in company share price performances perhaps portends that it will be trickier to navigate the investing landscape in the months ahead.

We continue to be of the view, however, that no one has a crystal ball regarding how macroeconomic changes, political events, and central bank actions may unfold, and what the market's reaction will be to those events.

Our antenna will remain up. We will continue to monitor those factors that influence real estate most directly such as construction activity, demand prospects, lending practices, interest rates and credit spreads, bank liquidity, and valuations. We also weigh macro dynamics that could impact certain segments of real estate such as economic growth, inflation, interest rates, oil prices, and the strength of the U.S. dollar.

We continue to believe there are valid reasons for optimism:

- Widespread inoculation of COVID-19 vaccines is leading to an easing of mobility restrictions, an improvement in employment and economic growth.
- Corporate earnings have begun to bounce back, fueled by the release of consumer pent-up demand, improving profitability margins, and an increase in corporate investment activity such as mergers & acquisitions and share buybacks.
- The double barrel of exceptionally favorable monetary and fiscal support is aiding the economic recovery.
- Many companies and consumers have maintained record cash levels due to the uncertain outlook in 2020. Corporations and consumers have begun to spend more cash as economic and employment prospects improve. Various companies are increasing capital expenditures, pursuing mergers and acquisitions, repaying debt, and returning capital to shareholders in the form of dividends and share buybacks.
- The U.S. banking system has improved dramatically and is maintaining strong capital ratios. Substantial private capital is in pursuit of real estate and remains supported by widely available debt capital at low interest rates.

Although there are clear differences in the prospects for various residential and commercial real estate companies, **we continue to believe investment prospects for much of public real estate remain attractive:**

- The performance of several real estate companies lagged in 2020 largely due to the Coronavirus headwind that led to a sharp slowdown in business activity for hotels, real estate casinos, urban apartment and office landlords, malls and shopping centers, and other real estate categories. Last year's real estate headwinds have begun to recede, and we expect this trend to continue in the months ahead.
- Several real estate companies remain "on sale" and are attractively valued relative to equity, fixed income, and private real estate alternatives.
- The real estate cycle has reset, and we believe the multi-year outlook is attractive–fueled by improving prospects for demand, subdued construction inventory levels, strong and liquid balance sheets, and still historically low interest rates.
- Much of real estate was in the crosshairs of the pandemic in 2020 given the inability to assemble people and businesses. Looking forward, we expect real estate to be one of the key beneficiaries of an economic reopening.

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

- We believe the benefits of the Fund's broader approach and flexibility will become even more apparent in the years ahead in part due to the new and evolving real estate landscape.
- We continue to believe the Fund is comprised of quality companies. The businesses that we continue to own are well managed, have market-leading positions, possess quality balance sheets, own well-located real estate, and grow cash flow at faster rates than most of their peers.
- We believe the Fund is structured to capitalize on compelling investment themes.
- A portion of the Fund's real estate companies–such as certain REITs, real estate service companies, homebuilders, casinos & gaming companies, and other commercial and residential-related real estate companies–remain "on sale" at appealing prices.

Table IX.
Top 10 holdings as of March 31, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Las Vegas Sands Corporation	$ 46.4	$69.8	4.8%
GDS Holdings Limited	15.2	60.4	4.2
Wynn Resorts Ltd.	14.5	56.8	3.9
Penn National Gaming, Inc.	16.4	49.5	3.4
Zillow Group, Inc.	31.3	46.1	3.2
Red Rock Resorts, Inc.	3.8	44.9	3.1
American Tower Corp.	106.2	42.2	2.9
Boyd Gaming Corporation	6.6	40.3	2.8
Lowe's Companies, Inc.	136.4	39.9	2.7
Equinix, Inc.	60.7	39.9	2.7

I sincerely thank you, our loyal shareholders, and express my utmost gratitude for your past and continuing support during the past 11 years.

Of course, I proudly continue as 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 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.

The portfolio manager defines "**Best-in-class**" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking.

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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