Dear Baron Real Estate Fund Shareholder:

The Baron Real Estate Fund (the "Fund") generated strong performance for the most recent quarter ended June 30, 2020.

During this period, the Fund gained 29.93% (Institutional Shares), exceeding its primary benchmark index, the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), which rose 21.76%. The Fund's 29.93% three-month gain significantly outperformed the performance of the MSCI US REIT Index, which appreciated 11.39%.

For the sixth-month period ended June 30, 2020, the Fund generated a positive 4.12% return, significantly outperforming the MSCI Real Estate Index, which generated a negative 13.30% return and the MSCI US REIT Index, which generated a negative 18.95% return.

We are also pleased to report that as of June 30, 2020, the Fund earned special recognition as it was awarded **Morningstar's** highest 5-star overall performance rating.

The Fund also earned special recognition from Morningstar as follows:

- **10-year performance:** Ranked as the #1 real estate fund out of 140
- **5-year performance:** Ranked in the top 4% of all real estate funds
- **3-year performance:** Ranked in the top 2% of all real estate funds
- **1-year performance:** Ranked in the top 1% of all real estate funds

As of 6/30/2020, the Morningstar Real Estate Category consisted of 225, 199, and 140 share classes for the 3-year, 5-year and 10-year periods, respectively.

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

As of 6/30/2020, the Morningstar Real Estate Category consisted of 253, 225, 199, 140, and 132 share classes for the 1-, 3-, 5-, 10-year, and since inception periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 1st, 2nd, 4th, 1st, and 1st percentiles, respectively. Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 3rd, 5th, 12th, 1st and 1st best performing share class in its category, respectively.

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

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.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived

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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, 2019 was 1.33% 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, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

The Fund's 10-year historical performance was impacted by gains from IPOs and/or secondary offerings, and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs and secondary offerings will be the same in the future.

1 The indexes are unmanaged. The index performance is not Fund performance; one cannot invest directly into an index. The MSCI USA IMI Extended Real Estate Index is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The MSCI US REIT Index is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The indexes and the Fund include reinvestment of interest, capital gains and dividends, which positively impact the performance results.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Not annualized.

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.

Table I.
Performance
Annualized for periods ended June 30, 2020

	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]	29.82%	29.93%	21.76%	11.39%
Six Months[3]	3.93%	4.12%	(13.30)%	(18.95)%
One Year	20.81%	21.17%	(5.85)%	(13.92)%
Three Years	9.70%	10.01%	2.94%	(1.19)%
Five Years	7.23%	7.51%	5.84%	2.74%
Ten Years	14.59%	14.88%	10.93%	7.74%
Since Inception (December 31, 2009) (Annualized)	13.67%	13.96%	10.40%	7.87%
Since Inception (December 31, 2009) (Cumulative)[3]	284.13%	294.51%	182.66%	121.49%

Like our first quarter shareholder letter, we have chosen to modify our typical format for this shareholder letter. We will, instead, prioritize and address your "top of mind" questions.

We will address the following topics in this letter:

1. A review of the Fund's differentiated approach to investing in real estate

2. An explanation of why we believe the Fund's investment approach may shine even brighter in the years ahead

3. A chronicle of our key year-to-date actions managing the Fund

4. Portfolio construction and key investment themes

5. Our outlook for the real estate market and the Baron Real Estate Fund (*preview*: we remain bullish)

A REVIEW OF THE FUND'S DIFFERENTIATED APPROACH TO INVESTING IN REAL ESTATE

What distinguishes the Baron Real Estate Fund from most other real estate mutual funds?

More than 10 years ago, we launched the Baron Real Estate Fund with a long-term strategy of structuring and maintaining a more expansive and unique real estate fund – one that contains REITs, but also invests in various non-REIT companies that operate within or provide services or products to the real estate industry.

The main real estate categories in which we invest include:

- REITs
- Residential-related real estate companies
  - Homebuilders & land developers
  - Building products/services
  - Home centers
- Technology-related real estate companies
  - Data centers
  - Wireless tower companies
  - Real estate data analytics companies
- Hospitality-related real estate companies
  - Casinos & gaming companies
  - Hotels & leisure
- Real estate service companies
- Real estate operating companies

While the portfolio weights of these real estate categories will vary according to our ongoing research of industry and company-specific factors, these are the main categories on which we focus.

We apply Baron's research-intensive, fundamental, bottom-up approach to find and invest for the long term in real estate and real estate-related companies that we believe benefit from sustainable competitive advantages, well-located and well-positioned assets, excellent management, and strong long-term growth opportunities, at an attractive valuation.

Why did we structure a more diversified real estate-related fund rather than a REIT-only fund?

At the inception of the Fund, our thesis was that the Baron Real Estate Fund would be highly complementary to traditional REIT funds (and eventually to our Baron Real Estate Income Fund, which we launched 2 ½ years ago) and that it would have the potential to produce strong long-term returns.

We believed that the Fund would generate higher returns over the long term than more traditional REIT funds because it is more "equity like" in nature, growth oriented, and invests in a broader range of real estate-related categories.

We are pleased to report that according to **Morningstar**, the Baron Real Estate Fund is the #1 ranked real estate fund out of 132 funds for its cumulative performance since the Fund's inception on December 31, 2009. Through this 10 ½-year period, the Fund has generated a total return (net of fees) of 294.51%, which compares favorably to the MSCI US REIT Index's total return of 121.49% and Morningstar's Real Estate Category Average total return of 139.96%.

AN EXPLANATION OF WHY WE BELIEVE THE FUND'S INVESTMENT APPROACH MAY SHINE EVEN BRIGHTER IN THE YEARS AHEAD

In the years ahead, we believe the benefits of the Fund's broader approach and flexibility may become even more apparent. Why?

When we launched the Baron Real Estate Fund on December 31, 2009, most REIT categories offered compelling multi-year prospects for occupancy, rent, and cash flow growth. The major REIT categories included retail malls, shopping centers, office buildings, apartments, health care properties, industrial warehouses, self-storage facilities, and hotels.

In the years prior to the Coronavirus, however, challenges had emerged for some segments of commercial real estate. Malls and shopping centers faced the shift to e-commerce shopping, and their need for new capital expenditures to reconfigure their malls and shopping centers into alternative uses. Health care REITs that had acquired and developed large portfolios of senior housing real estate facilities experienced occupancy and rent pressure due to an excess supply of senior housing inventory.

More recently, the Coronavirus has not only accelerated existing trends that had already been pressuring some segments of commercial real estate, but may also have given rise to new headwinds that could pressure additional segments of commercial real estate in the years ahead.

For example, we anticipate that the growth in online shopping will accelerate the challenges for retail real estate (malls and shopping centers) and fast-track the pace and number of retail store closings.

This year's necessity to work from home may cause a more permanent shift in how and where people live and work. Recent work from home experiences have been largely positive and embraced by many companies. Demand prospects for office landlords may suffer if more businesses decide that a portion or all their workforce may work remotely. Reduced in-office work will likely lead to a decline in office demand, partially offset by the requirement of more office space per person.

Apartment landlords who have assembled large multi-family urban real estate portfolios may suffer in a post-Coronavirus environment from a migration to the suburbs if renters seek more space and have the flexibility to work remotely.

Secular headwinds could emerge for hotel operators if business travel remains depressed due to the rise and efficacy of video teleconferencing (e.g., Zoom).

Of course, the news is not all bad for REITs. We believe the multi-year business prospects for several commercial real estate segments are still promising.

The growth in online sales as businesses and consumers relentlessly seek faster delivery bodes well for industrial warehouse REITs.

The rapid transition to home-based consumer and commercial activity (online shopping, video streaming, working from home with computer screen meetings and conferencing) should benefit data center and wireless tower companies due to the need to store a greater library of data in order to conduct and support these virtual online meetings and the need for a greater number of antennae rental space on towers.

Strong demand for affordable housing should benefit manufactured housing REITs. A desire by households to rent homes in suburbs rather than rent apartments in cities or purchase homes should benefit single-family rental REITs. The acceleration in "e-grocery" penetration should benefit cold storage warehouse real estate, and an increase in funding for health care drug development bodes well for life science office real estate.

The headwinds that had been emerging for certain segments of real estate prior to the Coronavirus and the challenges that have surfaced due to the Coronavirus may lead to a narrower set of compelling traditional real estate investment opportunities. If we are correct in this prognostication, the merits of the Baron Real Estate Fund's broader approach and flexibility may become even more apparent in the years ahead.

The Baron Real Estate Fund, unlike most REIT funds, has a greater ability to pivot away from real estate categories that are likely to face long-term occupancy, rent, and cash flow pressures due to the Fund's more expansive approach.

In our opinion, the Fund's flexibility is a critical competitive advantage:

First, we are open-minded with regards to a company's corporate structure, and therefore invest not only in REITs, but also in real estate C-corps and real estate operating companies. If REITs broadly or certain REIT categories have poor medium- to long-term prospects, the Fund can de-emphasize REITs or certain REIT categories.

Second, unlike most of our peers who prioritize commercial real estate, the Baron Real Estate Fund invests in a broader universe of commercial and residential real estate-related companies. In the first six months of 2020, the relative appeal of residential real estate (homebuilders, residential building products/services companies, and home centers) has benefited the Fund.

Third, while the Fund invests primarily in equity securities, it may invest up to 20% of total assets in real estate debt securities. If we determine that the Fund is likely to generate superior returns and mitigate risk by investing in real estate debt securities, we may include real estate debt as a component of the Fund's portfolio.

Fourth, though U.S. domiciled real estate companies have been the primary focus in the last 10 years, the Fund may invest up to 25% of its total assets in international companies. Currently, the Fund's largest investment is in **GDS Holdings Limited**, the leading developer and operator of data centers in China. We believe GDS' multi-year growth prospects are even better than those of U.S. data centers.

Fifth, we invest in companies of all market capitalizations (small, mid, and large).

A CHRONICLE OF OUR KEY YEAR-TO-DATE ACTIONS MANAGING THE FUND

In the first six months of 2020, we have been active and opportunistic managing the Fund related to:

- Baron Real Estate Fund's investments in hospitality-related real estate companies (hotels, casinos & gaming, timeshare, etc.)
- Emerging headwinds and tailwinds for certain segments of real estate
- The unprecedented nature of the economic lockdown
- The extreme stock market volatility

Our decision to implement a more active and aggressive portfolio management playbook (first we played defense, then we played offense) than our more typical Baron lower turnover approach has yielded solid short-term results. Looking ahead, we believe we have positioned the Fund for strong returns in the next few years.

Baron Real Estate Fund

Key portfolio adjustments in the first six months of 2020 have included the following:

- **Sold a significant portion of the Fund's travel-related holdings at favorable prices and raised cash for possible other deployment**

  When news of the virus first broke, it became apparent that this outbreak might evolve into a global pandemic. We quickly recognized that the Fund's exposure to travel-related businesses, which had been about 25% of the portfolio, was too large given the probability of a significant slowdown in worldwide and domestic travel. We consequently decided to exit a significant portion of our travel-related holdings – hotel, casinos & gaming, cruise line, and timeshare companies – early in the first quarter at favorable prices.

- **Reinvested most of the Fund's cash in March and early April with so many stocks having corrected sharply**

  As a result of our decision to exit or trim many of the Fund's travel-related real estate holdings, we maintained a cash position of 15% to 19% of the Fund's net assets for a portion of the first quarter, representing the only instance of maintaining a large cash position since the Fund's inception more than 10 years ago.

  Following the sharp correction in so many stocks by mid-March, we reinvested the bulk of the cash. By the end of the first quarter, cash represented only 4.2% of net assets. We have maintained a low cash position during the second quarter. On June 30, 2020, cash represented 4.5% of the Fund's net assets.

- **Purchased "best-in-class" companies that were "on sale"**

  We added to positions in several "best-in-class" companies.

  In our judgment, characteristics of a "best-in-class" real estate company are:

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

  Examples of "best-in-class" real estate companies that we have been adding to in the first sixth months of 2020 include:

  – Housing-related: **Home Depot, Inc.**, **The Sherwin-Williams Company**, **D.R. Horton, Inc.**, and **Lennar Corporation**
  – Commercial real estate services companies: **CBRE Group, Inc.**
  – Real estate operating companies: **Brookfield Asset Management, Inc.**
  – REITs: **Prologis, Inc.** and **American Tower Corp.**

- **Bought cyclical stocks that declined sharply in the downturn and have the potential to appreciate significantly in the next few years**

  We have also been upgrading the Fund's portfolio by prioritizing companies that have corrected the most in 2020. When economic activity resumes, we anticipate that the shares of many beaten down cyclical companies, such as travel and hospitality-related real estate companies and certain REITs, may lead the market higher. More on this topic in the "Portfolio construction and key investment themes" section below.

- **Increased the Fund's exposure to housing-related companies that are benefiting from structural tailwinds and the pandemic**

  For our thoughts on the U.S. housing market, please see the "Portfolio construction and key investment themes" section below.

PORTFOLIO CONSTRUCTION AND KEY INVESTMENT THEMES

The Baron Real Estate Fund currently has investments in REITs, plus seven 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 II below).

Table II.
Fund investments in real estate-related categories as of June 30, 2020

	Percent of Net Assets
REITs	28.9%
Building Products/Services	16.7
Homebuilders & Land Developers	13.2
Casinos & Gaming Operators	12.7
Data Centers[1]	9.1
Real Estate Service Companies	8.6
Real Estate Operating Companies	3.6
Hotels & Leisure	2.7
Cash and Cash Equivalents	4.5
Total	100.0%

[1] Total would be 15.2% if included data center REITs Equinix, Inc. and Digital Realty Trust, Inc.

We are presently prioritizing three investment themes. Each theme is comprised of both REITs and non-REIT real estate-related companies.

1. **The ongoing recovery of the U.S. housing market – with an additional boost by the pandemic**

   Prior to the Coronavirus, we were bullish on the prospects for the U.S. housing market:

   - Household formation had picked up with solid job growth and wage growth as catalysts
   - Home ownership levels were rebounding
   - There was pent-up demand to buy homes
   - Homebuilders were building reasonably priced homes
   - The 30-year fixed mortgage rate stood at only 3.7% versus its long-term average closer to 8%

   While job loss from the pandemic could certainly dampen home buying activity, we remain bullish on the prospects for U.S. housing. We expect structural tailwinds such as cyclically depressed levels of construction activity, low inventory levels, pent-up demand, and historically low mortgage rates to continue to benefit the U.S. housing market. The current situation is nothing like what occurred during the global Financial Crisis when our country was significantly oversupplied relative to the demographic and demand needs.

   There are some early signs that housing demand is bottoming sooner and shallower than initially feared. For example, **Lennar Corporation** recently reported 20% new home order growth in the first two weeks of June. Real estate brokers have also reported that home-buying demand is moving up at an encouraging rate.

In assessing COVID-19's possible long-term impacts on real estate, it appears that the U.S. housing market may benefit from several trends:

- Suburban may become the new urban: With the pandemic largely located around major cities, we anticipate a portion of homeowners to move 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 increase meaningfully.

The Fund currently has investments in four homebuilders: **Lennar Corporation**, **DR Horton, Inc.**, **Toll Brothers, Inc.**, and **Taylor Morrison Home Corporation**. Each company has recently reported an acceleration in new home orders, perhaps signaling a behavioral shift of renters seeking out more space and less density.

The Fund also has investments in REITs that would benefit from a move out of urban areas to suburbs. 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 prevalent, people will have more flexibility to relocate away from urban centers. This should lead to an increase in new home sales and 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 remodel 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**, **Installed Building Products, Inc.**, **Pool Corporation**, **Fortune Brands Home & Security, Inc.**, **Trex Company, Inc.**, and **AZEK Co Inc.**

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 June 30, 2020, residential-related real estate companies represented 33.6% of the Fund's net assets.

Table III.
Residential-related real estate companies as of June 30, 2020

Homebuilders & Land Developers	10.2
Building Products/Services	14.3
Home Centers	5.4
REITs	
Manufactured Housing	1.5
Single-Family Rental	2.2
Total	33.6

2. **The intersection of technology and real estate**

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. Real estate-related companies that embrace and adopt the latest technological advances and innovations are an important focus for us. Key beneficiaries of the technology revolution include data center companies, wireless tower companies, industrial REITs, and real estate data analytics companies.

If anything, the pandemic will accelerate these secular trends as more people conduct business, leisure, residential, and commerce activities online. Examples of companies we believe are poised to benefit from accelerating digitization include China-based data center **GDS Holdings Limited**, data center REITs **Equinix, Inc.** and **Digital Realty Trust, Inc.**, wireless tower REITs **American Tower Corp.** and **SBA Communications Corp.**, and industrial logistics REITs **Prologis, Inc.** and **Rexford Industrial Realty, Inc.**

Real estate data analytics company **CoStar Group, Inc.** has built a proprietary database over a 20-year period to provide marketing, analytics, and information services to the commercial real estate industry, creating a dominant market position and high barrier to entry.

Zillow Group, Inc. is the leader in online residential real estate with approximately 200 million monthly users of its leading residential real estate websites. Consumers are seeking streamlined, tech-enabled shopping experiences and Zillow is now developing a simpler real estate transaction that will enable consumers to buy, sell, rent, and finance residential real estate and save consumers time, money, and stress through technology, service and integration.

On June 30, 2020, technology-related real estate companies represented 26.3% of the Fund's net assets.

Table IV.
Technology-related real estate companies as of June 30, 2020

Data Centers	9.1
Real Estate Data Analytics Companies	5.9
REITs	
Data Center REITs	6.1
Wireless Tower Companies	5.2
Total	26.3

3. **The "epicenter" companies**

The Fund's third investment theme is the "epicenter" companies. They include hospitality-related real estate companies such as hotels, casinos & gaming companies, timeshare operators, amusement parks, ski resorts, and cruise lines. This group of companies was the hardest hit segment of the real estate industry in the pandemic as they were forced to shut down operations almost without exception. We believe many of these companies are likely to experience a major rebound in their share prices – potentially 50% gains in a relatively short period – when a medical breakthrough for COVID-19 emerges and economic activity rebounds.

We exited a substantial portion of our positions in hospitality-related real estate companies early in 2020 at favorable prices. Since then, we have been selectively reinvesting at extremely compelling valuations. We believe these businesses are cyclically depressed – not secularly challenged – and are likely to generate strong share price gains and lead the market higher when a medical breakthrough for COVID-19 emerges and economic activity rebounds. The companies we are invested in have strong balance sheets and ample liquidity to survive without any revenue for at least a year, if not two.

Many hotels and gaming companies have started the process of reopening operations in select regions across the world. In addition, regional gaming operators such as **Penn National Gaming, Inc.** and **Boyd Gaming Corporation** do not have to contend with air flight restrictions as most of their business is local. Many of the hospitality-related real estate companies have already regained a percentage of their value since hitting their 2020 bottom. Still, we think they have a way to go and believe several hospitality-related real estate companies remain heavily discounted to their likely two- to three-year prospective values. Examples include hotel companies (**Hilton Worldwide Holdings, Inc.**), casinos & gaming companies (**Wynn Resorts Ltd.**, **Penn**, **Red Rock Resorts, Inc.**, and **Boyd Gaming**), vacation timeshare companies (**Marriot Vacations Worldwide Corp.**), ski resorts, and certain amusement parks.

Hilton Worldwide Holdings, Inc. is an example of a leading company that we believe has the potential for a sharp rebound in the next few years. Hilton has an incredible franchise with premier hotel brands and a strong balance sheet. Recently, management bolstered its balance sheet by raising $2 billion of cash. Now, the company has ample liquidity to operate for the next two years with its current cost structure even if its hotels are closed for that entire two-year period!

We exited the Fund's holding in Hilton early in the first quarter. Its share price corrected from a high of $115 per share to $44 per share. We began re-acquiring shares in the $55 - $60 range. On June 30, Hilton's share price had already rebounded to $73 per share.

Wynn Resorts Ltd. is a leading casino company that generates approximately 70% of its cash flow in Macau. Management maintains a strong balance sheet with more than $3.5 billion dollars in liquidity.

Wynn owns 72% of Wynn Macau Ltd., its publicly traded Macau business. Wynn's ownership stake in Wynn Macau is $6.4 billion. Wynn's market cap, however, on June 30th was valued at only $8.0 billion, which means the company's U.S. operations are valued in the public market at only $1.6 billion of equity value or $14 per share! That makes no sense to us.

In our opinion, a conservative estimate of the replacement cost of Wynn's U.S. real estate is approximately $32 per share – implying that its current share price reflects a 56% discount to its U.S. replacement cost!

After its share price plunged from a high of $150 per share earlier in 2020, we began reacquiring Wynn shares at approximately $50. On June 30, the shares had increased approximately 50% to $74.49 per share, and we remain bullish about the prospects for further share price appreciation.

An additional example of a beaten down "epicenter" purchase in the first six months of 2020 is **Penn National Gaming, Inc.** The company is a best-in-class operator of 41 regional casinos across 19 states, and is led by a terrific CEO, Jay Snowden. In the first quarter, following a 88% decline in its share price from $38 per share, we acquired Penn shares at an average price of $8.89 per share. On June 30, the shares had increased to $30.54 per share.

We remain optimistic about Penn's multi-year growth prospects and believe the company's shares will appreciate significantly in the years ahead.

In January, Penn made a strategic investment in Barstool Sports, a well-known sports and lifestyle media brand. This key investment will be the platform for Penn's exciting transformation into an online casino gaming company that offers sports betting and i-gaming. Management believes its sports betting and i-gaming businesses may result in 100% growth of its cash flow in the next four to five years.

We are also identifying compelling value in several "epicenter" REITs and commercial real estate services companies. The share prices of these companies declined in the first six months of 2020 due, in part, to concerns that many tenants would not pay their rent obligations, the stress in the credit markets in February and March caused by plunging oil prices and the abrupt slowdown of the economy, and the fear of a prolonged slowdown in commercial real estate business fundamentals.

The shares of West Coast office REIT **Douglas Emmett, Inc.** have declined 29% year-to-date. The company owns premier office and apartment buildings in supply-constrained West Los Angeles submarkets. It is led by a terrific CEO, Jordan Kaplan. Based on transactions in its markets in the last year or so, we believe Douglas Emmett's office buildings are worth at least $1,000 per square foot. Yet, the company's office assets are currently valued in the public market at a highly discounted price of only $440 per square foot.

Casino gaming REIT **MGM Growth Properties** recently announced an increase in its dividend to $1.95 per share. The company has a strong tenant, a liquid balance sheet, and offers a compelling 7.2% dividend yield, which is more than 10 times the 0.66% dividend yield of U.S. 10-year Treasuries! At its recent price of only $27, we believe the shares could appreciate by 50% in the next two years.

CBRE Group, Inc., the largest and leading commercial real estate services firm in the world, has unmatched scale, product breadth, and leadership positions across its diversified real estate business segments. The company continues to pull away from the pack, gaining market share in each of its businesses. It is the "go to" commercial real estate services firm for clients, other real estate brokers, and employees. The management maintains a liquid and well-capitalized balance sheet.

We believe CBRE is an example of a true best-in-class company that is "on sale." In the first six months of 2020, CBRE's shares declined 26% due to concerns about a temporary slowdown in its leasing and investment sales businesses. We believe these businesses will rebound as economic activity recovers. At $45 per share as June 30th, we believe CBRE's current value is depressed relative to our view of the company's normalized earnings potential.

Table V.
"Epicenter" companies as of June 30, 2020

Hospitality-related real estate (hotels, casino & gaming, timeshare)	15.3
REITs	4.2
Real Estate Operating Companies	3.6
Commercial Real Estate Services	2.7
Total	25.9

OUR OUTLOOK FOR THE REAL ESTATE MARKET AND THE BARON REAL ESTATE FUND

We are mindful of the economic and real estate uncertainty generated by the Coronavirus pandemic. Yet, **we continue to believe there is a strong rationale and compelling case for optimism regarding the prospects for the stock market, real estate equities, and the Fund**.

First quarter letter – what we said then

In our first quarter letter, we stated that despite the unprecedented market uncertainty and insecurity surrounding the Coronavirus pandemic, we felt there was strong justification and valid reasons for optimism. We were bullish. At the time, we said:

- The double barrel of unlimited monetary stimulus and massive fiscal stimulus would bolster the economy and stock market.
- Following the sharp correction in share prices, equity valuations were attractive. In fact, we believed that the flight from the market had produced some extraordinary and rare investment opportunities.
- Residential and commercial real estate would rebound as economic activity resumes.
- There were additional reasons to be optimistic including historically low interest rates, inflation, and gasoline prices, and, in most cases, strong corporate balance sheets.
- The prospects for the Baron Real Estate Fund were strong due to the quality of the Fund's holdings, the majority of which were "on sale" at exceptionally attractive prices.

The stock market and the Fund rebounded sharply in the second quarter. In fact, the Fund's almost 30% return in the last three months is the strongest quarterly return since the launch of the Fund on December 31, 2009. Admittedly, the magnitude of the recovery in many stock prices occurred in a shorter time than we expected.

Our current outlook for the real estate market and the Fund

As we peer into the second half of 2020 and the next few years, **we continue to believe that the prospects for the equity market, real estate, and the Baron Real Estate Fund remain attractive.**

We remain optimistic and bullish.

Our optimism stems from the following considerations:

- We continue to believe that the economic effects of this pandemic crisis will be largely mitigated. We believe public health systems are better prepared if a second wave of virus infections occurs in the months ahead. Further, expanded testing and tracing, re-emphasizing the need for face coverings, renewed social distancing, and selective economic lockdowns should limit virus outbreaks and sustain the global economic recovery. Though new Coronavirus cases are increasing, the average age for those being newly diagnosed is lower at 35 years old, mortality rates are decreasing, and there has been a much smaller increase in the use of intensive care units (ICUs) and hospitalizations. These trends are less concerning than what we experienced in March and April.
- Medical experts continue to anticipate modern medical advances and a vaccine that would be broadly available by the summer of 2021 or sooner.
- The start of a new economic cycle. Recent economic and company business results indicate that the global economy bottomed in April and the economic recovery may gather further momentum in the months ahead.
- Unprecedented and massive monetary and fiscal stimulus. Policy support has been decisive, significant in scale, and coordinated. We expect the Fed to maintain an accommodative "do whatever it takes" policy stance to provide liquidity, solvency, and low interest rates and anticipate further fiscal support given elevated unemployment rates. In June, the Federal Reserve set an expectation that interest rates would remain near zero percent through 2022. In the months ahead, we believe monetary and fiscal stimulus will not only limit the downside in the stock market, but will also bolster consumer and business spending and aid the economic recovery.

  We continue to believe the double barrel of unlimited monetary stimulus and massive fiscal stimulus will bolster the economy and stock market.
- Several segments of residential and commercial real estate have begun to rebound. As economic activity has begun to resume, home sales have accelerated. We expect structural tailwinds such as cyclically depressed levels of construction activity, low inventory levels, pent-up demand, and historically low mortgage rates to continue to benefit the U.S. housing market. In commercial real estate, occupancy and rents have begun to increase for several real estate segments. We expect these trends to persist if economic activity continues to improve.
- Additional reasons to be optimistic. Historically low interest rates are unequivocally bullish for stocks and real estate. Inflation concerns seem well off the radar. Current low gasoline prices should be a boon to U.S. consumers. The U.S. banking system has improved dramatically and is maintaining strong capital ratios. With large U.S. cash positions, many corporate balance sheets are well-positioned for "defense" (a slow economic recovery) and "offense" (merger & acquisition activity, capital expenditures, employment growth, stock buybacks, and dividend increases). Substantial private capital is in pursuit of real estate and remains supported by widely available debt capital at low interest rates. Estimates of approximately $5 trillion in money market funds could lend support as additional buying power for the stock market.

Baron Real Estate Fund Outlook

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

In addition to the reasons cited above, we are also enthusiastic about the prospects for the Fund because:

- We believe the quality of the Fund's holdings is as strong as it has ever been. The businesses that we continue to emphasize are well-managed, have market-leading positions, possess quality balance sheets, own well-located real estate, and grow cash flow at a faster rate than most of their peers.

- We believe the Fund is structured to capitalize on compelling investment themes.
  - The ongoing recovery of the U.S. housing market with an additional boost beyond the pandemic (*homebuilders, building products/services companies, land developers, construction material companies, and home centers*)
  - The intersection of technology and real estate (*data center, wireless tower, industrial REIT, and real estate data analytics companies*)
  - The "epicenter" stocks (hospitality-related real estate companies such as hotels, *casinos & gaming, and vacation travel companies, certain REITs, and commercial real estate service companies)*

  Additionally, we anticipate that the continuing search for yield in a low interest rate environment should aid REITs, other dividend-yielding real estate companies, and real estate companies broadly.

- Valuations for several segments of real estate remain compelling. The valuations of a significant portion of the Fund's real estate companies – such as certain REITs, real estate service companies, homebuilders, casinos & gaming companies, and many other commercial and residential-related real estate companies – remain "on sale" at highly appealing prices.

Table VI.
Top 10 holdings as of June 30, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
GDS Holdings Limited	$ 12.1	$43.6	7.0%
Equinix, Inc.	62.2	28.2	4.5
Penn National Gaming, Inc.	4.2	26.0	4.1
Lennar Corporation	18.7	23.0	3.7
Brookfield Asset Management, Inc.	51.8	22.6	3.6
American Tower Corp.	114.6	22.1	3.5
Wynn Resorts Ltd.	8.0	21.1	3.4
Zillow Group, Inc.	12.8	19.7	3.1
Prologis, Inc.	68.9	19.2	3.1
Installed Building Products, Inc.	2.0	19.0	3.0

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

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

For the aforementioned reasons, we believe the prospects for the Fund in the next few years are attractive.

To our current shareholders, 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 contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets. Factors that could affect the value of the Fund's holdings include the following: overbuilding and increased competition; increases in property taxes and operating expenses; declines in the value of real estate; lack of availability of equity and debt financing to refinance maturing debt; vacancies due to economic conditions and tenant bankruptcies; losses due to costs resulting from environmental contamination and its related cleanup; changes in interest rates; changes in zoning laws, casualty or condemnation losses; variations in rental income; changes in neighborhood values; and functional obsolescence and appeal of properties to tenants. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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

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