DEAR BARON REAL ESTATE FUND SHAREHOLDER:

We are pleased to report that the Baron Real Estate Fund (the "Fund") generated strong performance for the six months ended June 30, 2021, gaining 16.24% (Institutional Shares). During this period, however, the Fund underperformed its primary benchmark index, the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), and the MSCI US REIT Index, which increased 20.04% and 21.24%, respectively.

In the most recent three-month period ended June 30, 2021, the Fund gained 4.65% (Institutional Shares) compared to gains of 6.99% for the MSCI Real Estate Index and 11.74% for the MSCI US REIT Index.

For our more detailed thoughts on the Fund's recent performance, please refer to our "A review of recent activity and performance" section later in this letter.

We are also pleased to report that as of June 30, 2021, the Fund maintained its **5-star Overall Morningstar Rating™**.

Morningstar Real Estate Category Rankings *(as of June 30, 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 as the #1 real estate fund

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

We will address the following topics in this letter:

- A review of recent activity and performance
- Our investment themes and portfolio construction
- Our "all-weather" real estate fund
- The prospects for real estate and the Baron Real Estate Fund (*preview*: we remain bullish)

As of 6/30/2021, the Morningstar Ratings™ were based on 228, 199, 143, and 228 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. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

As of 6/30/2021, the Morningstar Real Estate Category consisted of 246, 228, 199, and 143 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 1st, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 2nd, 1st, 2nd, and 1st best performing share class in its Category, for the 1-, 3-, 5-, and 10-year periods, respectively.

As of 6/30/2021, the Morningstar Real Estate Category consisted of 246, 228, and 199 share classes for the 1-, 3-, and 5-year periods. Morningstar ranked Baron Real Estate Fund R6 Share Class in the 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 1st, 2nd, 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 June 30, 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]	4.58%	4.65%	6.99%	11.74%
Six Months[3]	16.10%	16.24%	20.04%	21.24%
One Year	60.69%	61.07%	44.27%	36.57%
Three Years	25.09%	25.42%	13.56%	8.83%
Five Years	20.17%	20.49%	11.48%	5.02%
Ten Years	16.33%	16.63%	12.11%	8.06%
Since Inception (December 31, 2009) (Annualized)	17.15%	17.44%	13.00%	10.10%
Since Inception (December 31, 2009) (Cumulative)[3]	517.27%	535.45%	307.80%	202.49%

A REVIEW OF RECENT ACTIVITY AND PERFORMANCE

Recent Activity

Like our portfolio management playbook that we employed in 2020, we have maintained our unusually elevated active approach of managing the Fund in the first six months of 2021 due to the acceleration and emergence of headwinds and tailwinds in certain segments of real estate, the unprecedented economic and social lockdown and reopening, and the resulting stock market volatility.

Table II.
Top net purchases for the quarter ended June 30, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Vornado Realty Trust	$ 8.9	$25.5
CoreSite Realty Corporation	6.6	24.6
Cellnex Telecom, S.A.	43.3	23.5
Marriott Vacations Worldwide Corp.	6.8	23.5
The AZEK Company Inc.	6.6	22.1

In the most recent quarter, we acquired shares or made additional purchases in:

- **Vornado Realty Trust**: Vornado is a REIT that owns a high-quality portfolio of office and street retail assets concentrated in New York City. As economic activity improves and employees return to work, we expect leasing and occupancy trends to improve. At its recent price of $47, we believe the shares are attractively valued at a 40% discount to our estimate of net asset value of $78 per share.
- **CoreSite Realty Corporation**: CoreSite is a REIT that operates a high-quality real estate portfolio of 25 well-located real estate data centers in eight markets in the U.S. We believe the company is poised for a positive inflection in cash flow growth in the next few years. In our opinion, the shares are attractively valued relative to its public data center peers and recent private market transactions.
- **Cellnex Telecom, S.A.**: Cellnex has assembled the premier and largest wireless tower portfolio in Europe. We believe the company will grow its cash flow by 100% by the end of 2025, far more than the expected growth of other tower companies. Despite expectations for superior growth, Cellnex's shares are valued at a comparable cash flow multiple to U.S. tower REITs.
- **Marriott Vacations Worldwide Corp.**: Marriott Vacations is a leading owner, operator, and developer of real estate timeshare resorts. With the company's 100% focus on leisure travelers, we believe Marriott Vacations is ideally positioned for a robust travel recovery as more and more people are vaccinated. We believe the long-term growth prospects for Marriott Vacations are compelling and the shares remain attractively valued.

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.

The Fund's 2Q 2021 historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

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. The indexes and the Fund include reinvestment of interest, capital gains and dividends, which positively impact the performance results. The indexes are unmanaged. 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.

- **The AZEK Company Inc.:** AZEK is a leading manufacturer of outdoor, non-wood building products including decking, railing, trim, and other leading outdoor products. 95% of cash flow is generated from the U.S. residential housing market. We believe the company has a compelling multi-year strategic growth plan that should result in strong share price appreciation in the next few years.

Table III.
Top net sales for the quarter ended June 30, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Wynn Resorts Ltd.	$14.1	$23.4
Las Vegas Sands Corporation	40.3	18.3
Opendoor Technologies Inc.	10.2	12.9
Hilton Worldwide Holdings, Inc.	34.0	11.3
Penn National Gaming, Inc.	12.0	9.9

In the most recent quarter, we trimmed the Fund's holdings in **Wynn Resorts Ltd.** and **Las Vegas Sands Corporation** largely due to ongoing COVID-19-related travel restrictions in China, Macau, and Singapore. We expect business activity to rebound sharply when travel restrictions are lifted and may acquire additional shares in the future.

Following exceptional share price performance in 2020 for **Opendoor Technologies Inc.** and **Penn National Gaming, Inc.** (Opendoor and Penn gained 112% and 232%, respectively), we trimmed the Fund's holdings in both companies to manage the position size of each investment. We remain optimistic about the long-term prospects for each of these companies.

We recently exited the Fund's investment in **Hilton Worldwide Holdings, Inc.** and reallocated the capital to other real estate companies that we believe offer superior return potential.

Recent Performance

The Baron Real Estate Fund generated particularly strong absolute and relative performance in both 2019 and 2020.

2019 Performance

- Baron Real Estate Fund: 44.44%
- MSCI Real Estate Index: 30.21%
- MSCI US REIT Index: 24.33%

2020 Performance

- Baron Real Estate Fund: 44.28%
- MSCI Real Estate Index: 4.21%
- MSCI US REIT Index: -8.70%

Following two straight years of annual returns of over 44%, we are pleased that the Fund continued to generate strong performance in the first six months of 2021, gaining 16.24%. Nevertheless, a few factors contributed to the Fund's relative underperformance in the last few months compared to its primary benchmark and the MSCI US REIT Index.

The generally strong share price performance of several "value" real estate companies versus "growth" companies weighed on the Fund's relative performance in the first half of 2021. Although the Fund maintains investments in "value" real estate companies, we continue to prioritize best-in-class, competitively advantaged real estate growth companies, consistent with our long-term investment philosophy. In our opinion, the risk-reward prospects have started to become more favorable for growth stocks following the sharp divergence in year-to-date performance between real estate value and real estate growth stocks.

Following significant underperformance in 2020, REITs were among the best performing market categories in the first six months of 2021. The Baron Real Estate Fund, with its balanced portfolio composition that tends to limit its REIT allocation to approximately 25% to 30% of the Fund, was unable to keep pace with REITs in the last few months.

Additionally, a few of the Fund's Asia-focused real estate investments (**Las Vegas Sands Corporation**, **Wynn Resorts Ltd.**, and **GDS Holdings Limited**) weighed on the Fund's performance due to COVID-19 headwinds that limited travel and other Asia-centric macro-economic and business considerations. We remain optimistic about the long-term return potential for these companies.

In the past, there have been periods when the Fund has temporarily trailed its benchmark. The Fund has a track record of bouncing back. Our team remains driven, hard at work, and we are optimistic that we will, once again, deliver strong long-term relative performance for our shareholders as we have done over the years.

Table IV.
Top contributors to performance for the quarter ended June 30, 2021

	Quarter End Market Cap (billions)	Percent Impact
Latham Group, Inc.	$ 3.8	0.95%
Red Rock Resorts, Inc.	5.0	0.88
Equinix, Inc.	71.9	0.48
Brookfield Asset Management Inc.	175.0	0.41
American Tower Corp.	122.8	0.39

In the most recent quarter, we participated in the IPO of **Latham Group, Inc.**, the largest manufacturer of fabricated pools globally. We believe this company is well positioned to benefit from several multi-year tailwinds including anticipated strength in the U.S. housing market, a cyclical recovery in new pool construction, and a secular growth opportunity as the company's fiberglass pools offer several advantages versus most other pool options (concrete and vinyl, for example) including lower costs and maintenance, faster build times, and higher manufacturer profitability.

The shares of **Red Rock Resorts, Inc.**, a real estate gaming, development, and management company that generates 100% of its cash flow in the Las Vegas Locals market continued to perform well in the most recent quarter. We remain optimistic about the long-term prospects for the company given the quality of its 100% owned real estate assets, the attractive and expanding Las Vegas Locals market (strong population growth), and the company's impressive growth and free cash flow prospects. We believe the shares could appreciate by approximately 50% in the next few years.

The shares of **Equinix, Inc.** gained 18% in the most recent quarter. Equinix is the premier global data center company in the world. We believe the company is exceptionally well positioned to continue to benefit from powerful secular demand trends including strong growth in information technology outsourcing, increased cloud computing adoption, multi-year increases in mobile data traffic, global internet traffic, and the number of connected devices.

The shares of long-term holding **Brookfield Asset Management Inc.** gained 15% in the most recent quarter. The company is a leading alternative asset manager focused on investing in high-quality real estate and infrastructure-related assets that tend to generate predictable and growing cash flows. We remain bullish about the ongoing prospects for Brookfield given the secular growth opportunity for alternative assets, the company's many competitive advantages including scale, global capabilities, its well known brand name, operating expertise, and performance track record. We hold management in high regard and believe the shares remain attractively valued.

Table V.
Top detractors from performance for the quarter ended June 30, 2021

	Quarter End Market Cap (billions)	Percent Impact
Las Vegas Sands Corporation	$40.3	–0.60%
Tripadvisor, Inc.	5.5	–0.53
Penn National Gaming, Inc.	12.0	–0.53
Opendoor Technologies Inc.	10.2	–0.51
Zillow Group, Inc.	30.3	–0.18

The shares of **Las Vegas Sands Corporation**, a leading developer of luxury casino resorts in Macau and Singapore, declined in the most recent quarter in large part due to COVID-19 travel-related restrictions. We believe the shares are attractively valued and will recover sharply when travel restrictions are lifted.

Following exceptionally strong performance in the first quarter of 2021 when its shares gained 56%, the shares of **Tripadvisor, Inc.** declined 27% in the most recent quarter. The company is an online travel site used for planning vacation trips. Tripadvisor has built a strong following with more than 460 million unique monthly visitors, and we believe the company is ideally positioned for a travel recovery as more and more people are vaccinated.

Following a 232% gain in 2020, the shares of **Penn National Gaming, Inc.** declined 29% in the most recent quarter and are down 13% year-to-date. At its recent price of only $73 (down from a peak price of $136 in March), we believe Penn's shares are now attractively valued. We believe the company's 41 regional casinos are worth approximately $60 per share. Its remaining Barstool media business and online sports betting and i-gaming businesses are currently valued at only $13 per share or less than 3.5 times our expectation for cash flow for these business in 2025. We hold CEO Jay Snowden in high regard and believe he and his team have several levers to grow cash flow and create strong shareholder value in the next few years.

Following exceptionally strong share price performance in 2020 and early in 2021, the shares of **Opendoor Technologies Inc.** declined sharply in the last few months. Opendoor provides a digital platform for residential real estate that allows for the purchase and sale of homes on a mobile device. The company generated $2.5 billion of revenues last year, and management, who we have high regard for, believes there is a path to growing revenues to $50 billion over time!

At its recent price of $17 (versus a peak price of $36 in February), we believe the shares are attractively valued and offer compelling upside in the next few years.

OUR INVESTMENT THEMES AND PORTFOLIO CONSTRUCTION

Investment Themes

In the second half of 2020, we structured the Fund to take advantage of three compelling investing themes and have maintained these themes in the first six months of 2021.

As we peer into the second half of 2021, our sense is that it is premature to pivot away from the Fund's themes.

As a reminder, the Fund's current investing themes are:

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.

In the second half of 2021, we anticipate the release of pent-up consumer and commercial demand and a rebound in cash flows for several of the hardest hit segments of real estate – particularly the travel-related segments - as more people are inoculated with COVID-19 vaccines and economic activity resumes.

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

Examples of the Fund's COVID-19 recovery beneficiaries include:

- Real estate casino and gaming companies
  - **Las Vegas Sands Corporation**, **Red Rock Resorts, Inc.**, **Boyd Gaming Corporation**, **Wynn Resorts Ltd.**, and **Penn National Gaming, Inc.**
- Vacation timeshare companies
  - **Marriott Vacations Worldwide Corp.**, **Travel + Leisure Co.**, and **Hilton Grand Vacations Inc.**
- 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**
- Certain REITs (office, apartment, mall, shopping center, hotel, health care, and gaming 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 June 30, 2021, COVID-19 recovery beneficiary companies represented 45.9% of the Fund's net assets.

Table VI.
COVID-19 Recovery Beneficiaries as of June 30, 2021

	Percent of Net Assets
Casinos & Gaming Operators	13.1%
Certain REITs	11.5
Timeshare Companies	6.4
Commercial Real Estate Services Companies	5.4
Real Estate Operating Companies	3.4
Amusement Park Companies	2.4
Land Development Companies	2.1
OTAs	1.6
Total	45.9%

2. Opportunities in residential real estate

We remain bullish on the multi-year prospects for U.S. residential real estate.

The key component of our optimism is that there has been a structural underinvestment in the construction of residential real estate that we believe is likely to reverse in the years ahead.

Today, the U.S. is building the same number of homes annually as it did in 1959 - approximately 1.4 million homes, which also equals the 60-year average. This annual construction figure is shockingly low when one considers that the U.S. population is more than 150 million people larger than it was in 1959 - 330 million people today versus 178 million people in 1959!

Demand prospects are also encouraging especially from the approximately 72 million millennials – ages 23 to 38 – many of whom are now looking to buy or rent a home.

The large imbalance between pent-up housing demand and low construction levels bodes well for new single-family home purchases, so long as mortgage rates and home prices do not spike to levels that would deter would-be homebuyers.

Other cyclical and secular tailwinds that should aid the U.S. housing market in the years ahead include:

Cyclical tailwinds

In addition to cyclically depressed levels of construction activity and pent-up demand, low inventory levels, low mortgage rates, higher consumer savings, meaningful stimulus checks, and a rebound in job and economic growth should continue to benefit 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 suburban towns. We expect demand for single-family homes – to purchase or rent – to remain strong.
- 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. 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.**, **Fortune Brands Home & Security, Inc.**, **Installed Building Products, Inc.**, **SiteOne Landscape Supply, Inc.**, **Pool Corporation**, **Trex Company, Inc.**, **The AZEK Company Inc.**, and **Latham Group, 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 six months 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.

Regarding home price affordability, despite strong recent home price appreciation, we believe affordability remains attractive in part due to increases in household income and historically low mortgage rates. We will elaborate on this topic in our next shareholder letter.

We would also note that many builders are currently holding back the sales of homes so that they can better match the home sales price with the cost to build a home (lumber, labor, etc.) and generate an attractive profit margin. The implication is that the recent slowdown in new home sales is partly technical (supply-induced, not due to a lack of demand), and, if so, any home sale slowdown may not persist.

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.

Areas of investment focus include 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 June 30, 2021, residential-related real estate companies represented 20.5% of the Fund's net assets.

Table VII.
Residential-related Real Estate Companies as of June 30, 2021

	Percent of Net Assets
Building Products/Services	10.7%
Home Centers	4.1
Homebuilders	2.2
REITs	
Single-Family Rental	2.0
Manufactured Housing	1.5
Total[1]	20.5%

[1] Total would be 23.7% 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 six months 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. Key beneficiaries of the technology revolution include data center companies, wireless tower companies, industrial REITs, and real estate data analytics companies, among others.

On June 30, 2021, technology-related real estate companies represented 19.9% of the Fund's net assets.

Table VIII.
Technology-related Real Estate Companies as of June 30, 2021

	Percent of Net Assets
Real Estate Data Analytics Companies	5.5%
Data Centers	4.4
Wireless Tower Operators	2.1
REITs	
Wireless Tower REITs	4.0
Data Center REITs	3.9
Total	19.9%

Portfolio Construction

In addition to prioritizing the three investment themes cited above, we have continued to implement 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:

- **Alexandria Real Estate Equities, Inc.**, **American Tower Corp.**, **CBRE Group, Inc.**, **CoStar Group, Inc.**, **Equinix, Inc.**, **GDS Holdings Limited**, **Lowe's Companies, Inc.**, **Prologis, Inc.**, and **Zillow Group, Inc**.

The Fund's long-term investment philosophy remains the prioritization of best-in-class real estate growth companies.

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

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

Baron Real Estate Fund currently has investments in REITs, plus eight additional real estate-related categories (not including Unclassified securities). Our percentage allocations to these categories vary, and they are based on our research and assessment of opportunities in each category (See Table IX. below).

Table IX.
Fund investments in real estate-related categories as of June 30, 2021

	Percent of Net Assets
REITs	30.3%
Building Products/Services	13.7
Casinos & Gaming Operators	13.1
Real Estate Service Companies	12.5
Hotels & Leisure	8.8
Homebuilders & Land Developers	5.4
Data Centers[1]	4.4
Unclassified	4.0
Real Estate Operating Companies	3.4
Tower Operators	2.1
Cash and Cash Equivalents	2.3
Total	100.0%

[1] Total would be 8.4% if included data center REITs Equinix, Inc. and CoreSite Realty Corporation.

OUR "ALL-WEATHER" REAL ESTATE FUND

Approximately 12 years ago, we began to prepare for the launch of the Baron Real Estate Fund. At that time, our goal was to structure an **"all-weather" real estate fund** that would have the potential to perform well in:

(i) various stages of a real estate cycle;

(ii) different macro-economic environments such as periods of strong and weak economic growth, declining and rising interest rates, inflationary periods, etc.; and,

(iii) disparate real estate investment landscapes

The key distinguishing characteristic of our "all-weather" real estate fund is that unlike most real estate funds that tend to limit their investments to REITs, our investment philosophy and strategy has been to structure and maintain a more expansive and actively managed real estate fund – one that invests in REITs, but also in various non-REIT companies that operate within or provide services or products to the real estate industry.

In our opinion, **the Fund's flexibility fosters two key competitive advantages.**

First, the Baron Real Estate Fund, unlike passively managed real estate strategies and most REIT funds, has a greater ability to pick our spots and pivot away from REIT and non-REIT real estate categories that may face long-term occupancy, rent, and cash flow pressures.

Second, our decision to pursue a differentiated real estate investment approach enhances our potential to generate strong returns in various real estate and macro-economic environments.

For example, we are mindful that interest rates and inflation are a current, top-of-mind topic.

It appears that the "consensus" expectation is that interest rates are likely to rise, and elevated inflation may persist. Should this occur, we believe the Baron Real Estate Fund has the capability – more so than most of our real estate peers – to continue to perform well, in part due to our more expansive approach.

We would note, however, that although we are mindful of the macroeconomic environment, we do not base our investment decisions on macro forecasts. In our opinion, macro forecasts such as the direction of interest rates, inflation, the U.S. dollar, and economic growth tend to be hit or miss.

The performance of Baron Real Estate Fund in 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:

- Generated positive absolute 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%
- Outperformed the MSCI US REIT Index 100% of the time (in six out of six periods)

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

Table X.
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.

The performance of Baron Real Estate Fund in rising inflationary environments

Since the launch of the Fund at the end of 2009, there have been six periods when the one-year inflation increased at least 100 basis points. In aggregate, the Fund and real estate more generally have proven to be respectable inflation hedges.

During these inflationary periods, the Baron Real Estate Fund:

- Generated positive absolute performance in five of six periods. The only period the Fund did not generate a positive return was a 10-month period beginning on November 30, 2010, when it declined 7.51%
- Outperformed the MSCI US REIT Index in four of six periods with an average outperformance of 724 basis points
- Outperformed the MSCI Real Estate Index in four of six periods with an average outperformance of 339 basis points

Baron Real Estate Fund

The following table summarizes the Fund's performance during the periods when the one-year inflation increased at least 100 basis points.

Table XI.
Performance of Baron Real Estate Fund When Inflation Has Risen

Date	Period Length (months)	1-Yr Inflation Change	Cumulative Total Returns: Baron Real Estate Fund (Institutional Shares)	Cumulative Total Returns: MSCI USA IMI Extended Real Estate Index	Cumulative Total Returns: MSCI US REIT Index	Excess Returns vs.: MSCI USA IMI Extended Real Estate Index	Excess Returns vs.: MSCI US REIT Index
11/30/2010 to 9/30/2011	10	2.73%	–7.51%	–9.00%	–2.28%	1.49%	–5.23%
10/31/2013 to 5/31/2014	7	1.29%	13.29%	8.50%	9.78%	4.79%	3.51%
1/31/2015 to 2/28/2017	25	2.98%	0.31%	14.47%	5.06%	–14.16%	–4.75%
6/30/2017 to 7/31/2018	13	1.23%	8.39%	8.95%	2.90%	–0.56%	5.49%
2/28/2019 to 1/31/2020	11	1.00%	23.56%	15.55%	11.86%	8.01%	11.70%
5/31/2020 to 3/31/2021	10	2.41%	58.42%	37.65%	25.70%	20.77%	32.72%

Source: Morningstar Direct, FactSet, Board of Governors of the Federal Reserve System (US) via the Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics.

Concluding thoughts on our "all-weather" real estate fund

We do not profess to have clarity regarding what may transpire in the real estate cycle, real estate landscape, and macro-economic environment in the months and years ahead.

Rather than attempting to forecast the "macro," we will continue to prioritize the "micro" – the research and analysis of real estate companies and real estate markets.

We will also continue to do our best to structure our "all-weather" real estate fund to perform well over the long term.

The table below summarizes the absolute and relative performance of the Fund's Institutional Share class since inception and over shorter standard periods.

The Fund has outperformed its primary benchmark, the MSCI Real Estate Index, and the MSCI US REIT Index over all periods.

Table XII.
Overall Fund Performance as of June 30, 2021

	Annualized Total Returns: Baron Real Estate Fund (Institutional Shares)	Annualized Total Returns: MSCI USA IMI Extended Real Estate Index	Annualized Total Returns: MSCI US REIT Index	Excess Returns vs.: MSCI USA IMI Extended Real Estate Index	Excess Returns vs.: MSCI US REIT Index
One Year	61.07%	44.27%	36.57%	16.80%	24.50%
Three Years	25.42%	13.56%	8.83%	11.86%	16.59%
Five Years	20.49%	11.48%	5.02%	9.01%	15.47%
Ten Years	16.63%	12.11%	8.06%	4.52%	8.57%
Since Inception	17.44%	13.00%	10.10%	4.44%	7.34%

THE PROSPECTS FOR REAL ESTATE AND THE BARON REAL ESTATE FUND

We continue to believe the near-term and long-term prospects for public real estate remain attractive.

Near-term case for real estate

1. Demand continues to outstrip supply

A generally favorable relationship between demand and supply bodes well for real estate.

Regarding the demand outlook, commercial occupancy and rents and residential home sales and homes for rent are, in most cases, improving against a backdrop of modest inventory levels.

Regarding the supply outlook, most real estate categories are not witnessing warning signs of excess inventory and sharp increases in new construction.

Commercial real estate construction activity and inventory levels remain modest due, in part, to elevated construction costs and labor shortages.

In the single-family for-sale home segment of residential real estate, inventory levels remain depressed relative to historical standards and demographics.

2. Business conditions are improving for most of our real estate companies–both residential and commercial real estate–and the outlook does not portend a recession

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. The inability to assemble people and businesses disproportionately weighed on a large segment of real estate.

Last year's real estate headwinds have begun to recede, and we expect this trend to continue in the months ahead. We anticipate that portions of real estate will continue to be key beneficiaries of an economic reopening.

3. The real estate cycle has reset, and we believe the multi-year outlook is attractive

Most real estate cycles tend to last five to seven years (like an economic cycle).

We believe much of real estate is in the relatively early stages of a multi-year recovery, fueled by improving prospects for demand, subdued construction inventory levels, strong and liquid balance sheets, and well-functioning credit markets with historically low interest rates.

4. Substantial private capital is still in pursuit of real estate ownership supported by widely available debt capital at low interest rates

We continue to believe that real estate merger and acquisition activity will remain strong.

It is estimated that approximately $344 billion of capital has now been raised by private equity sources to invest in real estate, which equates to approximately $1.1 trillion of total real estate purchasing capacity, assuming typical 70% debt financing!

We anticipate that large amounts of capital from private equity investors such as Blackstone and Brookfield Asset Management, sovereign wealth funds, endowments, pension funds, and others will continue to step in and capitalize on the opportunity to buy quality public real estate given the compelling arbitrage opportunity in the public real estate market relative to the private market. This "embedded put" scenario should limit downside valuation and pricing.

5. We continue to identify several real estate companies that remain "on sale" and are attractively valued

The Fund took advantage of the major buying opportunities that were created in 2020 following the swift and intense stock market correction. Though many stock prices have recovered, valuations for many of our current or prospective real estate-related investments remain quite reasonable and, in some cases, particularly attractive.

Long-term case for real estate

We believe the long-term case for public real estate is compelling.

1. Solid historical long-term returns with ongoing potential

For the 20-year period ended June 30, 2021, U.S. equity REITs have delivered the best cumulative return relative to the S&P 500 Index, fixed income alternatives, international equities, and commodities.

Since inception on 12/31/09 through June 30, 2021, the Baron Real Estate Fund which owns REITs and non-REIT real estate companies has delivered a cumulative return of 535.45%, far outdistancing the 202.49% return of the MSCI U.S. REIT Index.

We remain optimistic about the potential for real estate to continue to generate solid long-term absolute and relative performance.

2. Diversification and low correlation to equities and bonds

According to FactSet, over the last 20 years (through 6/30/2021), REITs have provided diversification benefits due to their modest correlation versus stocks (0.67 versus S&P 500 Index) and low correlation versus bonds (0.21 versus Bloomberg Barclays U.S. Aggregate Index).

3. Inflation protection

Historically, certain real estate has had the ability to raise prices to provide inflation protection:

- Inflation-linked property value: Higher prices for labor, land and materials may constrain new real estate construction activity thereby supporting higher occupancies and the ability for landlords to raise rents.
- Pricing Power: Property owners in supply-constrained areas are often able to pass along higher operating costs by raising rents in periods of rising inflation.
- Short lease duration: Real estate segments with short lease terms have the ability to raise rents relatively quickly to offset inflation. Examples include hotels (1 day), self-storage real estate (30 days), apartments (1 year), single-family rental homes (1 year), and senior housing facilities (1 year).
- Annual rent escalators: Certain real estate leases have contractual annual rent escalators, in some cases tied to an inflation index (i.e., consumer price index or CPI).

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 XIII.
Top 10 holdings as of June 30, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
GDS Holdings Limited	$ 14.7	$64.1	3.6%
Red Rock Resorts, Inc.	5.0	60.8	3.4
Brookfield Asset Management Inc.	175.0	60.7	3.4
American Tower Corp.	122.8	53.7	3.0
Lowe's Companies, Inc.	137.1	53.3	3.0
Jones Lang LaSalle Incorporated	10.0	50.5	2.8
Boyd Gaming Corporation	6.9	49.0	2.7
Simon Property Group, Inc.	42.9	46.5	2.6
CBRE Group, Inc.	28.8	46.2	2.6
Zillow Group, Inc.	30.3	46.0	2.6

Thank you for your past and continuing support.

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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