DEAR BARON REAL ESTATE FUND SHAREHOLDER:

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

During this period, the Fund gained 18.65% (Institutional Shares), exceeding its primary benchmark index, the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), which rose 8.91%. The Fund also significantly outperformed the MSCI US REIT Index, which appreciated only 1.34%.

For the nine-month period ended September 30, 2020, the Fund generated a positive 23.54% return, significantly outperforming the MSCI Real Estate Index, which generated a negative 5.57% return and the MSCI US REIT Index, which generated a negative 17.86% return.

Since the launch of the Fund on December 31, 2009, the Fund has increased 368.09% cumulatively (net of fees) versus the MSCI Real Estate Index and MSCI US REIT Index which have increased 207.86% and 124.46%, respectively.

We are pleased to report that as of September 30, 2020, the Fund received a 5-star overall Morningstar Rating™.

The Fund also achieved impressive rankings within the Morningstar U.S. Real Estate Category:

- **10-year performance:** Ranked as the #1 real estate fund out of 141 funds
- **5-year performance:** Ranked in the top 2% of all real estate funds
- **3-year performance:** Ranked as the #1 real estate fund out of 224 funds
- **1-year performance:** Ranked as the #1 real estate fund out of 253 funds

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

We will address the following topics in this letter:

- The investing prospects for real estate in the public markets
- An explanation of why we believe the Fund's investment approach is poised to continue to perform well in the years ahead
- A chronicle of our key action steps managing the Fund
- Portfolio construction and key investment themes
- Real estate companies that are "on sale" in the public markets
- Concluding thoughts

As of 9/30/2020, the Morningstar Ratings™ were based on 224, 197, 141, and 224 share classes for the 3-year, 5-year, 10-year, and Overall periods, respectively. Baron Real Estate Fund Institutional Share Class received 5-Star 3-Year, 5-Year, 10-Year, and Overall Morningstar Ratings. These Morningstar Ratings are for the Institutional Share Class only; other classes may have different performance characteristics.

As of 9/30/2020, the Morningstar Real Estate Category consisted of 253, 224, 197, and 141 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 1st, 1st, 2nd, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 2nd, 2nd, 4th, and 1st best performing share class in its Category, for the 1-, 3-, 5-, and 10-year periods, respectively.

As of 9/30/2020, the Morningstar Real Estate Category consisted of 253 and 224 share classes for the 1- and 3-year periods. Morningstar ranked Baron Real Estate Fund R6 Share Class in the 1st and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 1st and 1st best performing share class in its Category for the 1- and 3-year periods, respectively.

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 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

Table I.
Performance
Annualized for periods ended September 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]	18.60%	18.65%	8.91%	1.34%
Nine Months[3]	23.27%	23.54%	(5.57)%	(17.86)%
One Year	36.73%	37.09%	(2.81)%	(18.77)%
Three Years	14.83%	15.13%	5.13%	(0.95)%
Five Years	13.30%	13.60%	8.29%	2.66%
Ten Years	15.08%	15.37%	10.60%	6.59%
Since Inception (December 31, 2009) (Annualized)	15.15%	15.44%	11.03%	7.81%
Since Inception (December 31, 2009) (Cumulative)[3]	355.58%	368.09%	207.86%	124.46%

The Investing Prospects for Real Estate in the Public Markets

Over the course of 2020, we have remained steadfast in our view that the prospects for real estate and Baron Real Estate Fund are compelling.

At the end of the first quarter, we cited that ***the dramatic correction in so many share prices presented a once-in-a-generation, perhaps a once-in-a-career, buying opportunity.***

At that 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.
- Additional reasons to be optimistic include historically low interest rates, inflation, and gasoline prices, and, in most cases, strong corporate balance sheets.
- The prospects for 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.

At the end of the second quarter, we reiterated that ***the prospects for real estate and the Baron Real Estate Fund remained attractive***.

We noted that, in addition to the positive factors highlighted at the end of the first quarter, our optimism was also due to the following considerations:

- The economic effects of the pandemic crisis would be largely mitigated.
- Medical experts anticipated 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.
- Several segments of residential and commercial real estate had begun to rebound.

In the six months following our bullish commentary at the end of the first quarter, the Fund gained 54.17%, far outdistancing the performance of the MSCI Real Estate Index and the MSCI US REIT Index which gained 32.61% and 12.88%, respectively.

Our current thoughts regarding the prospects for real estate and the Fund

We remain bullish due to three key considerations:

1. We believe the relative appeal of public real estate stocks is compelling.
2. The real estate cycle has reset and most real estate cycles last five to seven years.
3. We continue to identify attractively valued segments of the real estate sector.

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, 2031, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The 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. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. MSCI is a trademark of Russell Investment Group.

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.

1. **The relative appeal of public real estate**

In our opinion, *many public real estate companies are attractively valued relative to equity, bond, and private real estate alternatives*.

Public real estate relative to other equity alternatives

Year-to-date through September 30, the S&P 500 Index is up 5.6%, the Nasdaq Index is up 25.3%, and global equities (as defined by the MSCI ACWI Index) are slightly higher than they were at the beginning of the year.

Much of the real estate sector, however, has lagged. Year-to-date through September 30, 2020, the MSCI US REIT Index has declined 17.9% (with several REITs down 30% to 40%), many hospitality-related real estate companies (e.g., hotels, timeshare, and real estate casino gaming companies) remain down 30% to 40% and leading commercial real estate services companies have fallen 20% to 45%.

In 2020, certain real estate businesses – hotels and other hospitality-related companies, office, apartment, retail, and other commercial real estate-related companies – have been challenged due to the highly unusual pandemic-induced economic downturn. In our opinion, the businesses of many of these companies are cyclically depressed, not secularly challenged, and will recover when economic conditions improve.

The valuation disparity between many real estate securities and non-real estate stocks is, in our opinion, extreme. **The MSCI US REIT Index is currently priced at a discount to the S&P 500 Index for the first time since 2009!**

Public real estate relative to bonds

Following the plunge in bond yields to historic lows, bonds offer investors negligible yields.

In the U.S., for example, the 10-year Treasury yield has declined to only 0.68% versus a long-term average of 5.7%.

A recent *Wall Street Journal* article noted that two years ago 36% of bonds had yields less than 2%. The article went on to state that **as of June 30, 2020, about 85% of global bonds had yields less than 2%!**

On the other hand, the dividend yield on **REITs currently stands at 3.8%**, and several other real estate securities offer compelling total return potential relative to bonds.

Public real estate relative to real estate in the private market

We believe there is a compelling arbitrage opportunity in the public real estate market relative to the private market.

With this year's sharp correction in several real estate stocks, the valuations of recent private market real estate transactions suggest that **it is notably cheaper to buy certain segments of real estate in the public market than in the private market.**

Final thought on the relative appeal of real estate

We do not have a crystal ball to predict when the stock market will pivot to laggard areas such as certain segments of real estate.

We do, however, have high conviction that in the next 6 to 12 months – perhaps in response to further medical advances, ultimately a vaccine for COVID-19, and a further reopening of the economy – a large segment of public real estate will rebound and the recovery in some of the share prices is likely to be sharp.

And so, we believe now is a compelling time to invest in public real estate.

2. **The real estate cycle has reset**

Most real estate cycles tend to last five to seven years, then correct for one to two years, and then a new cycle begins.

Key factors that serve as tailwinds at the onset of a real estate cycle that then become headwinds at later stages of a real estate cycle include interest rates, mortgage rates, central bank policy, inflation, economic growth, residential and commercial construction activity, corporate balance sheet liquidity and debt levels, and the credit markets.

Following the sharp decline in global economic activity earlier this year, we believe the U.S. real estate cycle has reset and is in the early stages of what we anticipate will be a multi-year recovery.

In our opinion, several conditions are in place that should serve as tailwinds and contribute to an improvement in business performance for a large swath of commercial and residential real estate in the next few years. A sampling includes:

Historically low interest rates: The 10-Year U.S. Treasury yield currently stands at 0.68% versus its 50-year average of 6.23%!

Record low mortgage rates: The 30-year U.S. fixed mortgage rate of 2.9% compares favorably to its long-term average rate of 7.93%!

Accommodative central bank policy:

- Federal Reserve ("Fed") Chairman Powell commented in August 2020 that "We are not even thinking about thinking about raising rates."
- On September 16, 2020, the Fed signaled that it intends to keep interest rates near zero through at least 2023.

Subdued consumer price inflation ("CPI"): CPI is significantly below the Fed's 2% inflation target, and it may remain subdued due to technological and productivity advances.

Improving economic growth: Recent economic and company business results confirm that the global economy bottomed in April and has rebounded since. We believe a new economic expansion has begun and most economic cycles last five to seven years.

Modest levels of commercial construction activity: Supply growth remains low by historical standards.

An under-supply of inventory of residential homes: Residential inventory levels remain low.

Healthy corporate balance sheets: Corporate balance sheets are generally in solid shape with ample cash, appropriate debt levels, and staggered debt maturities.

The share prices and valuations of several public real estate companies remain depressed: Valuations are reasonable relative to interest rates and many other investment alternatives.

3. **We continue to identify attractively valued segments of the real estate sector**

   We believe the valuations of several real estate companies – certain REITs, real estate services companies, homebuilders, casino and gaming companies, and many other commercial and residential-related real estate companies – remain "on sale." As such, we believe the prospective returns in the next few years for several real estate stocks and the Fund remain attractive.

   For more detailed thoughts on this topic, please see "**Real Estate Companies That are 'On Sale' in the Public Markets**" later in this letter.

An Explanation of Why We Believe the Fund's Investment Approach is Poised to Continue to Perform Well in the Years Ahead

We launched Baron Real Estate Fund almost eleven years ago on December 31, 2009. At that time, we noted that we expected the Fund's more flexible investment approach to be a key competitive advantage over the long term. Our investment philosophy and strategy has been to structure and maintain a more expansive 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.

Fast forward to this year. The cross currents that have emerged in real estate – in large part due to the Coronavirus – underscore the key benefits of our broader and more flexible approach to investing in public real estate.

Some segments of real estate are experiencing an acceleration in business fundamentals. These include residential homes for sale, single-family home rentals, manufactured housing, industrial warehouse and cold storage companies, data center and wireless tower companies, and life science real estate.

Certain segments of real estate are facing headwinds and an expected slowdown in long-term growth. For example, the shift to e-commerce shopping continues to negatively impact retail malls and shopping centers, and this trend should fast-track the pace and number of retail store closings. Working from home, or anywhere, and the rise of video teleconferencing are likely to pressure occupancy and rents for office and urban apartment landlords and weigh on business travel.

Today we believe there is a tale of two real estate groups. One group is likely to benefit from multi-year operating tailwinds. The other group may face ongoing operating headwinds. Consequently, we believe there is a narrower set of compelling traditional real estate investment opportunities than in the past, and it is more important than ever for investors to be discerning and pick their "spots."

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

If we are correct regarding the evolving real estate landscape, the merits of Baron Real Estate Fund's broader approach and flexibility may become even more apparent in the years ahead.

A Chronicle of our Key Action Steps Managing the Fund

This has been a notably active year managing the Fund due to the emerging headwinds and tailwinds for certain segments of real estate, the unprecedented nature of the economic lockdown, and stock market volatility.

Our key action steps (the heavy lifting) – buying and selling securities, raising cash and then deploying cash, repositioning the portfolio, and prioritizing certain investment themes – occurred earlier in 2020 (February, March, and early April). The last few months have been quieter.

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 performance results.

Key portfolio adjustments in the early portion of 2020 included the following:

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

  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 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 in the last six months. On September 30, 2020, cash represented 2.9% of the Fund's net assets.

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

  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 added to earlier in 2020 at highly attractive prices 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.**

Note that these statements represent the manager's opinion and is not based on a third-party ranking.

- 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.

Table II.
Top net purchases for the quarter ended September 30, 2020

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Wynn Resorts Ltd.	$ 7.7	$17.8
Las Vegas Sands Corporation	35.6	13.5
Cellnex Telecom, S.A.	29.7	12.5
21Vianet Group, Inc.	3.1	9.0
Hilton Grand Vacations Inc.	1.8	8.8

In the quarter ended September 30, 2020, we purchased shares in hospitality and travel-related real estate companies such as **Wynn Resorts Ltd.**, **Las Vegas Sands Corporation**, and **Hilton Grand Vacations Inc.** The shares of each of these companies have declined significantly in the first nine months of 2020 and we believe offer compelling value. We also continued to prioritize the purchase of technology-related real estate companies with the purchase of **Cellnex Telecom, S.A.**, Europe's largest independent cellular tower company and **21Vianet Group, Inc.**, a developer and operator of real estate data centers in China.

Table III.
Top net sales for the quarter ended September 30, 2020

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Penn National Gaming, Inc.	$11.3	$9.2
The Howard Hughes Corporation	2.9	5.3
Brookfield Asset Management, Inc.	52.1	4.7
MGM Resorts International	8.1	4.0
CBRE Group, Inc.	15.7	3.6

In the most recent quarter, we modestly trimmed the Fund's position in **Penn National Gaming, Inc.** following strong share price performance. We also trimmed the Fund's holdings in both **Brookfield Asset Management, Inc.** and **CBRE Group, Inc.**, although we remain positive about the long-term prospects for both companies. We exited the Fund's positions in **The Howard Hughes Corporation** and **MGM Resorts International** and reallocated the capital to higher conviction companies.

Portfolio Construction and Key Investment Themes

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

Table IV.
Fund investments in real estate-related categories as of September 30, 2020

	Percent of Net Assets
REITs	24.0%
Casinos & Gaming Operators	18.0
Building Products/Services	13.8
Homebuilders & Land Developers	13.6
Real Estate Service Companies	9.8
Data Centers[1]	8.8
Hotels & Leisure	4.8
Real Estate Operating Companies	2.2
Tower Operators[2]	1.5
Unclassified	0.6
Cash and Cash Equivalents	2.9
Total	100.0%

[1] Total would be 14.3% if included data center REITs Equinix, Inc. and Digital Realty Trust, Inc.

[2] Total would be 5.7% if included tower REITs American Tower Corp. and SBA Communications Corp.

We are prioritizing four investment themes:

1. Opportunities in residential real estate
2. The intersection of technology and real estate and the digitalization of real estate
3. Hospitality and travel-related real estate companies
4. Tactical opportunities in REITs

1. Opportunities in residential real estate

We remain optimistic about the prospects for residential real estate. We believe there are both cyclical/structural tailwinds and perhaps the emergence of secular tailwinds that may fuel ongoing strength in residential real estate.

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

We remain cautious, however, about the near-term business prospects for most apartment REITs, but believe this year's sharp correction in apartment share prices discounts a large portion of the expected near-term business headwinds. We are monitoring this real estate category. Over the long term, we are bullish on apartments primarily because they are a need-based real estate category (the population needs shelter) that should recover over time.

We expect cyclical/structural tailwinds to continue to aid the U.S. home market: Cyclically depressed levels of construction activity, low inventory levels, pent-up demand, and historically low mortgage rates 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.

In the last few months, the Fund's investments in homebuilding companies – **Lennar Corporation**, **D.R. Horton, Inc.**, **Toll Brothers, Inc.**, and **Taylor Morrison Home Corporation** – have each reported exceptionally strong business results, and we expect the momentum to continue.

COVID-19 may have given rise to secular tailwinds that may also aid the U.S. housing market in the years ahead:

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

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

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

More time at home may lead to more investment in the home: Homeowners are likely to spend more time at home than ever before as more employees work from home and people prioritize social distancing. This trend should contribute to homeowners spending more on home repair and remodeling activity (home office, outdoor decks and living spaces, pools, kitchens, and refreshing paint jobs). The Fund currently has investments in several companies that should benefit from this trend including: **Home Depot, Inc.**, **Lowe's Companies, Inc.**, **The Sherwin-Williams Company**, **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 September 30, 2020, residential-related real estate companies represented 30.3% of the Fund's net assets.

Table V.
Residential-related real estate companies as of September 30, 2020

	Percent of Net Assets
Building Products/Services	12.4%
Homebuilders & Land Developers	10.2
Home Centers	4.7
REITs	
Single-Family Rental	1.8
Manufactured Housing	1.2
Total	30.3%

2. The intersection of technology and real estate and the digitalization of 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 continue to be an important focus for us. Key beneficiaries of the technology revolution include data center companies, wireless tower companies, industrial REITs, real estate data analytics companies, among others.

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

Examples of companies we believe are poised to benefit from the impact of technology on real estate include data center companies **GDS Holdings Limited**, **NEXTDC Limited**, and **21Vianet Group, Inc.**, data center REITs **Equinix, Inc.** and **Digital Realty Trust, Inc.**, wireless tower REITs **American Tower Corp.** and **SBA Communications Corp.**, wireless tower company **Cellnex Telecom, S.A.**, and industrial logistics REITs **Prologis, Inc.** and **Rexford Industrial Realty, Inc.**

We believe the digitalization of real estate is the most exciting new development for real estate. We believe we are in the early innings of a technology-driven investment cycle centered on data and digitalization that allows real estate-related businesses to drive incremental revenue streams and lower costs. For example, we anticipate an acceleration in online activity for real estate-related transactions in the years ahead. The digitalization of residential real estate, commercial real estate, casino gambling, hotel bookings, and other segments of real estate are a key focus for the Fund. We have identified several real estate companies that are well positioned to capitalize on this burgeoning secular growth trend.

Zillow Group, Inc., for example, 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. Zillow is a top holding in the Fund.

We will elaborate on the topic of the digitization of real estate in future shareholder letters.

On September 30, 2020, technology-related real estate companies represented 27.0% of the Fund's net assets.

Table VI.
Technology-related real estate companies as of September 30, 2020

	Percent of Net Assets
Data Centers	8.8%
Real Estate Data Analytics Companies	7.0
Wireless Tower Operators	1.5
REITs	
Data Center REITs	5.5
Wireless Tower REITs	4.2
Total	27.0%

3. Hospitality and travel-related real estate companies

This investment theme encompasses what we call the "epicenter" companies. They include hotels, casinos & gaming companies, timeshare operators, and amusement parks. 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 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. The companies in which we are invested have strong balance sheets and ample liquidity to survive without any revenue for at least a year, if not two. We believe these businesses are cyclically depressed – not secularly challenged.

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** are less impacted by few people flying this year as most of their business is generated by people who can drive to their casinos. 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.** and **Hyatt Hotels Corp.**), casinos & gaming companies (**Wynn Resorts Ltd.**, **Las Vegas Sands Corporation**, **Penn National Gaming, Inc.**, **Red Rock Resorts, Inc.**, and **Boyd Gaming Corporation**), vacation timeshare companies (**Marriot Vacations Worldwide Corp.** and **Hilton Grand Vacations Inc.**), and amusement parks (**Seaworld Entertainment Inc.**).

An example of a compelling investment opportunity is **Wynn Resorts Ltd.** Wynn is a leading casino company that generates approximately 70% of its cash flow in Macau. Management maintains a strong balance sheet with more than $3.3 billion dollars in liquidity.

After its share price plunged from a high of $152 per share earlier in 2020, we began reacquiring Wynn's shares at approximately $50/share. On September 30, the shares had increased approximately 45% to $72 per share. At its current price, Wynn's shares remain more than 50% below its high price of $152 earlier this year.

Wynn owns 72% of Wynn Macau Ltd., its publicly traded Macau business. Based on its public valuation, Wynn's ownership stake in Wynn Macau is $6.0 billion. Wynn's market cap, however, on September 30, 2020 was valued at only $7.7 billion, which means the company's U.S. operations was valued in the public market at only $1.7 billion of equity value or $16 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 $33 per share – implying that its current share price reflects a 50% discount to its U.S. replacement cost!

In our opinion, **many of the hospitality and travel-related real estate 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.**

On September 30, 2020, hospitality and travel-related real estate companies represented 22.8% of the Fund's net assets.

Table VII.
Hospitality and travel-related real estate companies as of September 30, 2020

	Percent of Net Assets
Casinos & Gaming Operators	18.0%
Timeshare Companies	2.6
Hotels	1.6
Amusement Parks	0.6
Total	22.8%

4. Tactical opportunities in REITs

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 nine 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.

We believe there is a tactical opportunity to acquire shares in several quality REITs. The share prices of these companies have, in our opinion, overshot to the downside and offer compelling value.

For example, the shares of West Coast office and apartment REIT **Douglas Emmett, Inc.** have declined 41% 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, who recently acquired approximately $1 million worth of shares at or around the current price. 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 $400 per square foot.

We are researching additional REITs that we believe offer compelling value in the public markets and will have more to say on this topic in the months ahead.

Real Estate Companies that are "On Sale" in the Public Markets

Despite the bounce in the share prices of several real estate companies in the last few months, we maintain that a large portion of real estate remains "on sale" in the public markets.

We believe the Fund remains populated with a significant number of companies that are attractively valued, including some that are just too "cheap," with good prospects for strong returns over the next few years.

Examples include:

GDS Holdings Limited: The leading developer and operator of real estate data centers in China is currently valued at a similar cash flow multiple as its global data center peers despite the fact that the company is projected to grow its cash flow 40% to 50% per year the next few years or four to five times faster than most of its data center peers.

Wynn Resorts Ltd.: The shares of this leading real estate casino gaming company at its September 30 price of only $72 remain 53% below its $152 per share price earlier in 2020. We believe Wynn's U.S. real estate assets in Las Vegas and Boston are valued at a 50% discount to our conservative estimate of Wynn's replacement cost of its U.S. real estate.

Red Rock Resorts, Inc.: The shares of this real estate gaming, development, and management company that caters primarily to the local Las Vegas market have declined from a peak earlier this year of $28 to a September 30 price of $17. In the last few months, senior management has been acquiring millions of dollars of shares at depressed share prices. We believe there is a path for the shares to appreciate to $30 per share or approximately 75% higher than the current price in the next two years.

Brookfield Asset Management, Inc.: This leading global alternative asset manager with investments that include one of the largest real estate portfolios in the world and an industry-leading infrastructure business is currently valued at a 40% discount to our assessment of intrinsic value. At its September 2020 investor day, management revealed that it expects its business plan may lead to 27% average annual growth in its stock price in the next five years. This translates to a $110 share price up from $33/share.

Toll Brothers, Inc.: This premier homebuilding company is currently valued at only 1.2 times 2020 estimated tangible book value, representing an approximate 20% discount compared to its long-term average of approximately 1.5 times tangible book value and its peak tangible book value of more than 2 times.

Americold Realty Trust: The leading owner, operator, and developer of temperature-controlled warehouses ("cold storage") is trading at a sizeable discount to publicly traded peers despite superior growth potential and a less cyclical business model.

MGM Growth Properties LLC: This owner of prime casino real estate in Las Vegas and other regions in the U.S. is attractively valued at only 13.6 times 2020 estimated cash flow versus private market casino real estate transactions on the Las Vegas strip that have been valued at 16 to 17 times cash flow. Further, the company has a strong tenant in MGM Resorts Worldwide, liquid balance sheet, and offers a compelling 7.0% dividend yield.

CBRE Group, Inc.: The share price of the world's largest and leading commercial real estate services company has declined 23% in the first nine months of 2020 and is currently valued at only 12.6 times trailing 2019 estimated earnings versus its historical multiple of approximately 16 to 17 times earnings. At its recent price of only $47 per share, we believe CBRE's current valuation is depressed relative to our view of the company's normalized earnings potential.

Marriott Vacations Worldwide Corp.: The shares of this leading timeshare company have declined 29% in the first nine months of the year. We believe the shares are attractively valued and offer strong share price appreciation potential in the next few years.

Las Vegas Sands Corporation: The shares of this global leader in the development and operation of luxury casino resorts have declined 37% from its 2020 peak price of $74 per share to its September 30 price of $47. The company maintains a liquid and investment grade balance sheet and is currently valued at a significant discount to our assessment of replacement cost.

Taylor Morrison Home Corporation: This homebuilding company is currently valued at what we believe is a highly compelling value of only 1.1 times 2020 estimated tangible book value. We expect the combination of strong earnings growth and an improvement in the company's valuation to result in significant share price appreciation in the next few years.

Gaming and Leisure Properties, Inc.: Attractively valued owner of regional casinos across the U.S. Shares have corrected from a 2020 high of $50 per share to a September 30 price of only $37. We believe the company's 6.35% dividend yield is compelling and compares favorably to most other yield alternatives.

21Vianet Group, Inc.: The shares of this developer and operator of real estate data centers in China are currently valued at a highly discounted cash flow multiple relative to global data center peers despite expectations for strong relative cash flow growth in the next few years.

Hilton Worldwide Holdings, Inc.: The shares of the world's 2nd largest hotel company – in our opinion, a true "best-in-class" company – have declined more than 23% in 2020 and offer compelling value. As economic activity resumes in the months and years ahead, we believe the shares are likely to appreciate significantly.

Hilton Grand Vacations Inc.: The shares of this leading timeshare company have declined 39% year-to-date and 55% from their peak price of $47 in 2018. We believe the recent share price of only $21 is highly discounted relative to our assessment of intrinsic value.

Jones Lang LaSalle Incorporated: The shares of this leading commercial real estate services company have corrected from $177 earlier this year to a September 30 price of only $96. The shares are currently valued at only 8.8 times trailing 2019 earnings vs. an historical 15 to 16 times earnings.

Hyatt Hotels Corp.: The shares of this leading hotel company have declined from a 2020 high of $93 per share to its recent price of only $53. At their current valuation, we believe the shares are highly discounted relative to our assessment of intrinsic value.

Douglas Emmett, Inc.: The shares of this premier west coast developer and landlord of office and apartment buildings have declined 41% in the first nine months of 2020. The company's office assts are currently valued in the public market at a highly discounted price of approximately $400 per square foot versus an estimated replacement cost and historical transaction prices of more than $1,000 per square foot.

Cellnex Telecom, S.A.: This leading European wireless tower company is currently valued at a modest discount to most of its tower peers despite our expectation that the company will grow its cash flow by 70% to 100% in the next three years – a growth rate far in excess of its peers.

In addition to the substantial portion of the Fund's current investments that we believe are attractively valued, we are currently researching and evaluating several additional real estate companies we do not own in the Fund that we believe are "on sale" at highly discounted valuations.

CONCLUDING THOUGHTS

We remain mindful that the Coronavirus pandemic continues to create uncertainty for the economic and real estate outlook. Currently, the financial markets are grappling with whether fiscal stimulus will be passed, the possibility of a second wave in the months ahead, and the outcome of the U.S. Presidential election and timing of a definitive result.

We believe clarity will emerge in the months ahead. In our opinion, fiscal stimulus is likely. Medical advances for Coronavirus and ultimately a vaccine are probable. And, we should have clarity regarding the Presidential election.

If we are correct that a more favorable and clearer picture is on the horizon, then **we believe there is a strong case for continued optimism regarding the prospects for real estate equities and the Fund.**

Outlook for Real Estate Equities

In our opinion, evaluating the real estate landscape with one broad brushstroke would be a mistake. It would disregard the critical observation that there are clear differences in the prospects for the various and distinct real estate categories.

In the evaluation of real estate, we believe it is vital to not only peel back the onion but also see the big picture.

Peeling back the onion

Today, more than ever, we believe there is a **tale of two real estate groups.** One group is likely to benefit from multi-year operating tailwinds. The other group may face near- to medium-term operating headwinds.

Several segments of real estate are experiencing tailwinds that are resulting in an acceleration in business fundamentals – residential homes for sale, single-family home rentals, manufactured housing, industrial warehouse and cold storage companies, data center and wireless tower companies, and life sciences real estate.

On the other hand, the headwinds facing certain segments of real estate – retail malls and shopping centers, urban office and apartment buildings, and business-oriented hotels – are likely to continue to weigh on business results.

The big picture

Despite the mixed picture for various segments of real estate, the big picture remains encouraging.

We believe the conditions are in place for much of the real estate sector to perform well in the years ahead. New construction has come down quite a bit. Interest rates and mortgage rates are at historically low levels which should be supportive of valuations for both commercial and residential real estate. Corporate balance sheets are generally in solid shape. Value has also emerged for several segments of real estate.

We believe the best time to invest is during periods of uncertainty and dislocation. It is during these times when value emerges. Now is one of those times. We will continue to lean in and look for opportunities to buy high-quality real estate at discounts to replacement cost or based on other favorable valuation metrics. This approach has worked well for our team in the past. We do not anticipate it will be any different this time.

Outlook for Baron Real Estate Fund

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

We believe the benefits of the Fund's broader approach and flexibility will become even more apparent in the weeks, months, and years ahead in large part due to the evolving real estate landscape and the emergence of a "haves" and "have nots" group of real estate companies.

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 faster rates than most of their peers.

We believe the Fund is structured to capitalize on compelling investment themes.

1- 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*)

2- The intersection of technology and real estate and the digitalization of real estate (*data centers, wireless tower operators, industrial REITs, real estate data analytics companies, and other technology-centric real estate companies*)

3- Hospitality and travel-related real estate companies (*hotels, casinos & gaming, vacation timeshare operators, and amusement parks)*

4- Tactical opportunities in REITs

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 VIII.
Top 10 holdings as of September 30, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Penn National Gaming, Inc.	$11.3	$45.9	5.7%
GDS Holdings Limited	13.1	45.6	5.7
Wynn Resorts Ltd.	7.7	37.0	4.6
Zillow Group, Inc.	23.1	34.7	4.3
Equinix, Inc.	67.3	31.2	3.9
Lennar Corporation	24.9	29.5	3.7
Installed Building Products, Inc.	3.0	27.0	3.4
D.R. Horton, Inc.	27.5	25.4	3.2
Boyd Gaming Corporation	3.4	25.1	3.1
Red Rock Resorts, Inc.	2.0	24.3	3.0

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

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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Real Estate Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such an offer or solicitation.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a limited purpose broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).