Dear Baron Real Estate Fund Shareholder:

Following two straight years of 44% annual returns for the Baron Real Estate Fund (the "Fund") in 2019 and 2020, we are pleased that the Fund delivered another strong, albeit less robust, year of performance in 2021, gaining 24.36% (Institutional Shares).

The Fund's 2021 return of 24.36% trailed its primary benchmark, the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index") and the MSCI US REIT Index (the "REIT Index"), which gained 36.55% and 41.71%, respectively. This follows back-to-back years of exceptionally strong relative performance in 2019 and 2020, a two-year period when the Fund outperformed both the MSCI Real Estate Index and the REIT Index, on an annualized basis, by 2,787 basis points and 3,782 basis points (or 27.87% and 37.82%), respectively.

For a more detailed discussion regarding the Fund's 2021 performance and portfolio management, please see "A review of recent activity managing the Fund and 2021 performance" later in this letter.

We are pleased to report that as of December 31, 2021, the Fund has maintained its:

- **5-Star Overall Morningstar Rating™**
- **5-Star Morningstar Rating for each of its 10-year, 5-year, and 3-year performance periods**
- **#1 real estate fund ranking for each of its 10-year, 5-year, and 3-year performance periods**

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 managing the Fund and 2021 performance
- The prospects for real estate in the public markets
- Our 2022 investment themes and portfolio composition
- The case for real estate in a rising interest rate and elevated inflationary environment
- Concluding thoughts and observations

As of 12/31/2021, the Morningstar Ratings™ were based on 233, 200, 149, and 233 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 12/31/2021, the Morningstar Real Estate Category consisted of 253, 233, 200, and 149 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 89th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 229th, 2nd, 2nd, and 1st best performing share class in its Category, for the 1-, 3-, 5-, and 10-year periods, respectively.

Morningstar ranked Baron Real Estate Fund R6 Share Class in the 88th, 1st, and 1st percentiles, for the 1-, 3-, and 5 year periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 228th, 1st, and 1st best performing share class in its Category for the 1-, 3-, and 5-year periods, respectively.

Morningstar calculates the Morningstar Real Estate Category Average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

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

BARON FUNDS 1987

Baron Real Estate Fund

Our BOTTOM LINE MESSAGE:

Though we are mindful of key risks to the equity and real estate market outlook (e.g., a more hawkish Federal Reserve and the prospect of higher interest rates as a potential headwind to growth and valuation multiples):

1. **We remain optimistic about the near-term and long-term prospects for public real estate.**
2. **We believe there is a strong case to include an allocation to real estate in a diversified investment portfolio.**
3. **We believe the Baron Real Estate Fund – with the demonstrated merits of our broader, more flexible, and actively managed investment approach – is a highly compelling real estate mutual fund choice.**

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

	Baron Real Estate Fund Retail Shares[1,2]	Baron Real Estate Fund Institutional Shares[1,2]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]
Three Months[3]	8.71%	8.79%	13.64%	16.02%
One Year	24.03%	24.36%	36.55%	41.71%
Three Years	37.00%	37.36%	22.82%	17.17%
Five Years	21.25%	21.57%	14.32%	9.46%
Ten Years	17.87%	18.18%	14.29%	9.99%
Since Inception (December 31, 2009) (Annualized)	17.02%	17.32%	13.64%	11.10%
Since Inception (December 31, 2009) (Cumulative)[3]	559.42%	579.82%	363.90%	253.57%

A REVIEW OF RECENT ACTIVITY MANAGING THE FUND AND 2021 PERFORMANCE

Recent Activity

Like our portfolio management playbook employed in the first year of the pandemic, we maintained our unusually elevated active approach to managing the Fund in 2021 due to:

- The ongoing evolution of tailwinds and headwinds in certain segments of real estate
- The emergence of several new and relevant market developments including COVID variants (Delta and Omicron), China headwinds, elevated inflation, and Federal Reserve monetary policy changes
- Company-specific considerations–some favorable, some unfavorable
- Extreme stock market volatility

On December 27, 2021, J.P. Morgan published a report that cited the extreme dispersion in U.S. share prices. According to J.P. Morgan, for the 12-month period through December 20, 2021, despite a 20% return in the Russell 3000 Index (a capitalization-weighted stock market index of the 3,000 largest publicly held companies in the U.S.) and a correction in the Russell 3000 Index of only 4% from its 12-month high, the average stock in the Russell 3000 Index had corrected 28% from its 12-month high. Of course, several stocks corrected more than 28%–in some cases 40% to 50% or more.

On December 20, 2021, Green Street Advisors, an independent and respected commercial real estate research firm, published a brief report titled *"The Covid Trade Still Not Over."* In this report, Green Street highlights the dramatic relative underperformance of certain segments of commercial real estate that are more vulnerable to COVID and the most recent Omicron surge (such as hotel, mall, and office REITs) and suggests that there is a catch-up opportunity for these companies (i.e., the COVID-19 recovery beneficiaries) perhaps in the not too distant future. We agree.

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, 2032, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

[1] The **MSCI USA IMI Extended Real Estate Index** is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The **MSCI US REIT Index** is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. 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.

Since the onset of the pandemic in January 2020, we have worked hard to take advantage of the episodic, severe corrections in many share prices by acquiring several real estate-related stocks at attractive valuations.

The fourth quarter of 2021 was a particularly active period managing the portfolio. We believe our action steps have positioned the Fund for strong performance in 2022. They included:

- Raising cash by trimming or exiting expensive real estate securities of businesses that we anticipate will face operational headwinds
- Purchasing best-in-class real estate-related securities that were "on sale"

  Examples: **Brookfield Asset Management Inc.**, **Jones Lang LaSalle Incorporated**, **Hyatt Hotels Corp.**, **Lennar Corporation**, **D.R. Horton, Inc.**, **Lowe's Companies, Inc.**, **Equity Residential**, and **Invitation Homes, Inc.**
- Purchasing cyclical real estate stocks – several travel and hospitality-related real estate stocks – that had declined sharply (*in some cases by 25% to 60% from 2021 share price highs!*) but possess the potential to appreciate significantly over the new few years.

  Examples: **MGM Resorts International**, **Boyd Gaming Corporation**, **Marriott Vacations Worldwide Corp.**, **Caesars Entertainment Corporation**, **Six Flags Entertainment Corporation**, **Penn National Gaming, Inc.**, **Las Vegas Sands Corporation**, **Tripadvisor, Inc.**, and **Madison Square Garden Entertainment Corp.**

Table II.
Top net purchases for the quarter ended December 31, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
MGM Resorts International	$21.0	$38.3
Las Vegas Sands Corporation	28.8	29.6
Boyd Gaming Corporation	7.4	28.2
Floor & Decor Holdings, Inc.	13.7	25.0
Equity Residential	33.9	23.7

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

MGM Resorts International: MGM Resorts is a global casino and entertainment company operating 19 properties throughout the Las Vegas Strip, Macau, and the broader U.S. Approximately 80% of the company's cash flow is generated in the U.S. We believe the company is well positioned to benefit from an ongoing recovery in Las Vegas. The company's BetMGM iGaming business is the clear leader in the U.S. with 30% market share, and its combined sports betting and iGaming business is the #2 ranked business by market share in the U.S. Following several prudent strategic and financial steps, MGM Resorts will soon have more than $10 billion of cash that it can deploy for additional growth opportunities, share repurchases, dividends, debt reduction, and other opportunities to create shareholder value.

Las Vegas Sands Corporation: Following a close to 50% decline in the share price of Las Vegas Sands from its 2021 peak share price of $67 to $35, we began acquiring shares of this global leader in the development and operation of luxury casino resorts. We believe Las Vegas Sands' market-leading resorts in Macau and Singapore position the company for strong growth when travel and tourism spending rebounds. Las Vegas Sands maintains a liquid and investment grade balance sheet and is currently valued at a significant discount to our assessment of replacement cost.

Boyd Gaming Corporation: Boyd is one of the largest and most successful casino entertainment companies in the U.S. The company owns and operates 28 casino gaming properties in 10 states with a large presence in Las Vegas and a geographic focus on the drive-to, leisure gaming customer. We remain optimistic about the prospects for Boyd's shares because business conditions are strong, management maintains a liquid and conservatively capitalized balance sheet, insiders own approximately 27% of the company, the shares remain attractively valued at only 7.5 times 2022 estimated cash flow and a double-digit free cash flow yield, and we believe the company could be an attractive acquisition candidate should its current valuation remain discounted relative to recent private market casino and gaming transactions.

Floor & Decor Holdings, Inc.: Following a recent correction in its share price and time spent with management, we began acquiring shares in Floor & Decor, a leading and high-growth specialty retailer of hard-surface flooring offering the industry's broadest in-stock selection of tile, wood, laminate, vinyl, and natural stone flooring. We are optimistic about the long-term, multi-pronged growth prospects for the company. They include the potential to grow its store count in the U.S. from 153 stores to more than 400 stores, strong comparable store sales growth, growth in the company's online business, growth opportunities with professional and commercial customers and designer services. The company is also well positioned to benefit from the cyclical and secular tailwinds that should aid the U.S. housing market in the years ahead.

Equity Residential: Equity Residential is the largest U.S. apartment REIT with a portfolio valued at $45 billion. The company primarily focuses on major markets such as Los Angeles, Seattle, San Francisco, Boston, and New York, but has begun to also prioritize Sun Belt markets and other growing cities like Denver. Equity Residential maintains a strong and liquid balance sheet. We recently spent time with management and are encouraged about the company's prospects for growth in the year ahead.

Table III.
Top net sales for the quarter ended December 31, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Zillow Group, Inc.	$16.4	$30.5
Opendoor Technologies Inc.	11.2	26.1
Douglas Emmett, Inc.	5.9	24.7
CoreSite Realty Corporation	8.5	24.4
Vornado Realty Trust	8.6	24.2

Baron Real Estate Fund

In the most recent quarter, we exited the Fund's investments in both **Zillow Group, Inc.** and **Opendoor Technologies Inc**. Though we continue to believe consumers will seek streamlined, tech-enabled home shopping experiences that include the ability to buy, sell, rent, and finance residential real estate with the click of a button, we have grown wary of the inventory and home price risks associated with the I-buying business model of both Zillow and Opendoor. In fact, in November, Zillow surprisingly announced its plans to exit its Zillow Offers business because it determined "that further scaling up Zillow Offers is too risky, too volatile to our earnings and operations, provides too little opportunity for return on equity, and serves too narrow a portion of our customers."

We recently significantly reduced the Fund's position in **Douglas Emmett, Inc.** and exited the Fund's holding in **Vornado Realty Trust** and reallocated the capital to other attractively valued real estate companies that we believe have superior long-term growth prospects. Douglas Emmett and Vornado are office-centric REITs, and we believe the growing list of companies adopting more flexible work arrangements such as "work-from-home" will remain an occupancy and rent headwind for several office landlords that is likely to extend beyond the pandemic. Additional factors that may pressure office landlords in the years ahead include elevated office construction, antiquated office buildings that require redevelopment and new amenities, and population migration to sunbelt states.

In the most recent quarter, **CoreSite Realty Corporation**, a carrier-neutral data center REIT, was acquired by another one of the Fund's holdings, **American Tower Corp.** We are optimistic about the strategic merits of this acquisition as American Tower cements its leadership position across multiple classes of communications real estate and creates an attractive opportunity to expand CoreSite's data center platform internationally. We received cash consideration for the acquisition and reallocated the capital to other real estate investment opportunities.

Recent Performance

At the beginning of 2021, though optimistic about the return prospects for real estate and the Fund, we had a premonition that the year would be tricky to navigate given that many stocks had performed well in 2020, the possibility of COVID variants and their impact on certain segments of real estate, and other macro and geopolitical considerations. Our premonition proved to be prescient.

The onset of two COVID variants (Delta and Omicron), China's increased scrutiny of the technology and other industries, elevated inflation, supply chain bottlenecks, negative real interest rates despite economic strength, and a recently more hawkish Federal Reserve, are a sampling of the many factors that contributed to extreme stock market volatility and a challenging year for stock selection and portfolio management.

Additional items that weighed on the Fund's relative performance in 2021 include the Fund's Asia-focused real estate investments, the strong 2021 performance of REITs (we tend to limit our REIT allocation to approximately 20% to 30% so that the Fund remains diversified and complementary to more REIT-focused funds such as our Baron Real Estate Income Fund), the strong share price performance of certain "lower quality" real estate value stocks, and a few individual stock selection mistakes.

In our 12 years managing the Baron Real Estate Fund, there have been periods when the Fund has temporarily trailed its benchmark. We have 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 December 31, 2021

	Quarter End Market Cap (billions)	Percent Impact
Lowe's Companies, Inc.	$174.2	0.83%
Prologis, Inc.	124.5	0.64
Lennar Corporation	35.2	0.60
Simon Property Group, Inc.	52.5	0.56
Rexford Industrial Realty, Inc.	12.3	0.55

In the most recent quarter, the shares of the Fund's investments in housing-related companies, such as **Lowe's Companies, Inc.** and **Lennar Corporation**, continued to perform well. Lowe's is the 2nd largest home improvement center in the U.S. Lennar is the 2nd largest homebuilder by volume in the U.S. Both companies are benefiting from a robust housing market, are led by an exceptionally talented management teams, and have market leadership positions with scale and cost advantages. We believe the long-term growth prospects for both companies remain compelling.

Following a string of strong quarterly results, the shares of **Prologis, Inc.** and **Rexford Industrial Realty, Inc.** continued to increase this quarter. Both companies are, in our opinion, best-in-class industrial REITS that have long runways for growth. Prologis and Rexford continue to benefit from robust demand for their warehouse facilities driven by the growth of e-commerce and the need for infill real estate locations to service "last mile" delivery.

The shares of **Simon Property Group, Inc.**, the largest and premier mall operator in the U.S., continued to perform well in the most recent quarter following strong quarterly results and an encouraging business outlook. The company owns A-quality malls in A-quality geographic locations. We expect Simon to benefit from ongoing economic recovery and believe management is well positioned to acquire real estate assets given its strong balance sheet and low cost of capital. Despite the recent strength in its shares, we continue to believe that Simon is attractively valued and offers attractive return potential.

Table V.
Top detractors from performance for the quarter ended December 31, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Tripadvisor, Inc.	$ 3.8	–0.48%
SmartRent, Inc.	1.9	–0.47
Zillow Group, Inc.	16.4	–0.44
Caesars Entertainment Corporation	20.0	–0.31
Las Vegas Sands Corporation	28.8	–0.22

Following **Tripadvisor, Inc.**'s 60%-plus correction in its share price from March 2021 to December 2021, in part due to disappointing third quarter earnings results and the departure of its CEO, we reacquired shares at what we believe is a highly compelling share price and valuation.

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. We also believe the company has several additional opportunities to unlock shareholder value by continuing to shift revenues towards experiences and dining, maintaining its cost cutting initiatives, growing its recently launched travel subscription product, and growing and perhaps selling a stake in one of its experiences or dining brands. We are also encouraged that the Chairman of the Board is the highly respected Greg Maffei, CEO of Liberty Media Corporation and Liberty TripAdvisor Holdings. Liberty TripAdvisor Holdings has a 13% ownership interest in Tripadvisor and is the largest shareholder of the company.

Following strong share price performance in the prior two quarters, the shares of **SmartRent, Inc.** declined in the fourth quarter. We remain optimistic about the company's long-term prospects. SmartRent has emerged as the leading residential-related software company for apartment landlords. The company's digital product enhances the resident and landlord experience. Its products provide several benefits to tenants including keyless access, self-guided tours, smart parking, video intercom, package delivery, leak detection, and temperature control management. Residential landlords benefit due to cost savings that range from 20% to 30% on utilities and 20% to 50% on leasing costs and an ability to increase rents due to the improved tenant benefits.

We believe the long-term growth potential of SmartRent is tremendous. Its existing customer base of apartment landlords could yield $2 billion in recurring revenues over time versus 2020 revenues of only $50 million. Additional growth opportunities internationally, in student and senior living housing, and through mergers and acquisitions may augment growth over time.

In 2020, the shares of **Zillow Group, Inc.**, a technology-centric housing-related company, increased 184%. We trimmed Zillow during the course of 2021 and exited the position in the most recent quarter following the company's surprising announcement that it plans to exit its Zillow Offers business. We are continuing to monitor Zillow and may revisit the company at a later date.

Following strong share price performance for much of 2021, the shares of **Caesars Entertainment Corporation** declined in the most recent quarter along with the shares of several other travel-related companies. We recently acquired additional shares at what we believe are attractive prices and remain optimistic about the prospects for the company.

Caesars is the largest and most diversified casino gaming and entertainment company in the U.S. The company manages 47 casino properties across 13 states and 5 countries and has a #1 or #2 market share position in most markets. Brands include Caesars, Harrah's, Planet Hollywood, Paris Las Vegas, and Nobu Hotel, among others. Led by highly regarded CEO Tom Reeg, we believe Caesar's has several opportunities to continue to drive strong cash flow growth and create value through operational improvements, sports betting market share growth, real estate asset sales, debt reduction, and ongoing investments in customer engagement, its hotel rooms, and digital technology.

The shares of **Las Vegas Sands Corporation**, a global leader in the development and operation of luxury casino resorts in Macau and Singapore, declined sharply in 2021 due to the ongoing COVID-19-related travel restrictions in China, Macau, and Singapore and the Macau government's decision to tighten its casino regulatory oversight.

Following a close to 50% decline in the share price of Las Vegas Sands from its 2021 peak share price of $67 to $35, we have begun to acquire shares of the company. We believe Las Vegas Sands' market-leading resorts in Macau and Singapore position the company for strong growth when travel and tourism spending rebounds. Las Vegas Sands maintains a liquid and investment grade balance sheet and is currently valued at a significant discount to our assessment of replacement cost.

THE PROSPECTS FOR REAL ESTATE IN THE PUBLIC MARKETS

We anticipate that 2022 may be arduous to navigate in part due to the prospects of a more hawkish Federal Reserve, higher interest rates, and the possibility of moderating growth and multiple compression in some segments of commercial and residential real estate. If the aforementioned occurs, we would anticipate lower returns relative to the elevated returns of the last three years when the Fund, on average, gained approximately 38%, per year.

Despite the prospect of lower performance returns, we believe the Fund will generate attractive absolute and relative returns, and 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, in most cases, remain strong against a backdrop of modest inventory levels.

   Regarding the supply outlook, we 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, inventory levels remain depressed relative to historical standards and demographics.

2. **Business conditions remain solid 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 of people to assemble disproportionately weighed on a large segment of real estate.

   Real estate headwinds began to recede in 2021, and we expect this trend to continue in 2022. We anticipate that certain segments of real estate will benefit from an ongoing economic recovery.

   In the last few months, we were busy attending several real estate conferences and meetings and furthering our research. The updates and outlooks we heard for most real estate categories and companies were broadly encouraging.

3. **Balance sheets are strong**

   Although credit access remains at historically low financing rates, most public real estate companies are maintaining strong and liquid balance sheets and are not utilizing excessive use of debt relative to company-generated cash flow.

4. **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.

5. **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.

   We estimate that more than $300 billion of capital has been raised by private equity sources to invest in real estate, which equates to approximately $1 trillion of total real estate purchasing capacity, assuming typical 70% 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 when it is valued at a discount relative to the private market. This embedded put scenario should limit the downside for public valuations and stock prices.

6. **We continue to identify real estate companies that remain on sale and are attractively valued**

   We took advantage of the major buying opportunities created in 2020 following the swift and intense stock market correction. In 2021, we continued to lean into stock market volatility by acquiring shares in companies following stock price corrections.

   For some of the Fund's holdings, stock prices have recovered, and prospective shareholder returns are likely to come from earnings or cash flow growth rather than an improvement in a company's valuation (i.e., multiple expansion or cap rate compression).

   However, we continue to identify real estate companies that offer prospects for both valuation multiple expansion (or cap rate compression) and earnings or cash flow growth. We prioritize real estate companies that have this two-pronged return potential because they have the potential to generate outsized returns.

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 25-year period ended December 31, 2021, U.S. equity REITs have delivered a better cumulative return than the S&P 500 Index, fixed income alternatives, international equities, and commodities.

   Since the Fund's inception on December, 31 2009 through December 31, 2021, Baron Real Estate Fund, which owns REITs and non-REIT real estate companies, has delivered a cumulative return of 579.82% (Institutional Shares), more than double the 253.57% return of the 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 25 years (through 12/31/2021), REITs have provided diversification benefits due to their modest correlation versus stocks (0.60 versus S&P 500 Index) and low correlation versus bonds (0.19 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. Please see the section titled "The case for real estate in a rising interest rate and elevated inflationary environment" later in this letter for our more complete thoughts on this topic.

OUR 2022 INVESTMENT THEMES AND PORTFOLIO COMPOSITION

At Baron, we have always prioritized thorough bottom-up research and analysis of individual real estate companies. **We also embrace thematic real estate investing**.

Our process encompasses amalgamating our company research, and then contemplating the "big picture" trends or findings that are consistent across real estate companies. In other words, we attempt to "see the forest through the trees" and identify highly attractive real estate investment themes.

If we are successful identifying what we believe are compelling investment themes, we do not hesitate to lean into them with a "full court press" of high-conviction thematic real estate investing. Over time, our dual-pronged approach of combining bottom-up individual company research with thematic investing has produced strong results for our shareholders.

Since the onset of the pandemic two years ago, we have structured the Fund to take advantage of three compelling themes and are maintaining these themes at the outset of 2022. They are:

- COVID-19 recovery beneficiaries
- Opportunities in residential real estate
- The intersection of technology and real estate

1. **COVID-19 recovery beneficiaries**

This investment theme encompasses real estate companies at the epicenter of the pandemic.

In the last two years, certain REITs and other real estate-related businesses that rely on the assembly of people have been severely impacted by COVID-19 as they were forced to shut down all or a large part of operations almost without exception.

Following the beginning of vaccinations late in 2020 and early in 2021 and the initial release of pent-up consumer and commercial demand, the share prices of many of these companies increased sharply. However, for much of 2021, the share prices of many of these companies moved up and down in a roller-coaster fashion mirroring the onset and path of COVID-19 variants (Delta and Omicron) and many remain significantly below their peak prices.

We remain optimistic about the prospects for the Fund's COVID-19 recovery beneficiaries or epicenter companies–many of which are leisure and travel-related real estate companies–because we believe the businesses remain cyclically depressed, not secularly challenged. Further, we expect business conditions and the share prices to improve as more people receive booster shots and the FDA-authorized Pfizer and Merck COVID treatment pills come into use.

We believe the Fund's COVID-19 recovery beneficiaries offer prospects for strong annual returns in the next few years.

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

Casinos and gaming operators
Red Rock Resorts, Inc., **Boyd Gaming Corporation**, **Caesars Entertainment Corporation**, **MGM Resorts International**, **Penn National Gaming, Inc.**, and **Las Vegas Sands Corporation**

Vacation timeshare companies
Marriott Vacations Worldwide Corp., **Travel + Leisure Co.**, and **Hilton Grand Vacations Inc.**

Amusement park operators
Six Flags Entertainment Corporation

Commercial real estate services companies
CBRE Group, Inc. and **Jones Lang LaSalle Incorporated**

Real estate operating companies
Brookfield Asset Management Inc. and **Madison Square Garden Entertainment Corp.**

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.**, **Equity Residential**, **Alexandria Real Estate Equities, Inc.**, and **Gaming and Leisure Properties, Inc.**

On December 31, 2021, COVID-19 recovery beneficiary companies represented 52.5% of the Fund's net assets.

Table VI.
COVID-19 Recovery Beneficiaries as of December 31, 2021

	Percent of Net Assets
Casinos & Gaming Operators	16.2%
Hotels, Timeshare Operators, and Other Leisure Companies	9.9
Certain REITs	8.0
Commercial Real Estate Services Companies	7.2
Real Estate Operating Companies	5.5
Amusement Park Companies	2.1
Land Development Companies	2.1
OTAs	1.5
Total	52.5%

2. Opportunities in residential real estate

We are mindful of and will continue to monitor potential risks to the Fund's investments in residential real estate-related companies such as the near-term headwinds of material and labor bottlenecks. A sharp increase in mortgage rates coupled with double-digit home price growth would make homes less affordable. In the early days of 2022, we are closely monitoring and evaluating these risks and incorporating them into the Fund's exposure to residential real estate.

Despite the possibility of a temporary slowdown in housing market activity in 2022 (e.g., a spike in mortgage rates leading to a slowdown in home purchase activity), we remain bullish on the multi-year prospects for U.S. residential real estate.

Areas of investment focus include:

Homebuilders
Lennar Corporation, D.R. Horton, Inc., and Toll Brothers, Inc.

Residential building products/services companies
Floor & Decor Holdings, Inc., **Fortune Brands Home & Security, Inc.**, **The AZEK Company Inc.**, **SiteOne Landscape Supply, Inc.**, **Hillman Solutions Corp.**, **Installed Building Products, Inc.**, and **Vulcan Materials Company.**

Home centers
Lowe's Companies, Inc. and **Home Depot, Inc.**

Single-family rental REITs
Invitation Homes, Inc.

Manufactured housing REITs
Equity Lifestyle Properties, Inc.

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 considering that the U.S. population has grown by more than 150 million people since 1959–330 million people today versus 178 million people in 1959!

Ever since the housing crisis from 2007 to 2010, housing supply has not kept pace with housing demand, household formation, and population growth leading to a structural shortage of housing. According to the U.S. Census, 12.3 million American households were formed from January 2012 to June 2021, but just 7 million new single-family homes were built during that time. The result? The U.S. is short more than 5 million homes.

Housing-related demand prospects are also encouraging, especially from the approximately 73 million millennials–ages 25 to 40–many of whom are now looking to buy or rent a home. Millennials are the largest generation in the workforce–many have jobs, their wages are increasing, and their multi-year delay of household formation is reversing. There are clear signs that millennials are debunking the view that the "American Dream" to own or rent a home is over.

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 do not spike to levels that would deter would-be homebuyers. It also bodes well for home and apartment rentals.

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, 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: If 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 **Lowe's Companies, Inc.**, **Home Depot, Inc.**, **Floor & Decor Holdings, Inc.**, **Fortune Brands Home & Security, Inc.**, **The AZEK Company Inc.**, **Installed Building Products, Inc.**, **Hillman Solutions Corp.**, **SiteOne Landscape Supply, Inc.**, **Pool Corporation**, and **Trex Company, Inc.**

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 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.

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.

As of December 31, 2021, residential-related real estate companies represented 27.9% of the Fund's net assets.

Table VII.
Residential-related Real Estate Companies as of December 31, 2021

	Percent of Net Assets
Building Products/Services	12.3%
Homebuilders	6.3
Home Centers	4.9
REITs	
Single-Family Rental	2.7
Manufactured Housing	1.7
Total	27.9%

3. The intersection of technology and real estate

The growth in cloud computing, the internet, mobile data and cellphones, wireless infrastructure, and e-commerce are powerful secular developments 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 thematic focus for us. Key beneficiaries of the technology revolution include data center companies, wireless tower companies, last mile logistics warehouses (or industrial REITs), and real estate data analytic companies.

On December 31, 2021, technology-related real estate companies represented 14.9% of the Fund's net assets.

Table VIII.
Technology-related Real Estate Companies as of December 31, 2021

	Percent of Net Assets
Real Estate Data Analytics Companies	1.8%
Wireless Tower Operators	1.2
Data Centers	0.8
Residential-Related Technology Companies	0.6
REITs	
Industrial REITs	4.3
Wireless Tower REITs	4.0
Data Center REITs	1.7
Data-Related REITs	0.5
Total	14.9%

Portfolio Composition

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 mix between best-in-class real estate growth companies and real estate value opportunities.

We believe our barbell approach remains prudent because COVID-19 and the Delta and Omicron variants have led to a wide disparity in share price performance and valuation for many real estate companies.

Further, should interest rates begin to rise in the year ahead (perhaps due to the end of the pandemic, improved economic growth, and/or Federal Reserve rate increases), we believe laggard and attractively valued real estate companies may outperform more richly valued growth companies.

The Fund's long-term investment bias remains the prioritization of competitively advantaged best-in-class real estate companies with long runways for growth. Examples currently held in the Fund include:

American Tower Corp., **CBRE Group, Inc.**, **CoStar Group, Inc.**, **Equinix, Inc.**, **Home Depot, Inc.**, **Lowe's Companies, Inc.**, **Prologis, Inc.**, and **Alexandria Real Estate Equities, Inc**.

In the fourth quarter, we took advantage of the correction in the share prices of several real estate companies, in part due to the onset of the Omicron variant, and we acquired shares in several real estate companies that are attractively valued and "on sale." Examples include:

Brookfield Asset Management Inc., **Jones Lang LaSalle Incorporated**, **MGM Resorts International**, **Boyd Gaming Corporation**, **Marriott Vacations Worldwide Corp.**, **Caesars Entertainment Corporation**, **Six Flags Entertainment Corporation, Penn National Gaming, Inc.**, **Las Vegas Sands Corporation**, **Tripadvisor, Inc.**, and **Madison Square Garden Entertainment Corp**.

We currently have 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 December 31, 2021

	Percent of Net Assets
REITs	22.9%
Casinos & Gaming Operators	16.2
Building Products/Services	15.9
Hotels & Leisure	12.1
Real Estate Service Companies	11.1
Homebuilders & Land Developers	9.7
Real Estate Operating Companies	5.4
Unclassified	1.4
Tower Operators	1.2
Data Centers[1]	0.8
Cash and Cash Equivalents	3.3
Total	100.0%

[1] Total would be 2.5% if included data center REIT Equinix, Inc.

THE CASE FOR REAL ESTATE IN A RISING INTEREST RATE AND ELEVATED INFLATIONARY ENVIRONMENT

We are mindful that interest rates and inflation are a 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, **real estate can perform well in a rising interest rate and inflationary environment.**

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 the 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 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 data quoted represents past performance. Past performance is no guarantee of future results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2013 Calendar Year Case Study

We would also note that during calendar year 2013 when the 10-year U.S. Treasury yield increased by 138 basis points from a low of 1.66% (May 2) to 3.04% (December 31), the Baron Real Estate Fund increased 27.5% (vs. primary benchmark +17.4% and REIT Index up 1.3%).

Real Estate as an Inflation Hedge

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

Inflation-linked property value and pricing power: Higher prices for labor, land, and materials may discourage new real estate construction (i.e., if the increase in costs exceeds the expected increase in rents, then the profits from development decrease) thereby supporting the ability for current landlords in supply-constrained markets to increase occupancies and pass along higher operating costs by raising rents (i.e., pricing power).

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 (e.g., consumer price index or CPI).

CONCLUDING THOUGHTS AND OBSERVATIONS

As we peer into the year ahead, we acknowledge that there is a case to be made for the glass being half full or the glass being half empty.

In a more cautious scenario, we are reminded of a Morgan Stanley report titled *"The End of Easy,"* which was published on May 13, 2018. In that report, the authors noted that the stock market performance in the prior nine years had exceeded the performance of the economy due to multiple positive tailwinds that included low inflation, historically low interest rates, and positive U.S. policy catalysts (e.g., tax reform).

Looking forward, however, the authors predicted that *"the End of Easy"* stock market performance may be approaching, as these previously positive factors (e.g., the Goldilocks environment of moderate growth, low inflation, low interest rates, an accommodative Fed, and other factors) start to moderate, and advance more modestly. The essence of the report is that when this occurs, the economy will outperform the stock market.

Perhaps recent economic data and Federal Reserve commentary portend that "the End of Easy" may be near. For example, the latest reports regarding employment, consumer confidence, and consumer spending have all been quite strong. Additionally, the economy is performing well, inflation is elevated, and the Federal Reserve has begun the process of removing monetary accommodation (*"Don't Fight the Fed"*).

A more sanguine scenario would suggest that in 2022:

- The pandemic evolves into an endemic
- Inflation peaks and begins to reverse, in part due to the easing of supply chain bottlenecks and labor tightness
- The Federal Reserve moderates its plans to increase interest rates if inflation cools
- Economic growth remains robust fueled by consumer pent-up demand
- The persistence of negative real interest rates (i.e., inflation continues to exceed interest rates guaranteeing a negative return on a bond investment or cash) continues to support the notion that "there is no alternative" (aka: TINA) for equities

Glass half full? Glass half empty? Although we continue to acknowledge that no one has a crystal ball regarding the outlook, ***we remain in the more optimistic, "glass half full" camp***.

We recognize that in the months ahead there may be choppy periods in the market, yet we remain directionally positive, and ***believe there are valid reasons for optimism for the stock market, public real estate, and the Baron Real Estate Fund***.

Stock Market Outlook

We believe the end of the global pandemic may be reached as broad population immunity is achieved and with the help of new therapeutics. This may produce a global cyclical recovery, an improvement in employment, a release of consumer pent-up demand for travel and other activities, and increased corporate investments (capital expenditures, mergers and acquisitions, share buybacks). We also believe an easing of supply chain bottlenecks and labor tightness will contribute to moderating inflation and a still-easy Federal Reserve monetary policy (the end of quantitative easing but the continuation of historically low interest rates). Negative real interest rates and several reasonably valued stocks continue to bode well for equities relative to bonds. For these reasons, **we remain positive on the outlook for the stock market.**

Real Estate Market Outlook

We continue to believe the conditions are in place for much of real estate to perform well in the year ahead. As detailed earlier in this letter, real estate business prospects remain favorable for most segments of commercial and residential real estate. Inventory and new construction activity remain modest relative to demand. Balance sheets are in solid shape. Several segments of real estate offer inflation protection characteristics and serve as a partial inflation hedge. Many real estate stocks remain attractively valued relative to equities, bonds, and the private real estate market. There is a staggering amount of private equity capital that continues to target real estate and may drive public real estate asset values higher. For these reasons, **we remain positive on the outlook for real estate.**

Baron Real Estate Fund Outlook

We believe the benefits of the Fund's broader approach and flexibility will shine bright in the years ahead in part due to the new and evolving real estate landscape. Some companies will experience an acceleration in tailwinds and others are likely to face ongoing headwinds. We believe we have constructed a portfolio that is populated with competitively advantaged real estate companies. We have structured the Fund to capitalize on compelling investment themes. Valuations and return prospects are attractive. For these reasons, **we remain positive on the outlook for the Baron Real Estate Fund.**

Table XI.
Top 10 holdings as of December 31, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Brookfield Asset Management Inc.	$ 94.8	$93.5	4.6%
Jones Lang LaSalle Incorporated	13.6	85.9	4.2
Boyd Gaming Corporation	7.4	84.9	4.2
Marriott Vacations Worldwide Corp.	7.2	82.9	4.1
MGM Resorts International	21.0	79.2	3.9
Lowe's Companies, Inc.	174.2	74.7	3.7
Red Rock Resorts, Inc.	6.3	69.1	3.4
CBRE Group, Inc.	36.3	61.1	3.0
American Tower Corp.	133.2	59.9	2.9
Lennar Corporation	35.2	57.3	2.8

Final Thoughts

I would like to recognize the immense contribution of our top-notch real estate team–David Baron, David Kirshenbaum, and George Taras–for their dedication and excellent work. Since the onset of the pandemic two years ago, they have remained focused, hardworking, clear minded, and energized. Thank you.

And I thank you, our loyal shareholders, and express my utmost gratitude for your past and continuing support of Baron Real Estate Fund during the past 12 years. I, and our team, remain driven and committed to doing our best to deliver outstanding long-term results, and I proudly continue as a major shareholder, alongside you.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

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

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. **Diversification** cannot guarantee a profit or protect against loss.

The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. The **Bloomberg Barclays US Aggregate Bond Index** is a broad benchmark index for the U.S. bond market. The index covers all major types of bonds, including taxable corporate bonds, Treasury bonds, and municipal bonds. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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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