DEAR BARON REAL ESTATE FUND SHAREHOLDER:

In the most recent three-month period ended September 30, 2021, the Baron Real Estate Fund (the "Fund") declined a modest 1.66% (Institutional Shares), marginally underperforming its primary benchmark index, the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), and the MSCI US REIT Index (the "REIT Index"), which increased 0.10% and 0.75%, respectively.

For the first nine months of 2021, the Fund increased 14.31%.

We are pleased to report that as of September 30, 2021, the Fund had a **5-star Overall Morningstar Rating™** again and has remained in the top 1% of all real estate funds for its 10-year, 5-year, and 3-year performance.

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

We will address the following topics in this letter:

- A review of recent activity and performance
- Investing prospects for real estate (*preview*: we remain bullish)
- Our investment themes and portfolio construction
- Interest rates and inflation and their impact on real estate
- Concluding thoughts

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

As of 9/30/2021, the Morningstar Ratings™ were based on 231, 199, 147, and 231 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 9/30/2021, the Morningstar Real Estate Category consisted of 246, 231, 199, and 147 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 48th, 1st, 1st, and 1st percentiles, 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

Table I.
Performance
Annualized for periods ended September 30, 2021

	Baron Real Estate Fund Retail Shares[1,2]	Baron Real Estate Fund Institutional Shares[1,2]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]
Three Months[3]	(1.73)%	(1.66)%	0.10%	0.75%
Nine Months[3]	14.10%	14.31%	20.16%	22.15%
One Year	33.15%	33.50%	32.60%	35.77%
Three Years	25.57%	25.89%	12.89%	8.82%
Five Years	19.25%	19.56%	11.48%	5.55%
Ten Years	18.75%	19.05%	14.51%	9.88%
Since Inception (December 31, 2009) (Annualized)	16.58%	16.88%	12.72%	9.95%
Since Inception (December 31, 2009) (Cumulative)[3]	506.61%	524.89%	308.23%	204.75%

A REVIEW OF RECENT ACTIVITY AND PERFORMANCE

Recent Activity

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

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Caesars Entertainment Corporation	$24.0	$36.8
MGM Resorts International	20.8	36.7
Hyatt Hotels Corp.	8.5	27.8
Hillman Solutions Corp.	2.2	26.4
Lennar Corporation	28.4	25.9

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

- **Caesars Entertainment Corporation**: 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 room products, and digital technology.

- **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 a 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.

- **Hyatt Hotels Corp.**: Following its recent announcement to acquire Apple Leisure Group, a highly desirable independent resort management company with 102 resorts in 10 countries, we re-acquired shares in Hyatt, a leading hotel company. We believe this acquisition will accelerate Hyatt's industry-leading growth by adding a portfolio of resort brands with a large pipeline. Hyatt's management has also announced its intention to accelerate its transformation to greater fee-based earnings and create additional liquidity by seeking to sell $2 billion of owned hotels in the next three years. We believe the combination of industry-leading growth, hotel asset sales at attractive valuations, and the company's ongoing transformation to more of an asset-light business will result in an improvement in Hyatt's valuation and strong shareholder returns.

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.

- **Hillman Solutions Corp.**: Hillman Solutions is a market-leading North American wholesale distributor and service provider of builders' hardware, home improvement products, and other items to over 40,000 locations, including home improvement centers and other retailers. The company has delivered a remarkably strong long-term growth track record, having posted year-over-year sales growth in 55 of the past 56 years and generated average organic sales growth of 6% over the past 20 years. We believe the company can grow its total cash flow approximately 15% per year given its clear #1 market positioning, scale advantages, opportunities to expand cash flow margins, and possible future acquisitions.

- **Lennar Corporation**: We recently acquired additional shares in Lennar, the 2nd largest homebuilder by volume in the U.S. Led by an exceptionally talented management team, we believe Lennar is a true best-in-class company given its market leadership positions, scale and cost advantages, compelling long-term growth potential, and strong balance sheet and liquidity. We believe there is an attractive opportunity to improve the company's valuation as the company continues to pivot to a land-light operating model by increasing the percentage of land controlled through options or agreements and simplifying its business by spinning out its ancillary and non-core assets.

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

	Market Cap When Sold (billions)	Amount Sold (millions)
GDS Holdings Limited	$ 9.7	$51.9
Las Vegas Sands Corporation	34.6	34.7
Wynn Resorts Ltd.	11.6	26.6
Latham Group, Inc.	2.1	20.2
Americold Realty Trust	9.7	19.8

In the most recent quarter, we exited the Fund's three China-centric holdings:

- **GDS Holdings Limited**: Following several years of delivering strong shareholder returns for the Fund, we exited our position in GDS, the leading developer and operator of data centers in China. Though we hold management in high regard and believe there is potential for strong long-term growth, we are uncomfortable with the political landscape in China, including the scrutiny of the technology industry. We will continue to monitor developments and perhaps acquire shares again in the future.

- **Las Vegas Sands Corporation** and **Wynn Resorts Ltd.**: In the most recent quarter, we exited the Fund's holdings in Las Vegas Sands and Wynn due to: (i) ongoing COVID-19-related travel restrictions in China, Macau, and Singapore; and (ii) the Macau government's announcement to tighten its casino regulatory oversight. We reallocated the capital from these sales to U.S.-centric real estate casino operators Caesars and MGM Resorts.

Following strong initial share price performance after its April IPO, the shares of **Latham Group, Inc.**, the largest manufacturer of fabricated pools globally, reversed course and declined sharply in the most recent quarter following disappointing quarterly results and the announcement of the departure of a key employee. We exited the Fund's position in the company.

We recently exited the Fund's investment in **Americold Realty Trust**, a cold-storage REIT, and reallocated the capital to other real estate companies that we believe offer superior return potential.

Recent Performance

Following two straight years of annual returns of over 44% for the Baron Real Estate Fund and exceptionally strong outperformance versus our primary benchmark and REIT Index, the Fund's 2021 relative performance through September 30, 2021, is trailing its primary benchmark and the REIT Index. Factors that have weighed on year-to-date relative performance include the Fund's Asia-focused real estate investments, which we recently exited, the strong year-to-date performance of REITs (we tend to limit the Fund's REIT allocation to approximately 25% to 30% of the Fund), the strong share price performance of certain value stocks in the sector, and a few individual stock selection mistakes.

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

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

	Quarter End Market Cap (billions)	Percent Impact
Jones Lang LaSalle Incorporated	$12.6	0.77%
Red Rock Resorts, Inc.	6.0	0.67
Caesars Entertainment Corporation	24.0	0.45
CBRE Group, Inc.	32.7	0.36
Opendoor Technologies Inc.	12.4	0.32

Leading commercial real estate service companies **Jones Lang LaSalle Incorporated** ("JLL") and **CBRE Group, Inc.** both delivered exceptional business results in the second quarter and the shares of JLL and CBRE increased 27% and 14%, respectively. We remain optimistic about the prospects for JLL and CBRE given their market share leadership positions, global business platforms, scale advantages, strong balance sheets, and possible acquisition opportunities. We believe both companies are likely to grow earnings at an attractive double-digit growth rate over the next few years, and the shares of each company remain attractively valued.

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

In the most recent quarter, the shares of **Caesars Entertainment Corporation** increased following strong quarterly results. The company's Las Vegas Strip operating results were outstanding with revenues at 85% of second quarter 2019 levels despite COVID-19 related social distancing restrictions, mask mandates, and all hotel capacity not available for two-thirds of the second quarter!

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Latham Group, Inc.	$ 2.2	–0.81%
Zillow Group, Inc.	22.4	–0.75
GDS Holdings Limited	9.2	–0.68
Hippo Holdings Inc.	2.5	–0.45
Las Vegas Sands Corporation	33.3	–0.35

As mentioned above, the shares of **Latham Group, Inc.**, the largest manufacturer of fabricated pools globally, declined sharply for the period held following disappointing quarterly results and the announcement of the departure of a key employee. We exited the Fund's position in the company.

In 2020, the shares of **Zillow Group, Inc.**, a technology-centric housing-related company, increased sharply, up 184%. We trimmed the Fund's position earlier in 2021, yet the shares have continued to decline and are down approximately 32% year-to-date. We believe concerns that home sales volume and prices may decline due to home affordability and mortgage rate fears and concerns about increased competition in the company's i-buying business have weighed on the shares. At its current price, we believe Zillow's shares are attractively valued and remain optimistic about the long-term prospects for the company.

Despite strong quarterly operating results, the shares of **GDS Holdings Limited**, the leading developer and operator of data centers in China, declined sharply for the period held due to concerns about China's regulatory backdrop and uncertainty around the ultimate impact on the country's leading technology companies, many of whom are key customers of GDS. We exited the Fund's position in the company.

Hippo Holdings Inc. is an innovative homeowners' insurance business that leverages technology to underwrite policies and improve the customer experience in an industry dominated by less innovative incumbents. Although we remain optimistic about the company's long-term prospects, we exited the Fund's position in the company and reallocated the capital to other companies that we believe offer superior shareholder return prospects.

INVESTING PROSPECTS FOR REAL ESTATE

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

Near-Term Case for Real Estate

1. **Demand continues to outstrip supply**

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

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

   Regarding the supply outlook, 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 are improving for most of our real estate companies – both residential and commercial real estate – and the outlook does not portend a recession**

   The performance of several real estate companies lagged in 2020 largely due to the Coronavirus headwind that led to a sharp slowdown in business activity for hotels, real estate casinos, urban apartment and office landlords, malls and shopping centers, and other real estate categories. The inability for people to assemble disproportionately weighed on a large segment of real estate.

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

   In September, we were extremely busy attending several real estate conferences and meetings and furthering our research. Bottom line takeaway: Broadly encouraging updates and outlooks for most real estate categories and companies.

3. **Balance sheets are strong**

   Although credit access is available 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 approximately $344 billion of capital has been raised by private equity sources to invest in real estate, which equates to approximately $1.1 trillion of total real estate purchasing capacity, assuming typical 70% financing!

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

   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 September 30, 2021, U.S. equity REITs have delivered the best cumulative return relative to the S&P 500 Index, fixed income alternatives, international equities, and commodities.

   Since inception on December, 31 2009 through September, 30 2021, the Baron Real Estate Fund, which owns REITs and non-REIT real estate companies, has delivered a cumulative return of 524.89%, far outdistancing the 204.75% 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 9/30/2021), REITs have provided diversification benefits due to their modest correlation versus stocks (0.59 versus S&P 500 Index) and low correlation versus bonds (0.20 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 "Interest rates and inflation and their impact on real estate" later in this letter for our more complete thoughts on this topic.

OUR INVESTMENT THEMES AND PORTFOLIO CONSTRUCTION

Investment Themes

In the second half of 2020, we structured the Fund to take advantage of three compelling investing themes and have maintained these themes in the first nine months of 2021. 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 what we call the epicenter real estate companies of the 2020 pandemic.

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

   With the recent peak in COVID-19 and Delta variant cases, increase in vaccinations and booster shots, and new anti-viral medications, we anticipate a further release of pent-up consumer and commercial demand and a rebound in cash flows for several of the hardest hit segments of real estate – particularly the travel-related segments – as more people are inoculated with COVID-19 vaccines and economic activity resumes.

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

   Real estate casino and gaming companies
   Red Rock Resorts, Inc., Boyd Gaming Corporation, Caesars Entertainment Corporation, MGM Resorts International, and **Penn National Gaming, Inc.**

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

   Amusement park operators
   Six Flags Entertainment Corporation

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

   Real estate operating companies
   Brookfield Asset Management Inc.

   Land development companies
   The Howard Hughes Corporation

   Certain REITs (office, apartment, mall, shopping center, hotel, health care, and gaming REITs)
   Douglas Emmett, Inc., Simon Property Group, Inc., Vornado Realty Trust, American Assets Trust, Inc., Equity Residential, MGM Growth Properties LLC, and **Gaming and Leisure Properties, Inc.**

   On September 30, 2021, COVID-19 recovery beneficiary companies represented 50.8% of the Fund's net assets.

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

	Percent of Net Assets
Casinos & Gaming Operators	13.6%
Certain REITs	11.2
Hotels, Timeshare Operators, and Other Leisure Companies	9.6
Commercial Real Estate Services Companies	6.8
Real Estate Operating Companies	3.9
Amusement Park Companies	2.0
Land Development Companies	2.0
OTAs	1.7
Total	50.8%

2. Opportunities in residential real estate

Despite some near-term headwinds such as material and labor bottlenecks and the recent uptick in mortgage rates, **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.**

Single-family rental REITs
Invitation Homes, Inc.

Manufactured housing REITs
Equity Lifestyle Properties, Inc.

Residential building products/services companies
Lowe's Companies, Inc., Home Depot, Inc., Installed Building Products, Inc., and **Hillman Solutions Corp.**

Apartment REITs
Equity Residential

Technology-centric residential-related real estate companies
SmartRent, Inc., Zillow Group, Inc., and **Opendoor Technologies 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 when one considers that the U.S. population is more than 150 million people larger than it was in 1959 – 330 million people today versus 178 million people in 1959!

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 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, meaningful stimulus checks, and a rebound in job and economic growth should continue to benefit the U.S. housing market. The current situation is nothing like what occurred during the global Financial Crisis when our country's inventory of homes was significantly oversupplied relative to demand.

Secular tailwinds

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

Suburban may become the new urban: More U.S. families have been moving out of urban areas to suburban towns. We expect demand for single-family homes – to purchase or rent – to remain strong.

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

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

We are mindful of, and will continue to monitor, the potential risks to the Fund's investments in residential real estate-related companies. For example, a sharp increase in mortgage rates coupled with double-digit home price growth would make homes less affordable.

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

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

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

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 September 30, 2021, residential-related real estate companies represented 22.6% of the Fund's net assets.

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

	Percent of Net Assets
Building Products/Services	9.4%
Homebuilders	4.9
Home Centers	4.2
REITs	
Single-Family Rental	2.5
Manufactured Housing	1.6
Total[1]	22.6%

[1] Total would be 28.3% if included residential-related technology companies Zillow Group, Inc., Opendoor Technologies Inc., and SmartRent, Inc.

3. The intersection of technology and real estate

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

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

Further, the digitization of real estate is an emerging investment theme and new area of prioritization for our real estate team. The real estate industry has avoided decades of technology innovation while many other industries have evolved rapidly. We are seeing evidence that real estate companies are increasingly adopting technology as a source of competitive differentiation and evolution across property sectors. The collision of real estate and technology has led to a new sub-industry within real estate: real estate technology, also referred to as *proptech*. Proptech is the usage of technology and software to assist in real estate needs. We have identified several real estate companies that are well positioned to capitalize on this burgeoning secular growth trend including **SmartRent, Inc., Zillow Group, Inc.**, **Opendoor Technologies Inc.**, and **CoStar Group, Inc.**

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

On September 30, 2021, technology-related real estate companies represented 21.4% of the Fund's net assets.

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

	Percent of Net Assets
Real Estate Data Analytics Companies	6.1%
Residential-Related Technology Companies	2.0
Wireless Tower Operators	1.9
Data Centers	0.8
REITs	
Wireless Tower REITs	3.9
Data Center REITs	3.1
Industrial REITs	3.0
Data-Related REITs	0.6
Total	21.4%

Portfolio Construction

In addition to prioritizing the three investment themes cited above, we have continued to implement a barbell approach to the Fund's portfolio construction that includes a mix between best-in-class real estate growth companies and real estate value opportunities**.**

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

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

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

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

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

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

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 September 30, 2021

	Percent of Net Assets
REITs	25.9%
Real Estate Service Companies	16.6
Casinos & Gaming Operators	13.6
Building Products/Services	12.6
Hotels & Leisure	11.6
Homebuilders & Land Developers	7.8
Real Estate Operating Companies	3.9
Unclassified	2.0
Tower Operators	1.9
Data Centers[1]	0.8
Cash and Cash Equivalents	3.3
Total	100.0%

[1] Total would be 3.9% if data center REITs Equinix, Inc. and CoreSite Realty Corporation were included.

INTEREST RATES AND INFLATION AND THEIR IMPACT ON REAL ESTATE

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

It appears that the consensus expectation is that interest rates are likely to rise, and elevated inflation may persist.

Should this occur, **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 Of Baron Real Estate Fund In Rising Inflationary Environments

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

During these inflationary periods, the Baron Real Estate Fund:

- Generated positive absolute performance in five of the six periods. The only period the Fund did not generate a positive return was a 10-month period beginning on November 30, 2010, when it declined 7.51%.
- Outperformed the REIT Index in four of six periods with an average outperformance of 537 basis points.
- Outperformed the MSCI Real Estate Index in four of six periods with an average outperformance of 253 basis points.

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

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

Date	Period Length (months)	1-Yr Inflation Change	Cumulative Total Returns: Baron Real Estate Fund (Institutional Shares)	Cumulative Total Returns: MSCI USA IMI Extended Real Estate Index	Cumulative Total Returns: MSCI US REIT Index	Excess Returns vs.: MSCI USA IMI Extended Real Estate Index	Excess Returns vs.: MSCI US REIT Index
11/30/2010 to 9/30/2011	10	2.73%	–7.51%	–9.00%	–2.28%	1.49%	–5.23%
10/31/2013 to 5/31/2014	7	1.29%	13.29%	8.50%	9.78%	4.79%	3.51%
1/31/2015 to 2/28/2017	25	2.98%	0.31%	14.47%	5.06%	–14.16%	–4.75%
6/30/2017 to 7/31/2018	13	1.23%	8.39%	8.95%	2.90%	–0.56%	5.49%
2/28/2019 to 1/31/2020	11	1.00%	23.56%	15.55%	11.86%	8.01%	11.70%
5/31/2020 to 9/30/2021	16	5.15%	63.03%	47.42%	41.51%	15.61%	21.52%

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

Case Study: "Taper Tantrum" of 2013 and 2014 – Perception Versus Reality

Currently, there appears to be daily media reports about the upcoming withdrawal of one of the tools utilized by the Federal Reserve to hold down interest rates–the implementation of tapering of quantitative easing or the end of bond purchases.

Perception

In 2013, then Fed Chairman Ben Bernanke alluded to tapering and someone coined the phrase "taper tantrum" and fueled the belief that tapering leads to a sharp drop in stock and bond prices. Consequently, it appears that many believe that today's Federal Reserve must avoid a repeat of the "mistakes" of the 2013 "taper tantrum."

Reality

The reaction to the 2013 taper talk and 2014 tapering was benign.

In both 2013 and 2014, stocks performed well, the Baron Real Estate Fund performed well, and much of real estate performed well.

- 2013 Taper Talk

  May 2013: Fed Chairman Ben Bernanke alluded to tapering, the market pulled back approximately 5% over the course of a month, and someone coined the phrase "taper tantrum."

  July–December 2013: The S&P 500 Index increased approximately 16% in six months.

  Full-Year 2013:

  – 10-Year U.S. Treasury yield increased by 138 basis points from a low of 1.66% (May 2) to 3.04% (Dec. 31)
  – S&P 500 Index increased 32.4%
  – Baron Real Estate Fund increased 27.5% (vs. primary benchmark +17.4% and REIT Index up 1.3%)
  – Several homebuilding stocks generated double-digit returns (e.g., **Toll Brothers, Inc.** and **D.R. Horton, Inc.**)

- 2013–2014 Tapering

  December 18, 2013: The Fed announces the beginning of tapering and then steadily reduces monthly bond purchases throughout 2014 (ending them entirely in October 2014).

  Full-Year 2014:

  – 10-Year U.S. Treasury yield declined from 3.04% on 12/31/13 to 2.17% on 12/31/14 (decline of 87 basis points)
  – S&P 500 Index increased 13.7%
  – Baron Real Estate Fund increased 16.9% (vs. primary benchmark +18.0% and REIT Index up 28.8%)
  – Some homebuilding stocks increased by double-digits (e.g., **D.R. Horton, Inc.** +13.3%, **Lennar Corporation** +11.4%)

Key Takeaways

In 2013 and 2014, the expectation and perception that tapering would lead to a sharp correction in the stock market and real estate was misplaced. In fact, the opposite happened.

Fast forward to 2021. Regarding the upcoming end to quantitative easing, will the past be prologue? Maybe or maybe not. In our opinion, no one knows. Due to this uncertainty, we have not made rash, knee-jerk adjustments to the Fund's real estate investments. We will, of course, continue to monitor macroeconomic and company-specific developments and make considered adjustments if warranted.

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 constrain new real estate construction (increase in costs are currently outstripping the increase in rents which leads to lower development returns) 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 could raise rents relatively quickly to offset inflation. Examples include hotels (1 day), self-storage real estate (30 days), apartments (1 year), single-family rental homes (1 year), and senior housing facilities (1 year).

Annual rent escalators: Certain real estate leases have contractual annual rent escalators, in some cases tied to an inflation index (i.e., consumer price index or CPI).

Playbook For Rising Rate or Inflationary Environment

If it became clear that interest rates and inflation would continue to rise and remain elevated, we could implement elements of our well-tested playbook.

They include the following:

- Carefully monitor our exposure to certain REITs and other dividend yielding securities. Higher bond yields can decrease the attractiveness of dividend-oriented stocks such as REITs. Further, REITs are more susceptible to higher borrowing costs than many other companies because REITs must pay out at least 90% of their taxable income in dividends and therefore are more reliant on access to the debt markets.
- Focus on short-lease duration real estate and minimize exposure to long-lease duration real estate. Real estate companies such as hotels, self-storage, apartments, single-family home rentals, senior housing operators and other types of real estate companies can re-price more often to take advantage of interest rate fluctuations. They are likely to grow faster as the economy improves and can better offset increases in interest rates than REITs that focus on office buildings, shopping centers, and malls, which may be saddled with 5- to 10-year leases.
- Emphasize real estate companies that will benefit disproportionately from an improvement in the economy, such as housing-related securities, hotels, and gaming to the extent there is a real estate component.
- Own real estate companies with a strong pipeline of future development projects.
- Invest in companies with strong balance sheets that can weather a rise in interest rates.

CONCLUDING THOUGHTS

We are mindful of concerns about the outlook for the markets. Some of the concerns include:

- Elevated inflation–in part due to supply chain bottlenecks
- Continued uncertainty regarding the Fed's future action on tapering its bond purchases and raising interest rates
- Negative real yields
- Uncertainty regarding China's regulatory environment, slowing economy, and the possible spillover effects
- Never-ending gridlock and worsening partisan politics in the U.S.
- Rising energy prices
- Geopolitical and humanitarian crises
- Elevated valuations for certain segments of the stock market

While we recognize that in the months ahead there may be choppy periods in the market, we remain directionally positive about the prospects for real estate and the Fund.

Have We Missed the Recovery In Real Estate?

Our answer: No

- We believe we are in the early innings of a new real estate cycle.
- Real estate demand should continue to improve if the headwinds from COVID-19 and the Delta variant continue to subside.
- Slower supply growth should support occupancy, rent growth, home sales and prices.
- Interest rates–though they may rise a bit–appear likely to remain low relative to history given tremendous central bank support, ongoing global economic challenges, and the strong desire for yield and relative appeal of U.S. Treasuries.
- Valuations remain attractive for several real estate companies.
- Certain types of real estate may deliver strong relative returns in an inflationary environment.

We Remain Optimistic About the Prospects for Baron Real Estate Fund.

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

Table XIII.
Top 10 holdings as of September 30, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Red Rock Resorts, Inc.	$ 6.0	$73.3	4.0%
Brookfield Asset Management Inc.	83.8	71.0	3.9
Jones Lang LaSalle Incorporated	12.6	69.6	3.8
Lowe's Companies, Inc.	140.5	55.7	3.1
CBRE Group, Inc.	32.7	54.8	3.0
Marriott Vacations Worldwide Corp.	6.7	54.8	3.0
Boyd Gaming Corporation	7.1	53.6	2.9
American Tower Corp.	120.8	52.8	2.9
Simon Property Group, Inc.	42.7	46.3	2.5
Invitation Homes, Inc.	22.8	45.6	2.5

Thank you for your past and continuing support.

Of course, I proudly continue as a major shareholder of the Baron Real Estate Fund, alongside you.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

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

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

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

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

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