DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

We are pleased to introduce Baron's second real estate fund, the Baron Real Estate Income Fund (the "Baron Real Estate Income Fund" or "Fund"). This Fund will emphasize real estate dividend-paying securities, with most of the Fund's investments being REITs.

With the addition of this new real estate fund, Baron is providing a comprehensive approach to the broad spectrum of real estate-related investment opportunities:

1. The Baron Real Estate Fund (launched December 31, 2009):
   - Primary emphasis on real estate-related equity securities.
2. The Baron Real Estate Income Fund (launched December 29, 2017):
   - Primary emphasis on income-producing REITs.

For the Baron Real Estate Income Fund's initial letter, we want to provide the following insights:

1. Why have we launched the Baron Real Estate Income Fund?
2. What distinguishes the Baron Real Estate Income Fund from most other real estate mutual funds?
3. How does our new Baron Real Estate Income Fund differ from our Baron Real Estate Fund?
4. What criteria should be considered in allocating capital between the two Baron real estate funds?
5. What investment themes and ideas is the new Baron Real Estate Income Fund prioritizing?

For more information about the Baron Real Estate Fund, please see its shareholder letter in the full version of the March 31, 2018 Baron Funds Quarterly Report.

Before addressing the five questions cited above, a brief comment on performance.

PERFORMANCE

In the recent quarter ended March 31, 2018, the Baron Real Estate Income Fund declined 6.00% (Institutional Shares), yet outperformed its primary benchmark, the MSCI US REIT Index, which declined 8.39%. General concerns regarding rising interest rates and modest growth prospects for certain segments of commercial real estate were key factors that contributed to the market decline in most REITs. Please see the "Outlook" section at the end of this letter for our forward-looking views for the Fund.

JEFFREY KOLITCH

PORTFOLIO MANAGER

Retail Shares: BRIFX
Institutional Shares: BRIIX
R6 Shares: BRIUX

Table I.
Performance
For period ended March 31, 2018

	Baron Real Estate Income Fund Retail Shares[1,2]	Baron Real Estate Income Fund Institutional Shares[1,2]	MSCI US REIT Index[1]
Three Months and Since Inception[3]	(6.10)%	(6.00)%	(8.39)%

1. Why have we launched the Baron Real Estate Income Fund?

Baron has a long and successful history of investing in real estate.

Since 1987, Baron has invested billions of dollars in real estate-related securities. We believe that long-term investing in real estate and real estate-related companies with, in our view, well-located and well-positioned assets, attractive long-term growth prospects and strong management teams, is a natural extension of the Baron philosophy of investing.

Performance listed in the above table is net of annual operating expenses. Annual estimated expense ratio for the Retail Shares and Institutional Shares is 1.96% and 1.71%, respectively, but the net annual estimated expense ratio is 1.05% and 0.80% (net of the Adviser's fee waivers), 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 has reimbursed certain Fund expenses (by contract as long as BAMCO, Inc. is the adviser to the Fund) 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 index is unmanaged. The MSCI US REIT Index is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The index and the Fund include reinvestment of interest, capital gains and dividends, which positively impact the performance results.

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

3 Not annualized.

Baron Real Estate Income Fund

Strong investor demand for income funds.

The search for income producing securities, as interest rates and bond yields have stagnated near historically low levels, has stoked strong investment interest in dividend-focused securities and income funds.

Our clients have expressed interest in a real estate income fund.

Numerous Baron investors have expressed interest in product offerings beyond equity funds to include an income fund that prioritizes a combination of capital appreciation and current income. In light of the strong track record of the REIT portion of the Baron Real Estate Fund, we decided to launch the Baron Real Estate Income Fund.

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

Baron Real Estate Income Fund will be differentiated from typical REIT funds as follows:

- Most REIT funds are 100% invested in REITs. Our new Baron Real Estate Income Fund is structured to also capture income-producing stocks in addition to REITs. While the Fund is likely to maintain a major portion of its investments in REITs (typically 80% or more), it may also invest in other real estate income-producing securities.

- We plan to pursue a more expansive approach to investing within the REIT universe. Many REIT funds limit their REIT investments to companies that are only included in their comparative REIT benchmark. Our key focus is identifying compelling REITs and other real estate-income companies with attractive share price appreciation potential – regardless of whether the company is part of the REIT benchmark. Examples of Fund holdings that are not in the REIT benchmark include:
  - Wireless Tower REITs, such as **American Tower Corp.** and **Crown Castle International Corp.**
  - Timber REITs, such as **Weyerhaeuser Company** and **Rayonier Inc.**
  - Billboard REITs, such as **Lamar Advertising Company**.

- The Fund expects to invest primarily in real estate equity income securities, but it may also include other real estate income vehicles such as real estate debt and preferred securities.

- U.S. companies are likely to be our primary focus, but the Fund may also invest in international real estate yield-producing companies.

- Our investments will include companies of all market capitalizations, seeking businesses that we believe have sustainable competitive advantages, exceptional management, and good opportunities for long-term and sustainable growth, with attractive dividend yields and valuations.

With these elements and attributes, we believe we are introducing a differentiated and compelling real estate income fund.

3. How does our new Baron Real Estate Income Fund differ from our Baron Real Estate Fund?

Baron Real Estate Income Fund will be structured as an attractive complement to Baron Real Estate Fund. Although both funds will focus on real estate, they will differ in significant ways, as highlighted in the table below. As such, we believe we will further address the broader and more complete real estate allocation goals of our clients.

Comparison of Baron Real Estate Income Fund and Baron Real Estate Fund

	Baron Real Estate Income Fund	Baron Real Estate Fund
Investment objective	Income & capital appreciation	Capital appreciation
Equity vs. income orientation	Greater than 80% income	Equity
REIT vs. non-REIT	Typically 80% or more in REITs	Typically 25-30% in REITs
Real estate category focus	Primarily commercial real estate	Commercial & residential real estate

4. What criteria should be considered in allocating capital between the two Baron real estate funds?

Various factors should be considered in apportioning capital between the two Baron real estate funds. The prioritization of these considerations is likely to be distinct for each client. Investment goals may include:

- Dividend yield and/or income;
- Maximizing long-term total return;
- Minimizing annual return volatility; and
- Diversification and lower correlation relative to stocks and bonds.

We are optimistic about the long-term prospects for both of our real estate funds – the Baron Real Estate Income Fund and the Baron Real Estate Fund. They complement each other.

Over the long term, we expect Baron Real Estate Income Fund may experience less performance volatility due to its yield/income orientation, and should display somewhat less direct correlation to stocks and bond performance.

Conversely, we anticipate that our original Baron Real Estate Fund may generate higher returns over the long term, because it is more "equity-like" in nature, growth oriented and invests in a broader range of real estate-related categories. However, there may be periods when Baron Real Estate Income Fund may outperform.

Accordingly, we envision that clients may elect to allocate a portion of their total real estate investments to both Baron real estate funds, as they conclude that the two real estate funds are indeed highly complementary to each other.

5. What investment themes and ideas is the new Baron Real Estate Income Fund prioritizing?

We see opportunity in several REITs and other income-producing real estate securities, some of which might not be apparent to those who view real estate investment through a more traditional and narrower lens.

Investment themes and ideas that we are prioritizing include:

1. Emphasis on Growth

We anticipate that economic growth and interest rates may head higher during the balance of 2018 and 2019 given generally strong business conditions, lower corporate and individual tax rates, and Congress' pro-business agenda. As such, we are focused on companies that we think should perform well in a faster growth environment.

Real estate companies whose tenants have shorter-term leases have the ability to increase occupancy and rents at a faster rate than those real estate companies whose portfolios mainly contain tenants with longer-term leases.

Examples of real estate categories and companies with "pro-growth" short-lease duration terms that the Fund is emphasizing include:

- Hotel REITs (typically one- to two-day stays or "leases") tend to benefit from an improving economic environment. Hotels currently represent approximately 13.5% of the Fund's net assets. They include: **Extended Stay America, Inc., Park Hotels & Resorts Inc., Host Hotels & Resorts, Inc., Pebblebrook Hotel Trust,** and **Sunstone Hotel Investors, Inc.**
- Multifamily REITs (typically one-year lease terms), such as **AvalonBay Communities, Inc., Equity Residential,** and **Essex Property Trust, Inc.**
- Industrial REITs (typically five-year lease terms) such as **Prologis, Inc., Duke Realty Corporation, DCT Industrial Trust Inc.,** and **Rexford Industrial Realty, Inc.**

2. REITS that Specialize in Providing Technology Facilities and Services

REITs that embrace and provide real estate facilities to support the latest technological advances and innovations are an important focus for the Fund. Cloud computing, the internet, artificial intelligence, autonomous vehicles, mobile data and cellphones, and wireless infrastructure are powerful secular growth opportunities that should continue for years. At Baron, we refer to these types of enduring developments as "megatrends."

REITs that we expect to directly benefit from long-term technology growth currently represent approximately 30% of the Fund's net assets across three real estate categories. They include:

- *Wireless Tower REITs (11.6% of the Fund)*, such as **American Tower Corp.** and **Crown Castle International Corp.** are, in our view, positioned to grow for several years as the demand for data-intensive devices (such as iPhones) accelerates, and new wireless technologies continue to improve. New technologies and greater data demand require a greater number of antennas that will continue to benefit tower companies.
- *Data Center REITs (10.4% of the Fund),* such as **Equinix, Inc.** and **Digital Realty Trust, Inc.** are, in our view, well positioned for long-term growth. An increasing number of companies are determining that it is beneficial and more economical to outsource their technological needs to high-tech and state-of-the-art data center firms such as Equinix and Digital Realty Trust. This outsourcing is also propelled by the explosive growth in data and cloud computing.
- *Industrial REITs (8.2% of the Fund]),* such as **Prologis, Inc.**, **Duke Realty Corporation**, **DCT Industrial Trust Inc.**, and **Rexford Industrial Realty, Inc.** are witnessing strong warehouse demand partly in response to emergent e-commerce needs as online sales continue their broad acceleration, and customers seek faster delivery.

3. "Alternative" REITs

The Fund sees opportunities in "alternative" or non-traditional REITs that we believe have the potential to grow faster than a number of traditional REITs (i.e., malls, shopping centers, offices, apartments, self-storage).

We believe some "alternative" REITs may benefit from their outsized exposure to secular demand trends and/or reduced exposure to cyclical weaknesses (i.e., elevated construction activity and excess supply) witnessed in some of the traditional REIT peers.

We are prioritizing the following "alternative" REITs:

- *Timber REITs* such as **Weyerhaeuser Company** and **Rayonier Inc.**, are benefiting from the cyclical recovery in the residential housing market where construction activity and inventory levels remain depressed relative to history and demand trends are accelerating.
- *Billboard REITs,* such *as* **Lamar Advertising Company**, should benefit from the anticipated improvement in small business advertising spending if economic growth improves at a time when few entitlement approvals are being granted for new billboard sites.
- *Cold-Storage REIT* **Americold Realty Trust** is the only REIT focused on owning and operating temperature-controlled warehouses. The company owns the largest portfolio of temperature-controlled warehouses in the U.S. and globally. We believe the company is well positioned to deliver superior growth versus most REITs given opportunities to improve occupancy and rents in its current portfolio, complete its real estate development pipeline, and acquire additional temperature-controlled warehouses.
- *Manufactured Housing REITs,* such as **Sun Communities, Inc.** and **Equity Lifestyle Properties, Inc.**, are a niche real estate category that is benefiting from the strong demand trends of budget-conscious home buyers such as retirees and millennials, and high barriers for development.

We consider the wireless tower and data center REITs mentioned above to be "alternative" REITS as well.

4. Best-in-Class REITs that are "on sale"

REITs have underperformed the broader equity market by a wide margin both in 2017 and the first few months of 2018. This is primarily due to concerns over impending higher interest rates and tempering growth prospects for some segments of commercial real estate. In our opinion, these concerns are largely reflected in the current share prices of many REITs. In fact, we believe there is an unusual and attractive opportunity to purchase "best-in-class" REITs that are "on sale" at attractive valuations.

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

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

Stock prices of "best-in-class" companies are seldom "on sale" or "cheap." We consider a company "on sale" when its stock price does not reflect our view of its intrinsic value. Today, however, is an exception.

Fund holdings that we would classify as "best-in-class" companies that are "on sale" include:

- *Leading office REITs*, such as **Boston Properties, Inc.**, **SL Green Realty Corp.**, and **Vornado Realty Trust,** trade at historically large valuation discounts to their net asset values or the prices that their real estate would sell for in the private market. We estimate that the value of each company is 15% to 30% below its net asset value, the largest valuation discount we have seen for these companies in the last five years.
- *High-quality multifamily REITs*, such as **AvalonBay Communities, Inc.** and **Equity Residential**, are trading at 15% discounts to their

net asset values – also the largest discount we have seen in the last five years.

- *The premier mall REIT in the U.S.*, **Simon Property Group, Inc.**, is valued at a 25% discount to its net asset value – again, the biggest valuation discount at which we have seen this REIT trade in the last five years.

5. Investments in Non-REIT Real Estate Companies

The Fund has the flexibility to invest 20% of net assets in non-REIT real estate companies. At times, some of these companies may present superior growth and share price appreciation potential than many REITs.

An example of one such company currently held in the Fund is **MGM Resorts International**, a leading global hotel and casino company.

We believe that MGM offers an appealing combination of high-quality real estate assets, a leading presence in Las Vegas (one of the stronger real estate markets in the U.S.), a solid growth outlook, and improving free cash flow and dividend growth prospects. Further, we see compelling value in the shares, as its domestic assets are trading at less than 8.5 times 2018 estimated cash flow–much cheaper than its casino and gaming peers. We believe the shares could appreciate 20% annually over the next few years.

Table V.
Top 10 holdings as of March 31, 2018

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
American Tower Corp.	$64.1	$210.2	8.1%
Equinix, Inc.	33.1	140.5	5.4
Digital Realty Trust, Inc.	22.6	122.3	4.7
Extended Stay America, Inc.	3.8	100.7	3.9
Prologis, Inc.	33.4	93.7	3.6
Park Hotels & Resorts Inc.	5.4	91.6	3.5
MGM Resorts International	19.8	90.4	3.5
Crown Castle International Corp.	45.5	90.3	3.5
Kennedy-Wilson Holdings, Inc.	2.6	78.7	3.1
Host Hotels & Resorts, Inc.	13.7	77.8	3.0

Outlook

As mentioned at the outset of this letter, we are enthusiastic about the prospects for our second real estate fund, the new Baron Real Estate Income Fund. We believe we have a well-conceived business plan to structure and manage a successful real estate income fund – one that will be highly complementary to our Baron Real Estate Fund.

Regarding the market outlook, as we peer into the balance of 2018 and contemplate various factors that are likely to influence the stock and bond markets, and more particularly REITs and other real estate companies, we acknowledge that the list is lengthy. It includes:

- The direction and pace of change of macroeconomic considerations, such as GDP growth, interest rates, inflation, the U.S. dollar, and oil prices;
- The future actions of central banks, particularly the Federal Reserve, and its pivot from several years of interest rate accommodation to its more restrictive higher interest rate posture;
- Geopolitical considerations;
- The Trump Presidency and its impact on U.S. and global economies and the equity and fixed income markets; and
- Company-specific initiatives and actions.

We do not predict macroeconomic and political events and outcomes. Our view is that no one knows with clarity how these events may transpire, and what the market's reaction will be to those events.

Alternatively, we prioritize researching, assembling, and monitoring a quality portfolio of companies with, in our view, excellent management teams, strong growth prospects, leading competitive positions, liquid balance sheets, and attractive valuations.

We are enthusiastic about our REIT and other real estate investments, and are optimistic about the prospects for the portfolio.

You have our commitment that, like all Baron Funds, we will continue to be thorough and diligent in our analysis of investment opportunities.

I am proud to report that I am a major shareholder of the Baron Real Estate Income Fund, alongside you.

Thank you for your support.

Sincerely,

Jeffrey Kolitch

Jeffrey Kolitch
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contains 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.

In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. Prices of equity securities may decline significantly over short or extended period of time. Debt or fixed income securities such as those held by the Fund, are also subject to derivatives risk, liquidity risk, and income risk. As interest rates rise, bond prices fall. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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