Dear Baron Real Estate Fund Shareholder:

Performance

Baron Real Estate Fund (the "Fund") gained 1.20% (Institutional Shares) in the second quarter of 2018, yet underperformed its primary benchmark index, the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), which increased 4.82%. This was primarily due to two factors:

- First, REITs generated strong gains of close to 10% due, in part, to trade war fears that led to a stabilization in interest rates and a "risk-off" pivot from equities into REITs and other bond-like and dividend paying securities.

  The Fund, with its long-term focus on managing a broad and diversified real estate-related portfolio, is comprised of REITs plus other important non-REIT real estate categories. At times, the Fund temporarily lags when defensive-oriented securities such as REITs perform strongly. The most recent quarter was a case in point. Notably, however, over the long term, the merits of the Fund's broader and more diverse real estate strategy are clear. Since its inception on December 31, 2009, the Fund has generated a cumulative return of 222.11%, exceeding the 134.65% return of the MSCI US REIT Index.

- Second, despite continued growth in the home building market, certain residential real estate-related companies among the homebuilders and building product and services companies underperformed, primarily due to unfavorable weather, cost increases, and interest rate concerns. We maintain that the housing recovery is intact, and many of the concerns that have been weighing on the shares of residential real estate companies will prove to be transitory. At current prices, we believe valuations are compelling.

Despite the challenges of the second quarter of 2018, we are optimistic and anticipate a rebound in many of the Fund's holdings that have lagged year-to-date.

We recommend that you review both the "Portfolio Structure" and the "Outlook" sections of this letter where we describe in detail our various real estate investments and our latest view on the overall outlook for real estate.

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

Table I.
Performance
Annualized for periods ended June 30, 2018

	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]	S&P 500 Index[1]
Three Months[3]	1.14%	1.20%	4.82%	9.74%	3.43%
Six Months[3]	(4.36)%	(4.27)%	(0.72)%	0.54%	2.65%
One Year	8.38%	8.69%	7.44%	2.22%	14.37%
Three Years	5.19%	5.46%	9.37%	6.65%	11.93%
Five Years	9.68%	9.96%	10.43%	6.90%	13.42%
Since Inception (December 31, 2009) (Annualized)	14.47%	14.75%	12.80%	10.56%	13.40%
Since Inception (December 31, 2009) (Cumulative)[3]	215.36%	222.11%	178.43%	134.65%	191.20%

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, 2017 was 1.32% and 1.06%, 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 indexes are unmanaged. The MSCI USA IMI Extended Real Estate Index is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The MSCI US REIT Index is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The S&P 500 Index measures the performance of 500 widely held large cap U.S. companies. The indexes 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.

Table II.
Top contributors to performance for the quarter ended June 30, 2018

	Quarter End Market Cap (billions)	Percent Impact
Vulcan Materials Company	$ 17.1	0.71%
Penn National Gaming, Inc.	3.1	0.70
Home Depot, Inc.	225.1	0.45
GDS Holdings Limited	5.0	0.27
Extended Stay America, Inc.	4.1	0.25

The shares of **Vulcan Materials Company**, a real estate-related company that is the largest construction aggregates producer in the U.S., generated solid double-digit returns in the second quarter of 2018. This was largely due to better-than-expected first quarter business results and encouraging commentary from management regarding early business trends in its second quarter.

In May, we met with CEO Tom Hill and CFO John McPherson. The meeting reaffirmed our view that the key drivers for Vulcan's business – government spending on infrastructure projects and residential/commercial construction levels – are moving in the right direction. Our sense is that projects that had been anticipated in 2017 but delayed (mostly due to bad weather) have now commenced. We believe the company's backlog of business is strong, and is well positioned to deliver at least 15% cash flow growth annually over the next few years.

Shares of **Penn National Gaming, Inc.**, a leading casino and gaming company, rose more than 25% in the second quarter after reporting strong business results. We remain optimistic about Penn's prospects because:

(i) The company expects to close on its acquisition of competitor, Pinnacle Entertainment, in the third quarter of 2018. The combined company, with its 41 casino and gaming properties in 20 jurisdictions, will be the largest U.S. regional gaming operator in the U.S.;

(ii) there are significant opportunities for Penn to benefit from the acquisition synergies in both revenues and expenses and to accelerate cash flow growth; and

(iii) at its recent price of only $33 per share, with an 11% free cash flow yield for the combined company, the valuation of these shares is compelling.

Home Depot, Inc., the world's largest home improvement chain, gained 10% in the most recent quarter, driven by solid business results, continued gains in new and existing home sales, increased consumer spending on home repair and remodeling, and strong management execution. As we peer into the remainder of 2018, we believe the company remains well positioned to benefit from ongoing improvements in home sales and repair/remodel activity.

The Fund has a long history of investing in real estate data center REITs and operating companies – both domestic and international. In 2018, we began acquiring shares in **GDS Holdings Limited.** The company is the leading developer and operator of data centers in China. Its customer base consists of more than 400 customers, predominantly large technology and internet companies. The shares rose sharply in the most recent quarter following robust business results. We remain bullish.

Our investment thesis is predicated on the following considerations:

- The Chinese digital economy is in an early phase of growth, with relatively low national internet access penetration. It is predicted that China will experience the sharpest universal growth in public cloud spending in the next few years.
- GDS is the leading data center provider to the fastest growing companies in China including Baidu, Alibaba, and Tencent. Moreover, GDS has been named as the preferred data center provider for Alibaba and Tencent.
- The company's data centers are concentrated in the "Tier 1" major cities of China including Beijing, Shanghai, Shenzen, Guangzhou, and Chengdu.
- GDS generates attractive 25% profitability returns on its new data center developments.
- We believe the company will grow its cash flow by more than 100% in the next three years, and the shares are attractively valued relative to its growth rate.

The shares of **Extended Stay America, Inc.** gained over 10% in the most recent quarter following strong first quarter business results. The company is the largest hotel chain in the U.S. that caters to guests who typically remain at the hotel for at least five days and, in many cases, for more than 30 days.

We are bullish about the prospects for Extended Stay. The company is currently focusing on growing its hotel count from 625 to approximately 800, and over time, the company sees the potential to double its size to 1,250 hotels. Furthermore, as the company grows its hotel base, it plans to sell its lower-quality hotels and increase the percentage of hotels that it manages and franchises. This should result in lower capital requirements, higher contracted cash flows, and, thus, a meaningful improvement in its stock valuation.

Trading at only 10.4 times 2018 estimated cash flow, and with a dividend yield of 4%, we believe the shares are attractively valued relative to higher private market values for many of its hotels and relative to many of its public market hotel peers. Finally, Extended Stay expects to generate significant free cash flow in the next few years partly through asset sales, a portion of which we anticipate will be allocated toward share repurchases.

Table III.
Top detractors from performance for the quarter ended June 30, 2018

	Quarter End Market Cap (billions)	Percent Impact
MGM Resorts International	$16.2	–0.65%
Wyndham Destinations, Inc.	4.4	–0.51
Hilton Grand Vacations Inc.	3.4	–0.34
Summit Materials, Inc.	3.0	–0.33
Beacon Roofing Supply, Inc.	2.9	–0.31

Following solid first quarter share price performance, the shares of **MGM Resorts International** declined in the second quarter primarily due to management lowering its growth expectations for 2018. Management cited three issues: (i) a slower-than-expected business recovery at its Mandalay Bay Resort following last year's terrorist shooting; (ii) business disruption at its Monte Carlo Resort due to the company's ongoing redevelopment project; and (iii) the cancellation of a major boxing event at one of its resorts in the second quarter. Importantly, we view the business disruption at its Mandalay Bay and Monte Carlo Resorts as temporary and would also note that the recently cancelled boxing event has been rescheduled for later in 2018.

In our opinion, the shares of MGM are oversold and offer compelling value. The company's domestic assets are trading at an undemanding valuation of less than 7.0 times 2019 estimated cash flow – much cheaper than its casino and gaming peers. Further, 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. The company expects to generate free cash flow of $4.5 billion to $5.0 billion between 2018 and 2020. It has earmarked $2 billion for share repurchases, which at its recent depressed price of only $28 per share, would equate to buying back more than 12% of the company.

The shares of timeshare operators, including **Wyndham Destinations, Inc.** and **Hilton Grand Vacations Inc.**, declined in the second quarter. We suspect a combination of profit taking following strong share price performance, concerns about the business impact from Hawaiian volcanoes, and the length of the economic recovery have weighed on their shares. Our sense is that business fundamentals remain solid and the shares are attractively valued. We note that insiders have been buying stock of the timeshare companies at prices above the level where the shares are currently trading – a bullish indicator, in our opinion.

The shares of **Summit Materials, Inc.,** a heavy construction materials company with exposure to infrastructure, residential, and commercial construction, declined in the most recent quarter due to some concerns that the company may not be able to meet its 2018 growth expectations. We view this assessment as both short-sighted and possibly incorrect.

Our research and meetings with management leave us with a sense that demand conditions are strong, and the company remains on track to achieve its growth expectations. As always, however, bad weather can negatively impact results.

We believe the company is on track to generate $500 million of cash flow in 2018 which would represent a strong 15% year-over-year growth rate. Management continues to believe that it may attain $1 billion of cash flow over time through organic growth and accretive acquisitions. The shares currently trade at a modest valuation of only 8.5 times 2019 estimated cash flow.

The shares of **Beacon Roofing Supply, Inc.** declined in the second quarter largely due to concerns that a combination of higher-than-expected inflation and softness in roofing pricing will continue to weigh on profitability margins. Although we expect roofing pricing to rise over time and offset cost pressures, it may take some time. We are currently evaluating the Fund's investment in the company.

Portfolio Structure

We have structured a diversified and balanced real estate portfolio that we believe will benefit from compelling cyclical, secular, and geographic investment opportunities.

From a cyclical perspective, our research indicates that business conditions and the outlook are solid for numerous real estate-related companies. We continue to emphasize those companies that we expect to perform well as the economic cycle endures.

Portfolio examples include:

1. Leading hotel and timeshare companies such as **Hilton Worldwide Holdings, Inc.**, **Marriott International, Inc.**, **Hyatt Hotels Corp.**, and **Wyndham Hotels & Resorts, Inc.** Many hotel companies are experiencing an improvement in business conditions as corporate business travel demand has improved at a time when supply growth appears to be peaking.
2. Leading residential building product and services companies that we expect to benefit from the ongoing rebound in the U.S. housing market such as **Home Depot, Inc.**, **The Sherwin-Williams Company**, **Masco Corporation**, and **Installed Building Products, Inc.** Many residential real estate-related companies underperformed in the most recent quarter due to unfavorable weather, cost pressures, and interest rate concerns. We maintain that the housing recovery is intact, and the valuations of many companies are compelling at current prices.
3. Construction materials companies that should benefit from a continued rebound in residential and commercial construction activity and the expected major increase in state and federal infrastructure projects. These are companies such as **Vulcan Materials Company**, **Martin Marietta Materials, Inc.**, **Summit Materials, Inc.**, and **Eagle Materials Inc.** Recent meetings with several management teams lead us to believe that business prospects are strong.

From a secular perspective, the Fund continues to focus on technology-related real estate companies.

Cloud computing, the internet, artificial intelligence, autonomous vehicles, mobile data and cellphones, and wireless infrastructure are powerful secular growth opportunities that should persist for several years. At Baron, we refer to these types of enduring developments as "megatrends." These technology-related real estate companies represent approximately 22% of the Fund's net assets and include:

1. Wireless Tower companies (7.7% of the Fund), such as **American Tower Corp.** and **SBA Communications Corp.,** are positioned for long-term growth as the demand for data-intensive devices (such as iPhones) accelerates, and new technologies continue to emerge. The advent of new technologies and pertinent data require more antenna locations that will continue to benefit tower companies.
2. Data center companies (13.2% of the Fund) are also well positioned for long-term growth. An increasing number of companies are determining that it is economical to outsource their technology needs to high-tech and state-of-the-art data centers. A sampling of our data center holdings includes **Equinix, Inc.**, **InterXion Holding N.V.**, and **Digital Realty Trust, Inc.**
3. Industrial REITs (1.5% of the Fund), such as **Prologis, Inc.,** are witnessing strong warehouse demand partly in response to emergent e-commerce needs, as online sales are accelerating, and customers seek faster delivery.

From a geographic perspective, the Fund always prioritizes real estate companies that we think own unique and well-located real estate assets in markets with high barriers to entry that present attractive long-term demand demographics. Examples include:

1. Las Vegas-centric real estate companies, such as **MGM Resorts International**, **Red Rock Resorts, Inc.**, and **Boyd Gaming Corporation**.

2. International real estate companies, such as **Glenveagh Properties PLC**, **NEXTDC Limited**, **GDS Holdings Limited**, and **Housing Development Finance Corporation Limited.**

3. "Best-in-Class" U.S. REITs* that own and operate well-located real estate in supply-constrained markets. Examples include **Douglas Emmett, Inc.**, **Boston Properties, Inc.**, and **Alexandria Real Estate Equities, Inc.**

Table IV.
Fund investments in real estate-related categories as of June 30, 2018

		Percent of Net Assets
Building Products/Services		27.8%
REITs		24.9
Hotel & Leisure		16.7
Hotels & Timeshare/Leisure	13.1%	
Cruise Lines	3.6	
Casinos & Gaming Operators		9.4
Data Center Operating Companies[1]		7.1
Real Estate Service Companies		4.9
Homebuilders & Land Developers		3.7
Real Estate Operating Companies		2.5
		97.0
Cash and Cash Equivalents		3.0
		100.0%

[1] Total would be 13.2% if included data center REITs Equinix, Inc. and Digital Realty Trust, Inc.

At June 30, 2018, we were invested in 48 companies. Our 10 largest holdings represent 40.0% of the Fund.

We invest in companies with a variety of market capitalizations. As of June 30, 2018, the median market capitalization of the portfolio was $8.8 billion. Companies with a market capitalization of less than $2.5 billion represented only 5.6% of the Fund.

* 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.

Table V.
Top 10 holdings as of June 30, 2018

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
American Tower Corp.	$ 63.7	$62.3	6.5%
Vulcan Materials Company	17.1	58.6	6.1
Home Depot, Inc.	225.1	48.6	5.0
Equinix, Inc.	34.2	45.4	4.7
InterXion Holding N.V.	4.5	37.0	3.8
MGM Resorts International	16.2	31.8	3.3
Penn National Gaming, Inc.	3.1	28.1	2.9
Extended Stay America, Inc.	4.1	26.3	2.7
Eagle Materials Inc.	5.0	24.6	2.5
Martin Marietta Materials, Inc.	14.0	24.0	2.5

Recent Activity

Table VI.
Top net purchases for the quarter ended June 30, 2018

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Installed Building Products, Inc.	$ 1.8	$17.9
Eagle Materials Inc.	5.0	11.2
Masco Corporation	11.6	8.0
Summit Materials, Inc.	3.0	7.5
Fortune Brands Home & Security, Inc.	7.8	6.1

In the second quarter, we took advantage of weakness in the share prices of several residential real estate-related companies to acquire stock at what we believe are attractive prices.

Installed Building Products, Inc. (IBP) is one of the nation's largest insulation installers for the residential new construction market and a diversified installer of complementary building products. We recently met with CEO Jeff Edwards. In the last 20 years, Jeff and his management team have built IBP from a single branch to a national platform with 125 locations servicing 48 states, resulting in revenues of more than $1 billion and cash flow of more than $150 million.

Following a year-to-date decline of 25% in its share price primarily due to an uptick in cost headwinds that negatively impacted cash flow margins, we began acquiring shares in IBP at valuation multiples that compare favorably to its historical averages.

We are optimistic about the multi-year prospects for IBP due to the following considerations:

1. Scale and cost advantages

   IBP's national platform across 48 states provides the company with significant scale and cost advantages. Manufacturers of insulation products prefer to sell their products to IBP at very competitive prices because the company's broad national penetration allows the manufacturers to better plan their production schedules. Further, homebuilders often choose to subcontract the installation of insulation and certain other building products to IBP because IBP's scale, full service capabilities, knowledge of local building codes and standards, timely delivery, and quality installation help to eliminate "nuisance" work for the homebuilders.

2. Housing market beneficiary

   We remain bullish about the prospects for a continued recovery in the U.S. housing market. Simply put, the U.S. is building too few homes relative to the demographic needs of the population. The current residential annual construction rate of approximately 1.2 million to 1.3 million new homes, compares to a 60-year historical average construction rate of 1.5 million new homes annually.

   The large imbalance between pent-up housing demand and low construction levels bodes well for a continuation of growth in home construction. IBP should be a prime beneficiary of growth in new home construction as approximately 83% of IBP's business is generated from new housing construction (66% new single family and 17% new multi-family).

3. Several opportunities for growth

   We believe the company can double its sales from $1 billion to more than $2 billion over time by:

   (i) Expanding its 28% market share of new residential construction organically by growing its current business platform of services
   (ii) Acquiring other businesses; IBP has a successful track record of acquiring and integrating 125 companies, realizing synergistic cost savings, thus enhancing the profitability of the acquired businesses
   (iii) Broadening its residential product offering and commercial building segment which currently represents only 10% of sales

4. Large insider ownership: CEO Jeff Edwards owns 27% of IBP. Accordingly, his interests are aligned with shareholders. We believe he is driven to build a much larger and more profitable business.

Management expects cash flow margins to improve over the balance of 2018. We believe the Fund's investment in the company can compound at 15% per year in the next few years.

We have been acquiring shares in **Eagle Materials Inc.** by taking advantage of the 13% drop in its share price. The company is a manufacturer and distributor of cement, gypsum wallboard, recycled paperboard, concrete, and aggregates. Eagle's products are widely used in residential, industrial, commercial, and infrastructure construction.

We are encouraged by the prospects for the company because we see a dual opportunity for growth and an increase in its stock valuation. We anticipate that Eagle should be a key beneficiary of the improving housing market and increasing expenditures for infrastructure and non-residential construction, as its products are used in these end markets. Our sense from a recent meeting with management is that the business prospects for the next few years are quite strong.

More recently, USG Corporation, one of Eagle's wallboard competitors, agreed to be acquired by Knauf Entities at a price that would imply that Eagle's wallboard business is significantly undervalued. Our sense is that a portion of Eagle's business or the entire company could eventually be targeted as an acquisition candidate. At its recent price of $107 per share, we believe the shares are attractively valued relative to our estimate of its take-out price of $140 per share.

We have been acquiring shares in **Masco Corporation**, a leading company of branded home improvement and building products, focusing on plumbing, cabinet, decorative architectural (paint), and window and other specialty products. We like Masco's portfolio of market-leading brands which include Delta faucets, Behr paints, and Milgard Windows & Doors. We believe the company has the potential to generate 20% earnings through a combination of organic growth, acquisitions, and share repurchases.

We have been acquiring shares in **Summit Materials, Inc.,** a heavy construction materials company that we expect to benefit from increased government spending on infrastructure projects and increases in residential and commercial construction, at or near the lowest valuation levels the shares have traded in the last few years, despite our expectations for the company to continue to grow its cash flow 15% annually for the next few years.

Following a 15% year-to-date correction in the share price of **Fortune Brands Home & Security, Inc.**, we have begun to acquire shares in the company. Fortune Brands is a leading manufacturer of home and security products which include kitchen and bath cabinetry, plumbing and accessories, entry door systems, and security products. We are optimistic about the prospects for the company as management believes it can grow its earnings per share by 100% in the next four years from $3.08 per share in 2017 to approximately $6.00 per share in 2021.

Table VII.
Top net sales for the quarter ended June 30, 2018

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
InterXion Holding N.V.	$ 4.5	$28.5
Lennar Corporation	16.9	15.7
Mohawk Industries, Inc.	16.0	9.6
Rexford Industrial Realty, Inc.	2.5	9.2
Cellnex Telecom, S.A.	5.0	8.0

We recently reduced the Fund's large position in **Interxion Holding N.V.** following two years of exceptional share price performance. We remain optimistic about the company's prospects, and, therefore, continue to a hold it in the Fund.

Despite strong admiration for the management of **Lennar Corporation** and the company's strong long-term business prospects, we chose to exit Lennar due to concerns that rising interest rates and potential margin pressures may continue to serve as a headwind to strong share price performance. We will likely look to revisit Lennar at a later stage.

We have continued to trim the Fund's position in longtime holding **Mohawk Industries, Inc.** following strong share price performance in 2018 and some concerns that a large portion of the U.S. flooring industry (carpets, ceramic, hardwood) is losing market share to luxury vinyl tile and therefore generating little to no growth and that the company's profitability margins may have peaked.

We exited both **Rexford Industrial Realty, Inc.**, an industrial REIT, and **Cellnex Telecom, S.A.**, a European wireless tower operator, following strong share price performance, and have reallocated the capital to higher conviction ideas.

Outlook

As we peer into the second half of 2018, we are mindful of a few items:

1. **CNBC Interview June 7, 2018: Warren Buffett and Jamie Dimon**

   It is noteworthy when Warren Buffett, Chairman of Berkshire Hathaway, and Jamie Dimon, CEO and Chairman of JP Morgan Chase, discuss economic and business conditions. Both executives have unique and credible perspectives given the size and breadth of their businesses and their exceptionally successful long-term track records.

   In a recent joint interview on CNBC, they offered ***bullish perspectives on economic conditions and bullish outlooks.***

   Jamie Dimon:

   "We are only in the sixth inning when it comes to the economy. If you look at how the table's set, consumers are in very good shape, their balance sheet, their incomes, wages are going up, their debt levels are low, all the credit written since the Great Recession is pristine...business sentiment is almost the highest level ever…consumer sentiment is at high levels…markets are wide open…housing is in short supply….***it looks pretty good."***

   Warren Buffett:

   "***Right now, no question it feels strong***…If we are in the sixth inning, we have our sluggers coming to bat, numbers 3, 4, 5 in the lineup…***business is good, no question about it.***"

We find it most notable not that Jamie and Warren agreed that *"business is good"* (our research has led us to the same conclusion), but that ***"we are only in the sixth inning when it comes to the economy."*** **We agree.**

Jamie Dimon perfectly framed our thought process regarding the economic and business cycle when he said:

> *"It's been a nine-year recovery, but only 20% growth. The average recovery is 40% growth over a seven- to eight-year period…It may be a long, delayed cycle…may have years of growth…another three years of recovery is definitely in the realm of possibilities…"*

We have stated in prior letters that our research suggests that the length of the current real estate cycle will last longer than most prior cycles – perhaps an extra inning game – because this cycle to-date has been relatively free of the excesses that typically accompany most real estate cycles. The factors that have fueled a resurgence in real estate remain in place. Business conditions are largely solid for the Fund's real estate companies. **We remain bullish.**

2. **"The End of Easy" – Morgan Stanley Research Publication, May 13, 2018**

Morgan Stanley published a report titled *"The End of Easy"* on May 13, 2018. In that report, the authors note that the stock market performance in the last nine years has exceeded the performance of the economy due to multiple tailwinds including low inflation, historically low interest rates, and positive U.S. policy catalysts (e.g., tax reform).

Looking forward, however, the authors predict that ***"the end of easy"*** may be near as previously helpful factors (i.e., the goldilocks environment of moderate growth, low inflation, low interest rates, an accommodative Fed, etc…) begin to transition, and the economy performs better than the stock market.

Morgan Stanley's thesis may prove to be most prescient; however, we continue to be of the view that no one has a crystal ball, and therefore, no one knows with clarity how macroeconomic changes, political events, and central bank actions may unfold, and what the market's reaction will be to those events.

Our antenna remains up. We continue to monitor those factors that impact real estate most directly such as construction activity, demand prospects, lending practices, interest rates and credit spreads, bank liquidity, and valuations. We also weigh macro considerations that could impact certain segments of real estate such as economic growth, inflation, interest rates, oil prices, and the strength of the U.S. dollar.

While it is plausible that the outlook for real estate and the market could be more tempered over the near future – perhaps the "end of easy" growth materializes – we maintain a favorable outlook because our research continues to confirm that the opportunities for large segments of commercial and residential real estate outweigh many of the issues identified above.

3. **The Fund is comprised of several attractively valued companies**

A key reason why we remain bullish about the prospects for the Fund – even though we are nine years into a real estate and stock market recovery – is that **the Fund remains populated with several companies that are attractively valued, including many stocks that are just too "cheap," with good prospects for strong returns over the next few years.**

Examples of these investments include:

- **Hyatt Hotels Corp.:** One of the premier hotel companies in the world with industry-leading hotel brands; currently valued at only 11 times consensus 2019 estimated cash flow. Earlier this year, Hyatt announced the sale of three of its hotels for 16 times cash flow, one indication, in our opinion, that the company's shares are currently valued significantly below its intrinsic value.
- **CBRE Group, Inc.:** The world's number one commercial real estate services company currently valued at only 13.5 times our estimate of 2019 earnings versus its historical multiple of approximately 16 to 17 times earnings.
- **MGM Resorts International:** Las Vegas-focused hotel and casino company; its recent share price of $28 per share versus our net asset value estimate of at least $40 per share (43% above its recent share price).
- **Brookfield Asset Management, Inc.:** A premier owner and operator of real estate-related and other infrastructure assets that is valued at a 20% discount to our assessment of intrinsic value.

- **Wyndham Destinations, Inc.:** The largest vacation ownership (timeshare) company in the world that trades at only 6.7 times 2019 estimated cash flow and a 13.2% free cash flow yield. The company's valuation is at the low end of where time shares historically have been valued (6 times to 9.5 times estimated cash flow).

- **Fortune Brands Home & Security, Inc.:** Leading residential building products company valued at only 9.5 times 2019 estimated cash flow versus a valuation range of 9 to 13 times in the last five years.

- **Summit Materials, Inc.:** Construction materials company valued at less than 8.5 times 2019 estimated cash flow, near the low end of its historic trading multiple and at a significant discount to where we believe its assets would be valued in the private market.

- **Norwegian Cruise Line Holdings, Ltd.:** Leading cruise line company currently valued at only 9.2 times 2019 estimate earnings of $5.10 per share

- **Royal Caribbean Cruises Ltd.:** Leading cruise line company currently valued at only 10.3 times 2019 estimated consensus earnings per share of $10.09 (representing 14% growth).

- **Gaming and Leisure Properties, Inc.:** Attractively valued, casino and hotel gaming REIT, with a 7% dividend yield, compared to most other triple net REITs with dividend yields of approximately 4.5% to 5.0%.

- **SL Green Realty Corp.:** New York-centric REIT that owns and operates office buildings primarily in midtown Manhattan is currently valued at a 23% discount to our estimate of its private market value, representing one of its largest valuation discounts in several years.

To our current shareholders, thank you for investing in the Fund. I remain 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 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.

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

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

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