DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

PERFORMANCE

Following the first nine months of 2018 when the Baron Real Estate Income Fund (the "Fund") generated a slight gain and modestly underperformed the REIT Index, the fourth quarter of 2018 was particularly challenging. The broad market corrected sharply in the period, precipitated by macroeconomic considerations such as concerns that the Federal Reserve was increasing interest rates faster than conditions warranted, growing fears of a global economic slowdown, and continued worries about U.S.-China trade tensions.

The vast majority of the Fund's underperformance in the quarter (and the entirety of its 2018 underperformance) was due to our non-REIT real estate investments, representing 16.2% of the Fund. A number of these growth companies did not offer the "shelter" that many dividend-paying REITs provided during 2018's turbulent market environment.

Many of these companies are now trading at bargain price levels. We have been taking advantage of opportunities to invest in, and add to the Fund's investments in a number of these growth companies, as we believe they currently offer solid growth and share price appreciation potential.

We encourage you to read the "Portfolio Structure" section presented later in this letter. There, we discuss our key observations regarding the portfolio's structure and strategy.

We also urge you to review our perspective on the outlook for the Fund in the "Outlook" section later in this letter.

Table I.
Performance
For periods ended December 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[3]	(11.38)%	(11.26)%	(7.05)%
One Year and Since Inception (December 29, 2017)	(11.33)%	(11.03)%	(5.83)%

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

Table II.
Top contributors to performance for the quarter ended December 31, 2018

	Quarter End Market Cap (billions)	Percent Impact
American Tower Corp.	$69.7	0.51%
Americold Realty Trust	3.8	0.11
Equity Lifestyle Properties, Inc.	8.7	0.02
Sun Communities, Inc.	8.8	0.02
Equity Residential	24.3	0.01

We have a long history of successful investing in wireless cell tower companies. Cellular towers provide critical real estate infrastructure to the wireless industry. In the U.S., for example, wireless carriers such as AT&T, Verizon, T-Mobile, and Sprint rent space from these tower companies to install their communications equipment that transmits and receives wireless signals from mobile phones and numerous other devices.

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.

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The Fund's investment in wireless cell tower REIT, **American Tower Corp.**, performed well in the most recent quarter due to strong business results and expectations for continued strength in demand.

We remain bullish on the long-term prospects for American Tower and the Fund's other wireless cell tower REIT, **Crown Castle International Corp.**, for the following reasons:

- **Secular Growth Prospects:** The long-term demand outlook for data-intensive devices, such as mobile phones, remains strong, and we expect it will continue to increase.
  - U.S. mobile data traffic is forecasted to grow more than 40% annually for at least the next five years according to data provided by: Cisco VNI 2016, Ericsson Mobility Report June 2018, AV&Co. Research & Analytics. This dramatic growth in wireless data demand will lead to significantly greater leasing demand and equipment installations on wireless tower locations in order to maintain the quality of the wireless carriers' signals and to support 4G and 5G network technology.
  - Looking forward, we expect the emerging 5G technology (which will provide numerous benefits to the mobile user, including faster video download speeds) to further increase and extend the growth trajectory for wireless cell tower companies many years into the future.
  - In addition to smartphones, the "connected home" (which enables the interconnection of multiple wireless devices), the "connected car" (equipped with internet access), and wireless delivery of cable TV will also require increased wireless bandwidth that is also expected to contribute to strong secular demand growth for the wireless tower companies.
- **High ROIC Business Models:** Wireless towers have excellent cash flow and economic characteristics.
  - Tenants sign leases that provide long-term revenue and cash flow visibility for the tower companies. Leases are typically non-cancellable, and generally include an initial term of 5 to 10 years with multiple renewal terms at the option of the tenant. Rent increases are typically fixed at an average of 3% annually.
  - The economic characteristics of a wireless tower are fairly unique. Most towers have capacity for four tenants. Typically, the cash flow generated from the first tenant will cover the construction cost of the tower and generate a modest single-digit investment return. Adding tenants, wireless equipment, and upgrades results in significantly higher investment returns because revenue can be added with minimal incremental cost, so more than 90% of the additional revenue flows through to cash flow. According to American Tower, a U.S. tower with three tenants will generate a strong 24% return on its investment capital with more than an 80% cash flow margin and requires minimal capital expenditures for annual maintenance. Outside the U.S., capital investment returns are also high and typically range from 25% to 32%.
- **High Barriers to Entry, Limited Competition, and Scale Advantages:**
  - High Barriers to Entry: Despite excellent cash flow and economic characteristics, there are generally high barriers to entry that limit competition. Why? Many communities do not want to see wireless towers in their backyards. As such, government zoning approvals for new towers are often difficult to obtain.
  - Limited Competition: Additionally, in most domestic and international developed markets, there tend to be only a few large wireless carriers. For example, in the U.S., there are a total of four carriers: AT&T, Verizon, Sprint, and T-Mobile. Most tower companies already have leases with two to three of these carriers on their towers. Therefore, with fewer available tenants, a prospective new tower competitor in the same area has less opportunity to win new business. As such, competition tends to be limited.
  - Scale Advantages: The Fund has invested in those wireless tower companies that actually own and operate their towers. These tower companies are often able to achieve superior terms from their lessees. They also enjoy efficiencies in purchasing, construction, management, and other costs.

The shares of **Americold Realty Trust** continued to perform well in the fourth quarter after reporting strong business results. The company is the only REIT that focuses on owning and operating temperature-controlled warehouses, and it has the largest portfolio of these warehouses in the U.S. and globally. We think Americold is well positioned to deliver superior growth relative to most REITs due to strong demand, limited supply, and opportunities to improve occupancy and rents.

We also anticipate that Americold will bolster its growth by developing additional warehouses at high returns and through additional acquisitions of other temperature-controlled warehouses. We continue to believe the prospects for the company are strong. These shares remain attractively valued relative to most REITs.

The Fund's investments in manufactured housing REITs, **Equity Lifestyle Properties, Inc.** and **Sun Communities, Inc.**, performed well in the fourth quarter following solid business results. We are bullish regarding the long-term prospects for both companies.

Equity Lifestyle Properties and Sun Communities are part of a niche real estate category that we expect to continue to benefit from favorable demand/supply dynamics. Both companies are the beneficiaries of strong demand from budget-conscious home buyers such as retirees and millennials, and negligible new inventory due to high development barriers.

Equity Lifestyle Properties and Sun Communities have superior long-term cash flow growth prospects and lower capital expenditure needs, than other REIT categories such as office, mall, shopping center, and health care REITs.

The shares of apartment REIT, **Equity Residential**, performed well in the most recent quarter following solid business results and management expectations for a reasonable improvement in revenues in 2019. The company is the largest apartment REIT in the U.S. with investments in 306 properties consisting of more than 79,000 apartment units located primarily in urban and high density suburban locations in Southern California, San Francisco, Seattle, New York, Washington D.C., and Boston.

The company was founded by, and is currently chaired by Sam Zell, one of the leading commercial real estate investors globally. Equity Residential maintains one of the strongest balance sheets in the REIT sector. We believe the shares are reasonably valued and the long-term prospects for the company are appealing,

Table III.
Top detractors from performance for the quarter ended December 31, 2018

	Quarter End Market Cap (billions)	Percent Impact
Equinix, Inc.	$28.3	–1.23%
Penn National Gaming, Inc.	2.2	–1.22
GDS Holdings Limited	2.9	–0.89
Marriott Vacations Worldwide Corp.	3.3	–0.78
MGM Resorts International	12.8	–0.47

The shares of real estate data center REIT **Equinix, Inc.** and data center company **GDS Holdings Limited** declined in the fourth quarter despite strong business results and outlooks. We believe the key factor that contributed to the recent weakness of these technology-related real estate companies was their high correlation to non-real estate technology companies whose share prices came under pressure in the fourth quarter.

We have met with and/or spoken to the management teams of each of the Fund's real estate data center companies in the fourth quarter and early in 2019. Our sense is that business conditions remain robust. We believe valuations are well below intrinsic value.

Equinix, the leading data center company in the world, is currently valued at a discount to most REITs despite the fact that we anticipate cash flow will grow at more than twice the growth rate of most REITs.

We have recently met with the management team of GDS, the leading developer and operator of data centers in China. We believe business conditions are strong and we remain bullish on the company's long-term prospects. The shares are valued at a modest cash flow multiple of only 18 times 2019 estimated cash flow despite expectations to grow its cash flow by more than 50% in 2019 and more than 100% in the next three years.

The shares of **Penn National Gaming, Inc.**, the largest U.S. regional casino and gaming company, declined steeply in the fourth quarter primarily due to speculation that consumer spending at casinos will slow sharply and promotional activity (discounted pricing) will increase. We met with management late in the fourth quarter. Our sense is that the fears that have weighed on Penn's shares are worse than the reality.

Business appears to be stable, and the company is on track to achieve its targeted revenue and expense synergies from its acquisition of Pinnacle Entertainment. At its December 31, 2018 price of only $18.83 per share, with close to a 20% free cash flow yield, we believe Penn's valuation is cheap. The shares of **Penn National Gaming, Inc.** have already gained 30% in the first few weeks of 2019!

Marriott Vacations Worldwide Corp., a leading timeshare company with more than 100 resorts, recently completed its acquisition of timeshare operator ILG, Inc. We suspect that certain factors, such as a combination of profit taking following strong share price performance, concerns about the impact from hurricanes and Hawaiian volcanic eruptions, and some concerns that consumers may be less likely to purchase vacation timeshares if economic growth slows, have also weighed on its shares.

We are bullish about the company's long-term prospects, and have continued to acquire shares in Marriott Vacations Worldwide at what we believe are good prices. Our sense is that business fundamentals remain solid and its shares are valued at less than seven times 2019 estimated cash flow and only nine times estimated earnings per share. The company's customer loyalty program, the Marriott Rewards loyalty program with 110 million members, serves as a key competitive advantage to source future growth. Insiders have been buying stock at prices above the level where the shares are currently trading – a bullish indicator, in our opinion.

MGM Resorts International is a leading global hotel and casino company. 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; improving free cash flow; and prospects of dividend growth. Further, we see value in the shares as its domestic assets are trading at less than eight times 2019 estimated cash flow. We estimate that the company would be worth $35 to $40 per share in the private market or 45% to 65% above its December 31, 2018 price.

Portfolio Structure

Regarding the structure of the portfolio, we are generally "staying the course," and have been implementing only a few strategic adjustments. Given the more uncertain macroeconomic outlook, we have modestly rebalanced the portfolio. For example, we recently reduced the Fund's exposure to hotel REITs given slowing and limited growth expectations. Alternatively, we purchased shares in more "defensive-oriented" REITs that generate more predictable cash flows given longer-term leases, such as certain health care REITs.

The Fund is currently invested in 14 different real estate categories (see Table IV below). Roughly 10% or more of the Fund's net assets is invested in each of the following four real estate categories:

1. **Non-REIT Real Estate Companies (16.2% of net assets)**

   The Fund has the flexibility to invest 20% of net assets in non-REIT real estate companies. In 2018, the Fund's performance was negatively impacted by its investments in non-REIT real estate companies. Many of these companies did not offer the "shelter" that many dividend-paying REITs provided during 2018's turbulent market environment.

   In our opinion, what was a headwind to performance in 2018 may be a tailwind to performance in 2019. We believe that the Fund's non-REIT real estate investments (such as **MGM Resorts International**, **Penn National Gaming, Inc.**, **Red Rock Resorts, Inc.**, **GDS Holdings Limited**, and **Marriott Vacations Worldwide Corp.**) currently offer superior growth and share price appreciation potential than many REITs. Notably, the shares of the Fund's non-REIT investments have begun to rebound sharply early in 2019.

2. **Data Center REITs (14.3% of net assets)**

Data center REITs such as **Equinix, Inc.**, **Digital Realty Trust, Inc.**, and **QTS Realty Trust, Inc.** are, in our view, well positioned for long-term growth. These companies construct and provide technical real estate buildings to support the latest technological advances and innovations such as growth in cloud computing. An increasing number of companies are determining that it is beneficial and 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. We believe the shares of the Fund's data centers are attractively valued and offer strong long-term growth potential.

3. **Multi-Family REITs (10.2% of net assets)**

There is a substantial and growing trend in which many new households are choosing to rent rather than buy a home. We expect multi-family REITs to continue to generate increases in occupancies and rents from solid job and wage growth. We believe the Fund's investments in multi-family REITs **AvalonBay Communities, Inc.**, **Equity Residential**, and **Essex Property Trust, Inc.** are valued at discounts to our assessment of intrinsic value.

4. **Wireless Tower REITs (9.9% of net assets)**

The Fund has approximately 10% of net assets invested in wireless Tower REITs, **American Tower Corp.** and **Crown Castle International Corp.**

As discussed earlier in this letter, we are bullish on the long-term prospects for our wireless cell tower companies due to secular growth prospects, high ROIC business models, high barriers to entry, limited competition, and scale advantages.

The Fund's Net Asset Allocation

At December 31, 2018, the Fund's net assets were comprised as follows:

REITs: 81.1%

Non-REIT Real Estate Companies: 16.2%

Cash: 2.7%

Table IV.
Fund investments in REIT categories as of December 31, 2018

	Percent of Net Assets
Non-REIT Real Estate Companies	16.2%
Data Center REITs	14.3
Multi-Family REITs	10.2
Wireless Tower REITs	9.9
Other REITs	8.9
Industrial REITs	7.7
Office REITs	7.3
Manufactured Housing REITs	5.9
Hotel REITs	4.2
Triple Net REITs	3.9
Health Care REITs	3.4
Mall REITs	2.8
Self-Storage REITs	1.6
Single-Family Rental REITs	1.0
	97.3
Cash and Cash Equivalents	2.7
	100.0%

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
American Tower Corp.	$69.7	$185.7	6.7%
Equinix, Inc.	28.3	177.3	6.4
Americold Realty Trust	3.8	151.5	5.5
Equity Residential	24.3	110.3	4.0
AvalonBay Communities, Inc.	24.1	107.4	3.9
MGM Resorts International	12.8	105.1	3.8
Digital Realty Trust, Inc.	22.9	103.5	3.7
Alexandria Real Estate Equities, Inc.	12.4	95.8	3.5
Prologis, Inc.	37.0	93.7	3.4
Crown Castle International Corp.	45.1	89.5	3.2

Recent Activity

Table VI.
Top net purchases for the quarter ended December 31, 2018

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Alexandria Real Estate Equities, Inc.	$12.4	$59.1
Essex Property Trust, Inc.	16.2	48.6
Public Storage	35.3	45.1
HCP, Inc.	13.3	41.3
Simon Property Group, Inc.	52.0	38.5

In the most recent quarter, the Fund acquired shares in several REITs that we would characterize as best-in-class (i.e., excellent management teams, solid balance sheets, premier real estate portfolios, strong long-term growth prospects). Note that this statement represents the manager's opinion and is not based on a third-party ranking.

Alexandria Real Estate Equities, Inc. has been a long-term holding at Baron. The Firm first began acquiring shares in 2009 at approximately $38 per share. Ten years later, the Firm still owns Alexandria's shares. They are currently valued at $120 per share (exclusive of dividends). The Baron Real Estate Fund has owned shares in Alexandria since its inception nine years ago. Additionally, our Baron Real Estate Income Fund acquired shares at its inception one year ago, and we added to our position in the fourth quarter. We remain bullish about the company's long-term prospects.

Alexandria is the only pure-play publicly-traded landlord and developer to the life science industry. The company designs and improves space for lease to pharmaceutical, biotechnology, life science product and service companies, not-for-profit scientific research institutions, universities, and related government agencies. Alexandria's real estate portfolio contains approximately 20 million square feet focused in the key "brain-trust" markets with high concentrations of research activity–Northern California, Boston, North Carolina, Seattle, and San Diego.

We recently attended the company's annual investor day, which confirmed our enthusiasm for the company's long-term growth prospects. Management believes it can grow its revenues 100% from 2017 levels by 2022. This is a far superior growth projection than just about every other publicly-traded REIT. This forecast is based on the strength it is witnessing in life science business fundamentals, its real estate development success, its healthy balance sheet, and its desirable real estate portfolio. The company maintains a leading position in its real estate markets with a 28% market share. Remarkably, demand is exceptionally strong, with requirements for about eight times the space that Alexandria has available from their 2019 lease expirations. We believe the shares are poised for meaningful appreciation.

Essex Property Trust, Inc. is a West Coast-focused apartment REIT dedicated exclusively to the Pacific coastal markets of California and Washington. Approximately 84% of its cash flow is generated in California and 16% of its cash flow generated in Seattle, Washington. The company's real estate portfolio is appealing due to favorable demand and supply dynamics. The West Coast is viewed as an appealing place to live, due in large part, to strong job growth opportunities and good weather.

Regarding supply, strong demand prospects and limited supply of homes for sale should support favorable long-term occupancy and rent growth. For example, there are high barriers to new housing construction in Essex's markets, particularly in California where it is costly to build, and zoning approvals are restrictive. Strong demand prospects and limited supply should support favorable long-term occupancy and rent growth. Particularly high home prices, partly due to the shortage of homes for sale and recent tax reform, has made renting a much more compelling option for shelter than purchasing a home. According to management, the premium to own a home versus renting an apartment has risen to 77% as compared to a historical average of 49%, which should support solid demand and rent growth for apartment rentals.

In the most recent quarter, the Fund initiated positions in two REITs. We are optimistic about the prospects for both companies. **Public Storage** is the world's largest owner and operator of self-storage facilities. The company's management team has an excellent long-term track record of creating shareholder value, and it maintains a pristine balance sheet with extremely low levels of debt. **HCP, Inc.** is a health care REIT that owns a high-quality, 95% private-pay real estate portfolio of senior housing, life science, and medical office buildings. HCP maintains an investment grade balance sheet to support its strong pipeline of future growth opportunities.

In the most recent quarter, we acquired additional shares in **Simon Property Group, Inc.**, the world's largest mall operator. The company has assembled a well-located portfolio of retail malls, outlets, and community centers. Led by CEO David Simon, its management team has a long track record of solid capital allocation decisions, while managing its portfolio especially well. We think Simon Property Group has opportunities to increase occupancy and rents, acquire new properties and assets at attractive prices relative to the company's cost of capital, while growing the company's dividend. We believe the shares continue to trade at a discount to our assessment of net asset value.

Table VII.
Top net sales for the quarter ended December 31, 2018

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
American Homes 4 Rent	$ 5.9	$53.5
Invitation Homes, Inc.	10.5	44.3
CyrusOne Inc.	5.6	36.6
Sunstone Hotel Investors, Inc.	3.0	36.2
Extended Stay America, Inc.	2.9	31.7

We have reduced the Fund's investment in single family REITs following a few quarters of disappointing results (negative expense surprises and other operational challenges). We exited the Fund's position in **American Homes 4 Rent** and reduced the Fund's position in **Invitation Homes, Inc.**

We have moderately lowered the Fund's investment in data center REITs by reducing the Fund's investment in **CyrusOne Inc.**

We lowered the Fund's investment in hotel REITs by exiting **Sunstone Hotel Investors, Inc.** and eliminated our position in non-REIT real estate hotel operator **Extended Stay America, Inc.**

Outlook

This past year, 2018, was replete with macroeconomic changes, political events, and central bank actions that contributed to excessive stock market volatility.

Though 2019 may also present some surprises, we begin the year with a bullish outlook for the Fund for the following reasons:

1. **We are optimistic about the prospects for REITs**

   These are some of the key positives that we believe will benefit REIT performance in 2019:

   - Generally steady and growing commercial real estate fundamentals;
   - New construction activity that has become tempered by high construction and labor costs;
   - Generally reasonable REIT valuations and, in some cases, "cheap" real estate securities;
   - Solid balance sheets and high dividend yields (4.3%, on average);
   - Compelling investment allocation if interest rates continue to stabilize or decline; and
   - Substantial private capital from Blackstone Real Estate and others who are pursuing real estate investments.

2. **We are quite bullish about the prospects for the Fund's non-REIT real estate investments**

   Following disappointing share price performance in 2018, we believe the Fund's non-REIT real estate investments now offer strong share price appreciation potential.

   Examples include investments in MGM Resorts International, Penn National Gaming, Inc., Red Rock Resorts, Inc., GDS Holdings Limited, and Marriott Vacations Worldwide Corp. We are encouraged that so far this year the shares of the Fund's non-REIT investments are performing strongly.

3. **The Fund is structured with best-in-class REITs and non-REITs that offer significant return potential**

   We believe the Fund is populated with quality companies with, in our view, excellent management teams, strong growth prospects, leading competitive positions, liquid balance sheets, and attractive valuations.

   Examples include:

   - Data Center REITs: Equinix, Inc. and Digital Realty Trust, Inc.
   - Wireless Tower REITs: American Tower Corp. and Crown Castle International Corp.
   - Multi-Family apartment REITs: AvalonBay Communities, Inc. and Equity Residential
   - Industrial REITs: Prologis, Inc., Duke Realty Corporation, and Rexford Industrial Realty, Inc.
   - Hotel REITs: Park Hotels & Resorts Inc. and Host Hotels & Resorts, Inc.
   - Single-Family Rental REITs: Invitation Homes, Inc.
   - West Coast-focused Office and Other REITs: Hudson Pacific Properties, Inc., Douglas Emmett, Inc., and Alexandria Real Estate Equities, Inc.
   - Manufactured Housing REITs: Sun Communities, Inc. and Equity Lifestyle Properties, Inc.
   - Triple Net gaming REITs: MGM Growth Properties LLC and Gaming and Leisure Properties, Inc.
   - Non-REIT Real Estate Companies: MGM Resorts International, Red Rock Resorts, Inc., and Marriott Vacations Worldwide Corp.

To Our Shareholders

We greatly appreciate your confidence by investing in the Baron Real Estate Income Fund.

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
Portfolio Manager