

DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

PERFORMANCE

The first six months of 2018 were extremely volatile for REITs and numerous other income-producing real estate securities. In fact, the first and second quarters produced largely opposite comparative results.

In the first quarter, most REITs were negatively impacted by concerns about rising interest rates and modest growth prospects for some segments of commercial real estate. At its first quarter low point, REITs had declined 13%.

Conversely, in the second quarter REITs rebounded sharply, erasing their first quarter losses. This second quarter improvement was due to several factors including:

- Stabilizing interest rates;
- Various REIT merger and acquisition announcements;
- Mildly better-than-expected business fundamentals; and
- International trade war fears that led to a risk averse mentality and a corresponding shift from equities into "bond-like" securities such as REITs. (Consequently, the MSCI US REIT Index (the "REIT Index") increased 9.74% in the second quarter, far outpacing the S&P 500 Index, which gained 3.43%.)

Baron Real Estate Income Fund (the "Fund") gained 6.22% (Institutional Shares) in the most recent quarter ended June 30, 2018, trailing its primary benchmark, the REIT Index, which gained 9.74%. The REIT Index benefited, in large part, from a rebound in certain REIT categories that the Fund has largely avoided, such as shopping center and mall REITs, health care REITs, and self-storage REITs. In our opinion, these categories continue to face business headwinds, most notably an excess supply of real estate. We remain confident regarding the structure of the Fund. Please see this letter's "Portfolio Structure" section for our description of the configuration of the Fund.

Overall, for the first six months of 2018, the Fund's performance was essentially flat (-0.15%), slightly underperforming the REIT index which generated a very modest gain of 0.54%.

Please see the "Outlook" section at the conclusion of this letter for our forward-looking views for real estate and the Fund.



JEFFREY KOLITCH

PORTFOLIO MANAGER

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

Table I.
Performance
For periods ended June 30, 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	6.23%	6.22%	9.74%
Six Months and Since Inception (December 29, 2017) ³	(0.25)%	(0.15)%	0.54%

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

Table II.

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

	Quarter End Market Cap (billions)	Percent Impact
Kennedy-Wilson Holdings, Inc.	\$ 3.1	0.68%
Park Hotels & Resort Inc.	6.2	0.60
Penn National Gaming, Inc.	3.1	0.59
Host Hotels & Resorts, Inc.	15.6	0.48
Americold Realty Trust	3.1	0.46

We are pleased that in the most recent quarter ended June 30, 2018, our investments across a spectrum of REITs and other real estate securities contributed to the Fund's solid performance.

Kennedy-Wilson Holdings, Inc. is a global real estate investment and management company with an impressive long-term track record. It owns and manages a high-quality diverse real estate portfolio primarily consisting of apartments and office properties located in the Western U.S., the U.K., and Ireland. The shares have performed well in the most recent quarter and first six months of 2018 as a result of strong business performance and prudent capital allocation, including substantial share repurchases. We believe the prospects for Kennedy-Wilson's shares remain attractive given the company's solid growth outlook, attractive 3.6% dividend yield, and discounted valuation.

The shares of hotel REITs, including **Park Hotels & Resort Inc.** and **Host Hotels & Resorts, Inc.**, have been benefiting from the improvement in hotel demand, driven by a pick-up in corporate travel, and indications that hotel supply growth may be peaking due to increased construction costs and growing restrictive construction financing.

Further, The Blackstone Group, the largest commercial real estate owner in the world, announced its intention to buy LaSalle Hotel Properties, another hotel REIT, at a robust valuation relative to the valuation multiples of most hotel REITs. We view Blackstone's impending purchase of LaSalle as a positive endorsement of hotel industry fundamentals, and its recognition of the discounted value of several hotel REITs.

The shares of **Penn National Gaming, Inc.**, an operator of casino and gaming properties, performed well in the most recent quarter primarily due to its strong business results. We remain optimistic about the prospects for Penn for several reasons which include:

- (i) The company expects to conclude its acquisition of Pinnacle Entertainment by the end 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. with a compelling portfolio;
- (ii) We believe there are significant opportunities for Penn to benefit from the Pinnacle acquisition synergies in both revenues and expenses, accompanied by accelerated cash flow growth; and
- (iii) At Penn's recent price of only \$33, with an 11% free cash flow yield for the combined company, the valuation of these shares is highly compelling.

The Fund began acquiring shares in **Americold Realty Trust** at its initial public offering in January 2018. Since then, the company has been one of the top performing REITs. We continue to believe the prospects for the company are strong. Americold owns the largest portfolio of temperature-controlled warehouses in the U.S. and globally. We believe it is well

positioned to deliver superior growth in comparison to most REITs due to strong demand trends, limited supply, and opportunities to improve occupancy and rents in its current portfolio. We anticipate that Americold will bolster its growth by developing additional warehouses at attractive returns and through additional acquisitions of temperature-controlled warehouses. We believe the shares remain attractively valued relative to most REITs.

Table III.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
MGM Resorts International	\$16.2	−0.65%
Five Point Holdings, LLC	1.7	−0.37
Crown Castle International Corp.	44.7	−0.06
Taubman Centers, Inc.	3.2	−0.06
American Tower Corp.	63.7	−0.05

Following solid first quarter share price performance, the shares of **MGM Resorts International** retreated sharply in the second quarter primarily due to management's lessening of 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 (but rescheduled for later this year). Importantly, we view the business disruptions at its Mandalay Bay and Monte Carlo Resorts as temporary.

In our opinion, the shares of MGM are oversold and offer compelling value. The company's domestic assets are trading at an unusually low 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.), solid growth outlook, and improving free cash flow and dividend growth prospects. Additionally, the company expects to generate free cash flow of \$4.5 to \$5.0 billion between 2018 and 2020, with \$2 billion earmarked 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.

Five Point Holdings, LLC is a California-based real estate developer that has assembled a high-quality portfolio of real estate that it anticipates developing and monetizing over the next few years. Most residential real estate stocks, including Five Point, declined in the most recent quarter due to concerns that higher interest rates and elevated home prices could slow down the housing recovery. We believe these concerns are overdone and remain bullish on the prospects for the housing market. In our opinion, there continues to be an insufficient supply of homes to satisfy the demographic demand needs for single-family home ownership.

The shares of REIT wireless tower companies **Crown Castle International Corp.** and **American Tower Corp.** detracted modestly in the second quarter primarily due to concerns that a potential merger of two of its largest customers, T-Mobile and Sprint, might result in a loss of a portion of their leasing cash flow (we estimate the potential cash flow loss at only 4.5% for Crown Castle and 3% for American Tower) from the de-commissioning of overlapping tower-based sites as the two mobile carriers integrate their

networks. We are not concerned about a T-Mobile and Sprint merger because we anticipate that the combined company, with its improved financial profile, would have a greater capacity to increase capital expenditures on wireless equipment, thereby offsetting any meaningful loss of income for both companies.

Overall, we believe that Crown Castle and American Tower are well positioned to take advantage of large secular growth opportunities as global wireless data consumption accelerates. These companies offer strong compelling total return prospects relative to many of their REIT peers.

Taubman Centers, Inc., a retail mall REIT, declined 6.65% for the period held in the quarter. We have chosen to exit the shares and reallocate the capital to higher conviction REIT companies.

PORTFOLIO STRUCTURE

At June 30, 2018, the Fund's net assets were comprised as follows:

- **REITs:** 82.3%
- **Non-REIT Real Estate Companies:** 12.7%
- **Cash:** 5.0%

We have structured the Fund to take advantage of the following five investing themes:

1. Emphasis on Growth

We have been prioritizing companies that we believe will perform well in a faster growth environment. Our research indicates that business and economic conditions are generally solid.

Real estate companies whose tenants have shorter-term leases can increase occupancy and rents at a faster rate than those real estate companies whose portfolios are mainly comprised of 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. They include: **Extended Stay America, Inc., Park Hotels & Resorts Inc., Host Hotels & Resorts, Inc., Pebblebrook Hotel Trust, and Sunstone Hotel Investors, Inc.** Hotels currently represent 14.3% of the Fund's net assets.
- **Multi-family REITs** (typically one-year lease terms), such as **AvalonBay Communities, Inc., Equity Residential, and Essex Property Trust, Inc.** We remain cautious about the excess supply of apartment units in several markets across the U.S. and the possibility of a corresponding decrease in occupancy and rents. Accordingly, we have maintained a modest multi-family allocation of only 5.7% of the Fund.
- **Industrial REITs** (typically five-year lease terms) such as **Prologis, Inc., Duke Realty Corporation and Rexford Industrial Realty, Inc.** represent 6.7% of the Fund's assets.

Notably, fears of recent global business tariff and trade wars have weighed on economic and business growth expectations. If differences are resolved in a reasonable time frame, we anticipate economic growth and growth-oriented securities to continue to perform well.

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 26% of the Fund's net assets across three real estate categories. They include:

- **Wireless Tower REITs (10.1% 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 emerge. New technologies and demand for increased data require a greater number of antennae that will continue to benefit tower companies.
- **Data Center REITs (9.0% 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 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 (6.7% of the Fund)**, such as **Prologis, Inc., Duke Realty Corporation, 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 good opportunities in "alternative" or non-traditional REITs that we believe have the potential to grow faster than several traditional REITs (i.e., malls, shopping centers, offices, apartments, self-storage).

These "alternative" REITs may benefit from their emphasis on 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 (3.7% of the Fund)**

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 historical levels and demand trends are accelerating.

- **Cold-Storage REITs (3.7% of the Fund)**

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 (3.1% of the Fund)**

Sun Communities, Inc. and Equity Lifestyle Properties, Inc. are part of 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.

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

Baron Real Estate Income Fund

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

We continue to believe there is an unusual and attractive opportunity to purchase several 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 adequately reflect our view of its intrinsic value.

Fund holdings that we 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 share price of each company is 10% to 20% below its net asset value, representing some of the largest valuation discounts we have seen for these companies in the last five years.
- High-quality multi-family REITs, such as **AvalonBay Communities, Inc.** and **Equity Residential**, are trading at attractive 10% discounts to their net asset values.
- The premier mall REIT in the U.S., **Simon Property Group, Inc.**, is trading at a 15% discount to its net asset value—again, a wide valuation discount relative to where this REIT traded over the last five years.

5. Investments in Non-REIT Real Estate Companies

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

Currently, the Fund has invested 12.7% of its net assets in non-REIT real estate companies such as **MGM Resorts International**, **Kennedy-Wilson Holdings, Inc.**, **Penn National Gaming, Inc.**, **Red Rock Resorts, Inc.**, and **NEXTDC Limited**.

The share prices of several of the Fund's non-REIT real estate companies have been performing well and we remain optimistic about each company's prospects.

Table IV.

Fund investments in REIT categories as of June 30, 2018

	Percent of Net Assets
Office REITs	14.9%
Hotel REITs	14.3
Non-REIT Real Estate Companies	12.7
Wireless Tower REITs	10.1
Data Center REITs	9.0
Industrial REITs	6.7
Multi-family REITs	5.7
Single-family Rental REITs	5.1
Other REITs	4.5
Timber REITs	3.7
Manufactured Housing REITs	3.1
Triple Net REITs	2.8
Mall REITs	2.2
Billboard REITs	0.2
Cash and Cash Equivalents	5.0%
	100.0%

At June 30, 2018, the Fund had investments in 42 companies. Our 10 largest holdings represent 41.1% of the Fund and our 20 largest holdings comprise 67.3% of the Fund.

Table V.

Top 10 holdings as of June 30, 2018

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
American Tower Corp.	\$63.7	\$208.5	7.1%
Equinix, Inc.	34.2	178.8	6.1
Extended Stay America, Inc.	4.1	129.1	4.4
Americold Realty Trust	3.1	108.4	3.7
Park Hotels & Resort Inc.	6.2	103.8	3.5
Host Hotels & Resorts, Inc.	15.6	103.4	3.5
Prologis, Inc.	35.0	97.7	3.3
MGM Resorts International	16.2	96.5	3.3
Kennedy-Wilson Holdings, Inc.	3.1	95.6	3.2
Hudson Pacific Properties, Inc.	5.6	89.0	3.0

RECENT ACTIVITY

Table VI.

Top net purchases for the quarter ended June 30, 2018

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
American Homes 4 Rent	\$ 6.6	\$49.7
Red Rock Resorts, Inc.	3.9	42.2
Penn National Gaming, Inc.	3.1	40.6
NEXTDC Limited	1.9	40.5
Equinix, Inc.	34.2	32.0

In the most recent quarter, we added to the Fund's investments in 14 companies and initiated new positions in two companies.

We increased the Fund's position in **American Homes 4 Rent** following strong first quarter business results. The company owns an \$11 billion single-family rental portfolio of 48,000 homes located in 22 states, primarily across Sun Belt and Midwest markets. Its business strategy focuses on acquiring, renovating, leasing, and operating single-family homes as rentals.

We are optimistic about the prospects for American Homes because we believe the demand outlook for single-family home rentals should continue to outstrip supply, thereby creating a favorable backdrop for strong rent and cash flow growth.

Demand conditions for rental homes are attractive due to increasing household formation and income growth, a decline in home purchase affordability, millennials having children and moving out of apartments, and a lack of new housing supply that isn't keeping up with population growth and the propensity to rent. Regarding new construction activity, there is a limited supply of single-family rental homes in the U.S. housing market.

In our opinion, American Homes, with its expansive real estate portfolio and strong balance sheet, has a promising runway for growth in the years ahead. Further, it could generate solid rent increases, cash flow growth and acquire and develop a substantial number of additional homes to rent.

In the second quarter, the Fund initiated a position in **Red Rock Resorts, Inc.**, by taking advantage of the softness in its share price. Red Rock is a real estate gaming, development, and management company that generates approximately 80% of its business in Las Vegas.

We are optimistic about the prospects for Red Rock because of its special niche. Its hotels and casinos cater primarily to the local Las Vegas market. Accordingly, these properties are not located on the Las Vegas Strip, and are well positioned to potentially benefit from favorable Las Vegas demand-supply dynamics, and from the company's sound renovation and development plans.

On the demand side, the solid improving local economy (low unemployment, high weekly wages, and stable housing) bodes well for consumer spending. On the supply side, no new major gaming facilities have opened in this area of Las Vegas (the "locals" market) since 2009, and no new competitive developments have been announced. Further, the company is amid a major renovation program at two of its resorts (The Palms Casino Resort and The Palace Station) that should produce significant cash flow growth over the next few years.

We recently added to the Fund's investment in **Penn National Gaming, Inc.** For a description of the company and the rationale for our investment, please see the "Performance" section earlier in this letter.

In the second quarter, we acquired shares in **NEXTDC Limited**, an Australian-based data center company. The Australian data center market is still in the early innings of its evolution and is growing significantly faster than in other parts of the world. Following our research and discussions with CEO Craig Scroggie, we are optimistic about the prospects for NEXTDC. We believe the company has a realistic plan in place to grow its cash flow by approximately 100% in the next two-to-three years, and by 250% in the next four-to-five years.

We took advantage of weakness in the shares of **Equinix, Inc.**, a global and competitively advantaged data center REIT, to increase the Fund's position in the company. The shares had declined early in 2018 due in part to management's announcement that it plans to make larger-than-expected investments in its business in 2018. We anticipate that growth in cash flow will re-accelerate in 2019.

Our research indicates that Equinix's prospects remain strong for both organic and development growth, and for possible acquisitions. We believe the company is well positioned to benefit from the rapidly increasing number of companies that outsource their technology needs to high-tech and state-of-the-art data center firms such as Equinix. This outsourcing is also propelled by the explosive growth in data and cloud computing. Further, we are encouraged by management's recently announced expectation to grow its cash flow in the low-teens annually for the next five years which, if successful, should far exceed the growth rate of most REITs.

Table VII.

Top net sales for the quarter ended June 30, 2018

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
DCT Industrial Trust Inc.	\$ 6.2	\$45.0
Digital Realty Trust, Inc.	24.0	40.7
Taubman Centers, Inc.	3.2	38.2
Five Point Holdings, LLC	1.7	22.0
Lamar Advertising Company	6.7	19.1

During the quarter, we exited or reduced 12 positions in certain companies, and deployed these proceeds for new or increased investments in other companies.

We exited **DCT Industrial Trust Inc.**, an industrial REIT, following the announcement that it would be acquired by one of its industrial REIT peers, Prologis Inc., at what we believe is a compelling valuation.

We also sold out of **Taubman Centers, Inc.**, a retail mall REIT, because we are not confident that the company's share price will appreciate commensurate with most other investment opportunities that we continue to research.

We trimmed the Fund's investment in **Digital Realty Trust, Inc.** following the announcement of two key management departures. We have spoken to the company and remain confident in its long-term business prospects.

We have trimmed a good portion of our investments in **Five Point Holdings, LLC**, a land development company, and **Lamar Advertising Company**, an advertising billboard REIT, because we have identified higher conviction investment ideas.

Baron Real Estate Income Fund

OUTLOOK

The market has been engaged with concerns about the possibility of rising interest rates, overall Fed policy, rising tariffs accompanied by trade wars, and the duration of the economic recovery. These factors have contributed to market volatility during the first half of the year.

During the first quarter of this year, bond-like and dividend yielding securities such as REITs (whose relative appeal generally lessens as interest rates increase), dropped sharply as the U.S. 10-Year Treasury Yield increased from 2.4% to 3.0%. During this period, several REITs suffered declines of 10% to 20%.

However, in the last few months, as interest rates stabilized, and tariff/trade war rhetoric intensified, the market turned more defensive in nature, and it pivoted to what is viewed as safe-haven securities such as U.S. treasury bonds and dividend yielding securities such as REITs.

Consequently, many REITs have recouped all their losses from the first few months of 2018, and both the REIT Index and the Baron Real Estate Income Fund have now posted positive year-to-date returns as of July 12, 2018.

What is the market outlook for the second half of 2018? Our view is that while no one has a crystal ball, and therefore, no one knows with clarity how political events, macroeconomic changes, and central bank actions may unfold, it is virtually impossible to predict what the market's reaction will be to these possible scenarios.

We, therefore, support the merits of a diversified investment strategy that incorporates allocations to both equity-like real estate securities and dividend yielding real estate securities such as REITs.

We remain bullish about the prospects for many income-oriented real estate securities and the Baron Real Estate Income Fund. Our optimism emanates from the following key factors:

First, our research indicates that business conditions are generally solid for REITs and other real estate income-oriented companies. Examples that are held in the Fund include:

- Data center REITs such as **Equinix, Inc.** and **Digital Realty Trust, Inc.**
- Wireless tower REITs such as **American Tower Corp.** and **Crown Castle International Corp.**
- Hotel REITs such as **Park Hotels & Resorts Inc.** and **Host Hotels & Resorts, Inc.**
- Single-family rental REITs such as **Invitation Homes, Inc.** and **American Homes 4 Rent**

- Industrial REITs such as **Prologis, Inc.**, **Duke Realty Corporation**, and **Rexford Industrial Realty, Inc.**
- West coast focused office REITs such as **Kilroy Realty Corporation**, **Hudson Pacific Properties, Inc.**, **Douglas Emmett, Inc.**, and **Alexandria Real Estate Equities, Inc.**
- Manufactured housing REITs such as **Sun Communities, Inc.** and **Equity LifeStyle Properties, Inc.**
- Timber REITs such as **Rayonier Inc.** and **Weyerhaeuser Company**

Second, the Fund is populated with REITs and other income-oriented real estate securities that feature additional attributes including:

- Solid demand prospects and supply conditions that in many cases are peaking due to high construction and labor costs
- Diversification from traditional equities and bonds
- A compelling investment allocation if interest rates continue to stabilize or decline
- Attractive dividend yields, many of which range from 3% to 4%
- Reasonable valuations relative to several stock and bond alternatives
- Solid balance sheets

To Our Shareholders

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

Our real estate team has assembled a quality portfolio of companies with, in our view, excellent management teams, strong growth prospects, leading competitive positions, liquid balance sheets, and attractive valuations.

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

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 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.

S&P 500 Index measures the performance of 500 widely held large-cap U.S. companies. The index performance is not fund performance; one cannot invest directly into an index.

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