Dear Baron Real Estate Income Fund Shareholder:

Performance

We are pleased to report that the Baron Real Estate Income Fund (the "Fund") generated strong performance for the six months ended June 30, 2019.

During this period, the Fund gained 20.65% (Institutional Shares), exceeding its primary benchmark index, the MSCI US REIT Index, which gained 17.07%.

Additionally, in the most recent quarter ended June 30, 2019, the Fund generated a 2.32% return, also outperforming the MSCI US REIT Index, which gained 0.99%.

In the first six months of 2019, the relative appeal of dividend-paying securities, such as REITs (73% of the Fund's net assets), increased as interest rates declined. On June 30, 2019, the 4.0% weighted average dividend yield of U.S. REITs compared favorably to the 2.0% yield on U.S. 10-Year Treasuries.

Additional factors that contributed to strong performance for many of the Fund's REITs and other commercial real estate-related companies include:

- Generally steady and growing commercial real estate fundamentals;
- New construction activity that has moderated due to high construction and labor costs, thereby lessening concerns of possible oversupply;
- Low leveraged balance sheets and access to low-cost debt and equity capital;
- A benign interest rate environment;
- Substantial private capital looking to buy and finance real estate provides support for real estate valuations; and,
- Several attractively valued REITs and real estate-related companies.

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.

Table I.
Performance
For periods ended June 30, 2019

	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]	2.33%	2.32%	0.99%
Six Months[3]	20.61%	20.65%	17.07%
One Year	7.21%	7.51%	9.66%
Since Inception (December 29, 2017)	4.58%	4.84%	6.72%

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

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

Table II.
Top contributors to performance for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Percent Impact
MGM Resorts International	$15.3	0.61%
Equinix, Inc.	42.4	0.59
Invitation Homes, Inc.	14.0	0.54
Prologis, Inc.	50.5	0.52
Americold Realty Trust	6.2	0.38

The shares of **MGM Resorts International**, a leading global hotel and casino company, gained 11.8% in the second quarter of 2019. We believe two key factors propelled the shares higher.

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, 2018 was 10.47% and 7.18%, 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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.*

1 The 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.

First, MGM's Board of Directors acquired a significant amount of stock in the most recent quarter. For example, Paul Salem, who joined the Board in August 2018, purchased $20 million of MGM stock at $25.40 per share, sending, in our opinion, a strong and positive message regarding the company's valuation and business prospects. He is one of three Directors who have been tasked with evaluating MGM's real estate portfolio and identifying beneficial approaches to unlock shareholder value. A second Board member, Keith Meister, who is also assessing the company's real estate portfolio, acquired several million dollars worth of stock in the second quarter on behalf of Corvex Management LP, a hedge fund that he leads. Corvex has now amassed a $600 million stake in MGM!

Second, management has reiterated its confidence in growing cash flow by approximately 35% over the next two years from $2.8 billion in 2018 to a range of $3.6 billion to $3.9 billion in 2020. Management believes that the recent opening of three new MGM properties, its ongoing focus on improving operating efficiencies through cost cutting, and organic growth will propel MGM to achieve its growth targets.

We remain optimistic about MGM's potential for additional share price appreciation. The company's domestic assets are trading at an undemanding valuation of less than 8 times 2020 estimated cash flow–much cheaper than its casino and gaming peers. 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, dividend growth prospects, and improving free cash flow. The company expects to generate free cash flow of $4.5 billion to $5.0 billion between 2018 and 2020. MGM has earmarked $2 billion for share repurchases, which at its recent depressed price of only $29 per share, would equate to buying back approximately 13% of the company.

In the most recent quarter, the shares of our data center REIT investment in **Equinix, Inc.** continued to perform well. Equinix is the largest global data center company in the world. Equinix reported strong first quarter business results and expressed its expectation for sustained strength in demand.

We remain bullish on the long-term prospects for Equinix, a best-in-class data center company, primarily because we expect the company to continue to benefit from robust growth resulting from powerful, secular demand prospects. These include:

Strong Growth in Information Technology ("IT") Outsourcing:

We project that 60% to 70% of businesses will be outsourcing their data center requirements in five years, representing a substantial increase from the current outsourcing of 30% to 40%. Many companies have discovered that it is often more cost effective to outsource their data center needs to third-party providers, and to redirect their own capital expenditures to their other corporate initiatives.

Increased Cloud Computing Adoption:

Companies that provide cloud computing services are important data center tenants. They include Amazon, Google, IBM, Microsoft, Alibaba, Tencent, and Baidu. The adoption of cloud computing by enterprises is expected to increase meaningfully in the years ahead. It is estimated that total cloud spending will grow from $70 billion to $240 billion, a clear multi-year tailwind for data centers.

Powerful Data Demand Trends:

We project *U.S. mobile data traffic* to grow 40% annually for the next five years. We project *global internet traffic* to grow 27% annually for the next five years. The *number of connected devices* is projected to grow from 18 billion in 2018 to 34 billion by 2025. The data that is generated needs to be processed, transported, and stored. This is bullish for data centers.

Equinix should continue to be a prime beneficiary of these megatrends, and the Fund continues to own its shares.

The shares of **Invitation Homes, Inc.** increased 10.0% in the most recent quarter as the company reported strong business results that included solid occupancy and rent increases as well as impressive expense management.

Invitation Homes is a REIT and the largest owner and operator of single-family rental homes in the U.S. with more than 80,000 homes located in 13 states. Its primary business strategy focuses on acquiring, renovating, leasing, and operating single-family homes as rentals. The company is focused on geographic markets exhibiting strong household and employment growth, with 70% of revenue generated from the Western U.S. and Florida. We believe the company has assembled the premier single-family home rental portfolio in the U.S.

We remain optimistic about the prospects for Invitation Homes primarily 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, and the continued drop in homeownership relative to the increasing propensity to rent. Regarding new construction activity, there is a limited supply of single-family rental homes in the U.S. housing market, increasingly constrained by rising construction costs.

In our opinion, Invitation Homes, with its well-located real estate portfolio and impressive management team, has a strong runway for growth in the years ahead by generating solid rent increases and cash flow growth and, perhaps, acquiring additional homes for rent.

In April, **Prologis, Inc.**, the world's largest owner, operator, and developer of industrial logistics real estate (the Fund's largest industrial REIT holding), reported healthy first quarter business results. Management cited "continued market strength," boosting its growth expectations to reflect its view that "our 2019 outlook is more optimistic today than it was 90 days ago."

Industrial REITs are witnessing robust warehouse demand and rent growth partly in response to emergent e-commerce needs resulting from the accelerated growth of online sales as customers continue to seek faster delivery. We remain optimistic about the long-term prospects for Prologis and the Fund's other industrial REIT holdings (**Rexford Industrial Realty, Inc.** and **Duke Realty Corporation**).

The shares of **Americold Realty Trust** continued to perform well in the most recent quarter due to strong long-term business prospects. The company is the only REIT that focuses on owning and operating temperature-controlled warehouses. 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 trends, limited supply, and opportunities to improve occupancy and rents in its current portfolio.

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

Table III.
Top detractors from performance for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Percent Impact
Red Rock Resorts, Inc.	$ 2.5	–0.37%
Penn National Gaming, Inc.	2.3	–0.26
Extended Stay America, Inc.	3.2	–0.15
Hudson Pacific Properties, Inc.	5.1	–0.12
Weyerhaeuser Company	19.6	–0.12

In the second quarter, shares of **Red Rock Resorts, Inc.**, a real estate gaming, development and management company that operates 21 casino and entertainment properties and generates approximately 86% of its cash flow in Las Vegas, declined in large part due to concerns that the company's recently completed renovation projects at two of its resorts (the Palms Casino Resort and Palace Station) will not generate sufficient cash flow to earn an attractive return on its development investments. If true, it may take longer for the company to repay debt and reach its targeted leverage of 4 times net debt to EBITDA (versus its current 5.4 times net debt to EBITDA).

At its recent share price of $21, we believe these concerns are largely discounted in Red Rock's valuation. We view the company's valuation of 8 times 2020 estimated cash flow (EBITDA) and its 12% free cash flow yield as highly compelling.

Further, we remain constructive on the outlook for Red Rock for the following reasons:

- Attractive demand-supply trends in Las Vegas: Demand trends in the Las Vegas "locals" market have been solid in recent years due to strong population growth in Nevada (second fastest growing state in 2018). Nevada is one of only seven states in the U.S. without state income taxes, so residents and businesses may be incentivized to relocate. The Vegas economy is also benefiting from low unemployment, high weekly wages, and stable housing. 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.
- High-quality owned real estate: Red Rock owns 17 quality real estate properties within the Las Vegas area. The company also owns nine parcels of land in Las Vegas and Reno (477 acres). Each location has been zoned for casino gaming and other commercial uses, giving Red Rock several opportunities for future growth projects.
- Free cash flow is expected to increase significantly over the next few years: Now that Red Rock has almost completed its multi-year renovation projects at Palace Station (completed) and the Palms (to be completed by September 2019), we expect capital expenditures to decline materially and cash flows at these properties to ramp significantly in the next few years.

The shares of **Penn National Gaming, Inc.**, the largest U.S. regional casino and gaming company, declined modestly in the second quarter primarily due to mildly disappointing first quarter earnings results (partly attributable to poor weather and holidays), and concerns that consumer spending at casinos will slow sharply and promotional activity will increase. Following our meeting with management in the second quarter, our sense is that these concerns 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 recent price of only $18.00/share, with a 2019 estimated cash flow multiple of only 5.6 times EBITDA and a highly attractive 18% free cash flow yield, we believe Penn's valuation is attractive.

Please see the "Top Net Purchases" section later in this letter for a discussion of the Fund's recent purchase of shares of **Extended Stay America, Inc.**

Following strong share price gains in first quarter of 2019, the shares of **Hudson Pacific Properties, Inc.** declined modestly in the second quarter.

Hudson Pacific is a West Coast office REIT that owns and develops first-class office buildings in San Francisco, Silicon Valley, Los Angeles, and Seattle. The company has assembled a high-quality real estate portfolio in markets that should deliver solid long-term absolute and relative growth given strong economic and demographic prospects.

West Coast office fundamentals are among the strongest in the U.S. The demand outlook is attractive as West Coast job growth, particularly from technology, media, and life sciences companies, continues to outpace the national average by a wide margin. Additionally, new construction activity remains limited due to high construction costs and zoning/entitlement restrictions. Consequently, this favorable imbalance between demand and supply should lead to solid occupancy and rent gains, together with strong cash flow growth for the next few years.

We believe the shares of Hudson Pacific are attractively valued and offer compelling return potential in the next few years.

Similarly, following strong share price performance in the first quarter of 2019, the shares of **Weyerhaeuser Company**, a timber REIT, were under pressure for a portion of the second quarter primarily due to weakness in lumber prices. We view this weakness as temporary and believe that the company is well positioned to benefit from the cyclical recovery in the residential housing market where construction activity and inventory levels remain depressed relative to history and demand trends are improving.

PORTFOLIO STRUCTURE

The Fund is currently invested in 13 real estate categories, with approximately 73% in REITs, 25% in our other real estate categories, and the remainder in cash (see Table IV below).

REITS (72.7% of net assets):

We remain bullish about the Fund's investments in several REIT categories:

- West Coast Office REITs: We are optimistic about the long-term prospects for the Fund's West Coast office REITs (**Hudson Pacific Properties, Inc.**, **Kilroy Realty Corporation**, and **Douglas Emmett, Inc.**). Each of these companies is benefiting from strong tenant demand trends (driven by technology and media companies), limited construction activity, rising rents, and solid growth prospects.
- Industrial REITs: Business conditions for the Fund's industrial REIT holdings (**Prologis, Inc.**, **Rexford Industrial Realty, Inc.**, and **Duke Realty Corporation**) are strong. Each company is witnessing robust warehouse demand and rent growth partly in response to emergent e-commerce needs resulting from the accelerated growth of online sales as customers continue to seek faster delivery.
- Other REITs: In this category, we invest in a cold storage REIT (**Americold Realty Trust**) and a life-sciences REIT (**Alexandria Real Estate Equities, Inc.**). In our opinion, each company owns and operates the premier real estate portfolio in their respective areas of focus and are well positioned for strong long-term growth.

- Data Center REITs: Our data center REITs (**Equinix, Inc.** and **QTS Realty Trust, Inc**.) are poised to benefit from the secular demand tailwinds of strong growth in information technology outsourcing, increased cloud computing adoption, and the growth in U.S. mobile data and internet traffic.
- Multi-Family REITs: We expect our investments in multi-family REITs (**AvalonBay Communities, Inc., Equity Residential,** and **Essex Property Trust, Inc.**) to generate increases in occupancies and rents from solid job and wage growth. Additionally, the growing trend of many new households that are choosing to rent rather than buy a home should also serve as a positive tailwind.
- Single-Family Rental REITs: We are bullish on the prospects for our investment in the single-family rental REIT category (**Invitation Homes, Inc.**) 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. We believe that Invitation Homes has assembled the premier single-family home rental portfolio in the U.S.
- Manufactured Housing REITs: We expect our two premier manufactured housing companies in this niche REIT category (**Equity Lifestyle Properties, Inc.** and **Sun Communities, Inc.**) to continue to benefit from favorable demand/supply dynamics. They 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. Both companies have superior long-term cash flow growth prospects and lower capital expenditure needs than most other REIT categories.
- Triple Net REITs: Our gaming REITs (**MGM Growth Properties LLC** and **Gaming and Leisure Properties, Inc.**) own quality casino and gaming real estate properties. Both have attractive and well-covered dividends, accretive acquisition growth opportunities, and are, in our opinion, compelling investments.
- Wireless Tower REITs: Our tower REITs (**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 accelerates, and new wireless technologies continue to improve. New technologies and greater data demand require a greater number of antennas that will continue to benefit tower companies.

Real Estate Companies Other Than REITs (24.7% of net assets):

We are also optimistic about the Fund's investments in our non-REIT companies:

We believe that many of the Fund's non-REIT real estate investments (such as **MGM Resorts International**, **Brookfield Infrastructure Partners L.P.**, **Penn National Gaming, Inc.**, **Red Rock Resorts, Inc.**, **GDS Holdings Limited**, **Marriott Vacations Worldwide Corp.**, and **Kennedy-Wilson Holdings, Inc.**) provide some diversification from REITs and, in many cases, an appealing combination of attractive dividends, strong growth, and solid share price appreciation potential.

Table IV.
Fund investments in REIT categories as of June 30, 2019

	Percent of Net Assets
Non-REIT Real Estate Companies	24.7%
Office REITs	12.5
Industrial REITs	9.8
Other REITs	9.7
Data Center REITs	8.0
Multi-Family REITs	7.0
Single-Family Rental REITs	6.1
Manufactured Housing REITs	5.5
Triple Net REITs	5.0
Wireless Tower REITs	4.2
Hotel REITs	3.5
Health Care REITs	1.0
Timber REITs	0.4
	97.4
Cash and Cash Equivalents	2.6
Total	100.0%

Table V.
Top 10 holdings as of June 30, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Invitation Homes, Inc.	$14.0	$224.8	6.0%
Americold Realty Trust	6.2	223.1	6.0
Equinix, Inc.	42.4	215.8	5.8
MGM Resorts International	15.3	205.8	5.5
Prologis, Inc.	50.5	170.3	4.6
Kilroy Realty Corporation	7.5	163.3	4.4
GDS Holdings Limited	5.2	161.3	4.3
Hudson Pacific Properties, Inc.	5.1	155.4	4.2
Alexandria Real Estate Equities, Inc.	16.6	138.0	3.7
Rexford Industrial Realty, Inc.	4.2	109.2	2.9

Recent Activity

Table VI.
Top net purchases for the quarter ended June 30, 2019

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
Extended Stay America, Inc.	$ 3.2	$89.6
Invitation Homes, Inc.	14.0	71.0
Brookfield Infrastructure Partners L.P.	16.9	47.7
Kilroy Realty Corporation	7.5	42.2
MGM Resorts International	15.3	42.0

Regarding our top net purchases for the quarter ended June 30, 2019, below are our thoughts regarding **Extended Stay America, Inc.**, **Brookfield Infrastructure Partners L.P.**, and **Kilroy Realty Corporation**. A discussion of both **Invitation Homes, Inc.** and **MGM Resorts International** can be found in the "Top Contributors to Performance" section earlier in this letter.

In the most recent quarter, we acquired shares in **Extended Stay America, Inc.**, the largest lodging REIT in North America by unit and room count with 554 owned hotels and approximately 61,500 owned rooms. The company targets guests who typically remain at the hotel for at least 5 days and, in

many cases, for more than 30 days. For example, Extended Stay generates approximately 70% of its revenues from guests who spend at least 5 nights at its hotels and 41% from guests who stay at least 30 nights.

Although we support management's multi-pronged plan to grow its hotel count, sell its lower-quality hotels, and increase the percentage of hotels that it manages and franchises, we also view our investment in Extended Stay as a "special situation" addition to the Fund.

We believe there is a strong probability that management accelerates the creation of shareholder value by selling its real estate, its hotel brand, or the entire company. On May 2, 2019, during the company's first quarter earnings call, CEO Jonathan Halkyard said "we decided to suspend share repurchases in light of consideration of various potential actions to create shareholder value." Then he went on to say, "we are always focused on increasing shareholder value both through the core business, through our development activities, as well as consideration of the corporate structure."

We believe there are interested strategic and financial parties who would be willing to pay a higher and attractive price relative to Extended Stay's current price. Trading at only 9.3 times 2019 estimated cash flow, and with a dividend yield of 5.5%, we believe the company's shares are compelling relative to private market values for many of its hotels and relative to many of its public market hotel peers.

Brookfield Infrastructure Partners L.P. is one of the largest globally diversified owners and operators of high-quality infrastructure assets in the world. Core infrastructure investments include utilities, data centers, wireless towers, and transport (ports and rails).

Since its public listing in 2008, Brookfield's management team has achieved an impressive track record of growing the company's earnings per share 16% annually and its dividend 10% annually.

We are optimistic about the company's prospects. Brookfield generates stable and growing cash flows–95% of its cash flow is either regulated or under long-term contracts. The company, with its well-capitalized balance sheet and deep and experienced management team, is well positioned to capitalize on several years of infrastructure investment opportunities around the world, which should enhance future growth. We view Brookfield's growth prospects, current valuation, and 4.6% dividend as attractive.

We remain bullish on the multi-year prospects for West Coast office REIT, **Kilroy Realty Corporation**, and acquired additional shares this past quarter.

Kilroy owns, develops, acquires, and manages real estate assets (primarily office buildings) in the coastal regions of San Francisco, Seattle, Los Angeles, Orange County, and San Diego. We recently spent time with CEO John Kilroy. John and his management team have positioned Kilroy to grow its net operating income (cash flow) by approximately 70% over the next five years through occupancy gains and rent increases in its operating portfolio and the completion of its development pipeline.

During the company's most recent quarterly earnings conference call, management said that it was witnessing the strongest market conditions the company has seen with limited supply and solid demand resulting in declining vacancy rates and higher rents.

West Coast office fundamentals are among the strongest in the U.S. The demand outlook is attractive as West Coast job growth, particularly from technology, media, and life sciences companies, continues to outpace the national average by a wide margin. Additionally, new construction activity remains limited due to high construction costs and zoning/entitlement restrictions. Consequently, this favorable imbalance between demand and supply should lead to solid occupancy and rent gains, together with strong cash flow growth for the next few years.

We believe the shares of Kilroy are attractively valued and offer compelling return potential in the next few years.

Table VII.
Top net sales for the quarter ended June 30, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
Simon Property Group, Inc.	$50.0	$60.2
SL Green Realty Corp.	7.0	30.2
Americold Realty Trust	6.2	29.4
Vornado Realty Trust	12.7	22.4
HCP, Inc.	15.3	19.1

In the most recent quarter, we exited **Simon Property Group, Inc.**, the world's largest mall operator. Though we have high regard for CEO David Simon, we believe that retail mall and shopping centers will likely continue to be challenged by a slowdown of in-store sales due to the growth of online purchasing by consumers.

We also exited the Fund's investments in New York-centric REITs, **SL Green Realty Corp.** and **Vornado Realty Trust**. We have reallocated the capital to West Coast office REITs such as Hudson Pacific Properties, Inc., Kilroy Realty Corporation, Douglas Emmett, Inc., and Alexandria Real Estate Equities, Inc. Generally, we believe the prospects for West Coast office REITs are superior to East Coast office REITs due to a more favorable imbalance between demand and supply, which should lead to superior occupancy and rent gains, together with stronger cash flow growth for the next few years.

We slightly reduced our investment in **Americold Realty Trust** reflecting a modest rebalancing of the portfolio. However, we remain optimistic about the company's long-term business prospects.

We reduced our investment in **HCP, Inc.**, reallocating this capital to higher conviction investment opportunities.

Outlook

We have stated in prior letters that **no one has a crystal ball regarding the outlook** for the stock, bond and real estate markets. Certainly, any number of factors can influence market direction and performance, such as geopolitical, central bank actions, and macroeconomic factors such as GDP growth, interest rates, inflation, the U.S. dollar, and oil prices. The first six months of 2019 are certainly a case in point.

For example, in the first half of 2019, we are confident that few would have predicted that:

- The Fed would pivot to a dovish stance on January 4, 2019, less than three weeks after increasing interest rates on December 19, 2018;
- The U.S. 10-Year Treasury yield would fall 123 basis points from its 2018 high to only 2.0% on June 30, 2019;
- Inflation would drop significantly and remain below the Fed's targeted 2% level;
- Geopolitical tensions would dramatically increase with Iran; and
- The S&P 500 advance of 18.54% would be the best six-month start in more than 20 years!

These developments are a strong reminder that it is a fool's game trying to forecast an outlook.

Nevertheless, in addition to the factors cited at the beginning of this letter that contributed to strong performance in the first half of this year and continue to remain in place, there are several indicators that lead us to conclude that the current business environment could be supportive of further gains in the stock market, real estate, and the Baron Real Estate Income Fund:

- Business conditions are generally solid for our REIT and real estate-related companies.
- The U.S. economy is experiencing an unusual combination of solid employment growth, decent wage growth, low Interest rates, and modest inflation.
- We are not witnessing the wide-ranging forewarnings that typically signal the end of a business and/or real estate cycle such as spikes in economic growth, construction activity, interest rates and/or inflation, and the aggressive use of debt.
- We continue to own several attractively valued quality companies across several segments of real estate.

In summary, we continue to be of the view that the current environment for stocks and real estate is positive. While we would not expect to replicate our strong first half returns of 2019 in the second half of this year, we do remain optimistic about the potential for further gains.

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 contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets 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.

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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Real Estate Income Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such an offer or solicitation.