DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

PERFORMANCE

Baron Real Estate Income Fund (the "Fund") generated a modest gain of 0.41% (Institutional Shares) in the most recent quarter ended September 30, 2018, slightly trailing its primary benchmark, the MSCI US REIT Index (the "REIT Index"), which gained 0.78%. For the first nine months of 2018, the Fund is up 0.26%, modestly underperforming the REIT Index which is up 1.32%.

Table I.
Performance
For periods ended September 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]	0.31%	0.41%	0.78%
Nine Months and Since Inception (December 29, 2017)[3]	0.06%	0.26%	1.32%

In the third quarter, REITs and other real estate income-related securities underperformed the broad market as positive momentum in the U.S. economy and a corresponding increase in interest rates benefited traditional equity securities more than "bond-like" and dividend-paying securities such as REITs.

It appears that the near-term prospects for the U.S. economy may well remain solid. The most recent reports about job growth, consumer confidence, and consumer spending have been very strong. In fact, Fed Chairman Jerome Powell has recently made several notable and bullish comments regarding U.S. economic conditions and prospects.

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

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

	Quarter End Market Cap (billions)	Percent Impact
GDS Holdings Limited	$ 4.4	0.66%
Americold Realty Trust	3.7	0.62
Park Hotels & Resorts Inc.	6.6	0.25
AvalonBay Communities, Inc.	25.0	0.16
Prologis, Inc.	42.7	0.14

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

In the third quarter, the Fund acquired shares of **GDS Holdings Limited** at what we believe is an attractive price by taking advantage of its lower share price. The shares had been under pressure due to a negative "short seller" report. We have conducted extensive diligence on the company and believe the report's conclusions are overstated and inaccurate. More recently, the shares have likely been under pressure due to China "macro" concerns such as U.S. trade issues and a moderating Chinese economy. We believe both concerns will pass over time.

The company is the leading developer and operator of data centers in China, with a customer base of more than 400 predominantly large technology and internet companies.

We have met with management on several occasions and we're bullish on the company's long-term prospects for the following reasons:

- The Chinese digital economy is in its early growth phase. It is predicted that China, with its relatively low national internet access penetration, will experience sharp universal growth in public cloud spending over the next few years.

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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- GDS is the leading data center provider to many of the fastest growing companies in China including Baidu, Alibaba, and Tencent. Moreover, GDS has been designated as the preferred data center provider for Alibaba and Tencent.
- Its data centers are concentrated in the “Tier 1” major cities of China including Beijing, Shanghai, Shenzhen, Guangzhou, and Chengdu.
- GDS generates attractive 25% return on investment on its new data center developments.
- We believe the company will grow its cash flow by more than 100% in the next three years, and the shares are now attractively valued relative to its growth rate.

In the most recent quarter, the shares of **Americold Realty Trust** increased 14.5% after reporting strong business results. The company is the only REIT that focuses on owning and operating temperature-controlled warehouses, and has the largest portfolio of these warehouses in the U.S. and globally. We believe 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 at attractive returns and through additional acquisitions of temperature-controlled warehouses. We continue to believe the prospects for the company are strong, and its shares are attractively valued relative to most REITs.

The shares of hotel REIT **Park Hotels & Resorts Inc.** increased 8.6% in the most recent quarter following strong second quarter business results. The company was spun out of Hilton Worldwide in 2017. Park Hotels owns a diverse portfolio of 54 premium-branded hotels and resorts with 32,000 rooms, a majority of which are in prime U.S. markets, including Hawaii, Northern California, and Florida among others. The company is led by its talented CEO, Tom Baltimore Jr.

Park Hotels has been benefiting from improving hotel demand, driven by a pickup in corporate travel, and indications that new hotel construction may be peaking due to increased construction costs and more restrictive construction financing. Further, we have great confidence that management will continue to drive its growth and shareholder value by continuing to aggressively improve its hotel portfolio through asset management, investment initiatives, and the sale and purchase of additional hotels.

AvalonBay Communities, Inc. is a REIT that owns and operates a $35 billion portfolio of high-quality apartment assets, located primarily on the east and west coasts of the U.S. Its shares increased in the most recent quarter as the company reported better-than-expected business results. We believe its concentration in high-barrier-to-entry coastal markets should lead to greater cash flow growth. AvalonBay’s investment grade rating provides it with a cost of debt advantage compared to private developers. Management has proven to be a capable acquirer and developer of apartment assets. We believe AvalonBay’s shares are trading at an attractive 13% discount to its private market value.

Prologis, Inc. is the world’s largest owner, operator, and developer of industrial logistics real estate. The company owns a high-quality real estate portfolio that is concentrated in major global trade markets, regional distribution markets, and large population centers across the Americas, Europe, and Asia. Prologis reported healthy second quarter business results. It continues to witness strong warehouse demand partly in response to emergent e-commerce needs with the accelerated growth of online sales as customers seek faster delivery.

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

	Quarter End Market Cap (billions)	Percent Impact
Red Rock Resorts, Inc.	$ 3.1	–0.29%
NEXTDC Limited	1.6	–0.27
Hudson Pacific Properties, Inc.	5.1	–0.20
Rayonier Inc.	4.4	–0.19
Weyerhaeuser Company	24.5	–0.16

In the third quarter, the shares of **Red Rock Resorts, Inc.**, a real estate gaming, development, and management company, which operates 21 casino and entertainment properties and generates approximately 80% of its cash flow in Las Vegas, declined in large part due to concerns that a recent slowdown in business activity on the Las Vegas Strip may spread to Red Rock’s hotel and casino properties that are located predominantly in the nearby Las Vegas “locals” market. We view the anticipated softness as temporary. Red Rock is expected to benefit from favorable demand-supply dynamics in Las Vegas, and its sound renovation and development plans.

On the demand side, the solid improving local economy bodes well for consumer spending due to 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.

Red Rock is undergoing 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. At its current price, we believe Red Rock’s shares are attractively valued with a path to generating mid-teens annual returns the next few years.

Following share price appreciation in the first six months of 2018, the shares of **NEXTDC Limited**, an Australian-based data center company, declined in the most recent quarter following a slowdown in leasing activity. We view the slowdown as temporary and anticipate that business activity will pick up in the months ahead. We remain optimistic about the prospects for NEXTDC.

The Australian data center market is growing significantly faster than in other parts of the world, and is still in the early innings of its evolution. Following our research and discussions with management, 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. With the successful execution of its business plan, we believe its share price should appreciate meaningfully.

Following strong share price performance in the second quarter, the shares of **Hudson Pacific Properties, Inc.** declined in the most recent quarter. Hudson Pacific is a West Coast office REIT that owns and develops high-quality 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. In our opinion, the shares are currently valued at an attractive discount to its private market value.

Following share price appreciation in the first six months of 2018, the shares of timber REITs **Rayonier Inc.** and **Weyerhaeuser Company** declined in the most recent quarter as residential home sale activity decelerated. We have trimmed the Fund’s investments in both companies.

PORTFOLIO STRUCTURE

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

- **REITs:** 77.1%
- **Non-REIT Real Estate Companies:** 19.9%
- **Cash:** 3.0%

We continue to structure the Fund with the following five investing themes:

1. Emphasis on Growth

We have been prioritizing companies that we expect to perform well in a strong and growing business environment. These investments include companies that provide shorter-term leases, and therefore can increase occupancy and rents at a faster rate than other real estate companies whose portfolios are mainly comprised of longer-term leases. Examples include:

- *Hotel REITs* (typically one-to-two day stays or "leases") tend to benefit from an improving economic environment. Investments include: **Park Hotels & Resorts Inc.**, **Host Hotels & Resorts, Inc.**, **Pebblebrook Hotel Trust**, and **Sunstone Hotel Investors, Inc.** Hotels REITs currently represent 7.3% of the Fund's net assets.
- *Multi-Family and Single-Family Rental REITs* (typically one-year lease terms) should 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. Multi-Family REITs **AvalonBay Communities, Inc.**, **Equity Residential**, and **Essex Property Trust, Inc.** currently represent 6.5% of the Fund. Single-Family Rental REITs **Invitation Homes**, **Inc.** and **American Homes 4 Rent** represent 4.7% of the Fund.
- *Industrial REITs* (typically five-year lease terms) such as **Prologis, Inc.**, **Duke Realty Corporation**, and **Rexford Industrial Realty, Inc.** represent 6.8% of the Fund's assets.

2. REITS that Specialize in Providing Technology Facilities and Services

REITs that construct and provide highly technical real estate buildings and wireless towers 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 31.5% of the Fund's net assets across three real estate categories. They include:

- *Wireless Tower REITs (8.5% 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 (16.2% of the Fund)*, such as **Equinix, Inc.**, **Digital Realty Trust, Inc.**, **QTS Realty Trust, Inc.**, and **CyrusOne 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 (6.8% 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

We see 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, and 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:

- *Cold-Storage REITs (4.9% 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 Americold is well positioned to deliver superior growth versus most REITs, with good 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 (3.4% 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.

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.

Note that this statement represents the manager's opinion and is not based on a third-party ranking. 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

We have the flexibility to invest up to 20% of the Fund's 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 19.9% 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.**, **NEXTDC Limited**, **Marriott Vacations Worldwide Corp.**, and **GDS Holdings Limited**.

Table IV.
Fund investments in REIT categories as of September 30, 2018

	Percent of Net Assets
Non-REIT Real Estate Companies	19.9%
Data Center REITs	16.2
Office REITs	10.0
Wireless Tower REITs	8.5
Hotel REITs	7.3
Other REITs	7.2
Industrial REITs	6.8
Multi-Family REITs	6.5
Single-Family Rental REITs	4.7
Triple Net REITs	3.8
Manufactured Housing REITs	3.4
Mall REITs	1.4
Timber REITs	1.3
	97.0
Cash and Cash Equivalents	3.0
	100.0%

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Equinix, Inc.	$34.4	$190.5	6.4%
American Tower Corp.	64.1	160.6	5.4
Americold Realty Trust	3.7	146.5	4.9
Digital Realty Trust, Inc.	24.0	113.9	3.8
MGM Resorts International	15.0	108.0	3.6
Prologis, Inc.	42.7	106.3	3.6
QTS Realty Trust, Inc.	2.2	97.8	3.3
Crown Castle International Corp.	46.2	91.7	3.1
AvalonBay Communities, Inc.	25.0	88.8	3.0
Equity Residential	24.4	88.2	3.0

Recent Activity

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

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
QTS Realty Trust, Inc.	$2.2	$97.7
CyrusOne Inc.	6.6	84.1
Marriott Vacations Worldwide Corp.	5.3	64.2
GDS Holdings Limited	4.4	61.7
Gaming and Leisure Properties, Inc.	7.5	34.6

In the last few months, we have held a series of research meetings with three real estate data center companies–**QTS Realty Trust, Inc.**, **CyrusOne Inc.,** and **GDS Holdings Limited.** As a result of these meetings, we are optimistic about the long-term prospects for each company, and we have recently acquired shares in each company.

Real estate data center companies such as these are benefiting from strong secular demand tailwinds that include strong growth in cloud computing, accelerating internet traffic, increased outsourcing of corporate data center functions and needs, greater consumption and utilization of data on mobile devices, and the growth and proliferation of digital photos and video.

Although leasing activity can be volatile quarter to quarter, we expect data center leasing activity (occupancy gains and rent growth) to remain strong for several years given the broad-based secular demand. We believe the multi-year growth opportunity for data centers is superior to most other real estate categories.

Marriott Vacations Worldwide Corp., a leading timeshare company with more than 100 resorts, recently completed its acquisition of timeshare operator ILG, Inc. In the last few months, we suspect that certain "event-driven" and "momentum" investors have exited their shares in Marriott Vacations Worldwide, thereby pressuring the company's share price. Further, we suspect a combination of profit-taking following strong share price performance, concerns about the impact from hurricanes and Hawaiian volcanoes, and concerns that consumers may be less likely to purchase vacation timeshares if economic growth slows, have also weighed on its shares.

We have begun acquiring shares in Marriott Vacations Worldwide at what we believe are attractive prices. We are bullish about the company's long-term prospects. Our sense is that business fundamentals remain solid and its shares are attractively valued (at only 10 times 2019 estimated earnings per share). We also believe that 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. Finally, we note that insiders have been buying stock at prices above the level where the shares are currently trading–a bullish indicator, in our opinion.

In the most recent quarter, we acquired additional shares of **Gaming and Leisure Properties, Inc.**, a triple net REIT, which owns 38 casino and hotel facilities across 14 states. Gaming and Leisure's primary business consists of acquiring, financing, and owning real estate property to be leased "triple-net" to gaming operators.

We are optimistic about Gaming & Leisure because the company owns a high-quality geographically diversified real estate portfolio that produces stable and predictable cash flows given the long-term nature of its leases. Further, the company could supplement its contracted 2% annual rent escalators with additional growth if it were to acquire additional gaming properties.

We believe the valuation of the shares is compelling. At its current price of $34, the company's shares offer an approximate 8% dividend yield. This dividend yield compares favorably to its publicly-traded bonds which mature in 5, 7, and 10 years yielding 5.38% to 5.75%. Further, the company's 8% dividend yield exceeds several other publicly-traded triple net REITs which offer lower dividend yields of approximately 5.5%, on average.

We have great confidence that CEO Peter Carlino will generate excellent long-term returns for shareholders given his successful track record. He is also a significant shareholder of Gaming and Leisure. We are pleased that his interests are aligned with ours.

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

	Quarter End Market Cap (billions)	Amount Sold (thousands)
Extended Stay America, Inc.	$ 3.8	$82.2
American Tower Corp.	64.1	47.8
Park Hotels & Resorts Inc.	6.6	47.6
Weyerhaeuser Company	24.5	34.3
Kennedy-Wilson Holdings, Inc.	3.1	33.9

During the quarter, we trimmed the Fund's positions in two hotel companies, **Extended Stay America, Inc.** and **Park Hotels & Resorts Inc.**, following strong share price performance.

We modestly trimmed the Fund's position in wireless tower REIT, **American Tower Corp.**, given its large position in the Fund. It remains a top position in the Fund, and we remain optimistic about the company's long-term prospects.

We trimmed the Fund's investment in **Weyerhaeuser Company**, a timber REIT, because of weakness in the residential real estate market, and do not believe its share price will appreciate commensurate with several other investment opportunities we continue to research.

We reduced the Fund's investment in real estate investment and management company, **Kennedy-Wilson Holdings, Inc.**, following strong share price performance. We believe the prospects for the company remain attractive.

Outlook

In early October, Fed Chairman Jerome Powell made several notable and bullish comments regarding U.S. economic conditions and prospects:

- He described the U.S. economy's performance as "remarkably positive," "extraordinary" and "particularly bright."
- Chairman Powel remarked that "there's really no reason to think that this (economic) cycle can't continue for quite some time, effectively indefinitely."
- "The economy is strong, unemployment is near 50-year lows, and inflation is roughly at our 2% objective. The baseline outlook of forecasters inside and outside the Fed is for more of the same," said Powell.

Fed Chairman Powell also made the following remarks about the outlook for interest rates:

- "Interest rates are still accommodative, but we're gradually moving to a place where they'll be neutral, neither holding back nor spurring economic growth," Powell said.
- "Very accommodative policy is no longer appropriate in the current environment…we may go past neutral, but we're a long way from neutral at this point (implying that the Fed may need to catch up with more rate hikes)."

Fed Chairman Powell describes an unusually attractive combination of generally solid business and economic conditions ("that may continue indefinitely"), modest inflation (with an expectation for "more of the same"), and low interest rates (which may gradually increase to a neutral level). These conditions, stated by Chairman Powell, typically bode well for the stock market.

So, what is our outlook for the stock market?

While our research conclusions are generally supportive of Powell's positive view of the economy, we also believe that no one has a crystal ball regarding the outlook. No one knows with clarity how political events, macroeconomic changes, and central bank actions may unfold, and it is virtually impossible to predict what the market's reaction will be to these possible scenarios.

In our opinion, the likely direction of the equity, bond, and real estate markets in the months and years ahead will largely be dictated by the pace of change and the ultimate levels of key market influencing factors such as economic growth, inflation, and interest rates.

What is our outlook for REITs and other real estate income securities?

On the one hand, there are several key positives that exist for REITs and real estate income securities. A few notable positives include:

- Generally steady and growing commercial real estate fundamentals;
- New construction activity that is now being moderated by high construction and labor costs;

- Generally reasonable valuations versus equities and bonds (and, in some cases, “cheap” real estate securities); and
- Solid balance sheets and attractive dividend yields (4%, on average).

On the other hand, REITs have been sensitive to fluctuations in interest rates. In the last few years, REITs and other dividend-yielding securities have tended to shine brightest during declining interest rate environments as the comparative appeal of a REIT dividend versus the U.S. 10-Year Treasury yield has improved.

Conversely, REITs have generally suffered during periods when interest rates have risen. This inverse correlation between the movement in interest rates and the share prices of REITs may or may not continue.

We continue to support the merits of a diversified investment strategy that incorporates an allocation to 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: **Equinix, Inc.** and **Digital Realty Trust, Inc.**
- Wireless Tower REITs: **American Tower Corp.** and **Crown Castle International Corp.**
- Hotel REITs: **Park Hotels & Resorts Inc.** and **Host Hotels & Resorts, Inc.**
- Multi-Family REITs: **AvalonBay Communities, Inc.** and **Equity Residential**
- Single-Family Rental REITs: **Invitation Homes, Inc.** and **American Homes 4 Rent**
- Industrial REITs: **Prologis, Inc.**, **Duke Realty Corporation**, and **Rexford Industrial Realty, Inc.**
- West coast focused Office REITs: **Kilroy Realty Corporation**, **Douglas Emmett, Inc.**, and **Hudson Pacific Properties, Inc.**
- Manufactured Housing REITs: **Sun Communities, Inc.** and **Equity Lifestyle Properties, Inc.**

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; and
- 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.

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.