DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

PERFORMANCE

We are pleased to report that Baron Real Estate Income Fund (the "Fund") generated very strong performance in our second year of operation ended December 31, 2019.

In 2019, the Fund gained 36.54% (Institutional Shares), exceeding its primary benchmark index, the MSCI US REIT Index, which gained 24.33%.

In the most recent quarter ended December 31, 2019, the Fund generated a 6.31% return, outperforming the MSCI US REIT Index, which declined 1.10%.

Table I.
Performance
For periods ended December 31, 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]	6.23%	6.31%	(1.10)%
One Year	36.67%	36.54%	24.33%
Since Inception (December 29, 2017)	10.08%	10.22%	8.21%

The Fund's strong performance in 2019 was aided by several positive factors including solid business results for most of our real estate investments; strong REIT and non-REIT stock selection; low interest rates, which increased the relative appeal of dividend-paying securities such as REITs; and favorable share price valuations. We believe these factors largely remain in place.

For a more detailed discussion of why we continue to believe that the prospects for the Fund remain attractive, we urge you to review our perspective on the outlook for the Fund in the "Outlook" section later in this letter.

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

We also 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 II.
Top contributors to performance for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Percent Impact
GDS Holdings Limited	$ 7.8	1.25%
MGM Resorts International	17.1	0.91
Penn National Gaming, Inc.	3.0	0.88
Hudson Pacific Properties, Inc.	5.8	0.60
Marriott Vacations Worldwide Corp.	5.4	0.47

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 expense ratio was 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 index performance is not Fund performance; one cannot invest directly into an index. 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 FUNDS 1987

In the most recent quarter, the shares of **GDS Holdings Limited**, the leading developer and operator of data centers in China, continued to perform well. In fact, the shares appreciated by more than 120% in 2019!

In our ongoing meetings with management, they continue to report that business conditions are strong. We remain bullish on the company's long-term prospects for the following reasons:

- The Chinese digital economy is in its early growth phase, with relatively low national internet access penetration. However, it is predicted that China will experience the sharpest universal growth in public cloud spending in the next few years.
- GDS is the leading data center provider to the fastest growing companies in China including Baidu, Alibaba, and Tencent. Moreover, GDS has been 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.
- The company maintains a strong and liquid balance sheet.
- Management has attracted credible and deep-pocketed capital providers including GIC (Singapore's sovereign wealth fund), Temasek Holdings, and Ping An Insurance (Group) Company of China.
- GDS generates an attractive 25% return on investment from its new data center developments.
- We believe the company will grow its cash flow by more than 100% in the next three years. The shares are attractively valued relative to its growth rate.

The shares of **MGM Resorts International**, a leading global hotel and casino company, gained 20.5% in the fourth quarter of 2019. Strong business results, bullish forward-looking commentary by management, and a discounted valuation contributed to strong share gains.

We remain optimistic about MGM's potential for share price appreciation. The company's domestic real estate assets are trading at a 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.

Management has reiterated its confidence in growing cash flow by approximately 35% in the two-year period 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.

On multiple occasions in the last few months, we have met with Jay Snowden, the newly appointed CEO of **Penn National Gaming, Inc.**, the largest U.S. regional casino and gaming company. We think Jay is an outstanding selection to lead Penn and believe he and his team will create tremendous shareholder value in the years ahead.

We believe management is highly focused on capitalizing on opportunities to improve profitability margins, sell real estate at highly attractive valuations, repay debt and improve its balance sheet, and pursue additional opportunities to drive cash flow growth. At its recent price of $26 per share, we believe Penn's valuation of only 7 times 2020 estimated cash flow and its 13% free cash flow yield is attractive.

In the most recent quarter, the shares of **Hudson Pacific Properties, Inc.** gained 13.3% due, in part, to strong business results and strong prospects. 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.

In 2020, we expect cash flow growth to accelerate meaningfully due to strong occupancy and rental growth in its operating and development portfolio. We believe the shares of Hudson Pacific are attractively valued and offer compelling return potential in the next few years.

The shares of **Marriott Vacations Worldwide Corp.**, a leading timeshare company with more than 100 resorts, gained 24.9% in the fourth quarter. Solid business results and management's optimistic outlook for the balance of 2019 contributed to strong share price performance.

We are bullish about the company's long-term prospects. The company's customer loyalty program, the Marriott Rewards Loyalty Program with 110 million members, serves as a key competitive advantage and a major source to further growth. The company continues to generate a substantial amount of free cash flow. In the last four quarters, the company has returned over 12% of its average market capitalization through share buybacks and dividends. In 2020, we believe the company could return even more capital. In our opinion, the shares are reasonably valued at 9 times 2020 estimated cash flow.

Table III.
Top detractors from performance for the quarter ended December 31, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Americold Realty Trust	$ 6.7	–0.34%
Digital Realty Trust, Inc.	24.8	–0.15
Essex Property Trust, Inc.	19.9	–0.14
Equity Residential	30.0	–0.13
STORE Capital Corporation	8.7	–0.06

In the most recent quarter, the performance of more interest-rate sensitive securities such as REITs lagged the broader market, due in part to indications that economic prospects have begun to improve and interest rates have begun to move higher, albeit modestly.

After gaining more than 47% in the first three quarters of 2019, the shares of **Americold Realty Trust** declined modestly in the most recent quarter following management's announcement that it may take additional time to complete and achieve its operating targets for its development projects and recently completed acquisitions. Despite the delays, we remain bullish about the long-term prospects for the company and its shares.

Americold 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 continue to anticipate that Americold will bolster its growth by developing additional warehouses and by making acquisitions of other temperature-controlled warehouses.

Following the recent decline in its share price, we believe the shares are attractively valued relative to most REITs and the private market.

In the fourth quarter, **Digital Realty Trust, Inc.,** a leading global data center REIT with operations in 14 countries, announced that it had entered into a definitive agreement to combine its business with InterXion Holding N.V., a European-centric data center company, and a long-term and successful holding in the Baron Real Estate Fund.

We believe the transaction will deliver several strategic and financial benefits over the long term. We will have more to say about Digital Realty Trust in future letters.

Following strong share price performance earlier in 2019, the shares of **Essex Property Trust, Inc.** and **Equity Residential,** leading apartment REITs, declined modestly in the most recent quarter along with most other REITs. We remain bullish on the long-term prospects for both companies.

Equity Residential is the largest apartment REIT in the U.S. with investments in more than 300 properties consisting of approximately 78,000 apartment units located primarily in urban and high density suburban locations in Southern California, San Francisco, Seattle, New York, Washington D.C., and Boston.

The company was founded by, and is currently chaired by Sam Zell, one of the leading commercial real estate investors globally. Equity Residential maintains one of the strongest balance sheets in the REITs sector.

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

In the most recent quarter, we met with the management team of **STORE Capital Corporation** and began to acquire shares in the company. Led by its highly talented CEO, Chris Volk, STORE owns a diversified portfolio of net leased real estate properties. Chris has led and sold two prior public net lease REITs. His track record attracted Warren Buffett's Berkshire Hathaway Inc. to become a 10% shareholder a few years ago. We are excited about the multi-year prospects for STORE and will have more to say on the company in future letters.

PORTFOLIO STRUCTURE

The Fund currently has approximately 75% of its net assets invested across 11 REIT categories, has about 23% invested in other real estate categories, and has the balance in cash (See Table IV below).

REITS (74.8% 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.
- 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 niches and are well positioned for strong long-term growth.
- 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.
- 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. Many new households are increasingly choosing to rent rather than buy a home, and this trend 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 antennae that will continue to benefit tower companies.

Real Estate Companies Other Than REITs (22.7% 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**, **GDS Holdings Limited**, **Brookfield Infrastructure Partners L.P.**, **Penn National Gaming, Inc.**, **Las Vegas Sands Corporation, Marriott Vacations Worldwide Corp.**, **Kennedy-Wilson Holdings, Inc.**, and **Red Rock Resorts, 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 December 31, 2019

	Percent of Net Assets
Non-REIT Real Estate Companies	22.7%
Office REITs	14.7
Industrial REITs	13.0
Data Center REITs	8.9
Other REITs	7.8
Wireless Tower REITs	7.7
Single-Family Rental REITs	6.2
Manufactured Housing REITs	5.9
Multi-Family REITs	5.5
Triple Net REITs	4.7
Hotel REITs	0.2
Timber REITs	0.2
	97.5
Cash and Cash Equivalents	2.5
Total	100.0%

Table V.
Top 10 holdings as of December 31, 2019

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Prologis, Inc.	$ 56.3	$322.2	7.1%
Invitation Homes, Inc.	16.1	281.3	6.2
American Tower Corp.	101.8	275.3	6.1
Equinix, Inc.	49.8	272.0	6.0
Hudson Pacific Properties, Inc.	5.8	236.7	5.2
GDS Holdings Limited	7.8	231.2	5.1
MGM Resorts International	17.1	207.0	4.6
Kilroy Realty Corporation	8.9	202.5	4.5
Alexandria Real Estate Equities, Inc.	18.6	201.3	4.5
Brookfield Infrastructure Partners L.P.	19.8	171.0	3.8

Recent Activity

Table VI.
Top net purchases for the quarter ended December 31, 2019

	Quarter End Market Cap (billions)	Amount Purchased (thousands)
American Tower Corp.	$101.8	$148.3
Prologis, Inc.	56.3	129.9
SL Green Realty Corp.	7.5	97.1
Las Vegas Sands Corporation	53.0	69.5
STORE Capital Corporation	8.7	39.6

In the most recent quarter, we increased the Fund's investment in wireless cell tower company **American Tower Corp.**

We remain optimistic on the short- and long-term prospects for American Tower (and other tower companies) for the following reasons:

- **Secular Growth Prospects:** The long-term demand and growth outlook for data-intensive devices, such as cellphones, remains exceptionally strong.
  - — U.S. mobile data traffic is expected to grow more than 40% annually for at least the next five years according to data provided by Cisco VNI 2016, Ericsson Mobility Report June 2018, and AV&Co. Research & Analytics. This dramatic growth in wireless data demand will lead to significantly greater leasing activity and equipment installations on wireless tower locations in order to maintain the quality of the wireless carriers' signals and to support 4G network technology.
  - — We expect that the new and emerging 5G technology will extend the growth trajectory for wireless cell tower companies many years into the future because this technological advance will provide numerous benefits to mobile users, including much faster video download speeds.
  - — In addition to smartphones, the "connected home," which enables the interconnection of multiple wireless devices, the "connected car" and the emergence and growth of wireless delivery of cable TV, will each require increased wireless bandwidth, and consequently should extend and intensify the strong secular demand growth for the wireless tower companies.
- **Unique Business Models:** Wireless towers have excellent cash flow and various economic features.
  - — Tenants sign leases that provide long-term revenue and cash flow visibility for the tower companies. These leases are typically non-cancellable, and generally include an initial term of 5 to 10 years with multiple renewal terms at the option of the tenant. Rent increases are fixed and typically average 3% annually.
  - — The economic characteristics of a wireless tower are fairly unique. For example, most towers have capacity for four tenants. Typically, the cash flow generated from the first tenant will cover the construction cost of the tower and will also generate a modest single-digit investment return. However, adding additional tenants, wireless equipment, and upgrades provides significantly higher investment returns because additional tower tenants can be added at minimal incremental cost, therefore more than 90% of this additional revenue flows through to cash flow.

- — According to American Tower, a U.S. tower with three tenants will generate a strong 24% return on its investment capital with more than an 80% cash flow margin. Outside the U.S., American Tower's capital investment returns are also high, typically ranging from 25% to 32%.

- High Barriers to Entry, Limited Competition, and Scale Advantages:
  - — High Barriers to Entry: Despite excellent cash flow and economic characteristics, there tend to be high barriers to entry and limited competition. Why? Most people do not want to see wireless towers in their backyard. As such, government zoning approvals for new towers are often difficult to obtain.
  - — Limited Competition: In most developed markets, there tend to be only a few large wireless carriers (in the U.S, there are four: AT&T, Verizon, Sprint, and T-Mobile). Most incumbent tower companies have two to three carriers on their towers. Consequently, a new tower in the same area has limited opportunity to win new business. As such, competition tends to be limited.
  - — Scale Advantages: Baron Real Estate Income Fund has invested in those wireless tower companies that own and operate large portfolios of towers. These large tower companies are often able to achieve superior terms and efficiencies in purchasing, construction, management, and other costs given their scale advantages.

In the most recent quarter, we acquired additional shares in **Prologis, Inc.**, the world's largest owner, operator, and developer of industrial logistics real estate. The company reported healthy business results, management cited continued market strength and maintained its optimistic outlook.

In November, Prologis hosted a well-attended investor day. Management's commentary reinforced our bullish view of the company. Under the leadership of CEO Hamid Moghadam, Prologis has assembled the world's largest industrial real estate portfolio. In our opinion, the company owns an extremely high-quality and well-located real estate portfolio.

We believe the company has several opportunities to generate strong cash flow growth, including:

- Increasing rents (the rents on its current in-place leases are 15% below current market rents)
- Generating additional cash flow from the completion of development projects
- Building out its $10 billion existing land bank
- Additional growth opportunities including acquisitions and creating ancillary revenues from its real estate

More broadly, 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.

In the most recent quarter, we began acquiring shares in **SL Green Realty Corp.**, a midtown Manhattan-focused office REIT that owns a $20 billion real estate portfolio. SL Green is the largest commercial landlord in Manhattan. Management has assembled a real estate portfolio of 105 properties and more than 29 million square feet. We believe the shares offer an attractive combination of strong growth potential at a discounted valuation.

In December, we attended the company's annual investor day. We were impressed. Management believes it will grow the company's cash flow (net operating income) by 9% per year on average for the next five years through a combination of increases in occupancy and rents in its current operating portfolio and the completion of development and redevelopment real estate projects.

At its recent price of $90, SL Green's shares are valued at a steep discount to the price the company's real estate would be valued in the private market. We agree with management's assessment of the intrinsic value of the company (i.e., the net asset value or liquidation value of its real estate portfolio). Management believes SL Green's net asset value is approximately $135 per share or 50% higher than the current market price. Given its highly discounted share price, management continues to aggressively repurchase its shares.

We recently acquired shares in **Las Vegas Sands Corporation.** The company is a leading developer of luxury casino resorts. It owns and operates nine properties in Las Vegas, Macau (the only jurisdiction in China where casino gaming is legal), and Singapore. The shares currently offer an attractive 4.4% dividend.

We like Las Vegas Sands for the following reasons:

- The company has a strong track record of developing and operating competitively advantaged luxury casino resorts.
- Approximately 60% of the company's cash flow is generated in Macau. We believe business fundamentals are likely to improve in Macau in the next few years as economic conditions in China stabilize. In December 2019, President Xi announced plans to grow and broaden Macau's economy.
- Approximately 30% of the company's cash flow is generated in Singapore. The company's real estate assets there generate stable cash flow, and there are opportunities to increase cash flow with the company's expansion plans.
- Approximately 10% of the company's cash flow is generated in Las Vegas. We remain optimistic about the prospects for Las Vegas.
- We believe the company is in a strong position to win a gaming license in Japan.
- The company maintains an investment grade balance sheet.
- The management is committed to paying an attractive dividend.

Table VII.
Top net sales for the quarter ended December 31, 2019

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (thousands)
Americold Realty Trust	$ 6.7	$108.9
Extended Stay America, Inc.	2.6	71.0
HCP, Inc.	18.5	40.4
MGM Growth Properties LLC	9.9	37.1
Brookfield Property Partners L.P.	8.3	23.8

Baron Real Estate Income Fund

Following strong share price appreciation, we reduced the Fund's investment in **Americold Realty Trust**. We remain optimistic about the company's long-term prospects. We also trimmed the Fund's investment in **MGM Growth Properties LLC** as we await more clarity on the company's pending joint venture partnership and future growth prospects.

During the quarter, we exited **Extended Stay America, Inc.**, **HCP, Inc.**, and **Brookfield Property Partners L.P.** At this stage, we believe other REITs and real estate-related companies offer superior return potential.

Outlook

We continue to believe that the prospects for the Baron Real Estate Income Fund are attractive. We remain bullish.

The foundation for our constructive view is based on the following considerations:

1. **Positive Prospects for REITs**

   Key positives that we believe may continue to benefit REITs 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;
   — Largely domestic real estate portfolios, which may offer relative appeal given that U.S. growth prospects are generally superior versus most other regions;
   — Well-covered and attractive dividends (3.8% on average);
   — Compelling investment if interest rates continue to stabilize or decline;
   — Substantial private capital investment potential from private equity firms and other large institutions who are pursuing real estate investments;
   — Low leveraged balance sheets with staggered debt maturities; and,
   — Generally reasonable, and in some cases cheap, REIT valuations and stock prices.

2. **We remain bullish about the prospects for the Fund's other real estate investments**

   We believe that the Fund's other real estate investments (such as **MGM Resorts International**, **Brookfield Infrastructure Partners L.P.**, **Penn National Gaming, Inc.**, **Las Vegas Sands Corporation, Red Rock Resorts, Inc.**, **GDS Holdings Limited**, **Marriott Vacations Worldwide Corp.**, and **Kennedy-Wilson Holdings, Inc.**) currently offer strong growth and share price appreciation potential.

3. **The Fund is structured with best-in-class REITs and other real estate companies that offer significant return potential**

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

Thank you for your past and continuing support. I remain a major shareholder of the Baron Real Estate Income Fund, alongside you.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus 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.

Please note that we define "best-in-class" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. This statement represents our opinion and is not based on a third-party ranking.

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

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