DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

As I write this shareholder letter, we are in the eye of the Coronavirus storm. First, and foremost, I hope all of you, our shareholders and prospective shareholders, and your families and other loved ones are safe, healthy, and secure.

This pandemic virus has caused unprecedented health, medical, economic, and humanitarian distress. This human tragedy has also triggered stock market turmoil. Yet, despite this horrific catastrophe, I strongly believe that we will emerge from this crisis, and the economy and financial markets will recover and advance.

I have modified our typical format for this shareholder letter. I will, instead, prioritize what I anticipate are your "top of mind" questions, and will address them accordingly.

It is my sincere hope that you find this letter both informative and reassuring.

We will address the following topics in this letter:

1. Our reflections on the Coronavirus crisis
2. The Baron Real Estate Income Fund's (the "Fund") performance prior to the crisis and in the first quarter of 2020
3. An explanation of why most REITs performed poorly in the first quarter of 2020
4. Thoughts regarding the outlook for REITs (*preview*: REITs are a bargain currently)
5. Our outlook for the broader real estate market and the Baron Real Estate Income Fund (*preview:* we are bullish!)

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

We believe that the recent flight from the market has produced some extraordinary and rare investment opportunities.

ECONOMIC CONSEQUENCES AND INVESTMENT THOUGHTS FROM THE CORONAVIRUS CRISIS

The Coronavirus is an exogenous black swan event. The speed of the market correction, job loss, and economic descent at the onset of this unforeseen recession has been unprecedented. In a matter of weeks, equity markets fell from record highs into a bear market. From February 19 to March 23, the S&P 500 Index fell 34%, representing the largest decline in a 4 ½ week period in history.

We expect business results of most companies to be challenged this quarter, next quarter, and, perhaps, the balance of this year.

However, we are optimistic that the economic effects of this pandemic crisis will be largely mitigated as the anticipated medical advances in arresting this pandemic and the recently announced aggressive Federal Reserve and Congressional monetary and fiscal initiatives all combine to produce a positive impact.

BARON REAL ESTATE INCOME FUND PERFORMANCE

We are pleased that the Fund has performed soundly, both preceding and during the Coronavirus pandemic.

2019 (full year)

The Baron Real Estate Income Fund gained 36.54% (Institutional Shares), exceeding its primary benchmark index, the MSCI US REIT Index (the "REIT Index"), which gained 24.33%.

According to **Morningstar**, the Fund ranked in the top 5% among 256 real estate funds for its 2019 performance.*

2020 (first quarter ending March 31, 2020)

Although the Fund was not able to dodge the severe pandemic market correction in the first quarter of 2020, we are pleased to report that the Baron Real Estate Income Fund outperformed, relative to its benchmark.

For the chaotic quarter ended March 31, 2020, the Fund declined 15.75% (Institutional Shares), yet substantially outperformed its primary benchmark, the REIT Index, which declined by 27.24%.

According to **Morningstar**, the Fund ranked in the top 3% among 263 real estate funds for its trailing one-year performance through March 31, 2020.**

*** Morningstar calculates the Morningstar US Fund Real Estate Category Average using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.**
As of 12/31/2019, the Category consisted of 256 and 243 share classes for the 1-year and since inception (12/29/2017) periods. Morningstar ranked Baron Real Estate Income Fund Institutional Share Class in the 2nd and 27th percentiles, respectively.

**** As of 3/31/2020, the Category consisted of 263 and 243 share classes for the 1-year and since inception (12/29/2017) periods. Morningstar ranked Baron Real Estate Income Fund Institutional Share Class in the 3rd and 4th percentiles, respectively.**

BARON FUNDS 1987

Table I.
Performance
For periods ended March 31, 2020

	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]	(15.87)%	(15.75)%	(27.24)%
One Year	(2.45)%	(2.43)%	(21.96)%
Since Inception (December 29, 2017) (Annualized)	0.86%	1.04%	(6.87)%
Since Inception (December 29, 2017) (Cumulative)[3]	1.95%	2.36%	(14.80)%

An Explanation of Why Most REITs Performed Poorly in the First Quarter of 2020

Year-to-date, the REIT Index has underperformed the stock market (S&P 500 Index) by a wide margin. The traditional REIT attributes–attractive dividends, contracted cash flows, and largely domestic portfolios–have not provided adequate shelter during the past quarter's market mayhem.

So, why have most REITs lagged during this meltdown?

1. **Concerns that many tenants may not pay their rent obligations**

REITs are the landlord to the overall economy. They provide physical real estate to many businesses and individuals in the form of office buildings, apartment buildings, retail malls and shopping centers, industrial warehouses, self-storage facilities, hotels, senior housing facilities, data centers, and other niche real estate categories.

There is a fear that some REITs may face the stark reality that many of their tenants may not be able to pay rent due to the current shutdown of the economy and possibility of a slow economic recovery.

Although some commercial real estate segments–most notably retail malls and shopping centers–are expected to experience a percentage of their tenants not paying rent and perhaps store closings, we believe the fear of a major abandonment by most other commercial real estate categories is unwarranted. More on this later in the letter.

2. **Credit market turbulence**

In the first quarter of 2020, a plunge in oil prices and the abrupt slowdown in the economy led to stresses in the credit market and more expensive financing costs for many companies.

The prospect of more stringent credit conditions could weigh disproportionately on REITs given their dependence on accessing debt markets.

Encouragingly, the Federal Reserve and U.S. Treasury have acted powerfully with a "do whatever it takes" approach to provide liquidity, low interest rates, loans to small- and mid-sized businesses and state and local governments. They are also providing additional forms of quantitative easing.

In early April, Fed Chairman Powell summarized the Federal Reserve's resolve and intention to provide unlimited monetary stimulus by stating:

"We will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery."

The Fed has further indicated that it will purchase high-yield bonds, collateralized loan obligations, and commercial mortgage-backed securities.

3. **Balance sheet concerns**

Most REITs maintain higher leverage levels than more traditional companies. This is due, in part, to the requirement that REITs must pay at least 90% of their taxable income as dividends.

Unwarranted concerns about REIT debt levels have likely contributed to the share price weakness of many REITs.

In our opinion, REIT balance sheets are stronger than ever, and concerns are overblown.

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, 2019 was 6.87% and 5.63%, 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.

For example, REITs, on average, currently maintain debt levels of only 5.4 times net debt to cash flow (EBITDA). These levels compare favorably to the 8 times net debt to cash flow levels that were maintained during the Global Financial Crisis of 2007-2008 (the Great Recession).

Most REITs have refinanced debt at extremely favorable interest rates, and they have extended and staggered their future debt maturities.

4. **The fear of a prolonged slowdown in commercial real estate business fundamentals**

In our opinion, concerns that the pandemic may result in a prolonged economic shutdown resulting in a lengthy slowdown in demand for commercial real estate pressured REITs in the first quarter of 2020.

Below is a summary of the Fund's top contributors and detractors to performance in the first quarter of 2020.

Table II.
Top contributors to performance for the quarter ended March 31, 2020

	Quarter End Market Cap (billions)	Percent Impact
GDS Holdings Limited	$ 8.8	0.73%
Equinix, Inc.	53.4	0.34
Americold Realty Trust	6.8	0.30
QTS Realty Trust, Inc.	3.4	0.22
CoreSite Realty Corporation	5.6	0.12

GDS Holdings Limited is a leading Chinese data center operator within Tier 1 cities. Shares increased on robust quarterly results and full-year outlook, accelerating bookings growth, continued strong cloud growth from its core customers, and several M&A opportunities to augment growth. We retain conviction in GDS due to durable secular tailwinds in cloud adoption (early innings in China), increased visibility of growth/funding, and its status as a provider of choice to China's leading technology companies.

Equinix, Inc., a global REIT operator of network-dense, carrier-neutral colocation data centers, contributed to performance due to robust quarterly bookings and demand, in-line full-year guidance, and a perceived defensive position relative to other categories of real estate that sold off during the quarter. We believe the company has a long demand runway behind cloud adoption and IT outsourcing, holds a unique position as one of the only operators that can offer a global platform, and continues to execute on strategic M&A transactions that enhance its moat.

Americold Realty Trust contributed to performance during the first quarter. Americold is a REIT that owns and operates temperature-controlled warehouses, primarily in the U.S. Shares outperformed as investors expect the company's business model to better withstand COVID-19 market disruptions. We believe Americold may see near-term financial performance that beats analyst forecasts as consumers stockpile food during shelter-in-place mandates.

Shares of **QTS Realty Trust, Inc.**, a U.S.-based REIT provider of data center services to enterprises and large-scale cloud service providers, rose on robust quarterly results underpinned by strong pre-leasing activity, making it a standout among its peer group. We retain conviction in QTS due to the strong secular tailwinds in cloud adoption and IT sourcing, its diversified business segments, and strong execution from its restructured sales organizations to better capture different deployment requirements.

CoreSite Realty Corporation, a U.S.-based REIT operator of network-dense, carrier-neutral colocation data centers, contributed to performance during the period held in the quarter due to growth driven by strong secular demand trends and a perceived defensive position relative to other categories of real estate. We retain conviction due to a long demand runway behind cloud adoption and IT outsourcing, locations in top supply-constrained data center markets, and its status as a potential acquisition candidate.

Table III.
Top detractors from performance for the quarter ended March 31, 2020

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Invitation Homes, Inc.	$11.6	–1.89%
STORE Capital Corporation	4.4	–1.04
MGM Resorts International	5.8	–0.95
Hudson Pacific Properties, Inc.	3.6	–0.95
Red Rock Resorts, Inc.	1.0	–0.87

Invitation Homes, Inc. is the largest single-family home rental and management company in the U.S. with over 80,000 homes across nine states. The shares of this REIT fell due to concerns over the company's ability to collect and grow rent this year due to COVID-19-related market disruptions. Invitation Homes has significant exposure to the initial virus "hot spots" and screens highly levered. We retain conviction due to the strong millennial demographic seeking single-family shelter, limited entry-level home purchase affordability, and exposure to markets with robust wage and population growth.

STORE Capital Corporation, an internally managed net-lease REIT that owns a diversified portfolio of single tenant operating assets, detracted during the quarter due to investor concerns over the COVID-19 pandemic's negative impact on small and medium-sized business and experiential-focused retailers (STORE's concentration). We are currently evaluating our position in the company.

Shares of **MGM Resorts International**, an owner and operator of casino resorts mainly in Las Vegas and Macau, declined in the first quarter on concerns over the COVID-19 pandemic's impact on casino operations and the duration of the market recovery after the situation normalizes. We believe the company has sufficient liquidity to survive the casino closures.

Hudson Pacific Properties, Inc., a REIT that owns a portfolio of offices and studios concentrated in California, Seattle, and Vancouver, detracted during the first quarter. Shares declined due to investor concerns over the COVID-19 pandemic's negative impact on job and rent growth in the company's real estate markets. We exited our position to reallocate into higher conviction ideas.

Shares of **Red Rock Resorts, Inc.**, an owner and operator of casinos in the Las Vegas Locals gaming market, declined sharply in the quarter on investor concerns over casino closures in Nevada and resulting furloughs and possible layoffs. We believe the company has ample liquidity to get through the downturn given its recent debt refinancing with no significant debt coming due until 2022.

What is the Outlook for REITs?

We believe the prospects for REITs are compelling.

1. <u>Unusual tactical buying opportunity</u>

The REIT Index corrected 44.1% from its February 21, 2020 high through March 23, 2020, due to this true "black swan event" – the Coronavirus. As we write this letter, the REIT Index remains 30.9% below its recent high. The Coronavirus has led to a temporary shutdown of the economy and disruption in the credit markets.

We expect the dislocation in the share prices of REITs to reverse in the months ahead as economic activity resumes and credit spreads narrow.

2. <u>REITs are cheap</u>

We believe REITs are cheap versus stocks and bonds.

The REIT Index is currently priced at a discounted valuation multiple relative to the S&P 500 Index for the first time since 2009! Further, the REIT Index's valuation multiple is at its lowest level since 2009.

In our opinion, REITs are also attractively valued relative to the U.S. 10-Year Treasury yield and other corporate bond alternatives.

3. <u>Strong investor appetite for yield</u>

As interest rates and bond yields have fallen to near historically low levels, the search for income-producing securities is likely to stoke strong investment interest in dividend-focused securities (REITs) and income funds (REIT funds).

The 5.3% dividend yield of the REIT Index far exceeds the 0.6% yield of the U.S. 10-Year Treasury, the 2.4% yield of the S&P 500 Index, and numerous other income alternatives.

4. <u>Diversification benefits</u>

Over the last 20 years (through 12/31/2019), REITs have provided diversification benefits due to their low correlation relative to stocks (0.60 versus S&P 500 Index) and bonds (0.20 versus Bloomberg Barclays U.S. Aggregate Index). *<u>Source:</u> FactSet.*

5. <u>Partial inflation hedge</u>

Well located real estate in supply-constrained geographies is often able to provide investors with a partial hedge against inflation and a good store of value (i.e., ability to raise rents to offset higher operating costs).

Further, the price of a property can be measured in relation to the current cost of land, materials, and labor that would be required to build a replacement. Since replacement costs tend to rise with inflation, real estate is often viewed as a partial hedge against inflation and a good store of value.

6. <u>Significant private equity capital targeted for real estate</u>

It is estimated that approximately $280 billion of capital has now been raised by private equity sources to invest in real estate (which equates to approximately $930 billion of total real estate purchasing capacity, assuming 70% financing).

We expect private equity firms to capitalize on opportunities to purchase public real estate securities at depressed prices. This "embedded put" scenario may limit downside valuation and pricing.

7. <u>Additional favorable REIT considerations</u>

a. *Contracted cash flows:* Relative to many non-REITs, most REITs tend to provide greater visibility into earnings due to the documented nature of cash flows that are under contract or leased.

b. *High-quality real estate portfolios:* Over the last decade, REITs have generally acquired higher-quality real estate assets and culled out lower-quality assets.

c. *Strong balance sheets versus a decade ago:* Most REITs maintain suitable levels of debt, have high levels of liquidity, and limited debt maturities in the next few years.

d. *Historically low financing costs:* Interest rates are likely to remain at historically low levels which is unequivocally bullish for real estate. Low borrowing costs should enhance accretion on reinvestment opportunities and REIT dividends.

e. *New construction activity remains at reasonable levels*: New construction activity has moderated due to high construction and labor costs. This serves to buttress real estate values.

Portfolio Structure

Table IV.
Fund investments in REIT categories as of March 31, 2020

	Percent of Net Assets
Non-REIT Real Estate Companies	19.8%
Industrial REITs	15.7
Data Center REITs	15.1
Wireless Tower REITs	13.3
Single-Family Rental REITs	7.6
Other REITs	7.4
Manufactured Housing REITs	5.9
Multi-Family REITs	5.4
Triple Net REITs	4.7
Office REITs	1.8
Cash and Cash Equivalents	3.3
Total	100.0%

Table V.
Top 10 holdings as of March 31, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Prologis, Inc.	$59.4	$337.1	7.7%
American Tower Corp.	96.4	318.6	7.3
GDS Holdings Limited	8.8	309.7	7.1
Equinix, Inc.	53.4	301.0	6.9
Invitation Homes, Inc.	11.6	202.8	4.6
Rexford Industrial Realty, Inc.	4.7	188.2	4.3
QTS Realty Trust, Inc.	3.4	178.2	4.1
Alexandria Real Estate Equities, Inc.	16.8	163.0	3.7
Penn National Gaming, Inc.	1.5	161.9	3.7
Americold Realty Trust	6.8	160.8	3.7

Outlook for the Real Estate Market and the Fund

We have stated in prior letters than **no one has a crystal ball regarding the outlook** for the stock, bond, and real estate markets. Indeed, the first quarter of 2020 was certainly a case in point.

We are fully mindful of the unprecedented market uncertainty and insecurity surrounding the all consuming Coronavirus pandemic.

Yet, in our opinion, **there are valid reasons for optimism.**

1. *The pandemic virus factor*

We anticipate that the virus will soon be brought under control. Various countries have turned the corner, as their increases in new daily cases have declined.

Widespread testing and, ultimately, a vaccine are now on the horizon. Promising antivirals and antibody therapies are also in the pipeline.

2. *Unprecedented and massive monetary and fiscal stimulus should begin to work when the economy reopens*

   A. The Fed and U.S. Treasury have acted powerfully with a "do whatever it takes" approach to provide liquidity, solvency, low interest rates, loans to small- and mid-sized businesses and state and local governments, and additional forms of quantitative easing.

   B. Congress has passed a sweeping fiscal stimulus package that is historic in both size and breadth, plus there may be more to come.

We expect this double barrel of unlimited monetary stimulus and massive fiscal stimulus to bolster the economy and stock market.

3. *Valuations have reset, and, in many cases, are cheap*

In the first quarter, numerous REITs and other real estate-related stocks were sold indiscriminately without regard to value. In our opinion, equity valuations are enticingly attractive.

We believe that the risks in this environment are now understood and are adequately reflected in most share prices.

4. *Most segments of commercial real estate should rebound*

We expect most of commercial real estate to benefit from: (i) Steady and growing commercial real estate fundamentals as economic activity resumes; (ii) new construction activity that has moderated due to high construction and labor costs; (iii) low leveraged balance sheets; (iv) ample credit that remains available at attractive interest rate levels; (v) well-covered and attractive dividend yields; and, (vi) other attributes that should serve as a partial inflation hedge.

5. *Additional reasons to be optimistic.* Interest rates are likely to remain at historically low levels, which is unequivocally bullish for stocks and real estate. Inflation concerns seem well off the radar. Current historically low gasoline prices should be a boon to U.S. consumers. The U.S. banking system has improved dramatically and is maintaining strong capital ratios. With large U.S. cash positions, many corporate balance sheets are well positioned for "defense" (a slow economic recovery) and "offense" (merger & acquisition activity, capital expenditures, employment growth, stock buybacks, and dividend increases). Substantial private capital is in pursuit of real estate and remains supported by widely available debt capital at low interest rates.

Baron Real Estate Income Fund Expectations

In addition to the reasons cited above, **we are also quite optimistic about the prospects for the Baron Real Estate Income Fund.**

1. We have carefully and meticulously assembled a portfolio of REITs that we believe should provide strong risk-adjusted returns.

The businesses that we continue to emphasize are well managed, have market-leading positions, possess quality balance sheets, own well-located real estate, and grow cash flow at a faster rate than most of their peers.

The businesses that we tend to emphasize also have unique competitive advantages that limit competition, deliver compelling acquisition and development returns, and operate relatively capital efficient business models.

REIT categories that we FAVOR include:

Industrial REITs:

Although leasing activity may slow in the months ahead due to the current economic disruption, we expect business conditions for the Fund's industrial REIT holdings (**Prologis, Inc.**, **Rexford Industrial Realty, Inc.**, **Terreno Realty Corporation**, and **Duke Realty Corporation**) to quickly rebound and remain strong for several years.

Each of these companies is expected to continue to benefit from robust warehouse demand and increased rents. This is due, in part, to broader e-commerce needs resulting from the accelerated growth of online sales as businesses and consumers relentlessly seek faster delivery.

Data Center REITs:

Our data center REITs (**Equinix, Inc.**, **Digital Realty Trust, Inc.**, **QTS Realty Trust, Inc.**, and **CoreSite Realty Corporation**) are poised to benefit from the meteoric growth in the outsourcing of information technology outsourcing, increased cloud computing adoption, and the growth in U.S. mobile data and internet traffic.

The rapid transition to a world of computer screen meetings and conferencing should also benefit data centers due to the need to store a greater library of data in order to conduct and support these virtual online meetings.

Wireless Tower REITs:

Our tower REITs (**American Tower Corp.**, **SBA Communications 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 emerge and improve.

New technological innovations and greater data demand require a greater number of antennae rental space that will continue to benefit tower companies. Similar to data centers, we expect wireless towers to continue to benefit from increased home-based consumer and commercial activity (online shopping, video streaming, working from home).

Niche REIT Categories:

(i) 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.

These companies are the prime 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 prospects for long-term cash flow growth, plus lower capital expenditure needs than most other REIT categories.

In the aftermath of the economic impact from the Coronavirus, we expect demand for both affordable housing and recreational vehicles (i.e., budget-friendly vacation) to accelerate.

(ii) Life Science REITs:

Alexandria Real Estate Equities, Inc. is the leading owner, operator, and developer of collaborative life science office real estate campuses. We anticipate that additional life science office space may be required as more funding is directed towards drug development, and increased research and development budgeting for pharmaceutical and biotechnology companies.

(iii) Cold Storage REITs:

Americold Realty Trust is a leading owner, operator and developer of temperature-controlled warehouses ("cold storage"). The company is poised to benefit from an acceleration in "e-grocery" penetration as grocery stores recognize the need for more automated cold storage facilities to streamline inventory replenishment, largely resulting from increased consumer food delivery.

(iv) Single-Family Rental REITs:

We are bullish on the prospects for our investment in the single-family rental REIT category (**Invitation Homes, Inc.** and **American Homes 4 Rent**) 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 expect this niche REIT category to continue to benefit from constrained home ownership affordability, high student debt burdens, the preference for flexibility with renting, and the possibility that, in the aftermath of the Coronavirus, more people may opt for single-family rentals rather than multi-family.

(v) 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 job and wage growth. Many new households are increasingly choosing to rent rather than purchase a home.

(vi) 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.

(vii) West Coast Office REITs:

We are optimistic about the long-term prospects for the Fund's West Coast office REIT (**Douglas Emmett, Inc.)**. We expect the company to continue to benefit from limited construction activity and an eventual improvement in tenant demand driven by technology and media companies.

REIT categories that we are currently AVOIDING include:

We prefer to avoid the segments of commercial real estate that in our opinion presently offer unattractive investment characteristics, including some combination of secular headwinds (e-commerce, for example), oversupplied conditions, and uncertain medium-term demand prospects.

Examples include:

Retail Malls and Shopping Centers:

For several years, malls and shopping centers have faced the shift to e-commerce shopping, and their need for new capital expenditures in order to reconfigure their malls and shopping centers into alternative uses. We also have concerns that this shift to online shopping in the aftermath of the current tragic contagion will be lasting, even permanent. Currently, the Fund has no investments in retail malls or shopping centers.

Health Care:

Many health care REITs have assembled portfolios of senior housing facilities. Prior to the Coronavirus, there was an excess supply of senior housing homes in the U.S. Now, due to the Coronavirus, this segment of real estate may face even greater and permanent vacancy and slowing demand.

Lodging:

Certain geographic regions in the U.S. have been experiencing an excess supply of hotels. Future demand prospects may be impaired if businesses continue to suspend non-essential travel, conventions are cancelled, the growth of virtual online meetings, and the pace of leisure travel slows and/or doesn't recover to levels seen before Coronavirus.

Certain Segments of Office:

Select geographic markets in the U.S. are currently experiencing an excess supply of office space (i.e., New York City). In the future, demand prospects may suffer if more businesses decide that they can function well remotely and therefore require less office space.

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 currently offer strong growth and share price appreciation potential. These include **GDS Holdings Limited**, **Penn National Gaming, Inc.**, **Brookfield Infrastructure Partners L.P.**, **Las Vegas Sands Corporation**, **Red Rock Resorts, Inc.**, and **MGM Resorts International**.

Concluding thoughts

I would like to thank David Kirshenbaum, our Assistant Portfolio Manager on the Fund, and the other primary members of our real estate team– David Baron and George Taras. During the challenging environment of the first few months of 2020, they have continued to "roll up their sleeves" and have been great partners.

We will remain highly focused on researching, assembling, and monitoring a high-quality portfolio of companies with solid executive management, strong growth prospects, leading competitive positions, liquid balance sheets, and attractive valuations. We are enthusiastic about our investments and are optimistic about prospects for the portfolio.

I would also like to thank you, our current shareholders, and express my heartfelt gratitude for your past and continuing support.

I remain a major shareholder of the Baron Real Estate Income Fund, alongside you.

Sincerely,

Jeffrey Kolitch

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.

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