Dear Baron Real Estate Income Fund Shareholder:

The Baron Real Estate Income Fund (the "Fund") generated strong performance for the most recent quarter ended June 30, 2020.

During this period, the Fund gained 17.02% (Institutional Shares), exceeding its primary benchmark index, the MSCI US REIT Index (the "REIT Index"), which rose 11.39%.

For the six-month period ended June 30, 2020, the Fund modestly declined 1.41%, yet significantly outperformed the REIT Index, which declined 18.95%.

According to **Morningstar**, the Fund was ranked in the top 3% among 258 for its trailing one-year performance through June 30, 2020. Morningstar rankings are based on total returns and do not include sales charges. As of 6/30/2020, the Morningstar US Fund Real Estate Category consisted of 258 and 234 share classes for the 1-year and since inception (12/29/2017) periods.

Like our first quarter shareholder letter, we have chosen to modify our typical format for this shareholder letter. We will, instead, prioritize and address your "top of mind" questions.

We will address the following topics in this letter:

1. An explanation of why the share prices of many REITs performed poorly in the first six months of 2020
2. Thoughts regarding the outlook for REITs (*preview*: we believe many REITs are a current bargain)
3. A review of the Baron Real Estate Income Fund's differentiated approach to investing in REITs and other income-oriented real estate companies
4. Portfolio construction and key investment themes
5. Our outlook for the broader real estate market and the Baron Real Estate Income Fund (*preview:* we are bullish)

Baron Real Estate Income Fund Performance

Table I.
Performance
For periods ended June 30, 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]	17.09%	17.02%	11.39%
Six Months[3]	(1.50)%	(1.41)%	(18.95)%
One Year	11.62%	11.57%	(13.92)%
Since Inception (December 29, 2017) (Annualized)	7.34%	7.48%	(2.07)%
Since Inception (December 29, 2017) (Cumulative)[3]	19.37%	19.77%	(5.10)%

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

AN EXPLANATION OF WHY THE SHARE PRICES OF MANY REITS PERFORMED POORLY IN THE FIRST SIX MONTHS OF 2020

REITs have lagged the broader market by a wide margin in 2020. In the first six months of this year, the REIT Index has declined 18.95% versus the S&P 500 Index's decline of 3.08%.

Year-to-date, income seeking investors have shied away from dividend-yielding REITs despite the plummet in interest rates to historically low levels. Further, traditional REIT attributes – attractive dividends, contracted cash flows, and largely domestic portfolios – have not provided adequate shelter during the Coronavirus pandemic.

Morningstar calculates the Morningstar US Fund Real Estate Category Average using its Fractional Weighting methodology. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.
Morningstar ranked Baron Real Estate Income Fund Institutional Share Class in the 3rd and 4th percentiles, respectively.

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.

So, why have many REITs lagged in the first six months of 2020?

In the first quarter of 2020, concerns regarding tenant rent payments, credit market turbulence, highly levered balance sheets, and the possibility of a prolonged economic downturn weighed on the performance of REITs. Specifically:

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.

   Early in the year, there was fear that some REITs may face the stark reality that many of their tenants may not be able to pay rent due to the shutdown of the economy and the possibility of a slow economic recovery.

   Although some commercial real estate segments – most notably retail malls and shopping centers – are experiencing a high percentage of their tenants not paying rent, we believe the fear of a major abandonment of rental payments by most commercial real estate categories is unwarranted.

   Rent collections for most commercial real estate categories have been encouraging. In June, we anticipate that most commercial real estate categories – apartments, office, industrial warehouse, single-family rental homes, manufactured housing, data centers, wireless towers – will collect, on average, 90% to 95% of rent obligations. We expect rental payments to continue to improve as the economy recovers and more people return to work.

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.

   Earlier in 2020, the prospect of more stringent credit conditions weighed disproportionately on REITs given their dependence on accessing the debt markets.

   Encouragingly, the Federal Reserve and U.S. Treasury acted powerfully with a "do whatever it takes" approach to provide liquidity, keep interest rates low, and make loans to small- and mid-sized businesses and state and local governments. They are also proving support by buying debt.

   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."*

   In June, the Federal Reserve set an expectation that interest rates would remain near zero percent through 2022.

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 has likely contributed to the share price weakness of many REITs.

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

   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 over the last few years and extended and staggered 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.

   More recently, as the long-term implications of the Coronavirus have been contemplated and debated, additional concerns have pressured certain REIT categories. For example:

   a. *Retail malls and shopping centers*

      In the years prior to the Coronavirus, malls and shopping centers faced the shift to e-commerce shopping, and their need for new capital expenditures to reconfigure their malls and shopping centers into alternative uses. The growth in online shopping during the pandemic will likely accelerate the challenges for retail real estate and fast track the pace and number of retail store closings.

   b. *Office buildings*

      This year's necessity to work from home may cause a more permanent shift in how and where people live and work. Recent work from home experiences have been largely positive and embraced by many companies. Demand prospects for office landlords may suffer if more businesses decide that all or a portion of their workforce may work remotely. Reduced in-office work will likely lead to a decline in office demand, partially offset by the requirement of more office space per person.

   c. *Apartment buildings*

      Apartment landlords who have assembled large multi-family urban real estate portfolios may suffer in a post-COVID-19 environment from a migration to the suburbs if renters seek more space and have the flexibility to work remotely.

   d. *Hotels*

      Secular headwinds could emerge for hotel operators if business travel remains depressed due to the rise and efficacy of video teleconferencing (e.g., Zoom).

WHAT IS THE OUTLOOK FOR REITS?

We believe the prospects for several REIT categories are compelling.

1. **Unusual tactical buying opportunity**

   The REIT Index has corrected 23.9% from its February 22, 2020 high due to this true black swan event – the Coronavirus pandemic. The pandemic 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. **Many REITs are cheap**

   We believe many 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!

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

3. **We believe the multi-year business prospects for several REIT categories are quite promising**

   The growth in online sales as businesses and consumers relentlessly seek faster delivery bodes well for industrial warehouse REITs.

   The rapid transition to home-based consumer and commercial activity (online shopping, video streaming, working from home with computer screen meetings and conferencing) should benefit data center and wireless tower REITS due to the need to store a greater library of data in order to conduct and support these virtual online meetings and the need for a greater number of antennae rental space on towers.

   Strong demand for affordable housing should benefit manufactured housing REITs. A desire by households to rent homes in suburbs rather than rent apartments in cities or purchase homes should benefit single-family rental REITs. The acceleration in "e-grocery" penetration should benefit cold storage warehouse REITs, and an increase in funding for health care drug development bodes well for life science office real estate.

4. **Strong Investor appetite for yield**

   As interest rates and bond yields have fallen to near historically low levels, we believe the search for income-producing securities will eventually stoke strong investment interest in dividend-focused securities like REITs and income funds like REIT funds.

   The 4.0% dividend yield of the REIT Index far exceeds the 0.66% yield of the U.S. 10-year Treasury, the 1.9% yield of the S&P 500 Index, and numerous other income alternatives.

5. **Diversification benefits**

   According to FactSet, 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).

6. **Significant private equity capital targeted for real estate provides a valuation floor**

   It is estimated that approximately $300 billion of capital has now been raised by private equity sources to invest in real estate, which equates to approximately $1 trillion of total real estate purchasing capacity, assuming 70% financing.

   Private equity firms, such as Blackstone and Brookfield Asset Management have begun to capitalize on opportunities to purchase public real estate securities at depressed prices. For example, Blackstone, the world's largest commercial real estate investor, purchased approximately $1 billion of REITs in the first quarter of 2020. The company made investments in hotel, office, apartment, and industrial warehouse REITs. We anticipate additional private equity purchases to be announced in the months ahead. This embedded put scenario may limit downside valuations.

7. **Partial inflation hedge**

   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). 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 an effective hedge against inflation.

8. **Additional favorable REIT considerations**

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

   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. *Stronger 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.

A REVIEW OF THE BARON REAL ESTATE INCOME FUND'S DIFFERENTIATED APPROACH TO INVESTING IN REITS

Given the cross currents that have emerged in the economy and in several real estate segments, we believe traditional approaches to investing in REITs – emphasizing the largest REIT categories such as malls, shopping centers, apartment buildings, office buildings, and health care facilities or tracking the REIT index by buying a REIT ETF – may face challenges.

Alternatively, **we pursue a more open-ended and flexible approach to investing in income-producing real estate.**

Baron Real Estate Income Fund

What distinguishes the Baron Real Estate Income Fund from most other real estate mutual funds?

Baron Real Estate Income Fund is differentiated from typical REIT funds as follows:

1. **Most REIT funds are 100% invested in REITs**

   In addition to investing in REITs, the Baron Real Estate Income Fund is also structured to capture other income-producing stocks. The Fund maintains a major portion of its investments in REITs (typically 75% to 80% or more) but also invests in other real estate income-producing securities.

2. **We pursue a more expansive approach to investing within the REIT universe**

   Many REIT funds limit their REIT investments to companies that are only included in their comparative REIT benchmark. Our key focus is identifying compelling REITs and other real estate-income companies with attractive share price appreciation potential – regardless of whether the company is part of the REIT benchmark.

   Examples of current Fund REIT holdings that are not in the REIT benchmark include wireless tower REITs such as **American Tower Corp.**, **SBA Communications Corp.**, and **Crown Castle International Corp.**

   Additional REITs that are not in the REIT benchmark and may be considered for investment include timber REITs, such as Weyerhaeuser Company and Rayonier Inc.

3. **The Fund may invest in real estate debt and preferred securities**

   The Fund invests primarily in real estate equity income securities, but it may also include other real estate income vehicles such as real estate debt and preferred securities.

   If we determine that the Fund is likely to generate superior returns and mitigate risk by investing in real estate debt securities, we may include real estate debt as a component of the Fund's portfolio.

4. **The Fund may invest in international companies**

   U.S. companies are our primary focus, but the Fund may also invest in international real estate companies.

5. **Other**

   Our investments include companies of all market capitalizations, seeking businesses that we believe have sustainable competitive advantages, exceptional management, and good opportunities for long-term and sustainable growth, with attractive dividend yields and valuations.

With these elements and attributes, we believe we offer a differentiated and compelling real estate income fund.

More so than ever, we believe the REIT Funds that embrace flexibility and adaptability in their investment approach will be the long-term winners.

PORTFOLIO CONSTRUCTION AND KEY INVESTMENT THEMES

We see opportunity in several REITs and other income-producing real estate securities, some of which might not be apparent to those who view real estate investment through a narrower, more traditional lens.

The Fund currently has 73.4% of its net assets invested across 11 REIT categories, 23.3% invested in other non-REIT real estate categories, and the balance is in cash (see Table II below).

Table II.
Fund investments in REIT categories as of June 30, 2020

	Percent of Net Assets
Non-REIT Real Estate Companies	23.3%
Industrial REITs	13.4
Data Center REITs	11.5
Wireless Tower REITs	10.7
Single-Family Rental REITs	8.2
Other REITs	7.4
Triple Net REITs	7.0
Manufactured Housing REITs	5.1
Multi-Family REITs	3.0
Self-Storage REITs	2.6
Hotel REITs	2.4
Office REITs	2.2
Cash and Cash Equivalents	3.3
Total	100.0%

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.

Further, the businesses that we tend to emphasize 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 and rent growth could temporarily moderate 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 benefiting from the meteoric growth in the outsourcing of information technology, 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 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. Like data centers, we expect wireless towers to continue to benefit from increased home-based consumer and commercial activity (online shopping, video streaming, and 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 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 pharmaceutical and biotechnology companies increase their budgets for research and development.

(iii) Cold Storage REITs:

Americold Realty Trust is a leading owner, operator, and developer of temperature-controlled warehouses. The company owns the largest portfolio of temperature-controlled warehouses globally. We believe the company is well positioned to deliver superior growth versus most REITs given opportunities to improve occupancy and rents in its current portfolio, complete its real estate development pipeline, and acquire additional temperature-controlled warehouses.

Americold 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 dwellings.

(v) 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.

Presently, we are prioritizing the following investment themes:

1. **REITS that specialize in providing technology facilities and services**

REITs that embrace and provide real estate facilities to support the latest technological advances and innovations are an important focus for the Fund. Cloud computing, the internet, artificial intelligence, autonomous vehicles, mobile data and cellphones, and wireless infrastructure are powerful secular growth opportunities that should continue for years. At Baron, we refer to these types of enduring developments as "megatrends."

REITs that we expect to directly benefit from long-term technology growth currently represent approximately 36% of the Fund's net assets across three real estate categories. They include industrial REITs (*13.4% of the Fund*), data center REITs (*11.5% of the Fund*), and wireless tower REITs (*10.7% of the Fund*).

2. **Niche REITs**

We see opportunities for non-traditional or niche REITs to grow faster than several traditional REITs (i.e., malls, shopping centers, offices, apartments, self-storage).

We believe some niche REITs will benefit from their outsized exposure to 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.

Niche REITs currently represent approximately 26% of the Fund's net assets. They include single-family rental REITs **Invitation Homes, Inc.** and **American Home 4 Rent** (*8.2% of the Fund*), gaming REITs **MGM Growth Properties LLC** and **Gaming Leisure Properties, Inc.** (*5.4% of the Fund*), manufactured housing REITs **Sun Communities, Inc.** and **Equity Lifestyle Properties, Inc.** (*5.1% of the Fund*), cold storage REIT **Americold Realty Trust** (*4.0% of the Fund*), and life sciences REIT **Alexandria Real Estate Equities, Inc.** (*3.4% of the Fund*).

3. **Investments in non-REIT real estate companies**

The Fund has the flexibility to invest in non-REIT real estate companies. At times, some of these companies may present superior growth and share price appreciation potential than many REITs.

We are bullish about the prospects for the Fund's non-REIT real estate investments. They currently represent 23.3% of the Fund and include the following companies: **GDS Holdings Limited**, **Penn National Gaming, Inc.**, **Las Vegas Sands Corporation**, **Brookfield Infrastructure Partners L.P.**, **Wynn Resorts Ltd.**, **Red Rock Resorts, Inc.**, **Extended Stay America, Inc.**, **Brookfield Property Partners L.P.**, and **MGM Resorts International.**

4. **The "epicenter" companies**

The Fund's fourth investment theme is the "epicenter" companies. Many of these companies were the hardest hit segments of the real estate industry in the pandemic – office, apartment, hotel, and other REITs and non-REIT real estate companies.

The share prices of these companies declined in the first six months of 2020 due, in part, to concerns that many tenants would not pay their rent obligations, the stress in the credit markets in February and March caused by plunging oil prices and the abrupt slowdown of the economy, and the fear of a prolonged slowdown in commercial real estate business fundamentals.

Baron Real Estate Income Fund

Additional pandemic-related developments that have weighed on segments of commercial real estate include the necessity to work from home and the possible negative long-term ramifications for office and urban apartment demand, and the rise of video teleconferencing which could lead to a decline in business travel.

We believe the concerns are largely reflected in the share prices of the "epicenter" companies. In fact, we believe there is an unusual and attractive opportunity to purchase several REITs that are "on sale" at attractive valuations.

A few examples of Fund holdings that we would classify as attractively valued and "on sale" include:

Douglas Emmett, Inc. owns premier office and apartment buildings in supply-constrained West Los Angeles submarkets and is led by a terrific CEO, Jordan Kaplan. The company's shares have declined 29% year-to-date. Based on transactions in its markets in the last year or so, we believe Douglas Emmett's office buildings are worth at least $1,000 per square foot. Yet, the company's office assets are currently valued in the public market at a highly discounted price of only $440 per square foot.

SL Green Realty Corp. is the largest New York City office landlord. Concerns regarding leasing volume and uncertainty over future rent growth have weighed on the company's shares. At its current price, however, we believe the shares have overshot to the downside and offer compelling value. At a recent price of $49 per share, the company is valued at a more than 50% discount to its liquidation or net asset value. This valuation is lower than where the shares traded during the Global Financial Crisis. Further, the company's implied value for its New York office assets is only $400 to $450 per square foot versus an estimated replacement cost value of $800 to $1,000 per square foot.

Equity Residential is the largest U.S. apartment REIT. The company owns and operates a portfolio of high-quality apartment buildings focused primarily on gateway markets. The shares, which have declined 26% year-to-date, currently offer a 4.0% dividend yield, and we believe the company's shares are "on sale" as they are currently valued at an implied cap rate of 5.5% and close to a 20% discount to its net asset value.

Host Hotels & Resorts, Inc. is the largest hotel REIT with a portfolio of upper upscale and luxury hotel properties. We believe the shares are currently valued at a significant discount to the company's estimated replacement cost. In the last few months, Blackstone, the largest commercial real estate owner in the world with a tremendous investment track record, purchased $350 million of shares in Host Hotels.

We believe these companies are likely to experience a major rebound in their share prices when a medical breakthrough for COVID-19 emerges and/or when economic activity rebounds.

Table III.
Top 10 holdings as of June 30, 2020

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
GDS Holdings Limited	$ 12.1	$371.3	7.2%
American Tower Corp.	114.6	345.4	6.7
Prologis, Inc.	68.9	345.3	6.7
Equinix, Inc.	62.2	291.5	5.7
Invitation Homes, Inc.	15.4	267.9	5.2
Americold Realty Trust	7.3	203.7	4.0
Rexford Industrial Realty, Inc.	5.1	201.2	3.9
Penn National Gaming, Inc.	4.2	189.5	3.7
Alexandria Real Estate Equities, Inc.	20.5	176.7	3.4
MGM Growth Properties LLC	8.9	159.2	3.1

OUR OUTLOOK FOR THE BROADER REAL ESTATE MARKET AND THE BARON REAL ESTATE INCOME FUND

As we peer into the second half of 2020 and the next few years, **we continue to believe that the prospects for the equity market, real estate, and the Baron Real Estate Income Fund remain attractive.**

We remain optimistic and bullish.

Our optimism stems from the following considerations:

- We continue to believe that the economic effects of this pandemic crisis will be largely mitigated. We believe public health systems are better prepared if a second wave of virus infections occurs in the months ahead. Further, expanded testing and tracing, re-emphasizing the need for face coverings, renewed social distancing, and selective economic lockdowns should limit virus outbreaks and sustain the global economic recovery. Though new Coronavirus cases are increasing, the average age for those being newly diagnosed is lower at 35 years old, mortality rates are decreasing, and there has been a much smaller increase in the use of intensive care units (ICUs) and hospitalizations. These trends are less concerning than what we experienced in March and April.
- Medical experts continue to anticipate modern medical advances and a vaccine that would be broadly available by the summer of 2021 or sooner.
- The start of a new economic cycle. Recent economic and company business results indicate that the global economy bottomed in April and the economic recovery may gather further momentum in the months ahead.
- Unprecedented and massive monetary and fiscal stimuli. Policy support has been decisive, significant in scale, and coordinated. We expect the Fed to maintain an accommodative "do whatever it takes" policy stance to provide liquidity and keep interest rates low. We also anticipate further fiscal support given elevated unemployment rates. In June, the Federal Reserve set an expectation that interest rates would remain near zero percent through 2022. In the months ahead, we believe monetary and fiscal stimuli will limit the downside in the stock market, bolster consumer and business spending, and aid the economic recovery.

We continue to believe the double barrel of unlimited monetary stimulus and massive fiscal stimulus will bolster the economy and stock market.

- Several segments of commercial real estate have begun to rebound. As economic activity has begun to resume, occupancy and rents have begun to increase for several commercial real estate segments. We expect these trends to persist if economic activity continues to improve.
- Additional reasons to be optimistic. Historically low interest rates are unequivocally bullish for stocks and real estate. Inflation concerns seem well off the radar. Current 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. Estimates of approximately $5 trillion in money market funds could lend support as additional buying power for the stock market.

Baron Real Estate Income Fund Outlook

We are optimistic about the prospects for the Baron Real Estate Income Fund.

In addition to the reasons cited above, we are also enthusiastic about the prospects for the Fund because:

- We believe the quality of the Fund's holdings is as strong as it has ever been.

  We have carefully and meticulously assembled a portfolio of REITs and non-REIT real estate companies 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, deliver compelling acquisition and development returns, and operate relatively capital efficient business models.

- We believe the Fund is structured to capitalize on compelling investment themes.
  - REITs that specialize in providing technology facilities and services (*data center, wireless tower, and industrial REITs)*
  - Niche REITs (*Single-family rental, manufactured housing, cold storage, life science, and gaming REITs)*
  - Investments in non-REIT real estate companies
  - The "epicenter" companies (*select office, apartment, and hotel REITs*)
- Valuations for several REITs and non-REIT real estate segments are compelling. The valuations of a significant portion of the Fund's real estate companies remain "on sale" at highly appealing prices.
- Classic REIT attributes such as yield will remain in demand. We expect investors to continue to search for yield in a low interest rate environment, and this should aid REITs, other dividend-yielding real estate companies, and real estate companies broadly.

I would like to thank you, our current shareholders, 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. 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.