DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

We are pleased to report that the Baron Real Estate Income Fund (the "Fund") generated strong performance for the six months ended June 30, 2021, gaining 16.64% (Institutional Shares). During this period, however, the Fund underperformed its primary benchmark index, the MSCI US REIT Index (the "REIT Index"), which increased 21.24%.

In the most recent three-month period ended June 30, 2021, the Fund gained 8.42% compared to a gain of 11.74% for the REIT Index.

The Fund's average annualized return (net of fees) since inception is 17.01% vs. 7.69% for the REIT Index.

For our more detailed thoughts on the Fund's recent performance, please refer to our "A review of recent activity and performance" section later in this letter.

We are also pleased to report that as of June 30, 2021, the Fund received a **5-star Overall Morningstar Rating™**.

The Fund achieved the following rankings within the Morningstar Real Estate Category:

3-year performance: Ranked in the top 3% of all real estate funds for its 3-year performance

1-year performance: Ranked in the top 9% of all real estate funds for its 1-year performance

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

We will address the following topics in this letter:

- A review of recent activity and performance
- A mid-year REIT update (*preview*: strong start to 2021, and we remain bullish)
- Our investment themes and portfolio construction
- The prospects for real estate and the Baron Real Estate Income Fund (*preview*: we remain bullish)

As of 6/30/2021, the Morningstar Ratings™ were based on 228 share classes for the 3-year and Overall periods. The Baron Real Estate Income Fund received 5 Stars for both periods. The Morningstar Ratings are for the Institutional Share Class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

As of 6/30/2021, the Morningstar Real Estate Category consisted of 246 and 228 share classes for the 1- and 3-year periods. Morningstar ranked Baron Real Estate Income Fund in the 9th and 3rd percentiles for the 1- and 3-year periods, respectively.

Morningstar calculates the Morningstar Real Estate Category Average performance and rankings 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.

The **Morningstar Rating™** for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10- year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Baron Real Estate Income Fund

Table I.
Performance
For periods ended June 30, 2021

	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]	8.33%	8.42%	11.74%
Six Months[3]	16.44%	16.64%	21.24%
One Year	44.23%	44.69%	36.57%
Three Years	19.95%	20.18%	8.83%
Since Inception (December 29, 2017)	16.79%	17.01%	7.69%
Since Inception (December 29, 2017) (Cumulative)	72.17%	73.30%	29.60%

A REVIEW OF RECENT ACTIVITY AND PERFORMANCE

Recent Activity

Like our portfolio management playbook that we employed in 2020, we have maintained our unusually elevated active approach to managing the Fund in the first six months of 2021 due to the acceleration and emergence of headwinds and tailwinds in certain segments of real estate, the unprecedented economic and social lockdown and reopening, and the resulting stock market volatility.

Table II.
Top net purchases for the quarter ended June 30, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Invitation Homes, Inc.	$ 21.2	$2.6
American Tower Corp.	122.8	1.8
CoreSite Realty Corporation	6.6	1.8
JBG SMITH Properties	4.1	1.7
Park Hotels & Resorts Inc.	4.9	1.7

In the most recent quarter, we acquired shares or made additional purchases in the following REITs:

Invitation Homes, Inc.: Invitation Homes is the largest single-family home leasing company in the U.S. with approximately 80,000 homes concentrated in California, Florida, Georgia, Arizona, Seattle, and the Carolinas. Its primary business strategy focuses on acquiring, renovating, leasing, and operating single-family homes as rentals. We are bullish about the long-term prospects for the company given multiple growth opportunities which include: i). significant pent-up demand from the millennial generation to rent single-family homes versus a backdrop of constrained inventory (which we expect will lead to rental and occupancy growth), ii). continued acquisitions of homes in high-growth geographic markets, and iii). the expansion of ancillary home services for residents (e.g., enhanced smart home, pest control, landscape, and pet services).

American Tower Corp.: American Tower is the largest wireless tower company in the world. We are optimistic about the long-term prospects for the company given exceptionally strong secular growth expectations for mobile data usage, 5G technology, and "connected homes and cars," which will require increased wireless bandwidth. The company also benefits from long-term leases with annual rent increases of approximately 3%, limited competition, higher barriers to entry given limited government zoning approvals, and scale advantages.

CoreSite Realty Corporation: CoreSite operates a high-quality real estate portfolio of 25 well-located real estate data centers in 8 markets in the U.S. We believe the company is poised for a positive inflection point in its cash flow growth in the next few years. In our opinion, the shares are attractively valued relative to its public data center peers and recent private market transactions.

JBG SMITH Properties: JBG SMITH owns, operates, invests in, and develops a well-located real estate portfolio of office, apartment, and land holdings concentrated in the sub-markets of Washington, D.C. As economic activity improves and employees return to work, we expect leasing and occupancy trends to improve. Further, we believe a key catalyst for growth in the years ahead is the fact that JBG SMITH serves as the exclusive developer for Amazon's new headquarters in the Washington, D.C. area ("National Landing"). At its recent price of only $31 per share, the stock remains 26% below our $42 estimate of net asset value or liquidation value.

Park Hotels & Resorts Inc.: Park Hotels owns a portfolio of 59 premium-branded hotels and resorts (Hilton, Marriott, Hyatt, and IGH), a majority of which are in prime U.S. markets, including Hawaii, Northern California, and Florida. We believe the company is well positioned to benefit from a recovery in travel. At its recent price of only $20 per share, the shares are valued at a 60% discount to management's estimate of replacement cost.

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, 2020 was 4.40% and 3.45%, 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, 2031, 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 **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. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The index and the Fund include reinvestment of interest, capital gains and dividends, which positively impact the performance results. The index is unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

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.

Table III.
Top net sales for the quarter ended June 30, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Extended Stay America, Inc.	$ 3.6	$1.0
Las Vegas Sands Corporation	40.3	0.7
STORE Capital Corporation	9.3	0.5
Wynn Resorts Ltd.	14.1	0.4
Terreno Realty Corporation	4.5	0.2

Extended Stay America, Inc.: Following the announcement that Extended Stay would be acquired by Blackstone and Starwood Capital at a significant premium to the Fund's cost basis in the company, we exited our investment in Extended Stay and reallocated the capital to other real estate companies.

Las Vegas Sands Corporation and **Wynn Resorts Ltd.**: In the most recent quarter, we trimmed the Fund's holdings in these gaming businesses due to ongoing COVID-19-related travel restrictions in China, Macau, and Singapore. We expect business activity to rebound sharply when travel restrictions are lifted and may acquire additional shares in the future.

STORE Capital Corporation: We recently reduced the Fund's investment in STORE Capital yet remain optimistic about the company's long-term prospects. STORE Capital is a REIT that owns a diversified $9 billion portfolio of net leased real estate properties (63% service, 19% retail, and 18% manufacturing) throughout the U.S. The company has a strong track record of accretive acquisitions, and we expect business activity to improve in the second half of 2021 as COVID-19 headwinds continue to fade.

Terreno Realty Corporation: The company owns and operates a high-quality real estate portfolio of industrial properties concentrated in six coastal markets (Seattle, San Francisco Bay Area, Los Angeles, Northern New Jersey / New York City, Washington D.C., and Miami) where strong demand (high population densities) tends to outstrip supply (physical and regulatory constraints). Management has an excellent track record of delivering strong growth. We recently trimmed the Fund's investment in Terreno because we believe the shares are fairly valued.

Recent Performance

The Baron Real Estate Income Fund generated particularly strong absolute and relative performance in both 2019 and 2020.

2019 Performance

- **Baron Real Estate Income Fund: 36.54%**
- MSCI US REIT Index: 24.33%

2020 Performance

- **Baron Real Estate Income Fund: 22.30%**
- MSCI US REIT Index: -8.70%

Following two straight years of particularly strong annual returns, we are pleased that the Fund continued to generate strong performance in the first six months of 2021, gaining 16.64%. Nevertheless, a few factors contributed to the Fund's relative underperformance in the last few months compared to the REIT Index.

The generally strong share price performance of several value REITs (for example, shopping centers and retail malls) versus growth REITs weighed on the Fund's relative performance in the first half of 2021. Although the Fund maintains investments in value real estate companies, we continue to prioritize best-in-class, competitively advantaged real estate growth companies, consistent with our long-term investment philosophy. In our opinion, the risk-reward prospects have started to become more favorable for real estate growth stocks following the sharp divergence in year-to-date performance between real estate value and growth stocks.

Additionally, a few of the Fund's non-REIT Asia-focused real estate investments (**Las Vegas Sands Corporation**, **Wynn Resorts Ltd.**, and **GDS Holdings Limited**) lagged due to COVID-19 headwinds that limited travel and other Asia-centric macroeconomic and business considerations. We remain optimistic about the long-term return potential for these companies.

In the past, there have been periods when the Fund has temporarily trailed its benchmark. The Fund has a track record of bouncing back. Our team remains driven, hard at work, and we are optimistic that we will, once again, deliver strong long-term relative performance for our shareholders as we have done over the years.

Table IV.
Top contributors to performance for the quarter ended June 30, 2021

	Quarter End Market Cap (billions)	Percent Impact
Red Rock Resorts, Inc.	$ 5.0	1.11%
Equinix, Inc.	71.9	0.72
American Tower Corp.	122.8	0.63
Prologis, Inc.	88.4	0.58
Simon Property Group, Inc.	42.9	0.52

The shares of **Red Rock Resorts, Inc.**, a real estate gaming, development, and management company that generates 100% of its cash flow in the Las Vegas locals market continued to perform well in the most recent quarter. We remain optimistic about the long-term prospects for the company given the quality of its 100% owned real estate assets, the attractive and expanding Las Vegas locals market (strong population growth), and the company's impressive growth and free cash flow prospects. We believe the shares could appreciate by approximately 50% in the next few years.

The shares of **Equinix, Inc.** gained 18% in the most recent quarter. Equinix is the largest and leading global data center company in the world. We believe the company is exceptionally well positioned to continue to benefit from powerful secular demand trends including strong growth in information technology outsourcing, increased cloud computing adoption, and multi-year increases in mobile data and global internet traffic.

The shares of **American Tower Corp.**, the largest independent wireless tower operator in the world, gained 14% in the most recent quarter. The company continues to benefit from increasing demand for wireless data coverage by wireless carriers. We remain optimistic about the company's organic and acquisition growth opportunities.

Prologis, Inc. is a REIT that owns a $40 billion global industrial portfolio. The company continues to benefit from robust demand for its warehouse facilities driven by the growth of e-commerce and the need for infill real estate locations to service "last mile" delivery. In the most recent quarter, the shares gained 13%, and we remain optimistic about the company's long-term prospects.

Simon Property Group, Inc. is the largest and premier mall operator in the U.S. The company owns A-quality malls in A-quality geographic locations. We expect the company to benefit from a further reopening of the economy and believe management is well positioned to acquire real estate assets given its strong balance sheet and low cost of capital. Despite the recent strength in its shares, we continue to believe that Simon is attractively valued and offers attractive return potential.

Table V.
Top detractors from performance for the quarter ended June 30, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Las Vegas Sands Corporation	$40.3	–0.56%
Penn National Gaming, Inc.	12.0	–0.45
Park Hotels & Resorts Inc.	4.9	–0.12
CyrusOne Inc.	8.9	–0.12
GDS Holdings Limited	14.7	–0.09

The shares of **Las Vegas Sands Corporation**, a leading developer of luxury casino resorts in Macau and Singapore, declined in the most recent quarter in large part due to COVID-19 travel-related restrictions. We believe the shares are attractively valued and will recover sharply when travel restrictions are lifted.

Following a 239% gain in 2020, the shares of **Penn National Gaming, Inc.** declined 28% in the most recent quarter and are down 12% year-to-date. At its recent price of only $73 (down from a peak price of $136 in March 2021), we believe Penn's shares are now attractively valued. We believe the company's 41 regional casinos are worth approximately $60 per share. Its remaining Barstool media business and online sports betting and i-gaming businesses are currently valued at only $13 per share or less than 3.5 times our expectation for cash flow for these businesses in 2025. We hold CEO Jay Snowden in high regard and believe he and his team have several levers to grow cash flow and create strong shareholder value in the next few years.

Following a 24% gain in its share price in the first quarter of 2021, the shares of **Park Hotels & Resorts Inc.**, a premier hotel REIT, declined modestly in the second quarter. We believe the company is well positioned for a recovery in travel and the shares are attractively valued at a steep discount to estimated replacement cost.

In the most recent quarter, we exited the Fund's investment in data center REIT **CyrusOne Inc.** and reallocated the capital to other REITs that we believe offer superior growth prospects.

Following exceptional share price performance in the last few years, the shares of **GDS Holdings Limited**, the leading developer and operator of data centers in China, have been under pressure in the first six months of 2021 and declined 3% in the most recent quarter. Concerns about increased competition and pricing pressure and local macroeconomic and regulatory considerations have weighed on the shares. At its current discounted valuation of only 18 times 2022 estimated cash flow for 30% to 40% cash flow growth, we believe these concerns have been largely reflected in the company's stock price.

A MID-YEAR REIT UPDATE

At the end of 2020, we stated that we believed REITs would perform well in 2021. REITs had underperformed for several years, with notable underperformance in 2020. REIT valuations were compelling. We expected REITs would be one of the key beneficiaries of an economic reopening. In the first six months of 2021, the REIT Index increased 21.24%, outperforming the S&P 500 Index, which gained 15.25%.

We continue to believe now is an attractive time to invest in REITs.

1. **Many REITs remain attractively valued.**

   We believe many REITs are reasonably valued versus stocks and cheap versus bonds and private real estate alternatives.

   REITs relative to other equity alternatives

   Early in 2021, the REIT Index was priced at a discounted valuation multiple relative to the S&P 500 Index for the first time since 2009. Since then, the valuation gap has narrowed. Today, the valuation multiple of the REIT Index approximates the multiple of the S&P 500 Index.

   In the past, there have been periods when REITs have been valued at a premium multiple to the S&P 500 Index due to long-term earnings growth potential coupled with lower annual earnings volatility, in large part due to the documented nature of most REIT cash flows that are under contract or lease.

   Today, even though the REIT Index is valued at a similar multiple to the S&P 500 Index, we are continuing to identify several REITs that remain attractively valued relative to many equity alternatives.

   As such, ***we believe the return potential of several REIT segments remain attractive relative to many equity alternatives.***

   REITS relative to bonds

   We continue to believe segments of commercial real estate will remain an attractive surrogate for traditional fixed income investments given strong demand for income-producing assets and historically low global fixed income rates.

   REITs have historically been priced to deliver returns that exceed the yields on BBB-rated corporate bonds by approximately 170 basis points. According to data provided by *Citi Research*, REITs are currently priced at a 260 basis point yield premium to BBB-rated corporate bonds.

   And so, ***REITs, in our opinion, are attractively valued versus bonds.***

   Public real estate, including REITS, relative to private market real estate

   We believe there is a compelling arbitrage opportunity in the public real estate market relative to the private market.

   With last year's sharp correction in several REITs and other real estate-related stocks, the valuations of recent private market real estate transactions indicate that it remains notably cheaper to buy certain segments of real estate in the public market than in the private market.

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

We have been busy meeting with REIT management teams (mostly through Zoom!) and conducting our ongoing research. We are encouraged by what we have learned.

Business prospects are improving for several REIT categories that lagged in 2020 largely due to the Coronavirus headwind that led to a sharp slowdown in business activity–examples include hotels, apartments, office landlords, malls and shopping centers, health care, and gaming REITs.

Other REITs less impacted by COVID-19 are benefiting from tailwinds that should lead to ongoing strength in business fundamentals–industrial warehouse REITs, data center and wireless tower REITs, manufactured housing, single-family home rentals, cold storage companies, and life sciences real estate REITs.

Our summary observations for various REIT categories are as follows:

- Apartment REITs: Occupancy and rents are improving and public valuations, in some cases, remain at discounts to recent private market transactions.
- Office REITs: A reopening of cities is leading to an uptick in leasing volumes. We believe most office REITs are currently valued at significant discounts to replacement cost.
- Industrial Warehouse REITs: The growth in online sales as businesses and consumers relentlessly seek faster delivery bodes well for the continuation of excellent tenant demand for industrial warehouse REITs.
- Retail REITs: Tenant demand is improving, and we believe the growth prospects for the largest mall REIT, **Simon Property Group, Inc.**, remains compelling.
- Self-Storage REITs: Demand for self-storage real estate remains strong driven by strength in the housing market and increasing mobility. Elevated construction costs are constraining new construction.
- Health Care REITs: Senior housing occupancy has bottomed, construction activity is modest, thereby setting the stage for more favorable cash flow prospects.
- Hotel REITs: Leisure travel is accelerating, business travel is re-emerging (albeit slowly), and hotel REITs are currently valued at steep discounts to replacement cost.
- Gaming REITs: Casino gaming business is strong in Las Vegas and most regional markets. We believe gaming REITs are attractively valued relative to private market transactions.
- Data Center REITs: Demand remains strong. The price paid by Blackstone for its recent $10 billion acquisition of data center REIT, QTS Realty Trust Inc., implies that some data center REITs are attractively valued and could be take-out candidates.
- Tower REITs: The long-term growth prospects for tower REITs remain encouraging given strong secular growth expectations for mobile data usage, 5G technology, and "connected homes and cars," which will require increased wireless bandwidth.
- Single-Family Rental REITs: Limited inventory combined with a strong desire by households to rent homes in suburbs rather than rent apartments in cities or purchase homes is leading to robust rent growth for single-family rental REITs.
- Life Science REITs: An increase in funding for health care drug development is contributing to demand for life science buildings that continues to exceed supply.
- Manufactured Housing REITs: Demand for affordable housing remains strong against a backdrop of limited supply.

3. **Investor appetite for yield remains strong.**

As interest rates and bond yields remain at low levels, we believe the search for income-producing securities will continue to stoke strong investment interest in dividend-focused securities like REITs and yield-oriented funds like REIT funds.

The 3.0% dividend yield of the REIT Index far exceeds the 1.5% yield of the U.S. 10-year Treasury, the 1.4% yield of the S&P 500 Index, and numerous other income alternatives.

Also, we expect REIT dividends to be reinstated and grow and if cash flows continue to improve in 2021.

4. **Additional favorable REIT considerations.**

Contracted and improving cash flows

We anticipate that the following should lead to improving cash flow growth in 2021:

- A recovery in operating fundamentals
- Refinancing of debt at lower interest rates
- Acquisitions and development

Stronger balance sheets than a decade ago

Many REITs have suitable levels of debt, high levels of liquidity, and minimal debt maturities in the next few years, which is in stark contrast to the real estate market heading into the Financial Crisis over 10 years ago.

Historically low financing costs

Interest rates are at historically low levels, which is unequivocally bullish for real estate. Low borrowing costs may lead to advantageous refinancing and investment opportunities.

Modest level of new construction activity

New construction activity has not overheated due to increased construction and labor costs. This serves to buttress real estate values.

For our additional thoughts on the outlook for REITs, please see "The prospects for real estate and the Baron Real Estate Income Fund" later in this letter.

OUR INVESTMENT THEMES AND PORTFOLIO CONSTRUCTION

Investment Themes

In the second half of 2020, we structured the Fund to take advantage of three compelling themes and have maintained our positioning around these themes in the first six months of 2021. As we peer into the second half of 2021, we believe it is premature to pivot away from these themes. Our current investing themes are:

1. **COVID-19 recovery beneficiaries**

This investment theme encompasses what we call the “epicenter” REITs and non-REIT real estate companies of the 2020 pandemic.

Last year, certain REITs and other real estate-related businesses that rely on the assembly of people were severely impacted by COVID-19 as they were forced to shut down all or a large part of operations almost without exception. The share prices of many of these companies declined last year and remain well below peak prices.

Examples of COVID-19 recovery beneficiaries include the following real estate categories:

- Hotel REITs
- Office REITs
- Apartment REITs
- Gaming REITs
- Mall REITs
- Health Care REITs
- Casinos & Gaming Operators
- Real Estate Operating Companies

Most of the real estate businesses that we are prioritizing are cyclically depressed, but not secularly challenged. Consequently, we expect the cash flows of many of these real estate businesses to rebound significantly as people become inoculated with COVID-19 vaccines and normalized social and economic activity resumes.

Despite a recent rebound in the share prices of many of the “COVID-19 recovery beneficiaries,” we believe several companies remain discounted to their two- to three-year prospective values. Examples include:

Hotel REITs: **Pebblebrook Hotel Trust**, **Host Hotels & Resorts, Inc.**, and **Park Hotels & Resorts Inc.**

Office REITs: **Douglas Emmett, Inc.**, **Vornado Realty Trust**, **Boston Properties, Inc.**, and **Paramount Group, Inc.**

Apartment REITs: **Equity Residential**

Gaming REITs: **MGM Growth Properties LLC** and **Gaming and Leisure Properties, Inc.**

Mall REITs: **Simon Property Group, Inc.**

Health Care REITs: **Welltower Inc.**

Other REITs: **STORE Capital Corporation** and **American Assets Trust, Inc.**

Casinos & Gaming Operators: **Red Rock Resorts, Inc.**, **Las Vegas Sands Corporation**, **Wynn Resorts Ltd.**, and **Penn National Gaming, Inc.**

Real Estate Operating Companies: **Kennedy-Wilson Holdings, Inc.** and **Brookfield Infrastructure Partners L.P.**

On June 30, 2021, COVID-19 recovery beneficiary companies represented 42.8% of the Fund’s net assets.

Table VI.
COVID-19 recovery beneficiaries as of June 30, 2021

	Percent of Net Assets
Office REITs	10.5%
Hotel REITs	8.4
Casinos & Gaming Operators	7.9
Real Estate Operating Companies	5.2
Mall REITs	3.7
Hotel & Timeshare Operators	2.3
Apartment REITs	1.5
Health Care REITs	1.4
Other REITs	1.9
Total	42.8%

2. **REITs that specialize in technology facilities and services**

Several technology-related REITs performed well in 2020. We noted in our 2020 fourth quarter letter that valuations were generally less compelling than one year ago and the performance of the stocks may underperform in the near term relative to laggard REIT categories that should benefit if economic growth accelerates in 2021. This has occurred in the first six months of 2021. Now, as then, we are bullish on the long-term prospects for several real estate technology companies.

The impact of technology on real estate is undeniable. The growth in cloud computing, the internet, mobile data and cellphones, and wireless infrastructure are powerful secular drivers that should continue unabated for years and are impacting real estate, along with many other industries.

If anything, the pandemic has accelerated these secular trends as more people conduct business, leisure, residential, and commercial activities online.

Real estate-related companies that embrace and adopt the latest technological advances and innovations remain an important focus for us. Key beneficiaries of the technology revolution include data center REITs, wireless tower REITs, and industrial REITs, among others.

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).

Data Center REITs: Our data center REITs (**Equinix, 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.

Industrial REITs: We expect business conditions for the Fund's industrial REIT holdings (**Prologis, Inc.**, **Rexford Industrial Realty, Inc.**, **Duke Realty Corporation**, and **Terreno Realty Corporation**) to 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.

On June 30, 2021, REITs and non-REIT technology-related real estate companies that we expect to directly benefit from long-term technology growth currently represent 24.7% of the Fund's net assets.

Table VII.
Technology-related real estate companies as of June 30, 2021

	Percent of Net Assets
Wireless Tower REITs	8.1%
Data Center REITs	7.2
Industrial REITs	6.9
Non-REIT Technology-Related Real Estate Companies	2.5
Total	24.7%

3. Niche REITs

The Fund continues to see opportunities in some unconventional or niche REITs that we believe have the potential to grow faster than several traditional or mainstream REITs such as malls, shopping centers, offices, apartments, and self-storage REITs.

We believe some niche REITs may benefit from their outsized exposure to secular demand trends and/or reduced exposure to cyclical weaknesses such as elevated construction activity and excess supply witnessed in some traditional REITs.

Niche REITs that we favor include:

Single-Family Rental REITs: We are bullish on the prospects for our investments 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 the current preference for flexibility that comes with renting, home ownership affordability issues, high student debt burdens, and the possibility that, in the aftermath of the pandemic, more people may opt for single-family rentals rather than multi-family dwellings.

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, attractively valued.

Manufactured Housing REITs: We expect our two premier manufactured housing companies, **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. Demand for these homes is outstripping supply, in part due to high barriers of entry such as local governmental approvals. 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.

Life Sciences REITs: **Alexandria Real Estate Equities, Inc.** is the leading owner, operator, and developer of collaborative life sciences office real estate campuses. We anticipate that additional life sciences office space may be required as more funding is directed towards drug development and as pharmaceutical and biotechnology companies increase their budgets for research and development.

Cold Storage REITs: **Americold Realty Trust** is a leading owner, operator, and developer of temperature-controlled warehouses with the largest portfolio globally. We believe the company is well positioned to deliver superior growth versus most REITs because of its ability to improve occupancy and rents in its current portfolio, exploit and develop its own real estate pipeline, and to acquire additional temperature-controlled warehouses. Americold is also poised to benefit from an acceleration in e-grocery penetration as grocery stores recognize the increased need for additional automated cold storage facilities to streamline inventory replenishment, largely resulting from the rapid increase in consumer food delivery.

On June 30, 2021, niche REITs represented 24.9% of the Fund's net assets.

Table VIII.
Niche REITs as of June 30, 2021

	Percent of Net Assets
Single-Family Rental REITs	8.7%
Triple Net REITs	4.7
Manufactured Housing REITs	4.7
Life Sciences REITs	2.5
Cold Storage REITs	1.8
Other REITs	2.5
Total	24.9%

Baron Real Estate Income Fund

Baron Real Estate Income Fund currently has investments in several REIT categories and non-REIT real estate companies. Our percentage allocations to these categories are based on our research and assessment of opportunities in each category on a bottom-up basis (see Table IX below).

Table IX.
Fund investments in REIT categories as of June 30, 2021

	Percent of Net Assets
Non-REIT Real Estate Companies	17.9%
Office REITs	10.5
Single-Family Rental REITs	8.7
Hotel REITs	8.4
Other REITs	8.3
Wireless Tower REITs	8.0
Data Center REITs	7.2
Industrial REITs	6.9
Triple Net REITs	5.1
Manufactured Housing REITs	4.7
Mall REITs	3.7
Self-Storage REITs	3.2
Unclassified	1.6
Multi-Family REITs	1.5
Health Care REITs	1.5
Cash and Cash Equivalents	2.8
Total	100.0%

THE PROSPECTS FOR REAL ESTATE AND THE BARON REAL ESTATE INCOME FUND

We continue to believe the near-term and long-term prospects for public real estate remain attractive.

Near-term case for real estate

1. **Demand continues to outstrip supply.**

   A generally favorable relationship between demand and supply bodes well for real estate. For the demand outlook, commercial occupancy and rents and residential homes for rent are, in most cases, improving against a backdrop of modest inventory levels. For the supply outlook, commercial real estate construction activity and inventory levels remain modest due, in part, to elevated construction costs and labor shortages.

2. **Business conditions are improving for most of our real estate companies–both commercial and residential real estate**.

   The performance of several real estate companies lagged in 2020 largely due to the Coronavirus headwind that led to a sharp slowdown in business activity for hotels, real estate casinos, urban apartment and office landlords, malls and shopping centers, and other real estate categories. The inability to assemble people and businesses disproportionately weighed on a large segment of the real estate sector. Last year's real estate headwinds have begun to recede, and we expect this trend to continue in the months ahead. We anticipate that portions of real estate will continue to be key beneficiaries of an economic reopening.

3. **The real estate cycle has reset, and we believe the multi-year outlook is attractive.**

   Following the sharp decline in global economic activity in 2020, we believe the U.S. real estate cycle has reset and is in the early stages of what we anticipate will be a multi-year recovery. In our opinion, several ingredients are in place that will serve as tailwinds and contribute to an improvement in business performance for a large segment of both commercial and residential real estate in the next few years. A sampling of the ingredients includes improving prospects for demand, modest levels of commercial construction activity, strong and liquid balance sheets, and well-functioning credit markets with historically low interest rates.

4. **Substantial private capital is still in pursuit of real estate ownership supported by widely available debt capital at low interest rates.**

   It is estimated that approximately $344 billion of capital has now been raised by private equity sources to invest in real estate, which equates to approximately $1.1 trillion of total real estate purchasing capacity, assuming typical 70% debt financing! We anticipate that large amounts of capital from private equity investors such as Blackstone and Brookfield Asset Management, sovereign wealth funds, endowments, pension funds, and others will continue to step in and capitalize on the opportunity to buy quality public real estate given the compelling valuation arbitrage in the public real estate market relative to the private market. This "embedded put" should limit downside valuation and pricing. We continue to believe that real estate merger and acquisition activity will remain strong.

5. **We continue to identify several real estate companies that remain "on sale" and are attractively valued.**

   The Fund took advantage of the major buying opportunities that were created in 2020 following the swift and intense stock market correction. Though many stock prices have recovered, valuations for many of our current or prospective REIT and real estate-related investments remain reasonable and, in some cases, particularly attractive.

Long-term case for real estate

We believe the long-term case for public real estate is compelling.

1. **Solid historical long-term returns with ongoing potential**

   For the 20-year period ended June 30, 2021, U.S. equity REITs have delivered higher cumulative returns than the S&P 500 Index, fixed income alternatives, international equities, and commodities.

   Since inception on December 29, 2017 through June 30, 2021, the Baron Real Estate Income Fund, which owns REITs and non-REIT real estate companies, has delivered a cumulative return of 73.30%, far outdistancing the 29.60% return of the REIT Index.

   As mentioned in several instances in this letter, we remain optimistic about the potential for real estate to continue to generate solid long-term absolute and relative performance.

2. **Diversification and low correlation to equities and bonds**

   According to FactSet, over the last 20 years (through 6/30/2021), REITs have provided diversification benefits due to their modest correlation to stocks (0.67 versus S&P 500 Index) and low correlation to bonds (0.21 versus Bloomberg Barclays U.S. Aggregate Index).

3. **Inflation protection**

Historically, certain real estate businesses have had the ability to raise prices to provide inflation protection:

- Inflation-linked property value: Higher prices for labor, land, and materials may constrain new real estate construction activity thereby supporting higher occupancies and the ability for landlords to raise rents.
- Pricing power: Property owners in supply-constrained areas are often able to pass along higher operating costs by raising rents in periods of rising inflation.
- Short lease duration: Real estate segments with short lease terms could raise rents relatively quickly to offset inflation. Examples include hotels (1 day), self-storage real estate (30 days), apartments (1 year), single-family rental homes (1 year), and senior housing facilities (1 year).
- Annual rent escalators: Certain real estate leases have contractual annual rent escalators, in some cases tied to an inflation index such as the Consumer Price Index.

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

- *The Fund is composed of quality companies.*

  We have 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 own are well managed, have market-leading positions, possess quality balance sheets, own well-located real estate, and grow cash flow at faster rates 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.

- *The Fund is structured to capitalize on compelling investment themes (as described earlier in this letter).*
- *Valuations for several REITs and non-REIT real estate segments remain compelling.*

  The valuations for a portion of the Fund's real estate companies remain "on sale" at 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, and other dividend-yielding real estate companies.

Table X.
Top 10 holdings as of June 30, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Invitation Homes, Inc.	$ 21.2	$4.2	5.7%
American Tower Corp.	122.8	3.7	5.1
Simon Property Group, Inc.	42.9	2.7	3.7
Equinix, Inc.	71.9	2.7	3.6
CoreSite Realty Corporation	6.6	2.7	3.6
Brookfield Infrastructure Partners L.P.	23.2	2.6	3.6
Vornado Realty Trust	8.9	2.6	3.5
Prologis, Inc.	88.4	2.6	3.5
Public Storage Incorporated	52.6	2.3	3.2
Pebblebrook Hotel Trust	3.1	2.2	3.1

Thank you for your past and continuing support.

Of course, I proudly continue as 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. 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.

The portfolio manager defines "**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. Note that this statement represents the manager's 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.

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

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a limited purpose broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).