DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

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

During this period, the Fund gained 8.47% (Institutional Shares), exceeding its primary benchmark index, the MSCI US REIT Index (the "REIT Index"), which rose only 1.34%.

For the nine-month period ended September 30, 2020, the Fund increased 6.94%, which compares favorably to the REIT Index, which declined 17.86%.

According to **Morningstar**, the **Baron Real Estate Income Fund Institutional Share Class** was ranked in the top 3% among 253 funds for its trailing one-year performance through September 30, 2020 and ranked in the top 3% among 229 funds since the Fund's inception on December 29, 2017 through September 30, 2020.

We will address the following topics in this letter:

1. The investing prospects for REITs and the Fund
2. Portfolio construction and key investment themes
3. REITs and other real estate companies that are "on sale" in the public markets
4. Concluding thoughts

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

BARON REAL ESTATE INCOME FUND PERFORMANCE

Table I.
Performance
For periods ended September 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]	8.42%	8.47%	1.34%
Nine Months[3]	6.79%	6.94%	(17.86)%
One Year	13.44%	13.69%	(18.77)%
Since Inception (December 29, 2017) (Annualized)	9.83%	9.99%	(1.41)%
Since Inception (December 29, 2017) (Cumulative)[3]	29.41%	29.92%	(3.83)%

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.

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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, 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 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. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. MSCI is a trademark of Russell Investment Group.

[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.

The Investing Prospects for REITs and the Fund

REITs have lagged the broader market by a wide margin in 2020. In the first nine months of this year, the REIT Index has declined 17.86% versus the S&P 500 Index's gain of 5.57%.

Year-to-date, income seeking investors have shied away from several dividend-yielding REITs despite interest rates falling 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.

The share prices of several REITs declined in the first nine 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.

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 declined 22.87% from its February 21, 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 believe there is a tactical opportunity to acquire shares in several quality REITs. The share prices of these companies have, in our opinion, overshot to the downside and offer compelling value.

   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, bonds, and private real estate alternatives.

   REITs relative to other equity alternatives

   Following the sharp recovery in the stock market in the last six months, the S&P 500 Index is up 5.6% year-to-date through September 30, the Nasdaq is up 25.3% year-to-date, and global equities (as defined by the MSCI ACWI Index) are slightly higher than they were at the beginning of the year.

   Much of real estate, however, has lagged. Year-to-date through September 30, 2020, the REIT Index has declined 17.9% (with several REITs down 30% to 60%).

   In 2020, certain real estate businesses have been challenged due to the highly unusually pandemic-induced economic downturn – hotels and other hospitality-related companies, office, apartment, retail, and other commercial real estate-related companies. In our opinion, the businesses of many of these companies are cyclically depressed, not secularly challenged, and will recover when economic conditions improve.

   Further, the valuation disparity between several real estate securities and other non-real estate stocks is, in our opinion, extreme. The REIT Index, for example, is currently priced at a discounted valuation multiple relative to the S&P 500 Index for the first time since 2009!

   As such, ***we believe the return potential of several segments of real estate is attractive relative to many equity alternatives.***

   Public real estate relative to bonds

   Following the plunge in bond yields to historic lows, bonds offer investors negligible yield and are unlikely to generate sufficient returns for individual and institutional investors.

   In the U.S., for example, the 10-year Treasury yield has declined to only 0.68% versus a long-term average of 5.7%.

   A recent *Wall Street Journal* article noted that two years ago, 36% of bonds had yields of less than 2%. The article went on to state that as of June 30, 2020, ***about 85% of global bonds yield less than 2%!***

   On the other hand, the dividend yield on REITs currently stands at approximately 3.8%, and several other real estate securities offer compelling total return potential relative to bonds.

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

   Public real estate relative to real estate in the private market

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

   With this year's sharp correction in several real estate stocks, the valuations of recent private market real estate transactions indicate that it is notably cheaper to buy certain segments of real estate in the public market than in the private market.

   Final thought on the relative appeal of real estate

   We do not have a crystal ball to predict when the stock market will pivot to laggard areas such as certain segments of real estate.

   We do, however, have high conviction that in the next 6 to 12 months – perhaps in response to further medical advances, ultimately a vaccine for COVID-19, and a further reopening of the economy – a large segment of public real estate will rebound and the recovery in some share prices is likely to be sharp.

   And so, we believe now is a compelling time to invest in several REIT companies.

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. **The real estate cycle has reset**

Most real estate cycles tend to last five to seven years, then correct for one to two years, before a new cycle begins.

Key factors that often serve as tailwinds at the onset of a real estate cycle and then reverse course and become headwinds during the later stages of a real estate cycle include: interest rates, mortgage rates, central bank policy, inflation, economic growth, residential and commercial construction activity, corporate balance sheet liquidity and debt levels, and the credit markets.

Following the sharp decline in global economic activity earlier this year, ***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 improving business performance for a large segment of both commercial and residential real estate in the next few years. A sampling of the ingredients includes:

Historically low interest rates: The 10-Year U.S. Treasury Yield currently stands at 0.68% versus its 50-year average of 6.23%!

Record low mortgage rates: The 30-year U.S. fixed mortgage rate of 2.9% compares favorably to its long-term average rate of 7.93%!

Accommodative central bank policy

- Federal Reserve ("Fed") Chairman Powell commented in August 2020 that "We are not even thinking about thinking about raising rates."
- On September 16, 2020, the Fed signaled that it intends to keep interest rates near zero through at least 2023.

Subdued consumer price inflation ("CPI"): CPI is significantly below the Fed's 2% inflation target, and it may remain subdued due to technological and productivity advances.

Improving economic growth: Following a sharp economic correction in the first six months of 2020, recent economic and company business results confirm that the global economy bottomed in April and has continued to rebound. We believe a new economic expansion has begun and most economic cycles last five to seven years.

Modest levels of commercial construction activity: Supply growth remains low by historical standards.

Healthy corporate balance sheets: Corporate balance sheets are generally in solid shape with ample cash, appropriate debt levels, and staggered debt maturities.

The share prices and valuations of several REITs and other real estate-related companies remain depressed: Valuations are reasonable relative to interest rates and many other investment alternatives.

5. **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 vehicles like REIT funds.

The 3.8% dividend yield of the REIT Index far exceeds the 0.68% yield of the U.S. 10-year Treasury, the 1.7% yield of the S&P 500 Index, and numerous other income alternatives.

6. **Diversification benefits**

According to FactSet, over the last 20 years, REITs have provided diversification benefits due to their low correlation relative to stocks (0.65 versus S&P 500 Index) and bonds (0.22 versus Bloomberg Barclays U.S. Aggregate Index).

7. **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.

8. **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.

9. **Additional favorable REIT considerations**

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.

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

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.

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.

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.

What is the Outlook for the Baron Real Estate Income Fund?

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 remain optimistic about the prospects for Baron Real Estate Income Fund in part due to our pursuit of a more open-ended and flexible approach to investing in income-producing real estate.**

What distinguishes 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, 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 70% 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.

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

	Percent of Net Assets
Non-REIT Real Estate Companies	29.4%
Industrial REITs	12.5
Data Center REITs	11.6
Wireless Tower REITs	9.8
Other REITs	8.7
Single-Family Rental REITs	7.9
Triple Net REITs	6.4
Manufactured Housing REITs	5.1
Hotel REITs	2.6
Office REITs	2.5
Multi-Family REITs	1.1
Cash and Cash Equivalents	2.4
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 downturn, 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 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 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. We are also bullish on the long-term growth prospects for triple net REIT **STORE Capital Corporation**.

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 34% of the Fund's net assets across three real estate categories. They include industrial REITs (*12.5% of the Fund*), data center REITs (*11.6% of the Fund*), and wireless tower REITs (9.*8% 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, and 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** (*7.9% of the Fund*), gaming REITs **MGM Growth Properties LLC** and **Gaming Leisure Properties, Inc.,** and triple net REIT **STORE Capital Corporation** (6.*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** (*3.2% of the Fund*), and life sciences REIT **Alexandria Real Estate Equities, Inc.** (*3.2% 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 29.4% of the Fund and include the following companies: **GDS Holdings Limited**, **Penn National Gaming, Inc.**, **Las Vegas Sands Corporation**, **Red Rock Resorts, Inc.**, **Wynn Resorts Ltd.**,

Brookfield Infrastructure Partners L.P., **Cellnex Telecom, S.A.**, **21 Vianet Group, Inc.**, **Extended Stay America, Inc.**, and **Brookfield Property Partners L.P.**

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 nine 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.

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.

Examples of Fund holdings that we would classify as attractively valued and "on sale" can be found in the next section of this letter.

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.

We are researching several REITs that we believe offer compelling value in the public markets and will have more to say on this topic in the months ahead.

REITs and Other Real Estate Companies that are "On Sale" in the Public Markets

Despite the bounce in the share prices of several real estate companies in the last few months, we maintain that a large portion of real estate remains "on sale" in the public markets.

We believe the Fund remains populated with several REITs and other real estate companies that are attractively valued, including many stocks that are just too "cheap," with good prospects for strong returns over the next few years.

REIT examples include:

- **Americold Realty Trust**: The leading owner, operator, and developer of temperature-controlled warehouses ("cold storage") is trading at a sizeable discount to publicly traded peers despite superior growth potential and a less cyclical business model.
- **Colony Capital, Inc.**: The shares of this REIT declined 39% in the first nine months of 2020 and currently trade at a 30% discount to our assessment of net asset value. We believe the shares may appreciate significantly in the next few years as management executes its business plan to exit its slower growth real estate assets and transform the business to a digital infrastructure real estate company.
- **STORE Capital Corporation**: The shares of this premier net lease REIT have declined from a recent high of $40 per share to $27 as of September 30, 2020. The company's rent collections continue to improve (88% in September), management continues to execute on a compelling acquisition growth plan, the company's 5.2% dividend yield is secure, and we believe the shares are undervalued.
- **Pebblebrook Hotel Trust**: The shares of this owner of high-quality hotels have declined 53% year-to-date. We have high conviction in the management team of Pebblebrook, led by its highly respected and experienced CEO, Jon Bortz, to navigate this challenging period for hotels. At its recent price of only $13 per share, we believe the shares are highly discounted to our assessment of intrinsic value.
- **Equity Residential**: The shares of this owner and operator of high-quality apartment buildings have declined 34% year-to-date, currently offer an attractive 4.3% 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.**: Host Hotels is the largest hotel REIT with a portfolio of upper upscale and luxury hotel properties. Management maintains a strong and liquid balance sheet. In the first nine months of 2020, the shares declined 41% and are currently valued at a significant discount to the company's estimated replacement cost.
- **Boston Properties, Inc.**: The shares of this owner and developer of top-quality office buildings in high barrier to entry are, in our opinion, highly discounted. Following its 40% share price decline in the first nine months of 2020, we believe the shares have overshot to the downside and are currently valued at a significant discount to replacement cost.
- **MGM Growth Properties LLC**: This owner of prime casino real estate in Las Vegas and other regions in the U.S. is attractively valued at only 13.6 times 2020 estimated cash flow versus private market casino real estate transactions on the Las Vegas strip for 16 to 17 times cash flow. Further, the company has a strong tenant, liquid balance sheet, and offers a compelling 7.0% dividend yield.
- **Gaming and Leisure Properties, Inc.**: Attractively valued owner of regional casinos across the U.S. Shares have corrected from a 2020 high of $50 per share to a September 30 price of only $37. We believe the company's 6.4% dividend yield is compelling and compares favorably to most other yield alternatives.
- **Douglas Emmett, Inc.**: The shares of this premier west coast developer and landlord of office and apartment buildings have declined 41% in the first nine months of 2020. The company owns premier office and apartment buildings in supply-constrained West Los Angeles submarkets. It is led by a terrific CEO, Jordan Kaplan, who recently acquired approximately $1 million of shares at or around the current price. 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 $400 per square foot.

Non-REIT examples include:

- **Wynn Resorts Ltd.**: The shares of this leading real estate casino gaming company at its September 30 price of only $72 remain 53%

below its $152 per share price earlier in 2020. We believe Wynn's U.S. real estate assets in Las Vegas and Boston are valued at a 50% discount to our conservative estimate of Wynn's replacement cost of its U.S. real estate. As business activity improves, we expect the company to reinstate its dividend.

- **Red Rock Resorts, Inc.**: The shares of this real estate gaming, development, and management company that caters primarily to the local Las Vegas market have declined from a peak earlier this year of $28 to a September 30 price of $17. In the last few months, senior management has been acquiring millions of dollars of shares at or around the current share price. We believe there is a path for the shares to appreciate to $30 per share or approximately 75% higher than the current price in the next two years.

- **Extended Stay America, Inc.**: The shares of this national leader in extended stay hotels have declined approximately 17% in 2020. Management maintains a high-quality balance sheet with a strong liquidity profile. The company continues to generate reasonably strong operating results, yet its shares are valued at an attractive valuation of less than 9 times 2022 estimated cash flow.

- **Las Vegas Sands Corporation**: The shares of this global leader in the development and operation of luxury casino resorts have declined 37% from its 2020 peak price of $74 per share to its September 30 price of $47. The company maintains a liquid and investment grade balance sheet and is currently valued at a significant discount to our assessment of replacement cost. As business activity improves, we expect the company to reinstate its dividend.

- **Cellnex Telecom, S.A.**: The shares of this leading European wireless tower company are currently valued at a modest discount to most of its tower peers despite our expectation that the company will grow its cash flow by 70% to 100% in the next three years – a growth rate far in excess of its peers.

In addition to the substantial portion of the Fund's current investments that we believe are attractively valued, we are currently researching and evaluating several additional REITs and other real estate companies not currently owned in the Fund that we believe are "on sale" at highly discounted valuations.

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (thousands)	Percent of Net Assets
Prologis, Inc.	$ 74.3	$422.5	6.6%
Equinix, Inc.	67.3	389.2	6.1
GDS Holdings Limited	13.1	387.1	6.0
Penn National Gaming, Inc.	11.3	372.0	5.8
American Tower Corp.	107.2	362.1	5.6
Invitation Homes, Inc.	15.7	323.7	5.0
Las Vegas Sands Corporation	35.6	232.5	3.6
Rexford Industrial Realty, Inc.	5.7	230.8	3.6
Alexandria Real Estate Equities, Inc.	20.2	207.5	3.2
Americold Realty Trust	7.3	207.4	3.2

Concluding Thoughts

We remain mindful that the Coronavirus pandemic continues to create uncertainty for the economic and real estate outlook. Currently, the financial markets are grappling with whether fiscal stimulus will be passed, the possibility of a second wave in the months ahead, and the outcome of the U.S. Presidential election and timing of a definitive result.

We believe clarity will emerge in the months ahead. In our opinion, fiscal stimulus is likely. Medical advances for Coronavirus and ultimately a vaccine are probable. And, we should have clarity regarding the Presidential election.

If we are correct that a more favorable and clearer picture is on the horizon, then **we believe there is a strong case for continued optimism regarding the prospects for the stock market, real estate equities, and the Fund.**

Real Estate Thoughts

In our opinion, a broad brushstroke evaluation of the real estate landscape would be a mistake. It would disregard the critical observation that there are clear differences in the prospects for the various and distinct real estate categories.

In the evaluation of real estate, we believe it is vital to not only "peel back the onion" but also see the big picture.

Peeling Back the Onion

Today, more than ever, we believe there is a tale of two real estate groups. One group is likely to benefit from multi-year operating tailwinds. The other group may face near to medium-term operating headwinds.

Several segments of real estate are experiencing tailwinds that are resulting in an acceleration in business fundamentals – residential homes for sale, single-family home rentals, manufactured housing, industrial warehouse and cold storage companies, data center and wireless tower companies, and life science real estate.

On the other hand, the headwinds facing certain segments of real estate – retail malls and shopping centers, urban office and apartment buildings, and business-oriented hotels – are likely to continue to weigh on business results.

The Big Picture for Real Estate

Despite the mixed picture for various segments of real estate, **the "big picture" remains encouraging**.

We believe the ingredients are in place for much of real estate to perform well in the years ahead. New construction has come down quite a bit. Interest rates and mortgage rates are at historically low levels which should be supportive of valuations for both commercial and residential real estate. Corporate balance sheets are generally in solid shape. And value has emerged for several segments of real estate.

We believe the best time to invest is during periods of uncertainty and dislocation. It is during these times when value emerges. Now is one of those times. We will continue to lean in and look for opportunities to buy high-quality real estate at discounts to replacement cost or based on other favorable valuation metrics. This approach has worked well for our team in the past. We do not anticipate it will be any different this time.

Baron Real Estate Income Fund Outlook

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

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, hotel, and other 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.

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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