Dear Baron Real Estate Fund Shareholder:

Performance

The Baron Real Estate Fund (the "Fund") increased 6.17% (Institutional Shares) in the fourth quarter of 2022, outperforming the MSCI US REIT Index (the "REIT Index"), which increased 4.90%, but underperforming the MSCI USA IMI Extended Real Estate Index (the "MSCI Real Estate Index"), which increased 8.71%.

For the full year, the Fund declined 28.44%, underperforming the MSCI Real Estate Index, which declined 23.84%, and the REIT Index, which declined 25.37%.

Despite a challenging and disappointing 2022, we are pleased to report that as of December 31, 2022, the Fund has maintained its:

- **#1 real estate fund ranking for each of its 10-year, 5-year, and 3-year performance periods**
- **5-Star Morningstar Rating for each of its 10-year, 5-year, and 3-year performance periods**
- **5-star Overall Morningstar Rating™**

JEFFREY KOLITCH
PORTFOLIO MANAGER

Retail Shares: BREFX
Institutional Shares: BREIX
R6 Shares: BREUX

We will address the following topics in this letter:

- Big picture thoughts regarding 2022 and 2023
- The prospects for real estate in the public markets (preview: we are bullish)
- A comparison of actively managed public real estate funds versus non-traded REITs/private real estate and passively managed real estate ETFs
- Our portfolio composition and key investment themes
- A review of recent activity managing the Fund
- Concluding thoughts on the prospects for real estate and the Fund

As of 12/31/2022, the Morningstar Ratings™ were based on 233, 210, 152, and 233 share classes for the 3-year, 5-year, 10-year, and Overall periods, respectively. The Baron Real Estate Fund received 5 stars for each period. 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 12/31/2022, the Morningstar Real Estate Category consisted of 252, 233, 210, and 152 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 86th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 212th, 1st, 2nd, and 1st best performing share class in its Category, for the 1-, 3-, 5-, and 10-year periods, respectively.

As of 12/31/2022, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 86th, 1st, and 1st percentiles, for the 1-, 3-, and 5-year periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 212th, 2nd, and 1st best performing share class in its Category for the 1-, 3-, and 5-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.

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Baron Real Estate Fund

OUR BOTTOM-LINE MESSAGE:

1. Though we are mindful of key risks to the equity and real estate market outlook, we are optimistic about the near-term and long-term prospects for public real estate.
2. We believe there is a strong case to include an allocation to an actively managed public real estate strategy with a strong long-term track record in a diversified investment portfolio.
3. We believe the Baron Real Estate Fund – with the demonstrated merits of our broader, more flexible, and actively managed investment approach – is a compelling real estate mutual fund choice.

Table I.
Performance
Annualized for periods ended December 31, 2022

	Baron Real Estate Fund Retail Shares[1,2]	Baron Real Estate Fund Institutional Shares[1,2]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]
Three Months[3]	6.09%	6.17%	8.71%	4.90%
One Year	(28.61)%	(28.44)%	(23.84)%	(25.37)%
Three Years	8.40%	8.69%	2.72%	(1.16)%
Five Years	7.38%	7.65%	4.73%	2.48%
Ten Years	9.99%	10.28%	8.59%	5.20%
Since Inception (December 31, 2009) (Annualized)	12.66%	12.94%	10.20%	7.75%
Since Inception (December 31, 2009) (Cumulative)[3]	370.74%	386.47%	253.31%	163.87%

Big Picture Thoughts Regarding 2022 and 2023

One year ago, in our year-end 2021 shareholder letter, we stated that we believed 2022 would be arduous to navigate in part due to the prospects of a more hawkish Federal Reserve, higher interest rates, and the possibility of moderating growth and valuation compression in segments of commercial and residential real estate.

Additional factors that contributed to an unusually challenging investment environment included the unexpected Russia/Ukraine war and the spillover effects of even higher inflation for food, wheat, crude oil, natural gas; further COVID-19-related lockdowns in China and ongoing supply-chain bottlenecks; and multi-decade high inflation, a portion of which may remain elevated for an extended period, particularly wages and home prices.

Despite 2022's sharp decline in stocks, bonds, and most investable assets, we are mindful that there are valid reasons to remain cautious about the 2023 outlook:

- The continuation of central bank tightening into a slowing global economy with, perhaps, a global recession on the horizon
- Persistently high wage and shelter inflation in part due to structural supply issues
  - wage inflation: an increase in early retirement and restrictive immigration policies are limiting the number of potential workers and contributing to elevated wages
  - home price inflation: several years of underinvestment in new home construction relative to demographic needs and a lack of inventory of existing homes for sale may keep home prices elevated
- The inflationary impact of deglobalization that may contribute to structurally higher interest rates
- The ongoing war in Ukraine and other geopolitical risks

As we peer into 2023 – though we anticipate ongoing stock and bond market volatility and perhaps further near-term declines in the stock market – we are optimistic about the full-year prospects for the stock market, public real estate securities, and the Baron Real Estate Fund, and notably bullish with a two- to three-year view.

We believe 2023 may ultimately emerge as a mirror image of 2022 in that many of the headwinds of 2022 reverse course and become tailwinds in 2023, thereby contributing to solid full-year returns.

We believe prospective two- to three- year returns could be strong should a severe economic slowdown be avoided, and 2024 emerges as a rebound year for economic and corporate profit growth.

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, 2021 was 1.31% and 1.05%, 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, 2033, 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 USA IMI Extended Real Estate Index** is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. 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 indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are 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.

The Prospects For Real Estate in the Public Markets

We believe the near-term and long-term prospects for real estate in the public markets are compelling.

Near-Term Case for Real Estate

Share prices and valuation multiples have corrected.

Following 2022's sharp correction in real estate share prices – in many cases by 30% to 60% – and contraction in valuation multiples, we believe several real estate companies have largely repriced for a higher cost of capital, and, more recently, for expectations of slowing growth. At this stage, we believe two- to three-year return prospects are compelling.

Historically, real estate has rebounded sharply following periods of large declines.

		Cumulative Returns (%)			
		MSCI US REIT Index	iShares U.S. Home Construction ETF	MSCI USA IMI Extended Real Estate Index	S&P 500 Index
Global Financial Crisis	Drawdown Period (1/31/2007 to 2/28/2009)	-70.20	-81.93	-64.67	-46.43
	Recovery Period (2/28/2009 to 4/30/2013)	256.73	235.94	206.80	137.49
COVID-19 Pandemic	Drawdown Period (10/31/2019 to 3/31/2020)	-29.00	-34.96	-27.94	-14.16
	Recovery Period (3/31/2020 to 4/30/2021)	47.04	154.29	74.66	64.70
Inflation Induced Rate Hike Economic Slowdown	Drawdown Period (12/31/2021 to 9/30/2022)	-28.86	-36.80	-29.94	-23.87
	Current Recovery Period (9/30/2022 to 12/31/2022)	4.90	16.69	8.71	7.56

Several real estate companies are cheap.

We believe the correction in real estate share prices in 2022 has created several compelling investment opportunities. Real estate companies that we consider best-in-class are rarely valued at discounted prices, but now is one of those rare occasions.

We are identifying real estate companies that offer prospects for both valuation multiple expansion (or cap rate compression) and two- to three-year earnings or cash flow growth. We prioritize real estate companies that have this two-pronged return profile because they have the potential to generate better returns.

A few examples of best-in-class companies that we believe are attractively valued with strong long-term growth prospects include:

Brookfield Corporation is a leading global owner and operator of real assets such as real estate and infrastructure. We believe the company's global reach, capital, and the synergies among its businesses provide significant opportunities for growth.

We believe the shares are unsustainably cheap. Brookfield's management, who in our opinion is highly credible and conservative, believes the company is worth $74/share today – more than double its year-end 2022 price of $31.46/share!

Brookfield's ownership interests in four publicly listed Brookfield companies (Brookfield Asset Management, Brookfield Infrastructure Partners, Brookfield Renewable, and Brookfield Business Partners) are currently valued in the public market at $32 per share or the same public price as the entire company. The public market is currently ascribing zero value to Brookfield's unlisted investments, which we believe are also worth at least $32 per share. The total book value of the company's unlisted investments is $24 per share and the company's estimate of the value of its carried interest is $8 per share for a total value of Brookfield's non-listed business (most at only book value) also of $32!

Toll Brothers, Inc. is the leading luxury homebuilder in the U.S. with a capable management team as well as a large and valuable owned land portfolio. Toll Brothers is more insulated than its peers from elevated mortgage rates because 20% of the buyers of Toll homes pay 100% in cash.

At its year-end 2022 price of only $49.92/share, the company is valued at only 0.83 times our estimate of 2023 tangible book value of $60/share. Historically, Toll Brothers' shares have been valued, on average, at 1.4 times book value and a peak multiple of approximately 2.0 times tangible book value. If the shares recover in the next few years and trade only to the company's long-term average multiple of 1.4 times book value, Toll Brothers' share price would increase 82% to $91 per share.

CBRE Group, Inc. is the largest commercial real estate services firm in the world. It maintains a #1 worldwide market share position in each of its key business lines and has a pristine balance sheet.

It is currently valued at only 13 times our estimate of 2023 earnings per share versus a long-term average valuation multiple of 15 to 16 times earnings per share.

The current real estate environment is far superior relative to prior real estate cycles.

In the past, trouble for real estate surfaced following the excessive use of leverage and overbuilding (i.e., the historical curse of real estate). This occurred in the 1980s, which then precipitated the recession in the 1990s with a severe correction in real estate occupancy and rents. The housing crash of 2008 was triggered by cheap credit, lax lending standards, extreme use of leverage, and overbuilding.

Today, real estate is in a good place relative to prior economic slowdowns and recessions:

In most cases, the use of debt has been disciplined relative to history. Companies, households, real estate landlords and developers, banks, and other financial institutions generally maintain balance sheets that are liquid with appropriate levels of leverage, fixed-rate debt, and staggered debt maturities. According to Citi Research, REITs have leverage ratios (net debt divided by cash flow) of only 5.5 times, on average, versus a peak of more than 8.5 times during the Great Financial Crisis of 2008-2009.

Commercial and residential real estate are not overbuilt, and expectations for new supply are not concerning. Expectations for construction activity are modest due to elevated land, material, and labor costs and expectations for a slowdown in economic growth.

According to data provided by Green Street Advisors, expectations for commercial real estate construction (annual construction completions as a percent of existing inventory) from 2023 to 2026 are expected to be only 1.5% for apartments, 1.0% for wireless towers and hotels, 0.8% for office buildings, 0.3% for shopping centers, and 0.1% for retail malls. In December 2022, the Chairman of **Lennar Corporation**, a premier U.S. homebuilder company, stated that he expects U.S. new home construction in 2023 will decline by 25% to 33%.

Based on research by Green Street Advisors, **recent occupancy rates for several real estate categories compare favorably relative to prior periods.** For example, industrial real estate occupancy is currently 96%, on average, versus 88% in 2009. Self-storage facilities average occupancy levels

are 94% versus 81% in 2009. The average occupancy rate for manufactured housing is 97% versus 87% in 2009.

Given the broadly favorable relationship between demand and supply of commercial and residential real estate, we expect declines in commercial occupancy and rents and most residential home prices, should a recession unfold, to be modest and short lived.

Substantial private capital is still in pursuit of real estate ownership.

We believe that real estate merger and acquisition activity will reemerge when the debt market stabilizes and economic prospects improve.

According to *Preqin Pro*, more than $400 billion of capital has been raised by private equity sources to invest in real estate. This amount equates to more than $1.3 trillion of total real estate purchasing capacity, assuming typical 70% financing. The aggregate buying potential of $1.3 trillion is more than 85% of the enterprise value of all publicly traded U.S. REITs!

We anticipate that large amounts of capital from private equity investors such as Blackstone and Brookfield Corporation, sovereign wealth funds, endowments, pension funds, and others will look for opportunities to step in and capitalize on the opportunity to buy quality public real estate when it is valued at a discount relative to the private market. This embedded put scenario should limit further downside for public valuations and stock prices.

Long-Term Case for Real Estate

Real estate has generated solid historical long-term returns, and we believe it can continue to do so.

For the 25-year period ended December 31, 2022, U.S. equity REITs have delivered a better cumulative return than the S&P 500 Index, fixed income alternatives, international equities, and commodities.

Since the Fund's inception on December 31, 2009 through December 31, 2022, Baron Real Estate Fund, which owns REITs and non-REIT real estate companies, has delivered a cumulative return of 386% (Institutional Shares), more than double the 164% return of the REIT Index.

We remain optimistic about the potential for real estate to continue to generate solid long-term absolute and relative performance.

Real estate continues to offer diversification benefits.

According to FactSet, over the last 25 years (through 12/31/2022), REITs have provided diversification benefits due to their modest correlation versus stocks (0.63 versus S&P 500 Index) and low correlation versus bonds (0.25 versus Bloomberg Barclays U.S. Aggregate Index).

Real Estate offers valuable inflation protection.

Historically, certain real estate has had the ability to raise prices to provide inflation protection.

Real estate property owners in supply-constrained areas are often able to pass along higher operating costs by raising rents in periods of rising inflation. Some leases include annual fixed upward lease rent escalators. Real estate owners with short-lease durations in supply-constrained markets are well equipped to raise rents to combat inflation.

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

A Comparion Of Actively Managed Publicly Traded Real Estate Versus Non-traded REITs/Private Real Estate And Passively Managed Real Estate

Those who choose to invest in real estate have several options including investing in actively managed publicly traded real estate mutual funds (e.g., Baron Real Estate Fund or Baron Real Estate Income Fund), non-traded REITs such as Blackstone Real Estate Income Trust (BREIT), direct private real estate investments, and passive real estate exchange traded funds such as the Vanguard Real Estate ETF (VNQ).

Currently, we believe the case for investing in select actively managed publicly traded real estate mutual funds with strong long-term track records is compelling relative to certain private non-traded REITs, direct private real estate investments, and passively managed real estate exchange traded funds.

The evaluation of actively managed publicly traded real estate funds versus non-traded REITs / private real estate

Recently, non-traded REITs such as BREIT and Starwood Real Estate Income Trust (SREIT) have received unfavorable press that has cited:

- The hard-to-explain large gap in 2022 performance between non-traded REITs and publicly listed REITs
- The challenges for investors who seek to redeem some or all of their investments in non-traded REITs but are constrained by liquidity gates that cap redemptions at 2% of net asset value per month or 5% of net asset value per quarter

On December 27, 2022, a *Wall Street Journal* article said the following:

> "In recent weeks, private property funds like Blackstone's non-traded, semi-liquid BREIT vehicle have had to explain their jarringly strong performance relative to listed stocks. BREIT has reported returns of 8.4% so far this year, compared with around minus 25% for publicly traded U.S. real estate investment trusts. The fund was forced to freeze redemptions after a number of clients asked to cash out at its seemingly rosy valuations. Another big non-traded fund, Starwood Real Estate Income Trust, has also closed its gates."

To be clear, we are big fans of both Blackstone and Starwood. We believe Blackstone and Starwood are world-class real estate asset managers. Further, their non-traded REITs have a strong track record of performance in large part due to owning high-quality real estate assets and prioritizing compelling investment themes. We also believe their real estate portfolios are likely to continue to perform well over a multi-year period.

We believe our Baron Real Estate Fund and our Baron Real Estate Income Fund are complementary real estate investment alternatives to non-traded REITs such as BREIT and SREIT as well as other private real estate alternatives. Our Baron real estate funds invest in publicly traded real estate businesses and REITs and are listed mutual funds. Non-traded REITs, on the other hand, tend to prioritize the private real estate market and are not listed investment vehicles.

Currently, however, we believe the near-term case for investing in Baron Real Estate Fund and Baron Real Estate Income Fund is superior to investing in non-traded REIT alternatives because investments in our real estate funds are more attractively valued than investments in non-traded REITs and perhaps private real estate more broadly. A significant number of publicly listed real estate including many in our Funds corrected meaningfully in 2022 while the valuations of private real estate, which often lag public real estate, has been slower to reprice.

In our opinion, the following should be considered when evaluating actively managed mutual funds invested in publicly traded equities versus non-traded REITs and private real estate:

Valuation

- *Public real estate*: Assessments of relative attractiveness and portfolio decisions can be based on real-time data
- *Non-traded REITs / private real estate*: Monthly valuations may be based on lagging data

Value Transparency

- *Public real estate*: Transparent daily valuation in a highly liquid public market
- *Non-traded REITs / private real estate*: Valuations derived from estimates of net asset values that are derived from appraisals and internal 10-year cash flow models that are subject to a multitude of assumptions

Liquidity

- *Public real* estate: Daily liquidity allows investors to make real-time asset allocation decisions
- *Non-traded REITs / private real estate:* Limited liquidity restricts investor access to capital should better investment opportunities present themselves

Diversification

- *Public real estate:* Ability to emphasize and de-emphasize real estate categories depending on evolving business fundamentals
- *Non-traded REITs / private real estate:* At times, may be highly concentrated with constraints to modify the portfolio composition

Leverage/Capital Structure

- *Public real estate:* Most publicly traded real estate companies are conservatively capitalized and seldom forced sellers of assets
- *Non-traded REITs / private real estate*: Typically employ more leverage than publicly traded real estate companies

Fees

- *Public real estate:* Fees tend to be substantially lower than private real estate fees (e.g., Net annual expense ratios for Baron Real Estate Income Fund and Baron Real Estate Fund are 80 and 105 bps, respectively)
- *Non-traded REITs / private real estate:* Typically, higher fees, which may include higher base management fees (1.25%), performance-based fees (e.g., 12.5% fee above a minimum performance return), and sometimes additional fees (e.g., load and other fees)

Performance

Public and non-traded real estate perform differently through market cycles.

- *Public real estate:* Baron Real Estate Fund outperformed non-traded REITs in both 2019 and 2020 when our Fund generated returns of more than 44% in both years
- *Non-traded REITs / private real estate:* Non-traded REITs outperformed in 2018, 2021, and 2022

The evaluation of actively managed public real estate versus passively managed real estate exchange traded funds

We believe the case for investing in an actively managed publicly traded real estate mutual fund is compelling – more so than ever.

In recent years, cross currents have developed in real estate – partly due to COVID – some of which may persist in the years ahead.

Consequently, the public real estate universe has evolved into a narrower set of compelling investment opportunities.

In our opinion, some segments of real estate are likely to offer compelling long-term business prospects. Examples include industrial warehouse companies, wireless tower and data center companies, residential homes for sale, single-family home rentals, apartment rentals, manufactured housing, and life science real estate.

Certain segments of real estate may face headwinds and a slowdown in long-term growth. The shift to e-commerce shopping continues to negatively impact retail malls and some shopping centers, and this trend may fast track the pace and number of retail store closings. Working from home, or anywhere, and the rise of video teleconferencing are likely to pressure occupancy and rents for office and to a lesser degree urban apartment landlords and may weigh on business travel.

A passive real estate strategy replicates a specific real estate benchmark or index. It owns the entire universe of public real estate companies – the companies benefiting from operating tailwinds and the companies facing multi-year operating headwinds.

An actively managed real estate strategy, such as the Baron Real Estate Fund and Baron Real Estate Income Fund, can be discerning by prioritizing companies with attractive long-term prospects while de-emphasizing companies with unappealing long-term prospects.

The investment case for Baron Real Estate Fund – an actively managed and differentiated real estate fund

We launched Baron Real Estate Fund 13 years ago on December 31, 2009. At that time, we noted that we expected the Fund's more flexible investment approach to be a key competitive advantage over the long term.

Our investment philosophy and strategy has been to structure and maintain a more expansive and actively managed real estate fund – one that contains REITs, but also invests in various non-REIT companies that operate within or provide services or products to the real estate industry.

In our opinion, the Fund's flexibility is a critical competitive advantage.

Unlike passively managed real estate strategies and most REIT funds, we are free to pick our spots and pivot away from real estate categories that are likely to face long-term occupancy, rent, and/or cash flow pressures.

We tend to prioritize companies with:
- Unique competitive advantages that limit competition and enable outsized reinvestment returns
- Long runways for non-cyclical cash-flow growth
- Capital efficient business models

We de-emphasize companies with:
- Secular growth headwinds
- Oversupplied conditions
- Highly uncertain medium-term demand prospects

At times, we may acquire shares opportunistically in companies facing near- to medium-term headwinds if we determine that the return profile is attractive and risk profile is acceptable. However, opportunistic purchases of companies facing headwinds is not a portfolio management and risk management priority.

Our actively managed approach to investing in real estate has yielded strong results. Since the launch of the Fund 13 years ago on December 31, 2009, the Fund has increased 386.47% (Institutional Shares) cumulatively (net of fees) which compares favorably to the performance of the largest real estate passive strategy, the Vanguard Real Estate ETF (VNQ) which increased 205.68%. More recently, with the onset of certain real estate headwinds, the Fund's relative performance has improved. In the last 5 years for example, the Fund has increased 44.59% cumulatively (net of fees) which compares favorably to the performance of VNQ which increased 19.68%.

If we are correct regarding the evolving real estate landscape, the merits of Baron Real Estate Fund's broader and more flexible investment approach and actively managed methodology may become even more apparent in the years ahead.

Portfolio Composition and Key Investment Themes

The Fund currently has investments in REITs, plus seven additional real estate-related categories. Our percentage allocations to these categories vary, and they are based on our research and assessment of opportunities in each category (See Table II below).

Table II.
Fund investments in real estate-related categories as of December 31, 2022

		Percent of Net Assets
REITs		28.5%
Non-REITs		60.5
Building Products/Services	18.1%	
Real Estate Service Companies	12.1	
Homebuilders & Land Developers	11.7	
Real Estate Operating Companies	7.3	
Casinos & Gaming Operators	5.9	
Hotels & Leisure	4.3	
Unclassified	1.0	
Cash and Cash Equivalents		11.0
Total		100.0%*

* *Individual weights may not sum to the displayed total due to rounding.*

A few notable observations regarding the composition of the Fund include:

Cash: We have remained patient and maintained an elevated cash position due to the highly unusual macroeconomic and geopolitical environment and in preparation to capitalize on the emerging opportunity to buy fine companies at highly discounted prices. For the period ended December 31, 2022, cash and cash equivalents stood at 11.0% of the Fund's net assets. We will continue to look for opportunities to deploy this cash given the sharp correction in the share prices of certain real estate companies and as other special buying opportunities emerge.

Number of Fund holdings: Since June 2021, we have decreased the number of real estate companies held in the Fund from a peak of 61 companies on June 30, 2021, to 39 companies on December 31, 2022. During this period, we have further prioritized our highest conviction best-in-class real estate companies. Conversely, we have trimmed or exited holdings in certain real estate companies that maintain more leveraged balance sheets, are small and less liquid, or exposed geographically to real estate markets that may face business headwinds.

Secular growth real estate companies: Real estate companies that benefit from secular tailwinds where cash-flow growth tends to be durable and less sensitive to a slowdown in the economy are a long-term focus of the Fund. Examples include the Fund's investments in wireless tower, data center, industrial logistic, and life science REITs.

Short-lease duration real estate with pricing power: We have continued to emphasize real estate companies that are able to raise rents and prices on a regular basis to combat inflation. Examples include the Fund's investments in self-storage, single-family home rental, manufactured housing, hotel, and casino real estate companies.

Cyclical real estate companies: Despite expectations for a further slowdown in economic growth and a recession, we are maintaining an allocation to economically sensitive and cyclical real estate companies. The share prices of several of these types of real estate companies have corrected sharply in advance of the economic slowdown and are now attractively valued. Examples include the Fund's investments in certain homebuilding and travel-related real estate companies.

Investment Themes

We have continued to prioritize four investment themes or real estate categories:

1. REITs

2. Residential-related real estate companies

3. Other real estate-related companies

4. Travel-related real estate companies

REITs

Since the Fund's inception on December 31, 2009, REITs have been an important part of our real estate-related portfolio. We have tended to limit the Fund's REIT allocation to 25% to 35% of the portfolio so that the Fund is differentiated from most REIT funds.

Following a 25% correction in the REIT Index in 2022, we believe the valuations of several REITs are attractive. Business fundamentals and prospects for many REITs remain solid although slower growth is expected in 2023. Balance sheets are in good shape. Several REITs have inflation-protection characteristics. Dividend yields are well covered by cash flow and are growing.

Should the contraction in economic growth evolve into no worse than a mild recession and the path of interest rates peaks in 2023 at levels not much higher than current rates, we believe the shares of certain REITs may perform relatively well given the contractual nature of cash flows that provide a high degree of visibility into near-term earnings growth and attractive dividend yields. Should long-term interest rates begin to decline and credit spreads compress, REIT return prospects may also benefit from an improvement in valuations as valuation multiples expand (e.g., capitalization rates compress).

We believe the Fund comprises compelling REIT companies and categories. A few examples include:

Technology-centric wireless tower and data center REITs that we believe have prospects for strong and enduring cash-flow growth driven by rising data consumption, the buildout of 5G, the growth in cloud computing, and other secular growth demand opportunities.

Examples: **American Tower Corp.**, **SBA Communications Corp.**, and **Equinix, Inc.**

Industrial REITs that we expect to benefit from ongoing robust warehouse demand and increased rents fueled by the growth in e-commerce and the buildout of logistics' supply chains.

Examples: **Prologis, Inc.** and **Rexford Industrial Realty, Inc.**

Residential-related REITs that provide partial inflation protection given the short duration of leases, relatively affordable shelter, and solid long-term growth prospects.

Examples: **Invitation Homes, Inc.**, **American Homes 4 Rent**, and **Equity Lifestyle Properties, Inc.**

For a more detailed discussion of the investment case for REITs and the various REIT categories, we encourage you to read our December 31, 2022, Baron Real Estate Income Fund shareholder letter.

As of December 31, 2022, the Fund had investments in eight REIT categories representing 28.5% of the Fund's net assets. Please see Table III below.

Table III.
REITs as of December 31, 2022

	Percent of Net Assets
Industrial REITs	8.2%
Wireless Tower REITs	7.0
Data Center REITs	3.9
Self-Storage REITs	3.6
Single-Family Rental REITs	1.6
Triple Net REITs	1.6
Life Science REITs	1.4
Manufactured Housing REITs	1.3
Total	28.5%*

* *Individual weights may not sum to the displayed total due to rounding.*

Residential-related real estate companies

Early in 2022, we lowered the Fund's exposure to certain residential-related real estate companies (homebuilders, building products/services companies, and home centers) from 23.5% of the Fund's net assets at year-end 2021 to only 11.7% on March 31, 2022.

At that time, we cut the Fund's residential-related exposure because many shares had appreciated significantly the last few years and were vulnerable to the possibility of an eventual temporary slowdown in housing-related purchase activity due to a combination of consumer affordability concerns driven by the sharp rise in home prices and higher mortgage rates, and a dearth of new housing inventory.

Recent commentary from Stuart Miller, Executive Chairman of **Lennar Corporation**, illuminates the concerns we had at the beginning of 2022. On December 15, 2022, he said the following:

"The very sudden movement in interest rates experienced over the past six months have very quickly affected both affordability and consumer confidence, resulting in a very rapid change in market conditions and demand."

So, what are our current thoughts regarding residential-related real estate companies and their investment prospects?

We remain cautious near term on housing fundamentals. We expect the dramatic spike in the 30-year mortgage rate since January 2022 from roughly 3% to 6.5% to 7.0% on top of an approximately 28% increase in home prices since 2020 and their collective impact on housing affordability in addition to the broader deterioration in consumer sentiment, in part due to multi-decade high inflation and expectations for a weakening labor market, will result in a **continuation of the recent homebuyers' "strike" and significant slowdown in the housing market in the months ahead.**

We remain bullish long term on the prospects for the U.S. housing market.

We believe the long-term structural underinvestment in the construction of residential real estate relative to the demographic needs of our country bodes well for long-term housing construction activity, sales, rentals, pricing, and repair and remodel activity.

Ever since the housing crisis from 2007 to 2010, housing supply has not kept pace with housing demand, household formation, and population growth leading to a structural shortage of housing. According to the U.S. Census, 12.3 million American households were formed from January 2012 to June 2021, but just 7 million new single-family homes were built during that time. The result? The U.S. is short more than 5 million homes.

A report published by *Evercore ISI Research* on October 4, 2022, further illuminates the constrained inventory of the U.S. housing market:

> "After briefly reaching above 2 million total (housing) starts way back in 2005, the U.S housing industry entered the longest sustained period of under-building since the modern homebuilding industry began in the late 1940s. On a trailing fifteen-year basis, housing starts have averaged just over 1 million annually, well below the industry's 1.5 million long-term average. Since housing starts include both for-sale and rental units, this accumulated shortfall is visible in both record low levels of existing homes for sale and rental vacancy rates. And just as this deficit was more than a decade in the making, it cannot dissipate quickly. Even after a brief rise in inventory this summer, combined with a sharp pullback in sales, homes for sale sit at just 3.2 months, well below the 6.0 months level that is associated with home price declines."

Long-term housing-related demand prospects are also encouraging, especially from the approximately 72 million millennials – ages 25 to 40 – many of whom have been looking to buy or rent a home. Millennials are the largest generation in the workforce, their wages are increasing, and their multi-year delay of household formation is reversing. There are clear signs that millennials are debunking the view that the American Dream to own or rent a home is over.

The large imbalance between pent-up housing demand and low construction levels bodes well, long term, for new single-family home purchases. It also bodes well for home and apartment rentals.

The stock market is often a discounting mechanism. Sharp increases and decreases in share prices, at times, occur before changes in business fundamentals.

The shares of homebuilders, building products/services companies, and home centers declined 30% to 50% in the first six months of 2022 even though business fundamentals remained strong. Some of the share prices have continued to decline in the last six months of 2022 as signs of business weakness have emerged.

At this stage, **we believe the valuations of housing-related companies reflect a good portion of the ongoing slowdown in the U.S. housing market and have begun to offer compelling multi-year return prospects.**

For example, we believe certain homebuilder valuations, currently in the 0.8 to 1.2 times share price to value range, are cheap and erroneously reflect an expectation for a sharp decrease in home prices and land impairments which we believe are unlikely in part due to the housing inventory shortfall in the U.S.

Following the sharp decline in share prices, we reversed course and increased the Fund's exposure to homebuilders, building products/services companies, and home centers. **Though we expect business conditions to be challenging in the months ahead and growth to moderate, we believe valuations are attractive and the two- to three-year return prospects are compelling.**

As of December 31, 2022, residential-related real estate companies represented 29.8% of the Fund's net assets. Please see Table IV below.

Table IV.
Residential-related real estate companies as of December 31, 2022

	Percent of Net Assets
Building Products/Services	16.3%
Homebuilders	11.7
Home Centers	1.8
Total	29.8%[1*]

[1] Total would be 32.7% if included residential-related housing REITs Invitation Homes, Inc., American Homes 4 Rent, and Equity Lifestyle Properties, Inc.

* *Individual weights may not sum to the displayed total due to rounding.*

Other real estate-related companies

Our "other real estate-related companies" category includes those companies that do not fit neatly in more traditional real estate categories of REITs, residential-related real estate, and travel-related real estate. Other real estate-related companies currently include:

- Commercial real estate services companies

  Examples: **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated**

- Real estate-focused alternative asset managers

  Examples: **Brookfield Corporation** and **Blackstone Inc.**

- Real estate data analytics/property technology companies

  Example: **CoStar Group, Inc.**

Commercial real estate services companies: We remain bullish on the long-term growth opportunity for the commercial real estate brokerage category because of structural and secular tailwinds that should benefit leading global companies such as CBRE and Jones Lang LaSalle.

Tailwinds include:

- **The outsourcing of commercial real estate**: A growing number of companies are increasingly looking to outsource their commercial real estate needs. CBRE estimates that the overall facilities management market will be $1.9 trillion by 2024, representing a massive growth opportunity for large global commercial real estate services companies.

- **The institutionalization of commercial real estate:** Institutional allocations to real estate continue to increase, in part due to real estate's diversification, inflation protection, and relatively stable long-term growth attributes.

- **Opportunities to increase market share:** The commercial real estate industry remains highly fragmented and is likely to continue to consolidate. Customers tend to prefer commercial real estate companies that can provide a broad set of services. We believe CBRE and Jones Lang LaSalle are best positioned to drive market share gains given that they are the clear #1 and #2 commercial real estate services firms, respectively and have the capability to provide the full array of real estate offerings on a global scale.

CBRE and Jones Lang LaSalle have scale, product breadth, and leadership positions across their diversified real estate business segments. They continue to gain market share and are well positioned to capitalize on ample attractive acquisition opportunities in the years ahead given strong and liquid balance sheets. Though we acknowledge that growth in certain segments of their businesses has slowed and is likely to remain pressured in the months ahead due to the global economic slowdown and higher interest rates, we believe both are attractively valued and present compelling return potential in the next few years.

Real estate-focused alternative asset managers: We are optimistic about the long-term prospects for Brookfield and Blackstone because we believe both companies are likely to increase market share in a secular growth opportunity for alternative assets.

Institutional allocations to alternative investment assets such as real estate, infrastructure, and private equity are likely to continue to grow significantly in the years ahead because alternatives have a long track record of generating attractive relative and absolute returns with less volatility than several other investment options.

We are bullish on the long-term prospects for Brookfield and Blackstone. Both companies are led by exceptional management teams that attract and retain exceptional talent. They are two of the largest real estate managers in the world with impressive investment track records. Both Brookfield and Blackstone have global franchises, strong brands, and loyal customers.

Following a 39% and 36% correction in the shares of Brookfield and Blackstone, respectively, in 2022, we believe the shares of both companies are attractively valued and are optimistic about the long-term potential for the Fund's investments in both companies.

Real estate data analytics/property technology companies: The real estate industry, which represents approximately 17% of U.S. GDP according to the National Association of Realtors, has eschewed decades of technological innovation while many other industries have evolved rapidly.

We are seeing evidence of that trend beginning to change as real estate companies are increasingly adopting technology as a source of competitive differentiation and evolution across property sectors.

This collision of real estate and technology has led to a new sub-industry within real estate – real estate technology, also referred to as *proptech*. Proptech is the usage of technology and software to assist in meeting real estate needs.

The emergence of proptech and the digitization of real estate is an exciting and promising new development for real estate. We believe we are in the early innings of a technology-driven investment cycle centered on data and digitization that allows real estate-related businesses to drive incremental revenue streams and lower costs.

CoStar, the leading provider of information, analytics, and marketing services to the real estate industry and a top holding in the Fund, is well positioned to capitalize on this burgeoning secular growth trend.

As of December 31, 2022, other real estate-related companies represented 20.4% of the Fund's net assets. Please see Table V below.

Table V.
Other real estate-related companies as of December 31, 2022

	Percent of Net Assets
Real Estate-Focused Alternative Asset Managers	7.3%
Commercial Real Estate Services Companies	6.8
Real Estate Data Analytics/Property Technology Companies	6.3
Total	20.4%*

* *Individual weights may not sum to the displayed total due to rounding.*

Travel-related real estate companies

Early in 2022, we were bullish about the prospects for the Fund's investments in travel-related real estate companies. We felt that 2022 and 2023 would be a period in which more than two years of COVID-19-related pent-up demand would be released and jumpstart leisure and business travel.

Though travel-related business fundamentals were strong for most of 2022, we tempered our enthusiasm for travel-related real estate companies over the course of 2022. Our most recent travel-related sales reflect the possibility of an economic slowdown, which may negatively impact consumer discretionary leisure spending and business travel in the next 12 to 18 months.

We continue to maintain an allocation to certain travel-related real estate companies because we believe the long-term investment case for travel is compelling:

- Demand for services over goods: We have seen an increased wallet share going to travel. The 72 million millennials are increasingly driving this shift aided by their preference for prioritizing experiences such as travel over durable good purchases.

- Demographic trends: Delays in marriage and having children are fueling has led to the millennial cohort having more disposable income than prior generations.

- Work-from-home: Flexible job arrangements have led to an increase in travel bookings and length of stay, leading to the emergence of a new category of travel ("hush trips").

- Certain travel-related businesses remain cyclically depressed, not secularly challenged, and should rebound as economic strength re-emerges. For example, the business operations of Macau-centric casino and gaming companies such as **Las Vegas Sands Corporation** have yet to recover due to the ongoing COVID-19 challenges in China. We expect business to rebound sharply when economic growth recovers just as it did in Las Vegas.

- Healthy balance sheets: The Fund's investments in travel-related real estate companies maintain well-capitalized and liquid balance sheets and should be able to comfortably withstand any slowdown in economic growth just as they did during the early days of COVID-19.

- Private equity companies such as Blackstone have a long history of investing in travel-related companies and have continued to highlight the travel segment as an important investment priority. Given the highly discounted share prices and valuations of certain travel-related companies, we would not be surprised if private equity firms take advantage of the favorable valuation arbitrage between the public and private markets and acquire public travel companies.

As of December 31, 2022, travel-related real estate companies represented 10.2% of the Fund's net assets. Please see Table VI below.

Table VI.
Travel-related real estate as of December 31, 2022

	Percent of Net Assets
Casinos & Gaming Operators	5.9%
Ski Resorts	1.8
Timeshare Operators	1.5
Hotels	1.0
Total	10.2%[1]*

[1] Total would be 11.8% if included travel-related gaming REIT Gaming and Leisure Properties, Inc.

* *Individual weights may not sum to the displayed total due to rounding.*

A Review of Recent Activity Managing the Fund

Recent Activity

In the fourth quarter, we maintained our active approach managing the Fund due to:

- The emergence of tailwinds and headwinds in certain segments of real estate
- Company-specific considerations
- Unusually elevated stock market volatility

We believe our actions continue to position the Fund for strong long-term performance.

Table VII.
Top net purchases for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Toll Brothers, Inc.	$ 5.5	$33.3
Floor & Decor Holdings, Inc.	7.4	19.7
Lennar Corporation	25.8	19.4
The Sherwin-Williams Company	61.5	16.5
Extra Space Storage Inc.	19.7	15.4

Following a more than doubling of mortgage rates in 2022, the for-sale housing market was one of the weakest segments of the economy in the last six months of 2022. In our opinion, the U.S. economy has been in a housing-related recession for several months and it may continue for some or all of 2023.

Though we expect housing-related business conditions to remain challenging, we believe the shares of several housing-related companies have already discounted a large portion of the slowdown. At this stage, we believe valuations are attractive and the two- to three-year return prospects are compelling.

Just as several housing-related stocks were among the first to decline in early 2022 (in advance of a slowdown in business conditions), we believe housing-related stocks may be among the first categories of the stock market to recover when prospects for the economy improve.

In the fourth quarter of 2022, we increased the Fund's exposure to residential-related companies by acquiring shares in two best-in-class homebuilders (**Toll Brothers, Inc.** and **Lennar Corporation**) and two best-in-class building products companies (**Floor & Decor Holdings, Inc.** and **The Sherwin-Williams Company**).

Toll Brothers, Inc. is the leading luxury homebuilder in the U.S. with a highly capable management team and a large, valuable owned land real estate portfolio. Toll Brothers is more insulated than its peers from elevated mortgage rates because 20% of the buyers of Toll Brothers' homes pay 100% in cash.

At its year-end 2022 price of only $49.92/share, the company is valued at only 0.83 times our estimate of 2023 tangible book value of approximately $60 per share. Historically, Toll Brothers' shares have been valued, on average, at 1.4 times book value and at a peak multiple of approximately 2.0 times tangible book value. If the shares recover in the next few years and trade only at the company's long-term average multiple of 1.4 times book value, Toll Brothers' share price would increase approximately 82% to $91 per share.

Lennar Corporation is the second-largest U.S. homebuilder with competitive scale advantages (including materials procurement and labor), an increasingly capital-light business model, a strong balance sheet, a strategic and forward-looking focus on technology investments, and an exceptional management team.

At its recent price, Lennar's shares were valued at only 1.2 times our estimate of 2023 tangible book value of $77 – a large discount to its historical valuation range of 1.5 to 2.5 times tangible book value.

Despite the company's strong and liquid balance sheet and a business strategy that generates tremendous cash flow, Lennar's shares are valued at only 5 to 6 times cash flow versus a homebuilder such as NVR, Inc. which is valued at 15 times cash flow.

Floor & Decor Holdings, Inc. is a leading and high-growth specialty retailer of hard-surface flooring. The company offers the lowest prices and the broadest differentiated in-stock selection of tile, wood, laminate, and other flooring options and has highly compelling long-term growth prospects. We expect the company to continue to grow its store count by approximately 20% per year for the next few years. The company operates approximately 190 stores, and we believe it has the potential to grow its store count in the U.S. to more than 400 stores over time.

Following an almost 50% decline in its shares in 2022, we believe this best-in-class company is currently valued at a compelling multiple of only 23 times our estimate of 2023 earnings per share. This compares favorably to its historically average P/E multiple of approximately 40 times earnings per share.

In the most recent quarter, following a more than 40% correction over the course of 2022 in its share price from a high of $348 to $195, we re-acquired shares of **The Sherwin-Williams Company.**

The company is a global leader in the manufacturing, development, distribution, and sale of paint, coatings, and related products to professional, industrial, commercial, and retail customers. Its well-known brands include Sherwin-Williams, Dutch Boy, Krylon, Minwax, Thompson's Water Seal, and Valspar.

Sherwin-Williams products are sold exclusively through more than 4,850 company-operated stores and facilities, while the company's other brands are sold through leading mass merchandisers, home centers, independent paint dealers, hardware stores, automotive retailers, and industrial distributors.

We believe Sherwin-Williams is an attractive long-term investment opportunity because:

1. Paint/coatings tend to possess compelling business advantages including pricing power, high margins, and low risk of sales erosion from e-commerce competition.
2. Sherwin-Williams benefits from several competitive advantages. It maintains a leading market share position in North America of approximately 40%, far greater than its closest competitor. The company benefits from scale advantages achieved through its own stores and its national network of approximately 3,600 customer service representatives.
3. The company is positioned to potentially benefit from an eventual cyclical rebound in residential construction and higher U.S. infrastructure investment: demand for paint tends to track new home construction, home prices, and existing home sales and purchases (homeowners paint prior to selling and after moving into new homes).

In the next few years, we believe the company has an opportunity to improve profitability margins and generate mid-teens annual earnings growth. We are optimistic about the long-term prospects for Sherwin-Williams.

Following a sharp correction in its share price over the course of 2022, we acquired shares in **Extra Space Storage Inc.** This REIT has assembled the second-largest self-storage portfolio in the country and has the largest portfolio of third-party managed self-storage facilities.

In our opinion, Extra Space's management team is excellent. Over the last decade, management has delivered strong occupancy gains, rent growth,

and expense control that has led to a cost of capital advantage relative to its peers. Management has capitalized on its cost of capital advantage by tripling its owned self-storage count since 2010. We believe the long-term growth opportunity for the company remains strong.

Table VIII.
Top net sales for the quarter ended December 31, 2022

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Las Vegas Sands Corporation	$36.7	$46.9
Blackstone Inc.	88.9	21.3
Invitation Homes, Inc.	18.1	19.8
Equity Residential	23.0	17.3
Vail Resorts, Inc.	9.6	17.2

Following strong absolute and relative share price performance in 2022 – **Las Vegas Sands Corporation**'s shares increased 23% while most other U.S. casino and gaming companies declined anywhere from 20% to more than 50% – we reduced the Fund's position in Sands in the most recent quarter.

The company is a global leader in the development and operation of luxury casino resorts in Macau and Singapore, and it maintains a liquid and investment grade balance sheet. We anticipate that management may begin to return capital to shareholders through dividends and share buybacks as Singapore and Macau recover.

We have maintained a position in the company because we expect business activity in Macau to recover in the next few years, and we believe the shares are attractively valued relative to our assessment of replacement cost and its two- to three-year cash flow prospects.

We recently reduced the size of the Fund's investment in **Blackstone Inc.** because of our expectation of a slowdown in its growth outlook. We remain bullish, however, about the company's long-term prospects. Blackstone is the world's largest alternative asset manager with $1 trillion in assets under management and the largest real estate manager in the world. Blackstone has a premier brand, a global franchise, loyal customers, an exceptional balance sheet, and an excellent management team.

Following a 36% correction in its shares in 2022, we believe Blackstone's valuation has become more compelling and may look for opportunities to acquire additional shares in the future.

We recently reduced the Fund's holding in **Invitation Homes, Inc.** following disappointing quarterly earnings results and our expectations that growth may disappoint in 2023. 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, Washington, and the Carolinas. Its primary business strategy focuses on acquiring, renovating, leasing, and operating single-family homes as rentals.

We remain bullish about the long-term prospects for the company given multiple growth opportunities which include significant pent-up demand from the millennial generation to rent single-family homes against a backdrop of constrained inventory, acquisitions of homes in high-growth geographic markets, and the expansion of ancillary home services for residents (e.g., enhanced smart home, pest control, landscaping, and pet services).

We are closely monitoring business conditions and the company's valuation and may look for opportunities to add to our position over time.

In the most recent quarter, we exited the Fund's position in **Equity Residential**, the largest U.S. apartment REIT with 80,000 high-quality apartment units. We anticipate that business prospects will be pressured in the year ahead due to softening demand and elevated new supply in some of the company's key geographic markets.

Following recent strength in its shares, we reduced our position in **Vail Resorts, Inc.** The company owns and operates a premier portfolio of mountain resorts including marquee resorts such as Vail, Beaver Creek, Breckinridge, Park City, Whistler Blackcomb, and Keystone. We remain optimistic about Vail's long-term prospects and may look for opportunities to add to our position again.

Table IX.
Top contributors to performance for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
D.R. Horton, Inc.	$ 30.7	0.64%
CoStar Group, Inc.	31.4	0.56
Prologis, Inc.	104.1	0.55
Equinix, Inc.	60.6	0.55
Fortune Brands Innovations, Inc.	7.3	0.47

The shares of **D.R. Horton, Inc.**, the number one homebuilder by volume in the U.S., gained 31% in the most recent quarter following strong business results.

We are bullish about the long-term prospects for D.R. Horton primarily due to two key considerations:

1) We believe the company is positioned to perform well over time given its status as the largest and lowest-cost producer in the entry-level home segment for first-time buyers and baby boomers looking for an affordable home. In the last fiscal year, approximately 67% of D.R. Horton's home sales were for prices less than $400,000, thereby enabling the company to satisfy the home affordability constraints of many potential home buyers.

2) We are enthusiastic about D.R. Horton's continued transition to a stronger and more asset-light balance sheet by outsourcing its land development spending needs to third-party developers such as Forestar Group Inc. D.R. Horton's transition to a less capital-intensive business model is leading to stronger cash-flow generation, lower debt levels, an ability to pursue more share repurchases and/or other investment opportunities, and a higher-valuation multiple.

The shares of **CoStar Group, Inc.** performed well in the fourth quarter following strong quarterly business results. The company is the leading provider of information, analytics, and marketing services to the real estate industry. Based on the current valuation of its shares and our expectation for future growth, we believe CoStar's shares have the potential to appreciate by 100% in the next three to four years.

Following strong quarterly results, the shares of **Prologis, Inc.**, the world's largest industrial REIT, performed well in the fourth quarter of 2022. The company owns a high-quality real estate portfolio that is concentrated in major global trade markets and large population centers across the Americas, Europe, and Asia. Prologis has an unmatched global platform,

strong competitive advantages (scale, data, and technology), and attractive embedded growth prospects. The company is the only industrial REIT with an 'A' credit rating.

Following a roughly 33% decline in its shares in 2022, we believe Prologis' current valuation of only 22 times cash flow and a 4.6% implied capitalization rate is compelling given that the company's rents on its in-place leases are more than 65% below current market rents, thus providing a strong runway for growth in the next three to five years.

Equinix, Inc. is a REIT and the premier global operator of network-dense, carrier-neutral colocation data centers. its shares performed well in the quarter after the company reported quarterly results above expectations, raised its full-year guidance and provided a robust demand outlook amid weaker broader macroeconomic conditions. The company's value proposition of providing mission-critical infrastructure to a highly diversified customer base has garnered pricing power and "must have" versus "nice to have" infrastructure deployments. This allowed Equinix to be a standout within the broader technology space when many companies were reducing their growth outlooks and noting weakening demand..

COVID-19 accelerated digital transformation priorities for many organizations, and we believe that Equinix is poised to continue to benefit from organic growth through new bookings and pricing power, growth of high margin cross connect revenue, and continued geographic expansion through development and select M&A. We believe the combination of these factors will allow Equinix to grow annual cash flow in the high single-digit range.

The shares are valued at a slight premium multiple to most REITs despite superior and more durable cash flow growth prospects.

Following a sharp decline in its shares in the first nine months of 2022, the shares of **Fortune Brands Innovations, Inc.** increased 26% in the most recent quarter, in part due to better-than-expected business results and a broader rebound in housing-related securities.

Fortune Brands is a leading manufacturer of home security, water, and outdoor products. The company's businesses have strong long-term growth opportunities powered by secular tailwinds such as outdoor living, connected products, water management, safety and wellness, sustainability, and material conversion. We believe Fortune Brands has several competitive advantages, including recognizable brands, a focus on innovation, strong distribution relationships, and a proven and highly capable management team. We are optimistic about the company's long-term prospects.

Table X.
Top detractors from performance for the quarter ended December 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
Brookfield Corporation	$51.5	–0.30%
Invitation Homes, Inc.	18.1	–0.24
Blackstone Inc.	88.9	–0.17
Trex Company, Inc.	4.6	–0.14
Pool Corporation	11.8	–0.13

Despite strong quarterly business results and expectations of strong business prospects, the shares of **Brookfield Corporation** declined in the most recent quarter. The company is a leading global owner and operator of real assets, such as real estate and infrastructure. We believe the company's global reach, capital, and the synergies of its businesses provide significant opportunities for growth. At its recent price of only $32, we believe the shares are currently valued at more than a 50% discount to management's assessment of the company's value.

Invitation Homes, Inc. was a detractor during the quarter after the company announced disappointing earnings results. Invitation Homes reduced full-year guidance due to higher-than-expected expenses driven by outsized tax assessments in several key states that represented over 40% of cash flow. The company's shares continued to underperform as it become increasingly evident that many expenses would persist into 2023 while the growth outlook remained uncertain given the macroeconomic outlook. While we remain optimistic on the long-term value proposition and growth prospects, we reduced our position due to the evolving near-term concerns and headwinds.

Blackstone Inc. was a detractor in the fourth quarter as shares sold off sharply in December after the company announced that it received redemption requests above monthly and quarterly caps in its non-traded REIT fund (BREIT) and would be limiting investor withdrawals. BREIT was one of Blackstone's fastest growing flagship retail fund vehicles and hence received outsized investor attention and media coverage. While redemptions themselves aren't surprising given the stark performance dispersion between BREIT and publicly listed real estate, investors grew concerned that the decision to limit withdrawals would create a cascading effect, eventually force BREIT to liquidate assets and perhaps impair the growth of additional retail fund vehicles. Subsequently, Blackstone increased liquidity through the sale of a JV interest in Las Vegas casino assets at attractive prices and received a $4 billion investment from the University of California. While acknowledging the step back and near-term headwinds, we believe BREIT has plenty of runway to meet redemptions without being forced to liquidate assets.

We remain bullish, however, about the company's long-term prospects. Blackstone is the world's largest alternative asset manager with $1 trillion in assets under management and the largest real estate manager in the world. Blackstone has a premier brand, a global franchise, loyal customers, an exceptional balance sheet, and an excellent management team.

Following a more than 36% correction in its shares in 2022, we believe Blackstone's valuation has become more compelling and may look for opportunities to add additional shares in the future.

The shares of two leading residential-related building products companies declined in the most recent quarter in part due to concerns about the housing-related slowdown and corresponding expected slowdown in their growth:

- **Trex Company, Inc.:** the #1 manufacturer of wood-alternative outdoor decking and railing in the U.S by market share.
- **Pool Corporation:** the world's largest distributor of swimming pool supplies, equipment, and related leisure products and is also one of the top three distributors of irrigation and landscape suppliers in the U.S.

We have been buying shares of both Trex and Pool at prices that we believe are attractive relative to their long-term growth opportunities.

Concluding Thoughts on the Prospects for Real Estate and the Fund

We are mindful that 2022's repricing of the stock market and real estate securities was unpleasant and may continue in the months ahead given the expectation that economic growth will slow, and several company growth forecasts will be lowered.

Yet, as we peer into 2023, we believe last year's recalibration has wiped away much of the froth in stock market valuations and has set the stage for a favorable multi-year outlook for public real estate companies and the Fund.

We believe 2023 may ultimately emerge as a mirror image of 2022 in that many of the headwinds of 2022 (higher inflation, a sharp increase in interest rates, aggressive Fed tightening, widening credit spreads, valuation compression) reverse course and become tailwinds in 2023, thereby contributing to solid full-year returns.

We believe prospective two- to three-year returns could be quite strong should a severe economic slowdown be avoided and 2024 emerges as a solid rebound year for economic and corporate profit growth.

Many public real estate companies now offer compelling return prospects that, in some cases, may include a trifecta combination of growth, dividends, and an improvement in valuation.

Baron Real Estate Fund Outlook

We are optimistic about the prospects for the Fund, because we believe we have assembled a portfolio of best-in-class competitively advantaged real estate companies with compelling long-term growth and share price appreciation potential. We have structured the Fund to capitalize on compelling investment themes. Valuations and return prospects are attractive.

We also believe the benefits of our broader and more flexible approach, which allows us to invest in a full array of real estate companies including REITs and non-REIT real estate-related companies, will shine even brighter in the years ahead in part due to the new and evolving real estate landscape. Some companies will experience an acceleration in tailwinds and others are likely to face ongoing headwinds.

For these reasons, we remain positive on the outlook for the Baron Real Estate Fund.

Table XI.
Top 10 holdings as of December 31, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
CoStar Group, Inc.	$ 31.4	$67.9	5.3%
Prologis, Inc.	104.1	66.9	5.2
Toll Brothers, Inc.	5.5	61.9	4.9
Brookfield Corporation	51.5	58.4	4.6
American Tower Corp.	98.6	54.9	4.3
Equinix, Inc.	60.6	49.7	3.9
CBRE Group, Inc.	24.3	48.5	3.8
Lennar Corporation	25.8	47.5	3.7
D.R. Horton, Inc.	30.7	40.2	3.1
SiteOne Landscape Supply, Inc.	5.3	39.0	3.1

I would like to recognize the immense contribution of our top-notch real estate team – David Kirshenbaum, George Taras, and David Baron – for their dedication and excellent work. Our team is driven to succeed and remains focused, hardworking, communicative, clear-minded, and flexible. Thank you.

And I thank you, our shareholders, and express my utmost gratitude for your past and continuing support of Baron Real Estate Fund during the past 13 years.

I, and our team, remain fully committed to doing our best to deliver outstanding long-term results, and I proudly continue as a major shareholder, 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 the Funds' 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. 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.

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

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. **Price/Earnings Ratio (next 12-months)**: is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.

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