Dear Baron Real Estate Income Fund Shareholder:

Baron Real Estate Income Fund (the "Fund") declined 2.89% (Institutional Shares) in the first quarter of 2022, outperforming its primary benchmark, the MSCI US REIT Index (the "REIT Index") which declined 4.28%.

Several factors contributed to a volatile market in the first three months of 2022 (detailed in the letter below). Despite our expectations for a challenging year, we remain optimistic about the prospects for the Fund. The fundamentals of many of the businesses we own remain strong, and we are taking advantage of opportunities to invest in and add to quality REITs and other income-oriented real estate companies, many of which are trading at attractive valuations.

We are pleased to report that Baron Real Estate Income Fund was chosen as the winner of the 2022 Refinitiv Lipper Fund Award for the best real estate fund for the three-year period ending December 31, 2022.

We are also pleased to report that as of March 31, 2022, the Fund has maintained its:

- **5-Star Overall Morningstar Rating™**
- **Top 3% ranking among all real estate funds for its 3-year performance**

Since inception, the Fund's cumulative return of 86.97% is almost double the 45.00% cumulative return of the REIT Index.

We will address the following topics in this letter:

- Our current top of mind thoughts
- A review of recent activity managing the Fund
- A REIT market update
- Our 2022 portfolio priorities and investment themes
- Examples of attractively valued REITs and other income-oriented real estate companies
- Concluding thoughts on the prospects for real estate and the Fund (*preview*: we remain bullish)

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

As of 3/31/2022, the Morningstar Ratings™ were based on 236 share classes for the 3-year and Overall periods. The Baron Real Estate Income Fund received 5 Stars for both periods. The Morningstar Ratings are for the Institutional Share Class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

As of 3/31/2022, the Morningstar Real Estate Category consisted of 255 and 236 share classes for the 1- and 3-year periods. Morningstar ranked Baron Real Estate Income Fund in the 84th and 3rd percentiles for the 1- and 3-year periods, respectively

Morningstar calculates the Morningstar Real Estate Category Average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

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

Baron Real Estate Income Fund

Baron Real Estate Income Fund Performance

Table I.
Performance
For periods ended March 31, 2022

	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]	(3.02)%	(2.89)%	(4.28)%
One Year	16.60%	16.97%	25.02%
Three Years	21.04%	21.24%	9.92%
Since Inception (December 29, 2017)	15.62%	15.86%	9.14%
Since Inception (December 29, 2017) (Cumulative)[3]	85.30%	86.97%	45.00%

OUR CURRENT TOP OF MIND THOUGHTS

1. **We expect 2022 will continue to be a difficult year.**

   We believe **2022 will continue to 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 some segments of real estate.

   Early in 2022, we stated our expectation that **this year would be a normalization or transition year** – a normalization in interest rates, inflation, valuation multiples, stock market returns, the ongoing reopening of the U.S. economy, the COVID-19 pandemic, and a transition in Federal Reserve policy from accommodation to contraction. Many of these anticipated considerations and the Russia/ Ukraine war have contributed to a challenging market environment in the first few months of 2022.

2. Though we are mindful of many of the key risks to the equity and real estate market outlook, **we remain optimistic about the prospects for REITs and other income-oriented real estate companies–in some cases, more so today than three months ago given the correction in certain share prices since the start of the year.**

3. **Several REITs and other income-oriented real estate companies are on sale.**

   - A good portion of public real estate is attractively valued relative to history.
   - Several segments of public real estate are on sale relative to private real estate alternatives. In other words, *valuations for several real estate companies are cheaper on "Wall Street than on Main Street."*
   - For examples of attractively valued REITs and income-oriented real estate companies, please refer to "Examples of attractively valued REITs and income-oriented real estate companies" later in this letter.

4. **There is a strong case to include an allocation to real estate in a diversified investment portfolio.**

   - **Near-term case for real estate**: Demand in most cases continues to outstrip supply, favorable business conditions do not portend a recession, strong and liquid balance sheets, substantial private capital in pursuit of real estate ownership, and several attractively valued public real estate companies.
   - **Long-term case for real estate**: Strong long-term return potential, diversification benefits due to low correlations to equities and bonds, and inflation protection.

5. **A well-crafted real estate portfolio can perform well in a rising interest rate and elevated inflationary environment.**

   - **Interest rates**: Real estate can perform well in a rising interest rate environment if business conditions are improving and both the rate of change in interest rates and the ultimate level of interest rates does not create consumer sticker shock and/or become a headwind to operating performance.
   - **The performance of Baron Real Estate Income Fund in rising rate environments – most recent case study:** Since bottoming at 0.50% on March 9, 2020, the 10-year Treasury yield increased nearly 200 basis points to a recent peak of 2.49% as of March 25, 2022. During this period of rising interest rates, the Baron Real Estate Income Fund increased 67.51% on a cumulative basis, which compares favorably to the REIT Index, which increased 37.47%.
   - **Inflation**: Certain real estate has the ability to raise prices to provide partial inflation protection – well-located real estate in supply constrained markets, real estate with short-lease durations, and leases with contractual annual rent escalators.
   - ***More than 50% of the Fund is currently structured with companies that offer elements of inflation protection***

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 1.42% and 1.08%, 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, 2032, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The **MSCI US REIT Index** is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The index and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The index is unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Not annualized.

characteristics. Examples include: the Fund's investments in several REIT types including apartments, self-storage, single-family home rental, manufactured housing, health care, and hotels and other income-producing real estate companies.

- **Playbook for rising interest rate and inflationary environments**
    - Prioritize short-lease duration real estate that can reprice more often to partially offset interest rate and inflationary pressures
    - Emphasize real estate-related companies that will benefit disproportionately from an improvement in the economy
    - Emphasize companies with strong pipelines of projects to supplement organic growth
    - Invest in companies with strong balance sheets that can weather a rise in interest rates
    - Monitor companies that are more susceptible to higher borrowing costs

6. We believe the Baron Real Estate Income Fund – with the demonstrated merits of our actively managed REIT and income-oriented investment approach – is a highly compelling real estate mutual fund choice.

A REVIEW OF RECENT ACTIVITY MANAGING THE FUND AND PERFORMANCE

Recent Activity

We have maintained an elevated active approach to managing the Fund in the first three months of 2022 due to:

- The ongoing evolution of tailwinds and headwinds in certain segments of real estate
- Company-specific considerations
- The emergence of several macro headwinds such as the recent spike in interest rates and persistently high inflation
- High stock market volatility

We believe our action steps have positioned the Fund for strong long-term performance. They include:

- Purchasing "best-in-class" REITs and real estate income-producing stocks that were on sale
    - Examples: **Public Storage Incorporated**, **AvalonBay Communities, Inc.**, **Equity Residential**, **Pebblebrook Hotel Trust**, **Boston Properties, Inc.**, **Blackstone Inc.**, and **Brookfield Asset Management Inc.**
- Purchasing cyclical REIT and other real estate income-producing stocks such as travel and hospitality-related real estate stocks that had declined sharply from 2021 share price highs but possess the potential to appreciate significantly over the new few years
    - Examples: **Park Hotels & Resorts Inc.**, **Host Hotels & Resorts, Inc.**, **MGM Resorts International**, **Boyd Gaming Corporation**, and **Travel + Leisure Co.**

Table II.
Top net purchases for the quarter ended March 31, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Vornado Realty Trust	$ 8.7	$5.3
Ventas, Inc.	24.7	3.4
Las Vegas Sands Corporation	29.7	3.2
Public Storage Incorporated	68.4	3.0
Kilroy Realty Corporation	8.9	2.9

In the most recent quarter, we re-acquired shares in **Vornado Realty Trust**, a REIT that owns a high-quality portfolio of office and street retail assets concentrated in New York City. As economic activity improves and employees return to work, we expect leasing and occupancy trends to improve. At its recent price of only $42, we believe the shares are attractively valued at a 50% discount to our estimate of net asset value of $85 per share.

We acquired additional shares in **Ventas, Inc.**, a health care REIT that owns a $30 billion portfolio of senior housing, medical office, hospitals, and life science properties. The company's scale allows it to swiftly act on large investment opportunities. We believe the company's senior housing portfolio, which represents approximately 45% of assets, should deliver improved operating results as the headwinds from COVID-19 and the Delta/Omicron variants subside. We also believe the shares remain attractively valued and offer prospects for strong total shareholder returns.

Following a close to 50% decline in the share price of **Las Vegas Sands Corporation** from its 2021 peak share price of $67 to $34, we began re-acquiring shares of this global leader in the development and operation of luxury casino resorts in the most recent quarter. We believe Las Vegas Sands' market-leading resorts in Macau and Singapore position the company for strong growth when travel and tourism spending rebound. Las Vegas Sands maintains a liquid and investment grade balance sheet and is currently valued at a significant discount to our assessment of replacement cost.

Public Storage Incorporated is a REIT that is the world's largest owner, operator, and developer of self-storage facilities. The company's nearly 2,500 self-storage facilities across the U.S. serve more than one million customers. The company has achieved the #1 market position in 14 of its top 15 markets. We are encouraged about the company's prospects due to our expectations for the continuation of strong occupancy and rent trends, limited new supply, mid-teens organic cash flow growth, the potential for mergers and acquisitions activity in part due to the company's well-capitalized and low leverage balance sheet, and the ability to increase rents monthly to combat inflation headwinds. We believe Public Storage's shares are currently valued at a discount to private market self-storage values and offer prospects for mid-teens total returns in the next few years.

This past quarter, we re-acquired shares in West Coast office REIT, **Kilroy Realty Corporation**. Kilroy owns, develops, acquires, and manages real estate assets (primarily office buildings) in the coastal regions of San Francisco, Los Angeles, and San Diego. In 2021, the company added Austin, Texas as a new market.

We are optimistic about the prospects for the Fund's investment in Kilroy because the company owns one of the highest quality portfolios of office buildings (i.e., newer buildings with amenities, well-located buildings) that we believe will continue to have strong interest from tenants and investors. We believe the company is poised to generate solid growth in cash flow from occupancy gains and increases in rents (in-place rents are approximately 15% below market rents) as economic activity improves and employees return to work. Further, we expect additional growth to be generated from its active development pipeline which is approximately 50% leased and will result in an expansion of its assets by more than 10%. The company maintains a strong and liquid balance sheet.

We believe the shares of Kilroy are attractively valued at a 6.5% implied cap rate and a 30% discount to our estimate of net asset value and offer compelling return potential in the next few years.

Table III.
Top net sales for the quarter ended March 31, 2022

	Quarter End Market Cap (billions)	Amount Sold (millions)
Rexford Industrial Realty, Inc.	$ 12.0	$3.9
Prologis, Inc.	119.5	3.4
Simon Property Group, Inc.	43.2	2.5
Invitation Homes, Inc.	24.4	2.0
Duke Realty Corporation	22.2	1.6

Following exceptionally strong share price performance over the last few years, we recently reduced the Fund's positions in industrial REITs **Rexford Industrial Realty, Inc.**, **Prologis, Inc.**, and **Duke Realty Corporation**. These companies are, in our opinion, best-in-class industrial REITs that have long runways for growth. Rexford, Prologis, and Duke continue to benefit from robust demand for their warehouse facilities driven by the growth of e-commerce and the need for infill real estate locations to service last mile deliveries.

Following a share price gain of nearly 93% in 2021, we recently trimmed the Fund's holdings in **Simon Property Group, Inc.**, the largest and premier mall operator in the U.S. Though we are also tempered by the expectation for modest earnings growth in 2022, we remain optimistic about the company's long-term prospects. Simon owns A-quality malls in A-quality geographic locations. We expect Simon to benefit from the ongoing economic recovery and believe management is well positioned to acquire real estate assets given its strong balance sheet and low cost of capital.

We recently reduced the Fund's large holding in **Invitation Homes, Inc.** Invitation Homes is the largest single-family home leasing company in the U.S. with approximately 80,000 homes concentrated in California, Florida, Georgia, Arizona, 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: i) significant pent-up demand from the millennial generation to rent single-family homes against a backdrop of constrained inventory (which we expect will lead to rental and occupancy growth); ii) acquisitions of homes in high-growth geographic markets; and iii) the expansion of ancillary home services for residents (e.g., enhanced smart home, pest control, landscaping, and pet services).

Recent Performance

Top contributors and detractors to performance in the first quarter of 2022 are detailed below.

Table IV.
Top contributors to performance for the quarter ended March 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
Ventas, Inc.	$24.7	0.86%
NexPoint Residential Trust, Inc.	2.3	0.29
Brookfield Infrastructure Partners L.P.	29.3	0.28
Public Storage Incorporated	68.4	0.28
Kilroy Realty Corporation	8.9	0.27

The shares of **Ventas, Inc.**, a health care REIT that owns a $30 billion portfolio of senior housing, medical office, hospitals, and life science properties gained more than 21% in the first quarter following strong quarterly business results and an encouraging business outlook from management. We believe the company's senior housing portfolio, which represents approximately 45% of assets, will continued to deliver improved operating results given its attractive cyclical and secular growth prospects. We believe the shares remain attractively valued and continue to offer prospects for strong total shareholder returns.

Following strong quarterly results and an encouraging update from management, the shares of **NexPoint Residential Trust, Inc.,** a sunbelt-focused apartment REIT, performed well in the most recent quarter. The company owns and operates approximately 15,000 apartment units across 10 geographic markets primarily geared toward "workforce housing" with average rents of $1,300 per month. The company has substantial insider ownership and has been one of the most successful apartment operators in terms of equity value creation among its peers.

Despite the recent robust share price performance, we still believe the company is trading at a meaningful discount to its private market value. In addition, we believe NexPoint will achieve above average organic growth and are optimistic about the prospects for the company due to: i) its favorable market exposure in the sunbelt (attractive job growth, household formation, net migration, and increasing cost of ownership); ii) a shortage of affordable housing broadly, which is more acute in the sunbelt; iii) relative affordability both to other apartment or single-family rental options and the cost of home ownership; and iv) its ability to deploy capital into attractive value-add opportunities such as kitchen upgrades and washer/dryer installations at high returns on capital (around 20%) to augment organic growth. Lastly, we believe the NexPoint platform remains an attractive acquisition candidate given recent transactions in the market of similar or greater size. These transactions were completed at more attractive valuations than where the company is currently being valued in the public markets.

Brookfield Infrastructure Partners L.P. is one of the largest globally diversified owners and operators of high-quality infrastructure assets in the world. The company's core infrastructure investments include utilities, data centers, wireless towers, energy, and transportation (ports and rails).

Since its public listing in 2008, Brookfield's management team has achieved an impressive track record of growing the company's earnings per share

17% annually and its dividend by approximately 10% annually. Over this period, the company's shares have increased, on average, 19% per year.

We remain optimistic about the company's long-term prospects. Brookfield generates stable and growing cash flows–95% of its cash flow is either regulated or under long-term contracts. The company, with its well-capitalized balance sheet and deep and experienced management team, is well- positioned to capitalize on several years of infrastructure investment opportunities around the world, which should enhance future growth. We view Brookfield's organic and acquisition-related growth prospects, current valuation, and 3.2% dividend as attractive.

The shares of both **Public Storage Incorporated** and **Kilroy Realty Corporation** generated solid gains in the first quarter of 2022, in part due to solid quarterly business results. We remain optimistic about the prospects for both companies. For our more complete thoughts on both companies, please refer to our discussion of each company earlier in this letter below Table II.

Table V.
Top detractors from performance for the quarter ended March 31, 2022

	Quarter End Market Cap (billions)	Percent Impact
Simon Property Group, Inc.	$ 43.2	–0.72%
American Tower Corp.	114.5	–0.64
Invitation Homes, Inc.	24.4	–0.59
Sun Communities, Inc.	20.4	–0.43
Equinix, Inc.	67.3	–0.42

Following exceptionally strong share price performance for several of the Fund's holdings the last few years, many declined in the first quarter of 2022, along with declines in the broader market. Examples of some of the companies that were detractors to performance in the most recent quarter include **Simon Property Group, Inc.**, **American Tower Corp.**, **Invitation Homes, Inc.**, **Sun Communities, Inc.**, and **Equinix, Inc.** We believe each of these companies are exceptionally well managed and own and operate quality real estate and remain optimistic about their long-term prospects. We will have more to say about them in future letters.

A REIT MARKET UPDATE

In the first few months of 2022, we have remained busy attending several real estate conferences and meetings and furthering our research. The updates from real estate companies encompassing most real estate categories remain broadly encouraging.

Though we are mindful of macro-economic, geopolitical, and certain company-specific challenges, **we continue to believe the prospects for REITs and several non-REIT real estate-related companies remain attractive.**

1. **Business fundamentals are, in most cases, solid and the outlook does not portend a recession (for now).**

2. **REIT growth prospects are encouraging.**

   We believe REITs, on average, will grow earnings approximately 10% in 2022, far more than its 15-year average of approximately 4%.

   Growth should be fueled by broadly improving demand and constrained supply and growth through acquisitions, development, and redevelopment.

   Regarding the demand outlook, commercial occupancy and rents, in most cases, remain strong against a backdrop of modest inventory levels.

   Regarding the supply outlook, we are not witnessing warning signs of excess inventory and sharp increases in new construction.

   Commercial real estate construction activity and inventory levels remain modest due, in part, to elevated construction costs and labor shortages.

3. **Balance sheets are strong.**

   Most REITs are maintaining strong and liquid balance sheets and are not using debt excessively relative to company-generated cash flow.

4. **Many REITs remain on sale in the public markets.**

   We see a shift from multiple expansion or cap rate compression to earnings growth as the key driver of REIT returns going forward. However, the valuations of several REITs and non-REIT real estate-related companies remain discounted and offer prospects for cap rate compression and growth.

   For our more complete thoughts on attractively valued real estate, please see "Examples of attractively valued REITs and other income-oriented real estate companies" later in this letter.

5. Should inflation continue to rear its head, **some REITs and other income-oriented real estate companies serve as a hedge and provide inflation-protection characteristics** such as annual rent escalators, short-lease durations, and pricing power within supply-constrained markets.

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

   We continue to believe that real estate merger and acquisition activity will remain strong.

   We estimate that more than $300 billion of capital has been raised by private equity sources to invest in real estate, which equates to approximately $1 trillion of total real estate purchasing capacity, assuming typical 70% financing!

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

And, so, **we remain bullish.**

OUR 2022 INVESTMENT THEMES AND PORTFOLIO COMPOSITION

We have continued to structure the Fund to take advantage of three real estate-related themes. They are:

- COVID-19 recovery beneficiaries
- Residential-related real estate
- The intersection of technology and real estate

1. COVID-19 recovery beneficiaries

This investment theme encompasses REITs and non-REIT real estate companies at the epicenter of the pandemic.

Since the onset of pandemic, certain REITs and other real estate-related businesses that rely on the assembly of people have been severely impacted by COVID-19 as they were forced to shut down all or a large part of operations almost without exception.

For several months, the share prices of many of these companies have moved up and down in a roller coaster fashion mirroring the onset and path of COVID-19 variants (Delta, Omicron, BA.2) and many remain significantly below their peak prices.

We remain optimistic about the prospects for the Fund's COVID-19 recovery beneficiaries because we believe the businesses remain cyclically depressed, not secularly challenged and there is strong pent-up demand. We expect business conditions and the share prices of these businesses to improve as more people receive booster shots and the FDA-authorized Pfizer and Merck COVID treatment pills come into use.

There is a broad swath of COVID-19 recovery beneficiaries including hotel, office, apartment, gaming, mall, and health care REITS as well as casinos & gaming operators and real estate operating companies.

We believe the Fund's COVID-19 recovery beneficiaries offer prospects for strong annual returns over the next few years.

Examples of the Fund's COVID-19 recovery beneficiaries include:

Timeshare, Gaming, and Leisure Companies

Marriott Vacations Worldwide Corp., **Travel + Leisure Co.**, **Boyd Gaming Corporation**, **MGM Resorts International**, **Las Vegas Sands Corporation**, **Red Rock Resorts, Inc.**, and **Vail Resorts, Inc.**

Office REITs

Vornado Realty Trust, **Kilroy Realty Corporation**, **Boston Properties, Inc.**, and **Alexandria Real Estate Equities, Inc.**

Hotel REITs

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

Health Care REITs

Ventas, Inc. and **Welltower Inc.**

Mall REITs

Simon Property Group, Inc.

Shopping Center REITs

Kite Realty Group Trust

Gaming REITs

Gaming and Leisure Properties, **Inc.**

Commercial Real Estate Services Companies

Kennedy-Wilson Holdings, Inc.

On March 31, 2022, COVID-19 recovery beneficiary companies represented 46.5% of the Fund's net assets.

Table VI.
COVID-19 recovery beneficiaries as of March 31, 2022

	Percent of Net Assets
Timeshare, Gaming, and Leisure Operators	16.5%
Office REITs	8.0
Hotel REITs	7.0
Health Care REITs	6.8
Mall REITs	3.1
Shopping Center REITs	2.1
Gaming REITs	1.6
Commercial Real Estate Services Companies	1.4
Total	46.5%

2. Residential-related real estate

We remain optimistic about the prospects for residential real estate that revolves around rental apartments, single-family homes, and the land for affordable manufactured homes.

- **Robust demand**

  We believe that current demand drivers remain supportive for apartment rentals, single-family rental homes, and manufactured homes.

  Multi-Family REITs

  Demand for apartments has snapped back faster than anyone could have anticipated with current market rents at or above pre-COVID levels and landlord rental concessions virtually non-existent today. Near-term demand is being supported by:

  - New households that cannot afford to buy a home in part due to the inability to meet mortgage down payment requirements and other affordability concerns such as the recent spike in mortgage rates and the on-going sharp increases in home prices
  - Residents who temporarily left, returning to cities once they could enjoy their entertainment and social aspects
  - Roommates taking the opportunity to decouple with a desire for more space given work-from-home flexibility
  - Bargain hunters taking advantage of vacant inventory and landlord concessions during COVID to trade up or move to neighborhoods that were unaffordable before
  - Demand from two classes of graduates (2020 and 2021) hitting the market simultaneously with offices beginning to reopen in the fall

  All these trends are rapidly leading to limited inventory availability and significant pricing power for landlords. Note that most of the urban apartment demand is driven by tenants who are in their early 30s or younger.

  Single-Family Rental REITs

  Demand for suburban life or the American Dream also continues unabated. The typical renter of a single-family home is 39 years old, has two kids, a pet, and is seeking good schools with an easy commute. While some families may have pulled forward their decision to move during the pandemic, we expect the multi-year demand drivers to endure. Recently signed new leases approached 20% year-over-year growth with high single-digit growth on renewals and nearly full occupancy. There remain 73 million millennials who represent future demand for single-family rental homes. Key drivers of demand include a "rentership" culture among millennials while prioritizing experiences over possessions, limited supply of entry level housing, high student debt burdens/limited savings for a down payment and the increasing institutionalization of the asset class with professionally managed homes.

Manufactured Housing REITs

In the aftermath of the economic impact from COVID-19, we expect demand for affordable housing to continue to benefit manufactured housing REITs.

- **Few affordability concerns**

  Affordability remains a key topic of conversation given the historically high absolute rental growth we are witnessing in the reported results of both single-family and multi-family landlords. While rents have increased, the monthly income to rent ratios remain at or even above historical levels (approximately 5 times). Wage growth has remained strong and many of our companies target an affluent demographic that has saved a significant amount of money over the last 12 to 18 months. In other words, tenant credit quality has improved despite the unprecedent rent growth, which should give landlords the ability to increase rents further, once again, on renewals. Apartment landlords are also benefiting from relative affordability advantages vs. the for-sale housing market.

- **Strong absolute and relative growth**

  The growth outlook for residential real estate is one of the strongest across most categories of REITs given: i) strong imbedded mark-to-market rents; ii) cycling leases that were signed with heavy concessions during pandemic lows; and iii) burning off bad debt expense. These factors, combined with strong continued demand, should lead to outsized overall growth relative to REITs overall.

- **Short-lease duration real estate**

  With the ability to reset rents every year, we believe apartment, single-family home rental, and manufactured housing landlords will continue to enjoy pricing power that could lead to strong top-line growth and margin expansion.

- **Attractive values**

  Despite strong stock performance in 2021, we believe, based on transactions we have observed, that residential real estate REITs still offer compelling value relative to their imbedded growth and private market comparables. We believe if some of these assets traded in the private market today, they could fetch premiums of 20% or more.

On March 31, 2022, residential-related real estate represented 25.3% of the Fund's net assets.

Table VII.
Residential-related real estate as of March 31, 2022

	Percent of Net Assets
Multi-Family REITs	15.5%
Single-Family Rental REITs	5.2
Manufactured Housing REITs	2.7
Student Housing REITs	1.9
Total	25.3%

3. The Intersection of technology and real estate

This quarter we reduced our exposure to technology-centric real estate-related companies such as data center REITs and wireless tower REITs due to elevated valuations and lower return prospects than other segments of real estate.

The shares of several data center, wireless tower, and other technology-related real estate companies have lagged, and valuations are becoming more attractive. As a result, we continue to look for opportunities to increase the Fund's exposure to these segments of real estate.

Despite short-term headwinds, we remain long-term bullish on the prospects for companies that embrace the intersection of technology and real estate.

The growth in cloud computing, the internet, mobile data and cellphones, wireless infrastructure, and e-commerce are powerful secular developments that should continue unabated for years and are impacting real estate, along with many other industries.

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

Real estate-related companies that embrace and adopt the latest technological advances and innovations remain an important thematic focus for us. Key beneficiaries of the technology revolution include data center REITs, wireless tower REITs, and last mile logistics warehouses (or industrial REITs).

Wireless Tower REITs

Our tower REITs, **American Tower 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 (e.g., online shopping, video streaming, and working from home).

Data Center REITs

Our data center REIT, **Equinix, Inc.**, is benefiting from the meteoric growth in the outsourcing of information technology, increased cloud computing adoption, and the growth in U.S. mobile data and internet traffic.

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

Industrial REITs

We expect business conditions for the Fund's industrial REIT holdings (**Prologis, Inc.**, **Rexford Industrial Realty, Inc.**, **Duke Realty Corporation**, and **First Industrial Realty Trust, Inc.**) to remain strong for several years.

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

On March 31, 2022, technology-centric REITs that we expect to directly benefit from long-term technology growth represented 13.4% of the Fund's net assets.

Table VIII.
Intersection of technology and real estate as of March 31, 2022

	Percent of Net Assets
Industrial REITs	6.3%
Wireless Tower REITs	5.4
Data Center REITs	1.7
Total	13.4%

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

Table IX.
Fund investments in REIT categories as of March 31, 2022

	Percent of Net Assets
Non-REIT Real Estate Companies	24.2%
Multi-Family REITs	15.5
Office REITs	7.2
Hotel REITs	7.0
Health Care REITs	6.8
Industrial REITs	6.3
Self-Storage REITs	5.7
Wireless Tower REITs	5.5
Single-Family Rental REITs	5.2
Mall REITs	3.1
Manufactured Housing REITs	2.7
Shopping Center REITs	2.1
Student Housing REITs	1.9
Data Center REITs	1.7
Triple Net REITs	1.6
Other REITs	0.7
Cash and Cash Equivalents	2.8
Total	100.0%

EXAMPLES OF ATTRACTIVELY VALUED REITS AND OTHER INCOME-ORIENTED REAL ESTATE COMPANIES

We believe that several REITs and other income-oriented real estate companies are attractively valued relative to history and are on sale relative to private real estate alternatives.

A portion of the value in public real estate surfaced in the first quarter of 2022. In the first three months of the year, an abundance of mostly macro developments – a spike in interest rates and mortgage rates, increases in food, oil, gas, and housing prices – contributed to declines in the share prices of several real estate companies.

We believe several public real estate companies now offer **compelling long-term return prospects that, in some cases, may include a trifecta combination of growth, dividends, and an improvement in valuation.**

Examples of REITs and other income-oriented real estate companies that are attractively valued

Ventas, Inc.

- A leading health care REIT that owns a $30 billion portfolio of senior housing, medical office, hospitals, and life science properties
- Currently valued at a discount to net asset value and significant discount to a key public competitor

Invitation Homes, Inc.

- Leading single-family rental REIT that is currently valued at a discounted value to several REITs despite its superior growth prospects

NexPoint Residential Trust, Inc.

- A sunbelt-focused apartment REIT that is currently valued at a significant discount to our assessment of net asset value

Vornado Realty Trust

- A REIT that owns a high-quality portfolio of office and street retail assets concentrated in New York City
- At its recent price of only $41 and with more than a 5% dividend yield, we believe the shares are attractively valued at a 50% discount to our estimate of net asset value of $85 per share

Pebblebrook Hotel Trust

- Premier hotel REIT that was recently valued at only $22 per share, while management's estimate of current net asset value is $32.50 per share or approximately 50% higher than the current price

Gaming and Leisure Properties, Inc.

- A gaming REIT that is a geographically diversified owner of casino gaming assets
- Currently valued at a 6% dividend yield and at a significant discount to the private market value for its real estate assets

Brookfield Asset Management Inc.

- A leading alternative asset manager that is one of the largest owners and operators of real estate and infrastructure assets in the world

- At the company's September 2021 investor day, the management team laid out a multi-year growth plan with expectations for its shares to increase from its recent price of $55 to more than $150 in the next five years
- Management has a track record of under-promising and over-delivering

Boyd Gaming Corporation

- One of the largest and most successful casino entertainment companies in the U.S.
- The company owns and operates 28 casino gaming properties in 10 states with a large presence in Las Vegas
- Business conditions remain strong, yet the shares are valued at only 7.0 times 2022 estimated cash flow and a double-digit free cash flow yield relative to its long-term average of more than 9 times cash flow

Travel + Leisure Co.

- A leading timeshare and hospitality company that is valued at only 12.5 times 2022 estimated earnings despite management's expectations to grow earnings per share by approximately 20% per year for the next four years

MGM Resorts International

- Leading global casino and entertainment company
- At its recent price of $41 per share, we believe the company is valued at a significant discount to our base case $60 per share estimate of the sum-of-the-parts value of its business

Vail Resorts, Inc.

- Leading real estate portfolio of ski resorts currently valued at only 13 times cash flow vs. its long-term average multiple of approximately 15 times cash flow

We believe there are several other REIT and income-oriented real estate companies that are attractively valued and, in some cases, highly discounted. A few additional examples include:

- Certain hotel REITs are currently valued at 30% to 50% discounts to estimated replacement cost
- Office landlords, despite expectations for occupancy and rental pressures, are, in our opinion, cheap at 40% to 50% discounts to replacement cost
- Certain shopping centers are currently valued at steep discounts to intrinsic value

Examples of REITs and other income-oriented real estate companies that are on sale relative to private real estate alternatives

We closely monitor the valuations paid for private real estate.

Currently, much of public real estate is on sale relative to private real estate. In other words, it's cheaper to buy on *"Wall Street than on Main Street."*

The current favorable arbitrage between public and private real estate valuations may bode well for the return prospects for public real estate companies and investors. We anticipate that one of two scenarios is likely to unfold:

1. The share prices of discounted public real estate companies will increase organically to a more appropriate valuation; or,
2. Private equity, with its more than $300 billion of capital that has been raised and targeted for real estate purchases, will acquire the discounted public real estate companies at premium valuations to current prices.

Below is a sampling of the capitalization rates paid in private real estate transactions for several REIT and non-REIT real estate categories. Note: Capitalization rate ("cap rate") is a real estate valuation measure used to compare different real estate investments. The cap rate is generally calculated as the ratio between the annual rental income produced by a real estate asset to its current market value. The lower the cap rate, the more expensive the headline valuation and vice versa.

The data below highlights the clear premium ascribed to private real estate and the valuation disconnect between public real estate and private real estate.

Multi-Family REITs: Private market transactions in the mid-high 3% capitalization rate range vs. current public market valuations for best-in-class apartment REITs in the low 4% capitalization rate range.

Single-Family Rental REITs: Private market transactions in the mid-3% capitalization rate range vs. current public market valuations for best-in-class single-family rental REITs in the mid-4% capitalization rate range. Analysts estimated that in 2021 Blackstone purchased Home Partners of America for $6 billion or an estimated 3.5% capitalization rate vs. the Fund's investment in Invitation Homes which is currently valued at only a 4.5% capitalization rate.

Office REITs: Private market transactions have occurred at or below a 5% capitalization rates for high-quality properties in several markets vs. current public market valuations for best-in-class office REITs in the mid-5% to mid-7% capitalization rate range. Certain office REITs are valued in the public market on a per square foot basis at approximately 40% to 60% of estimated replacement cost.

Shopping Centers: Private market transactions below 5% capitalization rates, vs. current public market valuations in the mid-5% to mid-7% capitalization rate range.

Self-Storage REITs: Private market transactions in the mid-3% capitalization rate range, vs. current public market valuations for REITs in the low-4% range (notwithstanding having higher-quality portfolios and more significant embedded growth).

Life Sciences Real Estate: Analysts estimated that Blackstone and Ventas purchased life science office buildings at $1,300 to $1,500 per square foot in the private market, yet the Fund owns the public REIT with the premier life science real estate portfolio in the country, Alexandria Real Estate, which is currently valued at only $900 per square foot.

Data Center REITs: Data center REITs QTS and CoreSite were acquired last year at 25 to 27 times EBITDA yet the Fund owns the premier data center company in the world, Equinix, and it is currently valued at only 23 times EBITDA.

Las Vegas-centric Casinos: Private equity firms continue to acquire casino gaming real estate assets in Las Vegas and are paying 16 to 20 times cash flow, yet the Fund's holdings in Red Rock Resorts and MGM Resorts (both with significant Las Vegas exposure) are currently valued at only 7.5 to 10 times cash flow.

Hotels: Many individual and bulk hotel transactions have traded in the private market in the 13 to 17 times cash flow range, representing large premiums to several public hotel companies. Also, several hotels have been acquired in the private market at $600,000 – $1 million per key vs. publicly traded hotel REITs valued on average at $350,000 per key.

Regional Gaming Companies: Bally's recently received a privatization offer for 9 times EBITDA (30% premium to market price) vs. Boyd Gaming's current valuation of only 7.5 times EBITDA. In our opinion, Boyd maintains a far superior real estate portfolio, and if valued at 9 times cash flow, it's shares would appreciate by approximately 40% to 50%.

Timeshare Operators: Private market transactions in the 12.5 times to 15 times cash flow range (10 times for lower quality) vs. high-quality public companies currently valued at 9 to 10 times cash flow.

CONCLUDING THOUGHTS ON THE PROSPECTS FOR REAL ESTATE AND THE FUND

In our year-end 2021 shareholder letter, we said that we anticipated that 2022 may 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 multiple compression in some segments of commercial and residential real estate. If the aforementioned materialized, we would anticipate lower returns relative to the elevated returns of the last three calendar years when the Fund, on average, gained approximately 30% per year.

Regarding the prospects for the stock market and real estate, we also posited that there were cases to be made for the glass being half full or the glass being half empty.

The first quarter of 2022 was certainly challenging to navigate, and the market generally took a glass half empty view.

We recognize that in the months ahead there will likely be ongoing elevated volatility and choppy periods in the market. Yet, we remain incrementally positive, in part because of the recent sharp correction in share prices in several real estate companies and ***believe there are valid reasons for optimism for the stock market, REITs and other public real estate companies, and the Baron Real Estate Income Fund***.

U.S. Stock Market Outlook

We believe the end of the global pandemic may be reached as broad population immunity is achieved and with the help of new therapeutics. This may produce a global cyclical recovery, an improvement in employment, a release of consumer pent-up demand for travel and other activities, and increased corporate investments (capital expenditures, mergers and acquisitions, share buybacks). We also believe an eventual easing of supply-chain bottlenecks and labor tightness and moderating economic growth will contribute to a reduction in inflation. Negative real interest rates and reasonably valued stocks continue to bode well for equities relative to bonds. For these reasons, **we remain positive on the outlook for the U.S. stock market.**

Real Estate Market Outlook

We continue to believe the conditions are in place for much of real estate to perform well in the year ahead. As detailed earlier in this letter, real estate business prospects remain favorable for most segments of commercial and residential real estate. Inventory and new construction activity remain modest relative to demand. Balance sheets are in solid shape. Several segments of real estate offer inflation protection characteristics and serve as a partial inflation hedge. Many REITs and real estate-related stocks remain attractively valued relative to equities, bonds, and the private real estate market. There is a staggering amount of private equity capital that continues to target real estate and may drive public real estate asset values higher. For these reasons, **we remain positive on the outlook for real estate.**

Baron Real Estate Income Fund Outlook

We believe the benefits of the Fund's broader and more flexible approach (e.g., we typically invest 75% to 80% of the Fund in REITs rather than 100% and we pursue a more expansive approach to investing in the REIT universe) will continue to shine bright in the years ahead. Amid the evolving real estate landscape, some companies will experience an acceleration in tailwinds and others are likely to face ongoing headwinds. We believe we have constructed a portfolio that is populated with competitively advantaged REITs and non-REIT real estate-related companies. We have structured the Fund to capitalize on compelling investment themes. Valuations and return prospects are attractive. For these reasons, **we remain positive about the outlook for the Baron Real Estate Income Fund.**

Table X.
Top 10 holdings as of March 31, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Public Storage Incorporated	$ 68.4	$8.4	5.7%
Equity Residential	33.8	7.9	5.4
AvalonBay Communities, Inc.	34.7	7.9	5.4
Ventas, Inc.	24.7	7.1	4.9
American Tower Corp.	114.5	6.1	4.2
Vornado Realty Trust	8.7	5.3	3.6
Boyd Gaming Corporation	7.2	5.3	3.6
Brookfield Infrastructure Partners L.P.	29.3	5.0	3.5
Invitation Homes, Inc.	24.4	4.7	3.2
Travel + Leisure Co.	5.0	4.1	2.8

Final Thoughts

I would like to thank my assistant portfolio manager, David Kirshenbaum, and the other primary members of our real estate research team, David Baron and George Taras, for their excellent work and partnership. Our team remains focused, hardworking, clear minded, and energized. Thank you.

And I thank you, our loyal shareholders, and express my utmost gratitude for your past and continuing support of Baron Real Estate Income Fund. I, and our team, remain driven and committed to doing our best to deliver outstanding long-term results, and I proudly continue as a major shareholder, 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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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.

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