Dear Baron Real Estate Income Fund Shareholder:

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

Baron Real Estate Income Fund (the "Fund") declined 18.43% (Institutional Shares) in the second quarter of 2022, modestly underperforming its primary benchmark, the MSCI US REIT Index (the "REIT Index"), which declined 17.16%.

In the first six months of 2022, the Fund declined 20.79%, in line with the performance of the REIT Index which declined 20.71%.

Several factors weighed on performance in the first six months of 2022. While we are disappointed with the challenging start to the year, we remain optimistic about the prospects for the Fund. The fundamentals of many of the businesses we own remain strong. We have been taking advantage of the sharp corrections in the share prices of many businesses 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 as of June 30, 2022, the Fund has maintained its:

- **5-Star Overall Morningstar Rating™**
- **Top 2% ranking among all real estate funds for its 3-year performance**

We will address the following topics in this letter:

- Our current top-of-mind thoughts
- A REIT market update
- Portfolio composition
- Examples of attractively valued REITs and other income-oriented real estate companies
- A review of recent activity managing the Fund
- Concluding thoughts on the prospects for real estate and the Fund

As of 6/30/2022, the Morningstar Ratings™ were based on 229 share classes for the 3-year and Overall periods. The Baron Real Estate Income Fund received 5 Stars for both periods. The Morningstar Ratings™ are for the Institutional Share Class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

As of 6/30/2022, the Morningstar Real Estate Category consisted of 249 and 229 share classes for the 1- and 3-year periods. Morningstar ranked Baron Real Estate Income Fund in the 88th and 2nd 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 FUNDS 1987

Baron Real Estate Income Fund

Baron Real Estate Income Fund Performance

Table I.
Performance
For periods ended June 30, 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]	(18.43)%	(18.43)%	(17.16)%
Six Months[3]	(20.90)%	(20.79)%	(20.71)%
One Year	(12.21)%	(12.00)%	(7.32)%
Three Years	12.22%	12.42%	2.90%
Since Inception (December 29, 2017)	9.62%	9.83%	4.16%
Since Inception (December 29, 2017) (Cumulative)[3]	51.15%	52.50%	20.12%

OUR CURRENT TOP-OF-MIND THOUGHTS

We remain mindful of the reasons to be cautious and understand that stocks may go lower in the months ahead.

Nevertheless, **we believe the shares of several REITs and other income-oriented real estate companies and the Fund may benefit from asymmetrical returns in the next two to three years with significantly higher upside.**

Our expectation for 2022 being a challenging year has been unfolding.

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 some segments of commercial and residential real estate.

We did not anticipate the Russia/Ukraine war and the spillover effects of even higher inflation (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.

The aforementioned factors have led to an unusually challenging investment environment in the first six months of 2022 resulting in simultaneous and sharp declines in stocks, bonds, and most investable assets.

Looking forward, we believe there is reason to be optimistic.

We acknowledge there are valid reasons to remain concerned about the outlook. The possibility of a prolonged war in Ukraine, persistently high food and energy prices, further COVID-19-related economic lockdowns, and an economic slowdown leading to a recession are a sampling of the reasons to be worried.

At this stage, we do not believe we are being pollyannish by having a more "glass half full" perspective.

Reasons for optimism include:

- Real estate share prices have corrected sharply in the first six months of 2022–in some cases by 20% to 60%–most of the bad news has been priced in.
- Business fundamentals remain strong for many companies, though we do anticipate growth to moderate in the months ahead.
- Corporate and consumer balance sheets are healthy.
- Credit markets are functioning well.
- Employment remains a silver lining–there are twice as many job openings as the number of people unemployed.
- Elements of inflation have begun to moderate (e.g., the cost of cars, televisions, homes, and airline tickets).
- The bulk of the move to higher interest rates may have already occurred. In fact, long-dated yields have declined in the last few weeks.
- The war in Ukraine will eventually end which should lead to lower food and energy prices.
- China is now rebounding from its recent COVID-19 lockdowns and economic growth may accelerate in the second half of 2022.
- Investor cash balances are at record highs and negative bets on the stock market ("shorting") are at levels not seen since 2008 (*Source: J.P. Morgan*).
- Investor sentiment appears to be fearful and despondent–often, a harbinger for strong prospective investment returns.

We believe the Fund is chock full of real estate stocks that are unsustainably cheap.

In the first six months of 2022, valuation multiples have compressed sharply. The S&P 500 Index P/E multiple has compressed from 22 to 15 times earnings and the real estate equivalent of a P/E multiple–Funds from Operations ("FFO")–has compressed from 25 to 18.

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.

Many REIT and other income-producing real estate companies are now trading at attractive valuations.

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

If the economic downturn leads to a recession, real estate will be starting from a good place.

We always have our antenna up for real estate warning signs.

While this year's spike in interest rates and widening credit spreads are headwinds for commercial and residential real estate, we believe real estate, for the most part, is in a good place relative to prior economic slowdowns and recessions.

Most real estate business fundamentals remain strong and do not portend a recession.

Both commercial and residential real estate is not overbuilt. Expectations for construction activity are modest, in part, due to elevated land, material, and labor costs and expectations for a slowdown in economic growth. If a recession unfolds, we expect declines in commercial occupancy and rents and residential home prices to be modest and short lived.

Corporate balance sheets are liquid with appropriate levels of leverage, fixed rate debt, and staggered debt maturities.

Certain segments of real estate can 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.

For several real estate companies, dividend yields continue to grow and are supported by strong cash flows.

Real estate should be part of a well-diversified investment portfolio.

We believe real estate should always be a part of a well-diversified portfolio of equities, bonds, and various alternative investments.

In addition to near-term investment merits, the long-term case for real estate remains compelling.

Over time, real estate tends to provide diversification benefits due to low correlations to equities and bonds, inflation protection, and strong long-term return potential.

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

A REIT MARKET UPDATE

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

Though we are mindful of the unusually challenging investment environment–multi-decade high inflation, aggressive central bank tightening, China lockdowns, war in Ukraine, recession fears–w**e believe the prospects for REITs and several non-REIT real estate-related companies are attractive.**

Business fundamentals are, in most cases, solid.

Should a recession arise, we believe several REITs may hold up well given the contracted nature of cash flows, compelling dividend yields, and attractive valuations.

Please see the "PORTFOLIO COMPOSITION" section later in this letter for our summary review of the various REIT categories.

REIT growth prospects are encouraging.

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

Growth should be fueled by broadly improving demand, constrained supply, and 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.

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.

Many REITs remain on sale in the public markets.

We noted at the beginning of this year that we expected a shift from multiple expansion or cap rate compression to earnings growth as the key driver of REIT returns going forward. However, following the sharp correction in several REITs and non-REIT real estate-related companies in the first six months of 2022, valuations in several cases are now 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.

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

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 are bullish.**

PORTFOLIO COMPOSITION

As of June 30, 2022, the Baron Real Estate Income Fund's net assets were composed as follows: REITs (83.2%), non-REIT real estate-related companies (14.0%), and cash (2.7%). The Fund currently has investments in 13 REIT categories. Our exposure to REIT and non-REIT real estate categories is based on our research and assessment of opportunities in each category on a bottom-up basis (See Table II below).

Table II.
Fund investments in REIT categories as of June 30, 2022

	Percent of Net Assets	
REITs		83.2%
Multi-Family REITs	12.1%	
Data Center REITs	11.4	
Wireless Tower REITs	10.0	
Self-Storage REITs	9.9	
Industrial REITs	9.6	
Single-Family Rental REITs	7.8	
Health Care REITs	6.4	
Manufactured Housing REITs	5.1	
Triple Net REITs	3.7	
Hotel REITs	3.5	
Other REITs	1.5	
Shopping Center REITs	1.3	
Student Housing REITs	0.9	
Non-REIT Real Estate Companies		14.0%
Cash and Cash Equivalents		2.7
Total		100.0%*

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

Since the beginning of 2020, we have structured the Fund to take advantage of three real estate-related themes. They have been:

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

Beginning with this letter, we have chosen to retire COVID-19 recovery beneficiaries as an investment theme.

Since the early days of COVID-19, companies that we characterized as "epicenter companies" or "COVID-19 recovery beneficiaries" have been a key investment theme. These companies are both REITs and other real estate-related businesses that rely on the assembly of people and were severely impacted by COVID-19 as they were forced to shut down all or a large part of operations. Examples include several REIT categories (e.g., office, hotel, health care, mall, shopping center, and gaming REITs) and non-REIT real estate-related businesses (timeshare, gaming, and leisure companies, and commercial real estate services companies). The share prices of many of these companies declined sharply early in 2020 and presented highly compelling return prospects.

Since the onset of the pandemic, the Fund's investments in COVID-19 recovery beneficiaries have been a source of strong returns for the Fund. Now that most of the global economy has re-opened, business activity has improved, and it appears that the end of the global pandemic has been achieved given broad population immunity and new therapeutics, it seems that is it the right time to retire "COVID-19 recovery beneficiaries" as an investment theme.

The other two investment themes that we have prioritized are "residential-related real estate" and "the intersection of technology and real estate". They remain important components of the Fund but will now be discussed as part of our review of various REIT categories (e.g., multi-family, single-family rental, manufactured housing, data centers, and wireless tower REITs) and non-REIT real estate companies rather than as separate investment themes.

Our summary observations and exposure to various REIT categories and non-REIT businesses are as follows:

We remain optimistic about the prospects for residential-related REITs that focus on rental apartments, single-family homes, and the land for affordable manufactured homes. As of June 30, 2022, 25.0% of the Fund's net assets were invested in residential-related REITs.

Multi-Family REITs (12.1%): The Fund's multi-family REITs–**Equity Residential**, **AvalonBay Communities, Inc.**, **Camden Property Trust**, and **NexPoint Residential Trust, Inc.**–have been generating strong occupancy, rent, and cash flow growth. We expect in-place rents, which remain below market rents, to be a source of ongoing strong cash flow growth in the near term. We also expect rental apartments to continue to benefit from homeownership affordability challenges. Currently, the Fund's investments in multi-family REITs provide partial inflation protection to offset rising costs due to leases that can be reset at higher rents, in some cases, annually. Valuations are attractive at 5% capitalization rates and remain at discounts to recent private market multi-family transactions which have been valued at high 3% to low 4% capitalization rates.

Single-Family Rental REITs (7.8%): We are bullish about the Fund's investments in single-family rental REITs **Invitation Homes, Inc.** and **American Homes 4 Rent**. Demand conditions for rental homes are attractive due to a decline in home purchase affordability, the propensity to rent, and the strong desire by households to rent homes in suburbs rather than rent apartments in cities. Regarding new construction activity, there is a limited supply of single-family rental homes in the U.S. housing market, increasingly constrained by rising construction costs. Limited inventory combined with strong demand is leading to robust rent growth.

Both Invitation Homes and American Homes 4 Rent have an opportunity to partially offset inflation given that in-place annual leases are significantly below market rents. Valuations are compelling at less than $400,000 per home and at 5% capitalization rates.

Manufactured Housing REITs (5.1%): We are bullish regarding the long-term prospects for the Fund's investments in manufactured housing REITs, **Equity Lifestyle Properties, Inc.** and **Sun Communities, Inc.**

Equity Lifestyle Properties and Sun Communities are part of a niche real estate category that we expect to continue to benefit from favorable demand and supply dynamics. Both companies are the beneficiaries of strong demand from budget-conscious home buyers such as retirees and millennials, and negligible new inventory due to high development barriers. Demand for affordable outdoor vacations (recreational vehicles) also remains strong.

Equity Lifestyle Properties and Sun Communities have strong long-term cash flow growth prospects and low capital expenditure needs. If the macro-economic environment worsens, we expect business results to be resilient due to each company's focus on affordable housing and affordable outdoor vacations.

We are bullish on the prospects for companies that embrace the intersection of technology and real estate. These include data center REITs and wireless tower REITs. As of June 30, 2022, 21.3% of the Fund's net assets were invested in data center and wireless tower REITs.

Data Center REITs (11.4%): In the most recent quarter, we increased the Fund's investments in data center REITs **Equinix, Inc.** and **Digital Realty Trust, Inc.**, because we believe demand prospects are notably improving (bookings of new leases and the pricing of rents), construction is moderating due to higher costs, and valuations are discounted versus recent data center acquisitions.

Long term, both companies are poised to benefit from the secular growth tailwinds such as outsourcing of information technology, increased cloud computing adoption, and 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.

For our more complete thoughts on data center REITs, please see "A review of recent activity managing the Fund" later in this letter.

Wireless Tower REITs (10.0%): Following sharp declines in the share prices of wireless tower REITs in the first six months of 2022, we added to the Fund's investment in **American Tower Corp.** and re-initiated a position in **SBA Communications Corp.** Should economic growth continue to moderate, we believe tower REIT cash flow will not only be resilient but may accelerate in 2023.

The long-term prospects for tower REITs remain encouraging given strong secular growth expectations for mobile data usage, 5G technology, and connected homes and cars, all of which will require increased wireless bandwidth and increased spending by mobile carriers.

For our more complete thoughts on wireless tower REITs, please see "A review of recent activity managing the Fund" later in this letter.

Self-Storage REITs (9.9%): In the last few years, business fundamentals have been remarkably strong for self-storage REITs, in part due to strength in the housing market and sustained new users from COVID-19 (e.g., increased mobility due to pandemic-induced relocations and hybrid work and decluttering efforts for home offices). Occupancy has reached an all-time high and move-in rental rates have accelerated. Elevated construction costs have been constraining new construction. Monthly leases provide an opportunity for landlords to increase rents and combat inflation. Self-storage facilities do not require significant ongoing capital expenditures and business fundamentals have historically held up well during economic downturns.

Though there is a lot to like about self-storage businesses, we are aware that rents and overall cash flow growth may moderate. We are managing the Fund's investments in self-storage REITs **Public Storage Incorporated** and **Extra Space Storage Inc.**, with this possibility in mind.

Industrial REITs (9.6%): Strong business fundamentals fueled by growth in online sales as businesses and consumers relentlessly seek faster delivery bodes well for the continuation of excellent tenant demand and strong rent increases for industrial REITs.

With industry vacancy estimated at less than 4%, and rents on in-place leases at approximately 50% below market rents, we believe the Fund's investments in industrial warehouse REITs **Prologis, Inc.**, **Duke Realty Corporation**, and **Rexford Industrial Realty, Inc.**, have compelling multi-year cash flow growth runways.

Despite our long-term optimism, we are mindful of the possibility of a slowdown in tenant demand, new supply, and rising interest rates and financing costs and the implications for acquisitions and company valuations. We may adjust our investments in industrial REITs with these considerations in mind.

Health Care REITs (6.4%): Following COVID-19-related operational challenges in 2020 and 2021, health care real estate fundamentals are now improving. Rent increases and occupancy gains are heading in the right direction for the Fund's investments in senior housing REITs **Ventas, Inc.** and **Welltower Inc.** Muted supply growth in the next two to three years, due to increasing financing and construction costs and supply-chain challenges, should amplify the recovery in fundamentals. The long-term demand outlook is favorable, driven in part by our aging population, which is expected to accelerate in the years ahead.

Triple Net REITs (3.7%): We remain optimistic about the Fund's triple net gaming REIT investment in **Gaming and Leisure Properties, Inc.** The company owns quality casino and gaming real estate properties. It has an attractive 6.2% dividend yield that is well covered, accretive acquisition growth opportunities, and is, in our opinion, attractively valued.

We have recently begun to acquire shares in **Netstreit Corp.**, a triple net REIT that acquires, owns, and manages a diversified portfolio of single-tenant, net lease retail commercial real estate with high credit quality tenants. We have a favorable view of management and its plan to continue to grow the company rapidly through accretive acquisitions.

We remain mindful of the rising interest rate environment and the possibility that higher debt costs and lower equity prices could negatively impact the ability for net lease REITs to invest in an accretive fashion.

Hotel REITs (3.5%): Exceptionally strong leisure demand and the resumption of business travel are contributing to robust business fundamentals for the Fund's hotel REIT investments in **Pebblebrook Hotel Trust** and **Sunstone Hotel Investors, Inc.**

Given that economic worries have now emerged, we are closely monitoring business fundamentals and our hotel REIT investments. At their current share prices, however, we believe both companies are valued at steep discounts to replacement cost and our assessment of intrinsic value.

Other REITs (1.5%): Following a nearly 35% decrease in its share price in the first six months of 2022, we recently began acquiring additional shares of **Alexandria Real Estate Equities, Inc.**, the life science industry leader and sole publicly traded life science pure play REIT. The company has acquired and developed an irreplaceable life science portfolio and has significant tenant relationships. Chairman and co-founder Joel Marcus has assembled a deep and experienced management team. Alexandria has been benefiting from an increase in funding for health care drug development, which has been contributing to demand for life science buildings that continues to exceed supply, resulting in strong business fundamentals in key geographic markets. We believe the current valuation of Alexandria is compelling.

Shopping Center REITs (1.3%): Recent leasing activity has been strong for the Fund's investments in shopping center REITs **Kite Realty Group Trust** and **RPT Realty** and we believe the valuations of both companies are compelling.

Given the slowdown in economic activity, we are closely monitoring retail sales, store opening and closing plans, and consumer spending and the possible implications for the Fund's investments in shopping center REITs.

Student Housing REITs (0.9%): In the second quarter, **American Campus Communities, Inc.**, the sole publicly traded student housing REIT, entered into an agreement with Blackstone to be acquired in a $12.8 billion all cash transaction at what we believe is a favorable valuation. We will be exiting the Fund's investment in the company.

Non-REIT Real Estate Companies (14.0%): The Fund prioritizes REITs, which typically are at least 80% of the Fund's net assets, but has the flexibility to invest in non-REIT real estate companies that we tend to limit to no more than 15% to 20% of the Fund's net assets. At times, some of the Fund's non-REIT real estate companies may present superior growth, dividend, valuation, and share price appreciation potential than many REITs.

We are bullish about the prospects for the Fund's non-REIT real estate investments. They include the following companies: **Brookfield Infrastructure Partners L.P.**, **Las Vegas Sands Corporation**, **Brookfield Asset Management Inc.**, **Blackstone Inc.**, **Vail Resorts, Inc.**, **MGM Resorts International**, and **Red Rock Resorts, Inc.**

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

Following sharp share price declines in the first six months of 2022, we believe several REITs and other income-oriented real estate companies are attractively valued relative to their historical levels and are on sale relative to private real estate alternatives.

We believe several public REITs and other income-oriented real estate companies offer highly compelling two- to three-year 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. is a leading health care REIT that owns a $35 billion portfolio of senior housing, medical office, hospitals, and life science properties.

We believe the shares are attractively valued at a 10% discount to net asset value, a 5.5% capitalization rate, and a significant discount to a key public competitor.

Invitation Homes, Inc. is a REIT and is the largest single-family home rental company in the U.S.

Despite expectations for continued strong business results, the company's shares declined approximately 21% in the first six months of 2022. We believe Invitation Homes shares are cheap. The company is currently valued at an implied capitalization rate basis of 5.2% versus private market transactions in the 4% capitalization range. The public market implied valuation of its owned homes is only $350,000 per home versus acquisition costs of more than $400,000.

Alexandria Real Estate Equities, Inc. is a REIT and is the leading landlord and developer to the life science industry.

Alexandria's shares were down nearly 35% in the first six months of 2022. We believe the company's real estate is attractively valued at approximately $600 per square foot versus private market transactions for life science real estate in the $1,000 to $1,500 per square foot range. The shares are also valued at a discounted 6% capitalization rate even though the company has recently sold real estate in the 4% to 5% capitalization range.

Pebblebrook Hotel Trust is a premier hotel REIT with 55 hotels across 16 urban and resort markets.

At its recent share price of only $17, the company is valued at more than a 40% discount to management's estimate of the low end of the company's net asset value which is $30.

We have high regard for CEO Jon Bortz. On June 29, Jon acquired shares in the company at similar levels to the current price.

Digital Realty Trust, Inc. is a premier global data center REIT with more than 290 data centers and more than 4,000 customers. It maintains an investment grade balance sheet.

The company is currently valued at only 20 times cash flow (EBITDA) versus several recent private data center transactions that were completed at 25 times to 30 times cash flow. QTS Realty Trust was acquired at 25 times cash flow, CoreSite Realty Corporation at 27 times, and Switch, Inc. at 30 times.

Equity Residential is the largest U.S. apartment REIT and maintains a strong and liquid balance sheet.

The company is currently valued at a 25% discount to net asset value and a 5.2% capitalization rate.

NexPoint Residential Trust, Inc. is a sunbelt-focused apartment REIT.

It is currently valued at a 30% discount to our assessment of net asset value.

Gaming and Leisure Properties, Inc. is a gaming REIT that owns geographically diversified casino gaming assets.

The company is currently valued at a 6.2% dividend yield and at a significant discount to the private market value for its real estate assets.

Brookfield Asset Management Inc. is 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 only $45 to more than $150 over the next five years. Management has a track record of under promising and over delivering. Brookfield is planning to spin off 25% of its asset management business by the end of 2022 at an $80 billion valuation. This compares to the company's overall market capitalization of $73 billion. When accounting for Brookfield's investments in other publicly listed companies, the public market is currently valuing Brookfield's asset management business at only $26 billion versus the company's $80 billion assessment of its value.

Las Vegas Sands Corporation is the global leader in the development and operation of luxury casino resorts in Macau and Singapore and maintains a liquid and investment grade balance sheet.

The company is currently valued at a significant discount to our assessment of replacement cost, and its Macau operations are valued at only 7 times estimated cash flow.

Vail Resorts, Inc. has the leading real estate portfolio of mountain resorts that includes marquee resorts such as Vail, Beaver Creek, Breckinridge, Park City, Whistler Blackcomb, and Keystone.

Vail's shares have declined more than 40% from a peak of $376 in November 2021 to a recent price of only $220 and are currently valued at only 12 times cash flow versus its long-term average multiple of approximately 15 times cash flow.

MGM Resorts International is the leading global casino and entertainment company.

At its recent price of only $30 per share, we believe MGM is valued at a significant discount to our reasonable $50 per share estimate of the sum-of-the-parts value of its business. Further, the company's domestic operations are valued at a 18% free-cash-flow yield. Paul Salem, Chairman of the Board, recently acquired shares.

A REVIEW OF RECENT ACTIVITY MANAGING THE FUND

Recent Activity

In the second 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 action steps continue to position the Fund for strong long-term performance.

Table III.
Top net purchases for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Digital Realty Trust, Inc.	$37.7	$7.2
Equinix, Inc.	59.8	5.6
Extra Space Storage Inc.	22.8	5.2
Prologis, Inc.	87.0	5.1
Duke Realty Corporation	21.1	3.5

While we are optimistic about the longer-term prospects for data center REITs, the Fund had only modest exposure to the group due to elevated valuations levels and near-term company-specific issues that we believed could pose headwinds to the stocks. In the second quarter, we increased our positions when valuations became more reasonable (more than discounting the potential near-term headwinds) and we gathered incremental evidence through our research that business fundamentals remained robust and in some cases were improving.

We believe that secular growth is underpinned by: i) companies outsourcing their information technology since it is more capital efficient, often cheaper, easier to maintain, and allows improved technological performance; and ii) enterprises putting more data and applications in the Cloud versus running them locally on their servers and increasingly using hybrid and multi-cloud for different organizational needs. Given more workers' ability to work from anywhere and their requirements to access data and files from anywhere, Cloud adoption is becoming a *must have* not a *nice to have*.

Digital Realty Trust, Inc. is a global data center operator with 290 data centers across North America, EMEA, APAC, and Latin America. Over the last few years, the company has been undergoing a business transformation, which accelerated after its acquisition of Interxion in March 2020, a pure-play European network-dense data center operator. The company has been shedding non-core slower growth assets, investing and expanding in Europe, and growing its retail colocation business. We have spent a significant amount of time with CEO Bill Stein and CFO Andy Power over the years and believe the investments the company has made are on the cusp of bearing fruit and will pay dividends for years to come. In addition, we believe the fundamentals in its core business are at an inflection point with robust demand/bookings, pricing power, hyperscale cloud players outsourcing more, and limited available competitive capacity. We believe these factors will lead to growth in the business in 2023 and are optimistic on the long-term prospects for the company.

Equinix, Inc. is a network dense global data operator of over 240 data centers in 69 metros and 30 countries. Its customers place high value on the ecosystem of customers that Equinix has curated within its data centers over many years so that they are able to interconnect within the data center facility instead of having data travel through the public internet (latency sensitive applications as well as data security considerations). Customers value the global network with 90% of customers in multiple metropolitan areas and 75% in multiple geographic regions. Equinix has a diverse but valuable customer base with no single customer greater than 2.6% of recurring monthly revenues. COVID-19 has accelerated digital transformation priorities for many organizations, and we believe that Equinix will be poised to benefit from: i) organic growth through new bookings and pricing power (the majority of incremental bookings are from existing customers); ii) growth of high margin cross-connect revenue (approximately 20% of total); and iii) continued geographic expansion through development and select M&A. We believe the combination of these factors will allow the company to grow annual cash flow in the high single-digit range.

Following a sharp correction in its share price during the second quarter, 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.

In the second quarter, the shares of **Prologis, Inc.**, the world's largest industrial REIT, declined 29% as its valuation was reset for the higher interest rate environment and the possibility of still strong but perhaps moderating rent growth. On the other hand, the shares of **Duke Realty Corporation**, a $25 billion industrial REIT, declined only 7% in the second quarter, in large part because the company agreed to merge with Prologis at a 30% premium. We acquired additional shares in both companies in the most recent quarter.

We are optimistic about the prospects for the combined Prologis/Duke Realty entity. Prologis is merging with its largest REIT competitor in Duke Realty. Duke's industrial portfolio is among the best in industrial real estate. The company has an excellent track record in development and construction. We believe the merger has strategic and financial merits including acquiring a high-quality portfolio in mostly similar or attractive real estate markets and the likelihood of realizing both additional revenue and cost savings. We will have more to say on Prologis/Duke Realty in future shareholder letters.

Table IV.
Top net sales for the quarter ended June 30, 2022

	Market Cap When Sold (billions)	Amount Sold (millions)
Vornado Realty Trust	$6.4	$4.7
Boyd Gaming Corporation	5.5	4.6
Travel + Leisure Co.	4.2	3.5
Park Hotels & Resorts Inc.	4.2	3.4
Marriott Vacations Worldwide Corp.	5.6	3.4

In the most recent quarter, we exited the Fund's investment in **Vornado Realty Trust**, a REIT that owns a high-quality portfolio of office and street retail assets concentrated in New York City. Though we have high regard for management and believe the shares are attractively valued, we remain wary of the operational headwinds for office real estate and believe there are superior long-term business prospects for other segments of real estate.

We also exited the Fund's travel-related investments in **Boyd Gaming Corporation**, **Travel + Leisure Co.**, **Park Hotels & Resorts Inc.**, and **Marriott Vacations Worldwide Corp.**

As noted earlier in this letter, we lowered the Fund's exposure to travel-related companies due to the war in Ukraine, a spike in inflation (higher gas/fuel prices, airline tickets, hotel room prices, food prices, housing), and the possibility of a sharp economic slowdown, which may negatively impact leisure and business travel in the next 12 to 18 months.

The shares of several travel-related real estate companies have corrected sharply, and valuations have become more compelling. We may look to increase the Fund's exposure in the future.

Table V.
Top contributors to performance for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Percent Impact
American Campus Communities, Inc.	$ 9.0	0.25%
American Tower Corp.	119.0	0.24
Gaming and Leisure Properties, Inc.	11.7	0.03
Americold Realty Trust	7.8	0.02

In the most recent quarter, the shares of **American Campus Communities, Inc.**, a REIT that is the largest owner and manager of high-quality student housing communities in the U.S., increased 15% as the company agreed to be acquired by Blackstone in a $12.8 billion all-cash transaction. We believe the offer price is attractive at a 4.25% capitalization rate. We have begun the process of exiting the Fund's investment in American Campus and reallocating the capital to other investment opportunities.

During the second quarter, we took advantage of the broader market dislocation and indiscriminate selling to increase the Fund's exposure to wireless tower REITs and added to our position in **American Tower Corp.**

Wireless tower REITs

We are optimistic on the long-term prospects for wireless tower operators for the following reasons.

- **Secular Growth Drivers:**
  - **Mobile Data Growth:** The average smartphone user in the U.S. consumed approximately 3.5 megabytes ("MB") of data per month in 2016. Today, that same user consumes 20 to 25 MB per month with the proliferation of data intensive applications such as video streaming and gaming. Within five years, industry estimates expect this number to be over 50 MB per month. With the addition of connected smart devices, overall mobile data growth is expected to grow 25% per year over the next five years.
  - **5th Generation Mobile Network (5G) Adoption:** After the recent record-setting spectrum airwave auction, mobile carriers are in a race to deploy 5G across their networks. We are still in the early innings of 5G adoption, which will enable future applications (e.g., autonomous cars, augmented reality, 3D video) that are even more data intensive than the applications that exist today. Many industry experts believe the 5G investment cycle will be elongated and last over a period of 10-plus years partially due to a necessary device upgrade cycle.
- **Robust Margins with High Return on Capital:** At the unit level, towers generate 80%-plus cash flow margins (depending on the number of tenants). There is little incremental cost of adding an additional tenant with 90%-plus flow through to the bottom line. While a tower with a single tenant generates approximately 3% return on investment, the return jumps to more than 20% with three tenants. The towers underlying our investments are generally built to support anywhere from three to five tenants. We believe robust carrier activity both through "colocation" (leading to more tenants on the tower) and amendments (fees from changing out or adding equipment) will lead to strong incremental cash flow generation.
- **Strong Barriers to Entry:** There are several inhibitors for a competitor to build a new tower near an existing site due to: i) permitting/regulation and "not-in-my-backyard" (NIMBY) considerations' ii) the U.S. tower industry is consolidated with the three public companies owning the vast majority of traditional macro towers (with many incumbent towers hosting two to three tenants already); and iii) there are only four traditional U.S. wireless carriers and the cheapest/fastest route to market is to deploy equipment on an existing tower (a competitor has limited ability to win new business given the consolidated nature of the wireless industry today versus 20 years ago).
- **Stable and Predictable Cash Flows:** Tower lease contracts are underpinned by 5- to 10-year leases with fixed contractual annual escalators and predetermined costs for any modifications (e.g., swapping out radio equipment). Costs are largely fixed as well (the largest being ground rent that often grows slower than the rent escalator). This leads to a model with high incremental margins (as noted above) and limited volatility of cash flows given that any variability in new leasing within a given year will not significantly move the needle on the established base over the near term.

American Tower is a leading global tower company with 220,000 communication sites globally and over 40,000 in the U.S. We added to our position during the market dislocation and as it became increasingly clear that the company would put permanent equity financing in place at better-than-expected terms for its previously announced acquisition of CoreSite, thereby removing the "equity overhang." In addition, the company stepped back from a large potential deal in Europe, which would have required significant incremental funding, due to unfavorable contract terms and price. This decision further reinforced our confidence in management's capital allocation discipline knowing that these were highly sought after assets.

We are bullish on American Tower due to: i) accelerating growth after cycling a one-time Sprint churn event in 2022, which depressed growth temporarily; ii) cash flow stability underpinned by core developed markets; iii) earning outsized returns in higher growth emerging markets that are still transitioning from voice-centric to data-centric applications and lag the U.S. by five years; and iv) optionality regarding its acquisition of a network-dense data center company (CoreSite) as future network needs and architecture evolve.

The shares of **Gaming and Leisure Properties, Inc.**, a triple net REIT, which owns 55 premier gaming and related facilities and amenities performed well in the most recent quarter. Gaming and Leisure's primary business consists of acquiring, financing, and owning real estate property to be leased to gaming operators.

We are optimistic about Gaming and Leisure because the company owns a high-quality geographically diversified real estate portfolio that produces stable and predictable cash flows given the long-term nature of its leases. The company could also supplement its contracted 2% annual rent escalators with additional growth if it were to acquire additional gaming properties.

We believe the valuation of the shares is compelling. At its recent price of $46, the company's shares offer a 6.2% dividend yield. This dividend yield compares favorably to the yield on its publicly traded bonds. Further, the company's 6.2% dividend yield exceeds several other publicly traded triple net REITs which offer lower dividend yields of approximately 4% to 4.5%, on average.

We have great confidence that CEO Peter Carlino will generate excellent long-term returns for shareholders given his successful track record. He is also a significant shareholder of Gaming and Leisure. We are pleased that his interests are aligned with ours.

Following a prolonged period of share price underperformance, we recently re-acquired shares in **Americold Realty Trust**, a REIT that focuses on owning and operating temperature-controlled warehouses, at what we believe is an attractive price. It appears the company's ability to hire labor at acceptable wages has begun to improve which may translate to higher margins and occupancy levels over time.

Table VI.
Top detractors from performance for the quarter ended June 30, 2022

	Quarter End Market Cap (billions)	Percent Impact
Prologis, Inc.	$87.0	–2.01%
Public Storage Incorporated	54.9	–1.39
Pebblebrook Hotel Trust	2.2	–1.01
NexPoint Residential Trust, Inc.	1.6	–0.86
AvalonBay Communities, Inc.	27.2	–0.86

In the second quarter, the shares of **Prologis, Inc.**, the world's largest industrial REIT, declined 29% as its valuation was reset for the higher interest rate environment and the possibility of still strong but perhaps moderating rent growth. We are big fans of CEO Hamid Moghadam and Prologis' management team and remain optimistic about the company's long-term growth prospects. Encouragingly, in-place rents are approximately 50% below market rents and should serve as a source of strong growth in the next three to five years. We are optimistic about the merits of the company's recent announcement to merge with its largest industrial REIT competitor, Duke Realty. We will have more to say on Prologis in future shareholder letters.

Following strong performance in the first quarter of 2022, the shares of **Public Storage Incorporated**, a REIT that is the world's largest owner, operator, and developer of self-storage facilities, declined 21% in the second quarter (a similar decline to most other REITs).

We remain optimistic about the company's long-term prospects. Public Storage'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.

Following strong share price performance early in 2022, the shares of **Pebblebrook Hotel Trust**, a leading hotel REIT, declined sharply in the second quarter, along with other travel-related companies, due to concerns about the slowdown in economic growth and the possibility of a recession and its negative impact on travel demand.

Pebblebrook owns a unique, high-quality portfolio of 55 hotels (mostly independent boutique assets) across 16 urban and resort markets. The company is led by its highly capable CEO Jon Bortz.

Though we are mindful of the likelihood that business prospects are likely to moderate in the months ahead, we believe the shares offer compelling value. At its recent price of only $17, the company is valued at more than a 40% discount to management's estimate of the low end of the company's net asset value, which is $30. On June 29, Jon Bortz acquired shares in the company at a similar price to the current price. We believe Pebblebrook is a compelling acquisition candidate for private equity companies.

Despite strong quarterly results and an encouraging update from management, the shares of **NexPoint Residential Trust, Inc.,** a sunbelt-focused apartment REIT, declined in the most recent quarter alongside most other REITs. At its recent price of only $62, we believe the shares are valued at a significant discount to its private market value and remain optimistic about the company's prospects.

NexPoint 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.

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-added 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. These transactions were completed at more attractive valuations than where the company is currently trading in the public markets.

Despite strong second quarter results, the shares of **AvalonBay Communities, Inc.** declined in the most recent quarter alongside most REITs. The company is a REIT that owns and operates a $43 billion portfolio of high-quality apartment assets, located primarily in the East and West coast markets of the U.S. We believe its concentration in high barrier-to-entry coastal markets and its mix of urban and suburban properties should lead to strong cash flow growth over time. AvalonBay's investment grade rating provides it with a cost of debt advantage compared to private developers. Management has proven to be a capable acquirer and developer of apartment assets. We believe AvalonBay's shares are trading at an attractive 25% discount to its private market value.

CONCLUDING THOUGHTS ON THE PROSPECTS FOR REAL ESTATE AND THE FUND

We are mindful that the first half of the year has been disappointing.

We recognize that in the months ahead elevated volatility may continue. Economic growth is likely to moderate, and several companies are likely to lower growth forecasts. We are also mindful that lower growth forecasts may not be fully reflected in the valuations of certain real estate companies.

Yet, as detailed earlier in this letter, we believe there are valid reasons for optimism for public REITs and other income-producing real estate companies and the Fund.

We have become incrementally positive, in part because of the sharp correction in share prices of several real estate companies. We believe several public REITs and other income-producing real estate companies offer compelling two to three year return prospects that, in some cases, may include a trifecta combination of growth, dividends, and an improvement in valuation.

Table VII.
Top 10 holdings as of June 30, 2022

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
American Tower Corp.	$119.0	$8.7	6.8%
Equinix, Inc.	59.8	7.8	6.1
Public Storage Incorporated	54.9	7.5	5.9
Digital Realty Trust, Inc.	37.7	6.6	5.2
Ventas, Inc.	20.6	6.0	4.7
Equity Residential	27.2	5.5	4.3
Duke Realty Corporation	21.1	5.5	4.3
Invitation Homes, Inc.	21.7	5.4	4.2
Brookfield Infrastructure Partners L.P.	22.8	5.3	4.2
Extra Space Storage Inc.	22.8	5.2	4.1

I am a large investor in the Fund. I believe we have assembled a portfolio of best-in-class competitively advantaged companies with compelling long-term growth and share price appreciation potential. I recently added to my investment and am optimistic about the Fund's prospects in the next few years.

I thank you, our loyal shareholders, and express my utmost gratitude for your past and continuing support of the Fund.

Sincerely,

Jeffrey Kolitch

Jeffrey Kolitch
Portfolio Manager

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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 debt securities which are affected by changes in prevailing interest rates and the perceived credit quality of the issuer. 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.

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