DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

PERFORMANCE

Baron Real Estate Income Fund (the "Fund") declined 10.32% (Institutional Shares) in the third quarter of 2022, in line with its primary benchmark, the MSCI US REIT Index (the "REIT Index"), which declined 10.28%.

In the first nine months of 2022, the Fund declined 28.96%, also in line with the performance of the REIT Index which declined 28.86%.

Several factors weighed on performance in the first nine months of 2022 (detailed below). While we are disappointed with year-to-date absolute performance, we remain optimistic about the two- to three-year prospects for the Fund. The fundamentals of many of the businesses we own remain strong. We have been taking advantage of the sharp share price corrections to invest in and add to quality REITs and other income-oriented real estate companies, many of which are trading at attractive valuations.

Despite a challenging 2022 so far this year, we are pleased to report that as of September 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 best-in-class REITs and other income-oriented real estate companies that are attractively valued
- A review of recent activity managing the Fund
- Concluding thoughts on the prospects for real estate and the Fund

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

As of 9/30/2022, the Morningstar Ratings™ were based on 234 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 9/30/2022, the Morningstar Real Estate Category consisted of 253 and 234 share classes for the 1- and 3-year periods. Morningstar ranked Baron Real Estate Income Fund in the 81st 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

Table I.
Performance
Annualized for periods ended September 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]	(10.41)%	(10.32)%	(10.28)%
Nine Months[3]	(29.13)%	(28.96)%	(28.86)%
One Year	(20.00)%	(19.79)%	(17.46)%
Three Years	5.88%	6.17%	(3.08)%
Since Inception (December 29, 2017)	6.59%	6.81%	1.59%
Since Inception (December 29, 2017) (Cumulative)[3]	35.42%	36.77%	7.77%

Our Current Top-of-Mind Thoughts

Our expectation for 2022 being a challenging year continues to unfold.

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

Additional factors that have contributed to an **unusually challenging investment environment** include the unexpected 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 (wages and home prices).

These factors have resulted in simultaneous and sharp declines in stocks, bonds, and most investable assets in the first nine months of 2022.

We remain cautious about the near-term outlook in part due to:

- Unprecedented and aggressive central bank tightening into a slowing global economy.
- Heightened geopolitical risks (e.g., the recent destruction of the Nord Stream pipelines that were built to carry Russian natural gas to Europe) which may decrease the likelihood of a near-term de-escalation in the Russia/Ukraine war.

We believe there is reason to be optimistic with a two- to three-year view.

For much of 2022, **stocks have been repricing for a higher cost of capital, and, more recently, for expectations of slowing growth**. This repricing may continue in the months ahead.

Though we acknowledge there are valid reasons to remain concerned about the near-term outlook, we believe the shares of many REITs and other income-oriented real estate companies may benefit from asymmetrical returns in the next two to three years with significantly higher upside.

Reasons for optimism include:

- Real estate share prices have corrected sharply in the first nine months of 2022–in many cases by 30% to 50%. We believe the correction in share prices for several real estate companies factor in both low valuation multiples or higher capitalization rates and expectations for slower growth.
- Business fundamentals remain strong for many real estate companies, though we do anticipate growth to moderate in the months ahead.
- Corporate and consumer balance sheets are healthy.
- 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, airline tickets, home prices, and rents).
- The bulk of the move to higher interest rates may have already occurred.
- China has begun to reopen and rebound from its recent COVID-19 lockdowns and a portion of supply-chain bottlenecks have begun to improve.
- The war in Ukraine will eventually end, which should lead to lower food and energy prices.
- 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 remains 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.

Just as the sharp flight from the stock market in the early days of COVID-19 produced some extraordinary and rare investment opportunities, we believe the correction in real estate share prices in 2022 has also created several compelling investment opportunities.

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, 2033, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

1 The **MSCI 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.

REITs and other income-oriented real estate companies that we consider **"best-in-class" are rarely valued at discounted prices. We believe now is one of those rare occasions.**

For our more complete thoughts on the valuations of real estate stocks, please refer to "Examples of best-in-class REITs and other income-oriented real estate companies that are attractively valued" 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 warning signs in the real estate sector.

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

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

In most cases, the use of debt has been disciplined relative to history. Companies, households, real estate landlords and developers, banks, and other financial institutions generally maintain balance sheets that are liquid with appropriate levels of leverage, fixed-rate debt, and staggered debt maturities. However, this year's spike in interest rates and widening credit spreads are certainly near-term headwinds for commercial and residential real estate.

Neither commercial nor residential real estate are overbuilt. Expectations for construction activity are modest 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 most residential home prices to be modest and short lived.

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

The shares of REITs and other non-REIT real estate companies have been repricing for a higher cost of capital and expectations for slowing growth. Should financing costs continue to move higher, the availability of financing becomes even tighter, and growth rates continue to moderate, the share prices of REITs and other non-REIT real estate companies are likely to move lower.

Though this repricing is unpleasant, we believe the two- to three-year prospects for REITs and several non-REIT real estate-related companies are becoming increasingly attractive.

We have remained busy attending real estate conferences, meeting with companies, and furthering our research. A summary of our findings can be found below and in the "Portfolio Composition" section later in this letter.

Business fundamentals remain, in most cases, solid.

We believe several REITs are likely to hold up well should a mild recession arise given the contracted nature of cash flows, a favorable relationship between demand for and supply of real estate, compelling dividend yields, and increasingly attractive valuations.

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

REIT growth prospects, though slowing, remain encouraging.

We believe REITs, on average, will grow earnings approximately 10% in 2022, far more than their 15-year average of approximately 4%. In 2023, we expect growth to moderate to a still attractive growth rate of approximately 8%.

Growth should be fueled by broadly solid demand and constrained supply, though we expect external growth from acquisitions, development, and redevelopment to moderate.

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 and other income-oriented real estate companies are maintaining strong and liquid balance sheets, low levels of floating rate debt, and are not using debt excessively relative to company-generated cash flow.

Given strong balance sheet management, we believe several REITs and other income-oriented real estate companies are well positioned to capitalize on emerging opportunities to acquire real estate at discounted prices.

Should inflation continue to rise, 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 (the ability to reset rents), and pricing power within supply-constrained markets.

Baron Real Estate Income Fund

Many REITs and other income-oriented real estate companies remain on sale in the public markets.

We noted at the beginning of this year that we expected a shift from multiple expansion or capitalization rate compression to earnings growth as the key driver of REIT returns going forward. However, following the sharp correction in several REIT and non-REIT real estate-related companies in the first nine months of 2022, valuations in several cases are now discounted and offer prospects for capitalization rate compression and growth should the rise in interest rates peak at levels not much higher than current levels.

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

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

We believe real estate merger and acquisition activity will reaccelerate when the financing market and economic outlook stabilize.

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 step in and capitalize on the opportunity to buy quality public real estate securities or companies given that much of public real estate is currently valued at large discounts relative to private real estate. This embedded put scenario should limit further downside for public valuations and stock prices.

Portfolio Composition

As of September 30, 2022, Baron Real Estate Income Fund's net assets were composed as follows: REITs (79.8%), non-REIT real estate-related companies (11.2%), and cash (9.1%). The Fund currently has investments in 12 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 September 30, 2022

	Percent of Net Assets	
REITs		79.8%
Industrial REITs	14.9%	
Wireless Tower REITs	12.4	
Self-Storage REITs	12.1	
Single-Family Rental REITs	10.9	
Multi-Family REITs	7.0	
Data Center REITs	7.0	
Manufactured Housing REITs	5.3	
Triple Net REITs	4.8	
Other REITs	2.2	
Mall REITs	1.1	
Hotel REITs	1.0	
Health Care REITs	1.0	
Non-REIT Real Estate Companies		11.2%
Cash and Cash Equivalents		9.1
Total		100.0%*

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

A few observations regarding the composition of the Fund include:

Cash: We have remained patient and maintained an elevated cash position due to the highly unusual macroeconomic and geopolitical environment and in preparation to capitalize on the emerging opportunity to buy fine companies at highly discounted prices. For the period ended September 30, 2022, cash and cash equivalents stood at 9.1% of the Fund's net assets. We expect we will begin to deploy this cash given the sharp correction in the share prices of certain real estate companies and as other special buying opportunities emerge.

Number of Fund holdings: Since the middle of last year, we have decreased the number of REITs and non-REIT real estate-related companies held in the Fund from a peak of 42 companies on June 30, 2021, to 27 companies on September 30, 2022. During this period, we have further prioritized our highest conviction best-in-class REITs and non-REIT real estate-related companies. Conversely, we have trimmed or exited holdings in real estate companies that maintain more leveraged balance sheets, are small and less liquid, or exposed geographically to real estate markets that may face business headwinds.

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

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

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

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

Industrial REITs (14.9%): Strong business fundamentals fueled by growth in online sales as businesses and consumers relentlessly seek faster delivery and additional unique demand drivers (such as companies seeking to improve supply-chain resiliency by carrying more inventory) bode well for the continuation of excellent tenant demand and strong rent increases for industrial REITs.

With industry vacancies 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.** and **Rexford Industrial Realty, Inc.**, have compelling multi-year cash flow growth runways.

We are bullish on the prospects for companies that embrace the intersection of technology and real estate. These include wireless tower REITs and data center REITs. As of September 30, 2022, 19.4% of the Fund's net assets were invested in data center and wireless tower REITs.

Wireless Tower REITs (12.4%): Following declines in the share prices of wireless tower REITs in the first six months of 2022, we added to the Fund's investments in **American Tower Corp.**, **SBA Communications Corp.**, and **Crown Castle Inc.** Should economic growth continue to moderate, we believe wireless tower REIT cash flow will not only be resilient but may accelerate in 2023.

The long-term prospects for wireless tower REITs remain encouraging given strong secular growth expectations for mobile data usage, 5G technology, autonomous cars, connected homes, and 3D video; all of which will require increased wireless bandwidth and increased spending by mobile carriers.

Data Center REITs (7.0%): We are bullish on the prospects for data center REITs such as **Equinix, Inc.** because we believe demand prospects are improving (e.g., bookings of new leases and rent pricing), construction is moderating due to higher costs, and valuations are discounted versus recent data center acquisitions.

Long term, most data center REITs 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.

Self-Storage REITs (12.1%): We recently spent time with several self-storage REIT management teams. Though occupancy and rent growth are slowing and are likely to continue to moderate in 2023, we remain optimistic about the Fund's investments in self-storage REITs **Public Storage Incorporated** and **Extra Space Storage Inc.**

There is a lot to like about self-storage businesses. Monthly leases provide an opportunity for landlords to increase rents and combat inflation. Self-storage facilities do not tend to require significant ongoing capital expenditures. Elevated construction costs are constraining new construction. Should economic growth continue to decelerate and perhaps lead to a recession, self-storage business fundamentals have historically held up well during economic downturns. We also believe there is a wall of capital from private equity companies that is interested in acquiring self-storage real estate should valuations in the public market become attractive relative to other opportunities.

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 September 30, 2022, 23.2% of the Fund's net assets were invested in residential-related REITs.

Single-Family Rental REITs (10.9%): We remain 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 the sharp decline in home affordability; the propensity to rent in order to avoid mortgage down payments, higher monthly mortgage costs, and the desire for more flexibility; and the strong desire by households to rent homes in suburbs rather than rent apartments in cities. There is a limited supply of single-family rental homes in the U.S. housing market due to 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 mid-5% capitalization rates and public market implied valuations of owned homes at significant discounts to home acquisition costs.

Multi-Family REITs (7.0%): The Fund's multi-family REITs–**Equity Residential** and **AvalonBay Communities, Inc.**–continue to generate 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 2023 though we do expect growth to moderate next year. We also expect rental apartments to continue to benefit from the current homeownership affordability challenges. 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 with capitalization rates over 5% and remain at discounts to recent private market multi-family transactions, which have been valued in the 4% capitalization rate range.

We are mindful that rental growth has begun to moderate, and rents and occupancy may moderate in the year ahead should job losses accelerate and economic growth decelerate. We are managing the Fund's exposure to multi-family REITs with these considerations in mind.

Manufactured Housing REITs (5.3%): 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 macroeconomic environment worsens, we expect business results to be resilient due to each company's focus on affordable housing and affordable outdoor vacations.

Triple Net REITs (4.8%): 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% 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.

Other REITs (2.2%): We are bullish on the long-term prospects for **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.

Mall REITs (1.1%): The Fund maintains a position in **Simon Property Group, Inc.**, the leading U.S. mall and outlet REIT. At 8 times earnings and a 7.3% dividend yield, we believe the shares are unsustainably cheap. For our more complete thoughts on the company, please see "A review of recent activity managing the Fund" later in this letter.

Though we are mindful of the headwinds to certain retail real estate–excess supply of retail real estate, e-commerce headwinds, large capital requirements to repurpose retail real estate to higher and better alternative uses–we believe Simon Property is well positioned given the strong location and high quality of its real estate portfolio. We are managing the Fund's investment in the company with possible retail headwinds in mind.

Hotel REITs (1.0%): Exceptionally strong leisure demand and the resumption of business travel are contributing to robust business fundamentals for the Fund's hotel REIT investment **Sunstone Hotel Investors, Inc.**

Given that economic worries have now emerged, we recently decreased our exposure to hotel REITs and are closely monitoring business fundamentals and our hotel REIT investments. At Sunstone's recent share price, however, we believe the company is valued at a steep discount to replacement cost and our assessment of intrinsic value.

Health Care REITs (1.0%): Health care real estate fundamentals are improving (rent increases and occupancy gains) against a backdrop of muted supply growth in the next two to three years due to increasing financing and construction costs and supply-chain challenges.

The long-term demand outlook is favorable, driven in part by an aging population, which is expected to accelerate in the years ahead.

Despite the improvement in business fundamentals and favorable long-term prospects for health care real estate, we decreased our exposure to this segment of real estate due to ongoing elevated expense headwinds combined with a slower-than-expected recovery in leasing and occupancy. We believe expenses may continue to grow faster than rents, which will be a headwind to bottom line growth.

Non-REIT Real Estate Companies (11.2%): 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: **Las Vegas Sands Corporation**, **Brookfield Infrastructure Partners L.P.**, **Brookfield Asset Management Inc.**, **Blackstone Inc.**, and **Vail Resorts, Inc.**

Examples of Best-In-Class REITs and other Income-Oriented Real Estate Companies that are Attractively Valued

In our judgment, characteristics of a "best-in-class" real estate company are:

– Owns unique and well-located real estate assets in markets with high barriers to entry combined with attractive long-term demand demographics
– Enjoys strong long-term growth prospects together with a leading competitive position
– Maintains a conservative and liquid balance sheet
– Employs an intelligent and motivated management team that is an excellent allocator of capital and has interests aligned with shareholders

Our view is that special "best-in-class" real estate companies should generate superior returns over the long term.

In this year's stock market correction, few companies have been spared. The sharp decline in stocks has been broad based and has included competitively advantaged best-in-class real estate companies, many of which are now trading at attractive valuations.

Several best-in-class real estate companies are "on sale" relative to history and relative to private real estate alternatives. We believe the favorable arbitrage between public and private real estate valuations bodes well for the return prospects of public real estate companies in the next few years.

The Fund is chock full of best-in-class real estate companies that are "on sale." Examples include:

REITs

Invitation Homes, Inc. is the largest institutional owner of single-family rental homes concentrated across high-growth markets and infill neighborhoods with access to good schools, transportation corridors, and robust employment opportunities.

It is 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 $360,000 per home versus acquisition costs of approximately $440,000 per home.

Equity Residential is the largest U.S. multi-family REIT with 80,000 high-quality apartment units concentrated in coastal markets with strong barriers to entry, compelling resident income/demographics, and high cost of home ownership. The company maintains a strong and liquid balance sheet.

It is valued at a 5.2% implied capitalization rate representing a discount to private market transactions in the 4% capitalization range. At its public market implied valuation of only $450,000 per apartment, its shares are valued at more than a 25% discount to private market values.

Equinix, Inc. is the premier global carrier and cloud-neutral data center operator with 250 data centers in 70 metropolitan areas and 30 countries.

Equinix is currently valued at under 20 times cash flow versus recent private market data center transactions that have occurred at 25 to 30 times cash flow. The shares are valued at a similar multiple to REITs broadly despite superior and more durable cash flow growth prospects.

Prologis, Inc. is the world's largest industrial REIT. The company owns a high-quality real estate portfolio that is concentrated in major global trade markets and large population centers across the Americas, Europe, and Asia. Prologis has an unmatched global platform, strong competitive advantages (scale, data, and technology), and attractive embedded growth prospects. The company is the only industrial REIT with an 'A' credit rating.

Following a year-to-date decline in its shares of more than 40%, we believe Prologis' current valuation of only 22 times cash flow (adjusted funds from operations or "AFFO") and a 4.6% implied capitalization rate is compelling given that the company's rents on its in-place leases are more than 50% below current market rents, thus providing a strong runway for growth in the next three to five years.

Public Storage Incorporated is the world's largest owner, operator, and developer of self-storage facilities. Public Storage has achieved the #1 market position in 14 of its top 15 markets and is widely recognized as the leading self-storage company with the premier brand.

The company is currently valued at a 5.6% capitalization rate or a 25% discount to its estimated net asset value.

Alexandria Real Estate Equities, Inc. is the leading landlord and developer for the life science industry. A best-in-class company with several competitive advantages including an irreplaceable life science office portfolio concentrated in the premier life science markets in the U.S. and deep customer relationships.

Alexandria is valued at a 5.8% implied capitalization rate versus recent life science real estate transactions that have been valued in the 4% to 5% capitalization range. Alexandria'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.

Simon Property Group, Inc. is the world's largest mall operator. Led by CEO David Simon, the company has assembled a well-located portfolio of retail malls, outlets, and community centers. Management has a long track record of solid capital allocation decisions.

Simon's dividend yield of 7.3% and valuation of only 8 times earnings (AFFO) versus a long-term average of 15 times earnings is, in our opinion, pretty compelling.

Gaming and Leisure Properties, Inc. is a triple net gaming REIT that owns 57 premier casino gaming assets diversified across 17 states.

The company is currently valued at a 6.0% dividend yield and at a significant discount to the private market value for its real estate assets.

Other Income-Oriented Real Estate Companies

Brookfield Infrastructure Partners L.P. is one of the largest globally diversified owners and operators of high-quality infrastructure assets in the world. Core infrastructure investments include utilities, data centers, wireless towers, energy, and transportation (ports and rails). 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 expect Brookfield's earnings (funds from operations) to grow by more than 10%, yet its shares are valued at only 11.5 times earnings. We also expect its 4% dividend to be higher in the year ahead.

Brookfield Asset Management Inc. is a leading global alternative asset manager that is one of the largest owners and operators of real estate and infrastructure assets in the world.

The company is currently valued at more than a 50% discount to management's assessment of the company's current value. At the company's September 2022 Investor Day, Brookfield's management team laid out a multi-year growth plan with expectations for its shares to increase from its recent price of only $40 to more than $175 over the next five years.

Blackstone Inc. is the world's largest alternative asset manager with $1 trillion in assets under management and the largest real estate manager in the world. Blackstone has a premier brand, a global franchise, loyal customers, an exceptional balance sheet, and an excellent management team.

The company is currently valued at a modest premium to the S&P 500 Index multiple despite far superior long-term growth prospects. The company's current dividend yield is 6.1%.

Vail Resorts, Inc. owns and operates a premier portfolio of mountain resorts including marquee resorts such as Vail, Beaver Creek, Breckinridge, Park City, Whistler Blackcomb, and Keystone.

Vail's shares have declined 43% from a peak of $376 in November 2021 to a recent price of only $215 and are currently valued at only 11 times cash flow versus its long-term average multiple of approximately 15 times cash flow. Current dividend yield is 3.5%.

Las Vegas Sands Corporation is a 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.

A Review of Recent Activity Managing the Fund

In the third 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 September 30, 2022

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Prologis, Inc.	$75.2	$3.4
Simon Property Group, Inc.	29.4	1.4
Netstreit Corp.	1.1	1.0
Rexford Industrial Realty, Inc.	8.9	0.7
Crown Castle Inc.	62.6	0.7

In the third quarter, we acquired additional shares of **Prologis, Inc.**, the world's largest industrial REIT. We are big fans of CEO Hamid Moghadam and Prologis' management team and remain optimistic about the company's long-term growth prospects.

The company owns and operates a premier global real estate portfolio with several competitive advantages including location, scale, data, and technology. Management maintains a strong and liquid balance sheet and is the only U.S. industrial REIT with an ‘A’ credit rating, which gives the company a strong borrowing cost advantage. With vacancy at less than 4% and rents on in-place leases that are more than 50% below current market rents, Prologis has a compelling runway for strong growth in the next three to five years.

We are optimistic about the merits of the company’s recently closed merger with its largest industrial REIT competitor, 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.

Following the steep correction in its shares in the first nine months of 2022, we believe Prologis is attractively valued at only 18 times cash flow (AFFO) or a 4.5% capitalization rate. These metrics reflect modest premiums to the REIT index despite Prologis’ superior long-term growth prospects.

In the most recent quarter, we initiated a position in **Simon Property Group, Inc.**, the largest U.S. mall and outlet REIT. The company has assembled a well-located portfolio of retail malls, outlets, and community centers.

Simon’s size and access to capital are distinct advantages in the retail real estate industry. Led by CEO David Simon, its management team has a long track record of solid capital allocation decisions, while managing its portfolio especially well. Over time, we believe the company is likely to continue to acquire “A” quality malls.

We think Simon has opportunities to increase occupancy and rents and acquire new properties and assets at attractive prices relative to the company’s cost of capital, while growing the company’s already very attractive 7.3% dividend.

We believe Simon’s valuation is compelling at only 8 times earnings (AFFO) versus a long-term average of 15 times earnings.

We added to the Fund’s position 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.

Led by CEO Mark Manheimer, management has assembled a high-quality real estate portfolio with more than 80% of the portfolio consisting of investment grade tenants or tenants with an investment grade profile. During the COVID-19 lockdown, the company preserved an excellent rent collection rate and maintained 100% occupancy through all of 2020 and 2021.

The company’s strong balance sheet, with leverage of only 3.7 times cash flow (adjusted for a recent equity capital raise) and ample liquidity, should allow management to pursue accretive acquisitions, which would likely lead to strong earnings growth in the next few years.

We recently acquired additional shares in **Rexford Industrial Realty, Inc.**, a high-growth REIT that owns a $13 billion portfolio of infill industrial properties concentrated in Southern California. We are optimistic about the long-term prospects of Rexford to grow cash flow at a rapid pace and generate attractive shareholder returns.

Southern California is among the most attractive markets for industrial real estate in the country, owing to the diverse set of industries that drive demand for warehouse space, and new infill development activity that is limited by a scarcity of developable land and “higher and better use” opportunities to develop land for purposes other than warehouse space.

Rexford is growing rapidly, both organically (record occupancy, rising market rents, contractual rent escalators in leases) and through acquisitions in a highly fragmented market. Rexford’s current portfolio rents are on average over 50% below market rents, which should drive outsized organic growth over the next several years as in-place leases expire and reset to market rates. In addition, we expect Rexford to continue to rapidly grow its market share (currently less than 2%) through acquisitions.

Following a more than 35% correction in its shares in the first nine months of 2022, we believe the company’s valuation is attractive relative to the high-quality nature of the platform and the significant growth we expect to see over the next several years.

In the most recent quarter, we acquired additional shares of **Crown Castle Inc.**, a U.S.-centric tower company with 40,000 tower sites and 85,000 fiber route miles. The company derives 75% of its cash flow from macro towers with the balance coming from fiber solutions and small cells (mini antennas on light posts and other public infrastructure). While the macro tower segment is the superior business, we believe both segments will benefit from explosive data growth and network densification/augmentation needs. We believe the company is well positioned to benefit from secular growth drivers including 30%-plus yearly mobile data growth and the adoption of fifth generation mobile network (5G), 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. This should allow Crown Castle to grow its unlevered cash flows and accompanying dividend by high single digits per year on top of an attractive 4% current yield.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Digital Realty Trust, Inc.	$29.1	$5.7
Ventas, Inc.	18.9	5.7
Brookfield Infrastructure Partners L.P.	21.4	2.6
AvalonBay Communities, Inc.	25.8	2.4
Camden Property Trust	13.6	2.4

In the third quarter, we reduced most of our position in **Digital Realty Trust, Inc.** due to disappointing second quarter results amid a robust broader data center leasing backdrop, future development uncertainty due to power availability in Northern Virginia (the largest data center market), evolving growth headwinds from unhedged international cash flow, and an elongated timeline to fully realize renewed pricing power. The combination of these challenges will likely lead to “lower for longer” cash flow growth versus the positive inflection we were expecting. We reallocated capital to higher conviction ideas with more visible growth trajectories within the data infrastructure space.

In the most recent quarter, we exited our position in **Ventas, Inc.** due to ongoing elevated expense headwinds combined with a slower-than-expected recovery in leasing and occupancy. We believe expenses will continue to grow faster than rents and will be a headwind to bottom-line growth.

We recently reduced our position in **Brookfield Infrastructure Partners L.P.** due to its outsized position sizing within the Fund, exposure to emerging markets, and potential near-term foreign exchange headwinds. Notwithstanding these considerations, we remain bullish on the long-term prospects for the infrastructure investment cycle broadly in addition to Brookfield's contracted in-place cash flows with inflation protection and attractive capital deployment opportunities, which should lead to double-digit cash flow growth.

We decreased our position in **AvalonBay Communities, Inc.** due to its development exposure and accompanying lease-up risk in an uncertain macroeconomic backdrop. We have concentrated our investments in companies with visible in-place cash flow, high barriers to entry, built-in organic growth through in-place rents that are below current market rents, and strong tenant retention. While AvalonBay checks many of these favorable boxes, we reduced our position given the lower visibility on a portion of its future cash flow.

We exited our position in **Camden Property Trust** due to higher supply in its markets that we expect will potentially impact otherwise robust current operating and leasing fundamentals. We have concentrated our investments in higher barrier-to-entry markets and/or single-family rental home operators with stickier tenants and superior renter demographics.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Las Vegas Sands Corporation	$28.7	0.28%
MGM Resorts International	12.8	0.03
Gaming and Leisure Properties, Inc.	11.4	0.03
Kite Realty Group Trust	4.1	0.02
American Campus Communities, Inc.	9.1	0.01

The shares of **Las Vegas Sands Corporation** performed well in the most recent quarter in part due to the decision by China's central government to ease the visa policy for Macau, which should result in increased travel into Macau for the first time since the outbreak of COVID-19.

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

Following a sharp correction in its shares in the first six months of 2022, the shares of **MGM Resorts International**, a leading global casino and entertainment company, increased modestly in the most recent quarter. We exited our position in MGM Resorts, in part, due to our goal to decrease our travel-related exposure, and we reallocated the capital to other investment opportunities.

In the third quarter, the shares of **Gaming and Leisure Properties, Inc.**, a casino gaming REIT that owns 57 premier casino gaming assets diversified across 17 states, modestly contributed to performance after the company reported solid quarterly business results. We maintain our favorable view of the company and believe its shares are attractively valued with its 6.0% dividend yield and significant discount to the private market value for its real estate assets.

The shares of **Kite Realty Group Trust**, a well-managed shopping center REIT, performed relatively well in the third quarter following solid quarterly business results. Though we have a favorable view of the management team, we exited our position in the company during the third quarter and reallocated the capital to higher conviction investment opportunities.

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. The shares performed well in the first nine months of 2022, and we exited the position in the third quarter.

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

	Quarter End Market Cap (billions)	Percent Impact
Prologis, Inc.	$ 75.2	–1.42%
American Tower Corp.	100.0	–1.18
Equinix, Inc.	51.8	–0.82
Duke Realty Corporation	18.6	–0.64
Welltower Inc.	29.8	–0.49

In the third quarter, concerns about a global economic slowdown, elevated inflation, and rising interest rates pressured the shares of several of our favorite holdings despite strong long-term growth prospects. See Table VI. We remain optimistic about the long-term prospects for each of these companies and may look for opportunities to acquire additional shares.

Concluding Thoughts on the Prospects for Real Estate and the Fund

We are mindful that this year's repricing of the stock market and real estate companies has been unpleasant and may continue in the months ahead as economic growth slows and companies lower their growth forecasts.

Yet, we believe this year's recalibration is setting the stage for a favorable multi-year outlook for public REITs, other income-producing real estate companies, and the Fund.

Many public real estate companies now 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.

We are optimistic about the prospects for the Fund because we believe we have assembled a portfolio of best-in-class competitively advantaged REITs and other income-producing real estate companies with compelling long-term growth and share price appreciation potential.

Baron Real Estate Income Fund

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Prologis, Inc.	$ 75.2	$6.8	8.0%
American Tower Corp.	100.0	6.1	7.2
Equinix, Inc.	51.8	5.5	6.5
Public Storage Incorporated	51.4	5.2	6.2
Extra Space Storage Inc.	23.1	5.0	5.9
Invitation Homes, Inc.	20.6	5.0	5.9
American Homes 4 Rent	11.4	4.2	5.0
Equity Residential	25.3	3.6	4.3
Duke Realty Corporation	18.6	3.6	4.3
Las Vegas Sands Corporation	28.7	3.1	3.6

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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