Dear Baron Real Estate Income Fund Shareholder:

Following strong annual returns of 22.30% (Institutional Shares) in 2020 and 36.54% in 2019 for the Baron Real Estate Income Fund (the "Fund"), we are pleased that the Fund delivered another strong year of performance in 2021, gaining 29.58%.

The Fund's 2021 return of 29.58% trailed its primary benchmark, the MSCI US REIT Index (the "REIT Index"), which gained 41.71%. This follows back-to-back years of exceptionally strong relative performance in 2019 and 2020, a two-year period when the Fund outperformed the REIT Index, on an annualized basis, by 2,269 basis points (or 22.69%).

For a more detailed discussion regarding the Fund's 2021 performance and portfolio management, please see "A review of recent activity managing the Fund and 2021 performance" later in this letter.

We are pleased to report that as of December 31, 2021, the Fund has maintained its:

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

Since inception four years ago, the Fund's cumulative return of 92.53% far exceeds the 51.49% cumulative return of the REIT Index.

We will address the following topics in this letter:

- A review of recent activity managing the Fund and 2021 performance
- A REIT market update
- Key takeaways from recent REIT meetings and conferences
- Our 2022 investment themes and portfolio composition
- The case for real estate in a rising interest rate and elevated inflationary environment
- Concluding thoughts and observations

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

OUR BOTTOM LINE MESSAGE:

Though we are mindful of the key risks to the equity and real estate market outlook (e.g., a more hawkish Federal Reserve and the prospect of higher interest rates as a potential headwind to growth and valuation multiples):

1. **We remain optimistic about the near-term and long-term prospects for public real estate.**
2. **We believe there is a strong case to include an allocation to real estate in a well-diversified investment portfolio.**
3. **We believe the Baron Real Estate Income Fund – with the demonstrated merits of our actively managed REIT and income-oriented investment approach – is a highly compelling real estate mutual fund choice.**

As of 12/31/2021, the Morningstar Ratings™ were based on 233 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 12/31/2021, the Morningstar Real Estate Category consisted of 253 and 233 share classes for the 1- and 3-year periods. Morningstar ranked Baron Real Estate Income Fund in the 85th and 3rd percentiles for the 1- and 3-year periods, respectively.

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

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

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Baron Real Estate Income Fund

Baron Real Estate Income Fund Performance

Table I.
Performance
For periods ended December 31, 2021

	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]	12.88%	12.91%	16.02%
One Year	29.23%	29.58%	41.71%
Three Years	29.17%	29.34%	17.17%
Since Inception (December 29, 2017)	17.57%	17.79%	10.94%
Since Inception (December 29, 2017) (Cumulative)[3]	91.08%	92.53%	51.49%

A REVIEW OF RECENT ACTIVITY MANAGING THE FUND AND 2021 PERFORMANCE

Recent Activity

Like our portfolio management playbook employed in the first year of the pandemic, we maintained our unusually elevated active approach to managing the Fund in 2021 due to:

- The ongoing evolution of tailwinds and headwinds in certain segments of real estate
- The emergence of several new and relevant market developments including COVID variants (Delta and Omicron), China headwinds, elevated inflation, and Federal Reserve monetary policy changes
- Company-specific considerations – some favorable, some unfavorable
- Extreme stock market volatility

On December 27, 2021, *J.P. Morgan* published a report that cited the extreme dispersion in U.S. share prices. According to J.P. Morgan, for the 12-month period through December 20, 2021, despite a 20% return in the Russell 3000 Index (a capitalization-weighted stock market index of the 3,000 largest publicly held companies in the U.S.) and a correction in the Russell 3000 Index of only 4% from its 12-month high, the average stock in the Russell 3000 Index had corrected 28% from its 12-month high. Of course, several stocks corrected more than 28% – in some cases 40% to 50% or more.

On December 20, 2021, *Green Street Advisors*, an independent and respected commercial real estate research firm, published a brief report titled *"The Covid Trade Still Not Over."* In this report, Green Street highlights the dramatic relative underperformance of certain segments of commercial real estate that are more vulnerable to COVID and the most recent Omicron surge (such as hotel, mall, and office REITs) and suggests that there is a catch-up opportunity for these companies (i.e., the COVID-19 recovery beneficiaries) perhaps in the not too distant future. We agree.

Since the onset of the pandemic in January 2020, we have worked hard to take advantage of the episodic, severe corrections in many share prices by acquiring several REITS and real estate-related stocks at attractive valuations.

The fourth quarter of 2021 was a particularly active period managing the portfolio. We believe our action steps have positioned the Fund for strong performance in 2022. They include:

- Raising cash by trimming or exiting expensive real estate securities of businesses that we anticipate will face operational headwinds
- Purchasing best-in-class REITs and real estate-related securities that were "on sale"
  - Examples: **Equity Residential**, **Invitation Homes, Inc.**, **Simon Property Group, Inc.**, **American Campus Communities, Inc.**, and **Ventas, Inc.**
- Purchasing cyclical REIT and real estate-related stocks – several travel and hospitality-related real estate stocks – that had declined sharply from 2021 share price highs but possess the potential to appreciate significantly over the new few years
  - Examples: **MGM Resorts International**, **Boyd Gaming Corporation**, **Marriott Vacations Worldwide Corp.**, **Gaming and Leisure Properties, Inc.**, and **Travel + Leisure Co.**

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, 2020 was 4.40% and 3.45%, 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 interest, capital gains and dividends, 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.

Table II.
Top net purchases for the quarter ended December 31, 2021

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Boyd Gaming Corporation	$ 7.4	$4.4
Marriott Vacations Worldwide Corp.	7.2	4.2
MGM Resorts International	21.0	4.1
Rexford Industrial Realty, Inc.	12.3	3.4
First Industrial Realty Trust, Inc.	8.6	3.0

In the most recent quarter, we acquired shares or made additional purchases in:

Boyd Gaming Corporation: Boyd is one of the largest and most successful casino entertainment companies in the U.S. The company owns and operates 28 casino gaming properties in 10 states with a large presence in Las Vegas and a geographic focus on the drive-to, leisure gaming customer. We remain optimistic about the prospects for Boyd's shares because business conditions are strong, management maintains a liquid and conservatively capitalized balance sheet, insiders own approximately 27% of the company, the shares remain attractively valued at only 7.5 times 2022 estimated cash flow and a double-digit free cash flow yield, and we believe the company could be an attractive acquisition candidate should its current valuation remain discounted relative to recent private market casino and gaming transactions.

Marriott Vacations Worldwide Corp.: Marriott Vacations is a leading owner, operator, and developer of real estate timeshare resorts. With the company's 100% focus on leisure travelers, we believe Marriott Vacations is ideally positioned for a robust travel recovery as more and more people are vaccinated. We believe the long-term growth prospects for Marriott Vacations are compelling and the shares remain attractively valued.

MGM Resorts International: MGM Resorts is a global casino and entertainment company operating 19 properties throughout the Las Vegas Strip, Macau, and the broader U.S. Approximately 80% of the company's cash flow is generated in the U.S. We believe the company is well positioned to benefit from an ongoing recovery in Las Vegas. The company's BetMGM iGaming business is the clear leader in the U.S. with a 30% market share, and its combined sports betting and iGaming business is the #2 ranked business by market share in the U.S. Following several prudent strategic and financial steps, MGM Resorts will soon have more than $10 billion of cash that it can deploy for additional growth opportunities, share repurchases, dividends, debt reduction, and other opportunities to create shareholder value.

Following a string of strong quarterly results, the shares of **Rexford Industrial Realty, Inc.** and **First Industrial Realty Trust, Inc.** continued to increase this quarter. Both companies are, in our opinion, best-in-class industrial REITS that have long runways for growth. Rexford and First Industrial continue to benefit from robust demand for their warehouse facilities driven by the growth of e-commerce and the need for infill real estate locations to service "last mile" delivery.

Table III.
Top net sales for the quarter ended December 31, 2021

	Market Cap When Sold (billions)	Amount Sold (millions)
CoreSite Realty Corporation	$8.5	$2.2
Paramount Group, Inc.	1.9	1.7
Douglas Emmett, Inc.	5.8	1.3
Vornado Realty Trust	8.6	1.2
JBG SMITH Properties	4.0	1.2

In the most recent quarter, **CoreSite Realty Corporation**, a carrier-neutral data center REIT, was acquired by another one of the Fund's holdings, **American Tower Corp.** We are optimistic about the strategic merits of this acquisition as American Tower cements its leadership position across multiple classes of communications real estate and creates an attractive opportunity to expand CoreSite's data center platform internationally. We received cash consideration for the acquisition and reallocated the capital to other real estate investment opportunities.

Although we continue to believe the share prices of several office-centric REITs such as **Paramount Group, Inc.**, **Douglas Emmett, Inc.**, **Vornado Realty Trust**, and **JBG SMITH Properties** remain discounted relative to private market values and replacement cost, we recently exited the Fund's investments in these companies and reallocated the capital to other REIT and non-REIT companies that we believe offer superior long-term growth and return potential. We believe the decision by a growing list of companies to adopt more flexible work arrangements such as "work-from-home" will remain an occupancy and rent headwind for several office landlords that is likely to extend beyond the pandemic. Additional factors that may pressure office landlords in the years ahead include elevated office construction, antiquated office buildings that require redevelopment and new amenities, and population migration to the sunbelt states.

Recent Performance

At the beginning of 2021, though optimistic about the return prospects for real estate and the Fund, we had a premonition that the year would be tricky to navigate given that some stocks had performed well in 2020, the possibility of COVID variants and their impact on certain segments of real estate, and other macro and geopolitical considerations. Our premonition proved to be prescient.

The onset of two COVID variants (Delta and Omicron), China's increased scrutiny of the technology and other industries, elevated inflation, supply chain bottlenecks, negative real interest rates despite economic strength, and a recently more hawkish Federal Reserve, are a sampling of the many factors that contributed to extreme stock market volatility and a challenging year for stock selection and portfolio management.

Following two straight years of strong annual returns for the Baron Real Estate Income Fund (22.30% in 2020 and 36.54% in 2019) and exceptionally strong relative outperformance versus the REIT Index, the Fund's 2021 relative performance trailed the REIT Index. Factors that weighed on relative performance included the Fund's Asia-focused real estate investments, the strong performance of certain value REITs (e.g., shopping centers and retail malls), and a few individual stock selection mistakes.

Baron Real Estate Income Fund

In 4 years managing the Baron Real Estate Income Fund (and 12 years managing the Baron Real Estate Fund), there have been periods when both Funds have temporarily trailed their benchmarks. We have a track record of bouncing back. Our team remains driven, hard at work, and we are optimistic that we will, once again, deliver strong long-term relative performance for our shareholders as we have done over the years.

Table IV.
Top contributors to performance for the quarter ended December 31, 2021

	Quarter End Market Cap (billions)	Percent Impact
Rexford Industrial Realty, Inc.	$ 12.3	1.46%
Prologis, Inc.	124.5	1.34
Invitation Homes, Inc.	27.1	1.04
Simon Property Group, Inc.	52.5	0.94
Public Storage Incorporated	65.7	0.89

Following a string of strong quarterly results, the shares of **Rexford Industrial Realty, Inc.** and **Prologis, Inc.** continued to increase this quarter. Both companies are, in our opinion, best-in-class industrial REITs that have long runways for growth. Prologis and Rexford continue to benefit from robust demand for their warehouse facilities driven by the growth of e-commerce and the need for infill real estate locations to service "last mile" delivery.

The shares of **Invitation Homes, Inc.** continued to perform well in the most recent quarter following strong business results. Invitation Homes is the largest single-family home leasing company in the U.S. with approximately 80,000 homes concentrated in California, Florida, Georgia, Arizona, Washington, and the Carolinas. Its primary business strategy focuses on acquiring, renovating, leasing, and operating single-family homes as rentals. We are bullish about the long-term prospects for the company given multiple growth opportunities which include: i) significant pent-up demand from the millennial generation to rent single-family homes versus a backdrop of constrained inventory (which we expect will lead to rental and occupancy growth); ii) acquisitions of homes in high-growth geographic markets; and iii) the expansion of ancillary home services for residents (e.g., enhanced smart home, pest control, landscape, and pet services).

The shares of **Simon Property Group, Inc.**, the largest and premier mall operator in the U.S., continued to perform well in the most recent quarter following strong quarterly results and an encouraging business outlook. The company owns A-quality malls in A-quality geographic locations. We expect Simon to benefit from a further reopening of the economy and believe management is well positioned to acquire real estate assets given its strong balance sheet and low cost of capital. Despite the recent strength in its shares, we continue to believe that Simon is attractively valued and offers attractive return potential.

The shares of **Public Storage Incorporated**, a REIT that owns, operates, acquires, and develops self-storage facilities, continued to perform well in the most recent quarter following strong third quarter revenue and cash flow results. In the first week of January 2022, the company provided an encouraging operating update for 2021 fourth quarter results. Occupancy and rent trends have remained strong and the company's well-capitalized and low-leverage balance sheet allows for the possibility of future acquisition activity to supplement organic growth. We remain optimistic about the prospects for Public Storage given its attractive growth outlook, strong balance sheet and reasonably valued shares.

Table V.
Top detractors from performance for the quarter ended December 31, 2021

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Park Hotels & Resorts Inc.	$ 4.5	–0.34%
SmartRent, Inc.	2.0	–0.31
Penn National Gaming, Inc.	9.7	–0.21
Pebblebrook Hotel Trust	2.9	–0.20
Ventas, Inc.	20.4	–0.15

The shares of several hotel REITs and other hospitality-related companies including the Fund's investments in **Park Hotels & Resorts Inc.**, **Penn National Gaming, Inc.**, and **Pebblebrook Hotel Trust** declined in the fourth quarter in part due to the emergence of the COVID-19 variant, Omicron, and concerns that it would negatively impact near-term business and leisure travel. Though Omicron may contribute to near-term business headwinds, we believe this concern is largely reflected in the share prices of most hotel and hospitality-related companies and 2022 return prospects are compelling. The Fund has maintained its investments in Park Hotels and Pebblebrook Hotels and exited its investment in Penn.

Following strong share price performance in the prior two quarters, the shares of **SmartRent, Inc.**, the leading residential-related software company for apartment landlords, declined in the fourth quarter and we decided to exit the Fund's investment in the company and reallocate the proceeds to other REIT and non-REIT investment opportunities. Though we remain optimistic about SmartRent's long-term prospects, we have identified other opportunities that we believe are more attractively valued with superior near-term return prospects.

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

A REIT MARKET UPDATE

At the end of 2020, we stated that we believed REITs would perform well in 2021. In 2021, the REIT Index delivered its best performance ever, increasing 41.71% and outperforming the S&P 500 Index, which gained 28.71%.

Why REITs Performed Well in 2021

1. **Much of real estate lagged in 2020**, in part because the business models of several segments of real estate – apartments, office, retail malls, shopping centers, hotels – are based on people assembling. These businesses were in the bullseye of the pandemic recession. 2020: S&P 500 Index +18%, NASDAQ Composite Index +45%, Global Equities +16%, and REIT Index declined 9% with many REITs down 20% to 40%!
2. **Several segments of public real estate were attractively valued** relative to equity, bond, and private real estate alternatives.
3. **Real estate has been at the doorstep or the very early stages of a new cycle**. We believed the ingredients were in place for real estate to perform well and real estate cycles tend to last five to seven years.
4. **REITs and real estate generally would likely be prime beneficiaries of an improvement in economic conditions** if, in fact, a large percentage of the population becomes vaccinated.
5. **Certain REITs offer inflation protection characteristics.** For our more complete thoughts on this topic please see "The case for real estate in a rising interest rate and elevated inflationary environment" section later in this letter.

We Think REITs Can Continue to Perform Well in 2022

We anticipate that 2022 may be arduous to navigate in part due to the prospects of a more hawkish Federal Reserve, a move higher in interest rates, and the possibility of a moderation in growth and compression in valuation multiples for some segments of commercial and residential real estate. If the aforementioned occurs, we would anticipate a moderation in performance returns from the elevated returns of the last three years when the Fund, on an annualized basis, gained 29.34%, per year.

Despite the prospect of lower performance returns, we believe the Fund will generate attractive absolute and relative returns, and we continue to believe the near-term and long-term prospects for REITs and several non-REIT real estate-related companies remain attractive.

Reasons for our optimism include:

1. **We are still in the relatively early days of the real estate recovery**

   Most real estate cycles tend to last five to seven years (like an economic cycle).

   We believe much of real estate is in the relatively early stages of a multi-year recovery, fueled by improving prospects for demand, subdued construction inventory levels, strong and liquid balance sheets, and well-functioning credit markets with historically low interest rates.

2. **Business fundamentals have, in many cases, stabilized and begun to rebound and the outlook does not portend a recession**

   The performance of several real estate companies lagged in 2020 largely due to the Coronavirus headwind that led to a sharp slowdown in business activity for hotels, real estate casinos, urban apartment and office landlords, malls and shopping centers, and other real estate categories. The inability of people to assemble disproportionately weighed on a large segment of real estate.

   Real estate headwinds began to recede in 2021, and we expect this trend to continue in 2022. We anticipate that certain segments of real estate will benefit from an ongoing economic recovery.

   In the last few months, we were busy attending several real estate conferences and meetings and furthering our research. The updates and outlooks we heard for most real estate categories and companies were broadly encouraging.

3. **REIT growth prospects are encouraging**

   Growth fueled by broadly improving demand and constrained supply and growth through acquisitions, development, and redevelopment should, in many cases, accelerate cash flow growth.

   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.

4. **Balance sheets are strong**

   Although credit access is available at historically low financing rates, most REITs are maintaining strong and liquid balance sheets and are not using debt excessively relative to company-generated cash flow.

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

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

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

7. **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 the private market. This embedded put scenario should limit the downside for public valuations and stock prices.

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

Long-Term Case for Real Estate

We believe the long-term case for public real estate is compelling.

1. **Solid historical long-term returns with ongoing potential**

   For the 25-year period ended December 31, 2021, U.S. equity REITs have delivered a better cumulative return than the S&P 500 Index, fixed income alternatives, international equities, and commodities.

   Since the Fund's inception on December 29, 2017 through December 31, 2021, Baron Real Estate Income Fund, which owns REITs and non-REIT real estate companies, has delivered a cumulative return of 92.53%, far outdistancing the 51.49% return of the REIT Index.

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

2. **Diversification and low correlation to equities and bonds**

   According to FactSet, over the last 25 years (through 12/31/2021), REITs have provided diversification benefits due to their modest correlation versus stocks (0.60 versus S&P 500 Index) and low correlation versus bonds (0.19 versus Bloomberg Barclays U.S. Aggregate Index).

3. **Inflation protection**

   Historically, certain real estate has had the ability to raise prices to provide inflation protection. Please see l the section titled "The case for real estate in a rising interest rate and elevated inflationary environment" later in this letter for our more complete thoughts on this topic.

KEY TAKEAWAYS FROM REIT MEETINGS AND CONFERENCES

We have remained busy participating in REIT management meetings (mostly through Zoom!) and conducting our ongoing research. We remain encouraged by what we have learned.

Business prospects continue to improve for several REIT categories that lagged in 2020 and parts of 2021 largely due to the Coronavirus headwind that led to a sharp slowdown in business activity – examples include hotels, apartments, office landlords, malls and shopping centers, health care, and gaming REITs.

Other REITs less impacted by COVID-19 are benefiting from tailwinds that should lead to ongoing strength in business fundamentals – industrial warehouse REITs, data center and wireless tower REITs, manufactured housing, single-family home rentals, and life sciences real estate REITs.

Our summary observations for various REIT categories are as follows:

Apartment REITs

Occupancy and rents are improving and public valuations, in some cases, remain at modest discounts to recent private market transactions. Management teams expect strong growth in 2022.

Office REITs

Return-to-work plans have been delayed, once again, by the Omicron variant, but the continued reopening of cities is leading to an uptick in leasing volumes. We believe most office REITs are currently valued at significant discounts to replacement cost.

Industrial Warehouse REITs

Very 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 for industrial warehouse REITs.

Retail REITs

Tenant demand is improving. Foot traffic, retail sales, and tenant health have rebounded. We believe the growth prospects for the largest mall REIT, **Simon Property Group, Inc.**, remain compelling.

Self-Storage REITs

Demand for self-storage real estate remains strong driven by the strength of the housing market and increasing mobility (pandemic-induced relocations and hybrid work). Elevated construction costs are constraining new construction.

Health Care REITs

Senior housing occupancy has bottomed, construction activity is modest, thereby setting the stage for more favorable cash flow prospects. Medical office buildings continue to perform well.

Hotel REITs

Leisure travel is accelerating, business travel is re-emerging (albeit slowly), and hotel REITs are currently valued at steep discounts to replacement cost.

Gaming REITs

Casino gaming business is strong in Las Vegas and most regional markets. We believe gaming REITs are attractively valued relative to private market transactions. M&A activity has picked up.

Data Center REITs

Secular demand trends of cloud adoption and IT outsourcing remain intact. The price paid by Blackstone for its 2021 $10 billion acquisition of data center REIT, QTS Realty Trust Inc., implies that data center REITs are attractively valued.

Wireless Tower REITs

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

Single-Family Rental REITs

Limited inventory combined with a strong desire by households to rent homes in suburbs rather than rent apartments in cities or purchase homes is leading to robust rent growth for single-family rental REITs.

Life Science REITs

An increase in funding for health care drug development is contributing to demand for life science buildings that continues to exceed supply, resulting in strong business fundamentals in key geographic markets.

Manufactured Housing REITs

Demand for affordable housing remains strong against a backdrop of limited supply.

Cold Storage REITs

Supply chain challenges and labor cost inflation are weighing on growth and margins, with issues expected to persist through at least mid-2022.

Student Housing REITs

Showing signs of improvement.

OUR 2022 INVESTMENT THEMES AND PORTFOLIO COMPOSITION

At Baron, we have always prioritized thorough bottom-up research and analysis of individual real estate companies. **We also embrace thematic real estate investing**.

Our process encompasses amalgamating our company research, and then contemplating the "big picture" trends or findings that are consistent across real estate companies. In other words, we attempt to "see the forest through the trees" and identify highly attractive real estate investment themes.

If we are successful identifying what we believe are compelling investment themes, we do not hesitate to lean into them with a "full court press" of concentrated, high-conviction thematic real estate investing. Over time, our dual-pronged approach of combining bottom-up individual company research with thematic investing has produced strong results for our shareholders.

Since the onset of the pandemic two years ago, we have structured the Fund to take advantage of three compelling themes and are maintaining these themes at the outset of 2022. They are:

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

1. COVID-19 recovery beneficiaries

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

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

Following the beginning of vaccinations late in 2020 and early in 2021 and the initial release of pent-up consumer and commercial demand, the share prices of many of these companies increased sharply. However, for much of 2021, the share prices of many of these companies moved up and down in a roller coaster fashion mirroring the onset and path of COVID-19 variants (Delta and Omicron) and many remain significantly below their peak price.

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

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

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

Despite a recent rebound in the share prices of many of the COVID-19 recovery beneficiaries, we believe several companies remain discounted to their two- to three-year prospective values. Examples include:

Timeshare & Gaming Companies
Marriott Vacations Worldwide Corp., Travel + Leisure Co., Boyd Gaming Corporation, MGM Resorts International, and **Red Rock Resorts, Inc.**

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

Gaming REITs
Gaming and Leisure Properties, Inc.

Mall REITs
Simon Property Group, Inc.

Health Care REITs
Ventas, Inc.

Real Estate Services Companies
Kennedy-Wilson Holdings, Inc.

On December 31, 2021, COVID-19 recovery beneficiary companies represented 31.5% of the Fund's net assets.

Table VI.
COVID-19 Recovery Beneficiaries as of December 31, 2021

	Percent of Net Assets
Timeshare & Gaming Companies	15.0%
Mall REITs	4.8
Hotel REITs	4.7
Gaming REITs	2.1
Health Care REITs	2.0
Office REITs	1.5
Real Estate Services Companies	1.5
Total	31.6%

2. Residential-related real estate

We believe the case for residential real estate – apartment and home rentals and affordable manufactured homes – is compelling.

The key component underpinning our favorable view is due to a structural underinvestment in the construction of residential real estate. Today, the U.S. is building the same number of homes and apartments annually as it did in 1959–approximately 1.4 million homes, which also equals the 60-year average. This annual construction figure is shockingly low considering that the U.S. population has grown by more than 150 million people since 1959–330 million people today versus 178 million people in 1959! Recently, the Census Bureau released a study that the U.S. constructed only 7 million homes over the last 10 years while 12 million households were created–leading to a supply shortage of 5 million homes solely in this time.

Demand prospects are also encouraging especially from the approximately 73 million millennials–ages 25 to 40 – many of whom are now looking to buy or rent a home. The large imbalance between pent-up housing demand and low construction levels bodes well for multi-family apartment rentals, single-family home rentals, and manufactured homes, as well as new single-family home purchases (as long as mortgage rates and home prices do not spike to levels that would deter homebuyers).

- **Robust demand**

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

  Apartment REITs

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

  - Residents who temporarily left, returning to cities once they could enjoy their entertainment and social aspects;
  - Roommates taking the opportunity to decouple with a desire for more space given work-from-home flexibility;
  - Bargain hunters taking advantage of vacant inventory and landlord concessions during COVID to trade up or move to neighborhoods that were unaffordable before; and,
  - Demand from two classes of graduates (2020 and 2021) hitting the market simultaneously with offices beginning to reopen in the fall.

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

  Single-Family Rental REITs

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

  Manufactured Housing REITs

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

- **No affordability concerns**

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

- **Strong absolute and relative growth**

  The growth outlook for residential real estate is one of the strongest across most categories of REITs given: i) strong imbedded mark-to-market rents; ii) cycling leases that were signed with heavy concessions during pandemic lows; and iii) burning off bad debt expense. These factors, combined with strong continued demand, should lead to outsized overall growth relative to REITs overall. Recently, Mark Parrell, CEO of **Equity Residential**, stated: "2022 is going to be a year of acceleration for us, we think. And we believe the company is going to post the best numbers in its history in terms of same-store revenue growth."

- **Short-lease duration real estate**

  We have often discussed short-lease duration real estate as a good inflation hedge with the ability to reset rents every year–we believe apartment, single-family home rental, and manufactured housing landlords will continue to enjoy pricing power that could not only lead to strong top-line growth but margin expansion as well.

- **Attractive values**

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

On December 31, 2021, residential-related real estate represented 30.7% of the Fund's net assets.

Table VII.
Residential-Related Real Estate as of December 31, 2021

	Percent of Net Assets
Multi-Family Apartment REITs	15.2%
Single-Family Rental REITs	9.0
Manufactured Housing REITs	5.5
Student Housing REITs	1.0
Total	30.7%

3. Intersection of technology and real estate

Several technology-related REITs performed well in 2020. We noted in our 2020 fourth quarter letter that valuations were generally less compelling than one year ago and the performance of certain stocks may underperform in 2021 relative to laggard REIT categories that should benefit if economic growth accelerates in 2021. This occurred in 2021. Now, as then, we are bullish on the long-term prospects for several real estate technology companies.

The impact of technology on real estate is undeniable. The growth in cloud computing, the internet, mobile data and cellphones, and wireless infrastructure are powerful secular drivers that should continue unabated for years and are impacting real estate, along with many other industries.

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

Real estate-related companies that embrace and adopt the latest technological advances and innovations remain an important focus for us. Key beneficiaries of the technology revolution include data center REITs, wireless tower REITs, and industrial REITs, among others.

Wireless Tower REITs

Our tower REITs (**American Tower Corp.**, **SBA Communications Corp.**, and **Crown Castle International Corp.**) are, in our view, positioned to grow for several years as the demand for data intensive devices accelerates, and new wireless technologies continue to emerge and improve.

New technological innovations and greater data demand require a greater number of antennae rental space that will continue to benefit tower companies. Like data centers, we expect wireless towers to continue to benefit from increased home-based consumer and commercial activity (e.g., online shopping, video streaming, and working from home).

Data Center REITs

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

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

Industrial REITs

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

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

On December 31, 2021, REITs and non-REIT technology-related real estate companies that we expect to directly benefit from long-term technology growth represented 28.5% of the Fund's net assets.

Table VIII.
Intersection of Technology and Real Estate as of December 31, 2021

	Percent of Net Assets
Industrial REITs	16.0%
Wireless Tower REITs	8.4
Data Center REITs[1]	4.1
Total	28.5%

1 - Data Center REITs include infrastructure-related REIT DigitalBridge Group, Inc.

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

Table IX.
Fund investments in REIT categories as of December 31, 2021

	Percent of Net Assets
Non-REIT Real Estate Companies	20.0%
Industrial REITs	16.0
Multi-Family REITs	15.2
Single-Family Rental REITs	9.0
Wireless Tower REITs	8.3
Manufactured Housing REITs	5.5
Mall REITs	4.8
Hotel REITs	4.7
Self-Storage REITs	3.8
Data Center REITs	3.2
Triple Net REITs	3.1
Other REITs	2.5
Health Care REITs	2.0
Student Housing REITs	1.0
Cash and Cash Equivalents	0.9
Total	100.0%

THE CASE FOR REAL ESTATE IN A RISING INTEREST RATE AND ELEVATED INFLATIONARY ENVIRONMENT

We are mindful that interest rates and inflation are a top-of-mind topic.

It appears that the consensus expectation is that interest rates are likely to rise, and elevated inflation may persist.

Should this occur, **we believe the Fund, REITs and real estate-related companies can perform well in a rising interest rate and inflationary environment.**

Real Estate In a Rising Interest Rate Environment

We believe there is a perception, for some, that REITs and real estate-related companies may perform poorly should interest rates rise.

We acknowledge that a sharp and rapid rise in interest rates would increase financing costs and may negatively impact the relative appeal of some dividend yielding securities such as REITs, yet we believe a sharp and rapid rise in interest rates could also unsettle the broader equity market. An increase in interest rates that reflects an improvement in the economy, however, often leads to an improvement in real estate business fundamentals–occupancy gains, rent increases, and cash flow growth.

We believe the Fund and many REITs can perform well in a rising rate environment if real estate business fundamentals are improving, and both the rate of change in interest rates does not create sticker shock and the ultimate level of interest rates does not become a headwind to operating performance.

Recent case study-March 9, 2020 to December 31, 2021

Since bottoming at 0.50% on March 9, 2020, the 10-year Treasury yield has increased 101 basis points to 1.51% as of December 31, 2021. During this period of rising interest rates, the Baron Real Estate Income Fund increased 74.46% on a cumulative basis, which compares favorably to the REIT Index which increased 46.29%.

A review of additional time periods (such as the Fed interest rate hike cycle that began in 2004) also supports the notion that REITs can perform well in a rising interest rate environment.

Real Estate as an Inflation Hedge

Historically, certain real estate businesses have had the ability to raise prices to provide inflation protection:

Inflation-linked property value and pricing power

Higher prices for labor, land, and materials may discourage new real estate construction (i.e., if the increase in costs exceeds the expected increase in rents, then the profits from development decrease) thereby supporting the ability for current landlords in supply-constrained markets to increase occupancies and pass along higher operating costs by raising rents (i.e., pricing power).

Short-lease duration

Real estate segments with short-lease terms have the ability to raise rents relatively quickly to offset inflation. Examples include: hotels (1 day); self-storage real estate (30 days); apartments (1 year); single-family rental homes (1 year); and senior housing facilities (1 year).

Annual rent escalators

Certain real estate leases have contractual annual rent escalators, in some cases tied to an inflation index (i.e., consumer price index or CPI).

Playbook For Rising Rate or Inflationary Environment

If it became clear that interest rates and inflation would continue to rise and remain elevated, we could implement elements of our well-tested playbook. They include the following:

- Focus on short-lease duration real estate and minimize exposure to long-lease duration real estate. REITs and real estate-related companies such as hotels, self-storage, apartments, single-family home rentals, senior housing operators, and other types of real estate companies can re-price more often to take advantage of interest rate fluctuations. They are likely to grow faster as the economy improves and can better offset increases in interest rates than REITs saddled with 5- to 10-year leases.
- Emphasize REITs and real estate-related companies that will benefit disproportionately from an improvement in the economy, such as residential-related REITs, hotels, and gaming to the extent there is a real estate component.
- Own real estate companies with a strong pipeline of future development projects.
- Invest in companies with strong balance sheets that can weather a rise in interest rates.
- Carefully monitor our REIT versus non-REIT exposure. Some REITs may be more susceptible to higher borrowing costs than other non-REIT real estate companies because REITs must pay out at least 90% of their taxable income in dividends and therefore are more reliant on access to the debt markets.

CONCLUDING THOUGHTS AND OBSERVATIONS

As we peer into the year ahead, we acknowledge that there is a case to be made for the glass being half full or the glass being half empty.

In a more cautious scenario, we are reminded of a Morgan Stanley report titled *"The End of Easy,"* which was published on May 13, 2018. In that report, the authors noted that the stock market performance in the prior nine years had exceeded the performance of the economy due to multiple positive tailwinds that included low inflation, historically low interest rates, and positive U.S. policy catalysts (e.g., tax reform).

Looking forward, however, the authors predicted that *"the End of Easy"* stock market performance may be approaching, as these previously positive factors (e.g., the Goldilocks environment of moderate growth, low inflation, low interest rates, an accommodative Fed, and other factors) start to moderate, and advance more modestly. The essence of the report is that when this occurs, the economy will outperform the stock market.

Perhaps recent economic data and Federal Reserve commentary portend that "the End of Easy" may be near. For example, the latest reports regarding employment, consumer confidence, and consumer spending have all been quite strong. Additionally, the economy is performing well, inflation is elevated, and the Federal Reserve has begun the process of removing monetary accommodation (*"Don't Fight the Fed"*).

A more sanguine scenario would suggest that in 2022:

- The pandemic evolves into an endemic
- Inflation peaks and begins to reverse, in part due to the easing of supply chain bottlenecks and labor tightness
- The Federal Reserve moderates its plans to increase interest rates if inflation cools
- Economic growth remains robust fueled by consumer pent-up demand
- The persistence of negative real interest rates (i.e., inflation continues to exceed interest rates guaranteeing a negative return on a bond investment or cash) continues to support the notion that "there is no alternative" (aka: TINA) for equities

Glass half full? Glass half empty? Although we continue to acknowledge that no one has a crystal ball regarding the outlook, ***we remain in the more optimistic, "glass half full" camp***.

We recognize that in the months ahead there may be choppy periods in the market, yet we remain directionally positive, and ***believe there are valid reasons for optimism for the stock market, public real estate, and the Baron Real Estate Income Fund***.

Stock Market Outlook

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

Real Estate Market Outlook

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

Baron Real Estate Income Fund Outlook

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

Table X.
Top 10 holdings as of December 31, 2021

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Invitation Homes, Inc.	$ 27.1	$7.5	5.7%
American Tower Corp.	133.2	7.4	5.6
Rexford Industrial Realty, Inc.	12.3	6.9	5.2
Equity Residential	33.9	6.9	5.2
AvalonBay Communities, Inc.	35.3	6.8	5.1
Prologis, Inc.	124.5	6.6	5.0
Simon Property Group, Inc.	52.5	6.3	4.8
Public Storage Incorporated	65.7	5.0	3.8
Brookfield Infrastructure Partners L.P.	26.0	4.6	3.5
Boyd Gaming Corporation	7.4	4.5	3.4

Final Thoughts

I would like to thank my assistant portfolio manager, David Kirshenbaum, and the other primary members of our real estate research team, David Baron and George Taras, for their excellent work and partnership. Since the onset of the pandemic two years ago, they have remained focused, hardworking, clear minded, and energized. Thank you.

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

Sincerely,

Jeffrey Kolitch

Jeffrey Kolitch
Portfolio Manager

Baron Real Estate Income Fund

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. Prices of equity securities may decline significantly over short or extended period. Debt or fixed income securities such as those held by the Fund, are also subject to derivatives risk, liquidity risk, and income risk. As interest rates rise, bond prices fall. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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