DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER:

PERFORMANCE

Baron Real Estate Income Fund (the "Fund") increased 2.10% (Institutional Shares) in the fourth quarter of 2022, underperforming the MSCI US REIT Index (the "REIT Index") which increased 4.90%.

For the full year, the Fund declined 27.47%, underperforming the REIT Index which declined 25.37%.

Five-Year Anniversary

Despite a challenging and disappointing 2022, we are pleased to report that the Baron Real Estate Income Fund has received special recognition for its achievements marking its 5-year anniversary on December 31, 2022, as follows:

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

When we launched the Fund five years ago, we stated that we were optimistic about the long-term prospects for both of our real estate funds – the Baron Real Estate Income Fund and the Baron Real Estate Fund. As of December 31, 2022, our real estate funds are the top 2 ranked real estate funds for the trailing 5-year performance periods. Our Baron Real Estate Fund, which we have managed for 13 years, is also the top ranked real estate fund for the trailing 10-year performance period and since inception 13 years ago.

We also stated that both funds would be highly complementary to each other:

Baron Real Estate Fund (launched December 31, 2009)

- Primary emphasis: Real estate-related equity securities

Baron Real Estate Income Fund (launched December 29, 2017)

- Primary emphasis: Income-producing REITs

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

As we embark on the next chapter of the Baron Real Estate Income Fund, we thought it would be an ideal time to illuminate prospective shareholders about the Fund, provide a refresher to current shareholders, and discuss our current thoughts regarding various investment topics.

We will address the following topics in this letter:

- A review of why we launched the Baron Real Estate Income Fund
- A recap of Baron Real Estate Income Fund's differentiated approach vs. most other REIT funds and the Baron Real Estate Fund
- Big picture thoughts regarding 2022 and 2023

As of 12/31/2022, the Morningstar Ratings™ were based on 233, 210, and 233 share classes for the 3-year, 5-year, and Overall periods, respectively. The Baron Real Estate Income Fund received 5 Stars for all 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 12/31/2022, the Morningstar Real Estate Category consisted of 252, 233, 210, and 152 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Income Fund in the 76th, 3rd, and 2nd percentiles for the 1-, 3-, and 5-year periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Income Fund Institutional Share Class as the 179th, 6th, and 4th best performing share class in its Category, for the 1-, 3-, and 5-year periods, respectively.

Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 86th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 212th, 1st, 2nd, and 1st best performing share class in its Category, for the 1-, 3-, 5-, and 10-year periods, respectively.

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

As of 12/31/2022, Morningstar ranked Baron Real Estate Income Fund R6 Share Class in the 76th, 3rd, and 2nd percentiles, for the 1-, 3-, and 5-year periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Income Fund R6 Share Class as the 180th, 5th, and 5th best performing share class in its Category for the 1-, 3-, and 5-year periods, respectively.

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

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

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

OUR BOTTOM-LINE MESSAGE:

1. Though we are mindful of key risks to the equity and real estate market outlook, we are optimistic about the near-term and long-term prospects for public real estate.

2. We believe there is a strong case to include an allocation to an actively managed public real estate strategy with a strong long-term track record in a diversified investment portfolio.

3. We believe the Baron Real Estate 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.

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

	Baron Real Estate Income Fund Retail Shares[1,2]	Baron Real Estate Income Fund Institutional Shares[1,2]	MSCI US REIT Index[1]
Three Months[3]	2.12%	2.10%	4.90%
One Year	(27.63)%	(27.47)%	(25.37)%
Three Years	4.50%	4.75%	(1.16)%
Five Years and Since Inception (December 29, 2017)	6.70%	6.91%	2.48%
Five Years and Since Inception (December 29, 2017) (Cumulative)[3]	38.29%	39.64%	13.05%

A Review of Why We Launched the Baron Real Estate Income Fund

Baron has a long and successful history of investing in real estate

Since 1987, Baron has invested billions of dollars in real estate-related securities. We believe that long-term investing in real estate and real estate-related companies with, in our view, well-located and well-positioned assets, attractive long-term growth prospects and strong management teams, is a natural extension of the Baron philosophy of investing.

Strong investor demand for income funds

The search for income producing securities has stoked strong investment interest in dividend-focused securities and income funds.

Our clients have expressed interest in a Baron real estate income fund

Numerous Baron investors have expressed interest in product offerings beyond equity funds to include an income fund that prioritizes a combination of capital appreciation and current income. Considering our strong track record of our REIT investments in Baron Real Estate Fund, and in response to client requests, we launched the Baron Real Estate Income Fund.

A Recap of Baron Real Estate Income Fund's Differentiated Approach

Baron Real Estate Income Fund is differentiated from traditional active and passively managed REIT funds as follows:

– *Most REIT funds are close to 100% invested in REITs*

In addition to investing in REITs (typically at least 75% to 80% of the Fund), the Baron Real Estate Income Fund also invests in other real estate-related securities.

The Fund's flexibility allows it to invest approximately 20% to 25% of net assets in non-REIT real estate companies (also with a dividend yield prioritization). At times, these companies may present superior growth, income, and/or share price appreciation potential.

– *The Baron expansive approach to investing within the REIT universe*

Many REIT funds limit their REIT investments to companies that are included in their comparative REIT benchmark. Our key focus is identifying compelling REITs and other real estate income companies with attractive share price appreciation potential – regardless of whether the company is part of the REIT benchmark.

– *The Fund may invest in real estate debt and preferred securities and international real estate companies*

The Fund primarily invests in U.S. real estate equity income securities, but it may also invest in international real estate companies and other real estate income vehicles such as real estate debt and preferred securities.

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.

– *Other*

Our investments include companies of all market capitalizations, seeking businesses that we believe have sustainable competitive advantages, exceptional management, and good opportunities for long-term and sustainable growth, with attractive dividend yields and valuations.

With these elements and attributes, ***we believe we offer a differentiated and compelling real estate income fund. More so than ever, we believe REIT funds that embrace flexibility and adaptability in their investment approach will be the long-term winners.***

Baron Real Estate Income Fund is differentiated from Baron Real Estate Fund as follows:

Baron Real Estate Income Fund is structured as an attractive complement to Baron Real Estate Fund. Although both funds focus on real estate, they differ in significant ways, as highlighted in the table below. As such, we believe our two real estate funds further address the broader and more complete real estate allocation goals of our clients.

POTENTIAL INVESTOR	BARON REAL ESTATE FUND	BARON REAL ESTATE INCOME FUND
Investment objective	Capital appreciation	Income and capital appreciation
REIT vs. Non-REIT	Typically 25% to 30% in REITs	Typically at least 75% to 80% in REITs
Real estate category focus	Commercial and residential real estate	Primarily commercial real estate
Other goals may include: • Dividend yield and/or income • Maximizing long-term total return • Minimizing annual return volatility • Diversification and lower correlation relative to stocks and bonds	• May generate higher returns over the long term because it is more "equity-like" in nature, growth oriented, and invests in a broader range of real estate-related categories	• May experience less performance volatility due to its yield/income orientation • Should display somewhat less direct correlation to stock and bond performance

It is important to note that the Baron Real Estate Income Fund and the Baron Real Estate Fund complement and balance each other. Investment goals should be considered in apportioning capital between the Baron real estate funds. Priorities may include dividend yield, maximizing long-term total return, and limiting annual return volatility. Accordingly, we envision that some clients may elect to allocate and balance their total real estate allocation between both Baron real estate funds, as they conclude that the two real estate funds are indeed highly complementary to each other.

Big Picture Thoughts Regarding 2022 and 2023

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

Additional factors that contributed to an unusually challenging investment environment included the unexpected Russia/Ukraine war and the spillover effects of even higher inflation (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).

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

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

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

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

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

In our shareholder letter ahead, we will elaborate on the reasons for our optimism about real estate and the Fund. We believe:

- There is a compelling case to allocate capital to real estate in an actively managed public real estate fund (e.g., the Baron Real Estate Income Fund and/or the Baron Real Estate Fund).
- The Baron Real Estate Income Fund is populated with competitively advantaged REITs and non-REIT real estate companies, the majority of which are attractively valued.
- The Baron Real Estate Income Fund has been structured to take advantage of high-conviction thematic real estate investment opportunities that we believe will contribute to strong performance returns. Examples include secular growth opportunities in certain REIT categories (industrial, wireless tower, data centers, and life science) and short-lease duration REITs that may provide partial inflation protection (self-storage, manufactured housing, single-family rental, and multi-family REITs).

The Prospects For REITs In The Public Markets

Though we are cognizant that in the year ahead financing costs may continue to move higher, the availability of financing could become tighter, and growth rates are likely to moderate, we believe that the shares of REITs and other non-REIT real estate companies largely repriced in 2022 for a higher cost of capital and expectations for slowing growth.

As we peer into 2023 and 2024, we believe the set up for REITs is attractive.

We believe the recent underperformance of REITs and other real estate-related companies may lead to improved absolute and relative performance.

At this stage, we believe the near-term and long-term prospects for real estate in the public markets are compelling.

Near-Term Case for REITs and other non-REIT Real Estate Companies

REITs corrected sharply in 2022

The 25% decline in the REIT Index in 2022 is the 2nd worst year of REIT performance since the dawn of public REITs more than 30 years ago in 1991. The worst year on record for REIT performance was in 2008, a period marked by the Global Financial Crisis, when the REIT Index declined 37%.

Historically, REITs have rebounded following periods of large declines

Since 2000, there have been seven years when REITs declined (not including 2022).

Notably, in six of the seven down years, REITs rebounded with positive performance the following year. The only time REITs did not bounce back in the year following a down year was in the 2-year period of the Global Financial Crisis when REITs declined in both 2007 and 2008. Back then, a credit crisis, over-levered balance sheets, and an excess of real estate inventory weighed on REIT performance for an extended period. In our opinion, the issues that weighed on REIT performance during the Global Financial Crisis are not in place today.

Below is a table showing how REITs and other real estate-related companies have often outperformed the broader market coming out of market downturns.

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

REIT valuations have become more reasonable

Various measures of REIT valuations improved in 2022. Implied capitalization rates increased from the mid- 4% range in January 2022 to approximately 6% at the end of 2022. Earnings multiples (Funds from Operations) declined from 24 times earnings at the beginning of the year to 18 times earnings on December 31, 2022. Further, many public REITs are currently valued at significant discounts to replacement cost and estimates of net asset value.

Notably, however, financing costs increased sharply last year. For example, 7- to 10-year BBB bonds increased from 2.8% early in 2022 to 5.8% by the end of 2022. As such, the relative valuation of REITs versus bonds did not improve to the same degree as the absolute valuation improvement. Should long-term interest rates begin to decline and credit spreads compress, REIT return prospects may also benefit from an improvement in valuations as valuation multiples expand (e.g., capitalization rates compress).

Several REITs and non-REIT real estate companies are cheap

We believe the correction in real estate share prices in 2022 has created several compelling investment opportunities.

Real estate companies that we consider **"best-in-class" are rarely valued at discounted prices. We believe now is one of those rare occasions.**

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

A few examples of "best-in-class" REITs and non-REIT real estate companies that we believe are attractively valued with strong long-term growth prospects include:

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 2022 decline in its shares of 34%, we believe Prologis' current valuation of only 23 times cash flow (adjusted funds from operations or AFFO) and a 4.5% implied capitalization rate is compelling given that the company's rents on its in-place leases are more than 65% below current market rents, thus providing a strong runway for growth in the next three to five years.

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's shares declined 33% in 2022 and are now 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.

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

Equinix is currently valued at under 21 times cash flow versus private market data center transactions that have occurred at 25 to 30 times cash flow. The shares are valued at a modest multiple to REITs broadly despite superior and more durable cash-flow growth prospects.

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 6% and valuation of only 10.6 times earnings (AFFO) versus a long-term average of 15 times earnings is, in our opinion, compelling.

Brookfield Infrastructure Corporation 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 Infrastructure's earnings (funds from operations) to grow by more than 10%, yet its shares are valued at only 10.8 times earnings. We also expect its 3.5% dividend to be higher in the year ahead.

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

We believe the shares are unsustainably cheap. Brookfield's management, who in our opinion is highly credible and conservative, believes the company is worth $74 today or more than double the recent price of $32 per share!

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

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

In the past, trouble for real estate surfaced following the excessive use of leverage and overbuilding (i.e., the historical "curse" of real estate). This occurred in the 1980s 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.

REITs, for example, have leverage ratios (net debt divided by cash flow) of only 5.5 times, on average, versus a peak of more than 8.5 times during 2008-2009. (*Source:* Citi Research)

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

According to data provided by *Green Street Advisors*, expectations for commercial real estate construction (annual construction completions as a percent of existing inventory) from 2023 to 2026 are expected to be only 1.5% for apartments, 1.0% for wireless towers and hotels, 0.8% for office buildings, 0.3% for shopping centers, and 0.1% for retail malls.

High occupancy for several real estate categories. Recent occupancy rates for several real estate categories compare favorably relative to prior periods. For example, industrial real estate occupancy is currently 96%, on average, versus 88% in 2009. Self-storage facilities average occupancy levels of 94% versus 81% in 2009. The average occupancy rate for manufactured housing is 97% versus 87% in 2009. (*Source: Green Street Advisors*)

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

Substantial private capital is still in pursuit of real estate ownership

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

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

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

REITs may be appealing in a slow economic growth or recessionary environment

Should the contraction in economic growth evolve into no worse than a mild recession and the path of interest rates peaks in 2023 at levels not much higher than current rates, we believe the shares of certain REITs may perform relatively well given that:

- Business fundamentals and prospects for many REITs remain solid although slower growth is expected in 2023
- The contractual nature of cash flows provides a high degree of visibility into near-term earnings growth
- Balance sheets are generally in good shape
- Dividend yields are well covered by cash flow and are growing for most REITs
- Several REITs have inflation-protection characteristics

Long-Term Case for Real Estate

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

Solid historical long-term returns with ongoing potential

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

Since the Fund's inception on December 29, 2017 through December 31, 2022, Baron Real Estate Income Fund has delivered a cumulative return of 39.64% (Institutional Shares), triple the 13.05% return of the REIT Index.

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

Diversification and low correlation to equities and bonds

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

Inflation protection

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

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

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

A Comparison of Actively Managed Public Real Estate vs. Non-traded REITs / Private Real Estate and Passively Managed Real Estate ETFs

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

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

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

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

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

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

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

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

We believe our Baron Real Estate Income Fund and our Baron Real Estate Fund are highly complementary real estate investment alternatives to non-traded REITs such as BREIT and SREIT and other private real estate alternatives. Our Baron real estate funds prioritize public real estate investment opportunities and are listed mutual funds. Non-traded REITs, on the other hand, tend to prioritize the private real estate market and are non-listed investment vehicles.

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

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

Valuation

- *Public real estate:* Portfolio judgments and relative attractiveness of investments based on real-time available data and valuation levels
- *Non-traded REITs / private real estate:* Monthly valuations may be based on lagging data

Value Transparency

- *Public real estate:* Transparent daily valuation marks in a highly liquid public market
- Non-traded REITs / private real estate: Valuation derived from an estimate of net asset value derived from appraisals and internal 10-year cash flow models subject to a multitude of assumptions

Liquidity

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

Diversification

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

Leverage/Capital Structure

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

Fees

- *Public real estate:* Fees tend to be substantially lower than private real estate fees (e.g., 80-105 basis point net expense ratios)
- *Non-traded REITs / private real estate:* Typically, more onerous fees that may include higher base management fees (1.25%), performance-based fees (e.g., 12.5% fee above a minimum performance return), and sometimes additional fees (e.g., load and other fees)

Performance

- *Public real estate:* Actively managed public real estate mutual funds have outperformed and underperformed non-traded REITs, depending on the year. For example, our Baron Real Estate Income Fund notably outperformed non-traded REITs in both 2019 and 2020 when our Fund generated returns of 36.54% and 22.30%, respectively.
- *Non-traded REITs / private real estate:* Non-traded REITs outperformed in 2018, 2021, and 2022.

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

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

In recent years, cross-currents have developed in real estate – partly due to COVID – some of which may persist in the years ahead. Consequently, the public real estate universe has evolved into a narrower set of compelling investment opportunities.

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

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

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

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

Baron Real Estate Income Fund

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

We launched Baron Real Estate Income Fund five years ago on December 29, 2017. At that time, we noted that we expected the Fund's more flexible investment approach to be a key competitive advantage over the long term.

Our investment philosophy and strategy has been to structure and maintain a more expansive and actively managed REIT-focused real estate fund.

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

Baron Real Estate Income Fund, unlike passively managed real estate strategies and most REIT funds, has a greater ability to pick our spots and pivot away from REIT categories that are likely to face long-term occupancy, rent, and cash flow pressures.

We tend to prioritize companies with:

- Unique competitive advantages that limit competition and enable outsized reinvestment returns
- Long runways for non-cyclical cash-flow growth
- Relatively capital efficient business models

We de-emphasize companies with:

- Secular growth headwinds
- Oversupplied conditions
- Highly uncertain medium-term demand prospects

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

Our actively managed approach to investing in real estate has yielded strong results. Since the launch of the Fund five years ago on December 29, 2017, the Fund has increased 39.64% (Institutional Shares) cumulatively (net of fees) which compares favorably to the performance of the largest real estate passive strategy, the Vanguard Real Estate ETF (VNQ) which increased 19.68%.

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

Portfolio Composition

As of December 31, 2022, Baron Real Estate Income Fund's net assets were composed as follows: REITs (90.5%), non-REIT real estate-related companies (7.8%), and cash (1.7%). The Fund currently has investments in 11 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 December 31, 2022

		Percent of Net Assets
REITs		90.5%
Industrial REITs	23.0%	
Wireless Tower REITs	17.6	
Self-Storage REITs	12.0	
Data Center REITs	8.9	
Manufactured Housing REITs	7.6	
Mall REITs	4.9	
Triple Net REITs	4.6	
Health Care REITs	4.3	
Single-Family Rental REITs	3.2	
Other REITs	2.6	
Multi-Family REITs	1.8	
Non-REIT Real Estate Companies		7.8
Cash and Cash Equivalents		1.7
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:

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 28 companies on December 31, 2022. During this period, we have further prioritized our highest conviction best-in-class REITs and non-REIT real estate 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.

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. As of December 31, 2022, secular growth real estate companies represented approximately 52% of the Fund's net assets.

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 and casino, self-storage, apartment, single-family home rental, and manufactured housing real estate companies. As of December 31, 2022, short-lease duration real estate companies represented approximately 25% of the Fund's net assets.

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

Secular growth real estate companies – 52% of the Fund's net assets

Industrial REITs (23.0%): 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 (shift from "just in time" to "just in case" 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 more than 50% below market rents, we believe the Fund's investments in industrial warehouse REITs **Prologis, Inc.**, **Rexford Industrial Realty, Inc.**, **EastGroup Properties, Inc.**, and **Terreno Realty Corporation** have compelling multi-year cash-flow growth runways.

Wireless Tower REITs (17.6%): We are bullish on the prospects for companies that embrace the intersection of technology and real estate. Examples include wireless tower REITs and data center REITs.

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.

Following declines in the share prices of wireless tower REITs in 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 be relatively resilient versus many other real estate categories.

Data Center REITs (8.9%): We remain 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.

Recently, we re-acquired shares in **Digital Realty Trust, Inc.** We believe the company's valuation is highly compelling following the 43% correction in its share price in 2022. We would note, however, that we are closely monitoring the company because business execution and quarterly results have disappointed at various points in the last few years. We have limited the Fund's exposure to the company with this in mind.

Life Science REITs (2.6%): 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.

The shares declined 33% in 2022, and we believe its current valuation is highly compelling.

Short-lease duration REITs – 25% of the Fund's net assets

Self-Storage REITs (12.0%): We recently spent time with several self-storage REIT management teams. We remain optimistic about the Fund's investments in self-storage REITs **Public Storage Incorporated**, **Extra Space Storage Inc.**, and **CubeSmart** – though we are closely monitoring the Fund's exposure given expectations that occupancy and rent growth are likely to continue to moderate in 2023.

Long term, 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.

Manufactured Housing REITs (7.6%): We are bullish regarding the long-term prospects for the Fund's investments in manufactured housing REITs, **Sun Communities, Inc.** and **Equity Lifestyle Properties, Inc.**

Sun Communities and Equity Lifestyle Properties 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.

Sun Communities and Equity Lifestyle Properties 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.

Single-Family Rental REITs (3.2%): We remain long-term 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.

Near term, we are mindful that expense headwinds and slower top-line growth are likely to weigh on growth in 2023. We will continue to closely monitor business developments and will adjust the Fund's exposure accordingly.

Multi-Family REITs (1.8%): Over the course of 2022, we lowered the Fund's exposure to multi-family REITs because of our expectation that rental growth and perhaps occupancy would moderate in 2023 should job losses accelerate and economic growth decelerate. Further, certain apartment REITs are expected to experience new apartment inventory headwinds in 2023.

We may look for opportunities to increase the Fund's exposure to apartment REITs over the course of 2023. Following the sharp correction in apartment REITs in 2022, we believe a portion of the operating outlook concerns are currently reflected in apartment share prices and valuations. Further, rental apartments continue to benefit from the current homeownership affordability challenges. 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.

Other REIT and non-REIT investments – 22% of the Fund's net assets

Mall REITs (4.9%): The Fund maintains a position in **Simon Property Group, Inc.**, the leading U.S. mall and outlet REIT. At 10.6 times earnings and a 6% dividend yield, we believe the shares are unsustainably cheap.

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.

Triple Net REITs (4.6%): We remain optimistic about the Fund's triple net gaming REIT investments in **VICI Properties Inc.** and **Gaming and Leisure Properties, Inc.** The companies primarily own quality casino and gaming real estate properties. They have attractive dividend yields in the 5% to 6% range that are well covered, accretive acquisition growth opportunities, and are, in our opinion, attractively valued.

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.

Health Care REITs (4.3%): We are optimistic about the Fund's health care REIT investments in **Ventas, Inc.** and **Welltower Inc.**

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 our optimism for long-term prospects for health care real estate, we are closely monitoring near-term elevated expense headwinds combined with a slower-than-expected recovery to date in leasing and occupancy.

Non-REIT Real Estate Companies (7.8%): 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 20% to 25% of the Fund's net assets. At times, some of the Fund's non-REIT real estate companies may present superior growth, dividend, valuation, and share price appreciation potential than many REITs.

We are bullish about the prospects for the Fund's non-REIT real estate investments. They include the following companies: **Brookfield Infrastructure Corporation**, **Brookfield Corporation**, **Brookfield Asset Management Ltd.**, and **Vail Resorts, Inc.**

A Review of Recent Activity Managing the Fund

Recent Activity

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

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

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

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

	Quarter End Market Cap (billions)	Amount Purchased (millions)
EastGroup Properties, Inc.	$ 6.5	$3.2
Prologis, Inc.	104.1	2.8
Brookfield Infrastructure Corporation	4.3	2.2
CubeSmart	9.0	2.1
Ventas, Inc.	18.0	2.1

Following a sharp correction in its share price over the course of 2022 and discussions with management, we initiated a position in **EastGroup Properties, Inc.**, a REIT that is a leading developer, acquirer, and operator of industrial properties in major Sunbelt markets throughout the U.S.

The company has assembled a high-quality real estate portfolio and management has a strong track record of delivering consistent gains in occupancy and rent growth and maintaining strong expense growth. Looking forward, we believe in-place rents on leases signed remain well below current market rents thereby providing visibility into strong embedded growth potential. Further, management maintains a conservative balance sheet.

We believe the shares are attractively valued and the company could be targeted as a takeover candidate should its valuation remain depressed.

In the fourth 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 65% 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 Corporation. 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 a 2022 decline in its shares of 34%, we believe Prologis' current valuation of only 23 times cash flow (adjusted funds from operations or AFFO) and a 4.5% implied capitalization rate is compelling given that the company's rents on its in-place leases are more than 65% below current market rents, thus providing a strong runway for growth in the next three to five years.

Brookfield Infrastructure Corporation 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 Infrastructure's earnings (funds from operations) to grow by more than 10%, yet its shares are valued at only 10.8 times earnings. We also expect its 3.5% dividend to be higher in the year ahead.

Following a sharp correction in the share price of **CubeSmart** in 2022, we initiated a position. The company is the third largest self-storage REIT. CubeSmart owns and operates a high-quality portfolio of approximately 1,274 self-storage properties. With its well-located real estate portfolio and conservative balance sheet, we believe the company is well positioned to generate solid cash-flow growth and strong performance returns in the next few years.

In the fourth quarter of 2022, we initiated a position in **Ventas, Inc.**, a health care REIT that owns a $30 billion portfolio of senior housing, medical office, hospitals, and life science properties. The company's scale allows it to swiftly act on large investment opportunities. We believe the company's senior housing portfolio, which represents approximately 45% of assets, should deliver improved operating results in the next few years.

Following COVID-19-related operational challenges in 2020 and 2021, health care real estate fundamentals began to improve in 2022. Rent increases and occupancy gains have been heading in the right direction. Muted supply growth in the next two to three years (due to increasing financing and construction costs and supply-chain challenges) should amplify the recovery in fundamentals. The long-term demand outlook is favorable, driven in part by growth of the 80-plus population which is expected to accelerate in the years ahead.

We believe the shares are attractively valued and offer prospects for strong total shareholder returns.

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

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Duke Realty Corporation	$18.5	$3.6
Invitation Homes, Inc.	18.1	3.6
Las Vegas Sands Corporation	35.4	3.3
American Homes 4 Rent	10.7	2.5
Equity Residential	22.3	2.4

We sold shares in **Duke Realty Corporation**, a leading industrial logistics company, following the announcement that it would be acquired by Prologis, Inc., the world's largest industrial REIT and top holding in the Fund.

We are optimistic about the merits of the combined companies. Duke's industrial portfolio is among the best in industrial real estate. The company has an excellent track record in development and construction. We believe the merger has strategic and financial merits including acquiring a high-quality portfolio in mostly similar or attractive real estate markets and the likelihood of realizing both additional revenue and cost savings.

We significantly reduced the Fund's position in **Invitation Homes, Inc.**, the largest single-family home rental REIT in the U.S., following disappointing earnings results and commentary from management. Invitation Homes reduced full-year guidance due to higher-than-expected expenses driven by outsized tax assessments in several key states that represented over 40% of cash flow. Furthermore, shares continued to underperform as it became increasingly evident that many expenses would remain sticky into 2023 combined with an uncertain growth outlook given the macro-economic backdrop.

Though we are mindful of near-term headwinds, we remain optimistic about the long-term value proposition given multiple growth opportunities which include: i) significant pent-up demand from the millennial generation to rent single-family homes against a backdrop of constrained inventory (which we expect will lead to rental and occupancy growth); ii) acquisitions of homes in high-growth geographic markets; and iii) the expansion of ancillary home services for residents (e.g., enhanced smart home, pest control, landscaping, and pet services).

Following strong absolute and relative share price performance in 2022 – **Las Vegas Sands Corporation**'s shares increased 15% during the period held while most other U.S. casino and gaming companies declined anywhere from 20% to more than 50% – we sold the Fund's position in Sands in the most recent quarter.

We significantly reduced our position in **American Homes 4 Rent** (AMH) during the quarter due to a higher-than-expected expense outlook pressuring cash-flow growth, elevated financing costs impacting external acquisitions and broader macroeconomic uncertainty. We re-allocated capital given the cloudy outlook around job losses and real income growth potentially impacting the current and prospective resident pool and/or the company's ability to grow rents in the future. Notwithstanding, we remain positive on the long-term demographic trends supporting demand for single-family rental, visible external growth through AMH's self-funded development pipeline and diversified market exposure.

During the quarter, we significantly reduced our position in **Equity Residential**, the largest U.S. multi-family REIT, amid a worsening economic backdrop, accelerating layoff announcements, slowing rent growth and supply pressure in certain markets. Accelerating job losses in the tech sector caused us concern (which has deteriorated further in recent weeks), particularly with approximately 30% of cash flow concentrated in the Seattle and San Francisco markets. In addition, we had reservations about near-term supply headwinds in Los Angeles and Washington D.C. markets, which represent another 30%-plus of cash flow. While Equity Residential is a blue-chip apartment landlord largely located in high barrier-to-entry markets, we believe shares will remain challenged near term despite its cheap valuation given some of the current and expected headwinds.

Baron Real Estate Income Fund

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

	Quarter End Market Cap (billions)	Percent Impact
Prologis, Inc.	$104.1	1.56%
Simon Property Group, Inc.	38.4	1.18
Equinix, Inc.	60.6	0.94
Gaming and Leisure Properties, Inc.	13.4	0.44
Sun Communities, Inc.	17.7	0.38

In the fourth quarter, the shares of **Prologis, Inc.**, the world's largest industrial REIT, performed well, driven by strong quarterly business results and management's positive assessment of current business conditions and prospects. We are big fans of CEO Hamid Moghadam and Prologis' management team and remain optimistic about the company's long-term growth outlook.

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 65% 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 23 times cash flow (AFFOs) or a 4.5% capitalization rate. These metrics reflect modest premiums to the REIT index despite Prologis' superior long-term growth prospects.

Simon Property Group, Inc. is the world's largest mall operator. The shares performed gained in the fourth quarter following strong business quarterly business results.

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 6% and valuation of only 10.8 times earnings (AFFO) versus a long-term average of 15 times earnings is, in our opinion, compelling.

Equinix, Inc. shares performed well in the quarter after the company reported quarterly results above expectations, raised its full-year guidance and provided a robust demand outlook amid weaker broader macroeconomic conditions. The company's value proposition of providing mission-critical infrastructure to a highly diversified customer base yields pricing power and "must have" versus "nice to have" infrastructure deployments. This allowed Equinix to be a standout within the broader technology space when many companies were reducing their growth outlooks and noting weakening demand. Equinix is a REIT and the premier global operator of network-dense, carrier-neutral colocation data centers. COVID-19 accelerated digital transformation priorities for many organizations, and we believe that Equinix is poised to continue to benefit from: i) organic growth through new bookings and pricing power (the majority of incremental bookings are from existing customers); ii) growth of high-margin cross connect revenue; and iii) continued geographic expansion through development and select M&A. We believe the combination of these factors will allow the company to grow cash flow per year in the high single-digit range for the foreseeable future.

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

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

The shares performed well in the fourth quarter and full year of 2022, in part due to investors' view that the company's shares would be a safe haven in an uncertain macroeconomic environment. The company pays out a well-covered 5.5% dividend yield while growing its organic cash flow at a low single-digit rate. Its tenants are well positioned to make their rent payments even if an economic downturn occurs, and the company's balance sheet is well capitalized to fund new acquisitions should attractive opportunities become available.

The shares of **Sun Communities, Inc.**, a REIT that owns a portfolio of manufactured housing properties, recreational vehicle parks, and marinas, increased in the most recent quarter following strong quarterly business results coupled with management's bright outlook for 2023 rent growth.

We believe the company is well positioned to continue to benefit from favorable demand and supply dynamics. The company is a beneficiary 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.

Sun Communities has 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 the company's focus on affordable housing and affordable outdoor vacations.

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

	Quarter End Market Cap (billions)	Percent Impact
Extra Space Storage Inc.	$19.7	-0.81%
Invitation Homes, Inc.	18.1	-0.52
Equity Residential	22.3	-0.40
American Homes 4 Rent	10.7	-0.29
Crown Castle Inc.	58.7	-0.27

In the fourth quarter, concerns about a global economic slowdown, elevated inflation and expense pressures, and rising interest rates pressured the shares of several of our favorite holdings despite strong long-term growth prospects. 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 2022's repricing of the stock market and real estate securities was unpleasant and may continue in the months ahead given the expectation that economic growth will slow, and several company growth forecasts will be lowered.

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

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

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

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

Baron Real Estate Income Fund Outlook

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

Further, we believe the benefits of the Fund's broader and more flexible approach that prioritizes a full array of REITs but also invests in non-REIT real estate-related companies will shine even brighter in the years ahead in part due to the new and evolving real estate landscape. Some companies will experience an acceleration in tailwinds and others are likely to face ongoing headwinds.

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

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

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Prologis, Inc.	$104.1	$10.7	13.8%
American Tower Corp.	98.6	8.0	10.4
Equinix, Inc.	60.6	5.6	7.3
Public Storage Incorporated	49.2	4.7	6.0
SBA Communications Corp.	30.3	4.1	5.3
Simon Property Group, Inc.	38.4	3.8	4.9
Sun Communities, Inc.	17.7	3.8	4.9
EastGroup Properties, Inc.	6.5	3.2	4.1
Extra Space Storage Inc.	19.7	2.6	3.3
Rexford Industrial Realty, Inc.	10.7	2.5	3.3

Final Thoughts

I would like to thank my top-notch assistant portfolio manager, David Kirshenbaum, and the other primary members of our real estate research team, George Taras and David Baron, for their excellent work and partnership.

We remain highly determined to diligently research, select, and monitor a high-quality portfolio of real estate companies with solid executive management, strong growth prospects, leading competitive positions, liquid balance sheets, and attractive valuations. We are enthusiastic about our investments and are optimistic about prospects for the portfolio.

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

I, and our team, remain fully committed to doing our best to deliver outstanding long-term results, and I proudly continue as a major shareholder of the Baron Real Estate Income Fund, alongside you.

Sincerely,

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 the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in 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.

Discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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The portfolio manager defines "**Best-in-class**" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking.

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