

DEAR INVESTOR:

PERFORMANCE

Following a strong first six months of 2023, the stock market, most REITs and non-REIT real estate companies, and the Baron Real Estate Income Strategy declined in the third quarter. The Strategy declined 6.47% modestly outperforming the MSCI US REIT Index (the REIT Index), which declined 7.32%.

In the first nine months of 2023, the Strategy has increased 1.30% outperforming the REIT Index, which declined 2.89%.

In the third quarter, several factors weighed on stocks, including higher interest and mortgage rates, higher oil prices, the prospect that monetary tightening may persist for several quarters as inflation remains above central bank targets, concerns about China's economic growth prospects, a few company earnings disappointments, and the possibility of additional economic growth headwinds including the lag effects of the Federal Reserve's tightening, student loan payments, and union strikes.

Though we are mindful of key risks to the equity and real estate market outlook, we remain optimistic about the prospects for the Strategy. We believe the Strategy is populated with attractively valued best-in-class REITs and non-REIT real estate companies with strong long-term growth prospects. We believe the Strategy's two- to three-year return prospects are compelling.

We will address the following topics in this letter:

- Demystifying real estate: an optimistic perspective on the prospects for real estate
- Portfolio composition and key investment themes

- Top contributors and detractors to performance
- Recent activity
- Concluding thoughts on the prospects for real estate and the Strategy

Table I.

Performance for annualized periods ended September 30, 2023
(Figures in USD)¹

	Baron Real Estate Income Strategy (net) ²	Baron Real Estate Income Strategy (gross) ²	MSCI US REIT Index ²
Three Months ³	(6.47)%	(6.31)%	(7.32)%
Nine Months ³	1.30%	1.68%	(2.89)%
One Year	3.64%	4.16%	1.87%
Three Years	3.25%	3.76%	4.51%
Five Years	7.71%	8.03%	1.62%
Since Inception (January 31, 2018) ⁴	6.90%	7.18%	2.44%

Table II.

Calendar Year Performance 2018-2022 (Figures in USD)

	Baron Real Estate Income Strategy (net) ²	Baron Real Estate Income Strategy (gross) ²	MSCI US REIT Index ²
2018	(10.46)%	(10.46)%	(1.68)%
2019	37.64%	37.64%	24.33%
2020	23.29%	23.29%	(8.70)%
2021	30.12%	30.79%	41.71%
2022	(27.13)%	(26.69)%	(25.37)%

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of September 30, 2023, total Firm assets under management are approximately \$39.6 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO and a separately managed account managed by BCM. BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies or a GIPS Report please contact us at 1-800-99-BARON. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse, promote or warrant the accuracy or quality of the report.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

¹ With the exception of performance data, most of the data is based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

² The MSCI US REIT Index Net (USD) 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. The index and the Strategy include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The index is unmanaged. Index performance is not Strategy performance; one cannot invest directly into an index.

³ Not annualized.

⁴ The Strategy has a different inception date than its representative account, which is 12/29/2017.

Baron Real Estate Income Strategy

Table III.
Strategy investments in REIT categories as of September 30, 2023

	Percent of Net Assets
REITs	80.9%
Data Center REITs	19.2
Industrial REITs	18.5
Single-Family Rental REITs	10.6
Health Care REITs	10.0
Multi-Family REITs	7.9
Self-Storage REITs	5.9
Other REITs	4.6
Hotel REITs	1.9
Mall REITs	1.5
Triple Net REITs	0.9
Non-REIT Real Estate Companies	12.5
Cash and Cash Equivalents	6.6
Total	100.0%*

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

DEMYSTIFYING REAL ESTATE: AN OPTIMISTIC PERSPECTIVE ON THE PROSPECTS FOR REAL ESTATE

The highly unusual and challenging last few years (e.g., COVID-19, a sharp and rapid rise in interest and mortgage rates, credit market stress, multi-decade high inflation) have left many anxious and concerned about the prospects for real estate. Our research team aims to simplify real estate, separate facts from fiction, and share our positive outlook on its prospects. Here's a sample of our key takeaways:

Perception vs. Reality: We believe there are several perceptions about real estate that do not reflect reality. A few examples are listed below.

Perception: A commercial real estate crisis is on the horizon.

- **Reality:** Prospects for most of commercial real estate are encouraging.

Perception: 6% to 7% mortgage rates will cripple the new home sales market.

- **Reality:** New home sales are strong.

Perception: The American Dream to own a home is over.

- **Reality:** Millennials are buying homes.

Perception: Office real estate is "dead."

- **Reality:** Elements of office real estate are performing well – globally and by type.

Perception: Zoom will derail business travel.

- **Reality:** Business travel continues to recover.

Perception: A banking crisis is forthcoming that will crush real estate.

- **Reality:** Sufficient credit exists to support real estate.

Perception: Real estate performs poorly in a high or rising rate environment.

- **Reality:** Segments of real estate perform well in a high or rising rate environment.

Commercial Real Estate Crisis?: Since the failure of Silicon Valley Bank in March 2023, there has been a broad-based and consistent narrative that a commercial real estate crisis is forthcoming. Further, commercial real estate has been painted with a broad brushstroke as the challenges of B and C

office buildings, comprising just 3% to 5% of the total market, are being extrapolated to all commercial real estate. We believe forecasts of widespread distress in commercial real estate are sensationalized and a commercial real estate crisis is unlikely to materialize.

We believe the likelihood of a commercial real estate crisis is low for the following reasons:

1. Operating fundamentals are positive.
2. Lack of overbuilding and a dearth of new construction activity bode well.
3. Most balance sheets are in good shape.
4. The banking system is well capitalized with ample liquidity.
5. Real estate loan defaults will mostly impact class B and C offices.
6. A Fed "put" could mitigate headwinds.

We See Many Secular Tailwinds in Commercial Real Estate: An important element of commercial real estate that we believe is underappreciated is that there is a large swath of commercial real estate that benefits from secular tailwinds – demand drivers that are enduring and likely to persist in both good and challenging economic environments. Some examples of the secular tailwinds we are seeing in commercial real estate are listed below.

Industrial

- **Secular tailwinds:** E-commerce, supply-chain logistics, shift from "just-in-time" to "just-in-case," "on-shoring"

Multi-Family

- **Secular tailwinds:** More affordable to rent vs. own

Single-Family Rental

- **Secular tailwinds:** Millennial household formation, desire for flexibility, more affordable to rent vs. own, inventory shortage

Manufactured Housing

- **Secular tailwinds:** Budget-conscious home buyers and high development barriers

Data Centers

- **Secular tailwinds:** Rising data consumption, cloud computing, IT outsourcing, artificial intelligence (AI)

Wireless Towers

- **Secular tailwinds:** Robust mobile data growth, 4G and 5G adoption

Senior Housing

- **Secular tailwinds:** Aging baby boomers and 80-plus population ("silver tsunami")

Life Science

- **Secular tailwinds:** Pharmaceutical R&D and drug development

Self-Storage

- **Secular tailwinds:** Work from home

Hotels

- **Secular tailwinds:** Travel increasing as a percentage of wallet share

The Case for Public Real Estate & Key Investment Themes: We believe there is a strong long-term case to allocate capital to public real estate in an actively managed strategy.

Long-Term Case

1. Inflation protection
2. Diversification and low correlation to equities/bonds
3. Strong historical long-term returns with ongoing potential

Near- to Medium-Term Case

1. Much of public real estate has lagged
2. Several public real estate companies are cheap
3. May be near end of Fed tightening period – historically bullish for real estate
4. We see generally attractive demand vs. supply prospects
5. Balance sheets are in solid shape
6. Wall of private capital is targeting public real estate

Benefits of Active Management

1. Managers can focus on what they believe to be real estate winners and avoid the losers
2. Managers can exploit mispricings
3. Managers can embrace a benchmark-agnostic approach

PORTFOLIO COMPOSITION AND KEY INVESTMENT THEMES

As of September 30, 2023, the Strategy's net assets were invested as follows: REITs (80.9%), non-REIT real estate companies (12.5%), and cash (6.6%). We currently have investments in 10 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 III above).

REITs

Business fundamentals and prospects for many REITs remain solid although, in most cases, growth is slowing due to debt refinancing headwinds, a moderation in organic growth (occupancy, rent and/or expense pressures), and reduced investment activity (acquisitions and development). Most REITs enjoy occupancy levels of more than 90% with modest new competitive supply forecasted in the next few years due to elevated construction costs and contracting credit availability for new construction. Balance sheets are in good shape. Several REITs have inflation-protection characteristics. Many REITs have contracted cash flows that provide a high degree of visibility into near-term earnings growth and dividends. Dividend yields are well covered by cash flows and are growing.

Following the 25% decline in the REIT Index in 2022 and modest declines in the first nine months of 2023, REIT valuations have become attractive on an absolute basis relative to history and relative to private market valuations, but not relative to fixed income alternatives. If economic growth contracts and evolves into no worse than a mild recession and the path of interest rates peaks at levels not much higher than current rates, we believe the shares of certain REITs may begin to perform relatively well. 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).

We continue to prioritize secular growth REITs and short-lease duration REITs with pricing power:

Secular growth REITs: Our long-term focus is on REITs that benefit from secular tailwinds where cash-flow growth tends to be durable and less

sensitive to a slowdown in the economy. Examples include our investments in data center, industrial logistics, and life science REITs. As of September 30, 2023, secular growth REITs represented 39.7% of the Strategy's net assets.

Short-lease duration REITs with pricing power: We have continued to emphasize REITs that are able to raise rents and prices on a regular basis to combat inflation's impact on their businesses. Examples include the Strategy's investments in single-family rental, multi-family, and self-storage REITs. As of September 30, 2023, short-lease duration real estate companies represented 24.4% of the Strategy's net assets.

Secular growth REITs (39.7% of the Strategy's net assets)

Data Center REITs (19.2%): In the third quarter, we increased the Strategy's exposure to data center REITs from 15.1% to 19.2%. We believe the multi-year prospects for real estate data centers are compelling. Data center landlords such as **Equinix, Inc.** and **Digital Realty Trust, Inc.** are benefiting from record low vacancy, demand outpacing supply, and rising rental rates. Regarding the demand outlook, several secular demand vectors are contributing to robust demand for data center space globally. They include the outsourcing of information technology, increased cloud computing adoption, the ongoing growth in mobile data and internet traffic, and AI as a new wave of data center demand.

Industrial REITs (18.5%): Though we expect rent growth to moderate from its frenzied pace of the last few years, we remain optimistic about the long-term prospects for industrial REITs. With industrial vacancies at less than 4%, new supply expected to moderate in 2024, rents on in-place leases more than 50% below market, and multi-faceted demand drivers including the ongoing growth in e-commerce and companies' seeking to improve inventory supply-chain resiliency by carrying more inventory (shift from *just in time* to *just in case* inventory), we believe our investments in industrial warehouse REITs **Prologis, Inc.**, **Rexford Industrial Realty, Inc.**, **EastGroup Properties, Inc.**, **Terreno Realty Corporation**, and **First Industrial Realty Trust, Inc.** have compelling multi-year cash-flow growth runways.

Life Science REITs (2.1%): **Alexandria Real Estate Equities, Inc.** is the life science industry leader and sole publicly traded life science pure-play REIT. At its current discounted valuation, we believe concerns about competitive supply and distress for some of the company's biotechnology and health care tenants are overblown and sufficiently discounted in the company's valuation. We believe the management team has assembled a desirable real estate portfolio, enjoys a leading market share position in its geographic markets, and has solid expectations for long-term demand-driven growth.

Short-lease duration REITs (24.4% of the Strategy's net assets)

Single-Family Rental REITs (10.6%): Following strong second quarter results, we modestly increased our 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, avoid higher monthly mortgage costs, and maintain flexibility; and the stronger demand for home rentals in suburbs rather than apartment rentals in cities. Rising construction costs are limiting the supply of single-family rental homes in the U.S. housing market. This 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 the impact of inflation given that their in-place annual leases

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are significantly below market rents. Valuations are compelling at mid-5% capitalization rates, and we believe the shares are currently valued at a discount to our assessment of net asset value.

We remain mindful that expense headwinds and slower top-line growth could weigh on growth later in 2023 and 2024. We will continue to closely monitor business developments and will adjust our exposures accordingly.

Multi-Family REITs (7.9%): In the third quarter, we maintained our exposure to apartment REITs **Equity Residential** and **AvalonBay Communities, Inc.** at 7.9% of the Strategy's net assets. We believe public valuations remain discounted relative to the private market. Tenant demand remains healthy and rent growth has modestly improved since the first quarter of 2023. 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. We continue to closely monitor new supply deliveries and job losses in key geographic markets.

Self-Storage REITs (5.9%): In the third quarter, we reduced our exposure to self-storage REITs – **Public Storage Incorporated**, **Extra Space Storage Inc.**, and **CubeSmart** – because we expect growth may 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 are interested in acquiring self-storage real estate should valuations in the public market become attractive relative to other opportunities.

Other REIT and non-REIT real estate investments (29.3% of the Strategy's net assets)

Health Care REITs (10.0%): We remain optimistic about our health care REIT investments in **Welltower Inc.** and **Ventas, 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 expense headwinds combined with a slower-than-expected recovery in leasing and occupancy.

Other REITs (5.9%): We are optimistic about our REIT investments in **Tanger Factory Outlet Centers, Inc.**, **Americold Realty Trust**, and recent addition **DiamondRock Hospitality Company**. Tanger owns and operates the second largest outlet center portfolio in the U.S. Tanger is the only mall REIT that focuses exclusively on outlets and, as a result, there is less risk from department store closures. We believe the shares are attractively valued and offer solid prospects for growth. Americold is the second largest owner-operator of cold storage facilities in the U.S. and globally. We believe the shares of Americold should benefit from steady growth in food consumption, limited new supply, and improvements in its operations, which should support solid growth. We discuss hotel REIT **DiamondRock** in greater detail below in the "Top net purchases" section.

Triple Net REITs (0.9%): We have slightly decreased our already modest exposure to the triple net gaming REIT **VICI Properties Inc.**, an owner of quality gaming, hospitality, and entertainment properties. The company pays a 6% dividend that is well covered, has a strong track record of making accretive acquisitions, and has additional opportunities for growth in the years ahead.

Non-REIT Real Estate Companies (12.5%): We emphasize REITs but have the flexibility to invest in non-REIT real estate companies. We tend to limit these to no more than 20% to 25% of the Strategy's net assets. At times, some of our non-REIT holdings may present superior growth, dividend, valuation, and share price appreciation potential than many REITs.

We are bullish about the prospects for the Strategy's non-REIT real estate investments, which include: **Toll Brothers, Inc.**, **Wynn Resorts, Limited**, **Brookfield Corporation**, **Brookfield Asset Management Ltd.**, **Lowe's Companies, Inc.**, **Travel + Leisure Co.**, and **Brookfield Infrastructure Corporation**.

TOP CONTRIBUTORS AND DETRACTORS

Table IV.

Top contributors to performance for the quarter ended September 30, 2023

	Quarter End Market Cap (billions)	Percent Impact
Digital Realty Trust, Inc.	\$37.4	0.40%
Welltower Inc.	42.5	0.07
Tanger Factory Outlet Centers, Inc.	2.4	0.03
Brookfield Asset Management Ltd.	13.8	0.02

Following strong quarterly business results, the shares of **Digital Realty Trust, Inc.**, a global data center operator with 290 data centers, continued to perform well in the third quarter. As noted in the Strategy's second quarter shareholder letter, we believe the multi-year prospects for real estate data centers are compelling – perhaps as strong as they have ever been. For our more complete thoughts on Digital Realty and the Strategy's other data center REIT investment in **Equinix, Inc.**, please see "Top net purchases" later in this letter.

Welltower Inc., an owner and operator of senior housing and medical office buildings, was a contributor to performance during the quarter due to strong cash-flow growth in its senior housing portfolio driven by healthy rent growth and occupancy gains, robust demand from new residents, improving labor expenses, and superior capital deployment by management. Welltower owns and operates senior housing and medical office buildings in the U.S. and internationally. We believe the company continues to be well positioned to benefit from cyclical and secular growth over the coming years and has a credible path to double its senior housing operating cash flow organically over the next four to five years. In addition, we believe the current constrained financing environment will create attractive external growth opportunities for the company to acquire quality assets at attractive prices.

The shares of **Tanger Factory Outlet Centers, Inc.**, a real estate owner of the second largest outlet center portfolio in the U.S., increased modestly following strong quarterly results. We met with CEO Stephen Yalof and CFO Michael Billerman earlier this year and came away impressed. The management team continues to look for opportunities to manage the

business more profitably, prioritize Tanger's digital transformation, and expand outlet center offerings. Tanger, unlike mall REITs, focuses solely on retail outlets so it is immune from department store tenant risk. We believe the shares are attractively valued and are optimistic about the company's long-term prospects.

Table V.

Top detractors from performance for the quarter ended September 30, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Prologis, Inc.	\$103.7	−0.78%
Equinix, Inc.	68.0	−0.61
Wynn Resorts, Limited	10.5	−0.50
Brookfield Renewable Corporation	8.8	−0.48
Invitation Homes, Inc.	19.4	−0.42

The shares of **Prologis, Inc.**, the world's largest industrial REIT, declined in the third quarter of 2023 along with most REITs. We are big fans of CEO Hamid Moghadam and Prologis' management team, and we remain optimistic about the company's long-term growth outlook.

Prologis 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.

We continue to believe the appreciation potential for Prologis shares remain 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.

The shares of **Equinix, Inc.**, the premier global operator of network-dense, carrier-neutral colocation data centers with operations across 32 countries, declined 7.1% in the third quarter following a 20.4% gain in the first six months of 2023. In the last few months, we have spent time with CEO Charles Meyers and CFO Keith Taylor and are encouraged about the company's long-term prospects. Ultimately, we believe the underlying demand vectors, strong pricing power, favorable supply backdrop, and interconnection focus will support approximately 10% cash-flow-per-share growth for the next several years with upside from further scaling of digital services, incremental AI demand, and select M&A opportunities. We remain optimistic about the prospects for Equinix shares over the next several years.

The shares of **Wynn Resorts, Limited**, an owner and operator of hotels and casino resorts, declined 14.5% during the period held in the third quarter.

We remain optimistic about the multi-year prospects for the company. We believe the re-emergence of business activity in Macau will drive additional shareholder value. If cash flow returns to the level achieved in 2019 prior to COVID-19, we believe Wynn's shares will increase to \$150 per share, or more than 60% higher than where they have recently traded.

We believe additional drivers for future value creation beyond a re-emergence in Macau business activity include: (i) our expectation for long-term growth opportunities in the company's U.S.-centric markets of Las Vegas and Boston, including an expansion of Wynn's Encore Boston

Harbor resort; (ii) Wynn's plans to develop an integrated resort in the United Arab Emirates with 1,500 hotel rooms and a casino that is similar in size to that of Encore Boston Harbor; (iii) opportunities to improve cash-flow margins by rightsizing labor and achieving lower staff costs in Macau; (iv) the possibility that Wynn is granted a New York casino license in 2023; and (v) an expansion in the company's valuation multiple to levels achieved prior to the pandemic.

RECENT ACTIVITY

Table VI.

Top net purchases for the quarter ended September 30, 2023

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Wynn Resorts, Limited	\$10.5	\$4.8
Digital Realty Trust, Inc.	37.4	4.3
DiamondRock Hospitality Company	1.7	2.5
Equinix, Inc.	68.0	2.5
First Industrial Realty Trust, Inc.	6.3	1.9

In the third quarter, we re-acquired shares of **Wynn Resorts, Limited**, which we discuss in detail above.

We believe the multi-year prospects for real estate data centers are compelling – perhaps as strong as they have ever been. Accordingly, we recently increased our exposure to data center REITs by acquiring additional shares in **Digital Realty Trust, Inc.** and **Equinix, Inc.**

Data center landlords such as Equinix and Digital Realty are benefiting from record low vacancy, demand outpacing supply, more constrained power availability, and rising rental rates. Several secular demand vectors, which are currently broadening, are contributing to robust fundamentals for data center space globally. They include the outsourcing of information technology infrastructure, increased cloud computing adoption, the ongoing growth in mobile data and internet traffic, and AI as a new wave of data center demand. Put simply, each year data continues to grow exponentially, and all of this data needs to be processed, transmitted, and stored – supporting increased demand for data center space. In addition, while it is still early innings, we believe AI could not only provide a source of incremental demand but also further accelerate existing secular trends by driving increased prioritization and additional investment in digital transformation among enterprises.

We recently spent time with the management teams at both Equinix and Digital Realty and are optimistic about their prospects. We believe Equinix, the premier global operator of network-dense, carrier-neutral colocation data centers, is well positioned to grow its cash flow per share by more than 10% annually for the next few years.

Digital Realty is a global data center operator with 290 data centers across North America, EMEA, APAC, and LATAM. Over the last few years, the company has been undergoing a business transformation, which accelerated after its acquisition of Interxion in March 2020, a pure-play European network-dense data center operator. The company has been shedding non-core slower growth assets, investing and expanding in Europe, growing its retail colocation business, improving its balance sheet, and adding operational expertise by supplementing new management leadership. We have spent a significant amount of time with CEO Andy Power over the years and believe the investments the company has made are on the cusp of bearing fruit and will pay dividends for years to come. In addition, we

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believe the fundamentals in its core business are at an inflection point with robust demand/bookings, pricing power, hyperscale cloud players outsourcing a higher percentage of their digital infrastructure needs, and limited competitive capacity. We believe these factors will lead to growth in the core business in 2023 and are optimistic about the long-term prospects for the company.

We initiated a position in **DiamondRock Hospitality Company** during the quarter. DiamondRock owns high-quality hotel assets skewed towards resort and leisure. While macroeconomic concerns have limited near-term share price performance, we continue to believe that the value of the irreplaceable leisure-focused portfolio the company has curated over the past 20 years will ultimately be realized either in the public or private markets. There is a significant amount of undeployed private equity capital on the sidelines geared toward the exact types of assets that DiamondRock owns. Shares remained attractively valued both on a relative and absolute basis with the company being conservatively capitalized relative to its peers and with no near-term debt maturities.

Table VII.
Top net sales for the quarter ended September 30, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
American Tower Corporation	\$74.4	\$2.8
Brookfield Renewable Corporation	8.8	2.4
Public Storage Incorporated	46.3	1.4
Travel + Leisure Co.	2.7	1.2
VICI Properties Inc.	29.5	1.0

Early in 2023, we reduced the majority of our position in **American Tower Corporation**, a global operator of over 200,000 wireless towers, and exited our small position in the third quarter. While we are positive on the long-term secular trends underpinning American Tower's business, we concluded in late 2022 and early 2023 that growth expectations were too high given forthcoming headwinds from significantly higher financing costs (20%-plus exposure to floating rate debt), upcoming debt maturities, continued payment shortfalls from a key tenant in India, foreign exchange headwinds, and a possible reduction in mobile carrier capital expenditures.

As shares have become more attractively valued, growth headwinds are better understood, and with a potential monetization event of its India business, we may look to re-acquire shares.

Shares of **Brookfield Renewable Corporation** underperformed significantly in the quarter. The approximate 100 basis point increase in risk-free rates during the quarter made yield stocks less attractive to investors. In addition, select industry headwinds such as supply-chain issues, development delays, and lower return targets weighed on the shares as well. While Brookfield Renewable has not, to date, been impaired by ongoing industry issues, we exited our position due to ongoing industry concerns and reallocated capital to higher conviction ideas. We may revisit Brookfield Renewable as some of the clouds clear and return prospects become more evident.

We recently trimmed our investment in **Public Storage Incorporated**, a REIT that is the world's largest owner, operator, and developer of self-storage facilities, due to expectations that rent and overall cash-flow growth may continue to moderate.

Public Storage's nearly 2,500 self-storage facilities across the U.S. serve more than one million customers. The company has achieved the #1 market position in 14 of its top 15 markets. Despite our near-term caution, we are optimistic about the company's long-term prospects due to our expectations for strong occupancy, limited new supply, the resumption of solid long-term organic cash-flow growth, and the potential for M&A due to its well-capitalized and low leveraged balance sheet and its ability to increase rents monthly to offset inflation headwinds. We believe Public Storage's shares are currently valued at a discount to private market self-storage values.

CONCLUDING THOUGHTS ON THE PROSPECTS FOR REAL ESTATE AND THE STRATEGY

We remain mindful that the current economic and investment climate is challenging. Though we do not have a crystal ball regarding the macroeconomic and geopolitical outlook, we remain optimistic about the long-term prospects for the Strategy.

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

We believe the Strategy's approach to investing in REITs and non-REIT real estate companies will shine even brighter in the years ahead.

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

Table VIII.
Top 10 holdings as of September 30, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Equinix, Inc.	\$ 68.0	\$12.6	9.7%
Prologis, Inc.	103.7	12.5	9.6
Digital Realty Trust, Inc.	37.4	12.4	9.5
Welltower Inc.	42.5	9.9	7.6
Invitation Homes, Inc.	19.4	7.3	5.6
American Homes 4 Rent	12.2	6.4	5.0
AvalonBay Communities, Inc.	24.4	6.0	4.6
Equity Residential	22.3	4.3	3.3
Toll Brothers, Inc.	7.9	4.3	3.3
Wynn Resorts, Limited	10.5	4.1	3.1

I and the rest of our Baron real estate team – David Kirshenbaum, George Taras, and David Baron – remain energized, focused, and busy meeting with and speaking to real estate management teams. We continue our comprehensive research, speaking to a broad swath of real estate companies – both owned and not owned – in many cases a few times each quarter to make sure our research remains current and informed. We believe our corporate relationships and access to management are critical elements that contribute to competitive advantages for our real estate team versus many of our peers.

Sincerely,



Jeffrey Kolitch
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

Risks: In addition to general market conditions, the value of the Strategy 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 Strategy invests in debt securities which are affected by changes in prevailing interest rates and the perceived credit quality of the issuer. The Strategy 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 Strategy 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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Real Estate Income Strategy by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such an offer or solicitation.

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.