Dear Baron Real Estate Income Fund Shareholder:

Performance

Baron Real Estate Income Fund® (the Fund) increased 4.73% (Institutional Shares) in the first quarter of 2023, outperforming the MSCI US REIT Index (the REIT Index), which increased 2.39%.

We are pleased to report that as of March 31, 2023, the Fund has maintained its:

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

We will address the following topics in this letter:

- Our current top-of-mind thoughts
- Is a commercial real estate crisis on the horizon? (*preview*: in our opinion, no!)
- The prospects for REITs in the public markets (preview: we are bullish)
- Portfolio composition and key investment themes
- Examples of best-in-class REITs and non-REIT real estate-related companies that are attractively valued
- A review of recent activity managing the Fund
- Concluding thoughts on the prospects for real estate and the Fund

Our bottom-line message:

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

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

As of 3/31/2023, the Morningstar Ratings™ were based on 233, 209, and 233 share classes for the 3-year, 5-year, and Overall periods, respectively. The Baron Real Estate Income Fund received 4 Stars, 5 Stars, and 5 Stars, respectively. 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 3/31/2023, the Morningstar Real Estate Category consisted of 257, 233, and 209 share classes for the 1-, 3-, and 5-year periods. Morningstar ranked Baron Real Estate Income Fund Institutional Share Class in the 74th, 17th, and 2nd percentiles 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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BARON FUNDS® 1987

Baron Real Estate Income Fund

Table I.
Performance
Annualized for periods ended March 31, 2023

	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]	4.54%	4.73%	2.39%
One Year	(21.98)%	(21.78)%	(20.17)%
Three Years	12.35%	12.63%	10.76%
Five Years	9.01%	9.24%	4.79%
Since Inception (December 29, 2017) (Annualized)	7.27%	7.51%	2.83%
Since Inception (December 29, 2017) (Cumulative)[3]	44.57%	46.24%	15.76%

Our Current Top-of-Mind Thoughts

Following an eventful and volatile first three months of 2023, our current views can be summarized as follows:

We remain optimistic about the prospects for the stock market, public REITs and non-REIT real estate securities, and the Baron Real Estate Income Fund.

Though the first three months of 2023 have been full of negative developments – bank failures, the likelihood of a further slowdown in bank lending, and the possibility of a sooner-than-expected economic recession – and there are valid reasons for being cautious about the 2023 outlook, our views regarding the prospects for the stock market, REITs and non-REIT real estate securities, and the Fund remain the same.

Despite our expectation for ongoing stock and bond market volatility, we remain optimistic about the full-year prospects for the stock market, public real estate securities, and the Fund, and bullish looking out two to three years.

We continue to believe that 2023 may ultimately emerge as a mirror image of 2022 in that many of the headwinds of 2022 reverse course (e.g., multi-decade high inflation and rising interest rates) and become tailwinds in 2023, thereby contributing to solid full-year returns.

For our more complete thoughts on the prospects for real estate, please refer to "The prospects for REITs in the public markets" later in this letter.

We do not believe that a commercial real estate crisis is on the horizon.

In the last few months, there have been several sensationalized news articles and television reports predicting a forthcoming commercial real estate crisis. We do not agree with this view.

We agree with the perspective of *Bridgewater Associates, LP*, a highly respected money manager founded by Ray Dalio, who said the following on March 30, 2023:

"We don't think commercial real estate (CRE) is a systematic risk, in large part because the sector lacks the problems that existed in (mostly residential) real estate in the late 2000s: bad lending standards, lots of leverage, and a supply glut following a construction boom. CRE is a highly diverse sector that includes one troubled sub-sector in offices (about 15% of the market), but also apartments, hospitals, warehouses, data centers, nursing homes, retail, and more. Commercial construction activity is also quite subdued relative to the early 1990s, when a CRE bust led to a wave of losses. While there are strains at some regional banks, the better underwriting practices and the run-up in prices over the last decade will mute the loss cycle."

Please refer to "Is a commercial real estate crisis on the horizon?" later in this letter for our more complete thoughts on this topic.

The valuations of several REITs and non-REIT real estate companies are cheap.

We believe the correction in real estate share prices in 2022 and the ongoing share price weakness for several real estate companies in the first three months of 2023 have created several compelling investment opportunities.

- A good portion of public real estate – including both REITs and non-REIT real estate-related companies – is attractively valued relative to historical averages.
- Public real estate securities are currently highly discounted relative to private real estate alternatives.

Jon Gray, President of **Blackstone Inc.**, one of the largest and most respected real estate investors in the world, said the following on the company's quarterly earnings call in the summer of 2022:

"The best opportunities today are clearly in the public markets on the screen and that's where we're spending a lot of time."

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, 2022 was 1.32% and 0.96%, 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 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.

More recently, in January 2023, Nadeem Meghji, Blackstone's Head of Americas Real Estate, said the following:

"We have ample capital to play offense in a world where we think there's going to be some interesting deployment opportunities. [Blackstone] is targeting publicly traded real estate investment trusts (REITs), which are trading at discounts."

In a March 2023 report, *Green Street Advisors*, a highly regarded third-party real estate research firm, said the following regarding the relative valuations of public REITs versus private real estate:

"Listed REITs trade at a sizable discount to the private market."

Our real estate team continues to work hard to take advantage of the "sell now and ask questions later" mentality that has been pressuring several public real estate stocks by purchasing best-in-class real estate companies at highly discounted valuations. We believe several of our recent purchases are "on-sale gifts" that we expect will contribute to strong long-term real estate returns.

Several of the best real estate purchases we made in the last 17 years have occurred during periods of financial and real estate market distress when real estate stocks correctly sharply, in many cases, with little regard to value – during the Global Financial Crisis (GFC) of 2007 to 2009 and the early days of COVID-19 from March to May of 2020. We believe similar opportunities to purchase discounted real estate shares have surfaced more recently in 2022 and 2023.

For examples of attractively valued REITs and non-REIT real estate-related companies, please refer to "Examples of best-in-class REITs and non-REIT real estate companies that are attractively valued" later in this letter.

IS A COMMERCIAL REAL ESTATE CRISIS ON THE HORIZON?

Ever since the March 2023 collapse of Silicon Valley Bank, Signature Bank, and Credit Suisse, news reports predicting an impending commercial real estate crisis have been rampant. **In our opinion, forecasts of widespread distress in commercial real estate are unduly alarming, sensationalized, and unlikely to materialize.**

Though we are cognizant of the reasons to be cautious about the outlook for certain segments of commercial real estate, our preliminary sense is:

- The likelihood of a widespread commercial real estate crisis is low.
- The majority of real estate distress will be limited to a and manageable portion of class B and C office buildings.
- The risks to most banks and commercial real estate companies are likely to be earnings issues, which should lead to a slowdown in growth – a further contraction in lending and more restrictive financing terms in the form of higher interest rates and lower loan amounts for construction, land development, and real estate acquisitions – rather than solvency issues (reports suggest that most banks and commercial real estate companies are appropriately capitalized).

Near-term bank credit and commercial real estate outlook

Though we do not have a crystal ball into the macroeconomic, banking, and commercial real estate outlook, we anticipate:

- A tightening of bank credit conditions

  We expect a reduction in lending – in part due to the possibility of some banks hoarding deposits, a higher bar for incremental capital outlays, increased scrutiny of existing loan books, tighter bank regulations, and lower commercial real estate values – but we believe the likelihood of a widespread credit crunch is low. We anticipate that the tightening in credit will be focused in challenged commercial real estate segments and geographic markets – namely, class B and C office buildings.

  In our opinion, a further pullback in credit is likely to result in a similar outcomes to those that the Fed's interest rate increases were intended to achieve – that is, slower economic growth, more job losses, and lower inflation. In fact, current credit conditions could ultimately expedite the Fed achieving its inflation goal, potentially allowing it to not go as far as is currently anticipated. Ultimately, we continue to believe that many of the 2022 headwinds (higher interest rates and multi-decade high inflation) and tailwinds (economic growth) are likely to reverse course.

- A rise in commercial real estate delinquency rates, though largely contained to certain office buildings

  Higher debt service and refinancing costs and a moderation in growth are likely to lead to an ongoing uptick in commercial real estate delinquency rates. However:

  - Delinquency rates remain well below historical levels for most commercial real estate.
  - We expect commercial real estate challenges to be largely isolated to class B and C office real estate, and, to a lesser extent, retail real estate.
  - We expect losses to banks will be smaller than feared because lending standards have been more conservative than in the past (e.g., GFC) – higher debt service coverage ratios and lower loan-to-values – and property prices have mostly increased in the last 5 to 10 years.
  - As of February 2023, commercial real estate delinquency rates remained at only 3.12%, which compares favorably to the 10.32% delinquency rate during the COVID pandemic and the 10.34% delinquency rate during the GFC. (*Source: Trepp, Goldman Sachs Global Investment Research – Goldman Sachs Research: State of CRE, March 13, 2023)*

- A moderation in commercial real estate growth

  We expect commercial real estate growth to slow due to our expectations of tighter credit conditions, increased unemployment, moderating economic growth, and slowing growth in leasing activity, real estate development, and acquisitions.

A comparison of current conditions versus the GFC

In our opinion, **the likelihood of systemic risk to the economy from certain commercial real estate challenges is low**. This stands in stark contrast to the U.S. housing collapse that contributed to the GFC.

We agree with Lloyd Blankfein, former CEO of Goldman Sachs, who said the following on *CNBC* on March 22, 2023, when comparing today's bank challenges to the challenges that occurred during the GFC:

"It's a lot different. In 2008, you had bad assets and people did not know if the assets were very valuable or valueless. It turned out to be more valueless than valuable. Here you have the best assets in the world in most cases – sound mortgages and U.S. government debt, best credits in the world – but it's obviously a duration problem. The problem is not as widespread. The

banking system is in much better shape than it was before. Much more highly capitalized. Does not involve the biggest banks. Which, of course, was much more systemic at the time."

We are also encouraged by the findings of a recent analysis completed by **CBRE Group, Inc.** which estimates the future debt refinancing shortfall for various commercial real estate categories.

In the last few years, a large portion of commercial real estate was financed with historically low interest rates, which contributed to a rise in commercial real estate property values. Now, following the Federal Reserve's 2022/23 aggressive campaign to raise interest rates and lower inflation, portions of commercial real estate face refinancing headwinds in the form of higher borrowing costs and lower loan availability, in some cases due to lowered commercial real estate building values.

According to CBRE, the sharp rise in interest rates and more restrictive lending conditions may result in a *debt-funding gap* for certain real estate borrowers when refinancing debt. A debt-funding gap may occur when a borrower seeks to refinance real estate debt at a time when the expected value of a real estate property has declined and/or less debt is provided by the lender (lower loan-to-value). New loan proceeds may not be sufficient to repay the debt coming due.

CBRE analyzed 5-year commercial real estate loans originated in 2018, 2019, and 2020 and the cumulative 2023 to 2025 debt-funding gap upon refinancing. CBRE also compared the coming debt-funding gap to that of the GFC. Overall, we view CBRE's key commercial real estate findings as much better than feared:

- Between 2023 and 2025, CBRE forecasts that the debt refinancing gap will be almost entirely limited to office owners. Office owners are expected to have a debt refinancing gap of $53 billion (in our opinion, this amount is not alarming). Retail real estate is expected to have a modest debt refinancing gap of only $3 billion. Apartment and industrial owners are not forecasted to have any debt refinancing gap.
- Regarding the office sector, if a debt-funding gap exists, some office landlords may choose to add more equity and/or other financing sources (mezzanine debt) to pay off the existing loan. They may also negotiate a discounted payoff with the lender or an extension and modification of loan terms if property income conditions are expected to improve. Some office building borrowers may default on the loan and *hand back the keys* of the building to the lender.
- The heavy concentration of expected debt-funding gaps in the office sector differentiates the current funding gap from the GFC when large funding gaps were prevalent across all major commercial real estate sectors (office, retail, multi-family, and industrial).

We think the likelihood of a commercial real estate crisis is low

Despite our expectation for a more restrictive real estate lending environment and moderating growth, we remain optimistic about the prospects for most commercial real estate categories and believe the likelihood of a commercial real estate crisis is low.

Our perspective is as follows:

- Commercial real estate business prospects (expectations for occupancy, rent, and cash-flow growth), though slowing, are still expected to be positive in most cases.
- New construction activity has been and is expected to remain low. The dearth of new real estate construction compares favorably versus past real estate cycles when the overbuilding of commercial and residential real estate contributed to a deterioration in real estate business prospects. Today, the lack of overbuilding of real estate and the lack of new construction activity planned in the next few years should help to mitigate any weakness in real estate fundamentals should economic conditions deteriorate.
- Real estate debt profiles – the amount of debt relative to cash flow, the mix of fixed versus floating rate debt, annual debt maturity schedules – are in most cases manageable. Most of the debt coming due in the next few years was originated with good lending standards and no big oversupply of real estate.
- We believe the odds of a banking crisis and a deep recession are low. Unlike the period during the GFC, the banking system today is well capitalized and ample liquidity. We believe the banking system is resilient and sound.
- Regarding the possibility of real estate loan defaults, our view is that it will be mostly isolated to a manageable portion of class B and C office real estate and many lenders will choose to work with their borrowers to modify loan terms rather than *hand back the keys* to the office buildings.
- Should economic, bank, and real estate distress emerge, we suspect the Federal Reserve will reverse course and lower interest rates thereby nullifying near-term headwinds.

For our more complete thoughts on the outlook for real estate, please see "The prospects for REITs in the public markets" below.

The Prospects for REITs in the Public Markets

Though we are cognizant that higher financing costs and tighter financing conditions will likely result in moderating growth, we believe valuations of most REITs and other non-REIT real estate companies already reflect these potential headwinds given the recent share price corrections.

As we peer ahead to the balance of 2023 and to 2024, we continue to 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 GFC, 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 two-year period of the GFC 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. In our opinion, the issues that weighed on REIT performance during the GFC 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 3/31/2023)	7.41	35.62	13.85	15.62

Sources: MSCI Inc., S&P Dow Jones Indices, and FactSet Prices.

- REIT valuations have become more reasonable.

  Various measures of REIT valuations improved from 2022 into early 2023. Implied capitalization rates increased from about 4.5% range in January 2022 to approximately 6.0% in March of 2023. Earnings multiples (Funds from Operations) declined from 24 times earnings at the beginning of 2021 to 19 times earnings as of March 31, 2023. Many public REITs are currently valued at significant discounts to replacement cost and estimates of net asset value.

  However, financing costs increased sharply last year. For example, 7- to 10-year BBB bonds increased from 2.8% early in 2022 to 5.5% in March of 2023. 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 continue to believe the correction in REITs and non-REIT real estate share prices in 2022 and the ongoing weakness for some companies in the first three months of 2023, has created several compelling investment opportunities. Real estate companies that we consider best-in-class are rarely valued at discounted prices, but now is one of those rare occasions.

  We are identifying real estate companies that 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 profile because they have the potential to generate better returns.

  For examples of attractively valued REITs and non-REIT real estate-related companies, please refer to "Examples of best-in-class REITs and non-REIT real estate companies that are attractively valued" later in this letter.

- 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.

  Based on research by *Green Street Advisors*, 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 are 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 re-emerge when the debt markets stabilize, 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 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 March 31, 2023, 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 March 31, 2023, the Fund has delivered a cumulative return of 46.24% (Institutional Shares), almost triple the 15.76% return of the REIT Index.

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

  – Real estate continues to offer diversification benefits.

    According to FactSet, over the last 25 years (through 3/31/2023), REITs have provided diversification benefits due to their modest correlation versus stocks (0.63 versus S&P 500 Index) and low correlation versus bonds (0.26 versus Bloomberg Barclays U.S. Aggregate Index).

  – Real estate offers valuable inflation protection.

    Historically, certain real estate businesses have 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.

Portfolio Composition and Key Investment Themes

As of March 31, 2023, the Fund's net assets were invested as follows: REITs (82.8%), non-REIT real estate companies (14.1%), and cash (3.1%). 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 March 31, 2023

		Percent of Net Assets
REITs		82.8%
Industrial REITs	25.3%	
Self-Storage REITs	14.9	
Health Care REITs	9.3	
Multi-Family REITs	9.1	
Data Center REITs	8.9	
Wireless Tower REITs	4.5	
Triple Net REITs	3.9	
Single-Family Rental REITs	3.7	
Manufactured Housing REITs	2.0	
Hotel REITs	0.7	
Other REITs	0.5	
Non-REIT Real Estate Companies		14.1
Cash and Cash Equivalents		3.1
Total		100.0%*

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

A few observations regarding the composition of the Fund include:

Number of holdings: 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 29 companies on March 31, 2023. During this period, we have 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 have more leveraged balance sheets, are small and less liquid, or are geographically exposed to real estate markets that face headwinds.

We continue to prioritize two high-conviction investment themes:

Secular growth real estate companies: Our long-term focus is on 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. Examples include our investments in data centers, wireless tower, industrial logistic, and life science real estate companies. As of March 31, 2023, secular growth real estate companies represented approximately 39% 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 self-storage, apartment, single-family home rental, manufactured

housing, and hotel real estate companies. As of March 31, 2023, short-lease duration real estate companies represented approximately 30% of the Fund's net assets.

Secular growth real estate companies (39% of the Fund's net assets)

Industrial REITs (25.3%): 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.**, **Terreno Realty Corporation**, and **First Industrial Realty Trust, Inc.** have compelling multi-year cash-flow growth runways.

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 relative to 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.

Regarding the Fund's investment in **Digital Realty Trust, Inc.,** we believe the company's valuation is compelling following the 43% correction in its share price in 2022 and modest decline in the first three months of 2023. We would note, however, that we continue to closely monitor the company because business execution and quarterly results have disappointed at various points in the last few years.

Wireless Tower REITs (4.5%): In the first quarter, we decreased our investments in wireless tower REITs due to our expectation that growth would moderate in 2023 and perhaps the next few years due to higher financing costs, upcoming debt maturities, wireless carrier decommissioning, international headwinds (in Latin America and India), and foreign exchange headwinds.

We remain positive on the long-term secular growth trends under-pinning wireless tower REITs including 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.

As shares are becoming more attractively valued with growth headwinds better understood, we may look to opportunistically re-acquire shares given the compelling absolute and relative multi-year growth prospects that are visible and supported by long-term customer contracts.

Life Science REITs (0.5%): Though we remain 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, we decreased our investment in the company in the most recent quarter due to: (i) concerns that a more challenged economic and capital markets environment could lead to distress for some of the company's biotechnology and health care tenants; (ii) the possibility of tenant defaults; and (iii) the possibility that competitive supply will increase from the conversion of traditional office buildings to life science buildings.

We continue to closely monitor the company and may look for an opportunity to purchase additional shares in the future.

Short-lease duration REITs (30% of the Fund's net assets)

Self-Storage REITs (14.9%): We remain optimistic about the Fund's investments in self-storage REITs **Public Storage Incorporated**, **Extra Space Storage Inc.**, and **CubeSmart**.

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.

Multi-Family REITs (9.1%): In the first quarter of 2023, we increased our exposure to apartment REITs **Equity Residential** and **AvalonBay Communities, Inc.** A large portion of the 2023 operating outlook that caused us to lower exposure in 2022 has been reflected in apartment REIT share prices with most apartment REITs valued at 6.5% capitalization rates and 25% to 30% discounts to net asset value. 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.

Single-Family Rental REITs (3.7%): We remain optimistic 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, 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 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.

Manufactured Housing REITs (2.0%): We remain bullish regarding the prospects for our 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 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.

Other REIT and non-REIT investments (27% of the Fund's net assets)

Health Care REITs (9.3%): We are 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 elevated expense headwinds combined with a slower-than-expected recovery in leasing and occupancy.

Triple Net REITs (3.9%): We remain optimistic about our 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. Additionally, we increased our exposure to VICI in the most recent quarter due to expectations for strong growth in the year ahead.

Non-REIT Real Estate Companies (14.1%): 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 Fund'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 Fund's non-REIT real estate investments. They include: **Brookfield Corporation**, **Brookfield Renewable Corporation**, **Brookfield Infrastructure Corporation**, **Brookfield Asset Management Ltd.**, **Toll Brothers, Inc.**, and **Cellnex Telecom, S.A.**

Examples of Best-in-Class REITs and Non-REIT Real Estate Companies that are Attractively Valued

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

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

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

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

The Fund is chock full of best-in-class companies that are *on sale* and offer prospects for strong returns in the years ahead. Examples include:

REITs

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

It is valued at a 6.4% implied capitalization rate representing a discount to private market transactions in the high 4% to 5% capitalization range. At its public market implied valuation of only $450,000 per apartment, its shares are valued at more than a 25% discount to private market values.

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

It is valued at an implied capitalization rate of 6% versus private market transactions in the 5% range. The public market implied valuation of its owned homes is only $320,000 per home versus acquisition costs of approximately $430,000 per home.

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

Equinix is currently valued at only 20.5 times 2024 estimated cash flow versus private market data center transactions that have occurred at 25 to 30 times cash flow. The shares are valued at a small premium to REITs, despite superior and more durable cash-flow growth prospects.

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

Following a decline in its shares of 33% in 2022, we believe Prologis' current implied capitalization rate of 4.2% is compelling. 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.

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

It is currently valued at a 5.7% implied capitalization rate or a 20% discount to its estimated net asset value.

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

Alexandria is valued at a 6.4% implied capitalization rate versus recent life science real estate transactions that have been valued in the 4% to 5% range. Alexandria's real estate is attractively valued at approximately $500 per square foot versus private market transactions for life science real estate in the $1,000 to $1,500 per square foot range.

VICI Properties Inc. is a triple net REIT that owns a large and high-quality portfolio of market-leading gaming, hospitality, and entertainment properties.

Despite management's expectation to grow its cash flow by approximately 10% in 2023, far in excess of most REITs, the shares are valued at a significant discount to most REITs, and the company currently pays a 5% dividend.

Non-REIT Real Estate Companies

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 among its businesses provide significant opportunities for growth.

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

Brookfield has investments in publicly traded and private real estate-related businesses. Brookfield's ownership interests in four publicly listed Brookfield companies (Brookfield Asset Management, Brookfield Infrastructure Corporation, Brookfield Renewable Corporation, and Brookfield Business Partners) are currently valued in the public market at $32 per share or the same public price as the public share price for the entire company. The public market is currently ascribing zero value to Brookfield's non-public investments, which we believe are 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) also of $32!)

Brookfield Renewable Corporation is one of the world's leading owner and operators of clean and renewable energy solutions with 90% of the company's cash flow contracted under at least 10-year contracts with the majority having inflation protection characteristics.

The company is growing faster than most REITs and pays a 4% annual dividend, yet its shares are valued lower than most REITs.

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.

Toll Brothers, Inc. is a leading luxury homebuilder in the U.S. with capable management and a large, valuable owned land real estate portfolio. Toll Brothers is more insulated than its peers from elevated mortgage rates because approximately 25% of Toll home buyers pay 100% in cash.

The company is valued at only 1.0 times tangible book value versus its long-term average of approximately 1.4 times book value and a peak multiple of approximately 2.0 times tangible book value.

Cellnex Telecom, S.A. is a leading operator of mobile tower infrastructure in Europe with 130,000 towers across Spain, Italy, France, the Netherlands, and the U.K.

At its recent valuation of only 15 times cash flow, its shares are discounted versus the 20 times cash flow multiples of U.S. tower companies.

A Review of Recent Activity Managing the Fund

In the first 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 March 31, 2023

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Welltower Inc.	$35.2	$3.6
AvalonBay Communities, Inc.	23.5	3.4
Equity Residential	22.7	3.4
Toll Brothers, Inc.	6.6	2.1
Brookfield Corporation	53.4	1.9

We acquired additional shares of **Welltower Inc.** during the quarter. Welltower largely owns and operates senior housing and medical office buildings in the U.S. and internationally. We believe senior housing operating fundamentals have bottomed. Welltower is well positioned to benefit from cyclical and secular growth over the coming years. Management sees a path to growing the company's senior housing cash flow by more than 60% over the next few years, with further upside through enhanced asset management. Welltower is employing a proprietary data analytics platform and has recruited senior executives from the multi-family industry to drive operating margins and occupancy beyond historical industry standards. Underlying demand is further supported by a demographic boom with the 80-plus population growing at a 4% to 5% CAGR over the next five-plus years versus annual growth below 2% coming out of the GFC. Lastly, we believe management is an astute capital allocator focused on driving accretive value per share. The current constrained financing environment, with underlying property loans coming due, should provide an active external growth pipeline of assets that were acquired during a period of low interest rates. Management should be able to invest capital in assets underpinned by stable cash flow at an attractive cost basis.

In the first quarter of 2023, we increased our exposure to multi-family REITs **AvalonBay Communities, Inc.** and **Equity Residential.** A large portion of

the 2023 operating outlook that caused us to lower exposure in 2022 has been reflected in the share prices of AvalonBay and Equity Residential. These apartment REITs were recently valued at 6.5% capitalization rates and at 25% to 30% discounts to net asset value.

AvalonBay and Equity Residential are blue-chip apartment landlords with apartment assets generally located in high barrier-to-entry markets with strong long-term demographic growth potential. We expect both companies to benefit from homeownership affordability challenges and are positioned to provide partial inflation protection due to leases that can be reset at higher rents, in some cases, annually.

In the first quarter, we acquired shares in **Toll Brothers, Inc.**, the leading luxury homebuilder in the U.S. The company is led by its capable CEO Doug Yearley and a seasoned management team. Toll Brothers has acquired, entitled, and developed a large and valuable owned land real estate portfolio in geographic markets with strong long-term demographics. The company has a four-year supply of land that it purchased prior to the large increase in home prices during COVID-19 – so management believes impairment risk is minimal and book value is secure. Toll Brothers is more insulated than its peers from elevated mortgage rates because 25% of Toll Brothers' home buyers pay 100% in cash. Management maintains a strong and liquid balance sheet with staggered debt maturities.

We believe the shares are attractively valued at less than 1.0 times 2023 estimated book value per share, which compares favorably to its long-term valuation multiple of 1.4 to 1.5 times book value. At its recent price, the company pays a modest dividend of 1.5%.

In the most recent quarter, we acquired additional shares of **Brookfield Corporation**, a leading global owner and operator of real assets. We believe its valuation is unsustainably cheap and we remain bullish about Brookfield's long-term prospects.

Our enduring enthusiasm for Brookfield's long-term prospects is due to four key considerations:

1. Secular growth opportunity for alternative assets

   Institutional allocations to alternative investment assets such as real estate, infrastructure, and private equity, are expected to continue to grow in the years ahead because of expectations that alternatives will continue to generate attractive relative and absolute returns with less volatility than many other investment options.

2. Brookfield is well positioned to increase its market share of the growing pool of alternative assets

   Institutional investors are consolidating the number of asset managers they invest with. We believe Brookfield is poised to remain a major beneficiary of this consolidation trend because of its strong long-term investment results and its, but also attributable to three key competitive advantages:

   (i) Scale advantages: Brookfield's large-scale and strong balance sheet position the company to be involved in multi-billion dollar transactions where the competitive buyer pool is relatively narrow.

   (ii) Global capabilities: The company's presence in over 30 countries affords Brookfield the ability to cast a wide net for sourcing potential acquisitions and pursue opportunities in geographic markets where valuations are most attractive.

   (iii) Operating expertise: Brookfield has a team of more than 100,000 operating employees in over 30 countries – a key differentiator versus many of its asset management peers. Brookfield's financial and operating capabilities are, at times, the tie breaker that results in the company being chosen to participate in complex transactions across multiple geographies that require a heavy operating component.

3. Attractive valuation

   At its recent price of only $32 per share, Brookfield's share price is highly discounted versus management's assessment of the company's intrinsic value of $74 per share!

4. Excellent management team with interests aligned with shareholders

   CEO Bruce Flatt and his deep leadership team are on our short list of most impressive management teams. They are, in our view, a highly talented group of executives who are astute allocators of capital and excellent operators of businesses. Management's interests are aligned with its shareholders given that officers and directors own approximately 20% of the company.

Table IV.
Top net sales for the quarter ended March 31, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
American Tower Corp.	$ 95.2	$4.5
SBA Communications Corp.	26.6	4.2
Simon Property Group, Inc.	36.5	4.0
Sun Communities, Inc.	17.5	2.6
Prologis, Inc.	115.2	2.3

During the quarter, we reduced our position in **American Tower Corp.**, a global operator of over 200,000 wireless towers. While we are positive on the long-term secular trends underpinning American Tower's business, we felt growth expectations were too high given the forthcoming headwinds combined with an elevated valuation. Headwinds that we did not fully appreciate included significantly higher financing costs (20%-plus exposure to floating rate debt), upcoming debt maturities, continued payment shortfalls from a key tenant in India, and foreign exchange headwinds.

As shares have become more attractively valued with growth headwinds better understood and a potential monetization event of its India business, we have been looking opportunistically to re-acquire shares given the compelling absolute and relative multi-year growth prospects that are highly visible and supported by long-term customer contracts.

In the most recent quarter, we exited our investment in **SBA Communications Corp.**, a global wireless cell tower REIT that owns a portfolio of wireless tower sites heavily concentrated in the U.S. We had been shareholders of SBA, in part due to our high respect for CEO Jeff Stoops who we have known for well over a decade. We believe Jeff has been an astute allocator of capital and has created tremendous shareholder value over the long term. Jeff will be retiring from SBA at the end of 2023.

In addition, we believe a series of headwinds are likely to temper SBA's growth in the next few years including higher debt financing costs with significant upcoming maturities, wireless carrier decommissioning, headwinds

from the company's Latin American operations, and perhaps foreign exchange headwinds. Our sense is that the company's annual cash flow growth will decelerate from 14% in 2022 to just 3% in 2023 and remain low over the coming years. The company's high leverage, approximately 6.9 times net debt to cash flow, will limit the company's ability for share repurchases and external growth opportunities.

In the most recent quarter, we exited our investment in **Simon Property Group, Inc.**, the largest U.S. mall and outlet REIT, and re-allocated the capital to investment opportunities that we believe will offer superior growth and return potential.

We may revisit Simon in the future. The company has assembled a well-located portfolio of retail malls, outlets, and community centers. Simon's size and access to capital are distinct advantages in the retail real estate industry. Led by CEO David Simon, its management team has a long track record of solid capital allocation decisions, while managing its portfolio especially well. Over time, we believe the company is likely to continue to acquire 'A' quality malls.

We recently reduced our investment in **Sun Communities, Inc.**, a REIT that owns a portfolio of manufactured housing properties, recreational vehicle parks, and marinas, following worse-than-expected 2023 growth expectations due to elevated costs and higher interest expense.

We continue to believe the long-term prospects for the company remain favorable. We expect Sun Communities to benefit from favorable demand/supply dynamics. The company should continue to be a beneficiary of strong demand from budget-conscious home buyers such as retirees and millennials and negligible new inventory due to high development barriers. The company has superior long-term cash-flow growth prospects and lower capital expenditure needs than several other REIT categories.

In the most recent quarter, we modestly decreased our position in **Prologis, Inc.**, the world's largest industrial REIT. We would note, however, that Prologis remains the largest position in the Fund, and we remain optimistic about the company's prospects.

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.

Following a decline in its shares of more than 30% in 2022, we believe Prologis' current valuation of a 4.2% 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.

The shares of the Fund's holdings in industrial REITs – **Prologis, Inc.**, **EastGroup Properties, Inc.**, and **Rexford Industrial Realty, Inc.** – performed well in the first three months of 2023 following strong quarterly business results. We remain optimistic about the prospects for each company.

Industrial REITs continue to benefit from strong secular demand drivers, resulting from continued growth in e-commerce, the build out of logistics supply chains, and the shift from "just in time" to "just in case" inventory post COVID-19.

We believe robust embedded growth should contribute to at least high single-digit earnings growth for the next several years. Portfolio rents are more than 50% below current market rents, occupancy percentages are more than 95% on average, and expectations for new construction activity are modest. We believe valuations are reasonable especially when adjusted for the high embedded multi-year growth potential.

Equinix, Inc.'s shares performed well in the quarter after the company reported quarterly results and full-year 2023 guidance above expectations 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.

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

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.

Table V.

Top contributors to performance for the quarter ended March 31, 2023

	Quarter End Market Cap (billions)	Percent Impact
Prologis, Inc.	$115.2	1.61%
Equinix, Inc.	66.9	0.79
EastGroup Properties, Inc.	7.2	0.56
Rexford Industrial Realty, Inc.	11.7	0.45
Brookfield Infrastructure Corporation	5.1	0.42

Table VI.

Top detractors from performance for the quarter ended March 31, 2023

	Quarter End Market Cap (billions)	Percent Impact
Ventas, Inc.	$17.3	–0.47%
Equity Residential	22.7	–0.45
AvalonBay Communities, Inc.	23.5	–0.36
Alexandria Real Estate Equities, Inc.	21.7	–0.26
Digital Realty Trust, Inc.	29.3	–0.24

Ventas, Inc. was a detractor from performance during the quarter. Ventas is an operator of senior housing, life science, and medical office buildings. While the company provided an attractive full-year 2023 growth outlook, investors became increasingly concerned with the company's ability to take advantage of its compelling external growth opportunity given a credit impairment and unfavorable resolution of a smaller mezzanine investment. The company is converting its loan into equity ownership of the assets leading to a credit outlook downgrade by Fitch given additional leverage on the assets. While we modestly reduced our position towards the end of the first quarter, we believe the company's senior housing operations will continue to inflect positively in the years to come given the favorable supply/demand backdrop and increasing growth of the 80-plus year old population. The company owns high-quality real estate and benefits from a compelling occupancy recovery story within senior housing.

Equity Residential and **AvalonBay Communities, Inc.** were both detractors in the quarter amid a worsening economic backdrop, continued layoff announcements in high-paying jobs, tightening lending conditions, lingering bad debt trends into 2023, and potential supply pressure in certain markets. Both Equity Residential and AvalonBay are owners of Class A apartment buildings largely located in high barrier-to-entry coastal markets with favorable long-term demographic trends and muted overall supply growth. We continue to believe both companies own long-term relevant real estate that should perform well over market cycles with the stocks now having more favorable valuations.

The shares of **Alexandria Real Estate Equities, Inc.**, the only pure-play publicly traded landlord and developer to the life science industry, declined in the first quarter of 2023, alongside most traditional office REITs.

Factors that weighed on the company's share price performance include: (i) concerns that a more challenged economic and capital markets environment could lead to distress for some of the company's biotechnology and health care tenants; (ii) the possibility of tenant defaults; and (iii) the possibility that competitive supply will increase from the conversion of traditional office buildings to life science buildings.

Though we believe the magnitude of these concerns are worse than the likely reality, we decreased our investment in Alexandria, but may look for an opportunity to add to our position in the future.

Digital Realty Trust, Inc. detracted from performance during the quarter. Reasons for the stock's decline include a disappointing full-year 2023 growth outlook, emerging concerns regarding the health of some of its customers, and elevated leverage that may necessitate an equity financing in 2023.

Digital Realty is a global provider of data center services to enterprises, cloud service providers, network providers, financial services, media, and other customers. While the company is enjoying strong bookings from its smaller enterprise customers, a much-improved pricing environment and limited new supply in key markets, it was unable to convert its attractive top-line growth to cash-flow per share growth given higher interest rates, foreign exchange headwinds, and financings. Lastly, Digital Realty is dependent on larger scale bookings, which can be episodic in nature. We reduced our position towards the end of the first quarter given the evolving headwinds but remain optimistic that the company can capitalize on the compelling secular growth opportunities ahead.

Concluding Thoughts on the Prospects for Real Estate and the Fund

We remain mindful that the economic and stock market backdrop may remain challenging in the months ahead given the expectation that economic growth will slow.

We continue to believe last year's stock market recalibration has wiped away much of the froth in valuations and has set the stage for a favorable multi-year outlook for public real estate companies and the Fund.

We maintain our view that 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 suspect the spillover effect from recent bank challenges will do some of the work for the Federal Reserve in combating inflation as credit availability is likely to contract, unemployment increases, and economic growth further moderates. These developments would be deflationary. As such, we suspect the Fed is near the end of its interest rate hiking cycle.

We believe prospective two- to three-year returns could be 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 remain 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.

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

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

Table VII.
Top 10 holdings as of March 31, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Prologis, Inc.	$115.2	$9.6	11.7%
Equinix, Inc.	66.9	5.7	6.9
Welltower Inc.	35.2	4.9	6.0
Public Storage Incorporated	53.1	4.8	5.8
Extra Space Storage Inc.	22.0	4.0	4.9
Brookfield Corporation	53.4	4.0	4.8
Rexford Industrial Realty, Inc.	11.7	3.9	4.7
Equity Residential	22.7	3.9	4.7
EastGroup Properties, Inc.	7.2	3.8	4.6
American Tower Corp.	95.2	3.7	4.5

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. We remain comforted by what we continue to learn from most real estate management teams regarding current business trends and business prospects.

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, alongside you.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Real Estate Income Fund 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. **Enterprise value (EV)** is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization. EV includes in its calculation the market capitalization of a company but also short-term and long-term debt as well as any cash on the company's balance sheet.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).