DEAR BARON REAL ESTATE INCOME FUND SHAREHOLDER: PERFORMANCE

We are pleased to report that *Barron's*, the highly regarded weekly business magazine, recently profiled Baron Real Estate Fund® and Baron Real Estate Income Fund® in an interview that was published on June 29, 2023. A link to the article, titled *"Real Estate Stock Swoon Is a 'Gift' to Investors, This Manager Says"* can be accessed on our Baron website homepage at www.baronfunds.com in the "News & Events" section.

In the first six months of 2023, Baron Real Estate Income Fund (the Fund) increased 8.19% (Institutional Shares), outperforming the MSCI US REIT Index (the REIT Index), which increased 4.78%.

The Fund appreciated 3.30% in the second quarter of 2023, outperforming the REIT Index, which increased 2.34%.

As of June 30, 2023, the Fund has maintained its:

- **Top 3% 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
- Portfolio composition and key investment themes
- Top contributors and detractors to performance
- Recent activity
- Concluding thoughts on the prospects for real estate and the Fund

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

As of 6/30/2023, the Morningstar Ratings™ were based on 230, 211, and 230 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 6/30/2023, the Morningstar Real Estate Category consisted of 254, 230, and 211 share classes for the 1-, 3-, and 5-year periods. Morningstar ranked Baron Real Estate Income Fund Institutional Share Class in the 22nd, 28th, and 3rd 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.

Baron Real Estate Income Fund

Table I.
Performance
Annualized for periods ended June 30, 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]	3.25%	3.30%	2.34%
Six Months[3]	7.93%	8.19%	4.78%
One Year	(1.25)%	(0.94)%	(1.38)%
Three Years	7.73%	8.05%	7.67%
Five Years	8.39%	8.63%	3.34%
Since Inception (December 29, 2017) (Annualized)	7.55%	7.79%	3.13%
Since Inception (December 29, 2017) (Cumulative)[3]	49.26%	51.08%	18.46%

Our Current Top-of-Mind Thoughts

At the halfway point of 2023, our current top-of-mind thoughts can be summarized as follows:

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

- As noted in our year-end 2022 shareholder letter, 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.
- We are bullish looking out two to three years.

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

- We believe forecasts of widespread distress in commercial real estate are sensationalized and unlikely to materialize.
- In our opinion, a commercial real estate crisis is unlikely for the following reasons:
  - Most of commercial real estate is performing well (e.g., industrial, multi-family, data centers, senior housing, self-storage).
  - New construction activity has been and is expected to remain low. The dearth of new real estate construction activity compares favorably with prior real estate cycles when overbuilding of real estate contributed to a deterioration in real estate business prospects.
  - Balance sheets are generally in strong shape (appropriate leverage levels, staggered debt maturities, the mix of fixed versus floating rate debt).
  - The banking system is in a strong capital position. We expect future challenges for banks to be, in most cases, an earnings issue (higher deposit rate requirements and less lending) rather than a solvency issue (most banks are appropriately capitalized).
  - We believe future loan defaults will be mostly isolated to class "B" and "C" office buildings. Better bank loan underwriting practices and the increase in commercial real estate values over the last decade should mute the loan loss cycle.

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

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

We continue to believe the near-term and long-term prospects for REITs and other non-REIT real estate-related companies in the public markets are compelling.

- *Near-term case for real estate*
  - The share prices of several REITs and non-REIT real estate-related companies have lagged in part due to the aggressive Federal Reserve interest rate tightening cycle, and, more recently, the commercial real estate crisis narrative.
  - Several REITs and non-REIT real estate-related companies have repriced for a higher cost of capital and expectations of slowing growth.
  - Several REITs and non-REIT real estate-related companies are cheap.
  - The current real estate environment is far superior relative to prior real estate cycles for two key reasons: first, in most cases, the use of debt has been disciplined relative to history; second,

Performance listed in the above table is net of annual operating expenses. The gross 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 Net (USD)** is an unmanaged 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 foreign 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.

commercial and residential real estate are not overbuilt, and expectations for new supply are not concerning.

- We believe substantial private capital is in pursuit of public real estate ownership to capitalize on the opportunity to buy quality public real estate that is currently valued at a discount relative to private.
- We continue to believe the Fund's two- to three-year return prospects are compelling with a favorable "upside versus downside" share price return ratio.

• *Long-term case for real estate*

- Real estate has generated solid historical long-term returns, and we believe it can continue to do so. For the 25-year period ended June 30, 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 June 30, 2023, the Fund has delivered a cumulative return of 51.08%, which compares favorably to the 18.46% return of the REIT Index.
- Real estate continues to offer diversification benefits. According to Morningstar, over the last 25 years through June 30, 2023, REITs have provided diversification benefits due to their modest correlation to stocks (0.64 correlation to S&P 500 Index) and low correlation to bonds (0.27 correlation to Bloomberg Barclays U.S. Aggregate Index).
- Real estate may provide inflation protection. Real estate owners with short-lease durations in supply-constrained markets are well equipped to raise rents to combat inflation's impact on their businesses.

Portfolio Composition and Key Investment Themes

As of June 30, 2023, we invested the Fund's net assets as follows: REITs (81.0%), non-REIT real estate-related companies (14.1%), and cash (4.8%). 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 II below).

Table II.
Fund investments in REIT categories as of June 30, 2023

		Percent of Net Assets
REITs		81.0%
Industrial REITs	19.6	
Data Center REITs	15.1	
Single-Family Rental REITs	10.0	
Health Care REITs	10.0	
Multi-Family REITs	8.5	
Self-Storage REITs	8.2	
Other REITs	3.9	
Wireless Tower REITs	2.5	
Triple Net REITs	1.8	
Mall REITs	1.5	
Non-REIT Real Estate Companies		14.1
Cash and Cash Equivalents		4.8
Total		100.0%*

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

We continue to prioritize two high-conviction investment themes:

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, wireless tower, industrial logistic, and life science REITs. As of June 30, 2023, secular growth REITs represented 39% of the Fund'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 Fund's investments in single-family rental, multi-family, and self-storage REITs. As of June 30, 2023, short-lease duration real estate companies represented approximately 27% of the Fund's net assets.

Secular growth REITs (39.0% of the Fund's net assets)

Industrial REITs (19.6%): 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.

Data Center REITs (15.1%): 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 rental rates that are rising. 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 artificial intelligence as a new wave of data center demand.

Wireless Tower REITs (2.5%): We have maintained modest exposure to wireless tower REITs via a position in **American Tower Corporation** due to our expectation that growth will 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 underpinning wireless tower REITs including strong secular growth expectations for mobile data usage, 5G technology, autonomous cars, connected homes, and 3D video. Some of these will require increased wireless bandwidth and increased spending by mobile carriers. As shares have become more attractively valued with growth headwinds better understood, we may look to opportunistically reacquire shares given the compelling absolute and relative multi-year growth prospects that are visible and supported by long-term customer contracts.

Life Science REITs (1.7%): Following a sharp decline in its shares in the first six months of 2023, we reacquired shares in **Alexandria Real Estate Equities, Inc.**, 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 prospects for long-term growth as demand for life science real estate is expected to remain strong.

Short-lease duration REITs (26.6% of the Fund's net assets)

Single-Family Rental REITs (10.0%): Following strong first quarter results, we 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 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 (8.5%): In the second quarter, our exposure to apartment REITs **Equity Residential** and **AvalonBay Communities, Inc. decreased from 9.1%** to 8.5% of the Fund's net assets. We believe public valuations remain discounted relative to the private market. Tenant demand remains healthy and rent growth, though modest, has been improving 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 (8.2%): In the most recent quarter, we reduced our exposure to self-storage REITs – **Public Storage Incorporated**, **Extra Space Storage Inc.**, and **CubeSmart** – because we expect growth to continue to moderate in 2023.

Long term, there is a lot to like about self-storage businesses. Monthly leases provide an opportunity for landlords to increase rents and combat inflation. Self-storage facilities do not tend to require significant ongoing capital expenditures. Elevated construction costs are constraining new construction. Should economic growth continue to decelerate and perhaps lead to a recession, self-storage business fundamentals have historically held up well during economic downturns. We also believe there is a wall of capital from private equity companies that 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 investments (29.6% of the Fund'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 (3.7%): We are optimistic about the Fund's REIT investments in **Tanger Factory Outlet Centers, Inc.** and **Americold Realty Trust**. 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.

Triple Net REITs (1.8%): We remain optimistic about the long-term prospects for the Fund's triple net gaming REIT investment in **VICI Properties Inc.**, an owner of quality gaming, hospitality, and entertainment properties. The company pays a 5% dividend which is well covered and has a strong track record of making accretive acquisitions and has additional opportunities for growth in the years ahead. We recently trimmed the Fund's position, however, because we have identified other REITs and non-REIT companies that we believe may generate superior returns in the next few years.

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 **Travel + Leisure Co.**

Top Contributors and Detractors to Performance

Table III.
Top contributors to performance for the quarter ended June 30, 2023

	Quarter End Market Cap (billions)	Percent Impact
Toll Brothers, Inc.	$ 8.6	1.04%
Welltower Inc.	40.2	0.84
Equinix, Inc.	73.3	0.77
Digital Realty Trust, Inc.	33.9	0.61
AvalonBay Communities, Inc.	26.9	0.53

Our investment in homebuilder company **Toll Brothers, Inc.** performed very well during the period held in 2023, increasing 38.1%.

Year-to-date, Toll Brothers is benefiting from a meaningful uptick in demand to buy homes:

- Home buyers continue to come off the sidelines and buy homes despite 30-year mortgage rates remaining in the 6.5% to 7.0%

range. Several factors are contributing to the recent strength, including pent-up demand to buy homes and fears that mortgage rates could move higher.

- The sticker shock of rapidly rising mortgage rates appears to have cooled down. Homebuilders have made homes more affordable to prospective home purchasers by offering mortgage rate buydowns to the mid-5% mortgage rate range while maintaining strong profitability margins.
- A dearth of inventory in the existing home market and an overall housing supply shortage is driving home buyers to "stretch their wallet" due to fears that they could miss the opportunity to buy a home.

Though Toll Brothers has been a good stock this year, it is trading at just over our estimate of 2024 tangible book value. The stock historically has been valued at 1.4 to 1.5 times book value and had a peak valuation of two times book value. If the company can just recover to its long-term average, we believe its shares would increase approximately 50%.

Please see my recent *Barron's* interview, which can be accessed on our Baron website homepage at www.baronfunds.com in the "News & Events" section for our more complete thoughts about the outlook for residential real estate and Toll Brothers, more specifically.

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 **Equinix, Inc.**, the leading global data center REIT, continued to perform well during the quarter. The company reported results above expectations, issued a robust multi-year growth outlook at its analyst day and continued to experience strong demand/bookings amid weaker broader macroeconomic conditions as its customers accelerate their digital transformations. Equinix is a global operator of approximately 250 network-dense, carrier-neutral colocation data centers across 32 countries and 71 metros. We recently attended Equinix's bi-annual investor day in June and were able to spend some additional time with CEO Charles Meyers and CFO Keith Taylor. We came away incrementally encouraged with Equinix's continued evolution/innovation to meet customers' demands in the way they consume space (e.g., via *as a service* offerings) and incremental investments in its go-to-market capabilities to position the company to better capture the long-tail of demand from *digital starters* (represents an addressable market that is equal to what is presented by *digital leaders* and *digital followers*, which has been the core business opportunity for Equinix to date). 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.

Table IV.
Top detractors from performance for the quarter ended June 30, 2023

	Quarter End Market Cap (billions)	Percent Impact
Rexford Industrial Realty, Inc.	$11.2	–0.64%
Extra Space Storage Inc.	20.1	–0.41
American Tower Corporation	90.4	–0.25
Brookfield Renewable Corporation	11.6	–0.23
Public Storage Incorporated	51.3	–0.18

Following solid share price performance in the first three months of 2023, the shares of **Rexford Industrial Realty, Inc.**, a high-growth REIT that owns a $12 billion portfolio of infill industrial real estate properties concentrated in Southern California, declined in the second quarter primarily due to concerns that demand and rent growth are moderating in Southern California.

Since the beginning of 2020 through March 31, 2023, rents in Rexford's markets have increased more than 100%! Though we do expect rent growth to moderate from its frenzied pace of the last few years, we remain optimistic about the long-term prospects for Rexford and the Fund's other industrial REIT holdings **Prologis, Inc.**, **EastGroup Properties Inc.**, **Terreno Realty Corporation**, and **First Industrial Realty Trust, Inc.**

With industrial vacancies at less than 4%, new supply expected to moderate in 2024, rents on in-place leases at more than 50% below market rents, and multi-faceted demand drivers including the ongoing growth in e-commerce and companies' seeking to improve inventory supply-chain resiliency, we believe the Fund's industrial REIT investments are uniquely positioned and have compelling multi-year cash-flow growth runways.

We believe that Rexford has one of the best long-term growth opportunities among all publicly traded REITs. The company has two significant prongs for long-term growth. First, the management team has an irreplaceable portfolio of 44 million square feet of industrial real estate and its in-place rents on signed leases are 66% below market. As such, the company has line of sight to at least 66% growth as it adjusts rents up to market levels over the next four to five years. Second, Rexford's management team is pursuing acquisitions of additional square footage within its 250 million square foot market. Through acquisitions, we believe management will significantly increase the size of its portfolio over time. Many of the industrial properties that Rexford is targeting are industrial real estate assets owned by individuals who have managed their real estate passively for decades; in many cases they have not increased rents consistently. That is the opportunity for Rexford – acquire assets, upgrade the properties, and begin to increase rents.

Following its pending merger with Life Storage, Inc. which is expected to close late in 2023, **Extra Space Storage Inc.**, a best-in-class self-storage REIT, will be the largest self-storage operator with a $46 billion self-storage operating portfolio. In the most recent quarter, the shares declined because rent growth is moderating from its strong pace of the last few years.

Though 2023 may be a transition year for Extra Space as growth retraces to a more sustainable run-rate and the management team prepares to incorporate Life Storage, we remain optimistic about the long-term prospects for the company and believe the current price of its shares reflect a good portion of this anticipated transition.

We believe Extra Space's management team is excellent. Over the last decade, management has delivered strong occupancy gains, rent growth, and expense control that has led to a cost-of-capital advantage relative to its peers. Management has capitalized on its cost-of-capital advantage relative to its peers by tripling its owned self-storage count since 2010. We believe the management team will continue to create tremendous value for shareholders and believe the long-term growth opportunity for the company remains strong.

Shares of **American Tower Corporation**, a global operator of over 200,000 wireless towers, detracted from performance in the quarter due to rising interest rates affecting high-multiple stocks in addition to select international churn events, exposure to floating rate debt, and lack of progress on the monetization of its India business with the company continuing to experience payment shortfalls from a key tenant there. American Tower is a global operator of over 200,000 wireless towers. As the near-term headwinds become better appreciated, we remain positive on multi-year growth prospects that are highly visible and supported by long-term customer contracts.

Recent Activity

Table V.
Top net purchases for the quarter ended June 30, 2023

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Digital Realty Trust, Inc.	$ 33.9	$5.4
Equinix, Inc.	73.3	4.7
Invitation Homes, Inc.	21.0	4.6
American Homes 4 Rent	12.8	4.0
Prologis, Inc.	113.2	2.7

We believe the multi-year prospects for real estate data centers are highly compelling – perhaps as strong as they have ever been.

Accordingly, we recently increased our exposure to data center REITs by acquiring additional shares in **Equinix, Inc.** and **Digital Realty Trust, 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 artificial intelligence 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 artificial intelligence 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 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 acquired additional shares of **Invitation Homes, Inc.** during the quarter. Invitation Homes is one of the largest institutional landlords of single-family rental homes in the country with over 80,000 homes across 16 different markets. We remain encouraged by the better-than-expected operating fundamentals with robust top-line growth driven by strong renewal and new lease pricing amid strong occupancy and lower turnover. Longer term, we believe Invitation Homes represents a compelling investment on a multi-year basis given the structural undersupply of housing nationally and limited inventory of institutionally managed single-family rental homes amid a favorable demographic demand backdrop. Consumer demand is being driven by: i) a preference for homes over apartments given family/schooling needs; ii) the flexibility inherent when renting; and iii) affordability – renting is 30% cheaper than owning on average across Invitation's key markets. We believe Invitation Homes is a compelling investment due to its presence in higher-growth infill markets, its meaningful scale, which drives operational efficiency; and M&A opportunities in this highly fragmented industry populated with many mom and pop businesses. Lastly, single-family homes are one of the most liquid real estate assets and the company's shares continue to sell at a meaningful discount to homes sold in its markets (ignoring further upside from the platform value, strong imbedded growth, and consolidation opportunities).

Table VI.
Top net sales for the quarter ended June 30, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Sun Communities, Inc.	$16.7	$1.1
Public Storage Incorporated	51.3	0.9
Terreno Realty Corporation	5.0	0.6
Cellnex Telecom, S.A.	28.1	0.5
Sunstone Hotel Investors, Inc.	2.0	0.5

We recently exited our investment in **Sun Communities, Inc.**, a REIT that owns a portfolio of manufactured housing properties, recreational vehicle parks, and marinas, due to the company's worse-than-expected 2023 growth expectations due to elevated costs and higher interest expense. We continue to believe the long-term prospects for Sun Communities 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. We may look to revisit Sun Communities at a later date.

We recently trimmed our large investment in **Public Storage Incorporated**, a REIT that is the world's largest owner, operator, and developer of self-storage facilities, due in part to expectations that rent and overall cash-flow growth are moderating. We remain optimistic about the company's long-term prospects. 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. We are encouraged about the company's prospects due to our expectations for strong occupancy, limited new supply, solid long-term organic cash-flow growth, and the potential for M&A due to its well-capitalized and low leverage 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.

We recently trimmed our investment in **Terreno Realty Corporation**, an owner and operator of well-located industrial warehouses in six coastal markets and reallocated the capital to what we believe are more attractively valued REITs and non-REITs that may offer superior return prospects in the near to medium term. We remain big fans of Terreno's management team and may look to acquire additional shares in the future.

Concluding Thoughts on the Prospects for Real Estate and the Fund

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 June 30, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Prologis, Inc.	$113.2	$12.2	9.9%
Equinix, Inc.	73.3	11.0	8.9
Welltower Inc.	40.2	8.0	6.5
Digital Realty Trust, Inc.	33.9	7.6	6.2
Invitation Homes, Inc.	21.0	6.8	5.5
AvalonBay Communities, Inc.	26.9	6.1	5.0
American Homes 4 Rent	12.8	5.5	4.5
Rexford Industrial Realty, Inc.	11.2	4.7	3.8
Brookfield Corporation	55.2	4.6	3.7
Toll Brothers, Inc.	8.6	4.4	3.5

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.

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

Jeffrey Kolitch
Portfolio Manager

Baron Real Estate Income Fund

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

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in debt securities which are affected by changes in prevailing interest rates and the perceived credit quality of the issuer. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns. The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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

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. **Upside Capture** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture** measures how well a fund performs in time periods where the benchmark's returns are less than zero.

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).