QUARTERLY LETTER | JUNE 30, 2026

Baron Real Estate Income Fund®

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

Jeff Kolitch
Portfolio Manager

Dear Baron Real Estate Income Fund® Shareholder,

Performance

Baron Real Estate Income Fund® (the Fund) delivered strong results in the second quarter. The Fund increased 12.18% (Institutional Shares), modestly outperforming the MSCI US REIT Index (the REIT Index), which increased 11.84%.

The Fund's long-term performance remains strong. As of June 30, 2026, Morningstar ranks the Fund as the #2 real estate fund since its inception on December 29, 2017. The only fund ahead of us is the Baron Real Estate Fund®, which we also manage and offers three share classes.

We will address the following topics in this letter:

- Our current top-of-mind thoughts
- Portfolio composition
- Top contributors and detractors to performance
- Recent activity
- Concluding thoughts on the prospects for real estate and the Fund

Annualized performance (%) for periods ended June 30, 2026

	Fund Retail Shares[1,2]	Fund Institutional Shares[1,2]	MSCI US REIT Index[1]	S&P 500 Index[1]
QTD[3]	12.10	12.18	11.84	15.20
YTD[3]	13.30	13.44	16.89	10.21
1 Year	18.75	19.11	19.70	22.32
3 Years	13.54	13.82	11.03	20.61
5 Years	4.88	5.15	4.58	13.41
Since Inception (12/29/2017)	9.63	9.88	5.85	14.74
Since Inception (12/29/2017) (Cumulative)[3]	118.48	122.77	62.15	221.79

As of June 30, 2026, the Morningstar Real Estate Category consisted of 207, 199, 191, and 185 share classes for the 1-, 3-, 5-year, and since inception (December 29, 2017) periods. Morningstar ranked Baron Real Estate Income Fund Institutional Share Class in the 19th, 1st, 16th, and 2nd percentiles for the 1-, 3-, 5-year, and since inception periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Income Fund Institutional Share Class as the 39th, 3rd, 28th, and 3rd best performing share class in its Category, for the 1-, 3-, 5-year, and since inception periods, respectively.

Since inception rankings include all share classes of funds in the Morningstar Real Estate Category. Performance for all share classes date back to the inception date of the oldest share class of each fund based on Morningstar's performance calculation methodology.

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.

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 April 30, 2026 was 1.23% and 0.88%, 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 waives and/or reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2036, 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 BaronCapitalGroup.com or call 1-800-99-BARON.

Our Current Top-of-Mind Thoughts

The first half of 2026 offered early evidence that a multi-year recovery in real estate — a long out-of-favor asset class — is beginning to take shape. Several REITs and travel- and residential-related companies performed well over the period, though we believe the broader recovery remains in its early innings.

We are clear-eyed about the headwinds: elevated interest rates, housing affordability pressures, and AI-driven disruption are real considerations. Yet our optimism about public real estate's prospects remains firm, grounded in several themes we have explored in recent shareholder letters:

1. **Real Estate Has Lagged**
   - Despite a solid start to 2026, many real estate stocks — both REITs and non-REIT companies — have underperformed the broader market for several years. For example, over the five years ending June 30, 2026, the S&P 500 Index has returned 13.41% annually versus just 4.58% annually for the REIT Index.
2. **Real Estate Continues to Offer Relative Value**
   - Many publicly traded real estate companies are trading at attractive valuations, offering what we believe to be a timely investment opportunity.
   - Across multiple REIT categories – including multi-family, single-family rentals, hotels, strip centers, office, life sciences, cold storage, self-storage, timber – valuations, based on our research, are 10% to 50% below replacement cost or recent private market transaction values.
3. **Privatizations of Discounted Public Real Estate Are Accelerating**
   - As we have noted in prior letters, many publicly traded real estate companies trade at meaningful discounts to private market values.
   - M&A activity has accelerated across multi-family, self-storage, shopping centers, industrial, retail, health care, homebuilders, and other real estate sectors — further underscoring the disconnect between public market valuations and underlying private asset values. We believe this valuation gap creates the potential for additional public company acquisitions.
4. **Supply-Demand Dynamics Favor Real Estate**
   - Across much of the sector, demand continues to outpace supply — a dynamic that supports occupancy gains, rent growth, increased home sales, cash flow expansion, and improving valuations.
   - Importantly, construction activity across many real estate segments has fallen to decade lows (Source: Green Street Advisors, LLC), which should set the stage for a faster growth rebound than in prior cycles as demand continues to strengthen.
5. **Balance Sheets Are Healthy and the Debt Environment Is Improving**
   - Real estate balance sheets are in strong shape, characterized by prudent leverage, well-laddered debt maturities, and a balanced mix of fixed- and floating-rate obligations.
   - Should long-term interest rates decline — driven by the deflationary effects of AI, moderating shelter inflation, or a more accommodative Federal Reserve over time — borrowing costs could fall. Lower rates would likely support higher real estate valuations, stimulate housing market activity, and accelerate M&A, further underscoring the relative attractiveness of public real estate.
6. **Real Estate Is Increasingly an AI Beneficiary**
   - The market has increasingly rewarded owners with tangible, hard-to-replicate assets - what we describe as HALO (Heavy Assets, Low Obsolescence) businesses - including REITs, homebuilders, and other real estate-related companies. These businesses tend to offer greater near-term earnings visibility and lower risk of AI-driven disruption compared to many segments of the digital economy.
7. **Investors Remain Underweight Real Estate**
   - If investors rebalance toward the sector, increased capital flows could provide a meaningful lift to valuations and share prices.
8. **We See a Path to Double-Digit Annual Returns**
   - We believe the Baron Real Estate Income Fund® is well-positioned to deliver double-digit annual returns over the next several years, supported by improving growth prospects, rising dividends, and what we view as compelling valuations across the portfolio.

Baron Real Estate Income Fund® offers a compelling way to access the long-term return potential of the real estate sector

We believe our approach to embracing and structuring a more expansive and diversified real estate income fund where we invest primarily in REITs (at least 75% to 80% of net assets) but also have the optionality to invest up to 20% to 25% in non-REIT real estate companies (primarily dividend-paying real estate companies), will shine even brighter in the years ahead, in part due to the rapidly changing real estate landscape which, in our opinion, requires more discerning analysis.

In our opinion, our highly differentiated real estate fund enjoys several attractive attributes compared to:

- <u>Actively managed REIT funds</u>: The Fund benefits from a broader investment universe and reduced reliance on the debt markets. *Since inception on December 29, 2017, the Fund has increased 9.88% on an annualized basis versus the REIT Index, which increased 5.85%.*
- <u>Passive/ETF real estate funds:</u> The Fund has the flexibility to be selective, emphasizing companies with attractive long-term prospects rather than broadly replicating an index and owning both higher- and lower-quality real estate businesses. *Since inception on December 29, 2017, the Fund has increased*

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*9.88% annually versus the Vanguard Real Estate ETF, which increased 5.76%.**

- Non-traded REITs and private real estate: The Fund provides enhanced liquidity, diversification, valuation transparency, lower fees and strong performance over the long term.

Portfolio Composition

As of June 30, 2026, the Fund's net assets were allocated as follows: REITs (80.6%), non-REIT real estate companies (15.8%), and cash and cash equivalents (3.6%). We maintain exposure across 13 distinct REIT categories.

Our allocations to both REIT and non-REIT real estate categories are driven by bottom-up fundamental research and our assessment of relative opportunities within each segment, as discussed in detail below.

Fund investments in REIT categories

	Percent of Net Assets (%)	
REITs		**80.6**
Health Care REITs	16.7†	
Industrial REITs	11.8	
Multi-Family REITs	9.4	
Data Center REITs	9.1	
Mall REITs	8.1	
Self-Storage REITs	6.4	
Hotel REITs	5.1	
Office REITs	4.6	
Triple Net REITs	4.0	
Timber REITs	2.4	
Other REITs	1.5	
Shopping Center REITs	1.3	
Mortgage REITs	0.2	
Non-REIT Real Estate Companies		**15.8**
Cash and Cash Equivalents		**3.6**
Total		**100.0***

* *Individual weights may not sum to the displayed total due to rounding.*
† *Includes investment in Alexandria Real Estate Equities, Inc., which we consider to be a Life Sciences REIT.*

In the first half of 2026, several REIT categories delivered strong results — including health care, data centers, retail malls and shopping centers, self storage, and hotels. Performance was partially offset by select non-REIT holdings facing headwinds from housing affordability pressures, AI disruption concerns, software sector exposure, and the structural dynamics of private credit and semi-liquid vehicles. We have made portfolio adjustments we believe position the Fund well for improved performance ahead.

The outlook for REITs remains compelling, underpinned by a convergence of favorable factors:

- **Attractive valuations.** REITs have lagged broader markets, leaving them attractively priced on both an absolute and relative basis — a gap we expect to close.
- **Favorable supply/demand dynamics.** Constrained new supply across key property types, combined with resilient demand, sets the stage for sustained rent growth.
- **Aligning tailwinds.** REITs stand to potentially benefit from both a cyclical economic upturn and durable long-term structural growth themes.
- **AI as an asset, not a liability.** As asset-intensive businesses, many REITs are more insulated from AI disruption — and in many cases stand to potentially benefit directly from it.
- **Financial strength.** Most REITs carry solid balance sheets, growing dividends, and built-in inflation protection through lease structures.
- **A compelling return outlook.** Taken together, these factors support an attractive multi-year return opportunity for patient investors.

Summary REIT and Non-REIT Category Commentary

Health Care REITs (16.7%)

- **We remain constructive on the multi-year outlook for senior housing and continue to favor Welltower Inc. and Janus Living, Inc.**
- We believe the sector is well positioned to benefit from both ***cyclical recovery and durable secular tailwinds***. Operating fundamentals are improving, with rent growth and rising occupancy, while new supply remains constrained due to elevated construction costs and restrictive financing conditions. Longer term, demand should be supported by favorable demographic trends, including the aging of the baby boomer cohort and accelerating growth in the population aged 80 and over. Expense pressures, particularly labor-related, have largely moderated. We also see the ***potential for attractive, accretive acquisition opportunities***, especially for Welltower given its cost of capital advantage.
- In the second quarter, we acquired shares in **Alexandria Real Estate Equities, Inc.**, a REIT that owns a portfolio of life science office properties concentrated in Boston, San Diego, San Francisco, Seattle, New York, and North Carolina. Alexandria is classified as a Health Care REIT, but we view it as Life Sciences. The company accounted for 4.0% of the Fund's assets as of quarter end.
- **We have been cautious on the prospects for life science real estate for several years, owing to a sharp slowdown in demand, several years of excess supply deliveries, and a rising cost of capital that negatively impacted financing costs and development economics. While we remain cautious, we have begun to see signs that business fundamentals are beginning to stabilize. We believe Alexandria's growth can inflect positively over the next couple years and, in the meantime, the company will sell select properties and accretively recycle capital into share repurchases.**

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Industrial REITs (11.8%)

- **We remain constructive on the Fund's industrial REIT holdings, Prologis, Inc., EastGroup Properties, Inc.,** and **Terreno Realty Corporation, driven by a favorable multi-year outlook for demand, supply, and rent growth.** We see ***significant embedded growth potential from in-place rents that generally sit approximately 20% below market levels, as well as secular tailwinds*** including e-commerce expansion, supply chain logistics, "just-in-time" inventory strategies, and nearshoring/onshoring trends.

Multi-Family REITs (9.4%)

- **In the second quarter of 2026, we increased exposure to multi-family REITs Equity Residential, Essex Property Trust, Inc., and UDR, Inc. While multi-family REITs have been "cheap" for some time, we are finally seeing early signs of an improvement in business fundamentals that could continue over the next several years given the highly favorable supply/demand backdrop combined with strong growth in "laggard markets" such as San Francisco.**
- **In 2025, we maintained a cautious view on multi-family REITs** due to *modest near-term growth prospects, influenced by factors such as job losses, younger renters opting to stay at home or "double up," and elevated apartment inventory*.
- **Though we had been cautious, we have become more constructive on multi-family REITs** supported by rental affordability versus for-sale housing (with move-outs to purchase remaining at historic lows), a favorable supply outlook through 2027, partial inflation hedging through annual leases, strong rent-to-income ratios among employed renters, and attractive public market valuations relative to private markets and other REIT categories.

Data Center REITs (9.1%)

- **We remain encouraged by the long-term growth prospects for data centers. The Fund holds data center REIT positions in Equinix, Inc. and Digital Realty Trust, Inc.**
- We'd also like to note that the Fund maintains additional data center exposure through its investments in other REITs such as **Prologis, Inc.** and **Iron Mountain Incorporated**, both of which have data center businesses, and in non-REIT data center company, **GDS Holdings Limited**.
- Data center landlords are benefiting from *low vacancy, strong demand relative to supply, constrained power availability, rising rental rates, and significant pre-leasing prior to large-scale expansions* – an improvement over the historical norm. Several ***secular trends support robust fundamentals globally, including IT outsourcing, rising cloud adoption, growing mobile and internet traffic, and AI-driven data demand***. As data continues to grow exponentially, the need to process, transmit, and store it underpins long-term demand for data center space. Early adoption of enterprise AI is just beginning to emerge and may further accelerate existing trends by driving additional digital transformation investments as costs decline.

Mall REITs (8.1%)

- **We remain positive about mall REITs, particularly The Macerich Company** and **Simon Property Group, Inc.** The fundamentals for high-quality mall and outlet assets remain supportive: ***tenant demand is strong, high occupancy and limited new developments create scarcity, favorable supply/demand dynamics enable rent growth, and valuations remain attractive***.
- We remain optimistic about the two- to three-year prospects for Macerich. Continued engagement with CEO Jackson Hsieh reinforces our confidence that the company can create meaningful long-term value through initiatives such as divesting non-core properties, reducing debt, improving the mix of tenants, and acquiring value-added mall properties at attractive prices.

Self-Storage REITs (6.4%)

- **In the last few years, we have been cautious about self-storage REITs due to several years of flat to negative growth. In 2025, our outlook became moderately more positive, as our research suggested a potential inflection point, with growth possibly reaccelerating in 2026-2027.**
- Over the long term, we continue to view self-storage as an attractive business that has a long history of generating solid growth with strong inflation protection characteristics and comparatively low capital intensity.
- In 2026, we re-initiated positions in **Public Storage** and **CubeSmart**. The Fund also maintains its position in **Extra Space Storage Inc.**

Hotel REITs (5.1%)

- **We believe hotel REITs are well positioned to benefit from a favorable "*trifecta*" of cyclical, secular, and 2026-specific tailwinds, which should support strong fundamentals and share price performance.**
- The Fund maintains a position in **Host Hotels & Resorts, Inc.**, the world's largest lodging REIT according to the company's website. We view the company favorably due to its portfolio of premier hotels in attractive locations, which we expect to generate strong growth over time, combined with a strong, liquid investment-grade balance sheet. Current valuations appear compelling.
- In 2026, the Fund re-initiated a position in **Pebblebrook Hotel Trust**, a leading owner of 44 luxury and upper-upscale lifestyle hotels across 13 urban and resort markets.

Office REITs (4.6%)

- **In 2024 and 2025 we were bullish on select office REITs, while remaining generally cautious on broader office real estate due to both cyclical and secular headwinds that we expected would persist.**
- Entering 2026 we exited our office REIT investments over concerns pertaining to AI adoption, anemic job growth, disappointing earnings growth outlooks, and "as good as it gets" leasing volumes.

- **In the second quarter, we reacquired shares in BXP, Inc.** (formerly known as Boston Properties), a blue-chip office REIT that owns a portfolio of premier office properties in coastal U.S. markets including Boston, New York City, San Francisco, Washington, D.C., Los Angeles, and Seattle, following a share price correction in the first quarter. We believe the company's growth prospects are likely to accelerate in late 2026 and 2027 and its valuation is compelling relative to replacement cost and private market valuations.

Triple Net REITs (4.0%)

- **We remain optimistic about the long-term prospects for certain triple net REITs.**
- In the second quarter, we repositioned our triple net REIT exposure by exiting **Essential Properties Realty Trust, Inc.** and **Agree Realty Corporation** and purchasing **Blackstone Digital Infrastructure Trust Inc.**
- **Following several management meetings over the course of a few weeks, we participated in the Blackstone Digital IPO that was priced in May. We believe the company, which is supported by the same team at Blackstone that built out its broader data center platform, has a first mover advantage in institutionalizing the "stabilized" segment of the data center market. We believe there is a highly compelling external growth opportunity combined with potential cap rate compression/multiple expansion that will lead to strong future shareholder returns.**

Timber REITs (2.4%)

- **We are optimistic about the prospects for the Fund's timber REIT position in Weyerhaeuser Company**, one of the world's largest owners of timberlands with approximately 10 million acres in the U.S. and an additional 13 million acres that are licensed in Canada. Weyerhaeuser is also a major manufacturer of wood products – including lumber, OSB, plywood - used in new housing construction and remodeling projects. **We view the shares as historically inexpensive and well positioned to potentially benefit from an eventual recovery in the U.S. housing market.**

Other REITs (1.5%)

- **We are optimistic about the prospects for Iron Mountain Incorporated**. The company offers records storage management along with an evolving fast-growing data center segment. We are encouraged by the company's prospects to grow overall cash flow by more than 10% per year over the next several years. Growth is underpinned by predictable and stable growth in its core records management business while outsized growth is driven by its data center business, which has visibility to more than triple operational capacity from today's in-place base.

Shopping Center REITs (1.3%)

- **In the second quarter, we acquired shares in Curbline Properties Corp., a shopping center REIT that owns a portfolio exclusively concentrated on convenience properties located on the curbline of well-tracked intersections and vehicular corridors in highly desirable markets. We believe Curbline checks all the boxes that we seek in our investments: a differentiated strategy, competitive advantages, repeatable double digit annual growth prospects through organic growth and accretive acquisitions, healthy balance sheet (very little debt), and a proven management team with incentives aligned with shareholders.**

Mortgage REITs (0.2%)

- **The Fund continues to have a favorable view of Blackstone Mortgage Trust, Inc.**, which specializes in real estate credit investments. The company benefits from several competitive advantages, including sponsorship by Blackstone Inc., a global platform providing access to a diversified pipeline of real estate credit opportunities, and a strong, liquid balance sheet. With ***a 10% dividend yield, a valuation below book value, and improving business prospects, we view Blackstone Mortgage Trust as a compelling investment for the Fund***.

Non-REIT Real Estate Companies (15.8%)

- While the Fund emphasizes REITs, we retain flexibility to invest in non-REIT real estate companies, which we typically limit to approximately 25% of net assets. At times these investments may offer more attractive growth, income, valuation, and share price appreciation potential relative to traditional REITs.
- Current non-REIT holdings include **Meritage Homes Corporation**, **Brookfield Infrastructure Corporation**, **Marriott Vacations Worldwide Corporation**, **Fortune Brands Innovations, Inc.**, **CRH public limited company**, **Vail Resorts, Inc.**, **The Home Depot, Inc.**, **GDS Holdings Limited**, and **Wyndham Hotels & Resorts, Inc.**

Top Contributors and Detractors

Top contributors to performance for the quarter

	Quarter End Market Cap ($B)	Contribution to Return (%)
The Macerich Company	7.5	1.56
Welltower Inc.	160.2	1.40
Pebblebrook Hotel Trust	2.2	1.06
Host Hotels & Resorts, Inc.	16.2	0.94
Marriott Vacations Worldwide Corporation	3.5	0.82

The Macerich Company, a high-quality retail mall REIT, contributed positively to performance in the second quarter, driven by management's continued strong execution. Key highlights included nearing full achievement of the leasing targets outlined in its Path Forward Plan, a growing pipeline of accretive acquisitions, and an opportunistic equity raise that further strengthened balance sheet flexibility.

As previously outlined, we remain optimistic about Macerich's prospects over the next several years. The fundamental backdrop for high-quality mall real estate remains favorable: tenant demand is robust, desirable retail space is scarce (occupancy is high with little new mall development), and the resulting demand/supply imbalance is giving landlords meaningful pricing power. We continue to engage with CEO Jackson Hsieh, a well-regarded outsider who is bringing a fresh, analytical lens to the company's real estate portfolio. We believe he will continue to unlock significant value by divesting non-core properties and reducing debt. Our conviction has grown that the company can generate over $2.00 in FFO over the next couple of years, which we believe would be a meaningful catalyst for share price appreciation from current levels.

Shares of **Welltower Inc.** continued to perform well during the quarter driven by robust cash flow growth in its senior housing portfolio with strong occupancy gains, rent growth and margin expansion. The company also continued to see further traction on its other recent initiatives such as monetization of its proprietary data analytics platform and broader implementation of its in-house operating platform to drive superior asset level performance. Welltower is primarily an operator of senior housing real estate properties.

Shares of **Pebblebrook Hotel Trust** increased significantly during the quarter, driven by a standout earnings report that significantly exceeded expectations across all key metrics. Results reflected broad-based strength across both urban and resort markets, with particularly notable recovery in Los Angeles and San Francisco, driving meaningful margin expansion and bottom-line outperformance. Management also raised its full-year outlook, reinforcing confidence in the durability of the urban lodging recovery and potential for outperformance, while incoming monthly lodging data has been supportive of this outlook throughout the quarter.

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Top detractors from performance for the quarter

	Quarter End Market Cap or Market Cap When Sold ($B)	Contribution to Return (%)
GDS Holdings Limited	6.0	(0.39)
Blackstone Mortgage Trust, Inc.	2.9	(0.11)
Vail Resorts, Inc.	4.9	(0.08)
Weyerhaeuser Company	17.3	(0.04)
American Healthcare REIT, Inc.	8.8	(0.02)

Despite solid operating results and after strong performance to start the year, shares of **GDS Holdings Limited** declined in the second quarter. Several items weighed on performance including management communication about full-year guidance components, a material step-up in capital expenditure over the next few years and a slight delay in timing when the company is expected to see a growth inflection in its underlying results. While we continue to see evidence of the building AI wave in China through significant bookings growth and see material under-appreciated value in GDS' stake in its spun-out international subsidiary (DayOne), we trimmed our position and reallocated capital to ideas where we have a higher degree of visibility and lower exogenous risks such as the current geopolitical environment.

Shares of **Blackstone Mortgage Trust, Inc.** lagged during the quarter, weighed down by a marginal first quarter book value decline, lingering concerns about credit quality and overall challenging commercial real estate lending environment given resurgent inflation, and an elevated rate environment creating an unfavorable backdrop. We trimmed our position and reallocated capital into other ideas discussed earlier.

Shares of **Vail Resorts, Inc.** continued to lag following the poor winter snow season across its resort portfolio and the worst snowfall in the Colorado Rockies on record. As a result, this led to depressed results and forward demand with pass sales tracking down 10% year-over-year per the recent update. We believe much of the softening pass demand and earnings revision following the historically poor snow year was largely priced in and shares present compelling value at approximately nine times cash flow. We are encouraged by management's efforts to turnaround growth and find cost efficiencies while starting from a cyclical weather trough.

Recent Activity

Top net purchases for the quarter

	Quarter End Market Cap ($B)	Net Amount Purchased ($M)
BXP, Inc.	10.6	13.5
Alexandria Real Estate Equities, Inc.	9.2	11.8
Blackstone Digital Infrastructure Trust Inc.	2.2	11.0
Equity Residential	25.5	8.4
Meritage Homes Corporation	5.6	7.8

During the quarter we reacquired shares of **BXP, Inc.**, a blue-chip office REIT that owns a portfolio of premier office properties concentrated in coastal U.S. markets including Boston, New York City, San Francisco, Washington, DC, Los Angeles, and Seattle. We are excited about BXP's prospects for several reasons:

1. Blue-chip company, with an irreplaceable portfolio in markets with high barriers to entry, a proven development track record, a strong balance sheet, and an excellent management team.
2. Strong fundamental backdrop for high-quality office properties in select markets. Generally, return-to-work and a pick-up in lease decision-making has led to improved leasing velocity across many office markets, particularly for high-quality properties that are benefiting from a "flight to quality." At the same time, the supply picture for many office markets is favorable over the next several years given a dearth of new construction deliveries. We believe this backdrop can support improved rent growth in many markets over the next several years.

3. BXP anticipates a growth acceleration in 2027, driven by occupancy and rent gains across its East Coast and West Coast markets that are expected to drive cash flow and earnings growth. West Coast markets have been slower to recover, but there are encouraging signs that fundamentals are bottoming.
4. Attractive growth prospects over the next several years, as management believes the company can potentially grow earnings (FFO) mid-single digits, driven by occupancy gains (88% current versus 92% target), rent growth, and development lease up, offset in part by debt refinancing headwinds.

At its recent share price of $68, BXP is being valued at a 7.3% implied cap rate and less than $600 per square foot, which is a steep discount to private market values (5% to 6% cap rates) and replacement cost (well over $1,000 per square foot).

During the quarter, we initiated a position in **Alexandria Real Estate Equities, Inc.** following a roughly 75% decline in the share price over the past several years. Alexandria is a pure-play owner and developer of life science real estate in the U.S., with an irreplaceable portfolio concentrated in the premier life science clusters — Greater Boston, San Francisco, San Diego, and Research Triangle Park. We are excited about Alexandria's prospects for several reasons:

1. Blue-chip company, with an irreplaceable portfolio in high-barrier markets with strong network effects, deep tenant relationships, best-in-class development expertise, a strong balance sheet, and an excellent founder-led management team.
2. Bottoming fundamentals for high-quality life science real estate. After several years of headwinds — stalled demand, excess supply, elevated vacancy, and declining rents — fundamentals appear to be in the early stages of bottoming. While conditions remain challenging, tenant demand is beginning to improve meaningfully across most submarkets and supply pressures are gradually easing, setting the stage for a recovery in rents and cash flow in the coming years.
3. Alexandria's disposition activity is an encouraging sign of improving market conditions. Buyer appetite for high-quality life science real estate has improved meaningfully versus a year ago, as institutional capital has returned to the sector. Dispositions are also an important source of liquidity for the company's capital plan. Notably, transaction valuation multiples may be significantly higher than those implied by the current share price — highlighting the stock's attractive valuation.

At its recent share price of $50, Alexandria is being valued at a 7.9% implied cap rate and less than $650 per square foot, which is a steep discount to private market values (5% to 6% cap rates) and replacement cost (well over $1,000 per square foot).

We participated in the IPO of **Blackstone Digital Infrastructure Trust Inc.**, a newly listed Blackstone-sponsored vehicle focused on acquiring stabilized, fully leased data centers underpinned by long-term, non-cancellable leases to the world's largest hyperscalers in primary data center markets. The opportunity is compelling given the absence of large-scale capital dedicated to acquiring stabilized data center assets – leaving a significant volume of institutional-quality assets available at attractive prices with limited competition. Blackstone's sponsorship brings an unparalleled sourcing advantage, having invested $200 billion into digital infrastructure since 2018 and sourcing over 85% of deals off market, alongside a near-term actionable pipeline of $25 billion. We believe the long-term leases with annual escalators and limited exposure to operating risks support a highly visible, attractive return profile and risk/reward opportunity. We also spent considerable time with management prior to the IPO and came away highly impressed with the depth of the team, the quality of the identified pipeline, and the clarity of the long-term vision.

Top net sales for the quarter

	Quarter End Market Cap or Market Cap When Sold ($B)	Net Amount Sold ($M)
Ventas, Inc.	40.8	15.0
Essential Properties Realty Trust, Inc.	6.5	8.9
American Healthcare REIT, Inc.	8.8	6.3
Wynn Resorts, Limited	10.1	6.1
Digital Realty Trust, Inc.	64.2	6.0

Though we remain bullish on the long-term prospects for senior housing-focused REITs **Ventas, Inc.** and **American Healthcare REIT, Inc.**, we chose to consolidate the Fund's exposure to this REIT category given strong relative performance over the last two years and the desire to acquire certain REITs that we believe are more attractively valued. We remain bullish on the long-term prospects for Ventas and American Healthcare and may acquire shares in the future.

We exited the Fund's position in **Essential Properties Realty Trust, Inc.** and reallocated to the proceeds to other REITs that we believe may offer superior return potential.

Concluding Thoughts on the Prospects for Real Estate and the Fund

As outlined in our first quarter letter, we remain mindful of the headwinds that could weigh on equity markets in the coming months. Periods of volatility and sharp dislocations have historically been our best opportunity to reposition the Fund — and the first half of 2026 was no exception. We remain actively engaged and confident in our ability to continue doing so.

We maintain our constructive outlook for the broader equity market, public real estate, and the Fund.

Stock Market Outlook

Our research points to broadly stable economic conditions ahead, supported by several potential tailwinds. On the policy front, reduced trade uncertainty, lower taxes, and enhanced depreciation incentives should encourage capital investment; deregulation and a more permissive M&A environment add further support. A Federal Reserve that eases gradually, combined with administration efforts to address housing supply constraints,

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provides an additional constructive backdrop. Beyond policy, we see AI-driven productivity gains as a meaningful catalyst — one with the potential to moderate inflation, compress long-term interest rates, and expand profit margins.

For these reasons, **we remain positive about the outlook for the stock market.**

__Real Estate Market Outlook__

We believe the conditions are in place for real estate to perform well in the next few years. Demand across most property sectors remains steady, with growth expected to improve over the next several years. At the same time, new supply has declined – often by more than 50% from peak 2002 levels – a dynamic we believe is underappreciated.

As a result, growth may rebound more quickly than in prior cycles, as the sector is not burdened by excess supply or elevated vacancies. Many public real estate shares have lagged, and valuations have reset to reflect a higher cost of capital, leaving many trading at attractive discounts relative to private market values. This disparity could catalyze ongoing real estate M&A activity.

Balance sheets remain strong, and credit markets are supportive. Additionally, moderating shelter inflation and productivity gains from AI could contribute to lower long-term interest rates – an important potential catalyst for the sector.

Taken together, we believe a favorable combination of cash flow growth, dividends, and the potential for multiple expansion in public real estate valuations could generate double-digit annual returns in the years ahead.

So, in our opinion, ***this is an attractive time to invest in real estate.***

__Baron Real Estate Income Fund® Outlook__

We remain optimistic about our differentiated approach: a diversified real estate income fund anchored in REITs (at least 75% of net assets), with the flexibility to invest up to 25% in high-quality, typically dividend-paying non-REIT real estate companies. We believe this structure is increasingly well-suited to today's rapidly evolving real estate landscape — one that demands more discerning analysis as tailwinds accelerate for some companies and headwinds persist for others. The portfolio is built around competitively advantaged real estate companies we expect to grow faster than the peer group. Valuations are attractive, and we believe the return outlook is compelling.

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

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Top 10 holdings

	Quarter End Market Cap ($B)	Quarter End Investment Value ($M)	Percentage of Net Assets (%)
Welltower Inc.	160.2	29.0	9.7
Prologis, Inc.	129.5	23.0	7.7
Equinix, Inc.	102.8	22.3	7.5
The Macerich Company	7.5	18.0	6.1
BXP, Inc.	10.6	13.8	4.6
Equity Residential	25.5	13.1	4.4
Blackstone Digital Infrastructure Trust Inc.	2.2	12.0	4.0
Alexandria Real Estate Equities, Inc.	9.2	11.9	4.0
UDR, Inc.	13.0	9.9	3.3
Meritage Homes Corporation	5.6	9.7	3.3

Our Core Real Estate Team

I would be remiss without acknowledging our core real estate team – David Kirshenbaum (assistant portfolio manager), George Taras (senior analyst), and David Berk (analyst). Their dedication, intellectual curiosity, and passion for the work remain impressive.

Our team and I remain fully committed and energized to delivering strong long-term results.

I proudly remain a major shareholder of the Baron Real Estate Income Fund®.

Sincerely,

Jeffrey Kolitch

Jeffrey Kolitch
Portfolio Manager

[1] The **MSCI US REIT Index Net (USD)** is designed to measure the performance of all equity REITs in the U.S. equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The MSCI US REIT Index and the Fund include reinvestment of dividends, net of foreign withholding taxes, while the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in 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.
* **Vanguard Real ETF**'s annualized returns (NAV) as of June 30, 2026: 1-year, 12.48%; 5-year, 2.79%; and Since Fund Inception (12/31/2017), 5.76%.

The 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 1-800-99-BARON or visiting BaronCapitalGroup.com. Please read them carefully before investing.

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in debt securities which are affected by changes in prevailing interest rates and the perceived credit quality of the issuer. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

The Fund may not achieve its objectives. **Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.**

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

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For information pertaining to competitor funds, please refer to that firm's website.

Diversification does not guarantee a profit or protect against a loss.

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. **Funds From Operations (FFO)** measures the cash flow generated by a real estate investment trust (REIT), excluding depreciation and amortization, and is often used to assess its performance.

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