



QUARTERLY LETTER | DECEMBER 31, 2025

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

In 2025, Baron Real Estate Income Fund[®] (the Fund) increased 3.74% (Institutional Shares), outperforming the MSCI US REIT Index (the REIT Index), which increased 1.68%.

In the fourth quarter of 2025, the Fund modestly declined 0.40%, outperforming the REIT Index, which declined 1.99%.

Following double-digit annual returns in 2024 (17.36%) and 2023 (15.51%), the Fund's modest 3.74% gain in 2025 was due to various factors including superior relative growth in several non-real estate sectors, ongoing interest rate headwinds, and certain REIT sub-category headwinds.

Importantly, we believe that a good portion of the issues that weighed on real estate performance in 2025 are, at this stage, reflected in share prices. Looking forward, we believe now is an attractive time to prioritize public real estate and our Baron Real Estate Income Fund. Please see "Our current top-of mind thoughts" and "Concluding thoughts on the prospects for real estate and the Fund" sections later in this letter for our expectations for the year ahead.

Annualized performance (%) for period ended December 31, 2025

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2}	MSCI US REIT Index ¹	S&P 500 Index ¹
QTD ³	(0.47)	(0.40)	(1.99)	2.66
1 Year	3.41	3.74	1.68	17.88
3 Years	11.72	12.04	7.06	23.01
5 Years	5.45	5.74	5.35	14.42
Since Inception (12/29/2017)	8.56	8.80	4.18	14.33
Since Inception (12/29/2017) (Cumulative) ³	92.84	96.38	38.72	191.98

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, 2025 was 1.27% and 0.90%, 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.

We are pleased to report that according to Morningstar, the Fund, since inception, has maintained its #2 real estate ranking for the 8-year period ended December 31, 2025. Notably, the only real estate funds that are ranked higher than the Fund since inception is the other real estate fund that we manage, Baron Real Estate Fund®, which has three share classes.

Also, according to Morningstar, the Fund's performance over its trailing multi-year periods remains strong when compared to the REIT Index and peers in the Morningstar Real Estate Category. As of December 31, 2025, the Fund's achievements are as follows:

- Top 2% and top 24% for the Fund's trailing 3- and 5-year performance periods, respectively

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

Our Current Top-of-Mind Thoughts

On November 14, 2025, at our annual Baron Investment Conference, we were interviewed by Morningstar Analyst Adam Sabban. Adam asked a series of real estate-related questions.

The key message that underpinned our answers then still holds true today.

BOTTOM LINE: As we peer into 2026, we are optimistic about the prospects for public real estate and the Baron Real Estate Income Fund.

Below is a synopsis of our Morningstar interview, slightly modified for the Baron Real Estate Income Fund.

Question 1: Why should one “bother with real estate” given concerns ranging from higher interest rates to the state of office properties.

Our Answer:

Real estate has been through a rough period in the last five years.

But while many look in the rearview mirror, we think real estate is at a pivotal moment. ***We believe real estate is at the doorstep of a positive inflection.***

Why is that?

1. Our view is that a large portion of the concerns about real estate – higher interest rates, refinancing challenges, bank

failure concerns, empty office buildings, housing affordability challenges – are “old news” and largely reflected in share prices such that the risk/reward for real estate is compelling.

2. Real estate shares have lagged.
3. Valuations have reset for a higher cost of capital.
4. Demand conditions for most segments of real estate are steady with expectations for an improvement in growth in the next few years.
5. New competitive supply has collapsed – in many cases down more than 50% from peak levels in 2022. We believe this important point is not appreciated. Growth is poised to rebound faster than in prior cycles because real estate is not burdened with excess supply at low occupancy levels.
6. Balance sheets are in solid shape.
7. Public real estate is attractively valued relative to private real estate.
8. Long-term interest rates may head lower and that would be a powerful catalyst for real estate.
9. We are identifying attractively valued companies in several segments of real estate.

So, the following is the punch line:

We like the setup for real estate.

We think the risk/reward is compelling for much of real estate. When we aggregate the three key components of total return - growth + dividends + prospects for an improvement in valuation - we believe we can generate double-digit annual returns in the years ahead.

If we are right, we believe these returns will stack up well versus many other investment alternatives.

So, in our opinion, ***this is the time you want to invest in real estate.***

Question 2: Growth and real estate investing aren't commonly believed to have much overlap. Real estate is thought of as more of a “value” sector. You have more of a growth-oriented approach with your broader take of real estate. Why should investors view this as a valid way to invest in the space?

Our Answer:

You are right about the value categorization of real estate.

Most of our peers tend to limit their real estate investments to REITs – such as office buildings, apartments, malls, and shopping centers – which pay a dividend and grow, on average, only 4% to 5% per year (Source: Citi Research) through gains in occupancy and rent and are viewed as value investments.

As of December 31, 2025, the Morningstar Real Estate Category consisted of 215, 205, 196, and 188 share classes for the 1-, 3-, 5-year, and since inception (12/29/2017) periods. Morningstar ranked Baron Real Estate Income Fund Institutional Share Class in the 15th, 2nd, 24th, 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 31st, 6th, 42nd, and 4th 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.

At Baron, we have never been satisfied with 4% to 5% growth for our real estate investments. That was the impetus to construct differentiated real estate funds that are more growth-oriented and populated with real estate companies that do not grow 4% per year like most REITs but instead may grow more than 10% per year. How do we accomplish this?

1. We embrace a broader, more comprehensive approach to real estate investing. We not only invest in REITs (though REITs are typically at least 75% of the Fund's net assets), but we also invest in real estate C-corps and operating companies, many of which grow faster than REITs, in part because they don't have to pay out their taxable income in dividends.
2. We prioritize best-in-class real estate. If we own the best real estate in the best geographic markets with population and job growth and limited new competitive supply, our best-in-class companies stand to grow faster than the peer group.
3. Examples from our real estate portfolios include:
 - Like our peers, we invest in REITs, yet we prioritize the faster-growing REITs such as senior housing-focused **Welltower Inc.**, which we believe will grow earnings the next few years 15% to 20% annually, or **Prologis, Inc.**, the largest industrial REIT that we believe will compound earnings at 10% per year over the next five years.
 - In addition to investing in REITs, we supercharge the Fund's growth by investing in highly compelling non-REIT real estate-related companies. Examples include:
 - ▶ Commercial real estate services companies such as **Jones Lang LaSalle Incorporated**, a leading commercial real estate services company that we expect will grow earnings 15% to 20% per year versus 4% to 5% for REITs.
 - ▶ In travel-related real estate, we are fans of certain travel-related companies that we expect will grow earnings faster than several REITs, such as **Wynn Resorts, Limited**.
 - ▶ In residential-related companies, there are certain companies such as **Toll Brothers, Inc.**, among others, that we believe may grow earnings at more than 10% annually in the next few years.

Brief advertisement: We believe our approach works. Through December 31, 2025 (updated from our November 14, 2025, Morningstar interview reply, which was based on performance results as of September 30, 2025):

- Since inception 8 years ago, our **Baron Real Estate Income Fund** – which is more analogous to REIT-focused funds – has returned 96% versus the REIT Index which has returned only 39% – and the only real estate fund that has outperformed Baron's Real Estate Income Fund over this time are the three share classes of our Baron Real Estate Fund.
- Since inception 16 years ago, our **Baron Real Estate Fund** has generated a total return of 620% versus the REIT Index which has returned only 224% - and it is the number one ranked fund – according to Morningstar – since inception.*

*Baron Real Estate Fund's annualized returns for the Institutional Shares as of December 31, 2025: 1-year, 5.19%; 5-year, 5.65%; 10-year, 10.69%. The MSCI USA IMI Extended

Real Estate Index's annualized returns as of December 31, 2025: 1-year, 4.88%; 5-year, 8.64%; 10-year, 8.88%. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 8th, 1st, 26th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 16th, 3rd, 50th, 1st, 1st, and 2nd best performing share class in its Category, for the 1-, 3-, 5-, 10-, 15-year, and since inception periods, respectively.

Question 3: Given your flexibility, what innovations or secular trends within the broader real estate space get you excited today?

Our Answer:

A lot.

Admittedly, real estate is a cyclical business. Real estate should benefit from the cyclical tailwinds of economic growth. Over time, there will be more demand for apartments, shopping centers, industrial warehouses, and senior housing facilities. And as demand increases, occupancy will rise, rents will increase, cash flow will grow, and real estate values should appreciate, especially because demand versus supply is generally in balance.

What is not appreciated by many is that *real estate is also benefiting from secular tailwinds that are less sensitive to the economic cycle and should be enduring for years to come.* Examples include:

- **Industrial real estate** is benefiting from multi-year demand drivers including the move to e-commerce, "last mile" infrastructure, "onshoring," and a shift from "just-in-time" to "just-in-case" inventory management. Our investments in **Prologis**, **EastGroup Properties, Inc.**, **Terreno Realty Corporation**, and **Goodman Group** all benefit from these secular trends.
- The multi-year set up for **data centers** is as strong as it has ever been. The demand vectors are expanding and include rising data consumption, cloud computing, IT outsourcing, and AI. New supply is constrained due to the elevated cost to build and power constraints. And rents are rising. Our investments in **Equinix, Inc.**, **Digital Realty Trust, Inc.**, **GDS Holdings Limited**, and **Goodman** should be multi-year beneficiaries of these trends.
- **Senior housing real estate companies** are benefiting from aging baby boomers, the 80+ population which is among the fastest growing aging groups (Source: Organization for Economic Co-operation and Development and U.S. Census Bureau), and people are living longer in part due to wonderful new drugs that contribute to weight loss and extend life! Our investments in **Welltower Inc.** and **Ventas, Inc.** should continue to benefit from these trends.
- **Travel:** Most don't think about travel as a secular growth opportunity, but, at Baron, we do. Travel companies are benefiting from the favorable shift in consumer preferences away from spending on goods to prioritizing spending on travel. We own **Wynn Resorts** and **Las Vegas Sands Corporation**, which we expect to continue to benefit from these trends.

Question 4: Given the huge investments in physical infrastructure due to AI, what are the ramifications within real estate?

Our Answer:

The topic of artificial intelligence (AI) and its potential impact on real estate businesses is top of mind and a due diligence question that we discuss in all our meetings with companies.

Within real estate, there are likely to be AI winners, losers, and other factors to consider including the path of interest rates.

Our preliminary sense is that the “winner” columns will include:

- **Data centers:** AI workloads from the “Magnificent 7” companies (e.g., Microsoft, Meta, Amazon) are driving explosive demand for data center real estate, and we are capitalizing on the opportunity globally with our data center investments. In addition to owning the largest global data center companies – Equinix and Digital Realty Trust – we also have investments in China based data center company GDS Holdings, Australian based data center focused company Goodman, and other leading companies with data center operations including Prologis.
- **Industrial:** AI’s physical manifestation – robotics, chip manufacturing, supply chain automation – will require more industrial facilities (hubs that can accommodate robotics and on-site servers).

Our preliminary sense is that real estate categories that may face headwinds include:

- **Office:** We have a mixed view on the long-term prospects for office real estate, in part since AI-driven automation and hybrid work models may lead to reduced traditional office demand.
- **Residential:** AI infrastructure may reshape regional housing markets – areas where job loss may weaken residential markets, while there are other geographic markets attracting large AI campuses and may see housing demand spikes.

Lastly, though we don’t predict the path of interest rates at Baron, AI should lead to greater productivity efficiencies for companies – you can do more with fewer employees. Notably, fewer jobs run counter to the Federal Reserve’s mandate for full employment. AI and associated job loss may result in a secular trend toward lower interest rates to offset job loss – time will tell, but certainly something to ponder, especially for real estate.

Portfolio Composition

As of December 31, 2025, we invested the Fund’s net assets as follows: REITs (71.2%), non-REIT real estate companies (25.0%), and cash and cash equivalents (3.8%). We currently have investments in 13 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, which we outline below.

Fund investments in REIT categories

	Percent of Net Assets (%)
REITs	71.2
Health Care REITs	20.0
Industrial REITs	17.4
Mall REITs	8.0
Data Center REITs	4.9
Multi-Family REITs	3.5
Hotel REITs	3.5
Wireless Tower REITs	2.9
Mortgage REITs	2.3
Timber REITs	2.3
Self-Storage REITs	2.2
Office REITs	1.9
Triple Net REITs	1.4
Single-Family Rental REITs	1.0
Non-REIT Real Estate Companies	25.0
Cash and Cash Equivalents	3.8
Total	100.0*

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

Summary REIT and Non-REIT Category Commentary

Health Care REITs (20.0%)

- **We maintain a favorable view of the multi-year prospects for senior housing** and remain bullish on the outlook for **Welltower Inc., Ventas, Inc., and American Healthcare REIT, Inc.**
- We believe senior housing real estate is likely to benefit from favorable cyclical and secular growth opportunities in the next few years. Fundamentals are improving (rent increases and occupancy gains) against a backdrop of muted supply growth due to punitive financing and elevated construction costs. The long-term demand outlook remains favorable, driven in part by an aging population (baby boomers and the growth of the 80-plus population), which is expected to accelerate in the years ahead. Expense pressures (labor shortages/other costs) have largely abated, and we believe highly accretive acquisition opportunities may surface, particularly for Welltower given its cost of capital advantage.
- For our thoughts on Ventas, please see the “Top net purchases” section later in this letter.

Industrial REITs (17.4%)

- **In 2024, we were cautious on business prospects for industrial REITs** due to demand normalization to pre-pandemic levels (elongated corporate decision making), increased supply deliveries in the first half of 2024, moderating rent growth in certain geographic markets, inventory de-stocking, driving less need for warehousing space shorter term, and elevated headline valuations relative to other REIT categories.
- **We also reaffirmed that we are long-term bullish on industrial REITs and indicated that we may become more positive on**

the group at some point in 2025. This positive inflection occurred in the first quarter of 2025 when we re-acquired shares in Prologis, Inc. and EastGroup Properties, Inc. In the second quarter, we acquired shares in Terreno Realty Corporation and further increased our holdings later in 2025.

- We are optimistic about the multi-year prospects for the Fund's industrial REIT holdings, predicated on a compelling multi-year outlook for demand/supply/rent growth, significant embedded growth potential from in-place rents that are generally 20% to 30% below market rents, and several secular demand tailwinds (e-commerce, supply chain logistics, increasing "just-in-time" inventory safety stock, nearshoring/onshoring). For our thoughts on Prologis, please see the "Top contributors" section later in this letter.

Mall REITs (8.0%)

- We remain optimistic about the prospects for mall REITs The Macerich Company and Simon Property Group, Inc. The fundamental backdrop for high-quality mall and outlet real estate remains attractive: (i) tenant demand remains robust; (ii) there is a shortage of desirable retail space (high occupancy and a dearth of new mall developments); (iii) favorable demand/supply imbalance is enabling landlords to raise rents; and (iv) valuations are attractive.
- We remain bullish on the two-to-three-year prospects for the shares of Macerich. We have continued to spend time with CEO Jackson Hsieh, who we believe will create further meaningful long-term value for the company, in part by selling non-core properties, repaying debt, and improving lease terms with tenants.

Data Center REITs (4.9%)

- We maintain conviction in the multi-year favorable prospects for data centers. The Fund maintains positions in Equinix, Inc., Digital Realty Trust, Inc., and GDS Holdings Limited (a non-REIT data center company).
- In the most recent quarter, however, we trimmed the Fund's exposure to data centers due to the mismatch between development expenses and cash flow for certain data centers and other company-specific considerations.
- Long term, we believe data center landlords such as Equinix, Digital Realty, and GDS are benefiting from low vacancy, demand outpacing supply, more constrained power availability, rising rental rates, and significant levels of pre-leasing before capital is spent for larger footprint data centers (had not been the case historically). Several secular demand vectors, which are currently broadening, are contributing to robust fundamentals for data center space globally. They include the outsourcing of information technology infrastructure, increased cloud computing adoption, the ongoing growth in mobile data and internet traffic, and AI as a new wave of data center demand. Put simply, each year data continues to grow exponentially, and all this data needs to be processed, transmitted, and stored—supporting increased demand for data center space. In addition, while it is still early innings, we believe AI could not only provide a source

of incremental demand but also further accelerate existing secular trends by driving increased prioritization and additional investment in digital transformation among enterprises. We are just beginning to see early signs of enterprise AI adoption, which could be further unlocked with costs coming down.

Multi-Family REITs (3.5%)

- In 2025, we were cautious about the prospects for multi-family REITs due to concerns about ongoing modest growth prospects in part due to job loss, decisions by a younger demographic of rents who may choose to live at home with mom/dad or "double up" to rent, and elevated apartment inventory.
- Long term, we remain optimistic about the prospects for multi-family REITs due to the rental affordability advantages versus for-sale housing (move-outs to buy remain at all-time lows), an attractive supply outlook from 2025 to 2027, the benefits of a partial inflation hedge given annual leases, strong rent-to-income ratios from a well-employed renter demographic, and public market valuation discounts relative to private market valuations.

Hotel REITs (3.5%)

- The Fund has maintained a position in Host Hotels & Resorts, Inc., the world's largest lodging REIT. We have a favorable view of the company because it owns and operates a large portfolio of premier hotels in attractive geographic markets that should generate strong growth over time. Management maintains a strong and liquid investment grade balance sheet. We view the company's current valuation as compelling.
- In the most recent quarter, the Fund acquired shares in Sunstone Hotel Investors, Inc., an owner of a \$4 billion portfolio of mostly upper-scale full-service hotels. We will elaborate on the Fund's investment in Sunstone in future shareholder letters.

Wireless Tower REITs (2.9%)

- We remain optimistic about the long-term growth prospects for wireless tower REITs given strong secular growth expectations for mobile data usage, 5G spectrum deployment and network densification (with 6G around the corner), edge computing (possible requirement of mini data centers next to a tower presents an additional revenue opportunity), and growth in connected Internet of Things devices (e.g. homes and cars), which will require more wireless bandwidth usage and continued increased spending by the mobile carriers.
- Following strong share price performance in the first half of 2025 and our expectation that growth may moderate for some of the wireless tower REITs, we trimmed the Fund's allocation to wireless tower REITs. Please see "Top Detractors" for more complete thoughts on American Tower Corporation.

Mortgage REITs (2.3%)

- We have maintained the Fund's holding in Blackstone Mortgage Trust, Inc., a commercial mortgage REIT that is focused on real estate credit investments. We believe the company benefits from several favorable attributes including its sponsorship by

Blackstone Inc., the largest owner of commercial real estate globally, the company's global platform which provides access to a geographically diversified pipeline of real estate credit investment opportunities, and the company's strong and liquid balance sheet. With its close to 10% dividend yield, discounted valuation (less than 1 times book value), and improving business prospects, we believe Blackstone Mortgage Trust is a compelling investment for the Fund.

Timber REITs (2.3%)

- In the most recent quarter, the Fund acquired shares 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. It is also one of the largest manufacturers of wood products such as lumber, OSB, plywood, and other building materials that are used in new housing construction and repair and remodel projects. We believe the shares are historically cheap and stand to benefit from an eventual improvement in the U.S. housing market. Please see "Top net purchases" for additional thoughts on the company.

Self-Storage REITs (2.2%)

- We have been cautious about the prospects for self-storage REITs due to a multi-year period of flat to negative growth. In 2025, we have become moderately more bullish.** Our due diligence suggests that a positive fundamental inflection may be on the horizon and growth may reaccelerate later in 2026 and 2027. Long term, we believe self-storage is a highly attractive business and will elaborate on our views in future shareholder letters.
- Following strong share price performance, the Fund exited its position in **SmartStop Self Storage REIT, Inc.**, a self-storage REIT that owns a portfolio of 171 properties across 22 states and 3 provinces in Canada. On the other hand, we acquired shares in **Extra Space Storage Inc.** Please see "Top net purchases" for our thoughts on Extra Space.

Office REITs (1.9%)

- We have remained selectively bullish on office REITs.** While we are generally cautious on broader office real estate for several years due to both cyclical and secular headwinds that we expected would persist, we have been able to identify certain geographic markets (New York City) and other well-located, high-quality portfolios of modern office properties (New York City and parts of the West Coast) that we believe are poised to gain market share and outperform as market conditions improve. We believe there is a segment of office REITs that trades at a significant discount to both the private market value and the replacement cost of their respective portfolios, while also trading at a meaningful discount relative to certain publicly traded peers. **The Fund maintains a position 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, and **Kilroy Realty Corporation**, a west-coast focused office REIT.

Triple Net REITs (1.4%)

- We remain optimistic about the long-term prospects for triple net REIT Agree Realty Corporation.** Investment merits include its high-quality retail real estate portfolio, the company's investment grade tenant base, a cost of capital advantage to pursue accretive acquisitions, and an opportunity to triple the size of the current portfolio. Agree Realty is a founder-led firm with insider ownership and shareholder interests aligned. We believe Agree Realty could be an outsized beneficiary of a decline in interest rates given its ability to drive earnings growth via accretive acquisitions and the long duration nature of its cash flows.

Single-Family Rental REITs (1.0%)

- We remain long-term bullish on single-family rentals** due to favorable demand/supply prospects, homeownership affordability challenges, and tenants' desire for flexibility afforded with a "mortgage-free" lifestyle. These multi-faceted tailwinds should lead to strong long-term rent growth prospects and the continued ability of landlords to increase rents. We believe valuations are attractive.
- The Fund maintains a modest position in **American Homes 4 Rent**.

Non-REIT Real Estate Companies (25.0%)

- We emphasize REITs but have the flexibility to invest in non-REIT real estate companies. We tend to limit these to no more than approximately 25% of the Fund's net assets. At times, some of our non-REIT real estate holdings may present superior growth, dividend, valuation, and share price appreciation potential than some REITs.
- Current holdings include **Brookfield Corporation**, **Jones Lang LaSalle Incorporated**, **CRH public limited company**, **Wynn Resorts, Limited**, **Blackstone Inc.**, **Toll Brothers, Inc.**, **GDS Holdings Limited**, **Vail Resorts, Inc.**, **Las Vegas Sands Corporation**, **Fortune Brands Innovations, Inc.**, **Wyndham Hotels & Resorts, Inc.**, and **Brookfield Asset Management Ltd.**

Top Contributors and Detractors

Top contributors to performance for the quarter

	Quarter End Market Cap (\$B)	Contribution to Return (%)
Prologis, Inc.	121.2	1.20
Ventas, Inc.	36.3	0.47
Jones Lang LaSalle Incorporated	15.9	0.45
Welltower Inc.	127.4	0.44
Las Vegas Sands Corporation	44.0	0.28

Best-in-class industrial REIT **Prologis, Inc.** contributed positively to performance during the fourth quarter, aided by the company's "beat and raise" third quarter financial report, coupled with

management's robust multi-year business outlook. As we outlined earlier this year in our first quarter shareholder letter, our sense had been that leasing activity had begun to stabilize and was poised to accelerate as the year progressed, which ultimately played out. We also outlined our view that Prologis is a competitively advantaged company with bright multi-year growth prospects, predicated on a favorable multi-year outlook for demand/supply/rent growth, significant embedded growth potential from in-place rents that are generally over 20% below market rents and 40% below replacement rents, several secular demand tailwinds (e-commerce, supply chain logistics, more inventory safety stock, nearshoring/onshoring), and a growing pipeline of lucrative data center development opportunities. We continue to believe the appreciation potential for Prologis' shares remains compelling given the strong runway for future cash flow and earnings growth in the next several years and an undemanding valuation.

In the most recent quarter, the shares of **Ventas, Inc.**, an operator of senior housing, life science, and medical office buildings, increased following strong quarterly business results. Please see "Top net purchases" for our more detailed thoughts on the company.

Leading commercial real estate service company, **Jones Lang LaSalle Incorporated**, contributed positively to performance during the fourth quarter, aided by the company's strong third quarter financial report, coupled with broad-based strength across the business. We expect the company to continue benefiting from structural and secular tailwinds: the outsourcing of commercial real estate, the institutionalization of commercial real estate, and opportunities to increase market share in a highly fragmented market. Looking forward, we continue to believe we are in the early days of a rebound in commercial real estate sales and leasing activity. We believe Jones Lang may generate annual earnings per share growth of mid- to high teens in the next few years, and the company is being valued at a discounted multiple of less than 17 times our estimate for next year's earnings versus 22 times for its closest peer, for comparable growth.

Top detractors from performance for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Contribution to Return (%)
Iron Mountain Incorporated	24.6	(0.78)
American Tower Corporation	82.2	(0.37)
GDS Holdings Limited	7.0	(0.32)
Digital Realty Trust, Inc.	54.1	(0.32)
SmartStop Self Storage REIT, Inc.	2.6	(0.22)

Shares of **Iron Mountain Incorporated**, a company that offers records storage management along with an evolving fast-growing data center segment, detracted from performance during the quarter after the company posted a disappointing quarter of new bookings within its higher growth data center business. In addition, a short report presented at an investor conference questioned the

company's accounting adjustments and overall leverage levels added an overhang for the shares. While we disagree with the short report and believe the company has compelling long-term growth prospects, we harvested losses, exited our position, and reallocated capital to higher conviction ideas. We may revisit the investment later.

Shares of **American Tower Corporation** underperformed during the fourth quarter and lagged REITs broadly. While reported results were strong, growing investor concerns about the contractual commitments of a small customer (DISH) and associated potential churn timing/impacts after EchoStar divested its U.S. spectrum came to the forefront during the quarter. Along with its quarterly release, American Tower disclosed that it received a letter from DISH stating their view that they were absolved from any remaining contractual payments after its spectrum divestiture. American Tower subsequently filed a lawsuit to enforce its contractual rights. While DISH is only 2% of overall revenues, growth will likely be impacted in the near term and it may take some time to reach a final resolution (likely resulting in a "one-time" termination payment).

American Tower is a global owner of 150,000 wireless tower communication sites with a heavy emphasis on developed markets. We acknowledge the market's concern regarding lack of growth clarity for what is typically a highly predictable infrastructure business and the case for the shares to be range-bound for a period. Notwithstanding, American Tower remains attractively valued on an absolute basis and relative to other data infrastructure companies, the company's business is underpinned by the continued secular growth in mobile data, bookings activity is improving, and we believe the company will be able to deliver consistent mid-digit underlying per share organic earnings growth with optionality around capital allocation levers such as share repurchases on top of a growing 4% current dividend yield.

After strong performance in the first nine months of the year, shares of **GDS Holdings Limited**, the leading developer and operator of data centers in China and a fast growing developer and operator of data centers outside of Asia, lagged in the fourth quarter as investors digested the potential timing of the step-up in new business bookings and the associated capital investment required. We continue to see increasing evidence of the AI wave on the cusp of a step-change and further progress being made toward the loosening of chip supply in China that previously hindered data center leasing volumes. We remain long-term bullish on the company due to its undemanding valuation level, blue-chip customer base, valuable capacity in tier-1 markets and imbedded value in its international business demonstrated via private capital raises backed by highly regarded investors.

Recent Activity

Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Ventas, Inc.	36.3	9.0
Extra Space Storage Inc.	27.6	6.2
Weyerhaeuser Company	17.1	5.7
Sunstone Hotel Investors, Inc.	1.7	4.3
Fortune Brands Innovations, Inc.	6.0	3.2

We added to our senior housing investment theme by purchasing additional shares of **Ventas, Inc.** Ventas is an operator of senior housing, life science, and medical office buildings. We have been encouraged by the company's continued robust fundamental results, growing investment momentum in its external growth pipeline (expected at over \$2.5 billion for the year) and increasing openness to shedding slower growth assets to redeploy proceeds into higher growth areas.

As outlined in prior letters, we continue to be optimistic about the prospects for both cyclical and secular growth in senior housing demand against a backdrop of muted supply that will lead to several years of favorable growth. Among senior housing operators, we believe shares of Ventas remain attractively valued given our expectation of approximately 10% underlying per share growth, the company's increasing mix of senior housing operating assets (currently at approximately 50% of cash flow), its declining leverage levels, and the company's ability to capitalize on a robust external growth opportunity.

During the quarter, we reacquired shares in best-in-class self-storage REIT **Extra Space Storage Inc.**, which owns or operates a portfolio of over 4,200 properties in the U.S., with 14% total market share by square footage. We have been cautious about the prospects for self-storage REITs due to a multi-year period of flat to negative growth, but more recently we have become incrementally bullish as our due diligence suggests that a positive fundamental inflection may be on the horizon and growth may begin to reaccelerate in 2026 as demand and rents stabilize while supply deliveries decline.

We are optimistic about our investment in Extra Space for several reasons:

1. Potential growth inflection on the horizon. In addition to benefitting from a potential improvement for the broader self-storage industry, Extra Space may see a more pronounced growth inflection as the company laps several discrete headwinds that weighed on 2025 performance, coupled with ongoing accretive capital allocation towards acquisitions and bridge lending opportunities.
2. We view self-storage as an attractive real estate business over the long-term owing to less cyclical demand (a portion is nondiscretionary), strong pricing power on in-place customers (high hassle cost to switch versus low monthly financial cost), and low capital intensity.

3. Large institutional owners such as Extra Space have powerful competitive scale advantages that lead to higher occupancy and rents relative to smaller players. The scale advantages stem from data analytics, technology investments, revenue management systems, and access to capital. We anticipate these advantages will strengthen in the future from the rapid development and adoption of AI tools and analytics that are getting applied across many facets of the self-storage business.
4. Extra Space has a proven management team, led by veteran CEO Joe Margolis.
5. Attractive valuation. We view valuation as attractive, with the stock trading at a capitalization rate of over 6% (on depressed cash flow) versus private market values in the low 5% range.

While we recognize that uncertain business conditions could continue to weigh on shares of Extra Space in the near term, we are excited about the company's attractive medium-term growth prospects and depressed valuation. We see potential for significant share price appreciation in the coming years, driven by growth and potential multiple expansion.

During the quarter, the Fund acquired shares 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. It is also one of the largest manufacturers of wood products such as lumber, OSB, plywood, and other building materials that are used in new housing construction and repair and remodel projects. The company is currently trading at an approximate 40% discount to net asset value, which is well above its mid-teens historical average and near all-time peak levels. We believe that the shares of Weyerhaeuser have become irrationally cheap and that support from recent lumber capacity curtailments, upward pricing momentum for lumber (from now-implemented Canadian duties and tariffs) and government housing initiatives should help bring the valuation back towards historical levels over time. Additionally, further support from an eventual pickup in new housing construction and repair and remodel activity could drive share price gains over the medium-to-long term.

Top net sales for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Net Amount Sold (\$M)
American Tower Corporation	82.2	9.3
Iron Mountain Incorporated	24.6	8.4
Vornado Realty Trust	6.8	5.0
VICI Properties Inc.	33.1	4.9
Invitation Homes Inc.	16.9	4.8

During the quarter, we exited the Fund's position in **Vornado Realty Trust**, an owner and developer of premier office and street retail properties concentrated in New York City and reallocated the capital to real estate companies that we believe have superior near-term growth. We remain optimistic about the long-term prospects

for Vornado and may revisit the company in the future. As noted earlier in this letter, we also exited **Iron Mountain Incorporated**.

We trimmed the Fund's positions in **American Tower Corporation** but maintain an ownership position in the company and may look for an opportunity to increase the Fund's position later.

Concluding Thoughts on the Prospects for Real Estate and the Fund

We recognize that in the months ahead there may be choppy periods in the market, yet we remain directionally positive and *believe there are valid reasons for optimism for the stock market, public real estate, and the Baron Real Estate Income Fund*.

Stock Market Outlook

We remain optimistic about the prospects for the stock market in 2026. Our research leads us to believe that economic conditions, which are broadly steady, may experience an acceleration in growth due to a series of potential tailwinds that include: lower trade uncertainty, lower taxes, depreciation benefits that will allow businesses to deduct capital expenditures such as investments in equipment and research and development, deregulation and the likelihood of further mergers & acquisition activity, a Federal Reserve that may continue to ease financial conditions, likely steps by the new administration to address the logjam in the housing market, and AI productivity gains that may lead to lower inflation (due to fewer jobs), lower long-term interest rates, and an expansion in profitability 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 much of real estate to perform well in the year ahead. As detailed earlier in this letter, demand conditions for most segments of real estate are steady with expectations for an improvement in growth in the next few years. New competitive supply has collapsed – in many cases down more than 50% from peak levels in 2022. We believe this important point is not appreciated. Growth is poised to rebound faster than in prior cycles because real estate is not burdened with excess supply at low occupancy levels. Real estate shares have lagged, and valuations have reset for a higher cost of capital. Public real estate, in most cases, is attractively valued relative to private real estate. We believe private equity is likely to accelerate acquisitions of public real estate companies given the discounted valuations of several public real estate shares. Balance sheets and credit markets are strong. Lower shelter inflation and AI productivity gains may lead to lower long-term interest rates. This possibility would, of course, be a powerful catalyst for real estate. We believe a favorable combination of cash flow growth, dividends, and the prospects for an improvement in public real estate valuations may 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 continue to believe our approach to embracing and structuring a more expansive and diversified real estate income fund where we invest primarily in REITs (typically 75% to 80% of net assets) but also have the optionality to invest 20% to 25% in on-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. Some companies will experience an acceleration in tailwinds and others are likely to face ongoing headwinds. We believe we have constructed a portfolio that is populated with competitively advantaged real estate companies that generally are expected to grow faster than the real estate peer group. Valuations and return prospects are attractive.

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

Top 10 holdings

	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percentage of Net Assets (%)
Prologis, Inc.	121.2	27.8	10.8
Welltower Inc.	127.4	26.4	10.2
Ventas, Inc.	36.3	18.1	7.0
Simon Property Group, Inc.	60.4	11.3	4.3
Brookfield Corporation	113.7	10.4	4.0
Jones Lang LaSalle Incorporated	15.9	10.2	4.0
EastGroup Properties, Inc.	9.5	10.1	3.9
The Macerich Company	4.7	9.4	3.7
Equinix, Inc.	75.2	9.4	3.6
American Tower Corporation	82.2	7.6	2.9

Our Core Real Estate Team

A big shout out of appreciation and admiration for our core real estate team - assistant portfolio manager, David Kirshenbaum, senior analyst, George Taras, and David Berk. David, George, and David are outstanding. Their commitment to our real estate business and strong work ethic are impressive. They are smart and driven to deliver excellent results. Each of them has developed a deep knowledge of real estate. And, on a personal note, they are fabulous people.

I, and our team, remain fully committed and energized to continue to deliver outstanding long-term results.

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

Sincerely,



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.

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.

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