



QUARTERLY LETTER | JUNE 30, 2025

# Baron Real Estate Income Fund<sup>®</sup>

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

Dear Baron Real Estate Income Fund Shareholder,

## Performance

Baron Real Estate Income Fund<sup>®</sup> (the Fund) modestly decreased 0.23% (Institutional Shares) in the second quarter of 2025, outperforming the MSCI US REIT Index (the REIT Index), which declined 1.46%.

Since inception on December 29, 2017 through June 30, 2025, the Fund's cumulative return of 87.02% was more than double that of the REIT Index, which increased 35.45%.

We are pleased to report that as of June 30, 2025, according to Morningstar, the Fund's achievements are as follows:

- **Top 7% and top 6% for the Fund's trailing 3- and 5-year performance periods**, respectively
- **Highest 5-Star Morningstar Rating<sup>™</sup>** for each of its 5- and 3-year performance periods
- **Highest 5-Star Overall Morningstar Rating<sup>™</sup>**
- **#4 ranked real estate fund since the Fund's inception** on December 29, 2017



Jeff Kolitch  
Portfolio Manager

## Annualized performance (%) for period ended June 30, 2025

	Fund Retail Shares <sup>1,2</sup>	Fund Institutional Shares <sup>1,2</sup>	MSCI US REIT Index <sup>1</sup>	S&P 500 Index <sup>1</sup>
3 Months <sup>3</sup>	(0.23)	(0.23)	(1.46)	10.94
6 Months <sup>3</sup>	(1.34)	(1.20)	(0.71)	6.20
1 Year	15.65	15.94	7.62	15.16
3 Years	6.77	7.04	4.09	19.71
5 Years	9.04	9.32	7.38	16.64
Since Inception (12/29/2017)	8.47	8.71	4.13	13.76
Since Inception (12/29/2017) (Cumulative) <sup>3</sup>	83.99	87.02	35.45	163.06

As of 6/30/2025, the Morningstar Real Estate Category consisted of 217, 210, 193, and 192 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 4<sup>th</sup>, 7<sup>th</sup>, 6<sup>th</sup>, and 2<sup>nd</sup> 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 6<sup>th</sup>, 13<sup>th</sup>, 9<sup>th</sup>, and 4<sup>th</sup> 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.

The Morningstar Ratings<sup>™</sup> are for the Institutional share class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

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, 2035, 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](http://BaronCapitalGroup.com) or call 1-800-99-BARON.

The Fund's historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

Notably, the only real estate fund that is 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.

Recently, Baron Capital prepared a video explaining how our real estate team manages the Fund and commemorating the Fund's multi-year track record of outperformance. The title of the video is "Baron Real Estate Income: More than a REIT Fund." We encourage you to review the video which can be found on the Baron website at [baroncapitalgroup.com](http://baroncapitalgroup.com) in the Baron Real Estate Income Fund section.

## 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

## Our Current Top-of-Mind Thoughts

### OUR BOTTOM-LINE VIEW:

We remain optimistic about the prospects for real estate and the Fund. Two key reasons for our enthusiasm are:

1. Real estate has been repriced for a higher cost of capital, and a large portion of public real estate is now attractively valued at significant discounts to replacement cost and other public valuation metrics.
2. We expect an improvement in real estate demand prospects against a backdrop of muted new construction activity which should bode well for real estate cash flow growth in the next few years.

More on the above and additional reasons that support our constructive outlook are as follows:

### 1. We believe real estate concerns are largely reflected in share prices

For some investors, ongoing real estate concerns – e.g., higher interest rates, credit impairment risks, housing affordability headwinds, consumer concerns, and depressed real estate transaction activity – have resulted in a wait-and-see mode before increasing allocations to real estate.

Our view is that a large portion of the real estate concerns are “old news,” some of which are exaggerated and hyperbole, and have resulted in an unusually appealing opportunity to invest in public real estate at attractive valuations. If one waits for the all-clear signal, there is a reasonable chance one will miss a good portion of the return potential for real estate stocks.

In our opinion, investment prospects for real estate are compelling over the next one to three years with strong upside potential relative to a more modest downside likelihood.

## 2. The investment case for real estate is compelling

- Demand conditions are mostly favorable against a backdrop of muted new real estate supply.
  - Demand: Cyclical growth opportunities for well-located real estate and secular real estate tailwinds (e-commerce for industrial real estate, affordability advantages for residential-related rental companies, aging baby boomers for senior housing, increased spending on travel, rising data consumption and artificial intelligence for data centers) are underappreciated in our opinion.
  - Supply: The competitive supply outlook is broadly benign, due to modest new construction in the last three years and limited new supply forecasted for the next three years. The higher costs for land, labor, and construction materials combined with elevated borrowing costs for developers have served as constraints on new competitive construction. In many cases, it is more economical to buy assets today that often trade at discounts to replacement cost rather than to build at current cost levels.
- Balance sheets are generally in solid shape and use significantly less leverage than the private market.
- Debt capital is widely available, and credit spreads have compressed for high quality borrowers.
- Substantial capital (private equity, sovereign wealth funds, pension funds, and others) is in pursuit of real estate ownership and may step in and capitalize on the opportunity to buy quality real estate at depressed prices. This “embedded put” should limit downside valuation and pricing.
- Much of public real estate has been repriced for a higher cost of capital and many real estate valuations are compelling. See below.

## 3. Several real estate valuations are cheap relative to replacement costs, historical public valuations, and future growth prospects

Replacement cost refers to the price that it would cost to replace an existing asset with a similar asset at the current market price. Currently, there is an unusually favorable opportunity to acquire real estate shares at significant discounts to replacement cost in desirable geographic markets (strong demand prospects with limited new construction). Examples include hotel, office, multi-family, single-family rental, and mall companies.

Buying real estate below replacement cost offers several benefits:

- Constrained supply: If a real estate property or company is purchased below replacement cost in a geographic market with compelling long-term demand/supply prospects, it may become a strong investment because it will be more expensive for competitors to build similar properties because they will face higher construction costs.
- Flexibility in pricing: Lower rents can be charged versus newly built real estate which may make one's real estate property more competitive in the rental market. Even better, landlords may have room to increase rents to a higher level before the higher rents justify new construction.

- **Potential to increase the real estate value:** With a lower cost basis, you have more flexibility to enhance the property through capital expenditure improvements and strong management, thus increasing its value.
- **Downside protection:** Buying below replacement cost provides financial flexibility against a market correction in property values.
- **Higher return on investment:** Buying below replacement cost can lead to a higher potential return on investment.

In addition to the opportunity to acquire several real estate shares below replacement cost, the valuations of several REIT and non-REIT real estate companies are cheap relative to other historical public market valuation metrics and future growth prospects. For examples of best-in-class real estate companies that are attractively valued, please see “Examples of best-in-class real estate companies that are attractively valued” in our March 31, 2025, shareholder letter.

#### 4. We continue to identify compelling opportunities in several REIT and non-REIT real estate companies

Please see “Portfolio Composition” later in this letter for additional thoughts on the Fund’s investments.

#### 5. We believe the Baron Real Estate Income Fund is a compelling mutual fund option

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 (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-related 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.

### Portfolio Composition

As of June 30, 2025, we invested the Fund’s net assets as follows: REITs (81.9%), non-REIT real estate companies (15.4%), and cash and cash equivalents (2.7%). 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	81.9
Health Care REITs	13.6
Industrial REITs	12.7
Data Center REITs	10.0
Wireless Tower REITs	9.9
Multi-Family REITs	6.7
Mall REITs	5.8
Office REITs	5.1
Single-Family Rental REITs	3.6
Self-Storage REITs	3.6
Triple Net REITs	3.5

#### Fund investments in REIT categories

	Percent of Net Assets (%)
REITs (continued)	
Other REITs	3.0
Hotel REITs	2.5
Mortgage REITs	1.9
Non-REITs	15.4
Cash and Cash Equivalents	2.7
<b>Total</b>	<b>100.0*</b>

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

### Summary REIT and Non-REIT Category Commentary

#### Health Care REITs (13.6%)

- 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.

#### Industrial REITs (12.7%)

- In 2024, we were cautious on business prospects for industrial REITs due to demand normalization to pre-pandemic levels (elongated corporate decision making), elevated 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 pricey 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 when we re-acquired shares in Prologis, Inc. and EastGroup Properties, Inc. In the most recent quarter, we acquired shares in Terreno Realty Corporation.
- For our recent thoughts on Prologis, please see “Top detractors” later in this letter.

#### Data Center REITs (10.0%)

- Following disappointing share price performance in the first quarter of 2025, we increased the Fund’s allocation to data center REITs Equinix, Inc. and Digital Realty Trust, Inc.
- We maintain conviction in the multi-year favorable prospects for data centers. Data center landlords such as Equinix and Digital Realty are benefiting from record 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.

- Please see “Top net purchases” for our more complete thoughts on Equinix.

## Wireless Tower REITs (9.9%)

- **We had been tactically cautious on wireless tower REITs beginning in late 2022, 2023, and for much of 2024** given our expectation of forthcoming headwinds that would weigh on bottom-line earnings growth while the stocks were still trading at premium valuation levels and market expectations remained elevated. We concluded the risk/reward setup was poor and exited the stocks despite having a favorable outlook on the underlying tower business models and returns on capital the companies can generate. These unfavorable developments materialized, and growth fell sharply. Headwinds included significantly higher financing costs for upcoming debt maturities, dampened growth in certain geographic markets, foreign exchange instability, and a reduction in mobile carrier activity from elevated levels after the initial 5G spectrum deployment period.
- **We have maintained our long-term optimism for tower companies, particularly American Tower Corporation, and indicated that we may reacquire wireless tower shares should valuations become more attractive given the compelling long-term secular growth prospects.** In 2025, we reacquired shares in American Tower and acquired shares in SBA Communications Corp.

## Multi-Family REITs (6.7%)

- **We remain optimistic** due to the rental affordability advantages versus for-sale housing (move-outs to buy remain at all-time lows), an attractive supply outlook in 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.

## Mall REITs (5.8%)

- **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 favorable: (i) tenant demand remains robust; (ii) there is a shortage of desirable retail space (occupancy is high and there is a dearth of new mall developments); (iii) the favorable demand/supply imbalance is enabling landlords to raise rents; and (iv) valuations are attractive.
- We continue to be optimistic about the two-to-three-year prospects for the shares of Macerich following the appointment of highly regarded CEO Jackson Hsieh who came in as an outsider and is taking a highly analytical review of the company’s real estate portfolio with “fresh eyes.” We believe he will unlock significant “hidden value” in the company by selling non-core properties and repaying debt.

## Office REITs (5.1%)

- We are **selectively bullish on office REITs**. While we have remained 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 is trading 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 New York-centric office REIT Vornado Realty Trust and remains optimistic about the company’s long-term prospects.**
- **In the second quarter, we began acquiring 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. We believe the company’s growth prospects are likely to accelerate in 2026 and its valuation is compelling relative to replacement cost and private market valuations.

## Single-Family Rental REITs (3.6%)

- **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.



**Self-Storage REITs (3.6%)**

- We have been cautious about self-storage REITs due to a two-year period of flat to negative growth. In 2025, we have become incrementally bullish on self-storage REITs. Our due diligence suggests that a positive fundamental inflection may be on the horizon for self-storage REITs and growth may reaccelerate in 2026. Long-term, we believe self-storage is a highly attractive business and will elaborate on our views in future shareholder letters.
- In the second quarter, the Fund acquired shares 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. Please see the “Top net purchases” section later in this letter for an explanation of why we are excited about our investment in the company.

**Triple Net REITs (3.5%)**

- 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 and tenant base, the company’s investment grade portfolio, 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.
- We recently acquired shares in **VICI Properties Inc.**, a triple net lease REIT that owns one of the largest high-quality portfolios of gaming, hospitality, wellness, and entertainment destinations. We will elaborate on the Fund’s investment in VICI in future shareholder letters.

**Other REITs (3.0%)**

- In the second quarter, we acquired shares of **Iron Mountain Incorporated** at what we believe was a compelling valuation level. Iron Mountain offers records storage management along with an evolving fast-growing data center segment. We have met with CFO Barry Hytinen and remain encouraged by the company’s prospects to grow overall cash flow by approximately 10% and by high single digits on a per share basis 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 the triple operational capacity from today’s in-place base.

**Hotel REITs (2.5%)**

- In the most recent quarter, we acquired shares 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.

**Mortgage REITs (1.9%)**

- Following encouraging meetings with the management team of **Blackstone Mortgage Trust, Inc.**, we have continued to acquire shares in this commercial mortgage REIT that is focused on real estate credit investments in North America and Europe. 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 global pipeline of real estate credit, and the company’s strong and liquid balance sheet. We will elaborate on the Fund’s investment in Blackstone Mortgage Trust in future shareholder letters.

**Non-REIT Real Estate Companies (15.4%)**

- 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.

**Top Contributors and Detractors****Top contributors to performance for the quarter**

	Quarter End Market Cap (\$B)	Contribution to Return (%)
Brookfield Corporation	102.1	0.60
SmartStop Self Storage REIT, Inc.	2.0	0.56
Wynn Resorts, Limited	9.8	0.41
American Healthcare REIT, Inc.	5.9	0.39
Digital Realty Trust, Inc.	59.9	0.39

**Brookfield Corporation** is a leading global owner and operator of real assets such as real estate and infrastructure. We believe the company’s global reach, large scale capital, and the synergies among its businesses provide significant opportunities for growth. While shares performed well in the quarter, we continue to believe the company offers significant value at a recent share price of \$62. Brookfield’s management team, who in our opinion is credible and conservative, believes the company is worth \$100 per share today and \$176 in five years. Brookfield has investments in publicly traded and private real estate-related businesses. Brookfield’s ownership interests in four publicly listed Brookfield companies (Brookfield Asset Management, Brookfield Infrastructure Partners, Brookfield Renewable, and Brookfield Business Partners) are currently valued in the public market at \$52 per share or almost the same price as the share price for the entire company. The public market is currently ascribing little value to Brookfield’s non-public investments, insurance business and carried interest, which we believe are also worth at least \$25 per share (net of debt) today and offer significant further upside through growth.

The share price of **SmartStop Self Storage REIT, Inc.** appreciated during the quarter. We would characterize the second quarter (the first quarter as a public company) as “the company is executing as it said it would.” Specifically, the company saw improving operating metrics, reported outsized earnings growth, and announced several tuck-in acquisitions, all of which helped the company’s valuation multiple expand to levels closer to those of its self-storage public peers. Please see the “Top net purchases” section of the shareholder letter for more detail on our investment thesis for SmartStop.

**Wynn Resorts, Limited** is the pre-eminent luxury global owner and operator of integrated resorts (hotels and casino resorts). The company has developed “best-in-class” real estate assets in Las Vegas (Wynn and Encore), Boston (Encore Boston Harbor), and Macau (Wynn Macau and Wynn Palace). The company continues to invest in its hotel and casino assets to maintain its lead in each market.

We are also bullish on the prospects for the company’s newest development - the Wynn Al Marjan Island in the UAE (expected to open early in 2027). We believe the UAE is the most exciting new market for integrated resort developments in decades.

We believe the valuation of Wynn remains compelling and reflects limited growth in Las Vegas, Macau, and Boston, and largely ignores the growth that we expect from its UAE development.

Wynn’s management agrees that its shares are highly discounted as they have been allocating incremental capital toward share repurchases. In addition, Tilman Fertitta, a highly successful hotel, casino, and entertainment executive, has acquired more than \$1 billion of Wynn shares (including \$150 million in his most recent March 2025 purchase) and is now the largest shareholder of Wynn with a 12% stake in the company.

## Top detractors from performance for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Contribution to Return (%)
Independence Realty Trust, Inc.	4.1	(0.69)
Prologis, Inc.	99.8	(0.50)
Weyerhaeuser Company	18.5	(0.44)
Ventas, Inc.	28.5	(0.35)
Equinix, Inc.	77.8	(0.29)

**Independence Realty Trust, Inc. (IRT)** was a detractor during the quarter due to economic concerns of tariff policies impacting lower income consumers, softer-than-expected pricing power on new leases, and mixed investor reception of the company’s select acquisitions. IRT owns 33,000 apartment units that cater to a more affordable income demographic. We believe the return prospects for the stock continue to be attractive given the company’s discounted public market valuation relative to both recent private market transactions and publicly traded peers that have communities in overlapping markets, its “value-add” program that provides enhanced growth prospects versus peers, abating supply deliveries

in its markets that should enhance pricing power and its superior management team.

The shares of **Prologis, Inc.**, a best-in-class industrial REIT, underperformed in the second quarter due to a somewhat slower leasing environment (following a robust first quarter) as many companies paused lease decision making while awaiting more clarity on global tariffs and trade policies. Our sense is that leasing activity has still improved from the beginning of the year and that significant pent-up demand could be unleashed as business confidence improves.

We recently had the pleasure of hosting CEO Hamid Moghadam for a meeting in our office, and we were left with the following takeaways:

1. A reminder that Prologis benefits from a high-quality real estate portfolio, an unmatched global platform, strong competitive advantages (scale, data, and technology), and an exceptional management team.
2. Hamid remains optimistic about the multi-year prospects for Prologis, predicated on a compelling multi-year outlook for demand/supply/rent growth, significant embedded growth potential from in-place rents that are generally 30% below market rents, and several secular demand tailwinds (e-commerce, supply chain logistics, more inventory safety stock, nearshoring/onshoring).
3. Hamid expects that Prologis’s recent foray into select data center development (that carry high risk-adjusted returns on already owned land) will likely become an increasingly accretive source of growth in the coming years.

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 a more favorable valuation multiple following a recent correct in share price.

During the quarter, we decided to exit our position in **Weyerhaeuser Company**. While shares have continued to trade at a significant discount to NAV, a softer-than-expected residential housing market this year resulted in a weak demand environment, which ultimately weighed on lumber and other wood products prices. As we wrote in our prior quarterly letter, Weyerhaeuser typically tracks the price of lumber, so soft demand and lower wood products prices can have a negative impact on the business and on the stock. We plan to continue monitoring the business and will potentially re-engage at the appropriate time.

## Recent Activity

### Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Equinix, Inc.	77.8	10.7
SmartStop Self Storage REIT, Inc.	2.0	7.5
Iron Mountain Incorporated	30.3	6.5
Host Hotels & Resorts, Inc.	10.7	5.6
BXP, Inc.	10.7	5.2

In the most recent quarter, we purchased additional shares in **Equinix, Inc.**, the premier global operator of 270 network-dense, carrier-neutral colocation data centers with operations across 36 countries and 6 continents. We acquired shares at what we believed were compelling valuation levels. Shares retrenched, however, in the last few days of the quarter due to the company outlining incremental capital investments at its bi-annual Investor Day that will depress near-term growth but pay dividends longer term.

Though we are encouraged by the expanding growth drivers for Equinix, management's updated five-year earnings growth outlook was below investor expectations. While top-line growth is encouraging, the company is ramping up capital investments over the next several years, which will dampen per share cash flow growth over the next two years, in particular. This led to a material initial sell-off in the shares. While the near-term growth prospects are disappointing and below our expectations as well, we believe the company is taking the right steps to position the business for higher growth ahead. Given Equinix needs to bring on new data center facilities to fulfill the demand signals they are seeing from customers, there is an initial drag on earnings while the data center is built and then stabilized. We bucket our current view of Equinix in the Baron investment framework where the company is taking "short-term pain for long-term gain." Equinix has built a highly valuable inter-connected ecosystem and thus enjoys premium pricing and outsized returns on capital. Furthermore, the balance sheet remains well positioned to fund this investment with ample debt capacity and no need for external equity.

During the quarter, we participated in the IPO of **SmartStop Self Storage REIT, Inc.**, a self-storage REIT that owns a portfolio of 171 properties across 22 states and 3 provinces in Canada. We had been closely following and meeting with the company over the last several years and most recently had spent time with members of the leadership team while touring properties in Canada. We are excited about our investment in SmartStop for several reasons:

1. We view self-storage as an attractive real estate business over the long term owing to less cyclical demand (a portion is non-discretionary), strong pricing power on in-place customers (high hassle cost to switch versus low monthly financial cost), and low capital intensity.
2. Large institutional owners have 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.
3. SmartStop is poised to benefit from outsized growth potential over the next several years, driven by several factors:
  - First, the company generates approximately 15% of cash flow from the Greater Toronto Area, where growth is expected to continue to outpace that of the U.S. owing to strong population growth and growing adoption of self storage.
  - Second, the company has aspirations to be acquisitive going forward, which could be needle-moving given the company's relatively smaller asset base versus public peers. The company

can acquire using its balance sheet or through managed funds (through which SmartStop will also earn fees).

- Third, the company has an active development pipeline in Canada through a joint venture with SmartCentres, one of the largest Toronto-listed REITs.

4. SmartStop has a proven management team, led by veteran CEO Michael Schwartz, who has aligned interests through his 5% ownership stake in the company.

At the IPO price of \$30 per share, we believed we were acquiring shares at a nearly 30% discount to management's estimated net asset value of \$42.

After exiting our position and harvesting tax losses in the first quarter of 2025, we noted that we may revisit the Fund's investment in **Iron Mountain Incorporated**. In the second quarter, we re-acquired shares, at more compelling valuation levels. As a reminder, Iron Mountain offers records storage management along with an evolving fast-growing data center segment. We have continued to meet with CFO Barry Hytinen and remain encouraged by the company's prospects to grow overall cash flow by approximately 10% and by high single digits on a per share basis 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.

#### Top net sales for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Net Amount Sold (\$M)
Weyerhaeuser Company	18.5	6.0
AvalonBay Communities, Inc.	29.3	5.7
Crown Castle Inc.	43.7	5.5
Independence Realty Trust, Inc.	4.1	5.4
American Homes 4 Rent	13.4	4.6

As noted earlier in this letter, we exited our position in **Weyerhaeuser Company** and reallocated the capital to what we believe are higher return prospects. We plan to continue monitoring the business and will potentially re-engage at the appropriate time.

We exited **AvalonBay Communities, Inc.** during the second quarter due to less favorable economics for development along with near-term dilutive portfolio reshaping and modest growth prospects. We reallocated capital to higher conviction investment ideas.

During the quarter, we exited our position in **Crown Castle Inc.** given continued executive turnover, its elongated sale process for its fiber and small cell businesses, and the company's lower growth profile. We elected to consolidate our tower exposure into leading blue-chip player **American Tower Corporation**.

## Concluding Thoughts on the Prospects for Real Estate and the Fund

We remain optimistic about the prospects for the equity market, real estate, and the Fund.

It appears that several tailwinds are emerging that could propel equities higher including: currently modest economic growth which we believe could accelerate in the next few years due to less regulation, lower taxes, less onerous tariffs than feared initially, a pro-growth reconsolidation bill, possible interest rate cuts, the AI super cycle which could lead to an acceleration in revenues, an improvement in margins via cost-cutting, and faster earnings growth for several companies, and the possibility of a pickup in mergers, acquisitions, and initial public offerings.

We also believe we have developed the right real estate product and investment process for long-term success. In our opinion, the merits of our dividend-yield focused REIT and non-REIT real estate approach to investing in real estate, and our more comprehensive, flexible, liquid, and actively managed investment approach will shine even brighter in the years ahead because investing in real estate requires more discerning analysis (there are more “winners” and “losers”) than in the past. We continue to believe that our highly differentiated real estate fund enjoys, in our opinion, attractive attributes compared to actively managed REIT funds, passive/ETF real estate funds, non-traded REITs, and private real estate.

Our team’s investment process remains thorough. We employ an investment process checklist that we utilize for all investments that includes meeting with management, touring the real estate, crafting an investment memo, building financial models, speaking to competitors, speaking to tenants, and many other diligence items. We speak to a broad swath of real estate companies – both owned and not owned – in some cases a few times each quarter to make sure our research remains current. We believe our corporate relationships, access to management, and our real estate research are critical elements that contribute to competitive advantages for our real estate team versus many of our peers.

Currently, we believe we have assembled a portfolio of best-in-class competitively advantaged real estate companies with compelling long-term growth and share price appreciation potential.

I would like to thank our fabulous core real estate team – assistant portfolio manager David Kirshenbaum, George Taras, David Baron, and David Berk – for their outstanding work, dedication, drive to succeed, and partnership.

### Top 10 holdings

	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percentage of Net Assets (%)
Welltower Inc.	100.5	22.0	9.2
American Tower Corporation	103.5	21.6	9.0
Equinix, Inc.	77.8	16.6	6.9
Prologis, Inc.	99.8	16.1	6.7
Simon Property Group, Inc.	52.5	9.6	4.0
EastGroup Properties, Inc.	8.8	9.4	3.9
Brookfield Corporation	102.1	9.0	3.8
SmartStop Self Storage REIT, Inc.	2.0	8.7	3.6
Digital Realty Trust, Inc.	59.9	7.5	3.1
Vornado Realty Trust	7.3	7.3	3.1

I would also like to thank you, our current and prospective shareholders, and express heartfelt gratitude for your past and continuing support.

Our real estate team remains focused and energized to continue to deliver strong results for you, our shareholders, over the long term.

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

Sincerely,



Jeffrey Kolitch  
Portfolio Manager



<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Not annualized.

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**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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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.

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