## Dear Baron Real Estate Fund Shareholder:

### Performance

Baron Real Estate Fund® (the Fund) increased 7.07% (Institutional Shares) in the first quarter of 2023, outperforming the MSCI US REIT Index (the REIT Index), which increased 2.39%, and the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which increased 4.73%.

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

- **#1 real estate fund ranking for each of its 10-year, 5-year, and 3-year performance periods**
- **5-Star Morningstar Rating™ for each of its 10-year, 5-year, and 3-year performance periods**
- **5-Star Overall Morningstar Rating™**

**We will address the following topics in this letter:**

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

**Our bottom-line message:**

- Though we are mindful of key risks to the equity and real estate market outlook, we remain optimistic about the near-term and long-term prospects for public real estate.

JEFFREY KOLITCH

PORTFOLIO MANAGER

Retail Shares: BREFX
Institutional Shares: BREIX
R6 Shares: BREUX

- We believe there is a strong case to include an allocation to an actively managed public real estate strategy with a strong long-term track record in a diversified investment portfolio.
- We believe the Baron Real Estate Fund – with the demonstrated merits of our broader, more flexible, and actively managed investment approach – is a compelling real estate mutual fund choice.

**As of 3/31/2023, the Morningstar Ratings™ were based on 233, 209, 153, and 233 share classes for the 3-year, 5-year, 10-year, and Overall periods, respectively. The Baron Real Estate Fund received 5 stars for each period. The Morningstar Ratings are for the Institutional Share Class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.**

**As of 3/31/2023, the Morningstar Real Estate Category consisted of 257, 233, 209, and 153 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 6th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 14th, 2nd, 2nd, and 1st best performing share class in its Category, for the 1-, 3-, 5-, and 10-year periods, respectively.**

**As of 3/31/2023, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 6th, 1st, and 1st percentiles, for the 1-, 3-, and 5-year periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 14th, 1st, and 1st best performing share class in its Category for the 1-, 3-, and 5-year periods, respectively.**

**Morningstar calculates the Morningstar Real Estate Category Average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.**

The **Morningstar Rating™** for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10- year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.



BARON FUNDS® 1987

# Baron Real Estate Fund

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

| | Baron Real Estate Fund Retail Shares[1,2] | Baron Real Estate Fund Institutional Shares[1,2] | MSCI USA IMI Extended Real Estate Index[1] | MSCI US REIT Index[1] |
|---|---|---|---|---|
| Three Months[3] | 7.00% | 7.07% | 4.73% | 2.39% |
| One Year | (14.38)% | (14.15)% | (10.34)% | (20.17)% |
| Three Years | 19.40% | 19.71% | 16.81% | 10.76% |
| Five Years | 10.07% | 10.35% | 6.85% | 4.79% |
| Ten Years | 9.37% | 9.66% | 8.00% | 4.66% |
| Since Inception (December 31, 2009) (Annualized) | 12.98% | 13.26% | 10.38% | 7.79% |
| Since Inception (December 31, 2009) (Cumulative)[3] | 403.69% | 420.84% | 270.02% | 170.17% |

## Our Current Top-of-Mind Thoughts

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

**We remain optimistic about the prospects for the stock market, public real estate securities, and the Baron Real Estate Fund.**

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

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

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

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

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

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

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

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

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

**The valuations of several real estate companies are cheap.**

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

- A good portion of public real estate – including both REITs and non-REIT real estate-related companies – is attractively valued relative to historical averages.

*Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2022 was 1.33% and 1.07%, 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 may reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2033, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.*

1 The **MSCI USA IMI Extended Real Estate Index** is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The **MSCI US REIT Index** is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2 The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

3 Not annualized.

- Public real estate securities are currently highly discounted relative to private real estate alternatives.

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

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

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

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

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

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

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

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

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

## Is a Commercial Real Estate Crisis on the Horizon?

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

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

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

**Near-term bank credit and commercial real estate outlook**

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

- A tightening of bank credit conditions

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

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

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

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

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

- A moderation in commercial real estate growth

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

**A comparison of current conditions versus the GFC**

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

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

"It's a lot different. In 2008, you had bad assets and people did not know if the assets were very valuable or valueless. It turned out to be more valueless than valuable. Here you have the best assets in the world in most cases – sound mortgages and U.S. Government debt, best credits in the world – but it's obviously a duration problem. The problem is not as widespread. The banking system is in much better shape than it was before. Much more highly capitalized. Does not involve the biggest banks. Which, of course, was much more systemic at the time."

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

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

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

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

- Between 2023 and 2025, CBRE forecasts that the debt refinancing gap will be almost entirely limited to office owners. Office owners are expected to have a debt refinancing gap of $53 billion (in our opinion, this amount is not alarming). Retail real estate is expected to have a modest debt refinancing gap of only $3 billion. Apartment and industrial owners are not forecasted to have any debt refinancing gap.

- Regarding the office sector, if a debt-funding gap exists, some office landlords may choose to add more equity and/or other financing sources (mezzanine debt) to pay off the existing loan. They may also negotiate a discounted payoff with the lender or an extension and modification of loan terms if property income conditions are expected to improve. Some office building borrowers may default on the loan and *hand back the keys* of the building to the lender.

- The heavy concentration of expected debt-funding gaps in the office sector differentiates the current funding gap from the GFC when large funding gaps were prevalent across all major commercial real estate sectors (office, retail, multi-family, and industrial).

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

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

Our perspective is as follows:

- Commercial real estate business prospects (expectations for occupancy, rent, and cash-flow growth), though slowing, are still expected to be positive in most cases.

- New construction activity has been and is expected to remain low. The dearth of new real estate construction compares favorably versus past real estate cycles when the overbuilding of commercial and residential real estate contributed to a deterioration in real estate business prospects. Today, the lack of overbuilding of real estate and the lack of new construction activity planned for the next few years should help to mitigate any weakness in real estate fundamentals should economic conditions deteriorate.

- Real estate debt profiles – the amount of debt relative to cash flow, the mix of fixed versus floating rate debt, annual debt maturity schedules – are, in most cases, manageable. Most of the debt coming due in the next few years was originated with good lending standards and no big oversupply of real estate.

- We believe the odds of a banking crisis and a deep recession are low. Unlike the period during the GFC, the banking system today is well capitalized and has ample liquidity. We believe the banking system is resilient and sound.

- Regarding the possibility of real estate loan defaults, our view is that it will be mostly isolated to a manageable portion of class B and C office real estate and many lenders will choose to work with their borrowers to modify loan terms rather than *hand back the keys* to the office buildings.

- Should economic, bank, and real estate distress emerge, we suspect the Federal Reserve will reverse course and lower interest rates thereby nullifying near-term headwinds.

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

## The Prospects for Real Estate in the Public Markets

We continue to believe the near-term and long-term prospects for real estate in the public markets remain compelling.

**Near-Term Case for Real Estate**

- Share prices and valuation multiples have corrected.

  Following 2022's sharp correction in real estate share prices (in many cases by 30% to 60%), share price weakness for several real estate companies in the first three months of 2023 and the broad-based contraction in valuation multiples, we believe several real estate companies have largely repriced for a higher cost of capital, and, more recently, for expectations of slowing growth.

- We believe the Fund's two- to three-year return prospects are compelling.

  Our real estate team evaluates the prospective returns for each company we own and for real estate companies we are researching but do not own.

We refer to an individual company's prospective return prospect as the "upside versus downside" share price return ratio. Currently, we believe the two- to three-year upside versus downside return profile for the Fund is attractive. At current prices, we believe the aggregate two- to three-year return prospect for the Fund offers a modest 10% to 15% downside scenario versus an attractive upside case of 40% to 50%, resulting in a compelling upside/downside return ratio of approximately 3.6 to 1. This upside/downside ratio is superior to most other expected return ratios since the inception of the Fund on December 31, 2009.

- Historically, real estate has rebounded sharply following periods of large declines.

| | | Cumulative Returns (%) | | | |
|---|---|---|---|---|---|
| | | MSCI US REIT Index | iShares U.S. Home Construction ETF | MSCI USA IMI Extended Real Estate Index | S&P 500 Index |
| Global Financial Crisis | Drawdown Period (1/31/2007 to 2/28/2009) | –70.20 | –81.93 | –64.67 | –46.43 |
| | Recovery Period (2/28/2009 to 4/30/2013) | 256.73 | 235.94 | 206.80 | 137.49 |
| COVID-19 Pandemic | Drawdown Period (10/31/2019 to 3/31/2020) | –29.00 | –34.96 | –27.94 | –14.16 |
| | Recovery Period (3/31/2020 to 4/30/2021) | 47.04 | 154.29 | 74.66 | 64.70 |
| Inflation Induced Rate Hike Economic Slowdown | Drawdown Period (12/31/2021 to 9/30/2022) | –28.86 | –36.80 | –29.94 | –23.87 |
| | Current Recovery Period (9/30/2022 to 3/31/2023) | 7.41 | 35.62 | 13.85 | 15.62 |

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

- Several real estate companies are cheap.

We continue to believe the correction in REITs and non-REIT real estate-related companies in 2022 and the ongoing weakness for some companies in the first three months of 2023, has created several compelling investment opportunities. Real estate companies that we consider best-in-class are rarely valued at discounted prices, but now is one of those rare occasions.

We are identifying real estate companies that offer prospects for both valuation multiple expansion (or cap-rate compression) and two- to three-year earnings or cash-flow growth. We prioritize real estate companies that have this two-pronged return profile because they have the potential to generate better returns.

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

- The current real estate environment is far superior relative to prior real estate cycles.

In the past, trouble for real estate surfaced following the excessive use of leverage and overbuilding (i.e., the historical curse of real estate). This occurred in the 1980s, which then precipitated the recession in the 1990s with a severe correction in real estate occupancy and rents. The housing crash of 2008 was triggered by cheap credit, lax lending standards, extreme use of leverage, and overbuilding.

Today, real estate is in a good place relative to prior economic slowdowns and recessions.

In most cases, the use of debt has been disciplined relative to history. Companies, households, real estate landlords, developers, banks, and other financial institutions generally maintain balance sheets that are liquid with appropriate levels of leverage, fixed-rate debt, and staggered debt maturities. According to Citi Research, REITs have leverage ratios (net debt divided by cash flow) of only 5.5 times, on average, versus a peak of more than 8.5 times during the GFC of 2008-2009.

Commercial and residential real estate are not overbuilt, and expectations for new supply are not concerning. Expectations for construction activity are modest due to elevated land, material, and labor costs and expectations for a slowdown in economic growth. According to data provided by *Green Street Advisors*, expectations for commercial real estate construction (annual construction completions as a percent of existing inventory) from 2023 to 2026 are expected to be only 1.5% for apartments, 1.0% for wireless towers and hotels, 0.8% for office buildings, 0.3% for shopping centers, and 0.1% for retail malls. In December 2022, the Chairman of **Lennar Corporation**, a premier U.S. homebuilder company, stated that he expects U.S. new home construction in 2023 will decline by 25% to 33%.

Based on research by *Green Street Advisors*, recent occupancy rates for several real estate categories compare favorably relative to prior periods. For example, industrial real estate occupancy is currently 96%, on average, versus 88% in 2009. Self-storage facilities average occupancy levels are 94% versus 81% in 2009. The average occupancy rate for manufactured housing is 97% versus 87% in 2009.

Should a recession unfold, we expect declines in commercial occupancy and rents and most residential home prices to be modest and short lived given the broadly favorable relationship between demand and supply of commercial and residential real estate.

- Substantial private capital is still in pursuit of real estate ownership.

We believe that real estate merger and acquisition activity will re-emerge when the debt markets stabilize, and economic prospects improve.

According to *Preqin Pro*, more than $400 billion of capital has been raised by private equity sources to invest in real estate. This amount equates to more than $1.3 trillion of total real estate purchasing capacity, assuming typical 70% financing. The aggregate buying potential of $1.3 trillion is more than 85% of the enterprise value of all publicly traded U.S. REITs!

We anticipate that large amounts of capital from private equity investors such as Blackstone and **Brookfield Corporation**, sovereign wealth funds, endowments, pension funds, and others will look for opportunities to step in and capitalize on the opportunity to buy quality public real estate when it is valued at a discount relative to the private market. This embedded put scenario should limit downside for public valuations and stock prices.

**Long-Term Case for Real Estate**

- Real estate has generated solid historical long-term returns, and we believe it can continue to do so.

  For the 25-year period ended March 31, 2023, U.S. equity REITs, as measured by the REIT Index, have delivered a better cumulative return than the S&P 500 Index, fixed income alternatives, international equities, and commodities.

  Since the Fund's inception on December 31, 2009 through March 31, 2023, Baron Real Estate Fund, which owns REITs and non-REIT real estate-related companies, has delivered a cumulative return of 421% (Institutional Shares), which compares favorably to the 170% return of the REIT Index.

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

  – Real estate continues to offer diversification benefits.

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

  – Real estate offers valuable inflation protection.

    Historically, certain real estate businesses have had the ability to raise prices to provide inflation protection. Real estate property owners in supply-constrained areas are often able to pass along higher operating costs by raising rents in periods of rising inflation. Some leases include annual fixed upward lease rent escalators. Real estate owners with short-lease durations in supply-constrained markets are well equipped to raise rents to combat inflation.

    Additionally, the price of a property can be measured in relation to the current cost of land, materials, and labor that would be required to build a replacement. Since replacement costs tend to rise with inflation, real estate is often viewed as a partial hedge against inflation and a good store of value.

## Portfolio Composition and Key Investment Themes

The Fund currently has investments in REITs, plus eight additional real estate-related categories. Our percentage allocations to these categories vary, and they are based on our research and assessment of opportunities in each category (See Table II below).

**Table II.**
**Fund investments in real estate-related categories as of March 31, 2023**

| | | Percent of Net Assets |
|---|---|---|
| REITs | | 28.4% |
| Non-REITs | | 65.7 |
| Casinos & Gaming Operators | 15.9% | |
| Homebuilders & Land Developers | 13.4 | |
| Building Products/Services | 11.0 | |
| Real Estate Operating Companies | 10.6 | |
| Real Estate Service Companies | 8.9 | |
| Hotels & Leisure | 4.4 | |
| Unclassified | 0.9 | |
| Tower Operators | 0.7 | |
| Cash and Cash Equivalents | | 5.9 |
| Total | | 100.0%* |

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

A few observations regarding the composition of the Fund include:

*Cash:* As of March 31, 2023, cash and cash equivalents stood at 5.9%, down from 11.0% of the Fund's assets on December 31, 2022. In the first quarter, we took advantage of the opportunity to buy fine companies at highly discounted prices. We will continue to look for opportunities to deploy this cash given the sharp correction in the share prices of certain real estate companies and as other special buying opportunities emerge.

*Number of holdings:* We have decreased the number of real estate companies held in the Fund from a peak of 61 companies on June 30, 2021, to 40 companies on March 31, 2023. During this period, we have prioritized our highest conviction best-in-class real estate companies. Conversely, we have trimmed or exited holdings in real estate companies that have more leveraged balance sheets, are small and less liquid, or are geographically exposed to real estate markets that face headwinds.

*Secular growth real estate companies:* Our long-term focus is on real estate companies that benefit from secular tailwinds where cash-flow growth tends to be durable and less sensitive to a slowdown in the economy. Examples include our investments in data centers, wireless tower, industrial logistic, and life science REITs.

*Short-lease duration real estate with pricing power:* We have continued to emphasize real estate companies that are able to raise rents and prices on a regular basis to combat inflation. Examples include our investments in self-storage, single-family home rental, hotel, and casino real estate companies.

*Cyclical real estate companies:* Despite expectations for a further slowdown in economic growth and a recession, we maintain an allocation to economically sensitive and cyclical real estate companies. The share prices of several of these types of real estate companies have corrected sharply in advance of the economic slowdown and are now attractively valued. Examples include our investments in select homebuilding and travel-related real estate companies.

**Investment Themes**

We have continued to prioritize four long-term high conviction investment themes or real estate categories:

1. REITs
2. Residential-related real estate
3. Travel-related real estate
4. Other real estate-related opportunities

**REITs**

Since the Fund's inception on December 31, 2009, REITs have been an important part of our real estate-related portfolio. We have tended to limit our REIT allocation to 25% to 35% of the portfolio so that the Fund is differentiated from other REIT funds.

Following a 25% correction in the REIT Index in 2022 and ongoing relative underperformance in the first three months of 2023, we believe the valuations of several REITs are attractive. Business fundamentals and prospects for many REITs remain solid although slower growth is expected in 2023. Balance sheets are in good shape. Several REITs have inflation-protection characteristics. Dividend yields are well covered by cash flow and are growing.

Should the contraction in economic growth evolve into no worse than a mild recession and the path of interest rates peaks in 2023 at levels not much higher than current rates, we believe the shares of certain REITs may perform relatively well given the contractual nature of cash flows that provide a high degree of visibility into near-term earnings growth and dividend yields. Should long-term interest rates begin to decline and credit spreads compress, REIT return prospects may also benefit from an improvement in valuations as valuation multiples expand (e.g., capitalization rates compress).

We believe the Fund comprises compelling REIT companies and categories. A few examples include:

**Industrial REITs** that we expect to benefit from ongoing robust warehouse demand and increased rents fueled by the growth in e-commerce and the buildout of logistics' supply chains.
Examples: **Prologis, Inc.**, **Rexford Industrial Realty, Inc.**, **EastGroup Properties, Inc.**, and **Terreno Realty Corporation**

**Self-Storage REITs** that offer a compelling combination of scale and cost of capital advantages, low capital expenditure requirements, strong balance sheets, and monthly leases that provide an opportunity for landlords to increase rents to combat inflation.
Examples: **Public Storage Incorporated** and **Extra Space Storage Inc.**

**Technology-centric wireless tower and data center REITs** that we believe have prospects for strong and enduring cash-flow growth driven by rising data consumption, the buildout of 5G, the growth in cloud computing, and other secular growth demand opportunities.
Examples: **American Tower Corp.** and **Equinix, Inc.**

**Residential-related REITs** that provide partial inflation protection given the short duration of leases, relatively affordable shelter, and solid long-term growth prospects.
Examples: **Invitation Homes, Inc.**

For a more detailed discussion of the investment case for REITs and the various REIT categories, we encourage you to read our March 31, 2023, Baron Real Estate Income Fund shareholder letter.

As of March 31, 2023, we had investments in seven REIT categories representing 28.4% of the Fund's net assets. Please see Table III below.

**Table III.**
**REITs as of March 31, 2023**

| | Percent of Net Assets |
|---|---|
| Industrial REITs | 13.4% |
| Self-Storage REITs | 5.6 |
| Data Center REITs | 3.4 |
| Wireless Tower REITs | 2.8 |
| Life Science/Health Care REITs | 1.9 |
| Single-Family Rental REITs | 1.2 |
| Triple Net REITs | 0.1 |
| Total | 28.4%* |

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

**Residential-related real estate**

In the first three months of 2023, we traveled and spent several hours meeting with the management teams of leading homebuilding companies, **Lennar Corporation** and **Toll Brothers, Inc.** We also continued our ongoing dialogue with the largest U.S. homebuilder, **D.R. Horton, Inc.**, and other U.S. homebuilding companies and residential contacts. Though it is early in 2023 and the economic and housing outlook could disappoint in the months ahead, we are encouraged by what we have learned year-to-date:

- There has been a meaningful uptick in demand to buy homes that started in January and appears to have continued for much of the first three months of 2023. Redfin Corporation, a residential brokerage company, recently reported that requests to tour homes, make an offer to buy a home, and/or start a search for a home with a Redfin sales agent jumped to its highest level since May 2022 during the week ended March 26, 2023.
- Home buyers are coming off the sidelines and once again buying homes despite 30-year mortgage rates remaining in the 6.5% to 7.0% range. It appears that several factors are contributing to the recent strength, including pent-up demand to buy homes and fears that mortgage rates could move higher. The sticker shock of rapidly rising mortgage rates appears to have cooled down. Incentives to convince potential buyers to purchase a home have moderated.
- A dearth of inventory in the existing home market and an overall housing supply shortage is driving home buyers to "stretch their wallet" due to fears that they could miss out on the opportunity to buy a home.
- Public homebuilders are gaining market share versus the existing home sale market because many homeowners are choosing to remain in their homes and maintain their below market mortgage rates.

We agree with the thoughts expressed by Stuart Miller, Chairman of Lennar Corporation, who said the following on the company's first quarter conference call on March 15, 2023:

*"It seems that the homebuilding industry has been skating on a very thin edge between some very strong headwinds and some equally strong tailwinds that have required careful navigation and refined adjustment along the way. The headwinds have been defined by Federal Reserve driven interest rate increases driven by stubbornly high inflation. The consumer has attempted to adjust. The tailwinds have been defined by housing shortages across the country as well as production deficits over the past decade. And while the consumer remains challenged by affordability concerns, they are adjusting to the new normal of higher interest rates and opting to purchase their homes."*

**We remain bullish long term on the prospects for the U.S. housing market**.

We believe the long-term structural underinvestment in the construction of residential real estate relative to the demographic needs of our country bodes well for long-term housing construction activity, sales, rentals, pricing, and repair and remodel activity.

Ever since the housing crisis from 2007 to 2010, housing supply has not kept pace with housing demand, household formation, and population growth. This has led to a structural shortage of housing. According to the U.S. Census, 12.3 million American households were formed from January 2012 to June 2021, but just 7 million new single-family homes were built during that time. The result? The U.S. is short more than 5 million homes.

We continue to agree with the findings of a report published by *Evercore ISI Research* on October 4, 2022, which further illuminates the constrained inventory of the U.S. housing market:

> "After briefly reaching above 2 million total (housing) starts way back in 2005, the U.S housing industry entered the longest sustained period of under-building since the modern homebuilding industry began in the late 1940s. On a trailing fifteen-year basis, housing starts have averaged just over 1 million annually, well below the industry's 1.5 million long-term average. Since housing starts include both for-sale and rental units, this accumulated shortfall is visible in both record low levels of existing homes for sale and rental vacancy rates. And just as this deficit was more than a decade in the making, it cannot dissipate quickly. Even after a brief rise in inventory this summer, combined with a sharp pullback in sales, homes for sale sit at just 3.2 months, well below the 6.0 months level that is associated with home price declines."

Long-term housing-related demand prospects are also encouraging, especially from the approximately 72 million millennials – ages 25 to 40 – many of whom have been looking to buy or rent a home. Millennials are the largest generation in the workforce, their wages are increasing, and their multi-year delay of household formation is reversing. There are clear signs that millennials are debunking the view that the American Dream to own or rent a home is over.

The large imbalance between pent-up housing demand and low construction levels bodes well, long term, for new single-family home purchases. It also bodes well for home and apartment rentals.

**We believe the valuations of several housing-related companies reflect a good portion of the slowdown in the U.S. housing market and offer compelling multi-year return prospects.**

We believe certain homebuilder valuations, currently in the 1.0 to 1.3 times share price to book value range, are cheap and erroneously reflect an expectation for a sharp decrease in home prices and land impairments, which we believe are unlikely due to the housing inventory shortfall in the U.S.

Following the sharp decline in housing-related share prices in the first half of 2022, we increased our exposure to homebuilders, building products/services companies, and home centers in the second half of 2022 and have continued to acquire shares in some companies in the first three months of 2023. Though business conditions may be challenging in the months ahead, we believe valuations are attractive and the two- to three-year return prospects are compelling.

As of March 31, 2023, residential-related real estate companies represented 24.4% of the Fund's net assets. Please see Table IV below.

**Table IV.**
**Residential-related real estate companies as of March 31, 2023**

| | Percent of Net Assets |
|---|---|
| Homebuilders | 13.4% |
| Building Products/Services | 8.2 |
| Home Centers | 2.8 |
| Total | 24.4%[1]* |

[1] Total would be 25.6% if residential-related housing REIT Invitation Homes, Inc. is included.

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

**Travel-related real estate**

We are long-term bullish about the prospects for travel-related real estate companies.

We believe several factors are likely to contribute to multi-year tailwinds for travel including a favorable shift in consumer preferences, a growing middle class, and other encouraging demographic trends.

In the last week of March, we met with Chris Nassetta, the President and CEO of **Hilton Worldwide Holdings Inc.**, one of the largest and most diversified hotel companies in the world. He noted that global hotel demand remains robust, and Hilton has yet to witness any weakness in 2023.

Though we are mindful that travel-related business conditions may moderate in the year ahead given the likelihood of an economic slowdown, which may negatively impact consumer discretionary leisure spending and business travel, we maintain an allocation to select travel-related real estate companies because **we believe the long-term investment case for travel is compelling**:

- *Demand for services over goods:* We have seen an increased wallet share going to travel. The 72 million millennials are increasingly driving this shift aided by their preference for experiences such as travel over durable goods.
- *Demographic trends:* Delays in marriage and having children has led to the millennial cohort having more disposable income than prior generations at this age.
- *Work-from-home:* Flexible job arrangements have led to an increase in travel bookings and lengths of stay, leading to the emergence of a new category of travel (hush trips).
- *Certain travel-related businesses remain cyclically depressed, not secularly challenged, and should rebound as economic strength*

*re-emerges*. For example, the business operations of Macau-centric casino and gaming companies such as **Wynn Resorts, Limited** and **Las Vegas Sands Corporation** have yet to fully recover due to the COVID-19 restrictions and challenges in China from 2020 through 2022. We expect business to rebound sharply when economic growth recovers just as it did in Las Vegas.

- *Healthy balance sheets:* Our investments in travel-related real estate companies maintain well-capitalized and liquid balance sheets and should be able to comfortably withstand any slowdown in economic growth just as they did during the early days of COVID-19.
- *Private equity companies such as Blackstone have a long history of investing in travel-related companies and have continued to highlight the travel segment as an important investment opportunity.* Given the highly discounted share prices and valuations of certain travel-related companies, we would not be surprised if private equity firms take advantage of the favorable valuation arbitrage between the public and private markets and acquire public travel companies.

As of March 31, 2023, travel-related real estate companies represented 20.3% of the Fund's net assets. Please see Table V below.

**Table V.**
**Travel-related real estate as of March 31, 2023**

| | Percent of Net Assets |
|---|---|
| Casinos & Gaming Operators | 15.9% |
| Hotels | 2.0 |
| Timeshare Operators | 1.5 |
| Ski Resorts | 0.9 |
| Total | 20.3%[1]* |

[1] Total would be 20.4% if travel-related gaming REIT Gaming and Leisure Properties, Inc. is included.

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

### Other real estate-related opportunities

Our *other real estate-related opportunities* category includes companies that do not fit neatly in more traditional real estate categories of REITs, residential-related real estate, and travel-related real estate. They currently include:

- Commercial real estate services companies
  Examples: **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated**
- Real estate-focused alternative asset managers
  Examples: **Brookfield Corporation** and **Blackstone Inc.**
- Real estate data analytics/property technology companies
  Example: **CoStar Group, Inc.**

**Commercial real estate services companies:** We remain bullish on the long-term growth opportunity for the commercial real estate brokerage category because of structural and secular tailwinds that should benefit leading global companies such as CBRE and Jones Lang LaSalle.

Tailwinds include:

- *The outsourcing of commercial real estate:* A growing number of companies are increasingly looking to outsource their commercial real estate needs. CBRE estimates that the overall facilities management market will be $1.9 trillion by 2024, representing a massive growth opportunity for large global commercial real estate services companies.
- *The institutionalization of commercial real estate:* Institutional allocations to real estate continue to increase, in part due to real estate's diversification, inflation protection, and relatively stable long-term growth attributes.
- *Opportunities to increase market share:* The commercial real estate industry remains highly fragmented and is likely to continue to consolidate. Customers tend to prefer commercial real estate companies that can provide a broad set of services. We believe CBRE and Jones Lang LaSalle are best positioned to drive market share gains given that they are the clear #1 and #2 commercial real estate services firms, respectively, and they have the capability to provide the full array of real estate offerings on a global scale.

CBRE and Jones Lang LaSalle have scale, product breadth, and leadership positions across their diversified real estate business segments. They continue to gain market share and are well positioned to capitalize on ample attractive acquisition opportunities in the years ahead given strong and liquid balance sheets. Though we acknowledge that growth in certain segments of their businesses has slowed and is likely to remain under pressure in the months ahead due to the global economic slowdown, higher interest rates, and the likelihood of more restrictive bank lending, we believe both are attractively valued and present compelling return potential over the next few years.

**Real estate-focused alternative asset managers:** We are optimistic about the long-term prospects for Brookfield and Blackstone because we believe both companies are likely to increase market share in a secular growth opportunity for alternative assets.

Institutional allocations to alternative investment assets such as real estate, infrastructure, and private equity are likely to continue to grow significantly in the years ahead because alternatives have a long track record of generating attractive relative and absolute returns with less volatility than several other investment options.

We are bullish on the long-term prospects for Brookfield and Blackstone. Both companies are led by exceptional management teams that attract and retain exceptional talent. They are two of the largest real estate managers in the world with impressive investment track records. Both Brookfield and Blackstone have global franchises, strong brands, and loyal customers.

We believe the shares of both companies are attractively valued and are optimistic about the long-term potential for the Fund's investments in both companies.

**Real estate data analytics/property technology companies**: The real estate industry, which represents approximately 17% of U.S. GDP according to the National Association of Realtors, has eschewed decades of technological innovation while many other industries have evolved rapidly. We are seeing evidence of that trend beginning to change as real estate companies are increasingly adopting technology as a source of competitive differentiation and evolution across property sectors.

This collision of real estate and technology has led to a new category within real estate–real estate technology, also referred to as *proptech*. Proptech is the usage of technology and software to assist in meeting real estate needs.

The emergence of proptech and the digitization of real estate is an exciting and promising new development for real estate. We believe we are in the early innings of a technology-driven investment cycle centered on data and digitization that allows real estate-related businesses to drive incremental revenue streams and lower costs.

CoStar, the leading provider of information, analytics, and marketing services to the real estate industry and a top holding in the Fund, is well positioned to capitalize on this burgeoning secular growth trend.

As of March 31, 2023, other real estate-related companies represented 21.0% of the Fund's net assets. Please see Table VI below.

**Table VI.**
**Other real estate-related companies as of March 31, 2023**

| | Percent of Net Assets |
|---|---|
| Real Estate-Focused Alternative Asset Managers | 10.6% |
| Commercial Real Estate Services Companies | 4.9 |
| Real Estate Data Analytics Companies/Property Technology Companies | 4.9 |
| Wireless Tower Operators | 0.7 |
| Total | 21.0%* |

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

## Examples of Best-in-Class Real Estate Companies that are Attractively Valued

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

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

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

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

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

**REITs**

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

It is valued at an implied capitalization rate of 6.0% versus private market transactions in the 5% range. The public market implied valuation of its owned homes is only $320,000 per home versus acquisition costs of approximately $430,000 per home.

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

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

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

Following a decline in its shares of more than 30% in 2022, we believe Prologis' current implied capitalization rate of 4.2% is compelling given that the company's rents on its in-place leases are more than 65% below current market rents, thus providing a strong runway for growth in the next three to five years.

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

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

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

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

**Residential-Related Real Estate Companies**

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

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

**Lennar Corporation** is the second-largest U.S. homebuilder with competitive scale advantages (including materials procurement and labor), an increasingly capital-light business model, a strong balance sheet, a strategic and forward-looking focus on technology investments, and an exceptional management team.

It is valued at only 1.3 times tangible book value versus its more typical historical valuation range of 1.5 to 2.5 times tangible book value.

**Lowe's Companies, Inc.** is the second-largest home improvement center in the U.S. The company has several competitive advantages including scale, distribution efficiencies, interconnected retail through stores/internet, excellent management, and a strong balance sheet.

The company's P/E multiple is only 14 times versus its long-term average P/E multiple of 18 times.

**SiteOne Landscape Supply, Inc.** is the only national wholesale distributor of landscape supplies. The company is more than five times the size of its next closest competitor and has many opportunities to make acquisitions and consolidate a highly fragmented industry.

The company is currently valued at only 13.6 times 2024 estimated cash flow versus its historical valuation range of 15 to 20 times cash flow prior to COVID-19.

**Other Real Estate-Related Companies**

**Brookfield Corporation** is a leading global owner and operator of real assets such as real estate and infrastructure. We believe the company's global reach, capital, and the synergies among its businesses provide significant opportunities for growth.

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

Brookfield has investments in publicly traded and private real estate-related businesses. Brookfield's ownership interests in four publicly listed Brookfield companies (Brookfield Asset Management, Brookfield Infrastructure Partners, Brookfield Renewable, and Brookfield Business Partners) are currently valued in the public market at $32 per share or the same public price as the public share price for the entire company. The public market is currently ascribing zero value to Brookfield's non-public investments, which we believe are also worth at least $32 per share. (The total book value of the company's unlisted investments is $24 per share and the company's estimate of the value of its carried interest is $8 per share for a total value of Brookfield's non-listed business (most at only book value) also of $32!)

**Blackstone Inc.** is the world's largest alternative asset manager with $1 trillion in assets under management and the largest real estate manager in the world. Blackstone has a premier brand, a global franchise, loyal customers, an exceptional balance sheet, and an excellent management team.

It is currently valued at a modest premium to the S&P 500 Index multiple despite far superior long-term growth prospects. The company's current dividend yield is 5.2%.

**CBRE Group, Inc.** is the largest commercial real estate services firm in the world. It maintains a #1 worldwide market share position in each of its key business lines and has a pristine balance sheet.

Its P/E multiple is only 13 times based on 2024 earnings versus its long-term average P/E multiple of 15 to 16 times.

**Jones Lang LaSalle Incorporated** is one of the leading commercial real estate services firms in the world with scale, product breadth, and leadership positions across its diversified real estate business segments.

Its P/E multiple is less than 9 times 2024 earnings versus its long-term average P/E multiple of 14 times.

**Travel-Related Real Estate Companies**

**MGM Resorts International** is a leading global casino and entertainment company with 29 unique hotels and casinos including some of the most recognizable resort brands such as Bellagio, MGM Grand, ARIA, and Park MGM.

At its recent price of only $44 per share, we believe MGM's domestic valuation is compelling at a sizeable discount to our estimate of the company's sum-of-the-parts value of approximately $60 per share.

**Red Rock Resorts, Inc.** is a leading real estate casino gaming company that owns and operates 100% of its real estate assets. Almost all the company's cash flow is generated in the Las Vegas locals market, a real estate market that possesses highly favorable long-term demand and supply characteristics. The company has the capacity to double in size in the next five to seven years and maintains a strong balance sheet. Insiders own more than 40% of the company.

With shares valued at only 10 times 2024 EBITDA and a double-digit free-cash-flow yield, we think Red Rock's share price is compelling.

## A Review of Recent Activity Managing the Fund

In the first quarter, we maintained our active approach managing the Fund due to:

- The emergence of tailwinds and headwinds in certain segments of real estate
- Company-specific considerations
- Unusually elevated stock market volatility

We believe our actions continue to position the Fund for strong long-term performance.

**Table VII.**
**Top net purchases for the quarter ended March 31, 2023**

| | Quarter End Market Cap (billions) | Amount Purchased (millions) |
|---|---|---|
| Wynn Resorts, Limited | $12.7 | $40.4 |
| Caesars Entertainment, Inc. | 10.5 | 39.8 |
| Brookfield Corporation | 53.4 | 32.4 |
| EastGroup Properties, Inc. | 7.2 | 27.6 |
| Las Vegas Sands Corporation | 43.9 | 27.0 |

In the first quarter of 2023, we re-acquired shares in Macau-centric casino gaming companies **Wynn Resorts, Limited** and **Las Vegas Sands Corporation** with the following considerations in mind:

- Since the early days of the COVID-19 pandemic in 2020 through mid-2022, the shares of Wynn and Las Vegas Sands significantly underperformed the share price performance of other U.S.-centric casino gaming and lodging companies due in large part to extremely limited travel mobility to Macau during China's Zero-COVID policy. Just as business activity and the shares of U.S.-centric casino gaming companies rebounded sharply once people felt comfortable to travel to Las Vegas and other U.S. regional gaming markets, we have felt that Macau business activity and the shares of Macau-centric casino gaming companies would follow in the footsteps of Las Vegas-centric and other U.S. gaming and lodging companies and inflect positively once people were permitted to travel to Macau more freely.

- China recently abandoned it's Zero-COVID policy and removed travel restrictions in January 2023. We now believe both Wynn and Las Vegas Sands are well positioned to capitalize on China's reopening.

- As of late 2022, business activity in Macau languished at only 10% to 15% of pre-pandemic levels compared to Las Vegas business activity which had already exceeded pre-pandemic levels. Macau visitation and business activity has rebounded sharply in the first few months of 2023, yet remains approximately 50% below activity levels in 2019
- For Wynn, we believe additional drivers for future value creation beyond a re-emergence in Macau business activity include: (i) our expectation for long-term growth opportunities in the company's U.S.-centric markets of Las Vegas and Boston, including an expansion of Wynn's Encore Boston Harbor resort; (ii) Wynn's plans to develop an integrated resort in the United Arab Emirates with 1,500 hotel rooms and a casino that is similar in size to that of its Encore Boston Harbor; (iii) opportunities to improve cash-flow margins by rightsizing labor and achieving lower staff costs in Macau; (iv) the possibility that Wynn is granted a New York casino license in 2023; and (v) an expansion in the company's valuation multiple to levels achieved prior to the pandemic.
- For Las Vegas Sands, we believe additional drivers for future value creation beyond a re-emergence in Macau business activity include: (i) our expectation for a continued positive inflection in visitation and cash flow at Marina Bay Sands, Singapore; (ii) Las Vegas Sands' plans to invest $4.5 billion in Macau and Singapore in the next 10 years; (iii) the company's plans to pursue a New York casino and its prioritization of Texas as a new market; and (iv) the possibility that Las Vegas Sands reinstates its dividend in the next few years.
- Despite strong share price performance in the last few months, we believe the shares of Wynn and Las Vegas Sands remain attractively valued relative to the price at which we believe they will reach when the stock market fully discounts a complete recovery to 2019 business levels. At current prices, the valuation multiples of both Wynn and Las Vegas Sands remain below the levels that were achieved prior to the pandemic.

Following a 50% decline in its share price in 2022, we re-acquired shares of **Caesars Entertainment, Inc.** in the first quarter. Caesars is the largest casino-entertainment company in the U.S. and one of the world's most diversified casino-entertainment providers. The company operates primarily under the Caesars, Harrah's, Horseshoe, and Eldorado brand names. The company generates approximately 50% of its cash flow from Las Vegas and 50% of its cash flow from regional destination markets. The company owns approximately half of its real estate and leases the other half from gaming REIT companies – **Gaming and Leisure Properties, Inc.** and VICI Properties Inc.

We recently met with CEO Tom Reeg, who we hold in high regard. Tom has a long and impressive track record of synergistic acquisitions, maximizing the value of casino and gaming companies, and deleveraging. Most recently, since acquiring Caesars in 2019, Tom and his management have implemented operational improvements that have led to an increase in cash flow (EBITDA) from $2.9 billion to more than $4 billion on a similar revenue base of approximately $11 billion.

We are optimistic about the long-term prospects for Caesars for the following reasons:

- *We are optimistic about the long-term prospects for Las Vegas and Las Vegas represents approximately 50% of Caesars' cash flow:* Near term, we expect the Las Vegas Strip to generate strong cash-flow growth in 2023 reflecting an improvement in business group and convention activity, international visitation, and various events throughout the year that should attract large crowds including a Formula 1 racing event that will occur in Las Vegas in November 2023. We believe that Las Vegas has structurally changed and has a year-round business and event calendar that has effectively eliminated off-peak months or lulls in business activity.
- *Management is focused on improving its balance sheet:* Early in 2023, the company opportunistically refinanced and extended the maturity on $4.5 billion of its debt. Management is also focused on improving Caesars' overall leverage profile and believes there is a path to lowering its current lease-adjusted net debt to cash flow from approximately 5.5 times to less than 4 times in the next two years through cash flow generated from asset sales and the company's business operations.
- *The company has an online sports betting and casino business that management believes will turn profitable and generate more than $500 million of cash flow by 2025*.
- *We believe the shares are attractively valued.* At its recent price of only $46 per share, the shares are highly discounted versus our assessment of fair value of $75 per share or more than 50% above its recent price. Caesars is currently valued at only 7.3 times enterprise value to cash flow versus a historical average of approximately 9 times.

In the most recent quarter, we acquired additional shares in **Brookfield Corporation**, a leading global owner and operator of real assets.

We first acquired shares in Brookfield shortly after we launched the Fund at the end of 2009, and Brookfield was the Fund's largest holding on March 31, 2010. Fast forward more than 13 years to March 31, 2023, and Brookfield remains one of the largest holdings in the Fund. Although its shares have performed well over the long term, we believe the valuation of its shares are unsustainably cheap and we remain bullish about Brookfield's long-term prospects.

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

1. Secular growth opportunity for alternative assets

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

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

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

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

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

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

3. Attractive valuation

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

4. Excellent management team with interests aligned with shareholders

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

Following a sharp correction in its share price in 2022 and several discussions with CEO Marshall Loeb, we initiated a position in **EastGroup Properties, Inc.**, a REIT that is a leading developer, acquirer, and operator of industrial properties in major Sunbelt markets throughout the U.S.

The company has assembled a high-quality real estate portfolio and management has a strong track record of delivering consistent gains in occupancy and rent growth and maintaining strong expense controls. Looking forward, we believe in-place rents on leases signed remain well below current market rents thereby providing visibility into strong embedded growth potential. Further, management maintains a conservative balance sheet.

We believe the shares are attractively valued and the company could be targeted as a takeover candidate should its valuation remain depressed.

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

| | Quarter End Market Cap or Market Cap When Sold (billions) | Amount Sold (millions) |
|---|---|---|
| Trex Company, Inc. | $ 5.3 | $34.1 |
| SBA Communications Corp. | 26.6 | 33.5 |
| Vulcan Materials Company | 22.8 | 20.4 |
| SiteOne Landscape Supply, Inc. | 6.2 | 18.7 |
| Gaming and Leisure Properties, Inc. | 13.7 | 18.2 |

In the most recent quarter, we significantly reduced our investments in the following companies due to expectations of near-term business headwinds and modest growth prospects, elevated valuations, and our view of superior investment opportunities for other real estate-related companies:

- **Trex Company, Inc.** is the largest manufacturer of wood-alternative (composite) outdoor decking and railing in the U.S.
- **Vulcan Materials Company** is a real estate-related company that is the largest construction aggregates producer in the U.S.
- **SiteOne Landscape Supply, Inc.** is the only national wholesale distributor of landscape supplies (outdoor lighting, fertilizers, grass seeds, turf care equipment, etc.) in the U.S.
- **Gaming and Leisure Properties, Inc.** is a triple net REIT that owns a portfolio of 59 geographically diversified casino gaming and related facilities in the U.S.

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

We believe a series of issues are likely to temper SBA's growth in the next few years, including higher debt refinancing costs, wireless carrier decommissioning, headwinds from the company's Latin American operations, and perhaps foreign exchange headwinds. Our sense is that the company's annual cash flow growth will decelerate from 14% in 2022 to just 3% in 2023 and remain at modest annual growth rates over the next few years. The company's high leverage, approximately 6.9 times net debt to cash flow, will limit the company's ability for share repurchases and external growth opportunities.

**Table IX.**
**Top contributors to performance for the quarter ended March 31, 2023**

| | Quarter End Market Cap (billions) | Percent Impact |
|---|---|---|
| Toll Brothers, Inc. | $ 6.6 | 1.09% |
| Floor & Decor Holdings, Inc. | 10.5 | 1.00 |
| Prologis, Inc. | 115.2 | 0.64 |
| MGM Resorts International | 16.6 | 0.64 |
| Lennar Corporation | 29.7 | 0.58 |

The shares of homebuilding companies **Toll Brothers, Inc.** and **Lennar Corporation** performed well in the first quarter due to encouraging business activity early in 2023. As noted earlier in this letter, both companies have witnessed a meaningful uptick in demand to buy homes that started in January and appears to have continued for much of the first quarter. Homebuyers appear to be adjusting to higher mortgage rates and opting to purchase homes, in part, to fears that they could miss out on the opportunity to buy a home due to limited housing inventory and the possibility that mortgage rates could move higher. We continue to believe the shares of Toll Brothers and Lennar are attractively valued and offer strong long-term return potential.

Following a sharp decline in its shares in 2022, **Floor & Decor Holdings, Inc.**'s share price increased 40% in the first three months of 2023 due to better-than-expected fourth quarter business results and indications that 2023 growth expectations may be better than feared.

The company is a leading and high-growth specialty retailer of hard-surface flooring offering the industry's broadest in-stock selection of tile, wood, laminate, vinyl, and natural stone flooring.

We remain optimistic about the long-term, multi-pronged growth prospects for the company. They include the potential to grow its store count in the

U.S. from 191 stores to more than 400, strong comparable store sales growth, growth in the company's online business, growth opportunities with professional and commercial customers, and designer services. The company is also well positioned to benefit from the cyclical and secular tailwinds that should aid the U.S. housing market in the years ahead. Despite its strong share price performance in the first three months of 2023, we continue to believe the shares offer strong long-term return potential over the next few years.

Following strong quarterly results, the shares of **Prologis, Inc.**, the world's largest industrial REIT, performed well in the first quarter of 2023. The company owns a high-quality real estate portfolio that is concentrated in major global trade markets and large population centers across the Americas, Europe, and Asia. Prologis has an unmatched global platform, strong competitive advantages (scale, data, and technology), and attractive embedded growth prospects. The company is the only industrial REIT with an 'A' credit rating.

We continue to believe the appreciation potential for the shares of Prologis remain compelling given that the company's rents on its in-place leases are more than 65% below current market rents, thus providing a strong runway for growth in the next three to five years.

**MGM Resorts International** is a global casino and entertainment company that has properties in Las Vegas, high-end U.S. regional destinations, and Macau. Shares performed well in the first quarter following strong year-end business results and expectations for strong growth in 2023.

We remain optimistic about the prospects for MGM because:

- We expect growth prospects in Las Vegas, which represent approximately 65% of the company's cash flow, to remain strong due to strength in business group and convention activity, an increase in international visitation, and events throughout the calendar year (concerts, shows, and sports such as Formula 1 racing), which should appeal to leisure travelers.
- In the last few years, MGM management has done an excellent job improving its balance sheet and allocating capital. Recently, management indicated that the company's $5 billion of excess cash above its desired minimum cash of approximately $2 billion may be used for share repurchases, given the company's compelling valuation and strong fundamental business outlook.
- In addition to our expectation for ongoing strength in Las Vegas, we expect MGM's cash flow to also benefit from Macau's business recovery in 2023 and 2024 (approximately 10% of cash flow) and an improvement in cash flow for the company's BetMGM iGaming business, which is the clear leader in the U.S. with 30% market share.
- The company's largest shareholder, IAC Inc., has two members on the Board of MGM (IAC's Chairman Barry Diller and CEO Joey Levin). IAC owns more than 17% or approximately $2.9 billion of MGM shares.
- At its recent price of only $44 per share, we believe MGM's shares remain 35% below estimate of the company's sum-of-the-parts value of approximately $60 per share.

**Table X.**
**Top detractors from performance for the quarter ended March 31, 2023**

| | Quarter End Market Cap or Market Cap When Sold (billions) | Percent Impact |
|---|---|---|
| CoStar Group, Inc. | $28.0 | –0.44% |
| Jones Lang LaSalle Incorporated | 6.9 | –0.30 |
| CBRE Group, Inc. | 22.6 | –0.22 |
| Alexandria Real Estate Equities, Inc. | 21.7 | –0.16 |
| Sun Communities, Inc. | 17.1 | –0.12 |

Shares of **CoStar Group, Inc.** declined 11% in the first quarter of 2023 after performing well on a relative basis last year. We attribute the stock's decline to management announcing a dramatic increase in its investment to grow its residential business. Despite the decline, we remain optimistic about the long-term prospects for CoStar and acquired additional shares late in the first quarter.

CoStar is the leading provider of information, analytics, and marketing services to the real estate industry. CoStar initially focused on serving the domestic commercial real estate industry and built a comprehensive proprietary database of essential data to help participants buy, sell, and lease properties. The company has since expanded its focus to offer products and services to multi-family, industrial, commercial land, mixed-use and hospitality end-markets across North America and Western Europe.

Today, the company's non-residential operations generate over $2 billion of recurring revenue with cash flow (EBITDA) margins above 40%. We expect this portion of the business to grow its revenue at a mid-teens rate for several years as the company launches new products, upsells existing customers, and raises prices. We expect profit and cash flow to grow at an even faster rate given the low marginal costs inherent in CoStar's business model. We think that cash flow from this business can double over the next five years, which implies a similar return for the stock.

The company undertook an audacious expansion plan and invested approximately $230 million in 2022 to enter the domestic residential real estate market. We believe management's initial 2023 guidance included a $500 million investment in its residential business. We suspect that management set expectations conservatively and is unlikely to spend the full $500 million, leading to likely earnings upside over the year. Notwithstanding our view of management's conservatism, we believe CoStar's residential investment is nominal relative to the company's $4 billion net cash balance and significant annual free cash flow generation capability. We think that the residential market is vast, and that CoStar is well positioned to build a compelling and differentiated business serving this market. If successful, we think that CoStar could generate almost $1 billion of incremental revenue over the next 5 to 10 years at 40% EBITDA margins. If unsuccessful, CoStar can easily throttle back on its investment and redeploy resources towards other markets without having impacted the fundamentals of its non-residential business.

Based on the current valuation of its shares and our expectation for future growth, we believe CoStar's shares have the potential to appreciate by 100% in the next three to four years.

Following strong share price performance in the first two months of 2023, the shares of **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated** reversed course in March on fears that a significant slowdown in bank lending and economic growth would negatively impact their 2023 leasing and property sales businesses.

Though we do expect commercial transaction and leasing headwinds may negatively impact 2023 business results, we remain bullish on the long-term growth opportunity for both companies and believe CBRE's and Jones Lang LaSalle's share prices are attractively valued and reflect a good portion of the possible 2023 growth headwinds.

CBRE and Jones Lang LaSalle are the two leading commercial real estate services companies in the world. Both companies have scale and product breadth advantages and have attained leading market share positions across their diversified real estate business segments. Both companies continue to gain market share and are well positioned to capitalize on ample attractive acquisition opportunities in the years ahead given their strong and liquid balance sheets.

As noted earlier in this letter, we are optimistic about the long-term growth opportunity for the commercial real estate brokerage category because of structural and secular tailwinds that should benefit leading global companies such as CBRE and Jones Lang LaSalle.

Tailwinds include:

- *The outsourcing of commercial real estate:* A growing number of companies are increasingly looking to outsource their commercial real estate needs. CBRE estimates that the overall facilities management market will be $1.9 trillion by 2024, representing a massive growth opportunity for large global commercial real estate services companies.
- *The institutionalization of commercial real estate:* Institutional allocations to real estate continue to increase, in part due to real estate's diversification, inflation protection, and relatively stable long-term growth attributes.
- *Opportunities to increase market share:* The commercial real estate industry remains highly fragmented and is likely to continue to consolidate. Customers tend to prefer commercial real estate companies that can provide a broad set of services. We believe CBRE and Jones Lang LaSalle are best positioned to drive market share gains given that they are the clear #1 and #2 commercial real estate services firms and have the capability to provide the full array of real estate offerings on a global scale.

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

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

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

The shares of **Sun Communities, Inc.**, a REIT that owns a portfolio of manufactured housing properties, recreational vehicle parks, and marinas, declined in the first quarter due to worse-than-expected 2023 growth expectations brought on by elevated costs and higher interest expense. We exited the Fund's investment in Sun Communities and reallocated the capital to other real estate companies that we believe will generate superior shareholder performance.

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

**Real Estate**

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

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

We maintain our view that 2023 may ultimately emerge as a mirror image of 2022 in that many of the headwinds of 2022 (higher inflation, a sharp increase in interest rates, aggressive Fed tightening, widening credit spreads, valuation compression) reverse course and become tailwinds in 2023, thereby contributing to solid full-year returns.

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

We believe prospective two- to three-year returns could be strong should a severe economic slowdown be avoided and 2024 emerges as a solid rebound year for economic and corporate profit growth.

Many public real estate companies now offer compelling return prospects that, in some cases, may include a trifecta combination of growth, dividends, and an improvement in valuation.

**Baron Real Estate Fund**

We remain optimistic about the prospects for the Fund because 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. We have structured the Fund to capitalize on high conviction investment themes. Valuations and return prospects are attractive.

We continue to believe the benefits of our flexible approach, which allows us to invest in a broad array of real estate companies including REITs and non-REIT real estate-related companies, will shine even brighter in the years ahead.

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

**Table XI.**
**Top 10 holdings as of March 31, 2023**

| | Quarter End Market Cap (billions) | Quarter End Investment Value (millions) | Percent of Net Assets |
|---|---|---|---|
| Toll Brothers, Inc. | $ 6.6 | $96.8 | 6.8% |
| Prologis, Inc. | 115.2 | 93.3 | 6.5 |
| Brookfield Corporation | 53.4 | 90.6 | 6.3 |
| CoStar Group, Inc. | 28.0 | 57.0 | 4.0 |
| Lennar Corporation | 29.7 | 53.7 | 3.7 |
| Rexford Industrial Realty, Inc. | 11.7 | 51.2 | 3.6 |
| Equinix, Inc. | 66.9 | 49.3 | 3.4 |
| MGM Resorts International | 16.6 | 47.2 | 3.3 |
| Wynn Resorts, Limited | 12.7 | 46.1 | 3.2 |
| Public Storage Incorporated | 53.1 | 44.6 | 3.1 |

I and the rest of our Baron real estate team – David Kirshenbaum, George Taras, and David Baron – remain energized, focused, and busy meeting with and speaking to real estate management teams. We continue our comprehensive research. We speak to a broad swath of real estate companies – both owned and not owned – 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. Broadly, we remain comforted by what we continue to learn from most real estate management teams regarding current business trends and business prospects.

I, and our team, remain fully committed to doing our best to deliver outstanding long-term results, and I proudly continue as a major shareholder, alongside you.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

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

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

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

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Real Estate Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such an offer or solicitation.

The portfolio manager defines "**Best-in-class**" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking. **Upside Capture** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture** measures how well a fund performs in time periods where the benchmark's returns are less than zero. **Enterprise value (EV)** is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization. EV includes in its calculation the market capitalization of a company but also short-term and long-term debt as well as any cash on the company's balance sheet.