DEAR BARON REAL ESTATE FUND SHAREHOLDER:

PERFORMANCE

We are pleased to report that Consuelo Mack, a highly respected and distinguished business journalist, recently interviewed us and profiled Baron Real Estate Fund® (the Fund) in a TV interview for *Consuelo Mack WealthTrack,* that is set to broadcast in two half-hour segments on April 19, 2024 and April 26, 2024. We will attach a link to the interview on our Baron website homepage at baronfunds.com in the "News & Events" section at a later date.

The Fund generated strong performance in the first quarter of 2024, gaining 8.28% (Institutional Shares). The Fund significantly outperformed the MSCI US REIT Index (the REIT Index), which declined 0.62%, and it outperformed the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which rose 6.59%.

As of March 31, 2024, the Fund has received special recognition from Morningstar:

- **#1 real estate fund ranking for each of its 10-year, 5-year, and 1-year performance periods**
- **#1 real estate fund ranking since the Fund's inception on December 31, 2009**
- **5-Star Overall Morningstar Rating™**

Since inception on December 31, 2009 through March 31, 2024, the Fund's cumulative return of 558.6% significantly exceeds that of the REIT Index and MSCI Real Estate Index, which have increased 194.4% and 363.5%, respectively.

JEFFREY KOLITCH
PORTFOLIO MANAGER

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

We will address the following topics in this letter:

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

As of 3/31/2024, the Morningstar Real Estate Category consisted of 250, 236, 217, 160, and 181 share classes for the 1-, 3-, 5-, 10-year, and since inception (12/31/2009) periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 1st, 37th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 1st, 92nd, 2nd, 2nd, and 2nd best performing share class in its Category, for the 1-, 3-, 5-, 10-year, and since inception periods, respectively.

As of 3/31/2024, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 1st, 37th, 1st, 1st, and 1st percentiles for the 1-, 3-, 5-, 10-year, and since inception periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 2nd, 91st, 1st, 1st, and 1st best performing share class in its Category for the 1-, 3-, 5-, 10-year, and since inception 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. Since inception rankings include all share classes of funds in the Morningstar Real Estate Category. Performance for all share classes date back to the inception date of the oldest share class of each fund based on Morningstar's performance calculation methodology.

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 top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Baron Real Estate Fund Institutional Share Class was rated 5 stars overall, 3 stars for the trailing 3 years, 5 stars for the trailing 5 years, and 5 stars for the trailing 10 years ended 3/31/2024. There were 236 share classes, 217 share classes, and 160 share classes in the 3-, 5-and 10-year periods. These Morningstar Ratings are for the Retail share class only; other classes may have different performance characteristics.

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BARON FUNDS 1987

Baron Real Estate Fund

Table I.
Performance
Annualized for periods ended March 31, 2024

	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]	8.24%	8.28%	6.59%	(0.62)%
One Year	26.14%	26.46%	25.27%	8.96%
Three Years	2.49%	2.75%	6.74%	2.84%
Five Years	15.79%	16.09%	9.84%	2.93%
Ten Years	10.12%	10.41%	9.36%	5.25%
Since Inception (December 31, 2009) (Annualized)	13.86%	14.14%	11.36%	7.87%
Since Inception (December 31, 2009) (Cumulative)[3]	535.37%	558.64%	363.52%	194.39%

Our Current Top-of-Mind Thoughts

Our current top-of-mind thoughts are as follows:

We remain optimistic about the prospects for the stock market.

- As noted in our year-end 2023 shareholder letter, we are sanguine about the prospects for the stock market because our research continues to lead us to believe that corporate earnings are likely to continue to grow, and a severe economic slowdown is unlikely to materialize. We continue to expect ongoing disinflation (albeit at a slower pace), and an eventual global pivot in monetary policy that will result in interest rate cuts and welcome relief for consumers and corporations. We see the potential for an improvement in company valuations driven by an easing in financial conditions and better-than-feared economic and corporate growth.

We agree with Blackstone's optimistic perspective on the prospects for real estate.

- In March, Bloomberg interviewed Jon Gray, President & Chief Operating Officer of Blackstone, and Nadeem Meghji, Global Co-Head of Real Estate at Blackstone, who discussed their optimism for real estate. We concur with their views.
- Jon Gray:
  - "*The perception is so negative and yet the value decline has occurred, so when you get into this bottoming period that's when you want to move.*"
  - "*As investors, sometimes, one of the risks is that you miss it by being overly cautious and I think now is probably a good time before rates come down.*"
- Nadeem Meghji:
  - "*What we see is a generational investing opportunity, buying opportunity, while others are looking in the rearview mirror. And what we believe is happening is that values are bottoming.*"

We remain steadfast in our view that a commercial real estate crisis is not on the horizon.

- Ever since the collapse of Silicon Valley Bank one year ago, we have consistently expressed our view that forecasts of widespread distress in commercial real estate are sensationalized and unlikely to materialize.
- We continue to believe that the likelihood of a commercial real estate crisis is low for the following reasons:
  - Real estate operating fundamentals are, in most cases, performing well
  - New construction activity has been and is expected to remain low. The dearth of new real estate construction activity compares favorably with prior real estate cycles when overbuilding of real estate contributed to a deterioration in real estate business prospects

Performance listed in the above table is net of annual operating expenses. The annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2023 was 1.31% and 1.06%, 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 waive or reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2034, 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 baronfunds.com or call 1-800-99-BARON.

[1] The **MSCI USA IMI Extended Real Estate Index Net (USD)** 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 Net (USD)** 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.

- – Most balance sheets are in strong shape
- – The banking system is well capitalized, with ample liquidity
- – We believe future loan defaults will be mostly isolated to class "B" and "C" office buildings
- – A U.S. Federal Reserve (the Fed) *put* (e.g., lowering interest rates) could mitigate headwinds

We continue to identify compelling investment opportunities in each of the Fund's six high-conviction investment themes:

- REITs
- Residential-related real estate
- Travel-related real estate
- Real asset-focused alternative asset managers
- Commercial real estate services companies
- Property technology companies

We have been busy meeting with real estate executives and the conclusions from our diligence are encouraging.

- In the first three months of 2024, we traveled to meet with the CEOs of three of the leading U.S. homebuilders – **Toll Brothers, Inc.**, **Lennar Corporation**, and **D.R. Horton, Inc.** Our research trips also included meetings with the CEOs of premier hotel, casino gaming, data center, single-family rental home, and many other REIT and non-REIT real estate companies
- Our team continues to 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. Broadly, *we remain comforted by what we continue to learn from most real estate management teams regarding current business trends and business prospects*
- Our corporate relationships and access to senior level real estate management teams are critical elements that contribute to competitive advantages for our real estate business versus many of our peers

The valuations of several real estate-related companies are compelling.

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

We continue to see a strong backdrop for real estate securities – REITs and non-REIT real estate-related companies – in 2024.

- Several public real estate companies have underperformed the S&P 500 Index since 2019, in part due to the lingering impacts from COVID-19, the aggressive Fed interest rate tightening cycle, and more recently, the overhang of the commercial real estate crisis narrative which we continue to believe is unlikely to materialize
- The global pivot in monetary policy – from restrictive to accommodative – has historically been bullish for real estate, though the timing of the pivot is uncertain
- We expect a modest decline in interest rates and tighter credit spreads, which will support real estate valuations, reduce the weight of debt refinancings, and reignite the transaction market
- We see attractive demand versus supply prospects. Vacancies are low, rents and home prices continue to increase albeit at a slower rate, and competitive new construction is muted for most commercial and residential sectors and geographic markets over the next several years
- Most balance sheets are in strong shape
- Several public real estate companies are cheap relative to historical averages and relative to private real estate alternatives
- Substantial private capital is in pursuit of public real estate because private funds can buy quality public real estate at a discount relative to private real estate
- Generalist investors who have been *underweight* real estate may increase allocations and real estate fund flows may turn positive given the considerations above

We continue to believe the long-term case for real estate remains compelling as real estate tends to provide:

- Partial inflation protection
- Diversification and low correlation to equities/bonds
- Strong historical long-term returns relative to most investment alternatives

Portfolio Composition and Key Investment Themes

We currently have investments in REITs, plus six additional non-REIT 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 on a bottom-up basis (See Table II below).

Table II.
Fund investments in real estate-related categories as of March 31, 2024

	Percent of Net Assets	
REITs		23.0%
Non-REITs		74.7
Homebuilders & Land Developers	24.5%	
Casinos & Gaming Operators	15.4	
Building Products/Services	12.9	
Real Estate Service Companies	9.6	
Real Estate Operating Companies	8.2	
Hotels & Leisure	4.2	
Cash and Cash Equivalents		2.2%
Total		100.0%*

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

Baron Real Estate Fund

Investment Themes

We continue to prioritize six long-term high-conviction investment themes or real estate categories:

1. REITs
2. Residential-related real estate
3. Travel-related real estate
4. Real asset-focused alternative asset managers
5. Commercial real estate services companies
6. Property technology companies

A one paragraph synopsis that explains the case for each of the Fund's investment themes can be found below.

For a more complete explanation of the rationale for our optimism for each of the Fund's investment themes, we encourage you to review our December 31, 2023, shareholder letter that can be accessed on our Baron website homepage at baronfunds.com by clicking on "Quarterly Letters" under Insights & Reports.

REITs

Business fundamentals are generally solid. Limited new competitive supply is forecast the next few years. Most balance sheets are in good shape. Several REITs benefit from some combination of all or some of the following favorable characteristics including inflation-protection, contracted cash flows, and an ability to increase dividends. Many REITs are cheap relative to history and private market valuations. REIT share price performance has historically benefited from an accommodative pivot in central bank monetary policy.

As of March 31, 2024, we had investments in six REIT categories representing 23.0% of the Fund's net assets. Please see Table III below.

Table III.
REITs as of March 31, 2024

	Percent of Net Assets
Industrial REITs	8.2%
Data Center REITs	6.9
Wireless Tower REITs	2.6
Health Care REITs	2.4
Single-Family Rental REITs	1.6
Multi-Family REITs	1.3
Total	23.0%*

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

Residential-related real estate

A multi-decade 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. Cyclical tailwinds (pent-up demand, low inventory levels, and a still healthy consumer) and secular tailwinds (flexible work arrangements that favor suburban living, a desire to own newly built homes rather than existing homes which, on average, are more than 40 years old, and the lock-in effect for existing homeowners to remain in their homes due to the move higher in mortgage rates) should aid the new home market for several years. The strategic pivot by several homebuilders to a more land-light business model, the utilization of lower leverage, improved capital allocation, and the prioritization of scale advantages may lead to higher valuations for homebuilders over time.

As of March 31, 2024, residential-related real estate companies represented 37.5% of the Fund's net assets. Please see Table IV below.

Table IV.
Residential-related real estate companies as of March 31, 2024

	Percent of Net Assets
Homebuilders	22.6%
Building Products/Services	12.2
Home Centers	2.7
Total	37.5%[1]*

1 Total would be 39.1% if we included residential-related housing REIT Invitation Homes, Inc.

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

Travel-related real estate

Several factors are likely to contribute to multi-year tailwinds for travel-related real estate companies including a favorable shift in consumer preferences (demand for experiences/services such as travel over goods), a growing middle class, and other encouraging demographic trends (more disposable income for the millennial cohort due to delays in household formation and work-from-home arrangements which allow for an increase in travel bookings); healthy balance sheets; and private equity's long history of investing in travel-related companies.

As of March 31, 2024, travel-related real estate companies represented 19.6% of the Fund's net assets. Please see Table V below.

Table V.
Travel-related real estate as of March 31, 2024

	Percent of Net Assets
Casinos & Gaming Operators	15.4%
Hotels	4.2
Total	19.6%*

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

Real asset-focused alternative asset managers

Leading real asset-focused asset managers **Blackstone Inc.** and **Brookfield Corporation** have an opportunity to increase market share due to impressive investment track records and global scale advantages. They are also positioned to benefit from a secular growth opportunity for alternative assets due to long track records of generating attractive relative and absolute returns with less volatility than several other investment options.

Commercial real estate services companies

Leading commercial real estate services companies **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated** should benefit from structural and secular tailwinds: the outsourcing of commercial real estate, the institutionalization of commercial real estate, and opportunities to increase market share in a highly fragmented market.

Property technology companies

The collision of real estate and technology has led to a new category within real estate–real estate technology, also referred to as *proptech*. 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 Group, Inc., 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, 2024, other real estate-related companies (which includes the three investment themes mentioned directly above) represented 17.7% of the Fund's net assets. Please see Table VI below.

Table VI.
Other real estate-related companies as of March 31, 2024

	Percent of Net Assets
Real Estate-Focused Alternative Asset Managers	8.2%
Commercial Real Estate Services Companies	4.9
Property Technology Companies	4.6
Total	17.7%*

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

TOP CONTRIBUTORS AND DETRACTORS TO PERFORMANCE

Table VII.
Top contributors to performance for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Percent Impact
Toll Brothers, Inc.	$13.5	2.60%
Lennar Corporation	47.4	0.83
Installed Building Products, Inc.	7.3	0.78
Wynn Resorts, Limited	11.5	0.49
CoStar Group, Inc.	39.5	0.42

Following exceptional performance in 2023, the share prices of our investments in homebuilder companies – **Toll Brothers, Inc.**, **Lennar Corporation**, and **D.R. Horton, Inc.** – continued to move higher in the first quarter of 2024, gaining 26.1%, 15.8%, and 8.5%, respectively, in part due to the continuation of strong quarterly business results and management optimism about each company's multi-year prospects.

Our recent meetings with CEOs Doug Yearley (Toll Brothers), Stuart Miller (Lennar), and Paul Romanowski (D.R. Horton), reinforced our view that each company is well positioned to generate strong long-term shareholder returns.

In March, we traveled to Pennsylvania to meet with Doug Yearley and other key members of Toll Brothers' senior management team. Our broad-ranging discussion strengthened our view that the long-term prospects for Toll Brothers have never been brighter. Our optimism is due to several factors including:

- **Strong long-term growth prospects:** In the next few years, we believe Toll Brothers has the ability to grow its community count of homes by approximately 10% per annum due to its multi-year supply of highly desirable land and the possibility of additional land or builder acquisitions
- **Limited competition:** Toll Brothers has established itself as the dominant luxury homebuilder in the U.S. with few competitors. Toll Brothers' average home sales price is approximately $1 million per home. Most public homebuilders sell homes in the $400,000 to $550,000 range. Toll Brothers' main competitors are small private homebuilders who are competitively disadvantaged due to the company's brand, scale, and balance sheet advantages
- **Large addressable and growing market:** According to Toll Brothers, the size of its U.S. addressable market to sell its homes is approximately 16 million households with annual incomes of at least $200,000 (out of a total of 132 million households). In 2023, Toll Brothers sold approximately 10,000 homes or only 0.06% of its total addressable market. Given Toll Brothers' limited competition and several other attributes noted below, we believe the company is just scratching the surface of its potential to increase its market share dramatically over time. Further, Toll Brothers targets the fastest growing income demographic in the U.S., which also bodes well for the company's long-term growth prospects. According to the U.S. Census Bureau (September 2023), households with over $200,000 in annual income have grown approximately 10 times faster than all U.S. households in the last 10 years

Additional factors that support our long-term optimism for Toll Brothers include:

- The company's prestigious land locations
- Toll's build-to-order model that caters to the needs of many buyers who have the desire and means to personalize their homes
- Its strong home buyer profile – in its most recent quarter, approximately 25% of its buyers bought homes with cash and no mortgage
- Toll Brothers' competitively advantaged balance sheet (low leverage, zero debt maturities until 2026, $2.5 billion of liquidity)
- The company's commitment to deploy its operating cash flow prudently towards growth, returning capital to shareholders (since 2016, Toll Brothers has repurchased almost 50% of its outstanding shares), and reducing debt
- Our belief that Toll Brothers, over the long term, will generate among the strongest profitability margins and return on equity profiles of all homebuilders
- A deep and talented management team, led by CEO Doug Yearley
- The valuation of Toll Brothers – currently at only 9.4 times 2024 estimated earnings per share – may re-rate higher over time

In January, we met with Lennar's senior management team, including CEO Stuart Miller, at the company's headquarters in Miami. We also had follow-up discussions with management over the course of the first quarter.

We are bullish on the long-term prospects for Lennar. We believe the company is exceptionally well run, favorably positioned to generate compelling long-term growth, and committed to unlocking shareholder value through several strategic initiatives.

Given its massive size (the company delivered 80,000 homes across its national footprint in 2023), Lennar benefits from important scale advantages that enable the company to attract labor, procure materials, and acquire land more easily and at more favorable pricing than its smaller competitors. Lennar is using these advantages to transition its business model into a “capital-light manufacturing operating model” whereby new homes are “manufactured” at a consistent pace throughout the year while employing a “land-light” strategy to reduce capital requirements. This transition is enabling Lennar to more easily meet its growth objectives (grow new home deliveries by approximately 10% per year) while improving operating and capital efficiency and reducing business risk. The transition has also led to improved cash-flow generation, which the company has been deploying for debt repayment, dividends and share purchases. The company is now sitting on approximately $5 billion of cash, which equates to approximately 11% of Lennar’s market capitalization. We anticipate that a large portion of this cash will be returned to shareholders via share repurchases. We are excited about this business transition and think it may lead to a higher valuation multiple over time.

We are also encouraged that management is exploring taking additional steps to create shareholder value by reducing capital intensity and simplifying the company. For example, last month management discussed the prospect of spinning off as much as $4 billion of land assets into a separate entity. Management may also monetize its partial interest in a large multi-family portfolio via the sale of the portfolio.

Although we are pleased with the strong recent share price performance of Lennar, we still underwrite compelling annual returns over the next few years, as we expect Lennar to compound book value per share at a mid-teens rate and see potential for the valuation multiple to expand further.

In addition to the strong share price gains of our homebuilder investments, the shares of several of the Fund’s residential-related building products/ services companies also performed well in the most recent quarter.

For example, the shares of **Installed Building Products, Inc.** (IBP), one of the nation’s largest installers of insulation and complementary building products, appreciated by 45.0% during the recent quarter, in part owing to signs that industry conditions in the new single-family residential construction market continue to improve (new single-family residential construction drives approximately 60% of IBP’s revenues).

In addition, IBP is executing superbly across various strategic initiatives to drive growth from other construction end-markets (new multi-family construction, light and heavy commercial construction, remodel construction), improve pricing and profitability, and identify attractive tuck-in acquisition targets.

We remain optimistic about our investment in IBP and expect the company to continue to compound cash flow at a double-digit clip for years to come. We expect IBP to benefit from several opportunities for growth, including:

- A compelling multi-year growth opportunity in the U.S. housing market following a multi-year period of structural underinvestment in the construction of residential real estate relative to the demographic needs of our country
- Expanding its approximately 30% market share of insulation for new residential construction organically by offering a superior customer experience and set of capabilities
- Expanding its less than 10% market share of complementary building products by leveraging its established insulation footprint for cross-selling (complementary building products currently represent 33% of sales)
- Acquiring other businesses – IBP has a successful track record of acquiring and integrating more than 160 companies, realizing meaningful cost savings, and enhancing the growth and profitability of these acquired businesses

Table VIII.
Top detractors from performance for the quarter ended March 31, 2024

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
American Tower Corporation	$ 92.1	-0.28%
Caesars Entertainment, Inc.	9.5	-0.27
Rexford Industrial Realty, Inc.	10.8	-0.22
Prologis, Inc.	120.4	-0.12
Vail Resorts, Inc.	7.9	-0.04

Following a more than 30% rebound in the fourth quarter of 2023, shares of **American Tower Corporation** lagged in the first quarter of 2024. The uncertainty around the timing and ultimate financial impact of American Tower’s India business sale, ongoing lower overall spending by wireless carriers, and higher interest rates weighed on the company’s shares. Please refer to our “Top Net Purchases” section for our rationale for acquiring additional shares.

The shares of **Caesars Entertainment, Inc.**, the largest casino-entertainment company in the U.S. and one of the world’s most diversified casino-entertainment providers, declined 7.0% in the first quarter in part due to expectations that first quarter results may be negatively impacted by bad weather. The move higher in interest rates also negatively impacted certain highly leveraged companies such as Caesars.

We are big fans of CEO Tom Reeg and remain optimistic about the long-term prospects for the company for the following reasons:

1. We are optimistic about the long-term prospects for Las Vegas, which represents approximately 50% of Caesars’ cash flow (with 50% of its cash flow generated from regional destination markets). 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.
2. Management is 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.
3. 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.

4. We believe the shares are attractively valued. At a recent price of only $44 per share, the shares are highly discounted (only 8 times enterprise value to cash flow and a mid-teens free cash flow yield) versus our assessment of fair value of $65 per share or nearly 50% above its recent price.

The shares of industrial REIT **Rexford Industrial Realty, Inc.**, a high-growth REIT that owns a $13 billion portfolio of industrial real estate properties concentrated in Southern California, declined in the first quarter primarily due to concerns that demand and rent growth remain challenged in Southern California.

We expected a moderation in rent growth from Rexford's frenzied pace of the last few years following the more than 100% increase in rents in Rexford's markets since the beginning of 2020. We believe rents may rebound in the second half of 2024 and remain optimistic about the long-term prospects for the company.

In our opinion, Rexford has one of the best long-term growth opportunities among all publicly traded REITs. The company has two significant prongs for long-term growth. First, the management team has an irreplaceable portfolio of 46 million square feet of industrial real estate and its in-place rents on signed leases are approximately 50% below market. As such, the company has line of sight to at least 50% growth as it adjusts rents up to market levels over the next four to five years. Second, Rexford's management team is pursuing acquisitions of additional square footage within its 1.8 billion square foot market. Through acquisitions, we believe management could double the size of its portfolio over time. Many of the industrial properties that Rexford is targeting are industrial real estate assets owned by individuals who have managed their real estate passively for decades; in many cases they have not increased rents consistently. That is a key opportunity for Rexford – acquire assets, upgrade the properties, and begin to increase rents.

RECENT ACTIVITY

Table IX.
Top net purchases for the quarter ended March 31, 2024

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
Vulcan Materials Company	$ 36.1	$19.2
American Tower Corporation	92.1	6.1
Hilton Worldwide Holdings Inc.	53.8	5.8
Boyd Gaming Corporation	6.5	4.6
Lowe's Companies, Inc.	145.8	4.4

We added to our position in **Vulcan Materials Company** during the most recent quarter. Vulcan is a real estate-related company that is the largest construction aggregates producer in the U.S. Vulcan generates approximately 90% of its gross profit from mining, processing, and transporting crushed stone, sand, and gravel (collectively, "aggregates") from its quarries. The balance of its gross profit is derived from strategically located ready-mix concrete and asphalt. The company's products are sold and utilized in infrastructure projects such as highways, as well as residential and non-residential construction. Vulcan has local leadership positions across its footprint.

We believe aggregates are an attractive business for two main reasons:

- High barriers to entry limit new competition: Permits to open new quarries are difficult to obtain, and the approval process typically takes 5 to 10 years
- Consistent pricing power through cycles: Aggregates producers have historically enjoyed great pricing power owing to the difficulty in opening competing new quarries, the limited substitutes for quality aggregates, and a high weight-to-price ratio that makes transportation expensive relative to the cost of the material. In the last 30 years, pricing of aggregates has increased, on average, 4% per year

We believe the multi-year growth prospects for Vulcan are especially attractive for four reasons:

1. Infrastructure-related spending is accelerating and will be elevated over the next several years. The Infrastructure and Investment Jobs Act allocates significant sums towards new and existing infrastructure spending through 2026. In addition, outsized state-level infrastructure spending will drive demand across the company's footprint. Infrastructure spending accounts for approximately 40% of the company's aggregate shipments
2. Private construction spending (residential and non-residential) may accelerate over the next several years. Residential construction may remain strong owing to an acute need for more new homes following a 15-year period of underbuilding relative to the demographic needs of our country. Non-residential spending may accelerate to meet the real estate needs in growing areas such as logistics warehouses, data centers, and manufacturing
3. Pricing power has been exceptionally robust (double digits) in response to inflationary cost pressures, and we expect price growth to remain strong.
4. Margin expansion opportunity. Management remains laser-focused on improving productivity and maximizing unit-level profitability, with the goal of further expanding margins

We expect our investment can generate a mid-teens annual return over the next few years, driven by double-digit annual cash-flow growth.

In the first quarter, we continued to acquire additional shares of **American Tower Corporation**, a global operator of over 200,000 wireless towers. We believe that 2023 marked a trough in earnings growth, financing/interest rate headwinds, and valuation bottoming. Looking ahead, we are more optimistic about the company's prospects due to its: i) accelerating growth expectations; ii) cash flow stability underpinned by core developed markets; iii) secular demand drivers such as growing mobile data usage, 5G spectrum deployment and network investment, edge computing, and connected homes and cars, which will require increased wireless bandwidth and increased spending by the mobile carriers; and iv) strong growth within CoreSite, its network-dense data center company, and optionality with that business segment as future network needs and architecture evolve.

We recently acquired additional shares of **Hilton Worldwide Holdings Inc.** Hilton is the second largest hotel company in the world with 7,500 properties, 1.2 million rooms, 22 unique brands, and 180 million loyalty members in its database. Hilton has a superior executive team led by long-time CEO Chris Nassetta (over 16 years as CEO).

In March, we attended Hilton's Investor Day in Washington, D.C. and also spent time with Chris in advance. Our main takeaway from the Investor Day presentations, besides being able to meet with a deeper and impressive layer of the management organization, is that Hilton's growth prospects over the next five years are superior to the prior five due to: i) accelerating unit growth driven by new and existing brands; ii) several brand 'seedlings' planted with significant white space for growth (e.g., Graduate Hotels, SLH, LivSmart); and iii) Hilton's better ability to capture the brand 'conversion' opportunity irrespective of new hotel construction/development.

Hilton's durable growth is underpinned by one of the best business models that we have encountered, which creates a flywheel effect. The flywheel model breaks down as follows: i) Hilton maintains market-leading brands across its various segments (as measured by rate and occupancy premium); ii) which in turn allows the company to curate a loyalty database of 180 million members; iii) leading to higher realized profits by hotel owners and a disproportionate share of hotel developers choosing to invest in Hilton brands; iv) translating to a higher share of industry hotel unit growth (Hilton's share of rooms under construction is approximately four times greater than its existing market share of rooms). The company is able to grow with limited capital investment required (asset light) and thus return most of its cash flow to shareholders via share repurchases and a modest dividend. To illustrate the asset-light nature of the business, Hilton's current development pipeline will cost developers $50 billion to build out while Hilton is expected to contribute only $300 million!

Putting it all together, we see the potential for Hilton to grow its cash flow by approximately 10% annually at 90% incremental margins while buying back around 5% of its shares annually, which translates into mid-teens earnings per share growth. Hilton has organically curated new brands to pursue white space in the market, and we believe its development pipeline alone, a large portion of which is already under construction, could be worth $50 per share on a recent share price of approximately $213. Lastly, CEO Chris Nassetta's interests are fully aligned with shareholders. He has meaningful skin in the game through his ownership of approximately $800 million of Hilton stock, and he has never sold a share!

Table X.
Top net sales for the quarter ended March 31, 2024

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Equinix, Inc.	$78.1	$17.2
Vail Resorts, Inc.	7.9	15.5
Caesars Entertainment, Inc.	9.5	9.7
Installed Building Products, Inc.	7.3	9.1
Extra Space Storage Inc.	31.8	5.2

Following strong relative and absolute performance in 2023, we reduced our position in leading global data center operator, **Equinix, Inc.**, due to the Fund's large position size and other compelling new investment ideas that we have been identifying. Equinix continues to be a core position in the Fund, and we remain optimistic about the long-term growth prospects for the company due to its interconnection focus among a highly curated customer ecosystem developed over the past 20-plus years, strong demand and pricing power, favorable supply backdrop, and evolving incremental demand vectors such as AI. We believe Equinix can continue to compound earnings at approximately 10% over the next few years and believe the prospects for strong shareholder returns remain compelling.

In the first quarter, we exited the Fund's small position in **Vail Resorts, Inc.**, an owner and operator of premier mountain resorts, and reallocated the capital to other real estate-related companies that we believe may offer superior return potential. We may revisit Vail at a later date. We also trimmed the Fund's position in **Caesars Entertainment, Inc.**, but remain optimistic about the company's long-term prospects.

Concluding Thoughts on the Prospects for Real Estate and the Fund

The last few years have been unusually challenging for real estate. The sector has absorbed a hurricane of headwinds including COVID-19, the most aggressive Fed interest rate tightening campaign in decades, a spike in mortgage rates from 3% to 8%, fears of a commercial real estate crisis, a tightening of credit availability, multi-decade high inflation, and supply-chain challenges.

We believe many of the challenges of the last few years are subsiding. We believe brighter prospects for real estate are on the horizon. We are optimistic.

We continue to believe the narrative about a commercial real estate crisis is hyperbole and unlikely to materialize. Public real estate generally enjoys favorable demand versus supply prospects, maintains conservatively capitalized balance sheets, and has access to credit.

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, in part due to the rapidly changing real estate landscape which, in our opinion, requires more discerning analysis.

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

Table XI.
Top 10 holdings as of March 31, 2024

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Toll Brothers, Inc.	$ 13.5	$217.4	11.5%
Lennar Corporation	47.4	105.7	5.6
D.R. Horton, Inc.	54.6	102.8	5.4
Prologis, Inc.	120.4	92.8	4.9
Blackstone Inc.	159.4	89.4	4.7
CoStar Group, Inc.	39.5	87.5	4.6
EQUINIX INC.	78.1	80.3	4.3
Wynn Resorts, Limited	11.5	69.0	3.7
MGM Resorts International	15.0	66.2	3.5
Las Vegas Sands Corporation	39.0	51.5	2.7

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

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 1-800-99-BARON or visiting 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. **Free cash flow yield** is a financial solvency ratio that compares the free cash flow per share a company is expected to earn against its market value per share. **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.

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