DEAR BARON REAL ESTATE FUND SHAREHOLDER:

PERFORMANCE

Baron Real Estate Fund® (the Fund) generated strong performance in 2023, gaining 25.04% (Institutional Shares) for the year ended December 31, 2023.

The Fund's 25.04% gain in 2023 was more than double that of the MSCI US REIT Index (the REIT Index), which rose 12.27%, and it outperformed the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which rose 23.09%.

For the most recent three-month period ended December 31, 2023, the Fund increased 18.42%, exceeding the REIT Index's return of 15.60% and the MSCI Real Estate Index's return of 16.90%.

We are pleased to report that as of December 31, 2023, 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**

Since inception on December 31, 2009 through December 31, 2023, the Fund's cumulative return of 508.3% exceeds that of the REIT Index and MSCI Real Estate Index, which have increased 196.2% and 334.9%, respectively.

We will address the following topics in this letter:

- Big picture thoughts regarding 2023 and 2024
- The prospects for real estate in the public markets (preview: we remain bullish)
- 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

JEFFREY KOLITCH

PORTFOLIO MANAGER

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

As of 12/31/2023, the Morningstar Real Estate Category consisted of 251, 235, 215, 156, and 182 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, 80th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 1st, 196th, 2nd, 1st, and 2nd best performing share class in its Category, for the 1-, 3-, 5-, 10-year, and since inception periods, respectively.

As of 12/31/2023, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 1st, 79th, 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, 195th, 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.

Baron Real Estate Fund

Table I.
Performance
Annualized for periods ended December 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]	18.33%	18.42%	16.90%	15.60%
One Year	24.70%	25.04%	23.09%	12.27%
Three Years	3.36%	3.62%	8.58%	5.89%
Five Years	18.01%	18.32%	11.68%	6.15%
Ten Years	9.78%	10.06%	9.11%	6.29%
Since Inception (December 31, 2009) (Annualized)	13.48%	13.76%	11.07%	8.07%
Since Inception (December 31, 2009) (Cumulative)[3]	487.01%	508.28%	334.88%	196.23%

Big Picture Thoughts Regarding 2023 and 2024

One year ago, in our year end 2022 shareholder letter, we stated that we believed 2023 would ultimately emerge as a mirror image of 2022 in that many of the headwinds of 2022 (multi-decade high inflation, a hawkish Federal Reserve policy and corresponding spike in interest rates, and elevated corporate and economic growth) would reverse course and become tailwinds in 2023. We stated that we were optimistic about the full-year prospects for the stock market, public real estate securities, and the Fund. Though there were fits and starts along the way, our expectation for 2023 largely materialized.

As we peer into 2024, we remain optimistic.

Though we are aware that our bullish view appears to be the consensus view and are mindful of possible market headwinds such as an escalation in geopolitical tensions, a reversal in the disinflationary process, and the lag effect of interest rate increases resulting in a sharp slowdown in growth, we are sanguine about the prospects for the stock market for the following reasons:

1. We believe a severe economic slowdown is unlikely to materialize, in part due to still relatively healthy consumer spending and wage growth:
    - The U.S. unemployment rate remains at only 3.7%
    - The demand for labor is strong as there are 1.4 jobs available for every unemployed worker
    - Consumers have purchasing power as wage growth of approximately 4% exceeds inflation for the first time since early 2021
2. We expect ongoing disinflation.
3. We anticipate that the global pivot in monetary policy will result in interest rate cuts and welcome relief for consumers and corporations.
4. We see the potential for an improvement in company valuations (e.g., P/E expansion, capitalization rate compression) driven by an easing in financial conditions and better-than-feared economic and corporate growth.

We believe prospective two- to three-year returns for the stock market, public real estate securities, and the Fund could be strong should a sharp economic slowdown be avoided, and 2025 emerges as a rebound year for economic and corporate profit growth.

The Prospects for Real Estate in the Public Markets

We 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 Federal Reserve 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.
- We expect a 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.

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, 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.

- 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 aforementioned considerations.

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 December 31, 2023

		Percent of Net Assets
REITs		26.1%
Non-REITs		72.3
Homebuilders & Land Developers	22.6	
Casinos & Gaming Operators	15.8	
Building Products/Services	11.6	
Real Estate Service Companies	9.5	
Real Estate Operating Companies	8.6	
Hotels & Leisure	4.2	
Cash and Cash Equivalents		1.5%
Total		100.0%*

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

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

REITs

Business fundamentals and prospects for many REITs remain solid although, in most cases, growth is slowing due to debt refinancing headwinds, a moderation in organic growth (occupancy, rent and/or expense pressures), reduced investment activity (acquisitions and development), and, in a few select instances, the impacts from transitory oversupplied conditions. Most REITs enjoy occupancy levels of more than 90% with modest new competitive supply forecasted in the next few years due to elevated construction costs and contracting credit availability for new construction. Balance sheets are in good shape. Several REITs have inflation-protection characteristics. Many REITs have contracted cash flows that provide a high degree of visibility into near-term earnings growth and dividends. Dividend yields are generally well covered by cash flows and are growing.

REIT valuations are attractive on an absolute basis relative to history and relative to private market valuations, but not relative to fixed income alternatives. If economic growth contracts and evolves into no worse than a mild recession and the path of interest rates peaks at levels not much higher than current rates, we believe the shares of certain REITs may begin to perform relatively well. 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 continue to prioritize secular growth REITs and short-lease duration REITs with pricing power:

> *Secular growth REITs:* Our long-term focus remains 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 industrial logistics, data center, and wireless tower REITs.
>
> *Short-lease duration REITs with pricing power:* We have continued to emphasize REITs that are able to raise rents on a regular basis to combat inflation's impact on their businesses. Examples include our investments in single-family rental, multi-family, and self-storage REITs.

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

As of December 31, 2023, we had investments in seven REIT categories representing 26.1% of the Fund's net assets. Please see Table III below.

Table III.
REITs as of December 31, 2023

	Percent of Net Assets
Industrial REITs	9.5%
Data Center REITs	8.1
Wireless Tower REITs	2.8
Health Care REITs	2.5
Single-Family Rental REITs	1.6
Multi-Family REITs	1.4
Self-Storage REITs	0.3
Total	26.1%*

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

Baron Real Estate Fund

Residential-related real estate

Investment opportunities in the U.S. housing market have been a long-term investment theme for the Fund.

We anticipate it will remain a multi-year investment theme. The underpinnings of our optimism are three-fold:

1. There has been a **multi-decade structural underinvestment in the construction of residential real estate relative to the demographic needs of our country that bodes well for long-term housing construction activity, sales, rentals, pricing, and repair and remodel activity**.

   The U.S. is building fewer homes today than 60 years ago – approximately 1.4 million homes versus 1.6 million homes in 1963. This annual construction figure is shockingly low considering that the U.S. population has grown by more than 150 million people since 1963 – 339 million people today versus 189 million people in 1963!

   Since the Global Financial Crisis, the U.S. has entered a sustained period of underbuilding. On average, approximately 1.1 million homes have been built each year (2008 to 2023). This low figure compares to approximately 1.6 million homes built each year from 1963 to 1973 (50 to 60 years ago) when the U.S. population was materially lower than it is today.

   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 and may continue to do so. U.S. Census data shows that the homeownership rate for those younger than 35 is only 39%, and that number jumps to 62% for those ages 35 to 44. Most millennials are between 29 and 32, which bodes well for prospective housing demand.

   The large imbalance between pent-up housing demand and low construction levels supports a favorable long-term backdrop for single-family home purchases. It should also be promising for home and apartment rentals.

2. There are **powerful cyclical AND secular tailwinds** that should aid the housing market in the years ahead.

   Cyclical tailwinds

   In addition to cyclically depressed levels of construction activity and pent-up demand, low inventory levels and a still healthy consumer (low unemployment and solid wage growth) should continue to benefit the U.S. housing market. The current situation is nothing like what occurred during the Global Financial Crisis when our country's inventory of homes was historically high relative to demand.

   Secular tailwinds

   COVID-19, an aging existing housing stock, and higher mortgage rates have given rise to secular tailwinds that may aid the U.S. housing market for several years:

   - COVID-19 has led to more flexible work arrangements (an ability to work from home for a portion or all of each week) and an ability to relocate away from urban areas to suburban towns. These factors should underpin strong demand for single-family homes, to purchase or rent. Further, if homeowners or renters are likely to spend more time at home given the ability to work from home, they are likely to spend more on home repair and remodeling activity (home office, outdoor decks and living spaces, pools, refreshing paint jobs), which should benefit the Fund's investments in residential-related building product and services companies.
   - According to a recent research report by UBS, the median age of the existing U.S. housing stock is more than 40 years old. We believe many buyers of homes will continue to be more inclined to consider new construction, which should benefit the Fund's U.S. homebuilding companies.
   - The move higher in mortgage rates has created a lock-in effect for existing homeowners that may persist for several years. According to Redfin, approximately 62% of all homeowners with a 30-year fixed mortgage have mortgage rates below 4%. 82% have mortgage rates below 5%. We expect U.S. homebuilders to continue to benefit as existing homeowners are staying put because of below market mortgage rates.

3. **Several U.S. homebuilders have dramatically improved the long-term potential for their businesses given a strategic pivot to a more *land-light* business model, the utilization of lower leverage, and the prioritization of scale advantages. We believe these important changes may lead to higher valuations for homebuilders over time.**

   Please see "Top contributors and detractors to performance" later in this letter. There, we discuss the Fund's homebuilder investments and these topics in more detail.

As of December 31, 2023, residential-related real estate companies represented 34.2% of the Fund's net assets. Please see Table IV below.

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

	Percent of Net Assets
Homebuilders	20.6%
Building Products/Services	11.2
Home Centers	2.3
Total	34.2%*

* *Total would be 35.8% if we include residential-related housing REIT Invitation Homes, Inc. Individual weights may not sum to the displayed total due to rounding.*

Travel-related real estate

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

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.

Even though travel-related business conditions may moderate in the year ahead given the likelihood of an economic slowdown, which would negatively impact 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 have 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).
- *Cyclical depression, not secular challenge:* 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 from 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:* The travel-related real estate companies we invest in 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:* 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 December 31, 2023, travel-related real estate companies represented 20.0% of the Fund's net assets. Please see Table V below.

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

	Percent of Net Assets
Casinos & Gaming Operators	15.8%
Hotels	3.3
Ski Resorts	0.9
Total	20.0%*

* *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 three investment themes and various companies that do not fit neatly in our traditional REIT, residential-related real estate, and travel-related real estate categories. They currently include three investment themes:

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

Real asset-focused alternative asset managers

We remain optimistic about the long-term prospects for Blackstone and Brookfield 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 Blackstone and Brookfield. 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 Blackstone and Brookfield 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.

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 in 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 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 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.

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 embraced it. 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 businesses use 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 December 31, 2023, other real estate-related companies represented 18.1% of the Fund's net assets. Please see Table VI below.

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

	Percent of Net Assets
Real Estate-Focused Alternative Asset Managers	8.6%
Commercial Real Estate Services Companies	5.0
Real Estate Data Analytics Companies	4.4
Total	18.1%*

* 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 December 31, 2023

	Quarter End Market Cap (billions)	Percent Impact
Toll Brothers, Inc.	$ 10.7	3.52%
D.R. Horton, Inc.	50.6	2.07
Lennar Corporation	41.9	1.69
Blackstone Inc.	158.4	1.04
Prologis, Inc.	123.2	1.02

The share prices of our investments in homebuilder companies – **Toll Brothers, Inc.**, **D.R. Horton, Inc.**, and **Lennar Corporation** – gained 39.4%, 41.8%, and 33.2%, respectively, in the most recent quarter, in part due to the continuation of strong quarterly business results, management optimism about 2024 prospects, and a more than 100 basis point decline in 30-year mortgage rates during the quarter.

2023 was an excellent year for the public homebuilders. Housing fundamentals were resilient despite the affordability challenges of elevated mortgage rates and home prices. Several years of pent-up demand, fears that mortgage rates could move higher, a dearth of inventory in the existing home market, and an overall housing supply shortage drove home buyers off the sidelines to "stretch their wallet," in part due to fears that they could miss out on the opportunity to buy a home. The Fund's homebuilding companies Toll Brothers, D.R. Horton, and Lennar increased 108.0%, 71.4%, and 66.3%, respectively, in 2023.

Though we anticipate more modest gains for the Fund's homebuilder investments in 2024, we remain optimistic about the long-term prospects for Toll Brothers, D.R. Horton, and Lennar. Further, we continue to believe there is a compelling case for the homebuilder valuations to re-rate higher over time.

The strategic pivot

We are pleased that the Fund's homebuilder companies and other builders have transitioned to a more *land-light* business model by prioritizing optioned land and reducing owned land holdings. This lower risk land strategy is less capital intensive, less cyclical, results in minimal land impairments, utilizes modest leverage, and generates higher and more consistent cash flow and more consistent capital returns to shareholders.

Toll Brothers, D.R. Horton, and Lennar have also prioritized growth so that they can take advantage of scale advantages that help each company procure materials, labor, and land more easily and at more favorable prices than many of their competitors. Each company is well positioned to increase market share because many of their competitors are smaller public and private builders that lack comparable access to materials, labor, and land, and are capital constrained.

The potential for a re-rate higher in valuation

In our June 30, 2023, shareholder letter, we introduced our view that we believe there is a compelling case for a favorable paradigm shift in how homebuilding companies are valued in the public markets.

- Since the beginning of 2020, D.R. Horton, Lennar, and Toll Brothers have demonstrated substantial resilience and operating prowess. Despite several black swan events – COVID-19, a sharp increase in mortgage rates from 3% to 8%, and supply-chain disruptions – each company has managed its business exceptionally well and demonstrated that the demand to buy homes is resilient.
- NVR, Inc., a well-managed and highly regarded homebuilder that adopted a 100% *land-light* strategy several years ago, has seen its valuation P/E multiple expand to 16 times earnings per share while the valuation of the other public homebuilders remains in the historical P/E range of 5 to 10 times earnings per share. Now that several homebuilders are in the process of pivoting to a more *land-light* strategy, their valuations have the potential to improve over time.
- In the second quarter of 2023, legendary investor Warren Buffett's Berkshire Hathaway Inc. invested $800 million in three U.S. homebuilders (DR Horton, Lennar, and NVR) despite the dramatic increase in homebuilder share prices and mortgage rates in the trailing 12-month period. We suspect Berkshire Hathaway has taken notice of the operating prowess of several U.S. homebuilders and believes that valuations are compelling.

Homebuilding companies tend to be valued in the public market on a price-to-book value ranging from 1 to 2 times book value. This compares to the S&P 500 Index average book value since 2000 of approximately 3 times (with a historical range of 1.78 times to 5.06 times). Similarly, homebuilding companies have tended to be valued in the public market at steep discounts (often 5 to 10 times earnings per share) to the long-term average S&P 500 Index P/E multiple of 17 times earnings per share.

If a paradigm shift in valuation multiples materializes due to the reasons cited above and homebuilder valuations re-rate structurally higher – closer to an S&P 500 Index valuation – the long-term share price return potential for our homebuilder companies would become even more compelling.

Table VIII.
Top detractors from performance for the quarter ended December 31, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Percent Impact
Public Storage Incorporated	$42.7	–0.13%
Wynn Resorts, Limited	10.3	–0.12
Marriott Vacations Worldwide Corporation	2.8	–0.09
Equity Residential	23.2	–0.01
SiteOne Landscape Supply, Inc.	7.3	–0.01

In the most recently reported quarter, business results for **Public Storage Incorporated**, a REIT that is the world's largest owner, operator, and developer of self-storage facilities, were mildly disappointing as occupancy trends and rents moderated as a result of less housing-related movement and a more price-sensitive consumer. We decided to sell our position because we believe near-term rent and overall cash-flow growth may remain subdued.

The shares of **Wynn Resorts, Limited**, an owner and operator of hotels and casino resorts, declined modestly in the most recent quarter, in part due to concerns about economic weakness in China.

We remain optimistic about the multi-year prospects for the company. We believe the ongoing re-emergence of business activity in Macau will drive additional shareholder value. If cash flow returns to the level achieved in 2019 prior to COVID-19, we believe Wynn's shares will increase 30% to 50% higher than where they have recently traded.

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 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; and (v) an expansion in the company's valuation multiple to levels achieved prior to the pandemic.

The shares of **Marriott Vacations Worldwide Corporation**, a leading timeshare company with more than 120 resorts, remained under pressure in the most recent quarter following disappointing earnings results. We exited the Fund's small position in the company and reallocated the capital to other travel-related real estate-related companies that we believe offer superior near-term business prospects.

Recent Activity

Table IX.
Top net purchases for the quarter ended December 31, 2023

	Quarter End Market Cap (billions)	Amount Purchased (millions)
American Tower Corporation	$100.6	$30.8
Equity Residential	23.2	24.1
Caesars Entertainment, Inc.	10.1	17.1
Janus International Group, Inc.	1.9	9.9
SiteOne Landscape Supply, Inc.	7.3	9.2

Early in 2023, we sold the majority of our position in **American Tower Corporation**, a global operator of over 200,000 wireless towers, and even further reduced our modest position in the third quarter of 2023. We had concluded in late 2022 and early 2023 that growth expectations were too high given forthcoming headwinds from significantly higher financing costs (20%-plus exposure to floating rate debt), upcoming debt maturities, continued payment shortfalls from a key tenant in India, foreign exchange headwinds, and a reduction in mobile carrier capital expenditures.

Following a sharp decline in American Tower's shares in the first nine months of 2023, we began rebuilding our position because we believed that the company's shares had become more attractively valued, growth headwinds were better understood, and the potential monetization event of its India business would ultimately be value accretive to its business. Further, we believe that 2023 will mark the trough in earnings growth for American Tower and growth should reaccelerate in the next few years.

In the most recent quarter, we re-acquired shares in **Equity Residential**, the largest U.S. multi-family REIT. The company has assembled an excellent portfolio of Class A apartment buildings located in high barrier-to-entry coastal markets with favorable long-term demographic trends and muted overall supply growth. We believe the company is also well positioned to benefit from the affordability advantages of renting versus home ownership, annual leases that provide the potential for partial inflation protection, and its low levered balance sheet, which positions the company to take advantage of acquisition opportunities.

In our opinion, Equity Residential's shares are attractively valued relative to private market values and the company owns and operates excellent and relevant real estate that should perform well, long term.

In the most recent quarter, we acquired additional shares in **Caesars Entertainment, Inc.**, the largest casino-entertainment company in the U.S. and one of the world's most diversified casino-entertainment providers. We are big fans of CEO Tom Reeg and remain optimistic about the long-term prospects for the company.

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

1. We are optimistic about the long-term prospects for Las Vegas and Las Vegas represents approximately 50% of Caesars' cash flow. 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 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.

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 $46 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 $75 per share or more than 60% above its recent price.

Table X.
Top net sales for the quarter ended December 31, 2023

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
Brookfield Corporation	$65.8	$25.5
Public Storage Incorporated	42.7	13.2
Digital Realty Trust, Inc.	41.6	11.2
CBRE Group, Inc.	28.4	10.5
Extra Space Storage Inc.	33.9	7.7

In the most recent quarter, we reduced our large position in **Brookfield Corporation**, a premier real asset alternative manager, but remain of the view that the long-term growth and share price appreciation potential are compelling.

We have a favorable view of CEO Bruce Flatt and his deep leadership team. 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.

We continue to believe Brookfield will increase its market share of the growing pool for alternative assets given the company's scale advantages, global capabilities, and operating expertise.

We believe Brookfield's shares remain highly discounted versus the liquidation value of its overall business.

In the most recent quarter, we exited our investment in **Public Storage Incorporated**, a REIT that is the world's largest owner, operator, and developer of self-storage facilities, due in part to expectations that rent and overall cash-flow growth may continue to moderate. We are likely to revisit Public Storage in the future.

Following strong share performance, we trimmed our large investment in data center REIT **Digital Realty Trust, Inc.** We remain optimistic about the long-term potential for the company.

Data center landlords such as Digital Realty (and **Equinix**, **Inc.**) are benefiting from record low vacancy, demand outpacing supply, more constrained power availability, and rising rental rates. Several secular demand vectors, which are currently broadening, are contributing to robust fundamentals for data center space globally. They include the outsourcing of information technology infrastructure, increased cloud computing adoption, the ongoing growth in mobile data and internet traffic, and artificial intelligence as a new wave of data center demand.

In the last few months, we have also spent time with CEO Andy Power of Digital Realty. Over the last few years, Andy and Digital Realty's management team have been undergoing a business transformation, which accelerated after its acquisition of Interxion in March 2020, a pure-play European network-dense data center operator. The company has been shedding non-core slower-growth assets, investing and expanding in Europe, growing its retail colocation business, improving its balance sheet, and adding operational expertise by supplementing new management leadership. We have spent a significant amount of time with Andy over the years and believe the investments the company has made are on the cusp of bearing fruit and will pay dividends for years to come. In addition, we believe the fundamentals in its core business are at an inflection point with robust demand/bookings, pricing power, hyperscale cloud players outsourcing a higher percentage of their digital infrastructure needs and limited competitive capacity. We believe these factors will lead to growth in the core business in the next few years and are optimistic about the long-term prospects for the company.

Concluding Thoughts on the Prospects for Real Estate and the Fund

The last few years have been unusually challenging for real estate. Much of real estate has had to absorb a hurricane of headwinds including COVID-19, the most aggressive Federal Reserve 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. Though we expect market volatility at various points in the year ahead, 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 Baron Real Estate Fund.

Table XI.
Top 10 holdings as of December 31, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Toll Brothers, Inc.	$ 10.7	$172.7	9.9%
Prologis, Inc.	123.2	99.0	5.7
Equinix, Inc.	75.6	95.5	5.5
D.R. Horton, Inc.	50.6	94.9	5.5
Lennar Corporation	41.9	91.6	5.3
Blackstone Inc.	158.4	89.1	5.1
CoStar Group, Inc.	35.7	77.3	4.4
MGM Resorts International	15.3	60.7	3.5
Wynn Resorts, Limited	10.3	58.3	3.4
Las Vegas Sands Corporation	37.6	49.0	2.8

I would like to thank our core real estate team – David Kirshenbaum, George Taras, and David Baron – for their outstanding work, dedication, and partnership. 2023 was, once again, a challenging year to navigate, and each of you continue to impress. I would also like to welcome the newest member of our real estate team, David Berk. We are thrilled to have David join our team.

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

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. **Price/Earnings Ratio (next 12-months)**: is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation. **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. **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.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).