

Investing In REAL ESTATE

WITH JEFF KOLITCH



REIT Conversion for Equinix?

While many real estate funds invest mainly in Real Estate Investment Trusts (REITs), Baron Real Estate Fund takes a broader view and invests in a broad universe of real estate and real estate related businesses.

Consistent with the more diversified and unconventional investment approach of Baron Real Estate Fund, the portfolio's largest position is Equinix, a leading operator of data centers across North America, Europe and the Asia-Pacific region. Comprising 7.0% of the portfolio as of February 29, 2012, we began purchasing shares immediately after the Fund's launch at the end of 2009.

With 99 data centers in 38 major business markets, Equinix is now considering converting to the REIT structure. Like American Tower, an owner and operator of cellular towers, which converted to REIT status earlier this year, Equinix's real estate holdings and the "rent" that it derives from its properties give it many of the same attributes that characterize more conventional real estate companies. American Tower is also a holding (1.7%) in the Fund.

Equinix's share price trades at a 35% to 40% valuation discount to most REITs despite generating superior cash flow growth. We believe this valuation discount will nar-

row if the company converts to a REIT. The company announced last year that it was considering a conversion and expects to make a decision this year.

Even if management decides not to convert, we believe Equinix will remain an attractive stock with significant long-term growth potential. We think 2011 sales of \$1.6 billion could double to more than \$3 billion in 2015. Similarly, we project that cash flow, \$744 million in 2011, will also double to more than \$1.5 billion in 2015.

Baron Real Estate Fund invests primarily in real estate and real-estate related companies that we believe have significant growth potential over the next five years. In this column, Portfolio Manager Jeff Kolitch presents his views on the companies and developments that he believes will be important in the months to come.

Current and future portfolio holdings are subject to risk. Equinix, Inc., as of 2/29/12, was also held by Baron Asset Fund, 3.4%; Baron Fifth Avenue Growth Fund, 3.0%; Baron Growth Fund, 2.0%; Baron Opportunity Fund, 4.3% and Baron Small Cap Fund, 3.0%. American Tower Corp., as of 2/29/12, was also held by Baron Small Cap Fund, 0.5%. 🏰

Baron Investor is written and edited by Paul L. Edwards