



July 11, 2019

## Baron Real Estate Fund 2Q19 Performance Review and Portfolio Positioning

### 2Q19 Performance Review

- Baron Real Estate Fund gained 4.22% in the second quarter and outperformed its primary benchmark, the MSCI USA IMI Extended Real Estate Index, which gained 3.57%.
- Fund performance was led by **MGM Resorts International** and two data center companies.
  - Shares of MGM, a leading global hotel and casino company, gained on two key factors:
    - The MGM Board of Directors acquired a significant amount of stock in the most recent quarter.
    - Management has continued to reiterate its confidence in growing the company's cash flow by approximately 35% in the next two years. Management believes the recent opening of three new properties, an ongoing focus on improving efficiencies with a prioritization on cost-cutting, and organic growth will propel MGM to achieve its growth targets.
  - The Fund has a long history of investing in real estate data center companies and has assembled what we consider as "best-in-class" data center companies:
    - **Equinix Inc.** is the largest and leading global data center company in the world
    - **Interxion Holding N.V.** has built Europe's leading data center footprint
    - Both companies reported strong first quarter business results and expressed expectations for sustained strength in demand. We expect each to continue to benefit from powerful, secular demand prospects, including:
      - Strong growth in information technology outsourcing
      - Increased cloud computing adoption
      - Powerful data demand trends
- Top detractors included **Red Rock Resorts, Inc.**, **Lowe's Companies, Inc.**, and **Hilton Grand Vacations Inc.**
  - Shares of Red Rock, a casino company catering to the locals Las Vegas market, declined due to concerns that recent renovations at two resorts will not generate sufficient cash flow to earn an attractive return on investment. At its recent share price of \$21, we believe these concerns are largely discounted in Red Rock's valuation.
  - Shares of home improvement center Lowe's fell on lowered 2019 earnings expectations because of unanticipated cost increases and disappointing pricing. We view the earnings miss as a transitory hiccup and remain confident in the company's newly appointed senior management team.
  - Shares of timeshare company Hilton Grand Vacations Inc. declined on disappointing first quarter sales due to a shortage of inventory. Management is allocating more cash flow toward real estate development and, over time, we expect new timeshare properties will open and growth will resume. However, we have reduced our position and are evaluating our remaining investment.

## Portfolio Positioning

We continue to maintain that our philosophy of structuring a more inclusive and unique real estate fund – one that includes REITs, but is more expansive, balanced, and diversified than a typical “REIT only” fund – is a compelling long-term strategy. The Fund’s current portfolio structure is as follows:

- **Real estate-related categories** The Fund has investments in REITs plus nine additional real estate-related categories. The Fund’s diversification is in stark contrast to most other real estate funds that limit their investments primarily to one real estate category—REITs.
- **REITs and non-REITs** The Fund has approximately 30% of net assets invested in REITs and 70% in other real estate-related categories. At this time, we believe many of our non-REIT investments present superior return potential than most REITs, because of their discounted share prices and greater growth prospects.
- **Commercial and residential real estate categories** Residential companies include homebuilders, building product and services companies, land developers, construction material companies, home centers, and senior housing operators. We maintain that the 2018 housing market slowdown only represented a pause in what should continue to be a multi-year housing recovery, and have continued to increase our exposure to housing-related companies.
- **Exposure to the U.S. consumer and cyclical growth** We continue to prioritize real estate-related categories that usually perform well when consumer sentiment is strong, and the economy is expanding, including homebuilders, building product and services companies, casino and gaming companies, cruise lines, timeshare companies, and hotels. In our opinion, valuations for many of the Fund’s investments in these cyclical growth categories are compelling.
- **Emphasis on real estate secular and megatrend growth companies** Specialized real estate sectors, including data center companies, wireless tower companies, and industrial REITs, are well positioned to benefit for several years from the technological revolution in cloud computing, the internet, artificial intelligence, autonomous vehicles, mobile data, cell phones, and wireless infrastructure, in our view.

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**Baron Real Estate Fund’s** annualized returns for the Institutional Shares as of June 30, 2019: 1-year, 1.08%; 5-year, 4.98%; Since Inception (12/31/2009), 13.23%. Annual expense ratio for the Institutional Shares as of December 31, 2018 was 1.06%.

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

*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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund’s transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit [www.BaronFunds.com](http://www.BaronFunds.com) or call 1-800-99BARON.*

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

**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 discussion of market trends is not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this presentation reflect those of the respective speaker. Some of our comments

are based on current management expectations and are considered “forward-looking statements.” Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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.

**MSCI USA IMI Extended Real Estate Net Index** is an unmanaged custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate related GICS classified 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 index performance is not fund performance; one cannot invest directly into an index.

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).

Portfolio holdings as a percentage of total investments as of June 30, 2019 for securities mentioned are as follows: **MGM Resorts International** – 5.5%; **Equinix, Inc.** – 5.5%; **InterXion Holding N.V.** – 4.1%; **Red Rock Resorts, Inc.** – 1.8%; **Lowe’s Companies, Inc.** - 0.3%; **Hilton Grand Vacations Inc.** - 0.3%.

### Top 10 Holdings as of June 30, 2019

GICS Sector	Holding	% of Net Assets
Real Estate	CBRE Group, Inc.	7.5
Consumer Discretionary	MGM Resorts International	5.5
Real Estate	Equinix, Inc.	5.5
Information Technology	GDS Holdings Limited	4.8
Consumer Discretionary	Norwegian Cruise Line Holdings, Ltd.	4.6
Information Technology	InterXion Holding N.V.	4.1
Industrials	Masco Corporation	3.9
Consumer Discretionary	Royal Caribbean Cruises Ltd.	3.7
Financials	Brookfield Asset Management, Inc.	3.6
Consumer Discretionary	Boyd Gaming Corporation	3.1