Baron Real Estate Strategy

March 31, 2019

Dear Investor:

Performance

We are pleased to report that the Baron Real Estate Strategy gained 19.12% (net of fees) in the quarter ended March 31, 2019. The Strategy's increase exceeded that of its primary benchmark index, the MSCI USA IMI Extended Real Estate Index Net (the "MSCI Real Estate Index"), which appreciated 15.78%. Additionally, the Strategy's 19.12% increase surpassed that of the MSCI US REIT Index, which gained 15.92%, and the S&P 500 Index, which rose 13.65%.

Table I.
Performance
Annualized for periods ended March 31, 2019

	Baron Real Estate Strategy (net)[1]	Baron Real Estate Strategy (gross)[1]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]	S&P 500 Index[1]
Three Months[2]	19.12%	19.41%	15.78%	15.92%	13.65%
One Year	(1.77)%	(0.78)%	9.12%	19.16%	9.50%
Three Years	7.94%	9.02%	8.24%	4.65%	13.51%
Five Years	5.06%	6.10%	8.88%	7.62%	10.91%
Since Inception[3] (January 31, 2010) (Annualized)	13.87%	14.72%	12.83%	11.41%	13.52%

Table II.
Top contributors to performance for the quarter ended March 31, 2019[1]

	Quarter End Market Cap (billions)	Percent Impact
CBRE Group, Inc.	$16.6	1.48%
Equinix, Inc.	37.9	1.45
GDS Holdings Limited	5.0	1.12
InterXion Holding N.V.	4.8	1.04
Norwegian Cruise Line Holdings, Ltd.	12.0	0.97

1 Based on the representative account.

The shares of **CBRE Group, Inc.**, the largest and leading commercial real estate services firm in the world, gained 23.50% in the first quarter due to its strong quarterly business results amid management's expectations for double-digit earnings growth in 2019.

In March, we attended the company's annual investor day. We were impressed. Under the guidance of CEO Bob Sulentic, CBRE has enhanced its leading competitive position with its unmatched scale, product breadth, and leadership positions across its diversified real estate business segments. The company continues to pull away from the pack, gaining market share in each of its businesses. It is the go-to commercial real estate services firm for clients, other real estate brokers, and employees.

For Strategy reporting purposes, the Firm is defined as all accounts managed by Baron Capital Management, Inc. ("BCM") and BAMCO, Inc. ("BAMCO"), registered investment advisers wholly owned by Baron Capital Group, Inc. As of March 31, 2019, total Firm assets under management are approximately $28.8 billion. Gross performance figures do not reflect the deduction of investment advisory fees and any other expenses incurred in the management of the investment advisory account. Actual client returns will be reduced by the advisory fees and any other expenses incurred in the management of the investment advisory account. A full description of investment advisory fees is supplied in our Form ADV Part 2A. Valuations and returns are computed and stated in U.S. dollars. Performance figures reflect the reinvestment of dividends and other earnings. The Strategy is currently composed of one mutual fund managed by BAMCO and three separately managed accounts managed by BCM.

BAMCO and BCM claim compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the Firm's strategies or a GIPS-compliant presentation please contact us at 1-800-99BARON.

Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance is no guarantee of future results.

1 The indexes are unmanaged. The MSCI USA IMI Extended Real Estate Index is a custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classification securities. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The S&P 500 Index measures the performance of 500 widely held large-cap U.S. companies. The indexes and the Strategy include reinvestment of interest, capital gains and dividends, which positively impact the performance results.

2 Not annualized.

3 The Strategy has a different inception date than its underlying portfolio, which is 12/31/2009.

We believe CBRE is well positioned to continue to benefit from these four key long-term growth opportunities:

First, a growing number of companies are increasingly looking to outsource their commercial real estate needs. Management estimates that this outsourcing has a market potential of approximately $140 billion. CBRE is far and away the number one player at this early stage of this rapidly expanding market. Management believes its outsourcing business will continue to grow revenues at a double-digit annual pace for several years.

Second, the commercial real estate industry remains highly fragmented, and will, in our opinion, continue to consolidate. Customers tend to prefer commercial real estate companies that can provide a broad set of services. Only two to three firms have the capability to provide the full array of real estate offerings on a global scale (CBRE Group, Jones Lang LaSalle Inc., and Cushman & Wakefield PLC).

Third, CBRE is well positioned to capitalize on ample attractive acquisition opportunities in the years ahead given its highly desirable global platform and strong balance sheet. The company boasts the strongest balance sheet in the commercial real estate services industry. Its ratio of net debt-to-cash flow is only 0.6 times, with zero debt maturing in the next three years. It also has approximately $3.4 billion of available liquidity.

Fourth, institutional ownership of commercial real estate continues to accelerate. CBRE Group is well positioned in this regard to serve client needs given its array of capabilities in property management, appraisal and valuation services, and property brokerage services.

We believe CBRE's shares are attractively valued at a current valuation of less than 13.5 times our estimate of 2019 earnings per share, versus the historical average valuation of approximately 16 times per share.

Baron Real Estate Strategy has a long history of investing in real estate data center companies. Data centers are highly specialized buildings that contain the information technology infrastructure (i.e., computer servers, storage, and networking equipment) for corporations, governments, and other organizations. These buildings are equipped with generators, batteries, and cooling equipment to handle the power requirements needed to keep information technology equipment functioning during power outages.

The Fund has assembled what we consider to be "best-in-class" data center companies:

- **Equinix, Inc.** is the largest and leading global data center company in the world.
- **GDS Holdings Limited** is the leading developer and operator of data centers in China.
- **InterXion Holding N.V.** has prudently built Europe's leading data center footprint.

In the most recent quarter, the Strategy's investments in all three of these data center companies performed well, resulting from their strong business results and widespread expectations for continued strength in demand. We remain bullish on the long-term prospects for these best-in-class data center companies, primarily because we expect each company to continue to benefit from powerful, secular demand prospects.

These beneficial demand tailwinds include:

Strong Growth in Information Technology ("IT") Outsourcing: We estimate that businesses currently outsource 30% to 40% of their data center requirements. We project this figure to increase to 60% to 70% in the next five years because it is often more cost effective for companies to outsource their data center needs to third-party providers and redirect their own capital expenditures to other corporate initiatives.

Increased Cloud Computing Adoption: Companies that provide cloud computing services are important data center tenants. They include Amazon, Google, IBM, Microsoft, Alibaba, Tencent, and Baidu. The adoption of cloud computing by enterprises is expected to increase meaningfully in the years ahead. It is estimated that total cloud spending will grow from $70 billion to $240 billion, a clear multi-year tailwind for data centers.

Powerful Data Demand Trends: We project *U.S. mobile data traffic* to grow 40% annually for the next five years. We project *global internet traffic* to grow 27% annually for the next five years. The *number of connected devices* is projected to grow from 18 billion in 2018 to 34 billion by 2025. The data that is generated needs to be processed, transported, and stored (i.e., bullish for data centers).

Table III.
Top detractors from performance for the quarter ended March 31, 2019[1]

	Market Cap When Sold (billions)	Percent Impact
CyrusOne Inc.	$5.6	–0.05%

[1] Based on the representative account.

In the first quarter, all but one of the Strategy's holdings contributed to positive performance. The one detractor was **CyrusOne Inc.**, a data center company, which declined modestly. We exited CyrusOne at the beginning of 2019 and reallocated the capital to higher conviction investment ideas.

Portfolio Structure

We continue to maintain that our philosophy of structuring a more inclusive and unique real estate strategy – one that includes REITs, but is more expansive, balanced, and diversified than a typical "REIT only" strategy – is a compelling long-term strategy.

The Strategy's portfolio structure and strategy are as follows:

1. Real estate-related categories

   Baron Real Estate Strategy currently has investments in REITs plus nine additional real estate-related categories (see Table IV below). The Strategy's diversification is in stark contrast to most other real estate strategies that limit their investments primarily to one real estate category–REITs.

[1] Top contributors, top detractors, investments in real estate categories, top net purchases, top net sales, and top 10 holdings are based on a representative account. Such data may vary for each client in the Strategy due to asset size, market conditions, client guidelines, and diversity of portfolio holdings. The representative account is the account in the Strategy that we believe most closely reflects the current portfolio management style for the Strategy. Representative account data is supplemental information.

2. REITs and non-REITs

   Currently, the Strategy has approximately 32% of net assets invested in REITs and 68% in its additional real estate-related categories (includes 0.5% in cash). We are optimistic about the prospects for both the Strategy's REITs and its additional real estate categories. Currently, we believe that many of the Strategy's non-REIT real estate investments present superior return potential than most REITs because of their discounted share prices and greater growth prospects. Over the long term, we remain committed to structuring this product as a diversified and more balanced Strategy than most REIT strategies.

3. Commercial and residential real estate categories exposure

   The Strategy continues to invest in both commercial and residential real estate-related companies.

   Non-REIT residential-related companies that the Strategy considers for investment include homebuilders, building product and services companies, land developers, construction material companies, home centers, and senior housing operators.

   We have discussed in prior shareholder letters that we believe the 2018 housing market slowdown only represented a pause in what should continue to be a multi-year housing recovery. Now there are early signs that certain economic factors that slowed sales in 2018 have either eased or improved in recent weeks, and are beginning to encourage a reacceleration in home purchases and housing-related spending. These include the recent decline in mortgage rates, moderation in home price increases, solid consumer sentiment, and strong job and wage growth.

   In fact, the management of **Lennar Corporation**, a Baron Real Estate Strategy investment and leading national home building company, recently declared the end to the "housing market pause" by stating that "the market paused in the back half of 2018, corrected in the first quarter of 2019, and is now on solid footing as we begin the 2019 spring selling season." Management also noted that it is "optimistic that demand driven by fundamental economic strength will continue to accelerate through the selling season."

4. Exposure to cyclical growth

   We remain committed towards real estate-related categories that frequently perform well in expanding economic environments. Our research indicates that business conditions are prospectively stable. These real estate categories include casino and gaming companies (approximately 13.8% of the Strategy's assets), cruise lines (approximately 8.9%), vacation timeshare companies (approximately 6.3%), and hotels (approximately 2.0%).

   In our opinion, valuations for many of the Strategy's investments in these cyclical growth categories are compelling, and some remain near the lowest valuations we have witnessed since the Great Recession.

5. Emphasis on real estate secular and megatrend growth companies

   The Strategy continues to prioritize real estate categories that we believe are positioned to benefit from durable megatrends and secular growth opportunities. These specialized real estate sectors include data center companies, wireless tower companies, and industrial REITs that, in our view, 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. As of March 31, 2019, 23.9% of the Strategy's net assets were invested in data center (16.2%), wireless tower (5.2%), and industrial REITs (2.5%).

6. Number of Strategy holdings

   As of March 31, 2019, the Strategy was invested in 42 companies. Our 10 largest holdings represented 45.2% of the Strategy. Our 20 largest holdings represented 72.8% of the Strategy.

7. Market Capitalization and Liquidity

   We continue to invest in companies of various market capitalizations. As of March 31, 2019, the median market capitalization of the Strategy's investments was $11.8 billion. Companies with market capitalizations of less than $2.5 billion constitute only 6.9% of the Strategy. The liquidity of the Strategy is strong.

8. "Best-in-class" companies that are attractively valued*

   We remain confident about the quality, discounted valuations, and strong long-term prospects of the Strategy's holdings.

Table IV.
Strategy investments in real estate-related categories as of March 31, 2019[1]

		Percent of Net Assets
REITs		32.3%
Hotel & Leisure		17.2
Hotels & Timeshare/Leisure	8.3%	
Cruise Lines	8.9	
Casinos & Gaming Operators		13.8
Building Products/Services		11.2
Data Center Operating Companies[2]		9.9
Real Estate Service Companies		8.6
Real Estate Operating Companies		3.8
Homebuilders & Land Developers		1.6
Tower Operators[3]		1.1
		99.5
Cash and Cash Equivalents		0.5
Total		100.0%

[1] Based on the representative account.
[2] Total would be 16.2% if included data center REITs Equinix, Inc. and QTS Realty Trust, Inc.
[3] Total would be 5.2% if included tower REITs American Tower Corp. and SBA Communications Corp.

* Note that "**best-in-class**" represents the manager's opinion and is not based on a third-party ranking. In our opinion, characteristics of a "best-in-class" real estate company are:

- Owns unique and well-located real estate assets in markets with high barriers to entry combined with attractive long-term demand demographics;
- Enjoys strong long-term growth prospects together with a leading competitive position;
- Maintains a conservative and liquid balance sheet; and, importantly,
- Employs an intelligent and motivated management team whose interests are closely aligned with shareholders.

Table V.
Top 10 holdings as of March 31, 2019[1]

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
CBRE Group, Inc.	$16.6	$42.9	7.0%
Equinix, Inc.	37.9	33.0	5.4
Norwegian Cruise Line Holdings, Ltd.	12.0	30.8	5.0
InterXion Holding N.V.	4.8	30.6	5.0
MGM Resorts International	13.8	27.5	4.5
GDS Holdings Limited	5.0	25.7	4.2
Royal Caribbean Cruises Ltd.	24.0	23.7	3.9
Brookfield Asset Management, Inc.	46.3	23.3	3.8
Boyd Gaming Corporation	3.0	19.9	3.2
Hilton Grand Vacations Inc.	2.9	19.8	3.2

[1] Based on the representative account.

Recent Activity

Table VI.
Top net purchases for the quarter ended March 31, 2019[1]

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Hudson Pacific Properties, Inc.	$ 5.3	$12.5
Norwegian Cruise Line Holdings, Ltd.	12.0	11.4
Vulcan Materials Company	15.6	9.4
GDS Holdings Limited	5.0	9.4
Royal Caribbean Cruises Ltd.	24.0	8.2

[1] Based on the representative account.

Top purchases in the most recent quarter included the addition of **Hudson Pacific Properties, Inc.** and the re-acquisition of **Vulcan Materials Company.**

We also increased the Strategy's investments in cruise line companies **(Norwegian Cruise Line Holdings, Ltd.** and **Royal Caribbean Cruises Ltd.)** and data center company **GDS Holdings Limited.**

Hudson Pacific Properties is a West Coast office REIT that owns and develops high-quality office buildings in San Francisco, Silicon Valley, Los Angeles, and Seattle. The company has assembled its exceptional real estate portfolio in markets that should deliver solid long-term absolute and relative growth given strong economic and demographic prospects. In our opinion, the shares are currently valued at an attractive discount to its private market value.

The Strategy re-acquired shares of Vulcan, a real estate-related company that is the largest construction aggregates producer in the U.S., at what we believe are attractive share prices.

Approximately 90% of the gross profit of Vulcan is generated from mining, processing, and transporting crushed stone, sand, and gravel (collectively, "aggregates") from its quarries. The balance of its gross profit is derived from 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.

We believe aggregates are an attractive business for these primary reasons:

(i) High barriers to entry: Permits to open new quarries are difficult to obtain, and the approval process typically takes 5 to 10 years;

(ii) Consistent pricing power: Given the difficulty in opening competing new quarries, and the transportation constraints attributable to the heavy weight of rocks, the producers of aggregates have historically enjoyed great pricing power. In the last 30 years, pricing of aggregates has increased, on average, 4% per year;

(iii) Preponderance of local monopolies primarily due to the steep transportation costs of this heavy-weight cargo: Therefore, the sale of heavy rock is primarily a local business, and quarry location is a key determinant of value. Vulcan is entrenched and very well positioned, as it owns 344 aggregate facilities across the U.S.

In our view, the prospects for Vulcan in the next few years are attractive because the three key demand drivers for its business are all moving in the right direction, and there is a path toward growing cash flow from $1 billion to $2 billion. The three key demand factors that should drive growth are:

(i) Government spending on infrastructure projects is expected to accelerate;

(ii) Residential construction levels are now improving; and,

(iii) Non-residential construction has been rebounding moderately.

We believe Vulcan's backlog of business is strong, and it is well positioned to deliver at least 15% cash flow growth annually over the next few years.

In the most recent quarter, we acquired additional shares of GDS, the leading developer and operator of data centers in China, at what we believe are attractive prices. In our ongoing meetings with management, they continue to report that business conditions are strong, and we remain bullish on the company's long-term prospects for the following reasons:

- The Chinese digital economy is in its early growth phase, with relatively low national internet access penetration. However, it is predicted that China will experience the sharpest universal growth in public cloud spending in the next few years.
- GDS is the leading data center provider to the fastest growing companies in China including Baidu, Alibaba, and Tencent. Moreover, GDS has been designated as the preferred data center provider for Alibaba and Tencent.
- Its data centers are concentrated in the "Tier 1" major cities of China including Beijing, Shanghai, Shenzhen, Guangzhou, and Chengdu.
- GDS generates an attractive 25% return on investment from its new data center developments.
- We believe the company will grow its cash flow by more than 100% in the next three years. The shares are attractively valued relative to its growth rate.

Table VII.
Top net sales for the quarter ended March 31, 2019[1]

	Quarter End Market Cap or Market Cap When Sold (billions)	Amount Sold (millions)
American Tower Corp.	$ 86.9	$26.4
D.R. Horton, Inc.	15.5	18.6
Digital Realty Trust, Inc.	23.4	14.5
Equinix, Inc.	37.9	9.6
Home Depot, Inc.	211.8	9.0

[1] Based on the representative account.

In the most recent quarter, we trimmed our investments in **American Tower Corp.**, **D.R. Horton, Inc.**, **Equinix, Inc.**, and **Home Depot, Inc.** reflecting a modest re-balancing of the portfolio. However, we continue to own these companies, and remain optimistic about their business prospects.

We exited **Digital Realty Trust, Inc.** and reallocated the capital to higher conviction investment opportunities.

Outlook

In our 2018 year-end letter, we stated that we are bullish on the outlook for the equity market, real estate, and the Strategy. Following strong first quarter gains for the Baron Real Estate Strategy (19.12%), S&P 500 Index (13.65%), and the MSCI Real Estate Index (15.78%), **we continue to remain bullish.**

We remain upbeat regarding stock market prospects for these reasons:

1. Our research indicates that business fundamentals should remain positive and continue to grow.

   We do, however, caution that, in some cases, first quarter earnings may disappoint, due in part to transitory items such as bad weather or the recent U.S. government shutdown. Also, we expect earnings growth to moderate relative to 2018, due, in part, to the absorption of the benefits derived from the broad tax reforms in 2018.

2. Resolution of the U.S.-China trade war.

   The U.S. and China appear to be motivated to resolve their respective differences. In the U.S., given that 2019 is a pre-election year, the administration will be motivated to stabilize U.S. earnings growth, the economy, and the stock market.

3. The Fed has begun to signal a more dovish tone.

   Recent commentary from Federal Reserve Chairman Powell and other Fed governors suggest that the Fed will be patient, and will not be fixated on a pre-determined course of interest rate increases and quantitative tightening due to moderating economic growth and lowered inflation expectations. Other non-U.S. central banks have also expressed a more dovish tilt.

4. Company valuations remain generally compelling.

   We believe many company valuations remain attractive, especially in the context of interest rates (U.S. 10-Year Treasury), which declined from a peak of 3.24% in 2018 to a recent 2.50%. This is meaningfully below the long-term average of 4% to 5%.

We remain bullish about the outlook for real estate for several reasons. Principal among them are:

1. Factors that have fueled the resurgence in real estate generally remain in place:

   - Demand continues to outstrip supply in most U.S. markets and real estate categories. Supply has begun to peak for several categories of commercial real estate at relatively low levels due, in part, to elevated construction costs. In the single-family for-sale home segment of residential real estate, inventory levels remain cyclically low relative to historical standards and demographics.
   - Public company real estate balance sheets are generally in solid shape.
   - Credit remains available at historically low interest rates.

2. Business conditions are generally reasonable, and the outlook does not portend a recession.

   Our ongoing discussions with most commercial and residential real estate companies indicate that business conditions are likely to remain solid, notwithstanding temporary slowdowns in some segments of real estate.

3. We anticipate that an upward real estate cycle will continue for another few years.

   Real estate is clearly past the 1st or 2nd inning of its recovery–a period that is typically characterized by: (i) the opportunity to buy real estate at distressed prices or large discounts to replacement cost; (ii) low occupancy levels and home sales; (iii) an accommodative Federal Reserve amid declining interest rates; and, (iv) the early stage of an economic cycle.

   We do not believe, however, that real estate is in the 9th inning of its recovery because we are not witnessing the warning signs that typically signal the end of a cycle such as: (i) overheated economic and business growth; (ii) a number of spikes in construction activity (commercial and residential); (iii) exceedingly relaxed bank lending standards, accompanied by aggressive assumption of debt; (iv) overexuberance for acquisitions; and, (v) euphoric market sentiment (often a telltale sign that a cycle is coming to an end).

   Our view is that the length of this real estate cycle will persist longer than most prior cycles because this cycle to-date has not exhibited the excesses that typically characterize most real estate cycles.

4. Substantial private capital is still in pursuit of real estate ownership, encouraged by widely available financing debt capital at low interest rates.

   Large amounts of capital from private equity investors such as Blackstone Real Estate, sovereign wealth funds, endowments, pension funds, and others could capitalize on the opportunity to buy quality real estate in the public markets at depressed prices. This "embedded put" scenario should offer protection against downside risk.

5. Any chinks in the armor are, in our opinion, manageable.

   Key warning signs that we consistently monitor include the level of increases in construction activity, deceleration in demand, increased restrictive lending policies, spikes in interest rates, and elevated valuations.

   While our cautionary antenna remains up, we maintain a favorable outlook because our research confirms that the opportunities for real estate persist.

6. We continue to identify a number of real estate-related companies that are attractively valued.

We believe the prospects for the Baron Real Estate Strategy remain attractive.

Our view is based on the following key factors:

1. The Strategy is composed of best-in-class companies

   We believe the quality of the Strategy's holdings is solid. The businesses that we continue to emphasize: (a) are well managed; (b) are market leaders; (c) own well-located real estate; (d) grow cash flow at a faster rate than most peers; and (e) possess quality balance sheets. These special best-in-class companies should generate superior returns over the long term.

   Examples of the Strategy's best-in-class companies include:

   - **American Tower Corp.**: A leading owner, operator, and developer of communications real estate (i.e., wireless towers).
   - **Equinix, Inc.**: The world's leading owner and operator of real estate data centers.
   - **Home Depot, Inc.**: The largest home improvement center company in the world, with more than 2,200 stores.
   - **CBRE Group, Inc.**: The world's largest and leading commercial real estate services company.
   - **Hilton Worldwide Holdings, Inc.**: One of the largest hotel companies in the world with premier hotel brands including: Hilton, Waldorf Astoria, Double Tree, Embassy Suites, Hampton, Canopy, Conrad, and others.
   - **Marriott International, Inc.**: The largest hotel company in the world with several leading hotel brands including: The Ritz Carlton, Westin, St. Regis, W Hotels, Le Meridien, Sheraton, JW Marriott, and others.
   - **Brookfield Asset Management, Inc.**: A premier global investor, operator, and asset manager of high-quality real estate and infrastructure-related assets.
   - **The Sherwin-Williams Company**: Global leader in the manufacture, development, distribution, and sale of paint, coatings, and related products.
   - **D.R. Horton, Inc.**: The largest homebuilder by volume in the U.S.
   - **Alexandria Real Estate Equities, Inc.**: This REIT is the premier landlord and developer to the life science industry.
   - **Douglas Emmett, Inc.**: This REIT is a leading landlord and developer of office and apartment buildings in the highly desirable coastal sub-markets of Los Angeles and Honolulu.

2. The Strategy is composed of several companies trading at discounted valuations

   Notwithstanding solid gains for many of the Strategy's investments year-to-date in 2019, we continue to pinpoint a number of companies that are attractively valued with good prospects for strong returns over the next few years.

   Examples include:

   - Casino & Gaming Operators

MGM Resorts International, **Penn National Gaming, Inc.**, **Boyd Gaming Corporation**, and **Red Rock Resorts, Inc.** remain valued at or near the lowest cash flow multiples in several years.

MGM, for example, a Las Vegas-focused hotel and casino company, at $26 per share, was valued at only 7.5 times 2019 estimated cash flow for MGM's domestic real estate assets. We estimate that the company would be worth $35 to $40 per share in the private market or 35% to 55% above its March 31, 2019 price.

Penn National, at its recent price of $20 per share, is valued at less than 6.0 times its 2019 estimated cash flow and at a 17% free cash flow yield.

- Timeshare Companies

Hilton Grand Vacations Inc. and **Marriott Vacations Worldwide Corp.** are valued at only 7.0 times estimated 2019 cash flow, versus valuations of approximately 10 times cash flow just one year ago. Both remain near the lowest valuations in several years.

- Cruise Line Companies

Leading cruise line companies, **Norwegian Cruise Line Holdings, Ltd.** and **Royal Caribbean Cruises Ltd.**, are valued at only 11.0 and 11.6 times 2019 estimated earnings per share, respectively, compared to their historical averages of approximately 15 times earnings per share!

- Commercial Real Estate Services Companies:

CBRE Group, Inc., the world's number one commercial real estate services company, is valued at only 13.5 times 2019 estimated earnings per share versus its historical multiple of approximately 16 to 17 times earnings per share.

- Homebuilders

The shares of homebuilder company, **Lennar Corporation**, are valued at only 1.4 times book value per share, compared to its average multiple of 1.9 times book value per share in the last five years and its prior five-year low multiple of 1.5 times book value per share.

- Building Product/Services & Home Center Companies

Lowe's Companies, Inc., **SiteOne Landscape Supply, Inc.**, and **Masco Corporation** are currently valued at what we believe are compelling valuations.

- <u>REITs</u>

Several best-in-class REITs held by the Strategy, including **Alexandria Real Estate Equities, Inc.**, **Douglas Emmett, Inc.**, and **Hudson Pacific Properties, Inc.** are valued at attractive discounts to our assessment of intrinsic value. Casino and hotel gaming REIT, **Gaming and Leisure Properties, Inc.**, is valued at a 7.0% dividend yield compared to many other triple net REITs with dividend yields of approximately 5%.

Sincerely,

Jeffrey Kolitch
Portfolio Manager

The performance of accounts in the Strategy may be materially different at any given time. Differences that may affect investment performance include cash flows, inception dates, and historical prices. Positions may not be the same or may be traded at different times. In addition, accounts in the Strategy may be pursuing similar investment strategies, but may have different investment restrictions.

In addition to general market conditions, the Strategy 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 Strategy 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 Strategy may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The 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 manager 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.