



Baron Real Estate Fund

The Case for Real Estate – Opportunities Abound

The COVID pandemic and post-pandemic macro environment have had a significant impact on virtually all segments of real estate. We believe that, now more than ever, it is critical to have an active manager at the helm of any real estate equity portfolio. While some categories are poised for outperformance, other categories are taking a substantial and possibly long-lasting hit from the economic fallout caused by the pandemic.

The Baron Real Estate Fund is an actively managed, growth equity real estate fund managed by Jeff Kolitch since its 2009 inception. Unlike most of its peers, the Fund does not limit itself to REITs but expands its universe of investable stocks to non-REIT real estate companies that operate within or provide services or products to the real estate industry.

This differentiated approach has produced excellent results.



Jeff Kolitch
Portfolio Manager

- Baron Real Estate Fund is in the top 1% of all real estate funds for its 10-year, 5-year, and 3-year performance, according to Morningstar.
- Since its launch on December 31, 2009, the Fund has increased 386.47% cumulatively (net of fees) versus the MSCI USA IMI Extended Real Estate Index and MSCI US REIT Index which have increased 253.31% and 163.87%, respectively.
- Baron Real Estate Fund has a 5-Star Morningstar Rating ★★★★★™ for its overall, 3-year, 5-year, and 10-year performance

Baron Real Estate Fund's annualized returns for the Institutional Shares as of December 31, 2022: 1-year, (28.44)%; 3-year, 8.69%; 5-year, 7.65%; 10-year, 10.28%; Since Inception (12/31/2009), 12.94%. The annual expense ratio for the Institutional Shares as of December 31, 2021 was 1.05%. The MSCI USA IMI Extended Real Estate Index's annualized returns as of December 31, 2022: 1-year, (23.84)%; 3-year, 2.72%; 5-year, 4.73%; 10-year, 8.59%; Since Fund Inception, 10.20%. The MSCI US REIT Index's annualized returns as of December 31, 2022: 1-year, (25.37)%; 3-year, (1.16)%; 5-year, 2.48%; 10-year, 5.20%, Since Fund Inception, 7.75%.

Performance is net of annual operating expenses.

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, 2033, 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 or call 1-800-99BARON.

As of 12/31/2022, the Morningstar Ratings™ were based on 233, 210, 152, and 233 share classes for the 3-year, 5-year, 10-year, and Overall periods, respectively. Baron Real Estate Fund received 5, 5, 5, and 5 stars, respectively. The Morningstar Ratings are for the Institutional Share Class only; other classes may have different performance characteristics. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures.

As of 12/31/2022, the Morningstar Real Estate Category consisted of 252, 233, 210, and 152 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 86th, 1st, 1st, and 1st percentiles, 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.

A More Balanced and Expansive Approach

Baron Real Estate Fund Portfolio Manager Jeff Kolitch joined Baron from Goldman Sachs in 2005 as a real estate analyst and brings more than 31 years of investment experience to his position. Jeff and his team apply Baron's research-intensive, fundamental, bottom-up approach to find and invest for the long term in real estate and real estate-related companies that they believe benefit from sustainable competitive advantages, excellent management, and strong long-term growth opportunities, at an attractive valuation.

Baron Real Estate Fund invests in a broader and more comprehensive variety of commercial and residential real estate-related categories – not just REITs. We believe this more balanced and expansive approach should continue to produce strong results over the long term. We also believe this approach is highly complementary to funds such as Baron Real Estate Income Fund that invest primarily in REITs.

The main real estate categories in which we invest include:

- REITs
- Residential-related real estate companies
 - Homebuilders and land developers
 - Building products/services
 - Home centers
- Travel-related real estate companies
 - Casinos and gaming companies
 - Hotels and leisure
- Other real estate-related categories
 - Commercial real estate services companies
 - Real estate-focused alternative asset managers
 - Property technology companies

While the portfolio weights of these real estate categories will vary according to our ongoing research of industry and company-specific factors, these are the main categories on which we focus.

REITs We believe several REITs present a highly unusual, tactical, and strategic buying opportunity at this time. Several REITs are attractively valued relative to the broader equity market, bonds, and private real estate alternatives, in our opinion. However, you need to choose carefully. This is where our bottom-up, fundamental approach to investing comes in.

REIT categories that we favor include:

- **Industrial REITs** such as **Prologis, Inc.** and **Rexford Industrial Realty, Inc.** are expected to continue to benefit from robust warehouse demand and increased rents. This is due, in part, to broader e-commerce needs resulting from the accelerated growth of online sales as businesses and consumers relentlessly seek faster delivery.
- **Data center REIT** **Equinix, Inc.** is poised to benefit from several tailwinds including the growth in the outsourcing of information technology, increased cloud computing adoption, the growth in U.S. mobile data and internet traffic, and the rapid transition to a world of virtual meetings and conferencing.
- **Wireless tower REITs** such as **American Tower Corp.** are positioned to grow for several years as the demand for data-intensive devices accelerates and new wireless technologies continue to emerge and improve.

- **Life sciences REIT** **Alexandria Real Estate Equities, Inc.** should benefit from additional life science office space requirements amid increased research and development budgeting for pharmaceutical and biotechnology companies.
- **Single-family rental REITs** like **Invitation Homes, Inc.** are benefiting from constrained home ownership affordability, high student-debt burdens, the preference for flexibility with renting, and the recent spike in mortgage rates.
- **Manufactured housing REIT** **Equity LifeStyle Properties, Inc.** is a prime beneficiary of budget-conscious home buyers such as retirees and millennials and negligible new inventory due to high development barriers.
- **Gaming REITs** **Gaming and Leisure Properties, Inc.** owns quality casino and gaming real estate properties, has attractive dividends, and has accretive acquisition growth opportunities.

Residential-Related Real Estate

Homebuilders and land developers

Cyclically depressed levels of construction activity, low inventory levels, pent-up demand, higher consumer savings, and a rebound in job growth are benefiting the U.S. housing market. The current situation is nothing like what occurred during the global financial crisis when our country was significantly oversupplied relative to the demographic and demand needs.

- **Building product/services and home centers** The building products/services and home center category includes manufacturers of building components, home improvement products, and equipment and home centers. We think this segment has room to grow even with the uncertainty regarding the length and depth of the economic downturn, job loss, wage growth, etc. With the shift to hybrid and full-time work-from-home arrangements, we think we will see more repair and remodeling spending activities. Companies we currently favor include: **Home Depot, Inc.**, **Pool Corporation**, **Fortune Brands Home & Security, Inc.**, and **Floor & Decor Holdings, Inc.**

Travel-Related Real Estate Companies

This category of hotels, casino and gaming companies, timeshares, ski resorts, and cruise lines was the hardest hit segment of the real estate industry in the pandemic as such companies were forced to shut down operations almost without exception. We exited the majority of our positions in these stocks early in 2020 at favorable prices. Since then we have been selectively reinvesting at extremely favorable valuations. We believe these businesses are cyclically depressed – not secularly challenged. Consequently, we expect the cash flows of many of these real estate businesses to rebound as economic activity resumes. We have already witnessed the release of pent-up consumer and commercial demand for several of the hardest hit segments of real estate – particularly the travel-related segments of real estate.

Many hotels and gaming companies have started the process of reopening operations in select regions across the world. In addition, regional gaming operators such as **Boyd Gaming Corporation** do not have to contend with air flight restrictions as most of their business is local. Many of the hospitality-related real estate companies have already regained a percentage of their value since hitting bottom.

Nevertheless, we think they still have a way to go and believe several hospitality-related real estate companies remain heavily discounted to their likely two-to-three year prospective value. Examples include casino and gaming companies, vacation timeshare companies (**Marriott Vacations Worldwide Corp.**), and ski resorts (**Vail Resorts, Inc.**).

Commercial Real Estate Services Companies

As the name suggests, commercial real estate services companies service the commercial real estate industry. While the pandemic clearly has had a short-term negative impact and possibly a more permanent, longer-term negative impact on the retail and office segments of the commercial real estate market, we believe the companies in which we invest that service these end markets are well positioned for growth regardless. All are leaders in the businesses in which they operate, with what we think are significant competitive advantages and excellent management. For instance, **CBRE Group, Inc.**, the largest and leading commercial real estate services firm in the world, has 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.

Real Estate-Focused Alternative Asset Managers

Brookfield Asset Management, Inc. is one of the largest global alternative asset managers primarily focused on infrastructure and real estate investments with approximately \$750 billion in assets under management. We believe the company is well positioned for growth given increasing institutional allocations to alternative assets primarily due to historically low interest rates. We expect the company to continue to increase its market share given its superior long-term investment track record, its global reach, and its diverse product platform. Brookfield recently bought Oaktree, the world’s premier distressed credit asset management firm. We believe this stock trades at a healthy discount to our assessment of intrinsic value.

Property Technology Companies

The impact of technology on real estate is undeniable. The growth in cloud computing, the internet, mobile data and cellphones, and wireless infrastructure are powerful secular drivers that should continue unabated for years and are impacting real estate, along with many other industries. Real estate-related companies that embrace and adopt the latest technological advances and innovations are an important focus for us. Key beneficiaries of the technology revolution include data center companies, wireless tower companies, industrial REITs, and real estate data analytic companies.

If anything, the pandemic has accelerated these secular trends as more people conduct business, leisure, residential, and commerce activities online. Examples of companies we believe are poised to benefit from accelerating digitization include data center REIT Equinix, wireless tower REIT American Tower, and industrial logistics REITs Prologis and Rexford Industrial Realty.

Another example, real estate data analytic company **CoStar Group, Inc.** has built a proprietary database over a 20-year period to provide marketing, analytics, and information services to the commercial real estate industry, creating a dominant market position and high barrier to entry.

Conclusion

Within each of these real estate categories, we conduct fundamental, bottom-up research to find the companies that we think offer the most promising opportunities for long-term growth. We look for long-term secular and cyclical growth opportunities with large addressable markets. For example, CoStar Group is tapping the explosive growth in data generation and consumption to serve its commercial real estate end market.

Sustainable competitive advantages are also key; thus, many of our holdings are leaders in their categories and/or have built or secured irreplaceable assets with high barriers to entry. For instance, American Tower benefits from regulations that restrict the number of towers that can be built, forcing carriers to lease space on existing towers.

An attractive business model is another important attribute, including a solid balance sheet with appropriate debt, strong free cash flow conversion, and recurring or reoccurring revenue. In our experience, a well-run company with a sound business model is more likely to survive in downturns and potentially even benefit as weaker competitors go out of business or weaken to the stage that they become attractive targets for acquisition.

We also seek exceptional management. Management can make or break a company. The graveyard of failed companies is rife with examples of mismanagement of otherwise-promising businesses. In addition, a firm’s culture – the shared beliefs, values, and standards – is shaped by management. We look for a track record of successful capital allocation and ability to reinvest for growth. Brookfield Asset Management CEO Bruce Flatt, who has spoken at our annual conference, is one such example. Brookfield is now one of the world’s largest real estate asset managers, with a portfolio of commercial real estate, infrastructure, and renewable energy that spans the globe.

Finally, we look for an attractive valuation. We project the long-term intrinsic value of every stock we own using quantitative and qualitative analysis. Our financial analysis incorporates key revenue growth drivers, profitability, cost structure, and capital structure. Qualitative factors include the total addressable market, sustainability of the competitive advantage, and strength of the management team.

We focus our purchases on what we believe to be “best-in-class” companies. In our judgment, characteristics of a “best-in-class” real estate company are that it:

- 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
- Employs an intelligent and motivated management team whose interests are aligned with shareholders

In addition, we purchased a number of cyclical stocks that had declined sharply during the pandemic but possess the potential to appreciate significantly over the next few years, in our view. Upon the resumption of normalized economic activity, we anticipate that the shares of many beaten down cyclical companies, such as travel and hospitality-related real estate companies and certain REITs, may lead the market higher.

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. 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 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 document reflect those of the respective writer. Some of our comments are based on 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 **Morningstar Rating™** for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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Portfolio holdings as a percentage of total investments as of December 31, 2022 for securities mentioned are as follows: **Rexford Industrial Realty, Inc.** – 3.0%, **Alexandria Real Estate Equities, Inc.** – 1.4%, **Equity Lifestyle Properties, Inc.** – 1.3%, **Gaming and Leisure Properties, Inc.** – 1.6%, **Home Depot, Inc.** – 0.3%, **Pool Corporation** – 2.5%, **Fortune Brands Home & Security, Inc.** – 1.7%, **Floor & Decor Holdings, Inc.** – 2.9%, **Boyd Gaming Corporation** – 1.4%, **Marriott Vacations Worldwide Corp.** – 1.5%, **Vail Resorts, Inc.** – 1.8%, **Invitation Homes Inc.** – 0.8%.

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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 indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The **MSCI US REIT Index** 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 interest, capital gains and dividends, which positively impact the performance results. The indexes are unmanaged. 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).

Baron Real Estate Fund
Top 10 Holdings as of December 31, 2022

Holding	Sector	% of Net Assets
CoStar Group, Inc.	Industrials	5.3
Prologis, Inc.	Real Estate	5.2
Toll Brothers, Inc.	Consumer Discretionary	4.9
Brookfield Corporation Inc.	Financials	4.6
American Tower Corp.	Real Estate	4.3
Equinix, Inc.	Real Estate	3.9
CBRE Group, Inc.	Real Estate	3.8
Lennar Corporation	Consumer Discretionary	3.7
D.R. Horton, Inc.	Consumer Discretionary	3.1
SiteOne Landscape Supply, Inc.	Industrials	3.1
Total		41.9

Baron Sales & Relationship Management

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PRODUCTS WE OFFER

We offer 19 mutual funds in retail, institutional, and R6 share classes, collective investment trusts, separately managed accounts, sub-advisory services, UCITS, and other offshore vehicles.

STRATEGIES

BARON DISCOVERY STRATEGY
BARON SMALL CAP GROWTH STRATEGY
BARON OPPORTUNISTIC SMALL CAP GROWTH STRATEGY
BARON SMALL TO MID CAP GROWTH STRATEGY
BARON FOCUSED GROWTH STRATEGY
BARON MID CAP GROWTH STRATEGY
BARON DURABLE ADVANTAGE STRATEGY
BARON LARGE CAP GROWTH STRATEGY
BARON HIGH GROWTH STRATEGY
BARON ALL CAP GROWTH STRATEGY
BARON EMERGING MARKETS STRATEGY
BARON GLOBAL ADVANTAGE STRATEGY
BARON INTERNATIONAL GROWTH STRATEGY
BARON HEALTH CARE STRATEGY
BARON REAL ESTATE STRATEGY
BARON REAL ESTATE INCOME STRATEGY

MUTUAL FUNDS

BARON DISCOVERY FUND
BARON GROWTH FUND
BARON SMALL CAP FUND
BARON FOCUSED GROWTH FUND
BARON ASSET FUND
BARON FIFTH AVENUE GROWTH FUND
BARON DURABLE ADVANTAGE FUND
BARON OPPORTUNITY FUND
BARON PARTNERS FUND
BARON EMERGING MARKETS FUND
BARON INTERNATIONAL GROWTH FUND
BARON GLOBAL ADVANTAGE FUND
BARON NEW ASIA FUND
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BARON REAL ESTATE FUND
BARON REAL ESTATE INCOME FUND
BARON FINTECH FUND
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