BARON CAPITAL INVESTOR

The Case for Real Estate

Baron Real Estate Fund® | Sector

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Portfolio Manager

Of perhaps any sector, real estate has been affected the most by the post-pandemic "new normal." Some real estate categories are being propelled by tailwinds; others are being buffeted by near- and/or long-term headwinds. Our increasingly digital world – a long-term secular trend that was accelerated during the pandemic – is providing a tailwind to wireless tower and data center real estate. The shift to online shopping is benefiting the industrial warehouses used for inventory while forcing retail real estate owners to repurpose malls and other store properties. Office real estate owners are facing pressure as work from home/work from anywhere arrangements reduce the need for office space. We think that, now more than ever, this transforming real estate landscape calls for an active manager to navigate the investment opportunities and risks in the space.

Baron Real Estate Fund

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.

As seen in the table to the right, our approach has produced consistently strong, long-term results over the more than 14 years since the Fund's launch. The Fund has achieved these results without excessive risk. For the five-year period ended March 31, 2024, the Fund has annualized alpha of 6.33% with beta of 0.95, upside capture of 110.38%, and downside capture of 92.39%.

Baron Real Estate Fund Performance
as of 3/31/2024 (annualized)*

	1-year	3-year	5-year	10-year	Since Inception**
Baron Real Estate Fund	26.46%	2.75%	16.09%	10.41%	14.14%
MSCI USA IMI Extended Real Estate Index	25.27%	6.74%	9.84%	9.36%	11.36%
MSCI US REIT Index	8.96%	2.84%	2.93%	5.25%	7.87%

* Institutional Shares. For Retail and R6 Shares, visit baronfunds.com.
** Inception date: 12/31/2009

A More Balanced and Expansive Approach

Jeff Kolitch joined Baron Capital from Goldman Sachs in 2005 as a real estate analyst and brings 32 years of investment experience to his position. Jeff and his team apply Baron Capital'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 durable 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.

Performance listed in the above table is net of annual operating expenses. The annual expense ratio as of December 31, 2023 was 1.06%.

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 waive or 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.

Baron Real Estate Fund
Top 10 Holdings as of March 31, 2024

Holding	Sector	% of Net Assets
Toll Brothers, Inc.	Consumer Discretionary	11.5%
Lennar Corporation	Consumer Discretionary	5.6%
D.R. Horton, Inc.	Consumer Discretionary	5.4%
Prologis, Inc.	Real Estate	4.9%
Blackstone Inc.	Financials	4.7%
CoStar Group, Inc.	Real Estate	4.6%
Equinix, Inc.	Real Estate	4.3%
Wynn Resorts, Limited	Consumer Discretionary	3.7%
MGM Resorts International	Consumer Discretionary	3.5%
Las Vegas Sands Corporation	Consumer Discretionary	2.7%
Total		**51.0%**

The main real estate categories in which we invest include:

- REITs
- Residential-related real estate companies
  - Homebuilders and land developers
  - Building products/services
- 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.

Some of the REIT categories in which we invest 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 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.
- Telecom 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.
- 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.

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. Companies we own include **Lennar Corporation** and **D.R. Horton, Inc.**

Building product/services

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 any economic downturn. 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 own include: **Pool Corporation**, **Lowe's Companies, 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 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 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 (**Wynn Resorts, Limited**, **MGM Resorts International**) and hotels (**Hilton Worldwide Holdings Inc.**, **Hyatt Hotels Corporation**).

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 Ltd. is one of the largest global alternative asset managers primarily focused on infrastructure and real estate investments with over $900 billion in assets under management. 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 Brookfield and 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. We believe shares of Brookfield are attractively valued and remain optimistic about the long-term potential for the Fund's investments in the company.

Property Technology Companies

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. If anything, the pandemic has accelerated these secular trends as more people conduct business, leisure, residential, and commerce activities online. 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 (Equinix), wireless tower companies (American Tower), industrial REITs (Prologis, Rexford), and real estate data analytic companies such as **CoStar Group, Inc.** CoStar 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.

Durable 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, durability 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 fully normalized economic activity, we anticipate that the shares of many beaten-down cyclical companies 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 1-800-99-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 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.

Portfolio holdings as a percentage of net assets as of March 31, 2024 for securities mentioned are as follows: **Rexford Industrial Realty, Inc.** – 1.6%; **American Tower Corp.** – 2.6%; **Invitation Homes Inc.** – 1.6%; **Pool Corporation** – 1.9%; **Lowe's Companies, Inc.** – 2.7%; **Floor & Decor Holdings, Inc.** – 2.0%; **Hilton Worldwide Holdings Inc.** – 2.2%; **Hyatt Hotels Corporation** – 1.9%; **CBRE Group, Inc.** – 2.6%; **Brookfield Asset Management Ltd.** – 1.3%.

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

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 indices 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.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

Beta measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition.

Upside Capture explains how well a fund performs in time periods where the benchmark's returns are greater than zero.

Downside Capture measures how well a fund performs in time periods where the benchmark's returns are less than zero.

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