

**DEAR BARON REAL ESTATE FUND SHAREHOLDER:****PERFORMANCE**

Following strong absolute and relative performance in the first quarter of 2024, Baron Real Estate Fund's® (the Fund) performance reversed course and had a challenging second quarter.

In the June quarter, the Fund declined 9.20%, underperforming the MSCI US REIT Index (the REIT Index), which fell 0.22%, and the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which declined 4.03%. Several of the Fund's best performers from 2023 and the first quarter of 2024 declined in part due to concerns about slowing growth, including the shares of homebuilders, residential building product and services companies, casino and gaming operators, certain REITs, and other real estate-related companies.

At this stage, we believe the Fund is populated with several attractively valued real estate companies and believe the two- to three-year prospects for the Fund are compelling. Further, we have a long track record of bouncing back strongly following periods of weakness and are energized and committed to doing so again.

Despite the challenges from the most recent quarter, the Fund has maintained its industry leading performance as of June 30, 2024. According to Morningstar, the Fund has achieved the following:

- **#1 real estate fund ranking for both its 10-year and 5-year performance periods**
- **#1 real estate fund ranking since the Fund's inception on December 31, 2009**
- **5-Star Overall Morningstar Rating™**

As of 6/30/2024, the Morningstar Real Estate Category consisted of 237, 225, 206, 151, and 169 share classes for the 1-, 3-, 5-, 10-year, and since inception (12/31/2009) periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 24<sup>th</sup>, 57<sup>th</sup>, 1<sup>st</sup>, 1<sup>st</sup>, and 1<sup>st</sup> percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 51<sup>st</sup>, 135<sup>th</sup>, 2<sup>nd</sup>, 1<sup>st</sup>, and 2<sup>nd</sup> best performing share class in its Category, for the 1-, 3-, 5-, 10-year, and since inception periods, respectively.

As of 6/30/2024, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 24<sup>th</sup>, 57<sup>th</sup>, 1<sup>st</sup>, 1<sup>st</sup>, and 1<sup>st</sup> percentiles for the 1-, 3-, 5-, 10-year, and since inception periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 52<sup>nd</sup>, 134<sup>th</sup>, 1<sup>st</sup>, 1<sup>st</sup>, and 1<sup>st</sup> best performing share class in its Category for the 1-, 3-, 5-, 10-year, and since inception periods, 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. Since inception rankings include all share classes of funds in the Morningstar Real Estate Category. Performance for all share classes date back to the inception date of the oldest share class of each fund based on Morningstar's performance calculation methodology.

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 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.

**Baron Real Estate Fund Institutional Share Class was rated 5 stars overall, 3 stars for the trailing 3 years, 5 stars for the trailing 5 years, and 5 stars for the trailing 10 years ended 6/30/2024. There were 225 share classes, 206 share classes, and 151 share classes in the 3-, 5- and 10-year periods. These Morningstar Ratings are for the Institutional share class only; other classes may have different performance characteristics.**

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JEFFREY KOLITCH

PORTFOLIO MANAGER

Retail Shares: BREFX  
Institutional Shares: BREIX  
R6 Shares: BREUX**We will address the following topics in this letter:**

- Our current top-of-mind thoughts
- Portfolio composition and key investment themes
- Top contributors and detractors to performance
- Recent activity
- Concluding thoughts on the prospects for real estate and the Fund



# Baron Real Estate Fund

**Table I.**  
**Performance**

Annualized for periods ended June 30, 2024

	Baron Real Estate Fund Retail Shares <sup>1,2</sup>	Baron Real Estate Fund Institutional Shares <sup>1,2</sup>	MSCI USA IMI Extended Real Estate Index <sup>1</sup>	MSCI US REIT Index <sup>1</sup>	S&P 500 Index <sup>1</sup>
Three Months <sup>3</sup>	(9.26)%	(9.20)%	(4.03)%	(0.22)%	4.28%
Six Months <sup>3</sup>	(1.79)%	(1.68)%	2.29%	(0.84)%	15.29%
One Year	6.66%	6.90%	12.31%	6.25%	24.56%
Three Years	(2.25)%	(2.00)%	2.94%	(0.97)%	10.01%
Five Years	12.64%	12.93%	8.18%	2.68%	15.05%
Ten Years	8.61%	8.88%	8.48%	4.55%	12.86%
Since Inception (December 31, 2009) (Annualized)	12.84%	13.13%	10.84%	7.71%	13.76%
Since Inception (December 31, 2009) (Cumulative) <sup>3</sup>	476.53%	498.07%	344.83%	193.76%	548.01%

## OUR CURRENT TOP-OF-MIND THOUGHTS

At the half-way point of 2024, we have several top-of-mind thoughts:

### We believe it is an attractive time to increase exposure to public real estate

- Several public real estate companies have underperformed the S&P 500 Index since 2019, in part due to the lingering impacts from COVID-19, the aggressive Federal Reserve (the Fed) interest rate tightening cycle, and more recently, the overhang of the commercial real estate crisis narrative which we continue to believe is unlikely to materialize.
- Much of public real estate has been repriced for a higher cost of capital, and valuations are now attractive (*see below*).
- We believe Fed interest rate cuts are forthcoming, which historically have been positive for public real estate (*see below*).

*Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2023 was 1.31% and 1.06%, respectively. 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 [BaronCapitalGroup.com](http://BaronCapitalGroup.com) or call 1-800-99-BARON.*

<sup>1</sup> 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 designed to measure the performance of all equity REITs in the U.S. 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. The **S&P 500 Index** measures the performance of 500 widely held large-cap U.S. companies. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The MSCI Indexes and the Fund include reinvestment of dividends, net of foreign withholding taxes, while the S&P 500 Index includes reinvestment of dividends before taxes. Reinvestment of dividends positively impacts performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

<sup>2</sup> The performance data in the table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or redemption of Fund shares.

<sup>3</sup> Not annualized.

- Our research conclusions for most real estate companies are encouraging:
  - Business conditions, though moderating, are still growing and do not foretell a significant decline in growth.
  - We see attractive demand versus supply prospects. Vacancies are low, rents and home prices continue to increase albeit at a slower rate, and competitive new construction is modest for most commercial and residential sectors and geographic markets over the next several years.
  - Most balance sheets are in strong shape.
  - The banking system is well capitalized, with ample liquidity.
  - We believe future loan defaults will be mostly isolated to class "B" and "C" office buildings.

### The valuations of several public real estate-related companies are compelling

- **REITs versus the S&P 500 Index:** According to research from Citigroup Inc., since 2007, REIT price to earnings multiples (P/E or FFO) have traded, on average, at a modest 0.7 times premium to the S&P 500 Index P/E multiple. Currently, however, REIT P/E multiples of 16.4 times are at a 4.6 times discount to the S&P 500 Index P/E multiple of 21.0 times. The last time REIT valuations were cheaper versus the S&P P/E multiple was during the Global Financial Crisis in 2009.
- **Public real estate valuations versus private real estate valuations:** We find it notable that in the last few months private equity firms such as **Blackstone Inc.** have chosen to deploy billions of dollars of real estate capital in the public market rather than the private market due to the relative valuation appeal in public real estate. In April 2024, Blackstone announced the \$10 billion acquisition of publicly traded Apartment Income REIT Corp., a multi-family REIT. Blackstone also announced the \$3.5 billion acquisition of Tricon Residential Inc., a publicly traded company that provides quality rental homes and apartments, earlier this year. We anticipate additional public market privatizations in the months ahead because there may be additional opportunities for private funds to purchase quality public real estate at valuation discounts to private market values.
- We believe several REIT and non-REIT real estate companies are cheap. Examples include certain real estate casino and gaming companies,

non-REIT residential-related homebuilders and building product and services companies, and several additional REIT and non-REIT real estate-related companies.

**Fed interest rate cuts should be positive for real estate stocks and our Fund**

- The global pivot in monetary policy – from restrictive to accommodative – has historically been bullish for real estate and the Fund. Lower interest rates and tighter credit spreads should support real estate valuations, reduce the weight of debt refinancings, and reignite the transaction market.
- Since the launch of the Fund on December 31, 2009, the Fed has lowered interest rates twice – in 2019 and 2020.
  - 2019: The Fed cut interest rates 75 basis points (25 basis points on three different dates). In 2019, the Fund increased 44.4%, significantly outperforming the REIT Index, which increased 24.3%, and the MSCI Real Estate Index, which increased 30.2%.
  - 2020: The Fed cut interest rates 150 basis points in March 2020 in response to COVID-19. In 2020, the Fund increased 44.3%, significantly outperforming the REIT Index, which decreased 8.7%, and the MSCI Real Estate Index, which increased 4.2%.

**The 5-year period from 2019-2023 is an excellent case study that highlights the long-term appeal of the Baron Real Estate Fund**

- From 2019 to 2023, real estate was faced with a highly unusual and, at times, challenging investing environment that included:
  - COVID-19 and its positive and negative implications for various real estate categories
  - A decline in the U.S. 10-year treasury rate to the lowest in history (0.52% on March 2020)
  - A sharp reversal in interest rates as the Fed increased interest rates 525 basis points
  - Multi-decade high inflation fueled by trillions of dollars of fiscal and monetary stimulus to combat COVID-19
  - Emerging headwinds for some segments of real estate – notably lower quality office buildings
  - Several other unusual developments including bank failures, supply-chain challenges, and the Russia-Ukraine war
- We believe the developments that occurred in the 5-year period from 2019 to 2023 highlight the long-term benefits of the Fund’s broader, more flexible, and more comprehensive approach to investing in real estate.
  - In certain years, the Fund may underperform often due to our decision to limit the Fund’s REIT exposure to no more than approximately 30% of the Fund’s net assets (2021, for example).
  - Over the long term, however, we believe the Fund’s more expansive and balanced approach to real estate research and portfolio construction relative to more typical REIT dominated funds (we research and invest in a broader group of real estate-related companies, not just REITs), and the merits of our actively managed strategy to navigate and capitalize on the ever-changing real estate investment landscape should result in long-term returns at or near the top of the real estate peer group.
  - For the 5-year period ending December 31, 2023, the Fund:
    - Significantly outperformed its comparative indices in 2019, 2020, and 2023

- Underperformed in 2021 largely due to the decision to limit the Fund’s REIT allocation to no more than approximately 30% of the Fund’s assets – and REITs had one of their best years on record in 2021
- Modestly underperformed in 2022 when growth-related real estate companies were out of favor
- **Notably, for the 5-year period from 2019 to 2023:**
  - **The Fund’s annualized 5-year performance of 18.32% significantly outperformed the REIT Index’s performance of only 6.15% and the MSCI Real Estate Index’s performance of 11.68%**

**Table II.**  
Performance from 12/31/2018 to 12/31/2023

Period	Baron Real Estate Fund Institutional Shares	MSCI USA IMI Extended Real Estate Index	MSCI US REIT Index	S&P 500 Index
Calendar Year 2019	44.44%	30.21%	24.33%	31.49%
Calendar Year 2020	44.28%	4.21%	(8.70)%	18.40%
Calendar Year 2021	24.36%	36.55%	41.71%	28.71%
Calendar Year 2022	(28.44)%	(23.84)%	(25.37)%	(18.11)%
Calendar Year 2023	25.04%	23.09%	12.27%	26.29%
5-Years Ended 12/31/2023 (Annualized)	18.32%	11.68%	6.15%	15.69%

- **According to Morningstar, the Fund was the #1 ranked real estate fund over this 5-year period**
- **Looking forward, we believe the merits of our more diversified and flexible approach to investing in real estate may shine even brighter in part due to the rapidly changing real estate landscape which we believe will require a more expansive, discerning, and actively managed approach to investing in real estate**

**PORTFOLIO COMPOSITION AND KEY INVESTMENT THEMES**

We currently have investments in REITs, plus seven additional non-REIT real estate-related categories. Our percentage allocations to these categories vary, and they are based on our research and assessment of opportunities in each category on a bottom-up basis (See Table III below).

**Table III.**  
Fund investments in real estate-related categories as of June 30, 2024

	Percent of Net Assets
REITs	30.9%
Non-REITs	63.1
Homebuilders & Land Developers	18.6
Building Products/Services	11.6
Casinos & Gaming Operators	9.6
Real Estate Service Companies	9.1
Real Estate Operating Companies	7.5
Hotels & Leisure	5.5
Data Centers	1.1
Cash and Cash Equivalents	6.0%
Total	100.0%*

\* Individual weights may not sum to the displayed total due to rounding.

# Baron Real Estate Fund

## Investment Themes

We continue to prioritize seven long-term high-conviction investment themes or real estate categories:

1. REITs
2. Residential-related real estate
3. Travel-related real estate
4. Real asset-focused alternative asset managers
5. Commercial real estate services companies
6. Property technology companies
7. Data center operators

### Notable changes to the Fund's real estate category exposures since the end of the first quarter:

- We increased the Fund's allocation to REITs from 23.0% to 30.9%. REIT performance lagged in 2023 and in the first quarter of 2024. We identified attractively valued REITs to purchase in the second quarter, including multi-family REITs.
- Following exceptionally strong performance in 2023 and in the first quarter of 2024, we decreased the Fund's allocation to homebuilders from 22.6% to 17.3%.
- Due to moderating growth expectations, we decreased the Fund's allocation to casinos & gaming operators from 15.4% to 9.6%.

A one paragraph synopsis that explains the case for each of the Fund's investment themes can be found below.

## REITs

Business fundamentals are generally solid. Limited new competitive supply is forecasted in the next few years. Most balance sheets are in good shape. Several REITs benefit from some combination of all or some of the following favorable characteristics including inflation-protection, contracted cash flows, and an ability to increase dividends. Many REITs are cheap relative to history and private market valuations. REIT share price performance has historically benefited from an accommodative pivot in central bank monetary policy.

As of June 30, 2024, we had investments in six REIT categories representing 30.9% of the Fund's net assets. Please see Table IV below.

**Table IV.**  
REITs as of June 30, 2024

	Percent of Net Assets
Data Center REITs	9.0%
Multi-Family REITs	7.2
Wireless Tower REITs	4.8
Health Care REITs	3.6
Industrial REITs	3.6
Single-Family Rental REITs	2.7
Total	30.9%*

\* Individual weights may not sum to the displayed total due to rounding.

## Residential-related real estate

A multi-decade structural underinvestment in the construction of residential real estate relative to the demographic needs of our country bodes well for long-term housing construction activity, sales, rentals, pricing, and repair and remodel activity. Cyclical tailwinds (pent-up demand, low inventory levels, and a still healthy consumer) and secular tailwinds (flexible work arrangements that favor suburban living, a desire to own newly built homes rather than existing homes which, on average, are more than 40 years old, and the lock-in effect for existing homeowners to remain in their homes due to the move higher in mortgage rates) should aid the new home market for several years. The strategic pivot by several homebuilders to a more land-light business model, the utilization of lower leverage, improved capital allocation, and the prioritization of scale advantages may lead to higher valuations for homebuilders over time.

As of June 30, 2024, residential-related real estate companies represented 30.3% of the Fund's net assets. Please see Table V below.

**Table V.**  
Residential-related real estate companies as of June 30, 2024

	Percent of Net Assets
Homebuilders	17.3%
Building Products/Services	11.0
Home Centers	2.0
Total	30.3% <sup>1*</sup>

<sup>1</sup> Total would be 33.0% if we include residential-related housing REIT Invitation Homes, Inc.

\* Individual weights may not sum to the displayed total due to rounding.

## Travel-related real estate

Several factors are likely to contribute to multi-year tailwinds for travel-related real estate companies including a favorable shift in consumer preferences (demand for experiences/services such as travel over goods), a growing middle class, and other encouraging demographic trends (more disposable income for the millennial cohort due to delays in household formation and work-from-home arrangements which allow for an increase in travel bookings); healthy balance sheets; and private equity's long history of investing in travel-related companies.

As of June 30, 2024, travel-related real estate companies represented 15.1% of the Fund's net assets. Please see Table VI below.

**Table VI.**  
Travel-related real estate as of June 30, 2024

	Percent of Net Assets
Casinos & Gaming Operators	9.6%
Hotels	5.5
Total	15.1%*

\* Individual weights may not sum to the displayed total due to rounding.

## Real estate-focused alternative asset managers

Leading real estate-focused asset managers **Blackstone Inc.** and **Brookfield Corporation** have an opportunity to increase market share due to impressive investment track records and global scale advantages. They are also positioned to benefit from a secular growth opportunity for alternative



assets due to long track records of generating attractive relative and absolute returns with less volatility than several other investment options.

**Commercial real estate services companies**

Leading commercial real estate services companies **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated** should benefit from structural and secular tailwinds: the outsourcing of commercial real estate, the institutionalization of commercial real estate, and opportunities to increase market share in a highly fragmented market.

**Property technology companies**

The collision of real estate and technology has led to a new category within real estate—real estate technology, also referred to as *proptech*. The emergence of proptech and the digitization of real estate is an exciting and promising new development for real estate. We believe we are in the early innings of a technology-driven investment cycle centered on data and digitization that allows real estate-related businesses to drive incremental revenue streams and lower costs.

**CoStar Group, Inc.**, the leading provider of information, analytics, and marketing services to the real estate industry and a top holding in the Fund, is well positioned to capitalize on this burgeoning secular growth trend.

**Data center operators**

In the most recent quarter, we acquired shares in data center operator, **GDS Holdings Limited**. We believe the shares are attractively valued and offer compelling long-term growth prospects. We will elaborate on our investment thesis for the company in future shareholder letters.

As of June 30, 2024, other real estate-related companies (which includes the four investment themes mentioned directly above) represented 17.7% of the Fund’s net assets. Please see Table VII below.

**Table VII.**  
Other real estate-related companies as of June 30, 2024

	Percent of Net Assets
Real Estate-Focused Alternative Asset Managers	7.5%
Commercial Real Estate Services Companies	5.6
Property Technology Companies	3.5
Data Center Operators	1.1
Total	17.7%*

\* Individual weights may not sum to the displayed total due to rounding.

**TOP CONTRIBUTORS AND DETRACTORS TO PERFORMANCE**

**Table VIII.**  
Top contributors to performance for the quarter ended June 30, 2024

	Quarter End Market Cap (billions)	Percent Impact
Equity Residential	\$26.3	0.40%
Welltower Inc.	62.3	0.38
Digital Realty Trust, Inc.	50.3	0.25
AvalonBay Communities, Inc.	29.4	0.20
Jones Lang LaSalle Incorporated	9.8	0.16

In the second quarter, the shares of **Equity Residential**, the largest U.S. multi-family REIT, appreciated due to continued strong operating updates, an improved full-year growth outlook, and faster-than-expected improvement in the company’s West Coast markets. Management has assembled an excellent portfolio of Class A apartment buildings located in high barrier-to-entry coastal markets with favorable long-term demographic trends and muted overall supply growth. Please see the “Top net purchases” for further thoughts on the company.

The shares of **Welltower Inc.** continued to perform well in the second quarter. Share price appreciation was driven by continued strong cash flow growth in its senior housing portfolio driven by strong occupancy and rent growth, solid execution on its highly accretive proprietary sourced capital deployment opportunities, and an improved full-year growth outlook.

Welltower is a REIT that is an operator of senior housing, life science, and medical office real estate properties. We recently met with the entire Welltower senior management team and remain encouraged that the shares can continue to be a strong multi-year contributor for the Fund. We are optimistic about the prospects for both cyclical growth (a recovery from depressed occupancy levels following COVID-19) and secular growth (the senior portion of the population is the fastest growing portion of the population and people are living longer) in senior housing demand against a backdrop of muted supply that will lead to several years of compelling organic growth. Welltower is a “best-in-class” operator with a high-quality curated portfolio that is led by astute capital allocators, thereby allowing it to capture outsized organic and inorganic growth opportunities.

In the most recent quarter, the shares of data center REIT **Digital Realty Trust, Inc.** continued to appreciate due to record quarterly new leasing results, strong pricing power on new and renewal leases, an improved capital structure, and an evolving AI demand growth opportunity for its data center facilities.

Digital Realty is a global provider of data center services to enterprises, cloud service providers, network providers, financial services, media, and other customers. Our team traveled to Digital Realty’s headquarters in Texas earlier this year to meet with CEO Andy Power. We remain optimistic about Digital Realty’s continued ability to perform well due to improving growth and pricing power, the company’s existing and newly developed data center capacity in supply constrained markets, its fully secured future pipeline of power and key infrastructure components, and management’s greater focus on delivering bottom-line growth while balancing investing for the future.

**Table IX.**  
Top detractors from performance for the quarter ended June 30, 2024

	Quarter End Market Cap (billions)	Percent Impact
CoStar Group, Inc.	\$ 30.3	–1.14%
Prologis, Inc.	104.0	–0.79
D.R. Horton, Inc.	46.4	–0.77
Toll Brothers, Inc.	11.8	–0.76
SiteOne Landscape Supply, Inc.	5.5	–0.75

Following strong first quarter performance, the shares of **CoStar Group, Inc.**, the global leader in digitizing real estate, declined due to concerns that the company’s second quarter financial results will show a deceleration in

# Baron Real Estate Fund

net new sales of its residential product following outstanding first quarter performance. We remain encouraged by traction in CoStar's residential offering, although recognize that progress may not be linear. CoStar began to monetize its new residential Homes.com platform in February. We believe that early momentum can be amplified by the recent National Association of Realtors class action settlement, which has the potential to disrupt the residential brokerage industry and enhance the return on investment for brokers advertising on CoStar's residential Homes.com. We view the residential real estate market as a vast and underpenetrated opportunity for CoStar. Over time, we believe the company's emerging residential business will result in a more than doubling of the company's current revenues and cash flow. Further, expanding the residential offering to international markets would result in another major growth opportunity. Based on CoStar's current valuation and our expectation for future growth, we believe the company's shares have the potential to double in the next three to four years.

The shares of **Prologis, Inc.** underperformed during the second quarter. Prologis is a REIT that is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. The share price began to correct in April when the company reported strong first quarter financial results but slightly lowered its full-year outlook. Rent growth has been moderating in the industrial logistics real estate sector as tenants slow their decision-making amidst an environment of heightened macroeconomic uncertainty, while a wave of recently delivered new development projects provide tenants with more real estate options. We view these headwinds as transitory and remain quite optimistic about Prologis's multi-year growth prospects.

We expect industry fundamentals will firm up in the coming quarters in light of still healthy levels of demand combined with a dearth of expected new development deliveries. Long-term demand is poised to benefit from several ongoing secular tailwinds, including the growth of e-commerce, the build out of "last mile" supply chains, and the desire for more "just-in-case" inventory of goods. Management, who we think is top notch, expects to grow cash flow at close to 10% per year over the next several years as the company resets the portfolio's low in-place rents up to market levels and investments in development, data centers and energy begin to bear fruit.

The shares of **D.R. Horton, Inc.** underperformed during the second quarter. D.R. Horton is the largest homebuilder in the U.S., with operations in 119 markets in 33 states, and a focus on more affordable price points (70% of homes closed are below \$400,000).

Share prices of U.S. homebuilders more broadly were pressured over concerns that demand for new single-family homes would slow due to stretched consumer affordability (high prices, down payments and mortgage rates) and a rise in home resale inventory across several markets. D.R. Horton has been able to successfully weather these headwinds and continue to grow owing to its affordable price points, low-cost position, and scale advantages.

We remain enthusiastic about the multi-year prospects for D.R. Horton. Our view remains that the U.S. will need to build new homes at an elevated rate for the foreseeable future in order to replenish a current structural deficit of housing stock while also housing a growing population. We anticipate that D.R. Horton will continue to grow faster than the broader housing industry as the company leverages its scale advantages to gain market share across

its footprint. Furthermore, we believe that as the company continues to transition its operations to a more asset-light business model that emphasizes returns and cash flow generation, the company's valuation multiple may expand.

## RECENT ACTIVITY

Table X.

Top net purchases for the quarter ended June 30, 2024

	Quarter End Market Cap (billions)	Net Amount Purchased (millions)
AvalonBay Communities, Inc.	\$29.4	\$49.3
Equity Residential	26.3	42.5
Martin Marietta Materials, Inc.	33.4	40.6
American Tower Corporation	90.8	33.6
Louisiana-Pacific Corporation	5.9	26.9

In the second quarter, we increased the Fund's REIT exposure to best-in-class multi-family owners/operators **Equity Residential** and **AvalonBay Communities, Inc.** Our meetings with each management team supported our view that both companies are led by astute executives that are highly focused on driving value creation for shareholders.

Equity Residential and AvalonBay each own approximately 80,000 apartment homes primarily in coastal markets. We believe these portfolios offer superior long-term growth prospects due to:

- Favorable long-term demographic trends driven by strong population and job growth in their key geographic markets
- An undersupply of housing in the U.S. with outsized cost of ownership versus renting in their respective markets
- A high-earning, well-employed resident profile with attractive rent-to-income ratios allowing for future pricing power
- Low levered balance sheets which may present attractive opportunities for accretive external growth

In our opinion, the shares of Equity Residential and AvalonBay have been highly discounted relative to private market values and the underlying replacement cost of their portfolios. Our view was further cemented when Blackstone, one of the largest real-estate owners in the world, privatized Apartment Income REIT Corp., a multi-family REIT that owns and operates 27,000 apartments, in April 2024 for \$10 billion, or a 25% premium to its public market price. Blackstone's purchase price was at a premium to where the higher quality portfolios of Equity Residential and AvalonBay were trading in the public markets.

Despite strong performance in the second quarter, we continue to believe that shares of Equity Residential and AvalonBay are attractively valued relative to private market values and each company owns and operates excellent and relevant real estate that should perform well over the long term.

In the second quarter, we acquired shares in **Martin Marietta Materials, Inc.**, a leading producer of aggregates (77% of gross profit) and specialty products. The company's products are sold and utilized in infrastructure projects such as highways, as well as residential and non-residential construction. Martin Marietta has local leadership positions across its footprint.

We believe aggregates are an attractive business for two main reasons:

- High barriers to entry limit new competition: Permits to open new quarries are difficult to obtain, and the approval process typically takes 5 to 10 years. Martin Marietta has more than 75 years of aggregates reserves at its current extraction rates.
- Consistent pricing power through cycles: Aggregates producers have historically enjoyed great pricing power owing to the difficulty in opening competing new quarries, the limited substitutes for quality aggregates, and a high weight-to-price ratio that makes transportation expensive relative to the cost of the material. In the last 30 years, pricing of aggregates has increased, on average, 4% per year.

We believe the multi-year growth prospects for Martin Marietta are especially attractive for four reasons:

1. Infrastructure-related spending is accelerating and will be elevated over the next several years. The Infrastructure Investment and Jobs Act allocates significant sums towards new and existing infrastructure spending through 2026. In addition, outsized state-level infrastructure spending will drive demand across the company's footprint.
2. Private construction spending (residential and non-residential) may accelerate over the next several years. Residential construction may remain strong owing to an acute need for more new homes following a 15-year period of underbuilding relative to the demographic needs of our country. Non-residential spending may accelerate to meet the real estate needs in growing areas such as logistics warehouses, data centers, and manufacturing.
3. Pricing power has been exceptionally robust in response to inflationary cost pressures, and we expect price growth to remain strong.
4. Margin expansion opportunity. Management remains focused on improving productivity and maximizing unit-level profitability, with the goal of further expanding margins.

**Table XI.**  
Top net sales for the quarter ended June 30, 2024

	Quarter End Market Cap or Market Cap When Sold (billions)	Net Amount Sold (millions)
Toll Brothers, Inc.	\$ 11.8	\$84.3
Prologis, Inc.	104.0	31.9
Caesars Entertainment, Inc.	7.8	30.1
Pool Corporation	12.0	29.0
Boyd Gaming Corporation	5.2	28.3

We trimmed our position in **Toll Brothers, Inc.**, America's leading luxury homebuilder, during the second quarter following exceptionally strong share price appreciation over the last year and the Fund's resulting large position size. Toll Brothers remains the largest position in the Fund, and we continue to be enthusiastic about the company's long-term prospects.

Our meetings with CEO Doug Yearley and other key members of the company's management confirm our view that the long-term prospects remain compelling. We believe Toll Brothers has the ability to grow its community count of homes by approximately 10% per year as the company

continues to gain market share against its mostly smaller private competitors who lack scale advantages, brand awareness, and access to attractively priced financing. Further, Toll Brothers has a long runway for multi-decade growth as it targets the fastest growing income demographic in the U.S. – 16 million households with annual incomes of at least \$200,000. According to the U.S. Census Bureau (September 2023), households with over \$200,000 in annual income have grown approximately 10 times faster than all U.S. households in the last 10 years. Currently, Toll Brothers has captured only 0.06% of this important demographic group. For additional reasons we remain optimistic on our investment in Toll Brothers, please see the "Top contributors" section of our first quarter 2024 shareholder letter.

In the second quarter, we trimmed our position in **Prologis, Inc.**, the global leader in logistics real estate with a focus on high-barrier, high-growth markets, due to greater-than-expected near-term industry and business headwinds and less clarity around the timing of a positive inflection in the business. We believe these headwinds are transitory and should abate over the next several quarters, and that the multi-year secular growth prospects remain bright.

Prologis continues to be a core position in the Fund, and we remain optimistic about the long-term growth prospects for the company due to its competitively advantaged global footprint and capabilities, property portfolio with highly visible embedded rent growth potential, and meaningful long-term potential upside from ongoing investments in development, energy storage, and ancillary services. We believe Prologis can continue to compound earnings at approximately 10% per year over the next few years.

In the most recent quarter, we chose to lower the Fund's large exposure to travel-related real estate companies and exited the Fund's position in **Caesars Entertainment, Inc.**, the largest casino-entertainment company in the U.S. and one of the world's most diversified casino-entertainment providers.

We have near-term reservations about a possible moderation in consumer demand for some of Caesars' properties and believe the move higher in interest rates and a largely quiet transaction market also negatively impact certain highly leveraged companies such as Caesars.

We are fans of CEO Tom Reeg and may revisit Caesars for purchase at a later date.

### CONCLUDING THOUGHTS ON THE PROSPECTS FOR REAL ESTATE AND THE FUND

**We believe many of the real estate-related challenges of the last few years are subsiding and brighter prospects for real estate are on the horizon. We are optimistic about the prospects for the Fund with a two- to three-year view.**

In our opinion, several of the headwinds since 2020 are reversing course and may become tailwinds for real estate. Examples include the lingering headwinds from COVID-19, the most aggressive Fed interest rate tightening campaign in decades, a spike in mortgage rates from 3% to 8%, fears of a commercial real estate crisis, a tightening of credit availability, multi-decade high inflation, and supply-chain challenges.

# Baron Real Estate Fund

We continue to believe the narrative about a commercial real estate crisis is hyperbole and unlikely to materialize. Public real estate generally enjoys favorable demand versus supply prospects, maintains conservatively capitalized balance sheets, and has access to credit.

We believe we have assembled a portfolio of best-in-class competitively advantaged real estate companies with compelling long-term growth and share price appreciation potential. We have structured the Fund to capitalize on high-conviction investment themes.

Following a sharp correction in the share prices of several real estate companies in the second quarter of 2024, we believe valuations and return prospects are attractive.

We continue to believe the benefits of our flexible approach, which allows us to invest in a broad array of real estate companies including REITs and non-REIT real estate-related companies, will shine even brighter in the years ahead, in part due to the rapidly changing real estate landscape which, in our opinion, requires more discerning analysis.

For these reasons, we remain positive on the outlook for the Fund.

One final thought on return prospects. **History suggests that if investors wait for the "all-clear signal" (e.g., a Fed interest rate cut), they may miss a good portion of the total return prospects for real estate. Markets tend to be anticipatory.**

For example, following Fed Chairman Powell's commentary in the fourth quarter of 2023 which implied that the Fed may no longer increase interest rates due to several months of improving inflationary data and may begin to cut interest rates in 2024, real estate stocks rebounded sharply in the last two months of 2023 – way in advance of a Fed interest rate cut. After bottoming on October 27, 2023, the Fund and the REIT Index increased, in just over two months, 28% and 24% respectively, by the end of 2023.

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*Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus 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 BaronCapitalGroup.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 Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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 managers 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.

This report does not constitute an offer to sell or a solicitation of any offer to buy securities of Baron Real Estate Fund by anyone in any jurisdiction where it would be unlawful under the laws of that jurisdiction to make such an offer or solicitation.

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. **Price/Earnings Ratio or P/E (next 12-months):** is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation.

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).

**Table XII.**  
**Top 10 holdings as of June 30, 2024**

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Toll Brothers, Inc.	\$ 11.8	\$117.3	6.7%
Lennar Corporation	40.8	98.8	5.6
D.R. Horton, Inc.	46.4	87.5	5.0
Equinix, Inc.	71.8	87.4	5.0
American Tower Corporation	90.8	84.0	4.8
Equity Residential	26.3	74.5	4.3
Digital Realty Trust, Inc.	50.3	70.3	4.0
Blackstone Inc.	150.2	69.3	4.0
Welltower Inc.	62.3	63.2	3.6
CoStar Group, Inc.	30.3	60.9	3.5

I would like to thank our core real estate team—David Kirshenbaum, George Taras, David Baron, and David Berk—for their outstanding work, dedication, and partnership.

I, and our team, remain fully committed to doing our best to deliver outstanding long-term results, and I proudly continue as a major shareholder, alongside you.

Sincerely,



Jeffrey Kolitch  
Portfolio Manager