



QUARTERLY LETTER | MARCH 31, 2026

# Baron Real Estate Fund<sup>®</sup>

Retail Shares: BREFX | Institutional Shares: BREIX | R6 Shares: BREUX



Jeff Kolitch  
Portfolio Manager

## Dear Baron Real Estate Fund Shareholder, Performance

### 2026 LSEG Lipper Fund Award Announcement

We are pleased to report that Baron Real Estate Fund<sup>®</sup> (the Fund) has been recognized as the *Best Real Estate Fund Over Three Years* at the 2026 LSEG Lipper Funds Awards. This 2026 award reflects the Fund's performance over the three-year period ended December 31, 2025.

The award celebrates funds that demonstrate consistently strong, risk-adjusted performance. The Baron Real Estate Fund<sup>®</sup> has now received the LSEG Lipper Fund Award three times in 2014, 2015, and 2026, while the Baron Real Estate Income Fund<sup>®</sup> has been honored once in 2022.

Though we are pleased that the Fund was recognized by LSEG Lipper for its strong long-term performance, the Fund's returns, at times, can temporarily disappoint. The first quarter of 2026 was one of those times. In the first three months of 2026, the Fund declined 5.39% (Institutional Shares), underperforming the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which declined 0.96%, and the MSCI US REIT Index (the REIT Index), which increased 4.52%.

Our team remains focused and disciplined in driving performance improvements, as we have during previous periods of short-term underperformance. Please refer to the "Our Current Top-of-Mind Thoughts" and "Portfolio Composition and Key Investment Themes" sections later in this letter for an overview of our key messages and an explanation of the Fund's first quarter performance.

### Annualized performance (%) for periods ended March 31, 2026

	Fund Retail Shares <sup>1,2</sup>	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>
QTD <sup>3</sup>	(5.46)	(5.39)	(0.96)	4.52	(4.33)
1 Year	6.38	6.65	7.22	5.48	17.80
3 Years	9.05	9.34	11.23	7.79	18.32
5 Years	2.05	2.31	5.96	4.57	12.06
10 Years	10.30	10.59	8.34	4.29	14.16
15 Years	10.92	11.20	9.46	6.32	13.29
Since Inception (12/31/2009)	12.24	12.53	10.53	7.79	13.58
Since Inception (12/31/2009) (Cumulative) <sup>3</sup>	553.21	580.76	409.14	238.40	692.42

*Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of April 30, 2025 was 1.31% and 1.05%, 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, 2036, 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.*

While 2026 began on a disappointing note, the Fund’s long-term performance remains strong. According to Morningstar, the Fund has held the #1 real estate ranking since inception (December 31, 2009) through March 31, 2026. It also ranks in the top 1% of all real estate funds over both the trailing 15- and 10-year periods ended March 31, 2026.

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

## Our Current Top-of-Mind Thoughts

### OUR BOTTOM-LINE VIEW:

Despite a disappointing start to 2026:

- We continue to believe the outlook for much of public real estate is compelling
- Many publicly traded real estate companies are trading at attractive valuations, offering what we believe to be a timely investment opportunity
- The Fund offers a compelling way to access the long-term return potential of the Real Estate sector

**Note:** In early April 2026, I increased my already substantial investment in the Fund. Our team believes the Fund offers compelling multi-year return potential, and we outline the rationale for this view below.

**We continue to believe the outlook for much of public real estate is compelling**

While we remain mindful of the headwinds that have weighed on both the stock market and the Fund in the early months of 2026 (see the “Portfolio composition and key investment themes” section below), we encourage clients to focus on where opportunities are headed. From that perspective, we believe the case for real estate remains highly compelling.

As of March 31, 2026, the Morningstar Real Estate Category consisted of 207, 197, 190, 149, 111, and 153 share classes for the 1-, 3-, 5-, 10-, 15-year, and since inception (December 31, 2009) periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 10<sup>th</sup>, 7<sup>th</sup>, 83<sup>rd</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 21<sup>st</sup>, 16<sup>th</sup>, 167<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-, 15-year, and since inception periods, respectively.

As of March 31, 2026, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 9<sup>th</sup>, 7<sup>th</sup>, 84<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 R6 Share Class as the 19<sup>th</sup>, 17<sup>th</sup>, 168<sup>th</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.

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. 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.

Baron Real Estate Fund Institutional Share Class was rated 4 stars overall, 4 stars for the trailing 3 years, 2 stars for the trailing 5 years, and 5 stars for the trailing 10 years ended March 31, 2026. There were 197 share classes, 190 share classes, and 149 share classes for the 3-, 5-, and 10-year periods. 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.

Our optimism for public real estate is due to several considerations including:

### 1. Real Estate has lagged

- In the last five years through December 31, 2025, the S&P 500 Index has increased 14.42% per year versus a return of only 5.35% per year for the REIT Index.
- The REIT Index has underperformed the S&P 500 Index for four consecutive calendar years through December 31, 2025:

### REIT performance (%) versus broad market in recent years

	MSCI US REIT Index	S&P 500 Index	Difference	MSCI US REIT Index vs. S&P 500 Index
2025	1.68	17.88	(16.20)	Underperformance
2024	7.49	25.02	(17.53)	Underperformance
2023	12.27	26.29	(14.02)	Underperformance
2022	(25.37)	(18.11)	(7.26)	Underperformance
Last 4 Calendar Years (Annualized)	(2.18)	11.11	(13.29)	Underperformance

- Certain non-REIT real estate companies have also lagged in the last few years.

### 2. Real estate offers relative value

- A large portion of public real estate – including both REITs and non-REIT real estate – appears attractively valued. Please see below for examples of attractively valued real estate companies.

### 3. The economics of real estate are compelling

- The favorable imbalance between demand and supply supports occupancy gains, rent growth, increased home sales, cash flow expansion, and improving real estate valuations.
- Construction activity across many real estate segments has fallen to decade lows (Source: Green Street Advisors, LLC.), which should support a faster growth rebound than in prior cycles as demand improves.

#### 4. The debt market is liquid, and the cost of debt may decline

- If long-term interest rates decline – potentially driven by a more accommodative Federal Reserve, the deflationary effects of AI, and moderating shelter inflation – borrowing costs could fall. This, in turn, would likely support higher real estate values, improve housing market activity, and accelerate real estate M&A, which may further underscore the relative attractiveness of public real estate valuations.

#### 5. Balance sheets are in solid shape

- Balance sheets are strong, characterized by prudent leverage relative to cash flow, well-laddered debt maturities, and a balanced mix of fixed- and floating-rate debt.

#### 6. Real estate may be a stock market rotation beneficiary

- Early in 2026, the stock market shifted toward areas that have underperformed in recent years, including REITs and other real estate- and asset-intensive companies. If this rotation continues, real estate could be well positioned, as the market has increasingly rewarded tangible, real asset businesses.

#### 7. Much of real estate appears to be AI beneficiaries

- The stock market has increasingly rewarded tangible assets like real estate, which tend to offer greater near-term certainty and lower risk of AI-driven disruption compared with segments of the digital economy.
- Early in 2026, the stock market shifted toward asset-intensive businesses that may be more insulated from AI – what we describe as HALO (heavy assets, low obsolescence) – including select REITs, homebuilders, and residential building products companies.

#### 8. Many clients are underweight real estate

- Increased investor allocations to real estate may lift valuations and share prices.

#### 9. Private capital may step in and acquire discounted public real estate

- Much of public real estate continues to trade at a meaningful discount to private market values.

#### 10. We are optimistic that the Baron Real Estate Fund® can deliver double-digit annual returns in the next few years

- We believe a favorable combination of improving growth prospects, rising dividends, and attractive valuations could potentially drive double-digit annual returns for the Fund.

#### Many publicly traded real estate companies are trading at attractive valuations, offering what we believe to be a timely investment opportunity

We believe a broad set of best-in-class real estate companies – both REITs and non-REITs – now trade at attractive discounts relative to historical levels and private market values, offering compelling return potential in the years ahead.

#### Examples of REITs that are cheap

- **Malls: The Macerich Company**, an owner of exceptionally high-quality U.S. malls, is currently valued at approximately 11 times 2027 estimated funds from operations (FFO) – based

on depressed earnings – representing a meaningful discount to its warranted range of 15 to 16 times FFO. Similarly, **Simon Property Group, Inc.**, another high-quality mall REIT, is trading at a valuation below its historical norms.

- **Data Centers: Equinix, Inc. and Digital Realty Trust, Inc.** are leading global data center operators, currently trading at multiples well below those seen in recent private market transactions, which have ranged from 25 to 30 times cash flow. Despite their superior and more resilient cash flow growth prospects, these companies are valued only at a modest premium to other REITs.
- **Wireless Towers:** Valuations of companies like American Tower Corporation are at multi-year lows, trading at just 15 to –16 times cash flow compared with historical averages of 20 to 25 times.
- **Multi-Family:** Currently trading at implied capitalization rates of around 6.5% to 7%-plus, compared with approximately 5% in the private market.
- **Single-Family Rental:** Currently trading at implied capitalization rates of 7.5%, versus roughly 5% in the private market, and priced below \$280,000 per home compared with the average home purchase price of over \$400,000.
- **Hotels:** Several hotel REITs are trading at under 10 times cash flow, representing a 40% to 50% discount to replacement cost.
- **Iron Mountain Incorporated:** This document storage and data center REIT is valued below peers yet is expected to grow cash flow faster than most REITs (10% versus 4%).
- **Office:** Most office REITs are deeply discounted relative to recent private market transactions and replacement cost, often by 50%.
- **Mortgage: Blackstone Mortgage Trust, Inc.** trades at 0.9 times book value versus its historical range of 1.1 to 1.3 times and offers an annual dividend of approximately 10%.
- **Note:** Across multiple REIT categories – including multi-family/apartments, single-family rentals, hotels, strip centers, office, life sciences, cold storage, self-storage, and timber – valuations are 10% to 50% below replacement cost or recent private market transaction values.
- **Favorable Arbitrage:** Many REITs are “on sale” in the public market relative to private market values, and we see a possibility of take-private transactions by private equity.

#### Examples of non-REIT real estate companies that are cheap

- **Brookfield Corporation:** This global owner and operator of real assets trades at \$40 per share, well below management’s estimated liquidation value of \$67 per share - approximately 68% higher than the current share price.
- **Jones Lang LaSalle Incorporated:** A leading commercial real estate services firm, currently valued at 11.8 times 2027 estimated earnings, compared with the high-teens multiple justified by historical trading and its improvement in its business mix.
- **CRH public limited company:** This top building materials company trades at 9.5 times 2027 estimated cash flow, versus our view of a warranted 12 to 13 times multiple.

- **Wynn Resorts, Limited:** A premier luxury global owner and operator of integrated resorts (hotels and casinos), valued at 8 times 2027 estimated cash flow compared with its long-term average of 13 to 15 times.
- **GDS Holdings Limited:** A leading Asian-focused data center developer and operator, trading at 13.5 times 2027 estimated cash flow versus 20 to 30 times for comparable public and private peers.
- **Vail Resorts, Inc.:** The owner and operator of premier mountain resorts, trading at 8.4 times 2027 estimated cash flow versus a long-term average of roughly 15 times.
- **Homebuilders: Toll Brothers, Inc.,** a leading luxury homebuilder, trades at 1.4 times 2026 estimated book value versus a peak multiple of approximately 2 times. Several other homebuilders are valued below 1 times 2026 estimated book value, compared with a more typical range of 1 to 2 times.

**Baron Real Estate Fund® offers a compelling way to access the long-term return potential of the Real Estate sector**

We believe the advantages of the Fund’s comprehensive, flexible, and actively managed approach – enabling investment across a broad spectrum of real estate companies, including both REITs and non-REIT real estate-related businesses – will become increasingly evident in the years ahead. In our view, a rapidly evolving real estate landscape requires more selective and discerning analysis.

In our opinion, our highly differentiated real estate fund enjoys several attractive attributes compared to:

- **Actively managed REIT funds:** The Fund benefits from a broader investment universe and reduced reliance on the debt markets. *Since inception on December 31, 2009, the Fund has increased 12.53% on an annualized basis versus the REIT index which increased 7.79%.*
- **Passive/ETF real estate funds:** The Fund has the flexibility to be selective, emphasizing companies with attractive long-term prospects rather than broadly replicating the benchmark and owning both higher- and lower-quality real estate businesses. *Since inception on December 31, 2009, the Fund has increased 12.53% annually versus the Vanguard Real Estate ETF, which increased 8.47%.\**
- **Non-traded REITs and private real estate:** The Fund provides enhanced liquidity, diversification, valuation transparency, lower fees, and strong performance over the long term.

## Portfolio Composition and Key Investment Themes

We currently invest in REITs as well as eight additional non-REIT real estate-related categories. Allocations across these areas are dynamic and reflect our bottom-up research and assessment of relative opportunities, as outlined below.

### Fund investments in real estate-related categories

	Percent of Net Assets (%)
<b>Non-REITs</b>	<b>58.9</b>
Building Products/Services	13.8
Casinos & Gaming Operators	11.0
Hotels & Leisure	10.6
Real Estate Service Companies	8.5
Homebuilders & Land Developers	7.1
Real Estate Operating Companies	4.9
Data Centers	2.6
Infrastructure Related	0.4
<b>REITs</b>	<b>36.1</b>
<b>Cash and Cash Equivalents</b>	<b>5.0</b>
<b>Total</b>	<b>100.0*</b>

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

### Investment Themes

We have a long and successful track record of investing behind six high-conviction themes, each of which has contributed meaningfully to the Fund’s long-term performance. In the first quarter of 2026, however, several companies across these themes faced selling pressure driven by a range of factors, including:

1. **REITs:** Higher long-term interest rates, along with concerns around potential job losses, higher inflation, and rising oil prices.
2. **Residential-related real estate:** Continued housing affordability pressures (cumulative effect of higher home prices, higher mortgage rates, and limited supply)
3. **Travel-related real estate:** Elevated oil prices and geopolitical uncertainty impacting travel demand.
4. **Commercial real estate services companies:** Concerns around potential disruption from AI.
5. **Real estate-focused alternative asset managers:** Headwinds related to software exposure, private credit, and semi-liquid product structures.
6. **Property technology companies:** CoStar Group, Inc. declined sharply due to several company-specific concerns. Please see the “Top detractors” section for our thoughts regarding CoStar.

While some of the concerns noted above may continue to weigh on near-term performance, we believe many are either overstated, driven by a “sell first, ask questions later” mindset, or already reflected in current share prices. **At present, we see each of the Fund’s investment themes as offering multiple high-quality real estate companies trading at highly attractive valuations.**

### REITs

We believe the outlook for REITs is favorable for several key reasons:

- **REITs have lagged**
  - In the last three years through March 31, 2026, REITs have underperformed the S&P by 40% cumulatively.

- **Several REITs are attractively valued**
  - We have identified several REITs trading at attractive discounts relative to both historical levels and private market valuations.
  - We anticipate private equity may pursue opportunities to acquire undervalued public REITs.
- **Favorable demand versus supply set up**
  - Demand remains generally strong or is improving: Robust in segments such as healthcare, industrial, and retail, and showing signs of improvement in residential, office, and storage categories.
  - Supply constraints are underappreciated: New construction activity across many REIT categories has fallen 50% to 70% and remains well below historical levels, as higher land, labor, and materials costs make development prohibitively expensive.
  - The combination of strengthening demand, a favorable supply environment, and occupancy levels above 90% for many properties creates a compelling setup for rent growth acceleration.
- **REITs benefit from both cyclical and secular tailwinds**
  - Cyclical tailwinds: Strong early-cycle demand prospects, supportive supply conditions for real estate, and the historical pattern of real estate cycles typically lasting 7 to 10 years.
  - Secular tailwinds across property types: Growth in AI and cloud computing driving demand for data centers, 5G network upgrades supporting towers, an aging population boosting healthcare real estate, housing affordability pressures increasing rental demand, suburbanization benefiting retail, and the rise of remote work fueling storage needs.
- **AI haven**
  - Several REITs are relatively insulated from potential AI-related disruption, benefiting from tangible assets, well-covered dividends, contracted cash flows, annual rent escalators, and other structural advantages.
- **Solid balance sheets + rising dividends + built-in inflation protection**
- **Return prospects for REITs are attractive**
  - We believe several REITs have the potential to deliver double-digit returns through a mix of earnings growth, dividend income, and multiple expansion.

As of March 31, 2026, we had investments in eight REIT categories representing 36.1% of the Fund’s net assets.

REITs	Percent of Net Assets (%)
Data Center REITs	9.8 <sup>†</sup>
Health Care REITs	9.7
Industrial REITs	4.7
Mall REITs	3.8
Self-Storage REITs	2.8
Other REITs	2.1
Multi-Family REITs	2.0
Mortgage REITs	1.1
<b>Total</b>	<b>36.1*</b>

<sup>†</sup> Exposure to Data Center REITs would be 12.4% if non-REIT data center company GDS Holdings Limited was included in the category.

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

### Residential-related real estate

We recognize that the housing market is currently facing a logjam.

On one hand, a buyers’ strike has emerged, as many potential homeowners find properties unaffordable following a roughly 50% rise in home prices over the past five years and a jump in mortgage rates from 3% to 6% to 7%, based on data from National Association of Realtors.

On the other hand, a sellers’ strike is also in place, as many current homeowners are hesitant to sell while their existing mortgages carry rates well below today’s levels.

Given these near-term challenges – affordability pressures and the buyer-seller impasses – we have been cautious about housing market opportunities. Nonetheless, we remain long-term bullish and are confident in the potential for compelling investment opportunities in residential-related real estate for the following reasons:

- **Housing is an early cycle beneficiary, and we believe we are early in the cycle**
  - Economic growth could accelerate due to easing inflation, potential stimulus such as tax refunds and other pre-midterm measures, deregulation, and the possibility of further interest rate cuts.
  - Housing tends to benefit early in the economic cycle due to its sensitivity to interest rates, pent-up consumer demand, and its powerful multiplier effect – creating more jobs, boosting consumer spending, supporting higher prices, and accelerating overall economic growth.
- **Housing is also supported by long-term secular tailwinds**
  - Millennial household formation remains significantly below its long-term stabilized level.
  - Buyers are increasingly favoring new homes over existing ones, as they offer better layouts, lower maintenance, and greater energy efficiency at comparable price points.

- Existing homes are aging – averaging over 40 years – while homeowners sit on record levels of equity and are staying in their homes longer. Together, these factors should support strong home repair and remodeling activity in the years ahead.
- **Bipartisan support to address the housing crisis**
  - Housing affordability appears to be a key issue heading into the mid-term elections, and we expect certain initiatives may emerge over the coming year.
- **New Federal Reserve Chief is likely to be dovish**
  - The housing market would be a major beneficiary from lower mortgage rates.
- **Housing is an AI beneficiary**
  - Housing and select residential building product companies may benefit from AI trends, as their asset-heavy structures provide relative insulation from disruption – what we describe as HALO.
- **Several housing companies are attractively valued**
  - Select homebuilders are trading at or around 1 times book value versus a more typical 1.5 times book value or 50% upside to current valuations.
  - Other residential-related real estate companies are currently valued at or near trough valuation levels.
- **Big picture: There is a compelling long-term investment case for housing**
  - The U.S. faces a structural housing shortage of more than 4 million homes relative to demographic needs. Today, the country builds roughly 1.4 million homes annually – the same number as in the 1960s – despite the population nearly doubling from 180 million to 340 million (Source: Census Bureau).

combined with a massive investment cycle in AI and other technologies, major initiatives like the CHIPS Act, and a busy 2026 event calendar, together create a supportive backdrop for economic and corporate growth.

- Broad-based economic growth and middle-class wage growth
  - ▶ Limited supply growth: Projected to increase by less than 1% over the next few years, well below the long-term average of 2% to 2.5%. (Source: Green Street Advisors, LLC)
- **Secular tailwinds**
  - Many investors view travel spend as cyclical – our view is that travel spend is also secular.
  - Consumers are allocating more discretionary spending to travel rather than durable goods. Factors supporting this trend include delayed household formation, which leaves more disposable income for travel, flexible work arrangements that combine business and leisure or enable extended stays, and cyclically muted business activity.
- **2026 tailwinds**
  - World Cup (in 11 major metro markets) + America’s 250th anniversary + Formula 1 race + Major League Baseball all-star game.
  - Increasing spend on onshoring initiatives.
- **Examples of several travel-related companies that are attractively valued**
  - **Hyatt Hotels Corporation**
    - ▶ A luxury-focused hotel company that has transitioned to a 90% asset-light model, currently trading at a 4 to 5 times multiple discount to its hotel C-Corp peers and below private market valuations.
  - **Wynn Resorts, Limited**
    - ▶ A leading hotel and gaming company, currently valued at just 8.2 times 2027 estimated cash flow compared with its historical range of 13 to 15 times.
    - ▶ The company could become one of the most compelling travel-related growth stories with the opening of its UAE resort in 2027, which could be worth \$50/share versus its current market value of only \$97 per share.
  - **Red Rock Resorts, Inc.**
    - ▶ A leading gaming growth company positioned in the highly attractive Las Vegas Locals market. Red Rock Resorts has the real estate capacity to potentially double its portfolio in the coming years, and we find its current valuation – under 10 times 2027 estimated cash flow – extremely compelling.
  - **Airbnb, Inc.**
    - ▶ One of the world’s largest asset-light travel companies, with over 9 million active listings, generating more than \$4 billion in annual free cash flow. The company faces limited AI disruption risk due to 90% direct traffic and the uniqueness of most of its inventory. Shares are currently trading at just 12.3 times 2027 estimated cash flow.

As of March 31, 2026, residential-related real estate companies represented 20.9% of the Fund’s net assets.

## Residential-related real estate companies

	Percent of Net Assets (%)
Building Products/Services	11.6
Homebuilders	7.1
Home Centers	2.2
<b>Total</b>	<b>20.9*</b>

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

## Travel-related real estate

We believe several travel-related real estate companies are well positioned to benefit from a favorable “trifecta” of cyclical, secular, and 2026-specific tailwinds, which should support strong fundamentals and share price performance in the years ahead.

- **Cyclical tailwinds – economic growth may accelerate**
  - Key inflation components are moderating, while the regulatory environment remains business - and investment-friendly. Favorable tax policies enacted in 2025 – such as bonus depreciation to encourage investment –

– **Vail Resorts, Inc.**

- ▶ Trading at just 8.4 times 2027 estimated cash flow for best-in-class, irreplaceable assets – an unprecedentedly attractive valuation – while also offering a seemingly secure 7% dividend yield.

– **Dry powder / private equity**

- ▶ We believe the substantial dry powder held by private equity could be directed toward public travel companies, which remain deeply discounted and attractively “on sale.”

As of March 31, 2026, travel-related real estate companies represented 21.6% of the Fund’s net assets.

**Travel-related real estate companies**

	Percent of Net Assets (%)
Casinos & Gaming Operators	11.0
Hotels & Leisure	10.6
<b>Total</b>	<b>21.6*</b>

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

**Commercial real estate services companies**

In the first quarter of 2026, shares of leading commercial real estate services firms **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated** (JLL) declined despite strong earnings and positive business outlooks. The sell-off largely reflected investor concerns that AI could disrupt parts of their operations.

While certain business lines – such as office leasing, valuation services, and property management – may face AI-related challenges over time, we believe current multi-year concerns are overstated and already reflected in share prices. We continue to research and monitor potential AI-related headwinds.

Despite near-term uncertainties, we remain long-term optimistic on these leading commercial real estate services companies. They are positioned to potentially benefit from structural and secular tailwinds, including the outsourcing and institutionalization of commercial real estate, as well as opportunities to gain market share in a highly fragmented industry. We also see the early stages of a rebound in commercial real estate sales and leasing activity. Based on these factors, we believe CBRE and JLL could achieve earnings-per-share growth of 15% over the next several years.

**Real estate-focused alternative asset managers**

Shares of alternative asset managers declined sharply in the first quarter, as several companies faced a mix of headwinds, including: exposure to software investments that could be affected by AI-related risks; credit concerns tied to private loans; limitations on investor redemptions for semi-liquid products (2% per month or 5% per quarter); delayed monetizations; and the potential for slower earnings growth due to these factors, along with the risk that growth in the retail channel may underperform expectations.

While these challenges may persist in the near term, we do not view them as existential, and we believe current valuations largely reflect these concerns.

Over the long term, we remain optimistic about leading real estate-focused asset managers. The companies have the potential to gain market share in a growing industry, supported by strong investment track records and global scale. Further, certain companies are well positioned to benefit from secular growth in alternative assets, leveraging their ability to deliver attractive relative and absolute returns – often with lower perceived volatility compared with other investment options.

**Property technology companies**

The convergence of real estate and technology has given rise to a new category – real estate technology, or proptech. The growth of proptech and the digitization of real estate represent an exciting and promising development. We believe we are in the early stages of a technology-driven investment cycle focused on data and digitization, enabling real estate-related businesses to generate incremental revenue streams and reduce costs.

In the most recent quarter, however, the Fund exited **CoStar Group, Inc.**, the leading provider of information, analytics, and marketing services for the real estate industry (please see “Top net sales”). We continue to actively research other proptech companies that may be added to the Fund over time.

As of March 31, 2026, other real estate-related companies (which include the three investment themes mentioned directly above, plus an investment in Chinese data center operator **GDS Holdings Limited** and modest exposure to an infrastructure related stub position in **Legence Corp.**) represented 16.4% of the Fund’s net assets.

**Other real estate-related real estate companies**

	Percent of Net Assets (%)
Commercial Real Estate Services Companies	8.5
Real Estate-Focused Alternative Asset Managers	4.9
Data Center Operators	2.6
Infrastructure Related Companies	0.4
<b>Total</b>	<b>16.4*</b>

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

## Top Contributors and Detractors

### Top contributors to performance for the quarter

	Quarter End Market Cap (\$B)	Contribution to Return (%)
Equinix, Inc.	96.3	1.05
Caesars Entertainment, Inc.	5.4	0.31
Welltower Inc.	138.0	0.26
Digital Realty Trust, Inc.	63.0	0.25
Installed Building Products, Inc.	8.3	0.15

After underperforming for much of 2025, shares of **Equinix, Inc.** rebounded strongly during the quarter, driven by solid operating results, robust bookings growth, and a 2026 full-year outlook that exceeded investor expectations. Equinix is a leading global operator of 270 highly interconnected, carrier-neutral colocation data centers spanning 36 countries across 6 continents. For further detail, please refer to our “Top net purchases” section.

Since peaking at just under \$120 per share in 2021, shares of **Caesars Entertainment, Inc.** – the largest casino-entertainment company in the U.S. – declined to a multi-year low of approximately \$18 per share in early 2026. The Fund recently acquired shares at a cost basis of \$21 per share, which we view as highly attractive, implying an approximate 25% free cash flow yield.

Caesars operates a broad portfolio of assets under Caesars, Harrah’s, Horseshoe, and Eldorado brands, with roughly half of its cash flow generated from Las Vegas and the remainder from regional destination markets.

In our view, the current valuation largely reflects what has been a period of challenging operating conditions. Looking ahead, we are increasingly constructive on the company’s outlook, as we expect improving performance across its Las Vegas, regional, and digital segments in 2026.

Additional tailwinds that could support the shares include declining capital expenditures and lower cash interest expense, which should contribute to accelerating free cash flow generation. We also note ongoing media reports suggesting potential acquisition interest in Caesars at a meaningful premium – potentially more than 25% above the current share price.

Shares of **Welltower Inc.**, a leading operator of senior housing real estate, continued to perform well during the quarter, supported by strong cash flow growth in its senior housing portfolio. This performance was driven by sustained occupancy gains, rent increases, and margin expansion, resulting in outsized bottom-line earnings growth. The company also issued a solid initial full-year 2026 outlook and continues to execute on accretive external growth opportunities.

In addition, Welltower is advancing initiatives to enhance asset-light, recurring earnings streams, highlighted by the announcement of its first customer partnerships to license and monetize its proprietary data analytics platform.

Welltower remains well positioned to potentially benefit from a cyclical recovery and long-term secular demand growth, supported by constrained new supply. We maintain a positive outlook, underpinned by the company’s high-quality, luxury-focused portfolio and disciplined capital allocation, which we believe positions it to capitalize on both organic and external growth opportunities.

### Top detractors from performance for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Contribution to Return (%)
CoStar Group, Inc.	19.0	(1.19)
CBRE Group, Inc.	40.0	(0.76)
Jones Lang LaSalle Incorporated	14.3	(0.75)
Blackstone Inc.	126.0	(0.59)
Brookfield Corporation	99.4	(0.46)

Shares of **CoStar Group, Inc.**, a global leader in the digitization of real estate, declined sharply in the first quarter of 2026. During this period, we exited the Fund’s position.

Our decision to sell was driven primarily by concerns that the company’s residential platform, Homes.com, will require substantial ongoing investment and is unlikely to achieve profitability until 2030. We also see the potential for increased competitive pressures across both CoStar’s commercial and residential segments over time.

In addition, we were disappointed by management’s decision to revise its reporting structure in a way that reduces transparency into the underlying business. The new framework combines Homes.com with Apartments.com under a single “Residential” segment, effectively obscuring the performance of the Homes.com platform. Further, the company will no longer disclose net new bookings for Homes.com – previously a key metric used by investors to assess the platform’s traction and progress.

**CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated**, two leading commercial real estate services firms, were detractors in the first quarter. Business fundamentals remain strong, with broad-based momentum across segments and management teams expressing healthy outlooks. The share price declines – roughly 20% over two days – were driven by an abrupt shift in investor sentiment around AI and its potential impact on certain business lines, not by any deterioration in fundamentals.

We take the AI question seriously. The technology is advancing rapidly, and its long-term implications are not yet fully knowable. That said, we believe CBRE and JLL are among the companies best positioned to navigate this transition – not despite AI, but because of it. Both have been early adopters, deploying AI to sharpen their competitive advantages and accelerate market share gains. We consider them AI winners, not AI casualties.

The structural investment case remains intact: commercial real estate outsourcing continues to grow, institutional ownership of the asset class is expanding, and both companies are gaining share in a highly fragmented market. We believe we are in the early stages of a recovery in commercial real estate sales and leasing activity. Against that backdrop, we see a credible path to mid-to-high-teens annual earnings per share growth over the next few years — and following the recent pullback, we find valuations undemanding.

## Recent Activity

### Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Equinix, Inc.	96.3	65.7
Public Storage Incorporated	47.6	64.5
Digital Realty Trust, Inc.	63.0	47.7
Iron Mountain Incorporated	30.4	42.1
MGM Resorts International	9.5	36.0

As outlined in our Q2 and Q4 2025 shareholder letters, shares of **Equinix, Inc.** underperformed for much of 2025, primarily due to slower near-term earnings growth. At the time, we viewed Equinix as a clear fit within the Baron investment framework – a competitively advantaged business willing to accept short-term earnings pressure in exchange for enhanced long-term growth. Specifically, the company increased capital investment to extend its growth runway, even at the expense of near-term profitability.

As the shares became increasingly discounted, we added to our long-term position, reflecting greater conviction in the company's growth trajectory. This was supported by emerging inference AI use cases, which we believe will be a meaningful tailwind, as well as strong execution by management in improving cash flow conversion (i.e., shortening the “book-to-bill” cycle) and securing capital at a lower cost than initially underwritten.

Separately, after trimming our position in **Digital Realty Trust, Inc.** at the beginning of 2025 due to a more balanced risk/reward profile, a valuation premium, and more attractive relative opportunities, we indicated we would revisit the name at more compelling levels. During the quarter, we added to our position as the valuation multiple improved, supported by a highly favorable multi-year supply/demand backdrop – arguably the strongest in years – and a durable outlook for high-single-digit earnings growth.

During the quarter, we reestablished a position in **Public Storage Incorporated**, the best-in-class self-storage REIT with a portfolio of more than 3,500 U.S. properties. We had been cautious about self-storage for several years, given a prolonged period of flat-to-negative growth. Our view has shifted. Recent due diligence suggests a fundamental inflection may be approaching — one where stabilizing demand and rents, combined with declining new supply, could drive a reacceleration in growth beginning in 2026.

Our optimism rests on five pillars:

- 1. A more pronounced inflection than the industry.** Beyond benefiting from a broader self-storage recovery, Public Storage is poised to lap several discrete headwinds that weighed on 2025 results — amplifying the potential earnings rebound. Ongoing acquisitions and development provide additional accretion.
- 2. An inherently attractive business model.** Self-storage benefits from less cyclical demand — a meaningful portion is effectively nondiscretionary — combined with strong pricing power on existing customers (the hassle of moving outweighs the monthly cost of staying) and low capital intensity. These characteristics make it a durable compounder across cycles.
- 3. Scale advantages that compound over time.** Large institutional operators like Public Storage command higher occupancy and rents than smaller competitors, driven by superior data analytics, technology, revenue management systems, and access to capital. We expect these advantages to widen as AI tools are applied across an increasing number of self-storage business functions.
- 4. PSA4.0 — a credible new chapter.** Public Storage recently unveiled PSA4.0, framed as a new era of leadership, growth, and value creation. The initiative encompasses favorable leadership transitions, a data-sharing partnership with Welltower to sharpen capital allocation, and a headquarters relocation. We view each element constructively.
- 5. Valuation is compelling.** The stock trades at a capitalization rate above 6% on what we consider depressed cash flow, against private market values in the low-5% range — a meaningful discount that we believe is unlikely to persist.

Near-term uncertainty may continue to weigh on the shares. But we believe the medium-term setup is attractive: a fundamental inflection, a refreshed strategic agenda, and a depressed valuation create the conditions for significant share price appreciation — driven by both earnings growth and potential multiple expansion.

### Top net sales for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Net Amount Sold (\$M)
Jones Lang LaSalle Incorporated	14.3	78.9
Louisiana-Pacific Corporation	5.6	54.5
Blackstone Inc.	126.0	51.3
Vulcan Materials Company	35.5	42.1
CoStar Group, Inc.	19.0	38.6

We trimmed our position in **Jones Lang LaSalle Incorporated** during the quarter. As discussed earlier in this letter, our conviction in JLL's business fundamentals and long-term prospects remains high. That said, we acknowledge that AI-related concerns may continue to weigh on the shares in the near term — and we sized the position accordingly. JLL remains a significant holding.

We exited our position in **Louisiana-Pacific Corporation** (DBA LP Building Solutions) during the quarter. The near-term fundamental backdrop has deteriorated: a soft residential housing market, elevated distributor inventory levels, aggressive competitor pricing, depressed wood product prices that have fallen below cash flow breakeven at the company's mills, and rising input costs — a confluence of headwinds that warranted a full exit at this stage.

Our long-term view on the business remains constructive. Engineered wood siding continues to gain share from vinyl and fiber cement, and LP Building Solutions is well-positioned to benefit as that trend matures. We will continue to monitor the investment and may revisit at a more favorable point in the cycle.

Shares of **Blackstone Inc.** came under pressure during the quarter amid a steady stream of negative headlines affecting the broader alternative asset management industry. Key concerns included exposure to software investments within its funds, credit quality in its private credit portfolio, and rising retail investor redemptions from semi-liquid credit vehicles — along with potential second-order implications for the scalability of retail-focused strategies. Heightened market volatility further weighed on the group, particularly given investor expectations for elevated monetization activity during the year.

Blackstone remains the world's largest alternative asset manager, with more than \$1.3 trillion in assets under management, and the largest real estate manager globally. We continue to have strong long-term conviction in the company — supported by its premier brand, global platform, deep client relationships, strong balance sheet, and high-quality management team.

Blackstone remains a high-priority company for the Fund as we gain greater clarity on the magnitude of these risks, particularly given what we view as a compelling valuation at current levels.

## Concluding Thoughts on the Prospects for Real Estate and the Fund

We remain mindful of several factors that could weigh on equity markets in the months ahead. Historically, our team has used periods of market volatility and sharp price corrections to reposition the Fund for strong recoveries and attractive multi-year return potential. We are actively engaged and optimistic about our ability to do so again.

**We maintain a constructive outlook and see compelling reasons to stay the course. We remain optimistic about the broader equity market, public real estate, and the Fund.**

### Stock Market Outlook

We remain optimistic about the outlook for the stock market in the balance of 2026. Our research suggests that broadly stable economic conditions could accelerate, supported by several potential tailwinds: reduced trade uncertainty, lower taxes, and enhanced depreciation incentives that encourage capital investment in equipment, research and development. Additional support may come from deregulation and increased merger and acquisition activity, a Federal Reserve that may ease financial

conditions, and policy efforts by the new administration to alleviate constraints in the housing market. We also see AI-driven productivity gains as a meaningful catalyst, with the potential to moderate inflation, lower long-term interest rates, and expand profit margins.

For these reasons, **we remain positive about the outlook for the stock market.**

### Real Estate Market Outlook

We believe the conditions are in place for real estate to perform well in the next few years. As discussed earlier, demand across most property sectors remains steady, with growth expected to improve over the next several years. At the same time, new supply has declined — often by more than 50% from peak 2002 levels — a dynamic we believe is underappreciated.

As a result, growth may rebound more quickly than in prior cycles, as the sector is not burdened by excess supply or elevated vacancies. Public real estate shares have lagged, and valuations have reset to reflect a higher cost of capital, leaving many trading at attractive discounts relative to private market values. This disparity could drive increased acquisition activity by private equity firms.

Balance sheets remain strong, and credit markets are supportive. Additionally, moderating shelter inflation and productivity gains from AI could contribute to lower long-term interest rates — an important potential catalyst for the sector.

Taken together, we believe a favorable combination of cash flow growth, dividends, and the potential for multiple expansion in public real estate valuations could generate double-digit annual returns in the years ahead.

So, in our opinion, *this is an attractive time to invest in real estate.*

### Baron Real Estate Fund® Outlook

We continue to believe the benefits of the Fund's broader and more flexible investment approach — encompassing a wide range of real estate companies, including both REITs and non-REIT real estate-related businesses — will become increasingly advantageous in the years ahead. In our view, a rapidly evolving real estate landscape demands more selective and discerning analysis.

While some companies are positioned to potentially benefit from accelerating tailwinds, others are likely to face persistent headwinds. We believe the portfolio is composed of competitively advantaged real estate companies that are generally well positioned to grow faster than their peers. The Fund is structured to capitalize on compelling investment themes, and we believe current valuations and return prospects are attractive.

For these reasons, **we remain positive about the outlook for the Baron Real Estate Fund®.**

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**Top 10 holdings**

	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percentage of Net Assets (%)
Welltower Inc.	138.0	151.8	7.0
Equinix, Inc.	96.3	146.0	6.8
Prologis, Inc.	126.3	101.9	4.7
Brookfield Corporation	99.4	89.7	4.2
Toll Brothers, Inc.	12.9	86.9	4.0
Wynn Resorts, Limited	10.6	72.3	3.4
Jones Lang LaSalle Incorporated	14.3	72.2	3.4
CBRE Group, Inc.	40.0	71.5	3.3
Airbnb, Inc.	76.9	68.8	3.2
SiteOne Landscape Supply, Inc.	5.9	68.5	3.2

**Our Core Real Estate Team**

A special note of appreciation to our core real estate team – David Kirshenbaum (assistant portfolio manager), George Taras (senior analyst), and David Berk (analyst). Their dedication, work ethic, and passion for the business are truly impressive, and their deep knowledge of real estate is invaluable. Equally important, they are simply great people.

Our team and I remain fully committed and energized to delivering strong long-term results.

I proudly remain a major shareholder of the Baron Real Estate Fund®.

Sincerely,



Jeffrey Kolitch  
Portfolio Manager

<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.

\* **Vanguard Real ETF's** annualized returns as of March 31, 2026: 1-year, 5.94%; 5-year, 5.57%; 10-year, 6.36%; and Since Fund Inception (12/31/2009), 8.47%.

*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.**

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Diversification does not guarantee a profit or protect against a loss.

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