



QUARTERLY LETTER | JUNE 30, 2025

# Baron Real Estate Fund®

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



Jeff Kolitch  
Portfolio Manager

Dear Baron Real Estate Fund Shareholder,

## Performance

Baron Real Estate Fund® (the Fund) increased 3.61% (Institutional Shares) in the second quarter of 2025. The Fund outperformed the MSCI US REIT Index (the REIT Index), which declined 1.46%, yet underperformed the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which rose 6.13%.

We are very pleased to report that as of June 30, 2025, according to Morningstar, the Fund's achievements are as follows:

- **#1 real estate fund** ranking for each of its 15-, 10-, 5-, and 3-year performance periods, as well as since inception
- **Highest 5-Star Morningstar Rating™** for each of its 10-, 5-, and 3-year performance periods
- **Highest 5-Star Overall Morningstar Rating™**

Since inception on December 31, 2009 through June 30, 2025, the Fund's cumulative return of 561% was more than two and a half times that of the REIT Index, which increased 216%, and significantly higher than the MSCI Real Estate Index, which increased 404%.

## Annualized performance (%) for period ended June 30, 2025

	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>
3 Months <sup>3</sup>	3.56	3.61	6.13	(1.46)	10.94
6 Months <sup>3</sup>	(3.45)	(3.32)	2.83	(0.71)	6.20
1 Year	10.29	10.58	13.30	7.62	15.16
3 Years	10.87	11.15	13.79	4.09	19.71
5 Years	10.61	10.89	12.26	7.38	16.64
10 Years	8.90	9.19	9.00	5.03	13.65
15 Years	13.25	13.54	11.37	7.62	14.86
Since Inception (12/31/2009)	12.68	12.96	11.00	7.71	13.85
Since Inception (12/31/2009) (Cumulative) <sup>3</sup>	535.86	561.37	403.98	216.15	646.27

As of 6/30/2025, the Morningstar Real Estate Category consisted of 217, 210, 193, 149, 113, and 157 share classes for the 1-, 3-, 5-, 10-, 15-year, and since inception (12/31/2009) periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 23<sup>rd</sup>, 1<sup>st</sup>, 1<sup>st</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 48<sup>th</sup>, 1<sup>st</sup>, 2<sup>nd</sup>, 1<sup>st</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 6/30/2025, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 23<sup>rd</sup>, 1<sup>st</sup>, 1<sup>st</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 49<sup>th</sup>, 2<sup>nd</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.

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 5 stars overall, 5 stars for the trailing 3 years, 5 stars for the trailing 5 years, and 5 stars for the trailing 10 years ended 6/30/2025. There were 210 share classes, 193 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.

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, 2035, 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.

Recently, Baron Capital prepared a video explaining how our real estate team manages the Fund and commemorating the Fund's multi-year track record of outperformance. The title of the video is "Baron Real Estate Fund Celebrates 15 Years of Outperformance." We encourage you to review the video which can be found on the Baron website homepage at [baroncapitalgroup.com](http://baroncapitalgroup.com).

## 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:

We remain optimistic about the prospects for real estate and the Fund. Two key reasons for our enthusiasm are:

1. Real estate has been repriced for a higher cost of capital, and a large portion of public real estate is now attractively valued at significant discounts to replacement cost and other public valuation metrics.
2. We expect an improvement in real estate demand prospects against a backdrop of muted new construction activity which should bode well for real estate cash flow growth in the next few years.

More on the above and additional reasons that support our constructive outlook are as follows:

### 1. We believe real estate concerns are largely reflected in share prices

For some investors, ongoing real estate concerns – e.g., higher interest rates, credit impairment risks, housing affordability headwinds, consumer concerns, and depressed real estate transaction activity – have resulted in a wait-and-see mode before increasing allocations to real estate.

Our view is that a large portion of the real estate concerns are "old news," some of which are exaggerated and hyperbole, and have resulted in an unusually appealing opportunity to invest in public real estate at attractive valuations. If one waits for the all-clear signal, there is a reasonable chance one will miss a good portion of the return potential for real estate stocks.

In our opinion, investment prospects for real estate are compelling over the next one to three years with strong upside potential relative to a more modest downside likelihood.

## 2. The investment case for real estate is compelling

- Demand conditions are mostly favorable against a backdrop of muted new real estate supply.
  - Demand: Cyclical growth opportunities for well-located real estate and secular real estate tailwinds (e-commerce for industrial real estate, affordability advantages for residential-related rental companies, aging baby boomers for senior housing, increased spending on travel, rising data consumption and AI for data centers) are underappreciated in our opinion.
  - Supply: The competitive supply outlook is broadly benign due to modest new construction in the last three years and limited new supply forecasted for the next three years. The higher costs for land, labor, and construction materials combined with elevated borrowing costs for developers have served as constraints on new competitive construction. In many cases, it is more economical to buy assets today that often trade at discounts to replacement cost rather than to build at current cost levels.
- Balance sheets are generally in solid shape and use significantly less leverage than the private market.
- Debt capital is widely available, and credit spreads have compressed for high quality borrowers.
- Substantial capital (private equity, sovereign wealth funds, pension funds, and others) is in pursuit of real estate ownership and may step in and capitalize on the opportunity to buy quality real estate at depressed prices. This "embedded put" should limit downside valuation and pricing.
- Much of public real estate has been repriced for a higher cost of capital and many real estate valuations are compelling. See below.

## 3. Several real estate valuations are cheap relative to replacement costs, historical public valuations, and future growth prospects

Replacement cost refers to the price that it would cost to replace an existing asset with a similar asset at the current market price. Currently, there is an unusually favorable opportunity to acquire real estate shares at significant discounts to replacement cost in desirable geographic markets (strong demand prospects with limited new construction). Examples include hotel, office, multi-family, single-family rental, and mall companies.

Buying real estate below replacement cost offers several benefits:

- Constrained supply: If a real estate property or company is purchased below replacement cost in a geographic market with compelling long-term demand/supply prospects, it may become a strong investment because it will be more expensive for competitors to build similar properties because they will face higher construction costs.
- Flexibility in pricing: Lower rents can be charged versus newly built real estate which may make one's real estate property more competitive in the rental market. Even better, landlords may have room to increase rents to a higher level before the higher rents justify new construction.

- Potential to increase the real estate value: With a lower cost basis, you have more flexibility to enhance the property through capital expenditure improvements and strong management, thus increasing its value.
- Downside protection: Buying below replacement cost provides financial flexibility against a market correction in property values.
- Higher return on investment: Buying below replacement cost can lead to a higher potential return on investment.

In addition to the opportunity to acquire several real estate shares below replacement cost, the valuations of several REIT and non-REIT real estate companies are cheap relative to other historical public market valuation metrics and future growth prospects. For examples of best-in-class real estate companies that are attractively valued, please see “Examples of best-in-class real estate companies that are attractively valued” in our March 31, 2025, shareholder letter.

#### 4. We continue to identify compelling opportunities in each of the Fund’s high-conviction investment themes

The Fund’s key investment themes remain the following:

- REITs  
Demand > supply + solid balance sheets + growing dividends + inflation-protection characteristics + attractive valuations
- Residential-related real estate (homebuilders, home centers, and building products/services companies)  
Structural underinvestment in housing relative to demographic needs + cyclical tailwinds (pent-up demand) + secular tailwinds (flexible work and relocation to suburbs + aging existing home stock + lock-in effect = below market mortgage rates for most existing homes benefit new home sale prospects)
- Travel-related real estate  
Increasing wallet share for travel over durable goods + delays in marriage lead to more disposable income for travel + flexible work arrangements allow for more travel + cyclically depressed business activity + compelling valuations
- Commercial real estate services companies  
Oligopolistic industry + highly fragmented industry (customers prefer companies that can provide the full suite of services) + outsourcing of commercial real estate + institutionalization of real estate
- Real asset-focused alternative asset managers  
Secular growth opportunity + market share gain opportunity for global and multi-service asset managers
- Property technology companies  
Intersection of real estate and technology

Please see “Portfolio Composition and Key Investment Themes” later in this letter for additional thoughts on the Fund’s investment themes.

#### 5. We believe the Baron Real Estate Fund is a compelling mutual fund option

We continue to believe the benefits of the Fund’s flexible approach, which allow 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.

## 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, which we outline below.

### Fund investments in real estate-related categories

	Percent of Net Assets (%)
REITs	29.7
Non-REITs	67.9
Building Products/Services	16.7
Real Estate Service Companies	15.5
Real Estate Operating Companies	11.2
Homebuilders & Land Developers	9.0
Hotels & Leisure	7.9
Casinos & Gaming Operators	5.3
Data Centers	2.3
Cash and Cash Equivalents	2.4
<b>Total</b>	<b>100.0*</b>

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

### 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. Commercial real estate services companies
5. Real asset-focused alternative asset managers
6. Property technology companies
7. Data center operators

### REITs

Though demand remains tempered for some real estate segments, most REITs enjoy occupancies of more than 90%, and there are several segments of real estate where demand remains strong. Limited new competitive supply is forecasted in the next few years. We expect the transaction market to pick up and several publicly traded REITs now have the “green light” to issue equity for accretive external growth. We expect private equity to look for opportunities to acquire discounted public REITs. Most balance sheets are in good shape. Several REITs benefit from some combination of all or some of the following favorable characteristics: inflation protection, contracted cash flows, and an ability to increase dividends. We have identified several REITs that are cheap relative to history and private market valuations. We believe several REITs can generate double-digit returns through a combination of growth, dividends, and some room for valuations to expand.

As of June 30, 2025, we had investments in 10 REIT categories representing 29.7% of the Fund's net assets.

## REITs

	Percent of Net Assets (%)
Data Center REITs	5.8
Health Care REITs	5.5
Wireless Tower REITs	4.3
Office REITs	4.0
Industrial REITs	3.1
Mall REITs	2.6
Multi-Family REITs	1.9
Single-Family Rental REITs	1.2
Mortgage REITs	1.1
Other REITs	0.2
<b>Total</b>	<b>29.7*</b>

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

## Residential-related real estate

We have been near-term cautious yet remain long-term bullish on the prospects for non-REIT residential-related real estate.

Our near-term caution has been due to: (i) a slowdown in demand from elevated mortgage rates and elevated consumer uncertainty; (ii) the supply of new homes has crept up because the construction of some homes was started speculatively; (iii) homebuilder pricing and gross margins have been pressured because homebuilders have been using incentives to reduce mortgage rates that buyers must pay; and, (iv) repair and remodel activity has remained lackluster because people are delaying their moving decisions and have ongoing concerns about the economic outlook.

The shares of several homebuilders and residential-related building products/services companies foreshadowed some of these concerns late in 2024 and in the first six months of 2025. We continue to monitor developments closely as valuations become more compelling.

Importantly, we maintain our long-term optimism for residential 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. A combination of cyclical and secular tailwinds should aid the new home market for several years. Cyclical tailwinds include pent-up demand, low inventory levels, and a still healthy consumer. Secular tailwinds include 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. 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, 2025, residential-related real estate companies represented 25.7% of the Fund's net assets.

## Residential-related real estate companies

	Percent of Net Assets (%)
Building Products/Services	15.3
Homebuilders	8.1
Home Centers	2.3
<b>Total</b>	<b>25.7*</b>

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

## Travel-related real estate

We continue to believe that 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). In addition, private equity's long history of investing in travel-related companies may serve as a catalyst to surface value, which the public market may be overly discounting.

As of June 30, 2025, travel-related real estate companies represented 13.1% of the Fund's net assets.

## Travel-related real estate companies

	Percent of Net Assets (%)
Hotels	7.9
Casinos & Gaming Operators	5.3
<b>Total</b>	<b>13.1*</b>

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

## Commercial real estate services companies

Leading commercial real estate services companies **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated (JLL)** should continue to 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. Looking forward, we believe we are in the early days of a rebound in commercial real estate sales and leasing activity. We believe CBRE and JLL may generate annual earnings per share growth of more than 20% in the next few years.

## Real estate-focused alternative asset managers

Leading real estate-focused asset managers **Blackstone Inc.** and **Brookfield Corporation** have an opportunity to increase market share of a growing pie due to impressive investment track records and global scale advantages. They are positioned to benefit from a secular growth opportunity for alternative assets due to long track records of generating attractive relative and absolute returns with what is perceived, in some cases, as less volatility than several other investment options.



## 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, is positioned to capitalize on this burgeoning secular growth trend.

## Data center operators

We believe the shares of data center operator **GDS Holdings Limited** remain attractively valued and offer compelling long-term growth prospects.

As of June 30, 2025, other real estate-related companies (which include the four investment themes mentioned directly above) represented 29.0% of the Fund's net assets.

## Other real estate-related real estate companies

	Percent of Net Assets (%)
Commercial Real Estate Services Companies	11.6
Real Estate-Focused Alternative Asset Managers	11.2
Property Technology Companies	3.8
Data Center Operators	2.3
<b>Total</b>	<b>29.0*</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 (%)
Brookfield Corporation	102.1	1.02
Wynn Resorts, Limited	9.8	0.51
Brookfield Asset Management Ltd.	90.7	0.45
Toll Brothers, Inc.	11.2	0.41
CBRE Group, Inc.	41.8	0.37

**Brookfield Corporation** is a leading global owner and operator of real assets such as real estate and infrastructure. We believe the company's global reach, large scale capital, and the synergies among its businesses provide significant opportunities for growth. While shares performed well in the quarter, we continue to believe the company offers significant value at a recent share price of \$62. Brookfield's management team, who in our opinion is credible and conservative, believes the company is worth \$100 per share today and \$176 in five years. Brookfield has investments in publicly traded and private real estate-related businesses. Brookfield's ownership

interests in four publicly listed Brookfield companies (Brookfield Asset Management, Brookfield Infrastructure Partners, Brookfield Renewable, and Brookfield Business Partners) are currently valued in the public market at \$52 per share or almost the same price as the share price for the entire company. The public market is currently ascribing little value to Brookfield's non-public investments, insurance business and carried interest, which we believe are also worth at least \$25 per share (net of debt) today and offer significant further upside through growth.

**Wynn Resorts, Limited** is the pre-eminent luxury global owner and operator of integrated resorts (hotels and casino resorts). The company has developed "best-in-class" real estate assets in Las Vegas (Wynn and Encore), Boston (Encore Boston Harbor), and Macau (Wynn Macau and Wynn Palace). The company continues to invest in its hotel and casino assets to maintain its lead in each market.

We are also bullish on the prospects for the company's newest development - the Wynn Al Marjan Island in the UAE (expected to open early in 2027). We believe the UAE is the most exciting new market for integrated resort developments in decades.

We believe the valuation of Wynn remains compelling and reflects limited growth in Las Vegas, Macau, and Boston, and largely ignores the growth that we expect from its UAE development.

Wynn's management agrees that its shares are highly discounted as they have been allocating incremental capital toward share repurchases. In addition, Tilman Fertitta, a highly successful hotel, casino, and entertainment executive, has acquired more than \$1 billion of Wynn shares (including \$150 million in his most recent March 2025 purchase) and is now the largest shareholder of Wynn with a 12% stake in the company.

**Brookfield Asset Management Ltd.** is the asset management arm that was spun out from Brookfield Corporation in December 2022. Brookfield was a contributor to performance due to continued strong fundraising in a volatile macro and geopolitical backdrop along with improving margins and fee-related earnings growth. Brookfield Asset Management is a leading global alternative asset manager with approximately \$1 trillion of assets under management across renewable power & transition, infrastructure, private equity, real estate and credit. We had previously written about and had consistently believed that the captive asset manager was undervalued when it was housed within the broader Brookfield organization. The tax-free spin-out to existing holders simplified the organization and allowed shareholders to access a steady earnings stream underpinned by base management fees (versus highly variable performance fees) that have a high degree of growth visibility. The market has come to our view with the shares of Brookfield Asset Management trading in-line or a slight premium to other alternative asset managers. We had argued for a premium valuation given our view that Brookfield Asset Management would be able to grow its fee-related earnings per share in the upper teens for the foreseeable future. We continue to believe shares are attractively valued given the multi-year earnings outlook for the Company.

## Top detractors from performance for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Contribution to Return (%)
Churchill Downs Incorporated	6.6	(0.27)
Prologis, Inc.	99.8	(0.22)
Independence Realty Trust, Inc.	4.1	(0.20)
Louisiana-Pacific Corporation	6.0	(0.16)
Equinix, Inc.	77.8	(0.15)

**Churchill Downs Incorporated**, which has acquired and developed various entertainment assets including the Churchill Downs racetrack which hosts the Kentucky Derby, was a detractor during the quarter following an earnings release that showed weakening trends in their Virginia market and lower-than-expected Kentucky Derby earnings. The company also indefinitely delayed a large project to expand the Kentucky Derby, but it was not clear about pivoting available capital to buying-back shares. We believe the Virginia market and their regional gaming portfolio may remain under pressure. The company has numerous growth projects with attractive prospects, but developments will take time to ramp to full profitability and in the meantime leverage remains high. Due to uncertain business trends and concerns around competitive pressures in their Virginia market, we decided to exit the position.

The shares of **Prologis, Inc.**, a best-in-class industrial REIT, underperformed in the second quarter due to a somewhat slower leasing environment (following a robust first quarter) as many companies paused lease decision making while awaiting more clarity on global tariffs and trade policies. Our sense is that leasing activity has still improved from the beginning of the year and that significant pent-up demand could be unleashed as business confidence improves.

We recently had the pleasure of hosting CEO Hamid Moghadam for a meeting in our office, and we were left with the following takeaways:

1. A reminder that Prologis benefits from a high-quality real estate portfolio, an unmatched global platform, strong competitive advantages (scale, data, and technology), and an exceptional management team.
2. Hamid remains optimistic about the multi-year prospects for Prologis, predicated on a compelling multi-year outlook for demand/supply/rent growth, significant embedded growth potential from in-place rents that are generally 30% below market rents, and several secular demand tailwinds (e-commerce, supply chain logistics, more inventory safety stock, nearshoring/onshoring).
3. Hamid expects that Prologis's recent foray into select data center development (that carry high risk-adjusted returns on already owned land) will likely become an increasingly accretive source of growth in the coming years.

We continue to believe the appreciation potential for Prologis' shares remains compelling given the strong runway for future cash flow and earnings growth in the next several years and a more favorable valuation multiple following a recent correct in share price.

**Independence Realty Trust, Inc. (IRT)** was a detractor during the quarter due to economic concerns of tariff policies impacting lower income consumers, softer-than-expected pricing power on new leases, and mixed investor reception of the company's select acquisitions. IRT owns 33,000 apartment units that cater to a more affordable income demographic. We believe the return prospects for the stock continue to be attractive given the company's discounted public market valuation relative to both recent private market transactions and publicly traded peers that have communities in overlapping markets, its "value-add" program that provides enhanced growth prospects versus peers, abating supply deliveries in its markets that should enhance pricing power and its superior management team.

## Recent Activity

### Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Airbnb, Inc.	83.1	40.6
BXP, Inc.	10.7	32.5
Equinix, Inc.	77.8	30.4
Toll Brothers, Inc.	11.2	28.9
Simon Property Group, Inc.	52.5	23.9

During the most recent quarter, we initiated a new position in **Airbnb, Inc.** We have been following and meeting with the company since its IPO in 2020 and took advantage of the indiscriminate sell-off in April to buy a high-quality company that was on sale with a favorable risk/reward setup under a wide range of economic scenarios. Airbnb is the largest technology-enabled hospitality platform in the world with 8 million listings and 5 million hosts across 220 countries and 100,000 cities. We are optimistic regarding the multi-year prospects for Airbnb due to: i) its leading share in alternative accommodations and scale driving strong brand awareness and repeat bookings; ii) 90% direct traffic allowing for lower customer acquisition costs; iii) its strong value proposition to both guests and hosts, leading to differentiated listings and exclusive inventory; iv) a unique two-sided marketplace of user reviews curating an ecosystem of trust between guests and hosts; and, v) imbedded free call options with the company's recently launched experiences, services, and other incremental products to be introduced in the coming years (e.g. longer-term stay apartments, host services, partnerships).

During the quarter we acquired shares of **BXP, Inc.** (formerly known as Boston Properties), a blue-chip office REIT that owns a portfolio of premier office properties concentrated in coastal U.S. markets including Boston, New York City, San Francisco, Washington, DC, Los Angeles, and Seattle. We are excited about BXP's prospects for several reasons:

1. Blue-chip company, with an irreplaceable portfolio in markets with high barriers to entry, a proven development track record, a strong balance sheet, and an excellent management team.
2. Strong fundamental backdrop for high-quality office properties in select markets. Generally, return-to-work and a pick-up in lease decision-making has led to improved leasing velocity across many office markets, particularly for high-quality properties that are benefitting from a "flight to quality." At the same time, the supply picture for many office markets is favorable over the next several years given a dearth of new construction deliveries. We believe this backdrop can support improved rent growth in many markets over the next several years.
3. BXP anticipates a growth inflection in 2026, driven by occupancy and rent gains across its East Coast markets that are expected to drive cash flow and earnings growth in 2026, with its West Coast markets expected to drive growth in 2027. West Coast markets have been slower to recover, but there are encouraging signs that fundamentals are bottoming.
4. Attractive growth prospects over the next several years, as management believes the company can potentially grow earnings (FFO) mid-single digits, driven by occupancy gains (87% current versus 92% target), rent growth, and development lease-up, offset in part by debt refinancing headwinds.

At its current share price of \$68, BXP is being valued at a 7.6% implied cap rate and less than \$700 per square foot, which is a steep discount to private market values (5% to 6% cap rates) and replacement cost (well over \$1,000 per square foot).

In the most recent quarter, we purchased additional shares in **Equinix, Inc.**, the premier global operator of 270 network-dense, carrier-neutral colocation data centers with operations across 36 countries and 6 continents. We acquired shares at what we believed were compelling valuation levels. Shares retrenched, however, in the last few days of the quarter due to the company outlining incremental capital investments at its bi-annual Investor Day that will depress near-term growth but pay dividends longer term.

Though we are encouraged by the expanding growth drivers for Equinix, management's updated five-year earnings growth outlook was below investor expectations. While top-line growth is encouraging, the company is ramping up capital investments over the next several years, which will dampen per share cash flow growth over the next two years, in particular. This led to a material initial sell-off in the shares. While the near-term growth prospects are disappointing and below our expectations as well, we believe the company is taking the right steps to position the business for higher growth ahead. Given Equinix needs to bring on new data

center facilities to fulfill the demand signals they are seeing from customers, there is an initial drag on earnings while the data center is built and then stabilized. We bucket our current view of Equinix in the Baron investment framework where the company is taking "short-term pain for long-term gain." Equinix has built a highly valuable inter-connected ecosystem and thus enjoys premium pricing and outsized returns on capital. Furthermore, the balance sheet remains well-positioned to fund this investment with ample debt capacity and no need for external equity.

#### Top net sales for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Net Amount Sold (\$M)
American Tower Corporation	103.5	26.7
AvalonBay Communities, Inc.	29.1	25.1
Extra Space Storage Inc.	31.8	23.7
Equity Residential	25.6	23.6
American Homes 4 Rent	13.4	21.8

**American Tower Corporation** was one of the Fund's top purchases early in the first quarter. Shares performed well and in a more compressed timeline than we had anticipated. We modestly reduced our investment to manage overall position sizing while sourcing capital for other investment opportunities. American Tower is a global owner of 150,000 wireless tower communication sites with a heavy emphasis on developed markets. Our optimism regarding the long-term growth prospects for American Tower remain unchanged given strong secular growth expectations for mobile data usage, 5G spectrum deployment and network densification (with 6G around the corner), edge computing (possible requirement of mini data centers next to a tower presents an additional revenue opportunity), and growth in connected Internet of Things devices (e.g. homes and cars), which will require more wireless bandwidth usage and continued increased spending by the mobile carriers.

We exited **AvalonBay Communities, Inc.** during the second quarter due to less favorable economics for development along with near-term dilutive portfolio reshaping and modest growth prospects. We reallocated capital to higher conviction investment ideas.

We also sold our position in **Extra Space Storage Inc.** during the quarter. While we are long-term bullish on the prospects for self-storage real estate (excellent real estate businesses with less cyclical demand, pricing power, low capital intensity, scale advantages), we are concerned that lackluster existing home sales caused by the well-known "lock in effect" may weigh on self-storage demand and market rents for longer than is widely believed. We view current share price valuations as fair, not overly cheap. As such, for now we opted to reallocate capital to other investments with superior return potential. We may revisit Extra Space Storage, a best-in-class company, in the future.

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

We remain optimistic about the prospects for the equity market, real estate, and the Fund.

It appears that several tailwinds are emerging that could propel equities higher including: currently modest economic growth which we believe could accelerate in the next few years due to less regulation, lower taxes, less onerous tariffs than feared initially, a pro-growth reconsolidation bill, possible interest rate cuts, the AI super cycle which could lead to an acceleration in revenues, an improvement in margins via cost-cutting, and faster earnings growth for several companies, and the possibility of a pickup in mergers, acquisitions, and initial public offerings.

We also believe we have developed the right real estate product and investment process for long-term success. In our opinion, the merits of our more equity-like and growth-oriented approach to investing in real estate, and our more comprehensive, flexible, liquid, and actively managed investment approach will shine even brighter in the years ahead because investing in real estate requires more discerning analysis (there are more “winners” and “losers”) than in the past. We continue to believe that our highly differentiated real estate fund enjoys, in our opinion, attractive attributes compared to actively managed REIT funds, passive/ETF real estate funds, non-traded REITs, and private real estate.

Our team’s investment process remains thorough. We employ an investment process checklist that we utilize for all investments that includes meeting with management, touring the real estate, crafting an investment memo, building financial models, speaking to competitors, speaking to tenants, and many other diligence items. We speak to a broad swath of real estate companies – both owned and not owned – in some cases a few times each quarter to make sure our research remains current. We believe our corporate relationships, access to management, and our real estate research are critical elements that contribute to competitive advantages for our real estate team versus many of our peers.

Currently, 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.

I would like to thank our fabulous core real estate team – assistant portfolio manager David Kirshenbaum, George Taras, David Baron, and David Berk – for their outstanding work, dedication, drive to succeed, and partnership.

### Top 10 holdings

	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percentage of Net Assets (%)
Jones Lang LaSalle Incorporated	12.1	130.5	6.1
Brookfield Corporation	102.1	120.7	5.7
CBRE Group, Inc.	41.8	117.4	5.5
Welltower Inc.	100.5	116.4	5.5
Toll Brothers, Inc.	11.2	91.6	4.3
American Tower Corporation	103.5	91.2	4.3
Equinix, Inc.	77.8	82.3	3.9
CoStar Group, Inc.	33.9	81.7	3.8
Wynn Resorts, Limited	9.8	70.4	3.3
SiteOne Landscape Supply, Inc.	5.4	68.9	3.2

I would also like to thank you, our current and prospective shareholders, and express heartfelt gratitude for your past and continuing support.

Our real estate team remains focused and energized to deliver strong results for you, our shareholders, over the long term.

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.

*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](http://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.

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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. **EPS Growth Rate** (3-5-year forecast) indicates the long term forecasted EPS growth of the companies in the portfolio, calculated using the weighted average of the available 3-to-5 year forecasted growth rates for each of the stocks in the portfolio provided by FactSet Estimates. The EPS Growth rate does not forecast the Fund's performance.

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