DEAR BARON REAL ESTATE FUND SHAREHOLDER:

PERFORMANCE

On September 28, 2023, we hosted a client educational webinar, titled *"Demystifying Real Estate: An Optimistic Perspective on the Prospects for Real Estate."* A replay of the webinar can be accessed on our Baron website homepage at baronfunds.com in the "Insights & Reports" section. A sampling of the key messages from the webinar can be found below after the "Performance" section of this letter.

Following a strong first six months of 2023, the stock market, most real estate stocks, and the Baron Real Estate Fund® (the Fund) declined in the third quarter. The Fund declined 8.19% (Institutional Shares), underperforming the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which declined 6.08%, and the MSCI US REIT Index (the REIT Index), which declined 7.32%.

In the first nine months of 2023, the Fund increased 5.59%, modestly outperforming the MSCI Real Estate Index, which gained 5.29%, and outperforming the REIT Index, which declined 2.89%.

In the third quarter, several factors weighed on stocks, including higher interest and mortgage rates, higher oil prices, the prospect that monetary tightening may persist for several quarters as inflation remains above central bank targets, concerns about China's economic growth prospects, a few company earnings disappointments, and the possibility of additional economic growth headwinds, including the lag effects of the Federal Reserve's tightening, student loan payments, and union strikes.

Though we are mindful of key risks to the equity and real estate market outlook, we remain optimistic about the prospects for the Fund. We believe the Fund is populated with attractively valued best-in-class companies with strong long-term growth prospects. We believe the Fund's two- to three-year return prospects are compelling.

Since inception on December 31, 2009 through September 30, 2023, the Baron Real Estate Fund is the #1 ranked real estate fund according to Morningstar. The Fund's cumulative return of 413.7% exceeds that of the MSCI Real Estate Index and REIT Index, which have increased 272.0% and 156.3%, respectively.

JEFFREY KOLITCH
PORTFOLIO MANAGER

Retail Shares: BREFX
IInstitutional Shares: BREIX
R6 Shares: BREUX

As of September 30, 2023, the Fund has maintained its #1 real estate fund ranking for each of the trailing 10-year and 5-year annualized performance periods.

We will address the following topics in this letter:

- Demystifying real estate – an optimistic perspective on the prospects for real estate
- 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

As of 9/30/2023, the Morningstar Real Estate Category consisted of 253, 230, 213, 153, and 182 share classes for the 1-, 3-, 5-, 10-year, and since inception (12/31/2009) periods. Morningstar ranked Baron Real Estate Fund Institutional Share Class in the 3rd, 56th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 7th, 132nd, 2nd, 1st, and 2nd best performing share class in its Category, for the 1-, 3-, 5-, 10-year, and since inception periods, respectively.

As of 9/30/2023, Morningstar ranked Baron Real Estate Fund R6 Share Class in the 3rd, 55th, 1st, 1st, and 1st percentiles, for the 1-, 3-, 5-, 10-year, and since inception periods, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund R6 Share Class as the 6th, 131st, 1st, 2nd, and 1st best performing share class in its Category for the 1-, 3-, 5-, 10-year, and since inception periods, respectively.

Morningstar calculates the Morningstar Real Estate Category Average performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. Since inception rankings include all share classes of funds in the Morningstar Real Estate Category. Performance for all share classes date back to the inception date of the oldest share class of each fund based on Morningstar's performance calculation methodology.

© **2023 Morningstar.** All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its affiliates or content providers; (2) may not be copied, adapted or distributed; (3) is not warranted to be accurate, complete or timely; and (4) does not constitute advice of any kind, whether investment, tax, legal or otherwise. User is solely responsible for ensuring that any use of this information complies with all laws, regulations and restrictions applicable to it. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

MORNINGSTAR IS NOT RESPONSIBLE FOR ANY DELETION, DAMAGE, LOSS OR FAILURE TO STORE ANY PRODUCT OUTPUT, COMPANY CONTENT OR OTHER CONTENT.

BARON FUNDS 1987

Baron Real Estate Fund

Table I.
Performance
Annualized for periods ended September 30, 2023

	Baron Real Estate Fund Retail Shares[1,2]	Baron Real Estate Fund Institutional Shares[1,2]	MSCI USA IMI Extended Real Estate Index[1]	MSCI US REIT Index[1]
Three Months[3]	(8.22)%	(8.19)%	(6.08)%	(7.32)%
Nine Months[3]	5.38%	5.59%	5.29%	(2.89)%
One Year	11.81%	12.10%	14.46%	1.87%
Three Years	2.88%	3.14%	6.51%	4.51%
Five Years	10.12%	10.40%	5.57%	1.62%
Ten Years	8.94%	9.22%	7.99%	4.65%
Since Inception (December 31, 2009) (Annualized)	12.35%	12.64%	10.03%	7.08%
Since Inception (December 31, 2009) (Cumulative)[3]	396.09%	413.65%	272.00%	156.25%

Demystifying Real Estate: An Optimistic Perspective on the Prospects for Real Estate

The highly unusual and challenging last few years (e.g., COVID-19, a sharp and rapid rise in interest and mortgage rates, credit market stress, multi-decade high inflation) have left many anxious and concerned about the prospects for real estate. Accordingly, last month, we thought it would be timely to host an educational real estate webinar for clients. The goal of our webinar was to *demystify real estate* – make it clearer, easier to understand, separate the facts from fiction – and provide our more optimistic perspective on the prospects for real estate. A sampling of our key messages is as follows:

Perception vs. Reality: We believe there are several perceptions about real estate that do not reflect reality. A few examples are listed below.

Perception: A commercial real estate crisis is on the horizon.
- *Reality*: Prospects for most of commercial real estate are encouraging.

Perception: 6% to 7% mortgage rates will cripple the new home sales market.
- *Reality*: New home sales are strong.

Perception: The American Dream to own a home is over.
- *Reality*: Millennials are buying homes.

Perception: Office real estate is "dead."
- *Reality*: Elements of office real estate are performing well – globally and by type.

Perception: Zoom will derail business travel.
- *Reality*: Business travel continues to recover.

Perception: A banking crisis is forthcoming that will crush real estate.
- *Reality*: Sufficient credit exists to support real estate.

Perception: Real estate performs poorly in a high or rising rate environment.
- *Reality*: Segments of real estate perform well in a high or rising rate environment.

Commercial Real Estate Crisis?: Since the failure of Silicon Valley Bank in March 2023, there has been a broad-based and consistent narrative that a commercial real estate crisis is forthcoming. Further, commercial real estate has been painted with a broad brushstroke as the challenges of B and C office buildings, comprising just 3% to 5% of the total market, are being extrapolated to all commercial real estate. We believe forecasts of widespread distress in commercial real estate are sensationalized and a commercial real estate crisis is unlikely to materialize.

We believe the likelihood of a commercial real estate crisis is low for the following reasons:

1. Operating fundamentals are positive.
2. Lack of overbuilding and a dearth of new construction activity bode well.
3. Most balance sheets are in good shape.
4. The banking system is well capitalized with ample liquidity.
5. Real estate loan defaults will mostly impact class B and C offices.
6. A Fed "put" could mitigate headwinds.

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares and Institutional Shares as of December 31, 2022 was 1.33% and 1.07%, 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 reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2034, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit baronfunds.com or call 1-800-99-BARON.

1 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 indexes or any securities or financial products. This report is not approved, reviewed or produced by MSCI. The **MSCI US REIT Index Net (USD)** is a free float-adjusted market capitalization index that measures the performance of all equity REITs in the US equity market, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance; one cannot invest directly into an index.

2 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.

3 Not annualized.

U.S. Housing Market: Though we are mindful of the ongoing increase in mortgage rates and its negative impact on home purchase affordability, we remain bullish on the long-term prospects for the U.S. housing market. The 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. Fewer homes are being built today than 60 years ago despite an increase in the U.S. population of 150 million people![1]

The Case for Public Real Estate & Key Investment Themes: We believe there is a strong long-term case to allocate capital to public real estate in an actively managed strategy. We continue to prioritize six long-term high-conviction investment themes or real estate categories: REITs, Residential-Related, Travel-Related, Commercial Real Estate Services, Real Estate-Focused Alternative Asset Managers, and Property Technology.

Long-Term Case

1. Inflation protection
2. Diversification and low correlation to equities/bonds
3. Strong historical long-term returns with ongoing potential

Near- to Medium-Term Case

1. Much of public real estate has lagged
2. Several public real estate companies are cheap
3. May be near end of Fed tightening period – historically bullish for real estate
4. We see generally attractive demand vs. supply prospects
5. Balance sheets are in solid shape
6. Wall of private capital is targeting public real estate

Benefits of Active Management

1. Managers can focus on what they believe to be real estate winners and avoid the losers
2. Managers can exploit mispricings
3. Managers can embrace a benchmark-agnostic approach

We encourage you to register and listen to the replay of our educational webinar for our more complete thoughts on demystifying real estate.

Portfolio Composition and Key Investment Themes

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

[1] Source: 1. Bureau of the Census, Department of Commerce 2. US Census Bureau

Table II.
Fund investments in real estate-related categories as of September 30, 2023

		Percent of Net Assets
REITs		25.7%
Non-REITs		67.2
Homebuilders & Land Developers	18.9	
Casinos & Gaming Operators	14.6	
Building Products/Services	10.4	
Real Estate Service Companies	9.9	
Real Estate Operating Companies	9.6	
Hotels & Leisure	3.9	
Cash and Cash Equivalents		7.1%
Total		100.0%*

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

Investment Themes

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

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

REITs

Business fundamentals and prospects for many REITs remain solid although, in most cases, growth is slowing due to debt refinancing headwinds, a moderation in organic growth (occupancy, rent and/or expense pressures), and reduced investment activity (acquisitions and development). Most REITs enjoy occupancy levels of more than 90% with modest new competitive supply forecasted in the next few years due to elevated construction costs and contracting credit availability for new construction. Balance sheets are in good shape. Several REITs have inflation-protection characteristics. Many REITs have contracted cash flows that provide a high degree of visibility into near-term earnings growth and dividends. Dividend yields are well covered by cash flows and are growing.

Following the 25% decline in the REIT Index in 2022 and modest declines in the first nine months of 2023, REIT valuations have become attractive on an absolute basis relative to history and relative to private market valuations, but not relative to fixed income alternatives. If economic growth contracts and evolves into no worse than a mild recession and the path of interest rates peaks at levels not much higher than current rates, we believe the shares of certain REITs may begin to perform relatively well. Should long-term interest rates begin to decline and credit spreads compress, REIT return prospects may also benefit from an improvement in valuations as valuation multiples expand (e.g., capitalization rates compress).

We continue to prioritize secular growth REITs and short-lease duration REITs with pricing power:

Secular growth REITs: Our long-term focus remains on real estate companies that benefit from secular tailwinds where cash-flow growth tends to be durable and less sensitive to a slowdown in the economy. Examples include our investments in industrial logistics and data center REITs.

Short-lease duration REITs with pricing power: We have continued to emphasize REITs that are able to raise rents and prices on a regular basis to combat inflation's impact on their businesses. Examples include our investments in single-family rental and self-storage REITs.

For a more detailed discussion of the investment case for REITs and the various REIT categories, we encourage you to read our September 30, 2023 Baron Real Estate Income Fund shareholder letter.

As of September 30, 2023, we had investments in six REIT categories representing 25.7% of the Fund's net assets. Please see Table III below.

Table III.
REITs as of September 30, 2023

	Percent of Net Assets
Industrial REITs	10.1%
Data Center REITs	9.1
Health Care REITs	2.4
Self-Storage REITs	1.9
Single-Family Rental REITs	1.7
Wireless Tower REITs	0.5
Total	25.7%*

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

Residential-related real estate

In the third quarter of 2023, legendary investor Warren Buffett's Berkshire Hathaway Inc. invested $800 million in three U.S. homebuilders, two of which are top holdings in the Fund – **D.R. Horton, Inc.** and **Lennar Corporation**. We find it notable and bullish that Berkshire Hathaway acquired shares in these homebuilders:

- Historically, its portfolio has been limited to a small number of investments.
- Despite a more than 75% increase in the share prices of both D.R. Horton and Lennar in the trailing 12-month period ended June 30, 2023, and strong share price performance in the first six months of 2023, Berkshire Hathaway, a legendary *value* investor, acquired shares in D.R. Horton and Lennar.
- Berkshire Hathaway purchased homebuilders despite the dramatic increase in mortgage rates and home purchase affordability challenges for many consumers.

We wonder if Berkshire Hathaway may have acquired shares in the homebuilders for some of the same reasons we own them:

- We are optimistic about the long-term prospects for the U.S. housing market given the multi-year structural underinvestment in housing shelter relative to demographic needs.
- D.R. Horton and Lennar are the two largest homebuilders in the U.S. – each with scale advantages that help each company procure materials, labor, and land more easily and at more favorable prices than many of their competitors.
- D.R. Horton and Lennar are exceptionally well-managed companies that maintain well-capitalized and liquid balance sheets, focus on generating strong profitability margins, free cash flow and returns on equity, and have an opportunity to generate strong long-term earnings growth.
- Each homebuilder is well positioned to increase market share because activity in the existing home sale market may remain subdued if homeowners continue to choose to stay in their homes due to low in-place mortgages. Goldman Sachs reports that 72% of borrowers have a mortgage rate at or below 4%. In addition, many of their competitors are private homebuilders that are capital constrained and lack comparable access to materials, labor, and land.

Regarding homebuilder valuations, we believe that homebuilder stocks are cheap and have the potential to re-rate higher over time. In our June 30, 2023 shareholder letter, we noted that should homebuilder valuations remain in their historical valuation range, we believe the Fund's homebuilder investments have the potential to continue to generate strong annual performance returns given our expectation for durable long-term earnings growth and, in some cases, an improvement in valuation multiples. This is our base case valuation assumption. We also introduced our view that there is a compelling case for a favorable paradigm shift in how homebuilding companies are valued in the public markets. Why?

– Since the beginning of 2020, D.R. Horton, Lennar, and the Fund's third homebuilder investment in **Toll Brothers, Inc.** have demonstrated substantial resilience and operating prowess. Despite several black swan events – COVID-19, a sharp increase in mortgage rates from 3% to 7%, and supply-chain disruptions – each company has managed its business exceptionally well and demonstrated that the demand to buy homes is resilient. Further, each company has dramatically improved its operating prowess and balance sheet management and has an opportunity to generate strong long-term earnings growth.

– Homebuilding companies tend to be valued in the public market on a price-to-book value basis ranging from 1 to 2 times book value. This compares to the S&P 500 Index average book value since 2000 of approximately 3 times (minimum book value of 1.78 times and maximum book value of 5.06 times). Similarly, homebuilding companies have tended to be valued in the public market at steep discounts (often 5 to 10 times earnings per share) to the long-term average S&P 500 Index P/E multiple of 17 times earnings per share.

If a paradigm shift in valuation multiples materializes due to the reasons cited above and homebuilder valuations re-rate structurally higher – closer to an S&P 500 Index valuation – the long-term share price return potential for our homebuilder companies would become notably compelling.

As of September 30, 2023, residential-related real estate companies represented 29.3% of the Fund's net assets. Please see Table IV below.

Table IV.
Residential-related real estate companies as of September 30, 2023

	Percent of Net Assets
Homebuilders	17.4%
Building Products/Services	9.8
Home Centers	2.2
Total	29.3%[1]*

[1] Total would be 31.0% if included residential-related housing REIT Invitation Homes, Inc.

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

Travel-related real estate

We remain long-term bullish about the prospects for travel-related real estate companies.

In our opinion, several factors are likely to contribute to multi-year tailwinds for travel including a favorable shift in consumer preferences, a growing middle class, and other encouraging demographic trends.

Even though travel-related business conditions may moderate in the year ahead given the likelihood of an economic slowdown, which would negatively impact leisure spending and business travel, we maintain an allocation to select travel-related real estate companies because **we believe the long-term investment case for travel is compelling**:

- *Demand for services over goods:* We have seen an increased wallet share going to travel. The 72 million millennials are increasingly driving this shift aided by their preference for experiences, such as travel, over durable goods.
- *Demographic trends:* Delays in marriage and having children have led to the millennial cohort having more disposable income than prior generations at this age.
- *Work-from-home:* Flexible job arrangements have led to an increase in travel bookings and lengths of stay, leading to the emergence of a new category of travel (hush trips).
- *Certain travel-related businesses remain cyclically depressed, not secularly challenged, and should rebound as economic strength re-emerges*. For example, the business operations of Macau-centric casino and gaming companies such as **Wynn Resorts, Limited** and **Las Vegas Sands Corporation** have yet to fully recover from COVID-19 restrictions and challenges in China from 2020 through 2022. We expect business to rebound sharply when economic growth recovers just as it did in Las Vegas.
- *Healthy balance sheets:* The travel-related real estate companies we invest in maintain well-capitalized and liquid balance sheets and should be able to comfortably withstand any slowdown in economic growth just as they did during the early days of COVID-19.
- *Private equity companies such as Blackstone have a long history of investing in travel-related companies and have continued to highlight the travel segment as an important investment opportunity.* Given the highly discounted share prices and valuations of certain travel-related companies, we would not be surprised if private equity firms take advantage of the favorable valuation arbitrage between the public and private markets and acquire public travel companies.

As of September 30, 2023, travel-related real estate companies represented 18.5% of the Fund's net assets. Please see Table V below.

Table V.
Travel-related real estate as of September 30, 2023

	Percent of Net Assets
Casinos & Gaming Operators	14.6%
Hotels	2.6
Ski Resorts	0.9
Timeshare Operators	0.4
Total	18.5%*

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

Other real estate-related opportunities

Our *other real estate-related opportunities* category includes three investment themes and various companies that do not fit neatly in more traditional real estate categories of REITs, residential-related real estate, and travel-related real estate. They currently include three investment themes:

- Real asset-focused alternative asset managers
  Examples: **Blackstone Inc.** and **Brookfield Corporation**
- Commercial real estate services companies
  Examples: **CBRE Group, Inc.** and **Jones Lang LaSalle Incorporated**
- Property technology companies
  Example: **CoStar Group, Inc.**

Real asset-focused alternative asset managers

We are optimistic about the long-term prospects for Blackstone and Brookfield because we believe both companies are likely to increase market share in a secular growth opportunity for alternative assets.

Institutional allocations to alternative investment assets such as real estate, infrastructure, and private equity are likely to continue to grow significantly in the years ahead because alternatives have a long track record of generating attractive relative and absolute returns with less volatility than several other investment options.

We are bullish on the long-term prospects for Blackstone and Brookfield. Both companies are led by exceptional management teams that attract and retain exceptional talent. They are two of the largest real estate managers in the world with impressive investment track records. Both Blackstone and Brookfield have global franchises, strong brands, and loyal customers.

We believe the shares of both companies are attractively valued and are optimistic about the long-term potential for the Fund's investments in both companies.

Commercial real estate services companies

We remain bullish on the long-term growth opportunity for the commercial real estate brokerage category because of structural and secular tailwinds that should benefit leading global companies such as CBRE and Jones Lang LaSalle.

Tailwinds include:

- **The outsourcing of commercial real estate:** A growing number of companies are increasingly looking to outsource their commercial real estate needs. CBRE estimates that the overall facilities management market will be $1.9 trillion by 2024, representing a massive growth opportunity for large global commercial real estate services companies.

- **The institutionalization of commercial real estate:** Institutional allocations to real estate continue to increase, in part due to real estate's diversification, inflation protection, and relatively stable long-term growth attributes.

- **Opportunities to increase market share:** The commercial real estate industry remains highly fragmented and is likely to continue to consolidate. Customers tend to prefer commercial real estate companies that can provide a broad set of services. We believe CBRE and Jones Lang LaSalle are best positioned to drive market share gains given that they are the clear #1 and #2 commercial real estate services firms, respectively, and they have the capability to provide the full array of real estate offerings on a global scale.

CBRE and Jones Lang LaSalle have scale, product breadth, and leadership positions across their diversified real estate business segments. They continue to gain market share and are well positioned to capitalize on ample attractive acquisition opportunities in the years ahead given strong and liquid balance sheets. Though growth in certain segments of their businesses has slowed and is likely to remain under pressure in the months ahead due to the global economic slowdown, higher interest rates, and the likelihood of more restrictive bank lending, we believe both are attractively valued and present compelling return potential over the next few years.

Property technology companies

The real estate industry, which represents approximately 17% of U.S. GDP according to the National Association of Realtors, has eschewed decades of technological innovation while many other industries have evolved rapidly. We are seeing evidence of that trend beginning to change as real estate companies are increasingly adopting technology as a source of competitive differentiation and evolution across property sectors.

This collision of real estate and technology has led to a new category within real estate–real estate technology, also referred to as *proptech*. Proptech businesses use technology and software to assist in meeting real estate needs.

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

As of September 30, 2023, other real estate-related companies represented 19.5% of the Fund's net assets. Please see Table VI below.

Table VI.
Other real estate-related companies as of September 30, 2023

	Percent of Net Assets
Real Estate-Focused Alternative Asset Managers	9.6%
Real Asset-Focused Alternative Asset Managers	5.5
Property Technology Companies	4.4
Total	19.5%*

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

Top Contributors and Detractors

Table VII.
Top contributors to performance for the quarter ended September 30, 2023

	Quarter End Market Cap (billions)	Percent Impact
Blackstone Inc.	$130.2	0.47%
Digital Realty Trust, Inc.	37.4	0.09
Hilton Worldwide Holdings Inc.	39.3	0.03
Brookfield Asset Management Ltd.	13.8	0.02
Welltower Inc.	42.5	0.01

In the third quarter, the shares of **Blackstone Inc.**, the world's largest alternative asset manager, continued to perform well due to strong quarterly business results, the announcement that Blackstone would be added to the S&P 500 Index, and expectations for enduring and compelling long-term growth prospects. Blackstone is the largest real estate manager in the world with an impressive investment track record. We believe Blackstone is a true "best-in-class" company. It has a premier brand, a global franchise, loyal customers, and substantial insider ownership. Blackstone is fast growing, manages its business in an asset-light manner with limited needs for capital, produces high cash-flow margins, is anchored by a recurring revenue base, and is able to return nearly 100% of its cash generated through dividends and share repurchases. Led by its exceptional CEO Stephen Schwarzman and President Jon Gray, the company attracts and retains excellent talent. We believe Blackstone is exceptionally positioned to continue to increase market share in a secular growth opportunity for alternative assets.

Following strong quarterly business results, the shares of **Digital Realty Trust, Inc.**, a global data center operator with 290 data centers, continued to perform well in the third quarter. As noted in the Fund's second quarter shareholder letter, we believe the multi-year prospects for real estate data centers are compelling – perhaps as strong as they have ever been. For our more complete thoughts on Digital Realty Trust and the Fund's other data center REIT investment in **Equinix, Inc.**, please see "Top net purchases" later in this letter.

Hilton Worldwide Holdings Inc. was a contributor to performance during the third quarter due to better-than-expected results, improved full-year earnings outlook, and strong trends in leisure with continued signs of recovery in business travel and group demand. Hilton is the second largest hotel company in the world with 7,300 properties, 1.1 million rooms, 22 unique brands, and over 165 million loyalty members in its database. Hilton has a superior executive team led by long-time CEO Chris Nassetta (over 15 years as CEO). We recently got an opportunity to spend time with Chris in our office to assess his vision for the company over the next five years. His interests are fully aligned with shareholders, and he has meaningful skin in the game through his ownership of approximately $600 million of Hilton stock (and he has never sold a share!).

Hilton's growth is underpinned by one of the best business models that we have encountered, which creates a flywheel effect. The crux of the flywheel model breaks down as follows: i) Hilton maintains market-leading brands across its various segments (as measured by rate and occupancy premium); ii) which in turn allows the company to curate a loyalty data base of 165 million members; iii) leading to a disproportionate share of hotel developers choosing to invest in Hilton brands; iv) translating to a disproportionate share of industry hotel unit growth (Hilton's share of rooms under construction is 3.5 times greater than its existing market share of rooms). In effect, the company can grow with limited capital investment required and thus return most of its cash flow to shareholders via a dividend and share repurchases since its earnings are driven by revenue-based franchise and licensing fees. We see the potential for the company to grow its cash flow by high single digits to 10% annually at 90% incremental margins translating to mid-teens earnings per share growth. Hilton has organically curated new brands to pursue white space in the market and we believe its development pipeline alone, a large portion of which is already under construction, could be worth $50/share on a recent $150 share price. The new deals it has already signed should set the company up to see accelerating unit growth in the years ahead despite the uncertain macro environment and having a bigger installed base of rooms today.

Table VIII.
Top detractors from performance for the quarter ended September 30, 2023

	Quarter End Market Cap (billions)	Percent Impact
Las Vegas Sands Corporation	$35.0	–0.64%
CoStar Group, Inc.	31.4	–0.59
D.R. Horton, Inc.	36.4	–0.56
MGM Resorts International	12.9	–0.53
Toll Brothers, Inc.	7.9	–0.51

Following strong share price performance in the trailing 12-month period, the shares of **Las Vegas Sands Corporation**, a global leader in the development and operation of luxury casino resorts in Macau and Singapore, declined 21.0% in the third quarter due, in large part, to concerns that economic growth in China would remain challenged. At its recent share price of only $46 per share, we believe these concerns are sufficiently discounted in Sands' valuation. The company's share price is currently valued at only 9 times 2024 estimated cash flow (EBITDA), a more than 25% discount to the company's long-term average valuation multiple.

We continue to believe that Macau visitation and business activity will rebound. Additional drivers for future value creation beyond a re-emergence in Macau business activity include: (i) our expectation for a continued positive inflection in visitation and cash flow at Marina Bay Sands, Singapore; (ii) Sands' plans to invest $4.5 billion in Macau and Singapore in the next 10 years; and (iii) the company's plans to pursue a New York casino and its prioritization of Texas as a new market. Management recently reinstated Sands' dividend and continues to maintain a liquid and well-capitalized investment grade balance sheet.

Shares of **CoStar Group, Inc.** decreased 13.6% in the third quarter of 2023 following modestly disappointing quarterly business results as net new business bookings declined 2% year-over-year and slower commercial real estate transactions negatively impacted revenue.

We maintain our long-term bullish view on the prospects for CoStar. The company is the leading provider of information, analytics, and marketing services to the real estate industry. CoStar initially focused on serving the domestic commercial real estate industry and built a comprehensive proprietary database of essential data to help participants buy, sell, and lease properties. The company has since expanded its focus to offer products and services to multi-family, industrial, commercial land, mixed-use and hospitality end-markets across North America and Western Europe.

Today, the company's non-residential operations generate over $2 billion of recurring revenue with cash flow (EBITDA) margins above 40%. We expect this portion of the business to grow its revenue at a mid-teens rate for several years as the company launches new products, upsells existing customers, and raises prices. We expect profit and cash flow to grow at an even faster rate given the low marginal costs inherent in CoStar's business model. We think that cash flow from this business can double over the next five years, which implies a similar return for the stock.

The company undertook an audacious expansion plan and invested approximately $230 million in 2022 to enter the domestic residential real estate market. We believe management's initial 2023 guidance included a $500 million investment in its residential business. We suspect that management set expectations conservatively and is unlikely to spend the full $500 million, leading to likely earnings upside over the year. Notwithstanding our view of management's conservatism, we believe CoStar's residential investment is nominal relative to the company's $4 billion net cash balance and its ability to generate free cash flow. We think that the residential market is vast, and that CoStar is well positioned to build a compelling and differentiated business serving this market. If successful, we think that CoStar could generate almost $1 billion in incremental revenue over the next 5 to 10 years at 40% EBITDA margins. If unsuccessful, CoStar can easily throttle back on its investment and redeploy resources towards other markets without having impacted the fundamentals of its non-residential business.

Based on its current valuation and our expectation for future growth, we believe CoStar's shares have the potential to double in the next three to four years.

Following a more than 36% increase in its share price in the first six months of 2023, the shares of **D.R. Horton, Inc.**, the number one homebuilder by volume in the U.S., declined 11.7% in the third quarter mainly due to concerns that higher mortgage rates would negatively impact home affordability and new home sales. For additional thoughts on D.R. Horton, please see "Top net purchases" below.

Recent Activity

Table IX.
Top net purchases for the quarter ended September 30, 2023

	Quarter End Market Cap (billions)	Amount Purchased (millions)
Equinix, Inc.	$ 68.0	$22.3
Digital Realty Trust, Inc.	37.4	21.7
D.R. Horton, Inc.	36.4	21.3
Caesars Entertainment, Inc.	10.0	15.8
Blackstone Inc.	130.2	8.6

In the third quarter, we continued to acquire shares in data center REITs **Equinix, Inc.** and **Digital Realty Trust, Inc.**

We believe the multi-year prospects for real estate data centers are highly compelling – perhaps as strong as they have ever been. Data center landlords such as Equinix and Digital Realty are benefiting from record low vacancy, demand outpacing supply, more constrained power availability, and rising rental rates. Several secular demand vectors, which are currently broadening, are contributing to robust fundamentals for data center space globally. They include the outsourcing of information technology infrastructure, increased cloud computing adoption, the ongoing growth in mobile data and internet traffic, and artificial intelligence (AI) as a new wave of data center demand. Put simply, each year data continues to grow exponentially, and all of this data needs to be processed, transmitted, and stored – supporting increased demand for data center space. In addition, while it is still early innings, we believe AI could not only provide a source of incremental demand but also further accelerate existing secular trends by driving increased prioritization and additional investment in digital transformation among enterprises.

Equinix is the premier global operator of network-dense, carrier-neutral colocation data centers with operations across 32 countries. In the last few months, we have spent time with CEO Charles Meyers and CFO Keith Taylor and are encouraged about the company's long-term prospects. Ultimately, we believe the underlying demand vectors, strong pricing power, favorable supply backdrop, and interconnection focus will support approximately 10%

cash-flow-per-share growth for the next several years with upside from further scaling of digital services, incremental AI demand, and select M&A opportunities. We remain optimistic about the prospects for Equinix shares over the next several years.

In the last few months, we have also spent time with CEO Andy Power of Digital Realty. Over the last few years, the company has been undergoing a business transformation, which accelerated after its acquisition of Interxion in March 2020, a pure-play European network-dense data center operator. The company has been shedding non-core slower-growth assets, investing and expanding in Europe, growing its retail colocation business, improving its balance sheet, and adding operational expertise by supplementing new management leadership. We have spent a significant amount of time with CEO Andy Power over the years and believe the investments the company has made are on the cusp of bearing fruit and will pay dividends for years to come. In addition, we believe the fundamentals in its core business are at an inflection point with robust demand/bookings, pricing power, hyperscale cloud players outsourcing a higher percentage of their digital infrastructure needs, and limited competitive capacity. We believe these factors will lead to growth in the core business in 2023 and are optimistic about the long-term prospects for the company.

In the third quarter, we acquired additional shares in the largest homebuilder company, **D.R. Horton, Inc.**

Though we are mindful of the impact of higher home prices and elevated mortgage rates on the consumer and the possibility that it may result in a slowdown in new home sales, we remain bullish on the company's long-term prospects primarily due to two key considerations:

1) We believe the company is positioned to continue to perform well over time given its status as the largest and lowest-cost producer in the entry-level home segment for first-time buyers and baby boomers looking for an affordable home. In the trailing 12-month period ended June 30, 2023, 66% of D.R. Horton's home sales were for prices less than $400,000, thereby enabling the company to satisfy the home affordability constraints of many potential home buyers.

2) We are enthusiastic about D.R. Horton's continued transition to a stronger and more asset-light balance sheet by outsourcing its land development spending needs to third-party developers such as Forestar Group Inc. D.R. Horton's transition to a less capital-intensive business model is leading to stronger cash-flow generation, lower debt levels, an ability to pursue more share repurchases and/or other investment opportunities, and a higher-valuation multiple.

Table X.
Top net sales for the quarter ended September 30, 2023

	Quarter End Market Cap (billions)	Amount Sold (millions)
Brookfield Corporation	$51.2	$36.5
American Tower Corporation	76.7	21.4
Public Storage Incorporated	46.3	20.3
Marriott Vacations Worldwide Corporation	3.7	16.1
Extra Space Storage Inc.	25.7	11.4

Brookfield Corporation was the top detractor in response to investors selling yield stocks during the quarter. Long-term U.S. Treasury rates increased by approximately 100 basis points in the third quarter and provided investors with a more attractive risk-free yield alternative. In addition, the commercial real estate crisis drumbeat, which we've discussed in prior letters, continues to limit the value investors are willing to ascribe to Brookfield's real estate investments held on its balance sheet. We reduced our position given the ongoing headwinds and re-allocated capital but remain of the view that shares remain attractively valued both in the near term and long term. Brookfield's ownership stakes in its listed entities are being valued higher in the public markets than the current share price of Brookfield itself with zero credit being ascribed for its insurance business, on balance sheet investments, or accrued carried interest.

Early in 2023, we reduced the majority of our position in **American Tower Corporation**, a global operator of over 200,000 wireless towers, and exited our small position in the third quarter. While we are positive on the long-term secular trends underpinning American Tower's business, we concluded in late 2022 and early 2023 that growth expectations were too high given forthcoming headwinds from significantly higher financing costs (20%-plus exposure to floating rate debt), upcoming debt maturities, continued payment shortfalls from a key tenant in India, foreign exchange headwinds, and a possible reduction in mobile carrier capital expenditures.

As shares have become more attractively valued, growth headwinds are better understood, and a potential monetization event of its India business, we may look to re-acquire shares.

We recently trimmed our investment in **Public Storage Incorporated**, a REIT that is the world's largest owner, operator, and developer of self-storage facilities, due in part to expectations that rent and overall cash-flow growth may continue to moderate.

Public Storage's nearly 2,500 self-storage facilities across the U.S. serve more than one million customers. The company has achieved the #1 market position in 14 of its top 15 markets. Despite our near-term caution, we are optimistic about the company's long-term prospects due to our expectations for strong occupancy, limited new supply, the resumption of solid long-term organic cash-flow growth, and the potential for M&A due to its well-capitalized and low leverage balance sheet and its ability to increase rents monthly to offset inflation headwinds. We believe Public Storage's shares are currently valued at a discount to private market self-storage values.

Concluding Thoughts on the Prospects for Real Estate and the Fund

We remain mindful that the current economic and investment climate is challenging. Though we do not have a crystal ball regarding the macro-economic and geopolitical outlook, we remain optimistic about the long-term prospects for the Fund.

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. Valuations and return prospects are attractive.

We continue to believe the benefits of our flexible approach, which allows us to invest in a broad array of real estate companies including REITs and non-REIT real estate-related companies, will shine even brighter in the years ahead.

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

Table XI.
Top 10 holdings as of September 30, 2023

	Quarter End Market Cap (billions)	Quarter End Investment Value (millions)	Percent of Net Assets
Toll Brothers, Inc.	$ 7.9	$122.9	8.3%
Equinix, Inc.	68.0	85.0	5.7
Prologis, Inc.	103.7	81.7	5.5
Lennar Corporation	31.6	67.7	4.6
Blackstone Inc.	130.2	67.4	4.5
D.R. Horton, Inc.	36.4	67.1	4.5
CoStar Group, Inc.	31.4	65.6	4.4
Brookfield Corporation	51.2	56.1	3.8
Wynn Resorts, Limited	10.5	52.3	3.5
Digital Realty Trust, Inc.	37.4	50.4	3.4

I and the rest of our Baron real estate team – David Kirshenbaum, George Taras, and David Baron – remain energized, focused, and busy meeting with and speaking to real estate management teams. We continue our comprehensive research. We speak to a broad swath of real estate companies – both owned and not owned – in many 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.

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

Sincerely,

Jeffrey Kolitch
Portfolio Manager

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 baronfunds.com. Please read them carefully before investing.

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

The Fund may not achieve its objectives. Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

Discussions of the companies herein are not intended as advice to any person regarding the advisability of investing in any particular security. The views expressed in this report reflect those of the respective portfolio managers only through the end of the period stated in this report. The portfolio manager's views are not intended as recommendations or investment advice to any person reading this report and are subject to change at any time based on market and other conditions and Baron has no obligation to update them.

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

The portfolio manager defines "**Best-in-class**" as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking. **Price/Earnings Ratio (next 12-months)**: is a valuation ratio of a company's current share price compared to its mean forecasted 4 quarter sum earnings per share over the next twelve months. If a company's EPS estimate is negative, it is excluded from the portfolio-level calculation. **Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).