



QUARTERLY LETTER | SEPTEMBER 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) delivered strong results in the third quarter. The Fund increased 10.25% (Institutional Shares), outperforming the MSCI US REIT Index (the REIT Index), which increased 4.49%, and the MSCI USA IMI Extended Real Estate Index (the MSCI Real Estate Index), which rose 5.65%.

We are very pleased to report that the Fund's performance over every multi-year period remains exceptionally strong, especially when compared to the REIT Index and peers in the Morningstar Real Estate Category. As of September 30, 2025, according to Morningstar, the Fund's achievements are as follows:

- **#1 real estate fund** ranking for both its 15- and 10-year performance periods, as well as since inception
- **Top 1% ranking** for its 3-year performance period and top 6% ranking for its 5-year performance period
- **Highest 5-Star Morningstar Rating™** for each of its 10-, 5-, and 3-year performance periods
- **Highest 5-Star Overall Morningstar Rating™**

Annualized performance (%) for period ended September 30, 2025

	Fund Retail Shares ^{1,2}	Fund Institutional Shares ^{1,2}	MSCI USA IMI Extended Real Estate Index ¹	MSCI US REIT Index ¹	S&P 500 Index ¹
QTD ³	10.20	10.25	5.65	4.49	8.12
YTD ³	6.40	6.59	8.63	3.75	14.83
1 Year	3.15	3.42	3.54	(2.88)	17.60
3 Years	16.45	16.75	17.89	9.51	24.94
5 Years	8.99	9.27	11.58	8.04	16.47
10 Years	11.13	11.41	9.92	5.31	15.30
15 Years	13.02	13.30	10.93	7.07	14.64
Since Inception (12/31/2009)	13.16	13.44	11.20	7.88	14.18
Since Inception (12/31/2009) (Cumulative) ³	600.72	629.18	432.44	230.35	706.90

As of 9/30/2025, the Morningstar Real Estate Category consisted of 218, 210, 193, 151, 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 4th, 1st, 6th, 1st, 1st, and 1st percentiles, respectively. On an absolute basis, Morningstar ranked Baron Real Estate Fund Institutional Share Class as the 7th, 2nd, 10th, 1st, 1st, and 1st best performing share class in its Category, for the 1-, 3-, 5-, 10-, 15-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, 4 stars for the trailing 5 years, and 5 stars for the trailing 10 years ended 9/30/2025. There were 210 share classes, 193 share classes, and 151 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, 2036, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit BaronCapitalGroup.com or call 1-800-99-BARON.

Since inception on December 31, 2009 through September 30, 2025, the Fund's cumulative return of 629% was more than two and a half times that of the REIT Index, which increased 230%, and significantly higher than the MSCI Real Estate Index, which increased 432%.

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

We remain optimistic about the prospects for public real estate and the Baron Real Estate Fund.

Our diligence leads us to believe that, over the next few years, improving real estate business fundamentals and values will contribute to attractive returns for the Fund.

Additional thoughts that support our constructive outlook are as follows:

1. We are encouraged by bullish comments from executives of leading real estate companies

We believe recent positive comments from the executives of several leading real estate companies bode well for an improvement in real estate fundamentals and share price performance. A few examples from companies owned in the Fund include the following:

Jon Gray – President and Chief Operating Officer of Blackstone Inc., July 24, 2025

- “We know the path of travel (for real estate)...So I'd say our confidence on the ultimate outcome (is) high, and we're getting closer and closer to that tipping point where real estate will start to move.”

Hamid Moghadam, Co-Founder, Chairman and Chief Executive Officer of Prologis, Inc., October 15, 2025

- “Our record leasing this quarter underscores the strength and resilience of our platform. With a solid pipeline, improving customer sentiment and limited new supply, the logistics market is setting up for the next inflection in rent and occupancy growth – one of the most compelling setups I've seen in 40 years.”

Bob Sulentic, Chair and Chief Executive Officer of CBRE Group, Inc., July 29, 2025

- “We expect to set a new earnings peak this year just two years after the 2023 trough in the commercial real estate downturn, even though capital markets activity remains well below prior peak levels....Just staying on the path we're on now, it's growing, and we expect it to grow next year.”

Doug Yearley, Jr., Chairman and Chief Executive Officer of Toll Brothers, Inc., August 20, 2025

- “I think the economy is starting to heal. I think the buyers are beginning to come back out. I think rates dropping a little bit, it's more psychological for our client than it is affordability-wise, because we have more (of) a luxury client that can afford our homes...I'm certainly feeling better than I was a few months ago.”

Chris Nascetta – President and Chief Executive Office of Hilton Worldwide Holdings Inc., July 23, 2025

- “Overall, we feel good about where we are and are very optimistic about the business. We have the best brands in the industry with more coming, the biggest development pipeline in our history, and the economy in our largest market (U.S.) is set up for better growth, all of which should continue to drive strong performance.”

Andy Florance, Founder and Chief Executive Officer of CoStar Group, Inc., July 22, 2025

- “We're seeing strong performance across all our business segments, driven by strategic investments in expanding our sales force and innovative product development.”

2. We agree with Blackstone that real estate is at a pivotal moment in the cycle

In a recent piece titled “*Evolving to Outperform*,” written by Nadeem Meghji, global co-head of Blackstone Real Estate, Nadeem's comments are consistent with the views we expressed in our June 30, 2025, shareholder letter:

“Today, we find ourselves at a pivotal moment in the cycle. Values have reset lower, new supply in sectors like apartments and warehouses are at 10-year lows and the (real estate) recovery has only just started.”

“Now is a great time to acquire high-quality hard assets at a discount to physical replacement cost.”

3. We continue to believe the investment case for real estate is compelling

We are cognizant that the backdrop in real estate has been difficult the last few years in part due to concerns about the impacts from higher interest rates, refinancing headwinds, COVID-hangover effects, and possible bank failures. At this stage, however, we believe real estate is at an important positive inflection point.

- 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.
- Demand conditions are mostly favorable. 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 for hotels and leisure businesses, and rising data consumption and AI for data centers) are underappreciated in our opinion.

- Competitive supply has collapsed for much of real estate. The competitive supply outlook is broadly benign due to modest new construction over 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. We believe private capital may step in and capitalize on the opportunity to buy quality public 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.

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 that benefit new home sale prospects)
- Travel-related real estate (casinos & gaming operators and hotels & leisure companies)
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 estate-focused alternative asset managers
Secular growth opportunity given desire for alternative assets + 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 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 eight 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	27.2
Non-REITs	71.0
Building Products/Services	19.6
Real Estate Service Companies	14.8
Real Estate Operating Companies	10.9
Homebuilders & Land Developers	9.6
Hotels & Leisure	6.9
Casinos & Gaming Operators	6.2
Data Centers	2.8
Infrastructure Related	0.2
Cash and Cash Equivalents	1.8
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. Commercial real estate services companies
5. Real estate-focused alternative asset managers
6. Property technology companies

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 September 30, 2025, we had investments in 10 REIT categories representing 27.2% of the Fund’s net assets.

REITs	Percent of Net Assets (%)
Health Care REITs	5.3
Data Center REITs	4.8
Office REITs	3.5
Industrial REITs	3.3
Wireless Tower REITs	3.2
Mall REITs	2.8
Other REITs	1.2
Multi-Family REITs	1.1
Single-Family Rental REITs	1.0
Mortgage REITs	1.0
Total	27.2*

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

Residential-related real estate

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

A prolonged slowdown in the growth of housing supply since the 2007 to 2009 Great Recession and sharp increases in home prices and mortgage rates have weighed on housing affordability. In a September 30, 2025, report by *Goldman Sachs – The State of Housing (Un)Affordability in the U.S.* - Goldman estimates that fixing the housing shortage and restoring affordability would require approximately 3 to 4 million additional homes.

Additional reasons for our near-term caution include: (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 Trump administration is aware of the U.S. housing affordability issue. According to Treasury Secretary Scott Bessent, “We may declare a national housing emergency in the fall.” He has suggested that the administration is looking at ways to standardize building and zoning codes (to encourage more housing supply) and trim (housing) closing costs.

Our preliminary view is that improving the production of homes (a supply-side focus) is not the primary problem. Conversely, policies aimed at reducing mortgage rates, currently 0.50% higher than pre-pandemic levels (a demand-side focus) would be more effective at stimulating demand for homes, both new and existing homes.

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 September 30, 2025, residential-related real estate companies represented 29.1% of the Fund’s net assets.

Residential-related real estate companies

	Percent of Net Assets (%)
Building Products/Services	17.2
Homebuilders	8.7
Home Centers	3.3
Total	29.1*

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

Travel-related real estate

Though recent travel trends may have moderated, 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 September 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 & Leisure	6.9
Casinos & Gaming Operators	6.2
Total	13.1*

* 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.** (CBRE) 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 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 September 30, 2025, other real estate-related companies (which include the four investment themes mentioned directly above plus modest exposure to infrastructure related via a stub position in **Legence Corp.**) represented 28.7% of the Fund's net assets.

Other real estate-related real estate companies

	Percent of Net Assets (%)
Commercial Real Estate Services Companies	11.8
Real Estate-Focused Alternative Asset Managers	10.9
Property Technology Companies	3.1
Data Center Operators	2.8
Infrastructure Related Companies	0.2
Total	28.7*

* 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 (%)
Wynn Resorts, Limited	13.3	1.20
Jones Lang LaSalle Incorporated	14.1	0.96
CRH public limited company	80.5	0.95
Toll Brothers, Inc.	13.3	0.92
Welltower Inc.	119.1	0.82

Since the beginning of 2025, we have noted that the shares of **Wynn Resorts, Limited**, the pre-eminent luxury global owner and operator of integrated resorts (hotels and casino resorts), were, in our opinion, too cheap. In the most recent quarter, Wynn's shares increased 37.3% following strong second quarter results and better-than-expected performance in both Macau and Las Vegas.

Wynn 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.

Despite its strong year-to-date share price performance, we continue to believe that at its recent price of \$116 per share, Wynn's shares are attractively valued at only 9.3 times 2026 estimated cash flow or on a sum-of-the-parts valuation basis.

In December, management will be hosting a multiple day investor event in the United Arab Emirates (UAE) to view and discuss the prospects for its newest development - the Wynn Al Marjan Island which is 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 project could be worth \$25 per share in today's dollars and do not believe this new development is reflected in Wynn's current share price.

We also anticipate a further recovery in Macau and the beginning of an improvement in Las Vegas Strip sentiment in the year ahead. Importantly, we believe Wynn’s higher-end consumer position in Las Vegas, which leads to relative pricing power, should continue to somewhat isolate the company versus several of its peers.

Leading commercial real estate service company **Jones Lang LaSalle Incorporated** (JLL) contributed positively to performance during the third quarter, aided by the company’s strong second quarter financial report, coupled with broad-based strength across its business. We expect JLL to continue benefiting 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 continue to believe we are in the early days of a rebound in commercial real estate sales and leasing activity. We believe JLL may generate annual earnings per share growth of mid- to high teens in the next few years, and the company is currently valued at a discounted multiple of less than 15 times our estimate for next year’s earnings versus 17 to 18 times during prior early cycle periods.

The shares of **CRH public limited company** performed well in the most recent quarter following strong quarterly results and the company’s well-received Investor Day. CRH is the largest supplier of building materials such as aggregates, cement, asphalt, and concrete in North America and Europe. Its products are used for housing, infrastructure, and commercial projects. In contrast to many construction materials companies that only focus on selling higher-margin upstream materials (i.e. aggregates and cement), CRH also sells downstream materials such as asphalt and concrete, provides paving services for road and highway construction, and produces water infrastructure and outdoor living products. This vertically integrated approach is designed to maximize the returns CRH generates on its raw material reserves by not only profiting from sales of upstream materials, but by also making money on other related product offerings that use those materials as key inputs.

We continue to be excited about the longer-term growth prospects for CRH. During the company’s September 30 Investor Day, management outlined a double-digit annual earnings growth framework through 2030, which we found to be credible. We believe that CRH’s vertically integrated approach opens multiple organic and inorganic growth avenues and provides ample opportunities for business improvement and margin expansion, all of which can result in robust earnings growth. Additionally, while CRH’s valuation multiple has moved higher, we continue to believe that the current multiple does not fully reflect the quality and consistency of the business and would expect CRH’s valuation to continue to re-rate higher as U.S. investors further their education on the merits and attractive growth profile of its business.

Top detractors from performance for the quarter

	Quarter End Market Cap (\$B)	Contribution to Return (%)
American Tower Corporation	90.1	(0.46)
Airbnb, Inc.	75.5	(0.17)
Floor & Decor Holdings, Inc.	7.9	(0.10)
American Homes 4 Rent	12.3	(0.08)
Hilton Worldwide Holdings Inc.	61.0	(0.06)

After robust performance in the first six months of the year, shares of **American Tower Corporation**, a global REIT owner of 150,000 wireless tower communication sites with a heavy emphasis on developed markets, pulled back during the third quarter and lagged REITs broadly. Underperformance was driven by a slight delay in U.S. billings from 2025 to 2026 along with investor concerns about the contractual commitments of a small customer (DISH) and associated potential churn impacts after EchoStar Corporation divested its U.S. spectrum licenses.

While we acknowledge the market’s concerns, we believe American Tower’s shares remain attractively valued on an absolute basis and relative to other data infrastructure companies and most REITs. Further, the company’s business is underpinned by the continued secular growth in mobile data, bookings activity which is improving, and we believe the company will be able to deliver consistent mid- to upper single-digit underlying per share organic earnings growth with optionality around capital allocation levers such as share repurchases and acquisitions on top of a growing 3.5% current dividend yield.

The shares of **Airbnb, Inc.**, the largest technology-enabled hospitality platform in the world with 8 million listings and 5 million hosts across 220 countries and 100,000 cities, detracted from performance in the most recent quarter despite reporting robust second quarter results. Market concerns centered around expectations for a sequential growth deceleration in the third quarter due to tougher year-over-year growth comparisons, broader leisure travel trends in an uncertain economic environment, and the company’s upcoming guidance regarding potential incremental investments and their possible negative impact on cash flow margins in 2026.

As a reminder, we initiated a position in the second quarter at an attractive cost basis where we took advantage of the indiscriminate sell-off in April to buy a high-quality company that was on sale. We remain 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) the company’s 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) the company’s unique two-sided market place of user reviews curating an ecosystem of trust between guests and hosts; and v) Airbnb’s 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 initiated a position in **Floor & Decor Holdings, Inc.** following a sharp correction in its share price. Please see “Top net purchases for the quarter” for our discussion about the company.

Recent Activity

Top net purchases for the quarter

	Quarter End Market Cap (\$B)	Net Amount Purchased (\$M)
Iron Mountain Incorporated	30.1	27.1
AAON, Inc.	7.6	25.2
Floor & Decor Holdings, Inc.	7.9	19.3
Blackstone Inc.	211.0	5.2
Vulcan Materials Company	40.6	4.7

In the third quarter, we initiated a new REIT position in **Iron Mountain Incorporated**, as its shares offered a compelling valuation level combined with attractive long-term growth prospects. Iron Mountain offers record storage management along with an evolving fast-growing data center segment.

We have continued to meet with CEO Bill Meany and CFO Barry Hytinen and remain encouraged by the company’s prospects to increase overall cash flow per share by approximately 10% over the next several years, far more than our growth expectations for most other REITs. The company’s strong growth outlook is underpinned by predictable and stable growth in its core records management business, while outsized growth is driven by its data center business which has visibility to more than the triple operational capacity from today’s in-place base. Further, the company’s asset life cycle management business continues to grow at more than 20% year-over-year with opportunities to further consolidate the fragmented market.

Following a 40% decline from its peak share price earlier in 2025, we began purchasing shares of **AAON, Inc.**, a differentiated, best-in-class provider of premium HVAC products, targeting the North American light commercial market, and data center cooling solutions through its BASX subsidiary. We believe the sharp decline in AAON’s share price was caused by an overreaction to the company’s Investor Day guidance and a temporary hiccup due to a new Enterprise Resource Planning implementation in the second quarter.

AAON’s core HVAC business (around 80% of 2024 sales) is a leader in providing premium, semi-custom HVAC equipment with products that are more energy efficient, have longer life spans, and overall are better customized than peers to fit customer’s needs. This has driven significant outperformance over the past decade with organic growth in the high single-digit to low double-digit range versus low-mid single digits for peers. BASX (20% of 2024 sales) has distinguished itself with its ability to customize specific cooling solutions for hyperscalers and the most demanding customers that are more durable and energy efficient, very similar to the promise of the core AAON HVAC solution set. Over the next few years, we expect BASX to grow over 40% annually and by 2027,

BASX may reach nearly 40% of AAON’s total revenue. AAON has already shown progress improving its recent production rates and given the significant demand ahead for its products has line of sight to continued market share gains across both segments for the foreseeable future.

Following a sharp decline in its shares in the first six months of 2025, we began acquiring shares of **Floor & Decor Holdings, Inc.**, a specialty retailer and commercial flooring distributor of hard-surface flooring (tile, vinyl, wood, stone, and laminate) and accessories.

We are excited about the medium-term prospects for Floor & Decor for several reasons:

1. Competitively advantaged company. Customers prefer the company’s “everyday low pricing” and unmatched breadth of inventory in-stock. “Everyday low pricing” stems from the company’s direct overseas sourcing model, which leads to a low-cost advantage relative to peers, which gets passed through to customers. Unmatched breadth of inventory stems from the company’s large format stores (78,000 square feet), which can carry 4,000 stock-keeping units (SKUs), which is three to four times the typical home improvement store.
2. Dimensional growth drivers.
 - **U.S. remodel activity is at cyclical depressed levels.** Floor & Decor should benefit from any pickup in U.S. remodel activity, which has been depressed for several years amidst a challenging U.S. housing market and cautious consumer. Historically, the hard surface flooring market has grown faster than the underlying flooring market.
 - **Pricing power.** Floor & Decor has historically demonstrated ample pricing power to offset cost inflation.
 - **Accessory product sales.** The company has an opportunity to cross-sell additional remodel products within its existing store footprint.
 - **New store openings.** The company presently has 257 store locations across the U.S. and plans to nearly double its footprint to 500 stores by 2032.
 - **Margin expansion.** Management expects EBITDA margins can eventually stabilize in the 15% to 17% range versus 11% presently.
 - **Commercial push.** With its 2021 acquisition of Spartan Surfaces serving as a platform for future growth (organic growth and acquisitions), management believes the commercial business could eventually scale to \$1.5 billion of sales, versus approximately \$250 million of current commercial sales and \$4.5 billion of current total company sales.
3. Potential for 20% to 30%+ annual earnings per share growth over the next several years.

Management believes that, as the remodel and flooring markets begin to recover, combined with other growth drivers outlined above, the company can revert to its historical average annual earnings per share growth rate of 20% to 30% or higher. Over the long term, we see potential for the company to generate over \$4.50 of earnings per share versus \$1.80 this year.

4. Attractive valuation.

We view valuation as attractive, with its shares trading at close to a trough multiple on cyclically depressed earnings.

While we recognize that uncertain business conditions could continue to pose headwinds to company performance in the near term, we are excited about the company's outsized medium-term growth prospects. We see potential for significant share price appreciation in the coming years, driven by rapid growth and an improvement in the company's valuation multiple.

Top net sales for the quarter

	Quarter End Market Cap or Market Cap When Sold (\$B)	Net Amount Sold (\$M)
CoStar Group, Inc.	35.7	14.1
Independence Realty Trust, Inc.	3.8	12.5
Vornado Realty Trust	7.8	8.5
Welltower Inc.	119.1	8.2
Installed Building Products, Inc.	6.7	6.1

Following strong share price performance since acquiring shares in **CoStar Group, Inc.** and **Vornado Realty Trust**, we modestly trimmed the Fund's positions in both companies. We remain optimistic, however, about the long-term prospects for CoStar and Vornado, and continue to maintain ownership positions in each company.

We exited the Fund's position in apartment REIT **Independence Realty Trust, Inc.** and reallocated the capital to companies that we believe offer more attractive multi-year shareholder return prospects.

Concluding Thoughts on the Prospects for Real Estate and the Fund

Some clients have inquired if there is a catalyst that will spark further improvement in real estate business fundamentals and share price performance.

It is not clear to us that there is a single event or catalyst that will "flash green" for public real estate. Instead, **we believe there are several positive factors that may spur an acceleration in growth and reignite interest in public real estate.**

Real estate business conditions are mostly steady with signs of improvement. We do not believe that competitive new supply will be a headwind for most real estate in the next few years. This favorable organic dynamic of demand exceeding supply may lead to better-than-expected growth in cash flows and share price returns.

Real estate credit markets are as strong as we have seen. They are deep and liquid and credit spreads continue to compress.

Though we do not forecast interest rates, the Federal Reserve's September interest cut may be the beginning of an easing cycle with further interest rate cuts in the year ahead. Historically, there

have been several benefits from Federal Reserve interest rate cuts including an improvement in asset prices, a boost to CEO and business confidence, higher business activity which could lead to more hiring, a possible reduction in mortgage rates, and an improvement in the relative appeal of stocks versus cash.

We are mindful, however, that excessive government deficits could lead to higher long-end interest rates and are monitoring this closely. *Our research prioritization, however, continues to be on identifying competitively advantaged real estate companies that we believe can generate strong cash flow growth. We have structured the Fund's holdings to fit this desired profile. Should long-term interest rates decline, that would only enhance shareholder returns.*

As we begin to prepare for and peer into 2026, **we believe we are approaching a pivotal and encouraging moment for real estate and the Baron Real Estate Fund.** We believe business fundamentals will exceed expectations and deliver solid growth in the next few years. Solid growth could result in an expansion in real estate values. The desired building blocks of total shareholder return (growth + dividends + an improvement in valuation through lower capitalization rates or higher cash flow multiples) may collectively emerge. If so, total shareholder returns for the Fund should be compelling.

Top 10 holdings

	Quarter End Market Cap (\$B)	Quarter End Investment Value (\$M)	Percentage of Net Assets (%)
Jones Lang LaSalle Incorporated	14.1	152.2	6.4
Brookfield Corporation	112.9	127.6	5.4
CBRE Group, Inc.	46.9	126.0	5.3
Welltower Inc.	119.1	125.9	5.3
Toll Brothers, Inc.	13.3	111.9	4.7
Wynn Resorts, Limited	13.3	96.4	4.1
CRH public limited company	80.5	88.9	3.8
Blackstone Inc.	211.0	80.1	3.4
Equinix, Inc.	76.7	76.3	3.2
American Tower Corporation	90.1	74.9	3.2

A big thank you to our core real estate team – assistant portfolio manager, David Kirshenbaum, and George Taras, David Berk, and David Baron – for their amazing work ethic. Our team remains focused, energized, and highly driven 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

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 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.

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.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting BaronCapitalGroup.com. Please read them carefully before investing.

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

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

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

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

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