BARRON'S
MARCH 17, 2021

FUND PROFILE

A Top Real Estate Fund Looks Beyond REITs. Here's Why That's Paying Off.

By Lewis Braham

When Jeffrey Kolitch was a kid, he wanted to be a professional athlete. "But that was never going to happen," laments the manager of the Baron Real Estate fund. Though he was captain of his varsity baseball and basketball teams, he "peaked in high school."

Yet something of that athletic drive remained and has translated into his career as a fund manager: "What I always have enjoyed about sports is the competition, and that there's a scorecard."

The scorecards couldn't be clearer in the world of mutual funds, and for some time, Kolitch, 52, has been winning. His $1.3 billion fund's (ticker: BREFX) 10-year annualized return of 16.8% beats 99% of its peers in Morningstar's Real Estate category—and outperforms the benchmark S&P United States REIT index's 9% return by a country mile.

Kolitch's strategy differs from that of his peers, most of whom invest in real estate investment trusts, or REITs. By design, REITs pay out their earnings as dividends, limiting their ability to reinvest in their businesses to grow. They also focus only on certain real estate sectors. "REITs offer a rather narrow investment opportunity set, including office buildings, malls, shopping centers, apartments, self-storage facilities, industrial warehouses, hotels, and some smaller niche categories," Kolitch says.

His fund isn't a REIT fund, but a "real-estate-related fund," which at the end of February had only 19% of its assets in REITs. Another 19% was in casinos, such as Wynn Resorts (WYNN); 7% in internet infrastructure companies like GDS Holdings (GDS), which owns data centers in China; and 7% in real estate service companies like Opendoor Technologies (OPEN), which allows home buyers to tour and purchase houses virtually.

Jeffrey Kolitch, manager of the Baron Real Estate fund, at his office in New York. Photograph by Benedict Evans

Kolitch compares his strategy to baseball: By expanding his investible universe, he "has five swings at a pitch rather than one." Of course, broadening the investment universe requires a broader analytical skill set, too. Kolitch has three dedicated real estate analysts who support him directly, two of whom have been with him since around the fund's December 2009 inception and another for six years. But since the fund, which charges annual fees of 1.33%, ventures into sectors that overlap with the New York-based Baron's other funds, there are about 15 other Baron analysts who help with their own insights.

Kolitch's father, a private real estate developer who is still working at age 79, might count as a fourth—albeit, unpaid—analyst. "There's no one I talk to more about real estate than my dad—literally every day," Kolitch says. Understanding the dynamics between the private and public real estate markets is vital, because valuations can differ significantly between the two in various sectors. For example, a Manhattan apartment building purchased or built by a private developer might sell for a different

THE PUBLISHER'S SALE OF THIS REPRINT DOES NOT CONSTITUTE OR IMPLY ANY ENDORSEMENT OR SPONSORSHIP OF ANY PRODUCT, SERVICE, COMPANY OR ORGANIZATION.
Custom Reprints 800.843.0008 www.djreprints.com DO NOT EDIT OR ALTER REPRINT/REPRODUCTIONS NOT PERMITTED
DOW JONES

Jeffrey Kolitch.
Photograph by Benedict Evans

price per square foot than what a similar property might be valued in a public REIT's portfolio of apartment buildings.

Although each real estate sector differs in terms of valuation, "there's a very compelling case right now for public [real estate]," Kolitch says. "It's highly discounted relative to the private market and offers more liquidity and transparency of value."

That said, investors need active fund management in a real estate environment where many offices and hotels have been emptied out because of the pandemic. Figuring out which sectors and companies will survive or even thrive is key.

"Casino and gaming companies such as Wynn Resorts, Las Vegas Sands (LVS), Red Rock Resorts (RRR), Boyd Gaming (BYD), and Penn National Gaming (PENN) have been in the bull's-eye of the Covid-19 pandemic," Kolitch says, noting the past year has brought pandemic-related shutdowns and a decline in travel. "As properties have opened, we have seen strong signs of pent-up demand and we expect business activity to rebound sharply as an increasing number of people are vaccinated."

Kolitch always focuses on the quality of corporate governance at every potential investment, checking to see that executives are thinking long-term, making smart capital-allocation decisions, and putting shareholders' interests first. In the case of one casino favorite, Penn National Gaming, he likes that CEO Jay Snowden "has engineered one of the best-executed strategic business pivots that we have ever encountered." Last year, Penn invested in Barstool Sports, a digital media company that produces content focused on sports and pop culture. Kolitch sees the investment as creating "meaningful synergies to the entire Penn ecosystem" so that the company not only runs 41 physical casinos in 19 states, but also "offers online sports betting, casino gaming, and an evolving media platform."

Applying new technology to real estate is also essential for companies to succeed, Kolitch says. "The real estate industry, which represents approximately 13% of GDP, has eschewed decades of technological innovation, while many other industries have evolved rapidly," he notes. He sees a massive opportunity and strong long-term prospects for tech-driven, housing-related companies like Zillow Group (ZG) and Opendoor Technologies, citing roughly $1.6 trillion in U.S. home sales transactions annually.

"Consumers are seeking streamlined, tech-enabled shopping experiences," he says. "Both companies are developing a simpler real estate transaction that will enable consumers to buy, sell, rent, and finance residential real estate with the click of a button."

That doesn't mean Kolitch is entirely avoiding more traditional REITs; he'll buy them if the price is right. In the last six months of 2020, he started buying shares of retail mall REITs, such as Simon Property Group (SPG), for "the first time in years." Though bricks-and-mortar retailers face e-commerce headwinds, "Simon Property Group owns a high-quality portfolio of mall and outlet assets," he says. As Simon shares fell from $142 pre-Covid last February to a low of $44 last March, Kolitch became interested. "There's a generalization—no one's ever going to go to a mall again," he says. "But there are well-located malls in strong demographic areas that will benefit from a reopening of the economy." Today Simon stock trades at $118.

Although typically a long-term investor, Kolitch is also willing to make tactical moves based on major macroeconomic events like Covid-19. Having lived in Asia early in his career during the SARS epidemic, he knew how serious this pandemic could become. So in early February last year, he sold out of many of his travel-related positions, such as Wynn Resorts, Marriott Vacations Worldwide (VAC), and MGM Resorts International (MGM), and raised his cash holdings to about 15% of the fund. Eventually, Kolitch bought back these stocks at cheaper prices as the economic outlook began to improve.

It's that kind of savvy maneuvering that enables this fund to keep its winning edge.

Baron Real Estate

	Total Return		
	1-Yr	5-Yr	10-Yr
BREFX	102.1%	21.7%	16.8%
Real Estate Category	23.2	7.1	8.8
Top 10 Holdings			
Company / Ticker	% of Net Assets		
Wynn Resorts / WYNN	4.6%		
Penn National Gaming / PENN	4.2		
GDS Holdings / GDS	4.1		
Boyd Gaming / BYD	3.6		
Red Rock Resorts / RRR	3.3		
Las Vegas Sands / LVS	3.0		
Tripadvisor / TRIP	2.7		
Douglas Emmett / DEI	2.6		
Opendoor Technologies / OPEN	2.6		
Brookfield Asset Management / BAM	2.5		
Total:	33.2%		

Note: Holdings as of Feb. 28. Returns through March 15; five- and ten-year returns are annualized.
Sources: Morningstar; Baron Funds

Disclosures

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

Performance listed in the above table is net of annual operating expenses. Annual expense ratio for the Retail Shares as of December 31, 2019 was 1.33%.

Baron Real Estate Fund's annualized returns for the Retail Shares as of December 31, 2020: 1-year, 43.85%; 3-year, 17.26%; 5-year, 15.67%; 10-year, 15.43%; and Since Inception (12/31/2009), 16.40%.

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 reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2031, 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 www.BaronFunds.com or call 1-800-99BARON.

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.

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

The **MSCI USA IMI Extended Real Estate Index Net** is an unmanaged custom index calculated by MSCI for, and as requested by, BAMCO, Inc. The index includes real estate and real estate-related GICS classified 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** is an unmanaged 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. The index and the Strategy reflect the reinvestment of dividends, which positively impacts performance results. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. MSCI is a trademark of Russell Investment Group. Index performance is not Fund performance. Investors cannot invest directly in an index.

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.

© 2021 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. 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.

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