THIRD AVENUE MANAGEMENT

# INTERNATIONAL REAL ESTATE VALUE FUND

## AS OF DECEMBER 31, 2022

INSTITUTIONAL: REIFX | Z: REIZX

PORTFOLIO MANAGER COMMENTARY

QUENTIN VELLELEY, CFA

Dear Fellow Shareholders:

## PERFORMANCE

We are pleased to provide you with the Third Avenue International Real Estate Value Fund's (the "Fund") report for the quarter and year ended December 31, 2022. Through calendar year 2022, the Fund generated a return of -18.22% (after fees) compared to the most relevant benchmark, the FTSE/EPRA NAREIT Global ex US Index (the "Index"), which returned -21.98% for the same period. During the quarter, the Fund returned +6.13%, whereas the Index returned +10.77%.

### PERFORMANCE AND ALPHA GENERATION

As of December 31, 2022

| | | | Annualized | | |
|---|---|---|---|---|---|
| | 3 mo | 1 yr | 3 yr | 5 yr | Inception* |
| Third Ave Int'l Real Estate Value Fund (REIFX) | 6.13% | -18.22% | 0.65% | 3.12% | 4.44% |
| FTSE EPRA/NAREIT Global ex US Index[1] | 10.77% | -21.98% | -9.44% | -3.22% | 1.26% |
| Third Ave Int'l Real Estate Alpha[2] v Benchmark | -4.64% | 3.76% | 10.09% | 6.34% | 3.18% |

*Inception Date 5/8/2014. Source: TAM, Company Reports, Bloomberg.

The Fund's outperformance compared to the Index during 2022 was driven by three key factors. (i) The Fund's investment process favors entities with well capitalized balance sheets and low levels of debt as a way of limiting risk. This paid off during the year as the Fund avoided exposure to highly indebted German and Swedish property companies, where high debt levels are sensitive to changes in asset value and interest rates. German and Swedish property companies suffered average declines in excess of 50% over 2022 (in US$ terms). (ii) The Fund has a meaningful allocation to investments that are benefiting from 'near shoring' trends in both North America and Europe. These logistics/industrial investments feature elevated tenant demand as supply chains move closer to consumers. Notably, the Fund's largest individual investment in Mexican logistics/industrial real estate group Vesta achieved a +23% total return over 2022. (iii) The Fund held higher than average levels of cash over the year (average 7%), together with a small allocation to put options which successfully hedged some of the equity market volatility in the UK and Europe over the year.

## ACTIVITY

During the quarter Fund Management again took advantage of mispricing in some existing Fund investments to rebalance the portfolio and increase position sizes. The largest and perhaps most interesting allocation was made to Hong Kong data center operator Sunevision, which owns six datacenters and has another two under development. The Fund has held an investment position in Sunevision since early 2020.

A subsidiary of leading listed real estate group Sun Hung Kai Properties, Sunevision is considered the leading data center owner and operator in Hong Kong with a market share in excess of a quarter of the industry.[3] Hong Kong's geography as an intersection between Asia and mainland China, and its common law based legal system has long benefited the city since its founding as a trading and finance hub. This geographic and legal advantage now extends to datacenters, where high-capacity fiber cables link Hong Kong to the Chinese mainland and across Asia. Sunevision's datacenters have impressive connectivity, with 9 points of presence at subsea cables and about 15,000 interconnections. In this regard, we believe Sunevision's assets are particularly well located to take advantage of attractive datacenter fundamentals across Asia, where accelerated cloud adoption and enterprise digitalization are driving demand. Given the scarcity of developable land in Hong Kong, the market's ability to deliver new datacenter supply is constrained. Sunevision however, has been working on developing a substantial datacenter since 2018, and with the first phase about to open, this project will eventually more than double the size of Sunevision's real estate portfolio, which should have a significant positive impact on earnings as the asset is leased up. Trading at less than half our conservative estimate of the value of its real estate (measured by net asset value) and undemanding earnings multiple of 10x,[4] none of this growth appears to be factored into the current share price. It is probable that Sunevision shares will rerate once the new development becomes occupied, particularly given Sunevision's dividend policy, we believe the 5% dividend yield will increase in line with earnings growth.[5]

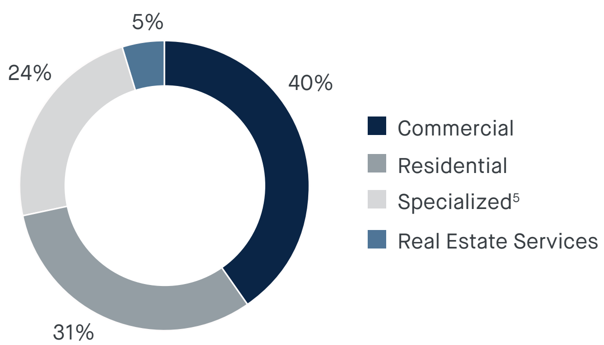
While Sunevision is currently the Fund's only datacenter real estate investment, in recent years the Fund invested in Australian datacenter owner NextDC and European datacenter owner Interxion. Both of these investments proved to be some of the Fund's most successful, exiting Interxion following a takeover from US datacenter REIT Digital Realty, and exiting NextDC based on a premium valuation. Over the roughly two-year holding period, both investments generated historical annualized performance of just under 60%, or said another way, the return multiple on invested capital averaged 1.5x. While we do not anticipate such high returns from Sunevision, Fund Management acknowledges the return potential the datacenter asset class has under the right conditions.

## POSITIONING

Following the above investment activity, at the end of the quarter the Fund was 40% exposed to commercial real estate, 31% to residential real estate, 24% to specialized[6] real estate and 5% to real estate services. The Fund continues to emphasize asset types with long term growth drivers and the potential for high returns on capital relative to more traditional asset classes. These asset types, logistics, self-storage, multifamily and data centers tend to have shorter leases, or inflation indexed rents, such that inflation can be captured relatively efficiently. In periods of economic uncertainty, these asset types should also have resilient rents given favorable supply and demand dynamics. As shown in the chart below, the index has greater exposure to office and retail real estate, asset types more sensitive to economic conditions, and the dual threat of 'work from home' and 'shop from home'. The Fund's office exposure continues to be solely focused on Asian cities, where work from home is rarely an option given living arrangements.

## ASSET TYPES AS OF DECEMBER 31, 2022

### THIRD AVENUE INTERNATIONAL REAL ESTATE VALUE

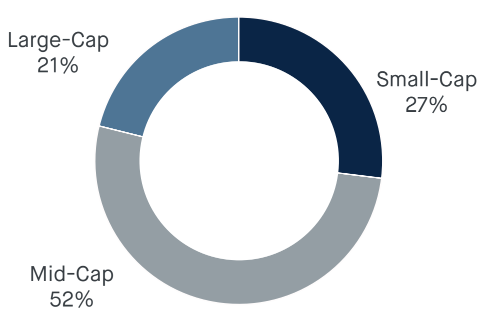



Source: Company Reports, Bloomberg

Many of the Fund's holdings are highly focused by both asset type and location. As such, they tend to have smaller portfolios of assets, and are often small and mid-market cap size as shown below.

## MARKET CAP[7] WEIGHTING AS OF DECEMBER 31, 2022

### THIRD AVENUE INTERNATIONAL REAL ESTATE VALUE

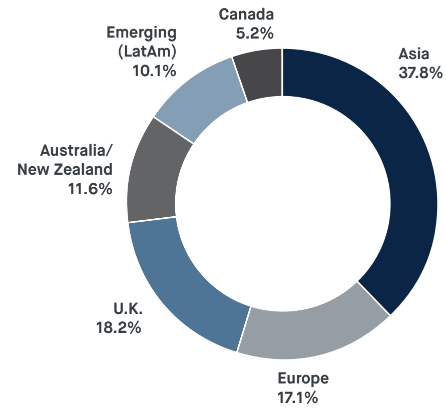



Source: FactSet, Company Reports

During the quarter the Fund's exposure to geographic regions remained somewhat consistent to the prior quarter, with a slight increase in UK and European exposure and a slight reduction in the Fund's exposure to the Americas (Latin America and Canada).

## COUNTRY/REGION EXPOSURE AS OF DECEMBER 31, 2022

### THIRD AVENUE INTERNATIONAL REAL ESTATE VALUE




Source: TAM, company disclosures and Bloomberg

# FUND COMMENTARY

In Fund Management's experience, annual or quarterly prognostications on macroeconomic or geopolitical outcomes can be fraught with danger. Often the most well thought out views are derailed by unexpected externalities, such as witnessed recently through a pandemic, war and inflation. Fund Management does however have a high level of confidence in three key trends that will shape international real estate returns in the near term. (i) The Chinese economy is finally being re-opened after almost three years of COVID restrictions, the positive impact will be felt across the Fund's Asia Pacific investments, (ii) Risks caused by COVID, war and inflation in the UK and Europe are receding and select well capitalized real estate securities offer attractive upside, (iii) Industrial and consumer goods supply chain 'nearshoring' and 'friend-shoring' is real and will accelerate, positively impacting logistics/industrial real estate and the Fund's investments exposed to emerging markets (Latin America, Eastern Europe and South East Asia).

**(i) China reopening**

Following a painful COVID lockdown, China is only now in the process of fully reopening its economy. The corresponding sharp rebound in Chinese economic activity will be felt across the region. Real estate fundamentals will be positively impacted through pent up demand for travel, lodging and shopping from Chinese travelers. We believe the Fund is well positioned to benefit from this shift. As discussed in the previous shareholder letter, the Fund invested in hotel company Mandarin Oriental whose Asian hotel portfolio would directly benefit from improving occupancy and room rates. The Fund's investment in diversified Japanese real estate company Tosei is also exposed to travel and lodging with a portfolio hotels in Japan that will benefit as Chinese tourism and business travel resumes. Likewise, the Fund's investment in Hong Kong listed Swire Pacific should also benefit given its portfolio hotel properties in Asia, together with retail malls such as the iconic Pacific Place in Hong Kong, and an improving office market as business activity increases.

Reopening of travel is also likely to positively impact the Fund's investments in ESR Group and Capitaland, as both have burgeoning real estate asset management platforms in China, where the ability to travel and conduct on the ground due diligence should increase real estate transaction volumes to the benefit of both investments. Interestingly, reopening coincides with reports that China is expanding the pilot scheme for real estate investment trusts (REITs) to cover more asset types, accelerating the introduction of multifamily REITs, and possibly expanding further to cover commercial property sectors.

**(ii) UK/Europe Opportunity**

During 2022, the UK and Europe were the two worst performing markets with declines (US$ terms) of 39% and 40% respectively (EPRA Indices). These declines were driven by a number of concerns, namely the Ukraine conflict, a sharp increase in inflation and a corresponding increase in interest rates. These concerns are abating, and as shown below, the UK and European real estate sector is trading at an attractive valuation relative to book values[8], at a0.6 ratio of book value at year end versus a 22-year average of 1.0. Interestingly, the sector trades at a similar discount as at the depths of the financial crisis in March 2009.

**PRICE TO BOOK[9] UK/EUROPE PUBLIC REAL ESTATE**


Source: TAM, Bloomberg, FTSE EPRA NAREIT Developed Europe Index[10]

A key contributor to the above discount can be found in the German and Swedish real estate sectors. At some point this year Fund Management suspects that an opportunity to invest in Swedish and German real estate companies might emerge. As readers of this letter are aware, Fund Management has been avoiding investing in German residential companies until such time as debt levels are more manageable. Remembering the high share price returns from REITs following their wave of successful equity recapitalizations (particularly across the US REIT sector) in 2009 and 2010, equity recapitalizations could act as a powerful catalyst. In the meantime, Fund Management remains very selective in allocating capital, preferring asset classes that can generate resilient cashflows that grow with inflation. These assets are located in sub markets where real estate supply and demand is favorable. As such, over half the Fund's UK and Europe exposure is to logistics/industrial and self-storage asset types, with the remainder mostly exposed to London and Dublin residential markets.

**(iii) Nearshoring and Friend-shoring**

With heightened geopolitical tensions, and the negative global supply chain shock caused by COVID, there is increasing evidence of manufacturers desire to move elements of their supply chain closer to the end consumer. This trend know as 'nearshoring' is proving beneficial to the Mexican logistics/industrial market with evidence that multinationals are indeed moving some manufacturing from Asia to Mexico. The Fund's investment in Mexican real estate company Vesta should continue to benefit from ongoing demand, given its portfolio of industrial assets and development sites. Similar to Mexico, parts of eastern Europe are also experiencing nearshoring demand drivers, with a competitive manufacturing base likely to also gain share from Asia to the benefit of the Fund's investment in CTPNV, a leading owner and developer of logistics/industrial assets in eastern Europe.

As an extension of near-shoring, a more recently coined term 'friend-shoring' has begun to appear in economic commentaries. The concept limits supply chains to allies and friendly countries. Inferring a possible shift in manufacturing jobs and supply chains out of mainland China. While the ultimate impact of any 'friend-shoring' remains unclear, Fund Management was curious to see Rabobank's attempts to quantify the potential impact of friend-shoring on manufacturing jobs in their report *Friendshoring: Who will benefit?* Of note, the Fund's logistics/and industrial investment in Brazil (LOG Commercial) might be a beneficiary as Rabobank's estimate of 1.4 million 'mid-tech' manufacturing jobs might move to Brazil. A further 2.3 million jobs might move to South East Asia, positively impacting the Fund's investment in Asia Pac logistics developer ESR who has >10% of its portfolio in South East Asia, and recently announced a further investment in Vietnam.

In aggregate, the Fund has approximately a 15% exposure to the logistics/industrial real estate in Mexico, Eastern Europe, Brazil and South East Asia.

## SUSTAINABILITY

Over a year ago, Third Avenue established a relationship with Longevity Partners ("Longevity"), a global multidisciplinary sustainability consultancy to enhance the Fund's existing ESG process, establish a proprietary scoring system, and to keep abreast of sustainability industry and regulatory trends. During the quarter, Fund management worked with Longevity to finalize the Fund's first benchmarking study, where each of the Fund's holdings were analyzed and compared in order to highlight strengths and weaknesses across individual holdings and the portfolio. Overall, the results were reassuring and validate the Fund's approach to sustainability. As part of the Fund's thorough sustainability strategy, Fund Management plans to periodically benchmark the portfolio.

We thank you for your continued support and look forward to writing to you again next quarter. In the meantime, please don't hesitate to contact us with any questions, comments, or ideas at realestate@thirdave.com.

Sincerely,

The Third Avenue Real Estate Value Team

Quentin Velleley

Quentin Velleley, CFA
Portfolio Manager

## IMPORTANT INFORMATION

This publication does not constitute an offer or solicitation of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this publication has been obtained from sources we believe to be reliable, but cannot be guaranteed.

The information in this portfolio manager letter represents the opinions of the portfolio manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager(s) and may differ from those of other portfolio managers or of the firm as a whole. Also, please note that any discussion of the Fund's holdings, the Fund's performance, and the portfolio manager(s) views are as of December 31, 2022 (except as otherwise stated), and are subject to change without notice. Certain information contained in this letter constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue" or "believe," or the negatives thereof (such as "may not," "should not," "are not expected to," etc.) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any fund may differ materially from those reflected or contemplated in any such forward-looking statement. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

Date of first use of portfolio manager commentary: January 19, 2023

FUND RISKS: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets. Factors that could affect the value of the Fund's holdings include the following: overbuilding and increased competition, increases in property taxes and operating expenses, declines in the value of real estate, lack of availability of equity and debt financing to refinance maturing debt, vacancies due to economic conditions and tenant bankruptcies, losses due to costs resulting from environmental contamination and its related clean-up, changes in interest rates, changes in zoning laws, casualty or condemnation losses, variations in rental income, changes in neighborhood values, and functional obsolescence and appeal of properties to tenants. The Fund will concentrate its investments in real estate companies and other publicly traded companies whose asset base is primarily real estate. As such, the Fund will be subject to risks similar to those associated with the direct ownership of real estate including those noted above under "Real Estate Risk." Foreign securities from a particular country or region may be subject to currency fluctuations and controls, or adverse political, social, economic or other developments that are unique to that particular country or region. Therefore, the prices of foreign securities in particular countries or regions may, at times, move in a different direction than those of U.S. securities. Emerging market countries can generally have economic structures that are less diverse and mature, and political systems that are less stable, than those of developed countries, and, as a result, the securities markets of emerging markets countries can be more volatile than more developed markets may be. Recent statements by U.S. securities and accounting regulatory agencies have expressed concern regarding information access and audit quality regarding issuers in China and other emerging market countries, which could present heightened risks associated with investments in these markets. The Adviser's use of its ESG framework could cause it to perform differently compared to funds that do not have such a policy. The criteria related to this ESG framework may result in the Fund's forgoing opportunities to buy certain securities when it might otherwise be advantageous to do so, or selling securities for ESG reasons when it might be otherwise disadvantageous for it to do so. For a full disclosure of principal investment risks, please refer to the Fund's Prospectus.

1 The **FTSE EPRA Nareit Global ex U.S. Index** is designed to track the performance of listed real estate companies and REITS in both developed and emerging markets. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and Exchange Traded Funds (ETFs). Index performance reported since inception of Institutional Share Class.

2 **Alpha**, often considered the active return on an investment, gauges the performance of an investment against a market index or benchmark that is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha. Source: Investopedia

3 Company estimates as of June 30, 2022.

4 Trailing free cash flow multiple adds back depreciation and deducts a reasonable estimate for maintenance capex.

5 Earnings growth is not a measure of the fund's future performance.

6 Specialized includes self-storage, datacenter and lodging.

7 Small Cap is Equity Market Cap up to US$2bn, Mid Cap US$2bn-US$10bn, Large Cap >US$10bn.

8 **Book Value** is equal to the cost of carrying an asset on a company's balance sheet, and firms calculate it netting the asset against its accumulated depreciation.

9 The **Price-to-Book** (P/B) ratio measures the market's valuation of a company relative to its book value. Source: Investopedia

10 The **FTSE EPRA Nareit Developed Europe Index** is a subset of the FTSE EPRA Nareit Developed Index and is designed to track the performance of listed real estate companies and REITS. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and Exchange Traded Funds (ETFs).

# INTERNATIONAL REAL ESTATE VALUE FUND

## AS OF DECEMBER 31, 2022

INSTITUTIONAL: REIFX | Z: REIZX

## FUND PERFORMANCE

As of December 31, 2022

| | 3 mo | 1 yr | 3 yr | 5 yr | Inception | Inception Date |
|---|---|---|---|---|---|---|
| Third Ave International Real Estate Value Fund (Institutional Class) | 6.13% | -18.22% | 0.65% | 3.12% | 4.44% | 5/8/2014 |
| Third Ave International Real Estate Value Fund (Z Class) | 6.10% | -18.28% | 0.64% | N/A | 2.77% | 4/20/2018 |

REIFX Gross/Net Expense Ratio: 2.08%/1.00%, REIZX Gross/Net Expense Ratio: 2.07%/1.00%

The Adviser has contractually agreed to waive its fees and reimburse expenses so that the annual fund operating expenses for the Fund do not exceed 1.00% of the Fund's average daily net assets until March 31, 2023. This limit does not apply to distribution fees pursuant to Rule 12b-1 Plans, brokerage commissions, taxes, interest, short-sale dividends, acquired fund fees and expenses, other expenditures capitalized in accordance with generally accepted accounting principles or other extraordinary expenses not incurred in the ordinary course of business. If fee waivers had not been made, returns would have been lower than reported.

**Past performance is no guarantee of future results; returns include reinvestment of all distributions. The chart represents past performance and current performance may be lower or higher than performance quoted above. Investment return and principal value fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. For the most recent month-end performance, please call 1-800-673-0550.**

## TOP TEN HOLDINGS

Allocations are subject to change without notice

| | REIFX |
|---|---|
| Corp. Inmobiliaria Vesta SAB de CV | 6.3% |
| Big Yellow Group Plc | 5.9% |
| National Storage REIT | 5.8% |
| Swire Pacific, Ltd. Class B | 5.5% |
| Glenveagh Properties Plc | 5.0% |
| Ingenia Communities Group | 4.9% |
| Boardwalk REIT | 4.8% |
| Grainger Plc | 4.7% |
| ESR Group, Ltd. | 4.6% |
| Tosei Corp. | 4.6% |
| **Total** | **52.1%** |

**Third Avenue Funds are offered only by prospectus. The prospectus contains important information, including investment objectives, risks, advisory fees and expenses. Please read the Prospectus carefully before investing or sending money. For a current Prospectus please visit our website at thirdave.com, or call 800-443-1021. Distributor of Third Avenue Funds: Foreside Fund Services, LLC.**

THIRD AVENUE MANAGEMENT

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Third Avenue offers multiple investment solutions with unique exposures and return profiles. Our core strategies are currently available through '40Act mutual funds and customized accounts. If you would like further information, please contact a Relationship Manager at:

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