



THIRD AVENUE  
MANAGEMENT

# INTERNATIONAL REAL ESTATE VALUE FUND

AS OF MARCH 31, 2023

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 ended March 31, 2022. During the quarter, the Fund generated a return of +3.06% (after fees) compared to the most relevant benchmark, the FTSE/EPRA NAREIT Global ex US Index (the "Index"), which declined -1.66% for the same period.

## PERFORMANCE AND ALPHA GENERATION

As of March 31, 2023

	3 mo	1 yr	Annualized		Inception*
			3 yr	5 yr	
Third Ave Int'l Real Estate Value Fund (REIFX)	3.06%	-12.76%	12.15%	3.38%	4.67%
FTSE EPRA/NAREIT Global ex US Index <sup>1</sup>	-1.66%	-21.42%	0.38%	-3.63%	1.04%
Third Ave Int'l Real Estate Alpha <sup>2</sup> v Benchmark	4.72%	8.66%	11.77%	7.01%	3.63%

\*Inception Date 3/19/2014. Source: TAM, Company Reports, Bloomberg.

In [last quarter's letter](#), Fund management outlined three key themes that would likely impact returns for the Fund in coming periods: (i) opportunities in the UK and Europe given a substantial 40% sell off in 2022, (ii) the positive impact of 'near shoring' on industrial real estate in Mexico and eastern Europe, and (iii) China's post COVID economic reopening and its positive impact on real estate fundamentals across Asia. During the first quarter these themes began to transpire, with the Fund's concentrated investments in the UK and Europe generating above-average returns (+7% on average during the quarter), together with the Fund's 'nearshoring' related investments contributing to the Fund's outperformance. However, most public property companies in Asia are yet to price in much of the positive impact of China's economic reopening, following a prolonged three-year period of COVID restrictions in Fund Management's opinion.

## ACTIVITY

The real estate asset class perhaps most directly impacted by pandemic travel restrictions was luxury hotels, where occupancies and room rates plunged, and many properties were partially closed through the pandemic. Seeking to benefit from a rapid improvement in travel and hotel fundamentals in Asia, Fund Management initiated a position in luxury hotel owner and operator Shangri-La Asia Ltd ("Shangri-La") during the quarter.

Shangri-La owns a portfolio of 83 high quality hotels, totaling over 35,000 rooms. The company also manages an additional

22 hotels on behalf of third parties. The vast majority of hotels operate under the five-star Shangri-La brand, with demand for Shangri-La rooms overwhelmingly powered by the Chinese consumer. Shangri-La's estimates approximately 70% of pre-COVID room demand for hotels in mainland China, Hong Kong and Singapore came from the Chinese consumer. The Chinese consumer's appetite for luxury goods is well known, accounting for about 30% of total world sales based in pre-COVID numbers.<sup>3</sup> Interestingly, it is estimated the Chinese consumer has US\$827bn of excess savings accumulated during the pandemic.<sup>4</sup> In addition to its hotel operations, Shangri-La owns a portfolio of high-quality investment properties, comprising mostly retail, residential rental and office assets in tier one and two cities across China. These assets performed quite well through the pandemic, generating enough income to cover Shangri-La's interest expense and corporate overheads.

Shangri-La is yet another example of a public international real estate company that trades at a significant valuation discount relative to peers listed in the US. Focusing on the hotel portfolio and pre-COVID hotel earnings, we estimate that Shangri-La trades at an earnings (EBITDA) multiple that is roughly half US lodging REITs, with the attractiveness of the valuation even greater when compared to the public hotel managers (C-corps). The valuation disconnect is best viewed by looking at Shangri-La's discount compared to the value of its tangible real estate assets net of liabilities (net asset value). On the companies' appraised book value, shares currently trade at just one third of 'private' market value. However, Shangri-La is tightly controlled by the Kuock Group, such that a significant resource conversion event is unlikely. Rapid improvement in hotel demand fundamentals should act as a meaningful share price catalyst in coming periods, including a potential reinstatement of the dividend.

When including the Funds investment in Shangri-La, Mandarin Oriental, and exposure through diversified Asian property companies, the Fund is now approximately 6% exposed to hotel real estate across Asia. In addition, the Fund is 4% exposed to retail shopping mall real estate across Asia. Therefore 10% of the fund is a direct beneficiary of increased travel and consumption in the region.

As previously outlined in Fund management's quarterly reports, 'resource conversion' activity has been increasing in Asian public property companies, through share buy backs, restructurings and outright privatizations or mergers. While this has not yet resulted in a broad positive re-rating of Asian property companies share prices, over time, consistent execution should be a positive for the sector. In that regard, it was encouraging to see during the quarter ongoing positive news regarding the evolution of real estate capital markets in mainland China. For instance, new support was announced for the formation of 'consumption related' REITs including

shopping malls. Since REITs began trading in China in 2021, they have been well received from mainland-based investors.

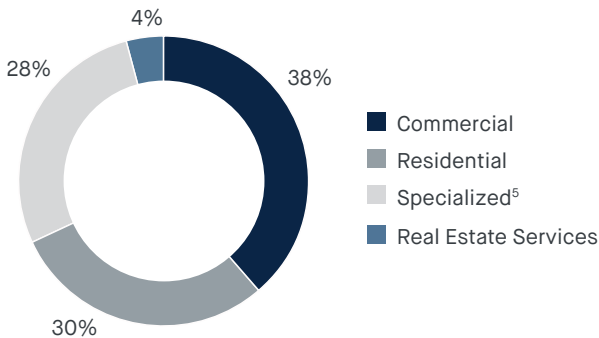
Fund Management is unlikely to invest directly in Chinese REITs given they are highly regulated and designed for retail investors. However, we believe the Fund will benefit over time in a number of ways as real estate capital markets in China deepen. For portfolio holdings such as Shangri-La, recycling assets into a REIT structure could help close the valuation gap. Overall, the Fund has six holdings that trade at deeply discounted (attractive) valuations that could benefit as commercial real estate liquidity improves.

## POSITIONING

Following the addition of Shangri-La to the portfolio, at the end of the quarter the Fund was 38% exposed to commercial real estate, 30% to residential real estate, 28% to specialized real estate and 4% to real estate services. Notably, the traditional commercial real estate asset classes of office and retail only account for 16% of the Fund’s exposure, whereas the Fund’s benchmark has a 50% exposure.

### ASSET TYPES AS OF MARCH 31, 2023

#### THIRD AVENUE INTERNATIONAL REAL ESTATE VALUE

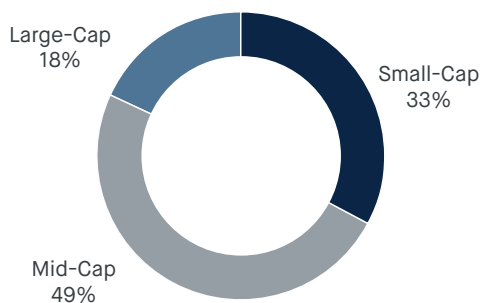


Source: Company Reports, Bloomberg

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<sup>6</sup> WEIGHTING AS OF MARCH 31, 2023

#### THIRD AVENUE INTERNATIONAL REAL ESTATE VALUE

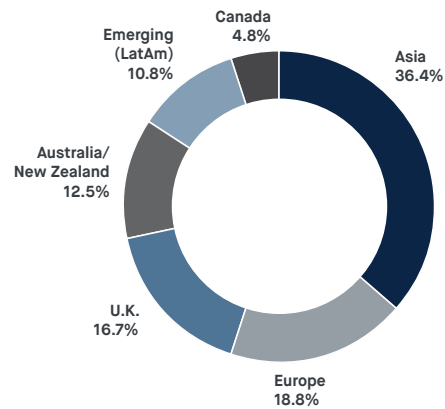


Source: FactSet, Company Reports

During the quarter the Fund’s exposure to geographic regions remained somewhat consistent to the prior quarter.

### COUNTRY/REGION EXPOSURE AS OF MARCH 31, 2023

#### THIRD AVENUE INTERNATIONAL REAL ESTATE VALUE



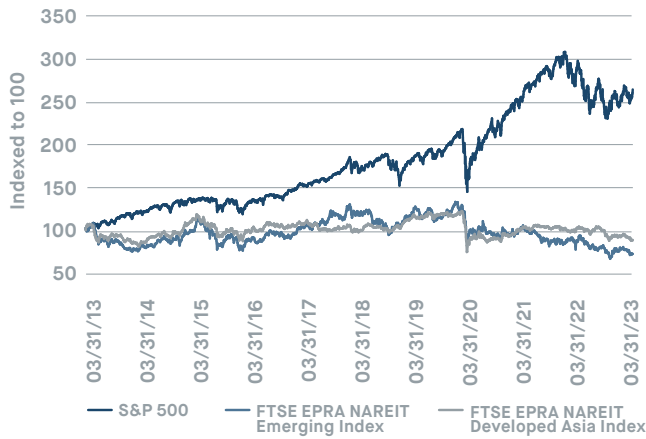
Source: TAM, company disclosures and Bloomberg

## FUND COMMENTARY

As outlined in more detail within the [Third Avenue Real Estate Value Fund letter](#), a crisis in US regional banks during the quarter heightened concerns across US commercial real estate, given regional banks provide more than half of US commercial real estate financing. The Fund’s international focus means there is no direct impact on the Fund’s holdings from credit issues that might emerge in the US. Most importantly, about half of the Fund is exposed to a combination of Asia and emerging markets real estate, where many of the issues present in the US are not evident. Monetary stimulus during COVID was on average lower, and as a result average inflation rates have been lower. Where inflation rates were higher (Latin America), central banks were quicker to raise rates. Following the Asian financial crisis (late 1990’s) and the global financial crisis, many Asian property companies are very well capitalized, hold significant cash, limit debt levels, and receive loans mostly from local banks. This is evident in the Fund’s ten Asian property companies that have US\$80 billion of total equity market capitalization. Incredibly, these ten companies hold a total of USD \$28Bn of cash representing over 37% of the equity market capitalization.

Despite low-risk capital structures, equity valuations are compelling. The Fund’s investments in Asia and emerging markets have average earnings multiples of less than 10x,<sup>7</sup> average discounts to private market real estate values (NAV) of 50%, and implied real estate cap rates that are often in the low double digits. Any credit issues that emerge in western markets might improve capital flow to lower risk regions, acting as a positive catalyst for the Fund’s Asian and emerging market exposed real estate.

**ASIA AND EMERGING 10-YEAR UNDERPERFORMANCE**



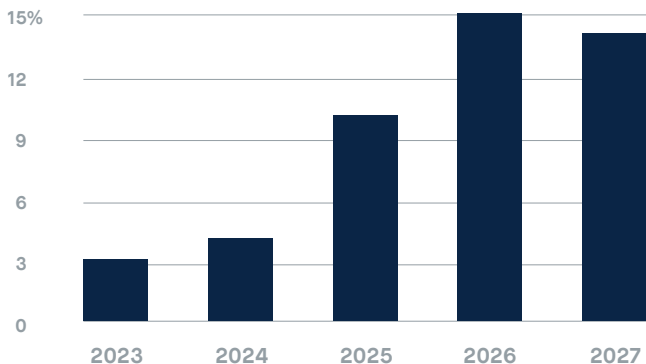
Source: Bloomberg

The UK and Europe (36% of Fund assets) share some similarities with the US in terms of post COVID inflation levels and the corresponding rapid increase in interest rates, and a tightening credit environment with less availability and more expensive financing. Over the past year, the Fund has been uniquely positioned in investments that can withstand these tighter credit conditions, have real estate fundamentals with pricing power, and good liquidity that could be used to take advantage of any distress in private markets.

Notably, the Fund’s UK and European exposure has on average:

- Valuations with a wide ‘margin of safety’ with implied real estate cap rates at a 230bps positive spread to the prevailing 10-year government bond yield in each country at quarter-end.
- Balance sheets with conservative loan to value ratios averaging 20%, and limited debt maturities over coming years (see chart below).
- Exposure outside of office and retail, including asset types such as residential, self-storage, and industrial with revenues that we believe can grow at or above inflation.
- Aligned management teams with the will to take advantage of any private market weakness.

**CONSERVATIVE DEBT MATURITY PROFILE UK/EUROPE**



Source: Company Reports, TAM

There appears to be less liquidity risk in the UK and European banking sector, given banks are better capitalized, and have high liquidity coverage ratios relative to both minimum standards and history.<sup>8</sup> This should help reduce risk, particularly when considering real estate makes up just 7% of total loans.<sup>9</sup>

The exception appears to be the Nordic and Scandinavian banking sector where bank exposure to real estate is significantly higher. This coincides with a number of Scandinavian public real estate companies that are simply over levered, with too much debt on balance sheet and less than ideal debt maturity profiles. In order to refinance loans, many public Scandinavian companies might need to sell assets, or raise equity. While there is a chance many companies will muddle through, there is an increasing likelihood that companies will need to recapitalize balance sheets with equity issuance, given transaction markets are less liquid. Fund Management eagerly awaits such potential recapitalizations as poor balance sheets have been the single most limiting factor for the Fund to invest in Scandinavia. Fund Management’s past experience with recapitalizations coming out of the global financial crisis suggests there might be attractive investment opportunities in coming periods in public Scandinavian real estate companies.

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, 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 March 31, 2023 (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: April 17, 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 Source: McKinsey, Shangri-La

4 Source: JP Morgan

5 Specialized includes self-storage, datacenter and lodging.

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

7 Price to earnings ratio excluding non-cash items.

8 'Banking Survivorship Bias', Berenberg, 04/03/2023

9 Excluding Nordics/Scandinavian, source Berenberg



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# INTERNATIONAL REAL ESTATE VALUE FUND

AS OF MARCH 31, 2023

INSTITUTIONAL: REIFX | Z: REIZX

## FUND PERFORMANCE

As of March 31, 2023

	3 mo	1 yr	3 yr	5 yr	Inception	Inception Date
Third Ave International Real Estate Value Fund (Institutional Class)	3.06%	-12.76%	12.15%	3.38%	4.67%	5/8/2014
Third Ave International Real Estate Value Fund (Z Class)	3.05%	-12.80%	12.13%	3.22%	3.26%	4/20/2018

REIFX Gross/Net Expense Ratio: 1.59%/1.00%, REIZX Gross/Net Expense Ratio: 1.52%/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, 2024. 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	6.8%
National Storage REIT	6.0%
Glenveagh Properties Plc	5.7%
Big Yellow Group Plc	5.7%
Swire Pacific, Ltd. Class B	4.9%
Tosei Corp.	4.7%
Boardwalk REIT	4.4%
CTP NV	4.4%
Nomura Real Estate Holdings, Inc.	4.3%
Ingenia Communities Group	4.3%
<b>Total</b>	<b>51.2%</b>

**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](http://thirdave.com), or call 800-443-1021. Distributor of Third Avenue Funds: Foreside Fund Services, LLC.**



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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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