THIRD AVENUE MANAGEMENT

Portfolio Manager Commentary

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

December 31, 2016

Michael Winer | Lead Portfolio Manager
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Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended December 31, 2016. This quarter marks an abbreviated period as the Third Avenue Funds have elected to circulate our quarterly letters on a calendar year-end going forward (previously October 31) to more closely align with the reporting periods for a number of the Funds' stakeholders. For the year ended December 31, 2016, the Fund returned +5.82% (net of fees)[1] versus +4.99% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index[2]. While the Fund outperformed for the calendar year, Fund Management remains most focused on long-term performance where it has also exceeded the index, earning an +10.63% annualized return since its inception in 1998.

Even though the reporting period was condensed, there was no shortage of corporate developments in the portfolio. We believe these events are likely to surface additional value in a number of the Fund's holdings during 2017. For instance, the Fund has approximately 4% of its capital invested in Global Logistic Properties, a Real Estate Operating Company ("REOC") listed in Singapore that is a leading owner of industrial real estate in the United States ("US"), China, and Japan. During the quarter, there were reports that the company had engaged investment bankers to explore a sale of the business. These reports were later confirmed by the company. Should a transaction occur, the discount at which Global Logistic common trades to the private market value of its irreplaceable portfolio of distribution centers and sizable asset management platform would likely be eliminated, which could result in further gains for this multi-year investment.

Another large investment in the Fund is Forest City Realty Trust (5% of assets) which has been a long-time holding. The company currently owns a diversified portfolio of office, retail, and multi-family properties in some of the top markets in the US (e.g., New York, Washington, D.C., San Francisco, etc.) and controls some of the most strategic developments in the country (e.g., Pacific Park in Brooklyn, Stapleton in Denver, and the Yards in D.C.). Recently Forest City announced that it has collapsed its dual-class share structure and made further corporate governance improvements by agreeing to add additional independent members to its Board. The company is also in the process of selling its retail portfolio in an effort to become more focused around its mixed-use holdings in urban markets. Once finalized, it will mark the completion of a significant transition for the company as it has repositioned itself from a diversified REOC that was viewed to be family controlled and operating with above-average debt levels to a tightly focused Real Estate Investment Trust ("REIT") with high-quality assets, modernized corporate governance, a more sustainable capital structure, and unique growth angles through its prudently sized development projects. As a result, it is our view that the company will finally be rewarded with a stock price that is more reflective of Forest City's valuable real estate portfolio and projects.

Two other companies held in the Fund, Vornado Realty Trust and FNF Group, have also had significant developments announcing intentions to spin-off major subsidiaries in 2017. Vornado is a US-based REIT that announced it will be spinning off its Washington D.C. portfolio into a separately listed business (to be named JBG Smith Properties) leaving it as a more focused owner of class-A office and retail properties in New York City. FNF Group is a US-based holding company that will be distributing its 35% stake in separately traded Black Knight Financial Services (an information services company), after which the company will reconstitute itself around its wholly-owned Fidelity National Financial business, the leading title insurer in the US. As these transactions take place, the complexity discounts at which the common stocks of Vornado and FNF Group currently trade should be eliminated and the underlying value of the strong platforms and franchises should ultimately be recognized by other market participants.

When analyzing companies and evaluating the investment merits of the securities that they issue, Fund Management's primary interests rest in corporate fundamentals. However, sometimes there are developments in related areas which are of such great importance that they require consideration as to how they can impact conditions moving forward. During the quarter there was such an event: the election of a new President of the US alongside the Republican Party retaining a majority in both the US House of Representatives and the US Senate. With all three branches of the US government now controlled by Republicans for the first time since 2007, sweeping changes are expected as it relates to taxes, trade, regulations, etc.

1 **Please see Appendix for performance table and information.**

2 The FTSE EPRA/NAREIT Developed Real Estate Index was developed by the European Public Real Estate Association (EPRA), a common interest group aiming to promote, develop and represent the European public real estate sector, and the North American Association of Real Estate Investment Trusts (NAREIT), the representative voice of the US REIT industry. The index series is designed to reflect the stock performance of companies engaged in specific aspects of the North American, European and Asian Real Estate markets. The Index is capitalization-weighted.

In Fund Management's view, it is too early to know what the impact of these policies will be with a high degree of certainty. However, through discussions with policy experts--as well as reviewing publicly available frameworks and agendas--early indications seem to point to a net positive for commercial and residential real estate in the US, as well as for real-estate related businesses, when considering the following high-agenda items:

- **Tax Reform** Should a proposed reduction in the corporate tax rate for US corporations be implemented, US corporate taxpayers would see a significant boost in cash flow and earnings all-else-being equal (although it rarely is). For instance, a reduction in the corporate tax rate from 35% to 20% would increase net earnings by approximately 25%. At the present time, nearly two-thirds of the Fund's investments in the US are comprised of tax-paying entities rather than REITs (which forego paying corporate tax in exchange for distributing 90% or more of net income as dividends annually) so the impact of corporate tax reform could be substantial. In general though, real estate should benefit across the board should the proposed reduction in corporate and personal income tax rates boost spending, thus creating additional demand for space and further increasing occupancy levels and rental rates (particularly for office and industrial properties). Additional jobs would also likely spur demand for housing (multi-family and single-family construction).

- **Trade** Given the local nature of the real estate business, few holdings should be directly impacted by changes in trade policies. However, the Fund's investments in companies that own high-quality timberlands (Weyerhaeuser and Rayonier) stand as an exception. These businesses could benefit enormously if the recently-elected administration takes a stronger stance on limiting subsidized lumber imports from Canada through a revised Softwood Lumber Agreement ("SLA"). The prior agreement expired in 2015 and without any tariffs in place since, Canadian lumber imports have surged, depressing lumber and saw log prices for US companies. One group that could suffer from proposed changes to trade policies is retailers that import a significant amount of goods internationally, primarily fashion retailers that source goods overseas. Should these businesses face an excise tax on imported merchandise, profits margins would likely decline (assuming price increases can't be passed through), thus reducing the amount of profits those retailers would have available to pay to rent retail space. This potential development reinforces Fund Management's view that investments in retail real estate should be focused on market dominant centers in "must-have" locations while avoiding commodity retail locations as outlined further herein.

- **Regulation** Property companies are primarily subject to local zoning laws and ordinances. However, many companies in the land development business are subject to federal regulations including the Clean Water Act, Endangered Species Act, etc. The new administration may take steps to relax regulations that have historically caused inordinate delays and costs associated with development approvals for major projects. In addition, certain real-estate related businesses held in the Fund such as US Banks (PNC Financial Services Group and Zions Bancorporation) could stand to benefit should current regulations (i.e., Dodd-Frank) be revised so that the costs of compliance are reduced and more flexibility is allowed as it relates to returning excess capital to shareholders and engaging in M&A activity (which has been almost non-existent in the past decade). One area that could face near-term disruptions, though, is the residential real estate market as any unforeseen reforms to Fannie Mae and Freddie Mac could further restrict mortgage availability. Additionally, limitations on interest deductibility could reduce the incentives to own a home. In general, Fund Management believes that the incoming administration's announced policies should not negatively affect the residential market and jeopardize the current recovery.

The observations above are certainly not all encompassing and there are a number of other suggested reforms that could impact property in a significant way. For example, it is proposed in the Better Way Plan (a summary of proposed changes from the House of Representatives) that any investment in tangible property (not land but buildings and improvements) would be immediately deductible from taxable income. Such an incentive would likely spur corporate taxpayers to purchase properties, not lease, to enjoy the immediate reduction and invest in new development outside of city centers (where land is a lower component of the cost relative to urban centers). Such a change doesn't seem to create the incentives that reforms like these strive to target, but it does reinforce our long-held view at Third Avenue that acquiring securities in well-capitalized companies at prices that represent at discount to conservative estimates of Net Asset Value ("NAV") while having excess cash for unexpected opportunities, is the only way to navigate through such an uncertain world. It also pays to prepare for the unexpected. And with prospects for growth rates increasing under such policies, and in turn leading to higher inflation and interest rates, it is worth considering how a real estate allocation (and in particular the Fund) would behave in such an environment.

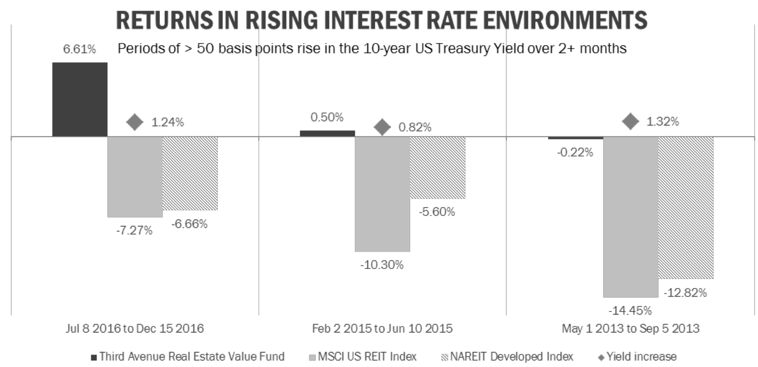
PORTFOLIO ACTIVITY

As outlined in the previous quarterly letter, Fund Management set out nearly four years ago to reposition the Third Avenue Real Estate Value Fund as a real estate portfolio that would not only strive to protect capital in a rising interest rate environment--but as one that could potentially benefit from it. The basis for the shift was simple: record amounts of capital had flowed into commercial real estate investments given their "yield appeal", driving down cap rates (initial yields) for commercial properties to record low levels, resulting in historically high property values that may not prove durable over an extended period of time. Recognizing that higher interest rates would likely lead to higher cap rates, and thus lower asset values for most property types, Fund Management began repositioning the portfolio to withstand such a scenario.

As we outlined in the Fund's letter for the quarter ended January 31, 2013, in order to protect the Fund's capital against the threat of rising interest rates we reduced the Fund's exposure to yield-oriented real estate securities (e.g., REIT's) that had been bid up in price by yield-oriented investors. REIT stock prices rose to levels representing premiums to Net Asset Value ("NAV") particularly due to large inflows into passive strategies such as index funds and ETF's. Instead, we focused on investing the Fund's capital in (i) companies with securities trading at discounts to more durable property values that were generally more dependent upon a company specific event to surface value as opposed to the general direction of interest rates and (ii) property types that had shorter-term leases such as retail, industrial, and multi-family properties where cash flows can increase in an inflationary environment to offset higher cap rates, as opposed to property types such as healthcare and net-lease where cash flows are largely locked-in for terms of twenty years or more.

Further, in an effort to potentially benefit from rising interest rates, the Fund also increased its exposure to real estate related businesses which could be viewed as more economically sensitive due to strong ties to the U.S. residential markets (in particular the construction of single-family homes) as well as commercial real estate companies with well-located development projects that could potentially capitalize on demand recovery and earn outsized returns relative to their peers who were acquiring assets at record-low cap rates. In addition, the Fund initiated modest investments in real estate related businesses whose earnings had been depressed due to the record-low interest rate environment and would likely prosper in a higher-rate environment (e.g., U.S. Banks).

Since that time, there have been three periods where the yield on the 10-year US Treasury has increased by more than 0.5% (50 basis points) over two or more months. As shown in the chart below, the Fund has provided drastically different returns in those time periods relative to real estate benchmarks and most real estate mutual funds. In fact, the Fund has provided an average return of +2.3% in these periods of rising interest rates while the Fund's most relevant benchmark, the FTSE/EPRA NAREIT Developed Index , has generated an average return of -10.7% and the MSCI US REIT benchmark[3] , the RMZ Index, has generated an average return of -8.4%. Using these three periods as a guide, the Fund's positioning seems to be accomplishing what we originally set out to achieve in 2012 in terms of (i) striving to protect capital in periods of rising rates and (ii) potentially benefiting from it. In the process, we believe that the Fund has established itself as a real estate alternative for those who share our skepticism that rates will remain at existing levels in perpetuity, but also believe that property (and other real assets) is a well-suited place to invest capital and protect it from inflation over time.



Source: Bloomberg

With this framework in mind, the Fund's recent activity has supported the positioning outlined above. The Fund further reduced its US REIT exposure, increased its residential related positions such as Lennar Corp. ("Lennar"), and initiated a special situation investment in Parkway Inc.

The capital raised through the reductions in US REIT investments was used to increase certain existing investments whose risk-adjusted return prospects seemed superior. Most notably, we have added to our holding in the common stock of Lennar, which is now a top position in the Fund. As outlined in previous letters, Lennar is a well-capitalized and well-managed US homebuilder that focuses on some of the most desirable markets on the West Coast, Texas, and throughout the Southeast. While Lennar is widely recognized as a best-in-class homebuilder, it is now much more than that. Over the past few years the company's highly-regarded management team has strategically built out other platforms including: (i) one of the most valuable land development companies in the US through its investment in Five Point Communities; (ii) one of the largest developers of apartment communities through Lennar Multifamily; (iii) a sizable commercial real estate investment and asset management platform in its Rialto subsidiary; and (iv) a profitable mortgage and title business in Lennar Financial Services. Looking out over the next few years, it seems likely that Lennar will take steps to establish some of the subsidiaries as standalone businesses to surface value (e.g., Five Point, Lennar Multifamily, and Rialto), leaving Lennar as more of an asset-light homebuilder that may trade at a premium to book value given the increasing cash flow profile of its highly

3 The MSCI US REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI) its parent index which captures large, mid and small caps securities.

profitable homebuilding business as home starts return to more normalized levels. More recently, though, Lennar Common has been trading at prices that imply nearly book value and less than 10 times earnings for its core homebuilding business while ascribing only modest valuations for its strategic investments

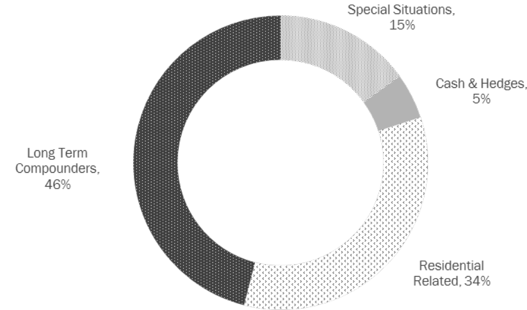
The Fund also initiated a “special situation” investment in the common stock of Parkway Inc. (“New Parkway”) as it was spun out of Cousins Properties (“Cousins”) as a separate entity in conjunction with Cousins merging with Parkway Properties (“Old Parkway”). Cousins and Old Parkway were both US REITs that owned office portfolios located in the Southeastern portion of the US. However, both companies traded at discounted valuations because of their outsized exposure to the Houston market, which has been under pressure given the recent retrenchment of energy related businesses and new supply coming on-line in a number of sub-markets. In order to address this issue, Cousins and Old Parkway announced that they would merge into a combined company creating one of the leading owners of office space in the Southeast and spin-out the combined Houston portfolio into a separate company that would be named Parkway Inc. and control more than 8 million square feet of office space in Houston including a market leading position in the Greenway Plaza sub-market. As we have witnessed in a number of spin-offs over the years, the shares of New Parkway were sold indiscriminately by legacy shareholders leaving Parkway Common trading at prices that represented a significant discount to the private market value of the underlying portfolio. In this case, the Fund purchased shares at prices that implied a 10% plus cap rate (which is based off of 86% occupancy) and values of nearly $180 per square foot (a significant discount to replacement cost). While Fund Management recognizes that fundamentals in Houston are unlikely to improve anytime soon, it is our view that the public markets will ultimately recognize the value when market conditions within Houston stabilize. If not, Parkway’s control group (which the Fund has been invested alongside before at Thomas Properties Group and Old Parkway following a merger of the two entities) could engage in a series of private market transactions over time to eliminate the price to value discrepancy that exists today.

POSITIONING

At year-end, the Fund has approximately 46% of its capital invested in property companies that are involved in long-term wealth creation. Some of these holdings include Land Securities, Cheung Kong Property, Forest City Realty Trust, Westfield Corp, Brookfield Asset Management, Wheelock & Co., and Henderson Land. Each of these enterprises is incredibly well-capitalized, trades at a discount to NAV, and seems capable of increasing NAV by 10% or more per year (including dividends) through further appreciation in the value of the underlying assets as well as by undertaking additional development and redevelopment activities and by making opportunistic acquisitions. The Fund also has 34% of its capital invested in real estate related businesses that have strong ties to the US residential markets such as timberlands (Weyerhaeuser & Rayonier), land development (Five Point Holdings and Tejon Ranch), homebuilding (Lennar Corp), and home improvement (Lowe’s). As outlined in more detail below, all of these businesses seem poised to benefit from a further recovery in housing fundamentals. An additional 15% of the Fund’s capital is invested in special situations such as Colonial in Spain, IVG in Germany, and Trinity Place Holdings in the US. The amount of capital allocated to special situations declined during the year as certain M&A candidates have been reduced for valuation reasons (i.e., U.S., European, & Australian REITs) and is likely to decline further in the first part of 2017 as IVG has recently agreed to sell its office portfolio to funds affiliated with the Blackstone Group with the proceeds expected to be returned to shareholders via a special dividend in the first quarter. The remaining 5% of the Fund’s capital is in cash and equivalents as the Fund remains nearly fully-invested, given the double-digit discount at which the securities trade relative to Fund Management’s conservative estimates of NAV. The Fund also continues to maintain its hedges on the Euro and Hong Kong Dollar exposure.

ALLOCATIONS AS OF DECEMBER 31, 2016

(allocations subject to change)



VALUE CONFERENCE

During the quarter, Third Avenue Management hosted its Value Equity Conference in New York City where its investment professionals provided updates on the Real Estate, Value/Small Cap, and International strategies as well as on select deep value opportunities within the various portfolios. In conjunction with the conference, Third Avenue released copies of ***Dear Fellow Shareholders…***[4] a recently published compilation of shareholder letters written by Third Avenue’s founder Marty Whitman. These letters span more than 30 years of his esteemed investment career and outline the foundation for Third Avenue’s balance sheet approach to value investing.

Within the book, there are countless concepts that Fund Management adheres to when analyzing real estate securities and managing the Third Avenue Real Estate

4 ***Dear Fellow Shareholders...*** can be read online at: https://mjwhitman.pressbooks.com/

Value Fund. One that we discussed in detail at the conference was the view that as long-term value investors at Third Avenue, we don't necessarily select industries but instead they "choose us." At first this wouldn't seem to be the case as managers focused on real estate and real estate related securities, but the concept is actually quite relevant as we have never strived to allocate a certain amount of the Fund's capital into a particular market or property type simply to be in line with widely followed benchmarks. Instead, we invest capital in real estate securities that offer compelling discounts to durable values while taking a longer-term view. And as we discussed at the conference, there seem to be three areas in global real estate offering outstanding value at the present time.

First, we see outstanding value in the securities of real estate related businesses that have strong ties to the US residential markets, especially those with exposure to further gains in the production of new homes and associated purchase activity. After many years, first-time homebuyers are finally returning to the market, driving an increase in single-family construction. In fact, annualized home starts recently surpassed 1.3 million units in October 2016 marking an 8-year high with single-family homes providing the vast majority of the gains by increasing more than 20% year-over-year. This activity remains below long-term averages, though, despite a significantly larger population in the US and a shortage of inventory in most key markets. The primary impediments limiting a return to more traditional levels of construction include a shortage of improved lots, a lack of skilled labor, and more restrictive financing availability. Pressure seems to be alleviating on all three fronts and should ultimately result in more normalized levels of building activity, further boosting the earnings and cash flows of those well-capitalized businesses that have battled through this choppy recovery. This includes the Fund's investments in timber companies Weyerhaeuser and Rayonier, land development companies Five Point Holdings and Tejon Ranch, homebuilder Lennar Corp, home improvement retailer Lowe's, and title insurer FNF Group.

The second area offering outstanding value is in the securities of well-capitalized property companies that own irreplaceable portfolios of assets in outstanding markets but are currently out of favor due to near-term headwinds. This primarily includes companies with large investments in London and Hong Kong and to a lesser extent energy related markets like Houston (e.g., Parkway). As outlined in detail in the Fund's prior letter, property companies based in the UK are currently dealing with the uncertainty of what impact "Brexit" will have on occupier markets particularly financial services. In Hong Kong, real estate businesses continue to trade at steep discounts to private market values largely due to the lack of a takeover market and what are believed to be outdated corporate structures and capital allocation policies. When looking out over the next 2-3 years, it seems likely that these issues will be further addressed, alleviating the large discounts at which the common stocks for companies like Land Securities, Cheung Kong Property, Henderson Land, and Wheelock & Co currently trade (anywhere from 30-60% discounts to published NAV's).

Finally, the third area currently offering compelling values for longer-term investors is in a select set of real estate businesses that are capitalizing on secular changes within property markets to put their existing asset bases to a higher and better use. These trends primarily include the shift to "live-work-play" environments and the continued transformation of retail shopping patterns given the rise of e-commerce. Therefore, the Fund is concentrating its capital in commercial real estate companies like Forest City, Brookfield, and Vornado that can further transform their concentrated property holdings to meet the needs of real estate users, which are increasingly looking for mixed-use environments within urban settings. In addition, the Fund continues to avoid commodity-like shopping centers, instead focusing on destination centers--like those owned by Westfield Corp--which serve as the primary point of contact for retailers and customers in a given market and are increasingly being sought after by "e-tailers" as they adopt an omni-channel business model. The Fund also remains invested in productive industrial real estate portfolios like those owned by First Industrial, Segro, and Global Logistics which continue to enjoy a structural increase in demand from tenants given the rise of e-commerce and the distribution networks needed to support those activities.

With the vast majority of the Fund's capital invested in these three pockets of global real estate--alongside a select set of "special situation investments" and an avoidance of most yield-sensitive real estate securities--we believe the Third Avenue Real Estate Value Fund is positioned to continue to provide superior risk-adjusted returns as it enters its 19th year of operations.

We thank you for your continued support and look forward to writing to you again next quarter.

Sincerely,

The Third Avenue Real Estate Value Team

Michael Winer
Lead Portfolio Manager

Jason Wolf
Lead Portfolio Manager

Ryan Dobratz
Lead Portfolio Manager

THIRD AVENUE REAL ESTATE VALUE FUND

APPENDIX

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

December 31, 2016

FUND PERFORMANCE

as of 12/31/16	1 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)	5.82%	12.84%	2.87%	10.63%	9/17/1998
TVRVX(Investor)	5.57%	12.57%	(n/a)	9.25%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Land Securities Group PLC	5.9%
Weyerhaeuser Company	5.5%
Lennar Corp. Class A	5.1%
Forest City Realty Trust Class A	4.9%
Rayonier, Inc.	4.9%
Cheung Kong Property Ltd.	4.7%
FivePoint Holdings LLC	4.6%
Westfield Corp.	4.3%
Global Logistics Properties Ltd.	4.2%
Brookfield Asset Management, Inc.	3.9%

Allocations subject to change

Past performance is no guarantee of future results; returns include reinvestment of all distributions. The above 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 visit the Fund's website at www.thirdave.com. The gross expense ratio for the fund's institutional and investor share classes is 1.15% and 1.40%, respectively, as of March 1, 2016. Risks that could negatively impact returns include: overbuilding and increased competition, increases in property taxes and operating expenses, lack of financing, vacancies, environmental contamination and its related clean-up, changes in interest rates, casualty or condemnation losses, and variations in rental income.

IMPORTANT INFORMATION

Date of first use of portfolio manager commentary: January 18, 2017

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