THIRD AVENUE MANAGEMENT

THIRD AVENUE REAL ESTATE VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

June 30, 2017

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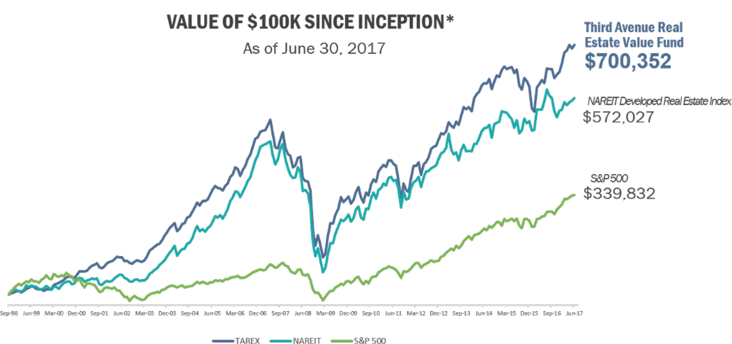
Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended June 30, 2017[1]. Through the end of the period, the Fund has generated a year-to-date return of +10.34% (after fees) versus +5.43% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index[2].

As always, Fund Management remains most focused on long-term performance, where it has earned an annualized return of +10.91% since its inception in 1998. As highlighted in the chart below, this has resulted in a hypothetical investment of $100,000 in the Third Avenue Real Estate Value Fund having a market value of more than $700,000 (assuming dividends had been reinvested), or more than double the amount the same $100,000 would be worth had it been placed into a passive fund tracking the S&P 500[3] and held over the same time period.



*Hypothetical investment made since Fund inception (September 17, 1998)
Source: Morningstar

ACTIVITY

"Resource conversion" is a term that we have long used at Third Avenue to describe actions that management teams and boards can take to surface value in the underlying businesses and investments that they control. Some of the most frequently utilized resource conversion activities include: mergers, acquisitions, privatizations, initial public offerings ("IPO"), spin-offs, share repurchases, tender offers, and special dividends.

As investors that focus on well-financed companies with securities trading at meaningful discounts to Net Asset Value ("NAV") that are also run by motivated control groups, the Third Avenue portfolios have historically experienced a substantial amount of resource conversion events in its portfolio holdings. This quarter was no exception.

The "main event" in the quarter was the initial public offering of Five Point Holdings LLC ("Five Point"), a real estate operating company that is the largest developer of mixed-use communities in coastal California. The IPO created a New York Stock Exchange listing (Ticker: FPH) for the Fund's longstanding investment in the company (which dates back to 2008 through the reorganization of its predecessor company Newhall Land & Development). The Fund increased its position in Five Point to 5% of the Fund's net assets by participating in the offering at prices that seem incredibly favorable when taking a long-term view.

Fund Management is not aware of another publicly traded property company in North America with such a substantial opportunity for value creation. Five Point currently has plans to build approximately 40,000 home sites and up to 20 million square feet of commercial space in some of the most desirable markets in the US through its strategically-located master planned communities, comprised of: (1) The Shipyards in San Francisco, (2) The Great Park Neighborhoods in Irvine, and (3) Newhall Ranch in Los Angeles County. In the process, the company also has plans to further strengthen its surrounding communities with 15,000 acres of public parks and accessible open space, 10 new primary and secondary schools, and approximately 6,000 affordable residential units.

While the opportunity at Five Point is substantial, it will undoubtedly require a great deal of capital and sound execution by the company's management team. Five Point seems well positioned on both fronts. To wit, the company has an even stronger financial position after its IPO with $200 million of net cash (i.e., no debt) that should allow it to fund the improvements at its projects without adding significant liabilities to its balance sheet. Further, Five Point is led by Emile Haddad, who was previously the CEO of Five Point Communities, and prior to that served as the Chief Investment Officer of Lennar Corp. (one of the largest US homebuilders; a separate holding in the Fund; and 40% shareholder of Five Point). Mr. Haddad and his team have a long track record of creating value in complicated urban development projects and seem poised to deliver similar results within the company's existing pipeline while doing so in a sustainable manner.

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.

3 The S&P 500 Index is an unmanaged index (with no defined investment objective) of common stocks. The S&P 500 Index is a registered trademark of McGraw-Hill Co., Inc.

An equally important resource conversion event for the Fund materialized shortly after the quarter end: the proposed privatization of Global Logistic Properties ("GLP"). As we wrote about last quarter, GLP is a real estate operating company based in Singapore that owns and controls leading industrial real estate platforms in China and Japan. While the company's business had been performing reasonably well, GLP's stock price never recovered from the market dislocations experienced in the region in late 2015. As a result, the company's largest shareholder (GIC, with a 40% stake in the business) urged the Board to undertake a strategic alternative process to seek out transactions that would maximize value for shareholders. Given the secular tailwinds that industrial real estate owners are enjoying with the rise of e-commerce and demand for distribution space, it was our view that there would be a considerable amount of institutional interest in GLP and ultimately a cash bid for the company given the unique opportunity to control such a valuable platform. This view ultimately proved right.

In mid-July, GLP announced that it had agreed to sell the company to a consortium of Asian-based buyers for $3.38 per share, or a 25% premium to prevailing market prices. The transaction is expected to close in the fourth quarter unless a competing bid materializes, which seems unlikely given the substantial premium offered and fact that key shareholders and executives of GLP are included in the consortium.

The Fund's investment in the common stock of GLP has been a big win so far. This transaction could also have follow-on effects for other companies in the region as the GLP acquisition marks one of the largest "takeovers" ever recorded in Asia. The Fund holds sizable positions in several companies in the region that own incredibly valuable assets but trade at large discounts to readily ascertainable NAVs such as Henderson Land, Wheelock & Co., Cheung Kong Property, and City Developments. Should these companies consider similar transactions, a tremendous amount of additional value would be unlocked. This portion of the portfolio currently accounts for 25% of Fund capital.

In addition to GLP, Parkway Inc. announced that it had entered into an agreement at the end of the quarter to sell the company at $23 per share, or a 20% premium to prevailing prices. The Fund first initiated a position in Parkway Inc. after it was spun out of Cousins Properties ("Cousins") in 2016 as a separate REIT that controlled more than 8 million square feet of office space in Houston, including market-leading positions in the Galleria and Greenway sub-markets.

As we have witnessed in a number of spin-offs over the years, the shares of Parkway were sold indiscriminately by legacy shareholders upon listing, leaving Parkway Common trading at prices that represented a significant discount to the private market value and replacement cost of the underlying portfolio.

It was our view at the time that although fundamentals in Houston were unlikely to improve anytime soon, public markets would ultimately recognize the value when market conditions within Houston stabilize. In this case, the private markets recognized the value before that transpired as Parkway announced its intentions to collapse the discount by selling the business outright, leading to an IRR that exceeded our initial estimates.

Fund's Management preferred route for exiting a security is through a transaction such as GLP and Parkway (e.g.., an acquisition). The reason being: these types of negotiated deals typically include some sort of control premium paid by the buyer, which can be as high as 10-20% of NAV. Nonetheless, there are three other primary reasons why securities are typically sold in the Third Avenue Real Estate Value Fund.

First: when a mistake is made in the initial analysis (or conditions change materially) and the original case for owning the security no longer exists. Given Fund Management's strict underwriting criteria and focus on companies with readily ascertainable NAV's (i.e., not rocket science to value), this isn't the most common reason securities are sold. When they are, though, it is clearly our least favorite reason.

Second: for portfolio management reasons, such as when cash is required for redemptions or when an individual security--or overall exposures to certain property types or geographies in the Fund--become outsized relative to the Fund Management's internal risk guidelines. As a reminder, we tend to limit positions to less than 6% of assets, individual property types to less than one-third of the portfolio, and any single country outside of the US to less than 25% of the Fund.

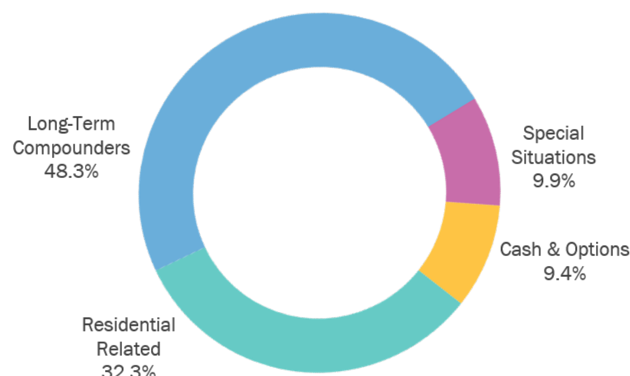
Third: for valuation purposes. When a security price appreciates to a point where the discount that was available at the time of the purchase is largely eliminated, the position tends to be trimmed back. Further, should the price exceed a "best-case" estimate of NAV without durable growth prospects for the business, the security will likely be sold entirely. This was exactly the case with Inmobiliaria Colonial ("Colonial") during the quarter.

Colonial is a real estate operating company based in Spain that owns class-A office assets in key European markets including: Madrid, Barcelona, and Paris. The Fund initially purchased shares of the company in early 2014. At that time, Europe was still in the doldrums and Colonial had just launched a €1 billion rights offering in order to reduce its debt to more sustainable levels and raise the capital necessary to fund the repositioning of its portfolio, which included vacancy rates exceeding 20% in its Spanish assets following the financial crisis.

More than three years into the investment, conditions in the region have improved materially and Colonial's management team delivered results well above our expectations and its peers. Not only did the group prove

capable of increasing the company wide occupancy rates to above 95%, but they also made a number of clever acquisitions that added additional value along the way.

With the operations stabilized and the company finally enjoying rental rate increases in all of its major markets this year, Colonial recently elected to convert from a real estate operating company to a Socimi (i.e., a Spanish REIT). The change could trigger a gain for US tax purposes and also diminish the value of the company's deferred tax asset going forward. As a result, the price of Colonial common exceeded our "high-case" NAV estimate and Fund Management elected to sell the position. The security has been added to our "T-2 list", a shadow portfolio we maintain comprised of well-financed and well-managed real estate companies that the Fund would like to own when the securities are available at larger discounts to conservative estimates of NAV.



Allocations are subject to change

POSITIONING & OUTLOOK

At the end of the quarter, the Fund had approximately 48% of its capital invested in property companies that are involved in long-term wealth creation. These holdings primarily include: Cheung Kong Property, Land Securities, Forest City Realty Trust, Westfield Corp, Brookfield Asset Management, Vornado Realty Trust, 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 32% 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 and Tejon Ranch), homebuilding (Lennar Corp), title insurance (FNF Group) and home improvement (Lowe's). All of these businesses seem poised to benefit from a further recovery in housing fundamentals particularly from an increase in the construction of single-family homes and higher levels of residential purchase activity in the US.

An additional 10% of the Fund's capital is invested in special situations such as Millennium & Copthorne in the UK, Trinity Place Holdings and the Bank Debt of Neiman Marcus in the US. Colonial was previously part of the special situations allocation.

The remaining 9% of the Fund's capital is in cash & equivalents (e.g.., short-term US Treasuries). The Fund continues to maintain its hedges on the Euro and Hong Kong Dollar exposure, and implemented a hedge on the Singapore Dollar related to its position in Global Logistic during the period.

As we begin the third quarter of 2017, the Fund's cash balances are gradually increasing. Factoring in the expected "cash-out" transactions at GLP and Parkway, the Fund's cash balances would be approximately 16%. This is the highest amount of "dry-powder" the Fund has had since August 2015. In our view, this puts the Fund in a more defensive position and provides the resources to capitalize if there is a broader market dislocation. In the meantime, Fund Management continues to sift through two areas of the global real estate universe which have experienced significant pressure over the past year: UK-centric property companies and retail-related real estate businesses in the US.

In the UK, the Fund put substantial capital to work in a select set of UK REIT's following the unexpected results of the referendum held in June 2016 In the days after "Brexit" became a reality, most UK property companies declined by 20% or more (in US Dollar terms). The Fund took advantage of the panic and increased its exposure to the UK to nearly 13% of Net Assets (largely by adding to Land Securities, Segro, and Hammerson). It was our view at the time that all three UK REITs were very well-capitalized and trading at substantial discounts to NAV, despite owning irreplaceable portfolios in and around London, one of the best property markets for long-term investors. Since that time, conditions have stabilized and certain positions have been trimmed back given their strong performance (e.g., Segro).

Fund Management was more cautious on UK companies that have (i) large-scale speculative development pipelines underway where rental rates were likely to be cut to entice tenants, (ii) residential-led redevelopment projects where prices were already declining from highs reached in 2015 and unlikely to be as profitable as previously budgeted, and (iii) portfolios that were appraised at very low cap rates (i.e., initial yields) because of substantial rental rate growth assumptions which were likely to moderate significantly.

More than a year out from the initial "Brexit" shock, we have seen weakness in some of the businesses within these areas, particularly those with assets appraised at low initial yields that are now increasing to offset reduced rental rate growth assumptions and a higher 10-year yield in the UK (thus declining property values). As a result, Fund Management is spending more time analyzing the securities of some of these issuers. A number of these businesses control hard to replicate portfolios, especially in the West-End sub-market of London that can be spectacular investments over the long-term if purchased at suitable prices.

In addition to the UK, Fund Management continues to spend considerable resources analyzing securities related to retail real estate in the US. The Fund has gradually increased its investments in companies that control market-dominant malls, such as Westfield and Macerich, which we believe are well positioned given (i) the accelerated demise of tertiary properties and (ii) the increasingly critical nature that these large destination centers play in retailers' "omni-channel" business models.

During the quarter, the weakness in retail spread further as Amazon announced its intentions to purchase Whole Foods and expand its grocery offering. After the news, there was a significant sell-off in all related businesses including US shopping center REITs that own strip centers (grocery-anchored) and power centers (big-box stores).

At quarter end, the Fund did not have any investments in companies that focused exclusively on these necessity-based centers. However, just as we witnessed in the late 1990's and early 2000's with Wal-Mart's aggressive expansion, strong retailers adapt to a more competitive environment and well-located shopping centers continue to act as an essential point for the distribution of goods (which seems to have been confirmed further with Amazon's desire to add 400 urban locations in its Whole Foods purchase). With that as the backdrop, we expect to unearth some shopping-center related opportunities amidst the most recent selloff.

We thank you for your continued support and look forward to updating you on these initiatives again next quarter.

Sincerely,

The Third Avenue Real Estate Value Team

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Lead Portfolio Manager

Jason Wolf
Lead Portfolio Manager

Ryan Dobratz
Lead Portfolio Manager

IMPORTANT INFORMATION

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Date of first use of portfolio manager commentary: July 25, 2017

THIRD AVENUE REAL ESTATE VALUE FUND

APPENDIX

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

June 30, 2017

FUND PERFORMANCE

as of 6/30/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)	15.16%	4.83%	11.17%	3.71%	10.91%	9/17/1998
TVRVX (Investor)	14.88%	4.56%	10.90%	(n/a)	10.03%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Lennar Corp.	5.7%
Cheung Kong Property Holdings Ltd.	5.6%
Weyerhaeuser Co.	5.4%
Forest City Realty Trust, Inc., Class A	5.4%
Global Logistics Properties Ltd.	5.3%
Land Securities Group plc	5.0%
FivePoint Holdings, LLC, Class A	4.9%
Rayonier, Inc.	4.8%
Brookfield Asset Management Inc.	4.4%
Wheelock & Co. Ltd.	4.1%

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 1.13% and 1.38%, respectively, as of March 1, 2017. 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.

Third Avenue Funds are offered by prospectus only. The prospectus contains important information, including investment objectives, risks, advisory fees and expenses. Please read the prospectus carefully before investing in the Funds. 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 updated information or a copy of our prospectus, please call 1-800-443-1021 or go to our web site at www.thirdave.com. Distributor of Third Avenue Funds: Foreside Fund Services, LLC.

Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

THIRD AVENUE
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