

September 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 September 30, 2017. Through the end of the period, the Fund had generated a year-to-date return of +14.80% (after fees) versus +7.13% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index¹.

While performance has been solid so far this year, Fund Management remains most focused on the long-term results, where it has earned an annualized return of +10.97% since its inception in September 1998¹. 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 and capital gains distributions 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 500² and held over the same time period.

tender offers, and special dividends), which impacted a number of the Fund's key holdings during the period.

Most notably, the Fund's largest individual position at the beginning of the quarter was the common stock of **Global Logistic Properties** ("Global Logistics"), a real estate operating company based in Singapore. As we have noted in previous letters, Global Logistics owns and controls leading industrial real estate platforms in China and Japan, where fundamentals have been favorable given the structural rise in demand for distribution space and the secular tailwinds of e-commerce over recent years.

A positive outlook and deep-value prices rarely go hand-in-hand, but the Fund did encounter an opportunity to make a very significant investment in Global Logistics late in 2015 after macro concerns led to a sell-off in the company's common stock. After conditions in the region stabilized, Global Logistics stock remained depressed at the same time the underlying business continued to perform well. As a result, its largest shareholder (GIC with a 40% stake) urged the company to explore strategic alternatives, which ultimately led to the company announcing that it had agreed to sell the business to a consortium of Asian-based buyers for \$3.38 per share, or a 25% premium to prevailing market prices and a premium to its Net Asset Value ("NAV").

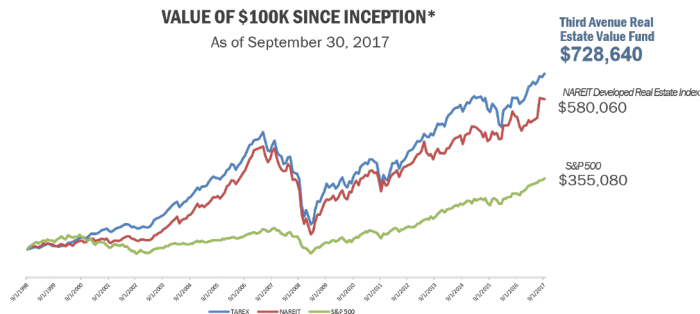
Considering that the management team was a part of the group buying the business -- at the same time that a significant premium was being paid for control after a long and drawn out negotiation process -- Fund Management deemed the prospects of a "topping bid" materializing as remote and thereby exited Global Logistics during the quarter. In the process, the Fund realized the profits on this multi-year investment and boosted its "dry powder" (i.e., available cash) by more than \$100 million.

Another large holding in the Fund that announced it was undertaking a strategic alternative process during the quarter was **Forest City Realty Trust** ("Forest City"), a US based Real Estate Investment Trust ("REIT") that owns a high-quality portfolio of commercial properties in some of the best markets in the US (New York City, Washington, D.C., Boston, San Francisco) and also controls some of the most well-located development projects in North America (Brooklyn, Denver, San Francisco, and Washington, D.C.).

The long-time holding has made huge strides in recent years by improving corporate governance, selling non-core assets,

VALUE OF \$100K SINCE INCEPTION*

As of September 30, 2017



*Hypothetical investment made since Fund Inception (September 17, 1998)

Source: Morningstar

ACTIVITY

This quarter, the real action involved the businesses already owned in the Fund as opposed to adding a significant amount of new securities. In fact, now that 10 years have passed since the financial crisis, it is safe to say that management teams and boards are acting with more confidence than they have at any point in the past decade. This higher degree of conviction has resulted in a significant acceleration of resource conversion activity (a term that we use at Third Avenue to describe actions that control groups take to surface value and most commonly includes: mergers, acquisitions, privatizations, spin-offs, share repurchases,

1 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.

Please see Appendix for performance table and information.

2 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.

reducing debt levels, and enhancing transparency. Despite this, the company's stock had yet to achieve a price that was even close to reflecting the underlying value of its portfolio and projects. With that being the case, in 2015 the company took the additional steps of converting from a real estate operating company to a REIT. Then in 2016, Forest City collapsed the dual-class share structure that had existed since the 1960's and added additional independent board members,

Even after all that, Forest City common remained at a discount to a conservative estimate of NAV, leading to the Board announcing in August that it was considering strategic alternatives that could result in additional divestitures, or even an outright sale of the business. This announcement caught most by surprise (including us) and the stock price responded to the news. Notwithstanding the recent appreciation, we believe that as Forest City closes on the previously planned sale of its retail portfolio, and potentially divests other business units, there is additional value to be recognized. Such a scenario would have a meaningful impact on the Fund with Forest City as a 5% plus position currently.

Right after quarter-end, another long-time holding in the Fund, **Millennium & Copthorne plc** ("MLC"), announced that it had been approached by its largest shareholder, **City Developments** ("City Dev"), about privatizing the company. MLC is a UK based owner and operator of hotels with a concentration of properties in London, Singapore, and New York City that has been owned in the Fund since 2012. City Dev, is a blue-chip real estate operating company based in Singapore (that is also owned in the Fund) which has been increasing its ownership stake in MLC in recent years, most recently reaching 65% of the company's common stock.

At the time City Dev approached MLC about making a bid for the remaining shares, it proposed offering 552.5 pence per share for the remaining 33% of the outstanding shares. Fund Management believes that a deal between City Dev and MLC makes sense. However, the indicated price is at more than a 30% discount to MLC's book value (820p per share) and not reflective of our view of the private market value of the business (in excess of book value). Therefore, we believe that a higher price will need to be offered to get a deal done (a majority of the minority holders is required to successfully de-list the company) and as long-time stakeholders, we will undertake efforts to enhance the prospects of a deal taking place at a higher price.

Outside of those significant developments, the Fund has received a wave of distributions in the form of spin-offs and special dividends since the previous letter, including one of the Fund's largest holdings, **Land Securities plc** ("Land Securities"), a UK based REIT that owns a collection of high-quality retail and office properties that are primarily concentrated in London.

The company made a very shareholder friendly move during the period announcing that it had sold its stake in 20

Fenchurch Street (the "Walkie Talkie" building) at a 15% premium to its appraised value and then used the proceeds to make a special distribution to shareholders which effectively acted as a stock buyback at prevailing market prices (or nearly a 30% discount to appraised values), thus arbitraging the difference between public and private market values that currently exists in the UK. Should these discounts persist, it would not be inconceivable to expect further assets sales, or even outright privatizations by investment groups willing to take a long-term view on the UK, similar to MLC outlined above.

Other companies held in the Fund that completed distributions to shareholders by way of spinning-off new companies during the period included:

- **Vornado Realty Trust** ("Vornado"), a US based REIT that has been undertaking a multi-year effort to streamline its business around its core New York City office and street retail holdings. In July, it completed one of the final steps in the process by merging its Washington, D.C. portfolio with a privately held company that also had significant holdings in the market (**JBG Properties**) to form **JBG Smith Properties** ("JBG Smith"). The latter entity was subsequently spun-out to Vornado shareholders. As a result, the Fund has a position in this newly formed US REIT that is one of the largest office owners in the greater D.C. market and has a substantial value creation opportunity in front of it as it repositions Crystal City as a live-work-play destination and builds out multi-family projects on the company's idle land positions. In addition, should Amazon select Washington, D.C., for its second headquarters, JBG Smith would benefit enormously, although this isn't our base case.
- **FNF Group** ("FNF"), a US based holding company that owns Fidelity National Financial (the largest title insurance operation in the US) as well as other residential and mortgage related investments. At the beginning of the quarter, FNF's largest investment outside of the title business was a 54% stake in separately listed **Black Knight Financial Services** ("Black Knight"), the leading provider of mortgage origination and servicing software to financial institutions, a business that provides remarkably stable revenue streams. Since the previous letter, FNF opted to distribute its stake in Black Knight to shareholders (including the Fund) through a tax-free spin-off. After the spin, FNF will be more focused on its title business, which has a leading share in most major markets and continues to throw off substantial free cash flow. Historically this excess capital been invested by Chairman Bill Foley and his team in areas that have rewarded shareholders quite handsomely.

- Wheelock & Co.** (“Wheelock”), a Hong Kong based real estate operating company with: (i) a wholly-owned real estate development business focused in Hong Kong and tier-1 markets in Mainland China, (ii) a 60% stake in separately listed Wharf Holdings (“Wharf”) that owns some of the most productive destination retail centers globally with its Harbour Centre and Times Square locations in Hong Kong as well as other investments and (iii) non real estate investments including a stake in separately listed **i-Cable Communications** (“i-Cable”) one of the largest telecommunication companies in Hong Kong. During the quarter, Wheelock made some substantial moves including spinning-off i-Cable to existing shareholders (including the Fund) and announcing through its Wharf subsidiary that it would contribute its Hong Kong based investment properties to a new company (Wharf Real Estate Investment Company) that would be spun-out to Wharf shareholders at a later date. Once these resource conversion events are complete, Wheelock should benefit from a more streamlined corporate structure and could even look to collapse the holding company structure altogether by buying the shares of Wharf that it doesn’t already own. Such a transaction would likely further assist in closing the 40% plus discount at which its shares currently trade relative to its underlying NAV.

The Fund also initiated a position in the common stock of **Kimco Realty Corp** (“Kimco”), a US REIT that is a leading owner of open-air shopping centers in key infill locations. The company currently owns more than 500 centers which are primarily grocery-anchored, 96% leased, and throw off more than \$1.0 billion of recurring cash flow annually.

The Fund has owned Kimco twice before, purchasing it after the shares sold off following the K-Mart, Inc. bankruptcy in 2003, and once again amidst the financial crisis in 2009. In the most recent quarter, the Fund again had the opportunity to purchase Kimco’s shares at a significant discount to NAV (i.e., a 7% implied cap rate on below market rents without factoring in additional value for its 10% stake in Albertson’s) following the news that Amazon would be buying Whole Foods triggering a sell-off in all companies with ties to the grocery-store space.

While Fund Management recognizes that Amazon’s entrance into the grocery store business will put pressure on competing operators, the Whole Foods acquisition actually further confirmed our view that key urban locations are critical to the distribution of everyday goods and will continue to act as essential locations for necessity based shopping. It is therefore our expectation that as Amazon integrates the Whole Foods business, competing grocers (i.e., Wal-Mart, Kroger, Albertson’s, etc.) will adapt, expectations will normalize, and the discount at which Kimco’s shares currently trade will narrow. In the

meantime, the company is providing shareholders with a nearly 6% dividend yield and the new management team (led by CEO Connor Flynn) seems likely to increase the NAV further as they re-lease the company’s below-market rents and undertake a number of expansionary projects to further densify some of the company’s well-located properties.

POSITIONING & OUTLOOK

At the end of the quarter, the Fund had approximately 43% of its capital invested in property companies that are involved in long-term wealth creation. These holdings primarily include: CK Asset, Brookfield Asset Management, Land Securities, Forest City Realty Trust, Westfield Corp, 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, by undertaking additional development and redevelopment activities, and by making opportunistic acquisitions.

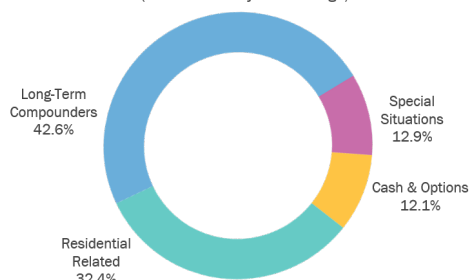
The Fund also has 32% of its capital invested in real estate related businesses that have strong ties to the US residential markets, such as timberlands (Weyerhaeuser & Rayonier), land development (Five Point and Tejon Ranch), homebuilding (Lennar Corp), title insurance (FNF Group) and home improvement (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 13% of the Fund’s capital is invested in special situations such as Millennium & Copthorne, Trinity Place Holdings, and the bank debt of Neiman Marcus.

The remaining 12% of the Fund’s capital was in cash & equivalents at quarter-end (e.g., short-term US Treasuries) and approached 14% after the “cash-out” acquisition of Parkway Inc. (discussed in the previous quarter’s letter) closed in mid-October. Also of note, the Fund continues to maintain its hedges on the Hong Kong Dollar exposure but eliminated its hedge on the Singapore Dollar following the sale of Global Logistics during the period.

ALLOCATIONS AS OF SEPTEMBER 30, 2017

(allocations subject to change)



When reviewing financial statements, Third Avenue's Founder and Chairman, Marty Whitman, has long said "the focus should be on what the numbers mean as opposed to what they are." And as 2018 approaches, one item that is likely to put the spotlight on what the numbers "mean" is the revised lease accounting standards that go into effect late next year. Currently, companies that lease real estate utilizing operating leases (typically less than 30 years) recognize an expense on the income statement, but do not account for any liability associated with future rental obligations on the balance sheet.

At Third Avenue, we have always factored in these off balance sheet liabilities into our analysis and are pleased that the rest of the financial community will be formally joining us. This is a result of many years of hard work by the Financial Accounting Standards Board (the FASB) and the International Financial Reporting Standards (the IFRS) who starting in 2006 set out to have companies that report according to US GAAP or IFRS also include these liabilities on the balance sheet. After years of discussion and debate, it has been decided that all public companies financial reports after December 15, 2018 will account for lease obligations by including a "Right-of-Use" asset and a corresponding "Lease Liability" for contracts of 12 months or more. While we're still more than one year out from these changes being fully implemented, it is already influencing real estate decisions and is likely to impact three key areas in the years ahead, including:

1. More Transparent Financials: Companies that lease a significant amount of property will report a drastically different snapshot of their financial wherewithal when the new standards are adopted. For instance, a company that utilizes a significant amount of real estate, such as a retailer like Gap Inc., may appear to have a very strong financial position at first glance, but if one were to capitalize the rental payments (say at 8 times annual rent expense), the creditworthiness may not seem as evident. In Gap's case, the company currently has a "net cash" position per its most recent financial statements (i.e., cash exceeds debt); however, if the rental expense from the previous year were to be capitalized as outlined above and viewed as debt, the company's debt to capital ratios would increase to approximately 50%, which is on the high side for a more cyclical business like retail--although somewhat conservative relative to a number of other more aggressively run retail businesses. As a result, a number of retailers, or other operating businesses that lease a significant amount of property & equipment, will increasingly be scrutinized and potentially need to raise capital to alleviate any concerns.
2. Reversal of the Sale-Lease Back Trend: Over the past 20 years, there has been an enormous push by corporate owners of real estate to "free up" capital

by selling owned real estate and leasing the property back without any consideration for the long-term impact on the business. It's also been a tool utilized by a number of shorter-term oriented activist investors to finance buy-backs and dividends. As a result, billions of dollars of assets have transferred from corporate balance sheets to "net-lease" companies, which have essentially acted as off balance sheet financing vehicles. With the incentives changing, this wave may be coming to an end however, and may even potentially reverse over the next few years as companies that have excess capital and occupy or utilize single-tenant properties are likely to purchase key locations from current owners thus removing the expense and liability associated with the lease. From our conversations with industry professionals, there are indeed a number of players on the sidelines contemplating such transactions who are waiting for further guidance on tax reform (especially in the US) where investments in Property, Plant & Equipment (including owned real estate) may be deductible at the time of the purchase, boosting the incentives even further to undertake such a move in the near-term. Consequently, there may be an initial wave of buying activity that could provide a boost to property values, especially single-tenant office and industrial properties owned by some of the "net-lease" REITs.

3. Shorter-Lease Terms: While there may be an upward trend in pricing over the near-term, when looking out over the medium term, these changes may actually put pressure on property values. Reason being: tenants will be motivated to reduce lease terms--thus minimizing the lease liability on their financial statements--which will result in a less durable cash flow stream from a property owner's perspective and less favorable access to long-term financing. As a result, buyers are likely to demand higher cap rates (i.e., initial yields) to get a similar return on equity, potentially pressuring property values. There is also another motivating factor to reduce lease terms. Per the new standard, any reduction in the value of the property will not only hit the property owner, but also the lessee, as the "Right of Use" asset must be tested annually relative to its book value and any impairments taken accordingly. In our view, this trend will be particularly troublesome for non-traditional types of real estate, such as data centers, casinos, prisons, and cell towers where the terminal value of the property is so uncertain (e.g., determining whether an asset value of 20-25 times cash flow will prove durable if obsolescence changes the use of the asset in 8-10 years). With this in mind, tenants may be less willing to make

15 plus year commitments or more, so shorter lease terms should be expected, and higher cap rates could be the norm, especially for alternative types of property.

With these changes afoot, we believe it will pay to: (i) remain disciplined when underwriting businesses, (ii) continue to focus on the securities of well-capitalized real estate companies that trade at discounts to durable asset values, and (iii) concentrate on the four basic “food groups” in key urban centers when it comes to commercial real estate (i.e., office, retail, multifamily, and industrial). It has been our experience that these types of properties not only provide owners with current cash flow, but also act as a store of capital, given the safety net associated with demand from other occupiers should lease terms change, or alternative uses should the existing structure no longer be the highest-and-best-use.

We thank you for your continued support and look forward to updating you 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: October 23, 2017

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

APPENDIX

September 30, 2017

FUND PERFORMANCE

as of 9/30/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)	13.42%	7.04%	10.12%	4.45%	10.99%	9/17/1998
TVRVX (Investor)	13.17%	6.79%	9.85%	(n/a)	10.24%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
CK Asset Holdings, Ltd.	5.8%
Lennar Corp.	5.5%
Forest City Realty Trust, Inc.	5.5%
Weyerhaeuser Co.	5.3%
Henderson Land Development Co. Ltd.	4.7%
Rayonier, Inc.	4.7%
Brookfield Asset Management, Inc.	4.5%
Land Securities Group PLC	4.5%
FivePoint Holdings LLC	4.4%
PNC Financial Services Group, Inc.	4.2%

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
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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