

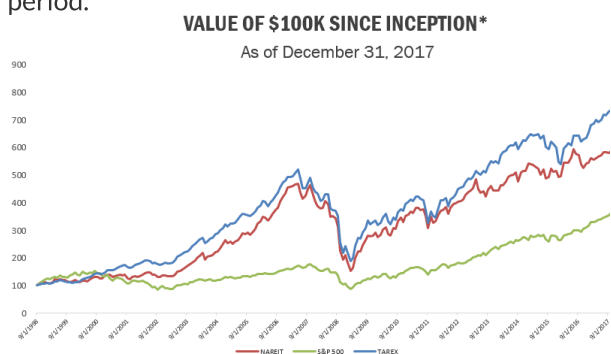
December 31, 2017

Michael Winer | Lead Portfolio Manager
Jason Wolf, CFA | Lead Portfolio Manager
Ryan Dobratz, CFA | Lead Portfolio Manager

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, 2017. For the 2017 calendar year, the Fund generated a return of +22.17% (after fees) versus +11.39% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index¹.

Not all years are likely to be as rewarding as 2017. In Fund Management's view, a better gauge of performance is the Fund's long-term results where it has earned an annualized return of +11.20% since its inception in 1998. As highlighted in the chart below, this performance indicates an initial investment of \$100,000 in the Third Avenue Real Estate Value Fund would have a market value of more than \$775,000 as of year-end (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 and held over the same time period.



ACTIVITY

In a year where resource conversion activity was abundant (resource conversion is 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, tender offers, and special dividends), it was quite fitting that one of the most meaningful events occurred during the final weeks of the year. In early December, **Westfield Corp.** (a long-time holding of the Fund that controls market-dominant malls in key US & UK cities) announced that it had agreed to be acquired by Unibail-Rodamco (the largest European mall owner) in a cash-and-stock deal at a substantial premium to prevailing market prices. After the announcement, the Fund

scaled back its position to realize some of the appreciation in the stock price, but Westfield common remains a top 10 holding in the Fund. Given the scarcity value of Westfield's US and UK assets, and accelerating pace of consolidation in the class-A mall space, a competing bid cannot be ruled out.

The Westfield announcement caps off a year which included: the Fund's largest position being privatized at a substantial premium (Global Logistic Properties); one of the top five positions announcing that it was exploring strategic alternatives that could include a sale of the business (Forest City Realty Trust); two other businesses receiving take-over offers (Parkway, Inc. and Millennium & Copthorne plc); two other top five positions paying special dividends (Lennar Corp. and Land Securities plc); one top ten position undertaking an Initial Public Offering (Five Point Holdings); and two other holdings completing spin-off transactions (FNF Group and Vornado Realty Trust). Collectively, these positions accounted for 37% of the Fund's capital at the beginning of the year (versus 3% for the Index) and the events further solidify our long-held view that arbitraging the difference between the public and private market values for property can be a profitable endeavor.

Outside of the Westfield activity, the Fund was also active this quarter in terms of re-stocking the portfolio with securities that Fund Management views as some of the likely contributors to performance in the years ahead. In fact, the Fund made additions to each one of its key allocations during the quarter including: (i) businesses involved with long-term wealth creation (i.e., long-term compounders), (ii) residential related investments, (iii) special situations holdings, and (iv) select option strategies.

A long-term compounder added during the quarter was **Capital and Counties plc** ("Capco"), a UK based real estate operating company that owns assets in two prime London sub-markets (Covent Garden and Earl's Court). For those not familiar, Covent Garden is a district in West London that has been transformed into a leading shopping and entertainment destination that attracts more than 40 million visitors annually. Over the past five years, Capco's management team (which is led by CEO Ian Hawksworth) has actively repositioned its holdings in the area to capture higher rents by adding more appealing retail and dining options, as well as by opportunistically making "tuck-in" acquisitions of additional properties on the estate.

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.

As a result, the company now controls more than 1.1 million square feet of retail, office, and residential properties in the heart of London that seem well-placed with in-place leases that are nearly 40% below market-rents, thus providing additional upside as the rents are “marked-to-market” over time.

Almost as valuable as Covent Garden is Capco’s stake in Earl’s Court, the largest redevelopment site in Central London. Alongside its partners, Capco has received approvals to build more than 8,000 residential units and 100,000 square feet of commercial space on this 77-acre site that is incredibly well positioned as it is bordered by the neighborhoods of Chelsea, South Kensington, and Fulham. The company is currently in the process of applying for a revised planning permission, which could see an increase in residential density and an additional affordable housing component.

Should Capco finalize the revised plans, it’s not inconceivable that the company would sell stakes in the various development parcels, thus realizing the “higher-and-better-use” potential of its long-time land holdings. The proceeds from these sales could then be reinvested in Covent Garden as Capco further transitions to becoming a more focused London “specialist” such as its peer Shaftesbury plc, which has historically traded at a premium to NAV as opposed to the significant discount at which Capco common traded at the time of purchase.

During the quarter, the Fund sold its position in the common stock of **Kennedy Wilson Holdings** (“Kennedy Wilson”), a US based real estate operating company that has a portfolio of “value-add” commercial properties, as well as a sizable fund management business with more than \$15 billion of third party assets under management. The company recently completed an acquisition of its European affiliate, which changed the investment thesis. As a result, the Fund moved on for the time being. The proceeds from exiting the security were reallocated to the common stock of a real estate related business that Fund Management has followed for a number of years: **Amerco**.

While Amerco is not a household name, its largest and most valuable subsidiary, U-Haul International, is certainly well-known as it is the leading provider of self-moving services and supplies in North America with more than 150,000 trucks, 100,000 trailers, and 40,000 towing devices. In addition, the company has aggressively expanded into the self-storage business by adding storage facilities at its key locations over the past five years. As a result, Amerco now has nearly 30 million square feet of self-storage properties and controls one of the most valuable self-storage platforms in North America, further entrenching itself as the “go-to” provider of self-moving services by being able to offer reputable storage facilities alongside its other offerings.

In our view, those that follow Amerco rightly recognize the strategic merit of adding self-storage space to its offering

but fail to appreciate the underlying value of the platform. The reason is simple: many of the U-Haul self-storage facilities were only recently developed or acquired and are still in the process of leasing-up and stabilizing. Consequently, the portfolio was only 73% occupied at the end of the last quarter versus industry norms in the 90-95% range. It is our expectation that as these properties stabilize over the next few years, the occupancy rate will increase, thus boosting cash flows to a level that would support more reasonable values for the portfolio (\$165-185 per square foot) leaving the rest of the business priced at an incredibly modest valuation (i.e., less than 5 times EV/EBITDA). Such a value doesn’t seem representative of what is truly a market-dominant franchise that functions as a tax on goods and belongings being moved day-in and day-out.

Should the public markets not respond as this situation develops, it would not surprise us to see the control group (the Schoen family, which owns nearly 60% of the company and has run day-to-day operations since its founding in 1945) take steps to surface value. Such actions could include simply improving disclosure around the real estate component of the business, selling off additional land parcels (e.g., New York City or San Francisco sites), or taking more drastic measures such as entering into some sort of resource conversion activity around the real estate portfolio or entire business.

One company that has been engaged in resource conversion for years is Wheelock & Company (“Wheelock”), a Hong Kong based real estate operating company that has been a long-term holding in the Fund and highly profitable investment to date. Driving most of this appreciation has been Wheelock’s most valuable asset: its 62% stake in separately-listed **Wharf Holdings** (“Wharf”), a Hong Kong real estate company, which owns, manages, and develops a diversified portfolio of properties in Hong Kong and China.

During the quarter, Wharf completed a major corporate restructuring that involved spinning-off its investment property business to shareholders by forming another publicly-listed entity called Wharf Real Estate Investment Company (“Wharf REIC”) and refocusing the remaining business around its development projects. Following the spin-off of Wharf REIC, the Fund purchased the Common Stock of Wharf Holdings, taking advantage of the forced-selling that often occurs with spin-off transactions (e.g., index rebalancing).

Similar to Wheelock, we believe Wharf is extremely well capitalized, trading at a huge discount to NAV, with strong prospects to increase NAV by 10% or more per year once factoring in dividends. There is also a special situation element to the Wharf investment, as it is Fund Management’s view that the recent separation could have been the first step in a two-step process that will streamline the overall corporate ownership structure and ultimately lead to a privatization of Wharf Holdings by

Wheelock given the substantial overlap in business activities and operations. Fund management has a historical perspective in this regard, as Wheelock & Company successfully privatized another long-time Fund holding, Wheelock Properties (Hong Kong) in 2010 at a substantial premium to market prices.

Another investment that ended up in the Fund after a spin-off transaction earlier this year is **JBG Smith Properties** ("JBG Smith"). This US REIT was spun-out of long-time holding Vornado Realty Trust as a well-capitalized and more-focused owner of office and multifamily properties in the Washington DC area (including Crystal City and Pentagon City). The company also controls land that can accommodate more than 18 million square feet of future development. With a substantial opportunity to boost cash flows within its existing portfolio (87% occupancy in the office portfolio) as well as to profitably convert its well-located land bank to a higher-and-better-use, there are frankly few REITs that seem to have such a substantial opportunity in front of them in terms of boosting NAV over the next 3-5 years. With that being the case, Fund Management has been eager to add to its position in JBG Smith common at lower prices.

There is one scenario where our current underwriting metrics for JBG Smith may prove far too conservative. If Amazon were to select the Washington, D.C. metro area for its widely publicized "HQ2" search, JBG Smith will likely be worth a lot more than our current estimates.

We haven't been directly involved with the search process but believe that it is logical for Amazon to diversify away from its existing West Coast presence, and there are only a handful of markets in other regions that can accommodate its key requests (a metropolitan area of more than 1 million people, a site that is connected to mass transit and would have 500,000 square feet of space available by 2019 with the ability to add 8 million square feet over 10 years, an international airport within 45 minutes, and access to a highly educated labor pool with its intentions of hiring 50,000 employees over time).

With these requirements in mind, Washington, D.C. seems to rank near the top of the list. Should it ultimately be selected for its second headquarters, JBG Smith is likely to be a big winner as its Crystal City and Pentagon City locations are natural candidates for Amazon to utilize as it initially relocates employees to the region. Further, JBG could be a terrific partner for Amazon to work with as it looks to build out additional space and accommodate the company's demand for modern and well-located property.

With that backdrop in mind, the Fund entered into an options strategy around its existing position in JBG Common during the quarter by selling put options (at a level where the Fund is willing to buy more stock even if Amazon doesn't select D.C.) and using the proceeds to purchase call options (at a price that would be a meaningful

discount to NAV should an additional 50k jobs be added to DC in the next five years). We view this as a "win-win" as the Fund gets to buy more JBG Common should the discount to a conservative NAV estimate become more compelling, while also getting to participate in the potential upside of Amazon selecting DC without having to pay up for it.

FUND POSITIONING

After accounting for the most recent activity, the Fund ended the quarter with approximately 42% of its capital invested in property companies that are involved in long-term wealth creation. These holdings primarily include: CK Asset Holdings, 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, as well as by undertaking additional development and redevelopment activities and by making opportunistic acquisitions. Due to the transaction pending at Westfield, alongside the strategic alternative process that is currently being undertaken by Forest City, the allocation to long-term compounders could fall below 40% during the first half of 2018 but should be expected to be in the 45-55% range over the longer term.

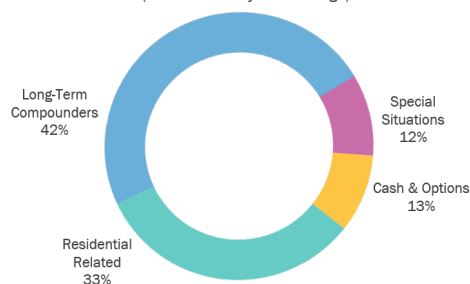
The Fund also has 33% of its capital invested in real estate-related businesses that have strong ties to the US residential markets, such as timberlands (Weyerhaeuser & Rayonier), land development (Five Point and Tejon Ranch), homebuilding (Lennar Corp), title insurance (FNF Group), moving and storage (Amerco), 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 12% of the Fund's capital is invested in special situations such as Millennium & Copthorne in the UK, Trinity Place Holdings in the US, Wharf Holdings in Hong Kong, and the Bank Debt of Neiman Marcus in the US.

The remaining 13% of the Fund's capital is in cash & equivalents (e.g., short-term US Treasuries). It is our expectation that cash balances will continue to increase in the first half of 2018, particularly if privatization efforts at Westfield and Millennium & Copthorne are successful (these collectively account for 6% of the Fund's capital). Should these deals close as proposed, the Fund's cash balances may exceed 15% providing ample dry powder to capitalize on the fresh opportunities as they arise. In the meantime, the Fund maintains certain hedges, most notably relating to its exposure to the Hong Kong Dollar, and has options outstanding relating to JBG Smith as outlined above.

ALLOCATIONS AS OF DECEMBER 31, 2017

(allocations subject to change)



FUND UPDATE

The Third Avenue Real Estate Value Fund was launched in 1998 with a unique strategy. Unlike other offerings, Third Avenue wanted to expand on its success in previous real estate and real estate related investments by dedicating a Mutual Fund to the sector that would:

- 1. Maintain a Deep Value Focus** by concentrating its capital on well-financed real estate and real estate related businesses with securities trading at prices that were substantially below their takeover or liquidation values (i.e., private market values or NAV), as well as other bargain priced securities across the capital structure.
- 2. Emphasize Total Return** with a bias towards capital appreciation over current income with the view that this was a more effective way to compound capital over time. As a result, the Fund intended to focus more on real estate operating companies (that could retain their cash flow and reinvest in the business) as opposed to REITs (which are required to distribute their earnings and largely depend upon raising new capital to expand their business).
- 3. Utilize a Flexible Mandate** that allows the Fund to invest in a wider set of real estate companies than peers who tend to only focus on companies included in relevant benchmarks. With the ability to invest in real estate operating companies, REITs, and real estate-related businesses, the Fund's investable universe is some two to three times larger than most real estate Funds.
- 4. Be Actively Managed** by concentrating the Fund's capital around a select set of securities (30-40 positions) irrespective of property type or region, as well as by holding cash when opportunities meeting Third Avenue's strict value criteria were not available, and occasionally implementing options strategies to hedge certain exposures and enhance the risk-adjusted return profile of the Fund.

While the strategy hasn't deviated since inception, the process used to implement the approach has improved immensely over the years. In the early days (1998 to 2000), the Fund's original architect, Michael Winer, and the Firm's

founder, Martin Whitman, acted as co-portfolio managers. Michael Winer was the only investment professional dedicated exclusively to the strategy until 2004. Jason Wolf was then hired as Senior Analyst to spearhead the Fund's international efforts. Approximately 50% of the Fund's capital has been invested outside the U.S. for the better part of a decade now, playing an outsized role in the Fund's returns. In 2006, Ryan Dobratz was hired as an Analyst, working with the rest of the team (which is now comprised of five dedicated members) to develop and implement a more robust process of screening the investable universe, underwriting new opportunities, tracking existing holdings, and recycling capital within the portfolio.

The additions of Jason Wolf and Ryan Dobratz transitioned the Fund to a team-based approach that would prove more durable over the long-term (which has always been our focus) and helped develop a well-defined (and repeatable) process in order to further enhance results.

The transition to a team-based approach was deliberately staged over the course of many years establishing Jason and Ryan as the ones to "carry the torch" as the Fund enters its 20th year of operations. While the current team has worked together for more than a decade now, close followers of the Fund know that Michael began delegating portfolio management responsibilities when Jason was added as co-Portfolio Manager in 2010 and handed over further roles when Ryan was added as a Portfolio Manager in 2013. Jason and Ryan have been handling most day-to-day operations of the Fund since the beginning of 2015. Michael's role has diminished while he focused attention on corporate activities involving certain positions in the Fund.

With the handoff largely being complete for the better part of two years now, Michael will formally retire from his Portfolio Management role of the Fund at the end of February. As part of the plan that we have had in place for more than ten years, Michael plans to remain a significant investor in the Fund (each portfolio manager has more than \$1 million invested in the strategy) and he expects to retain his seats on the Board of Directors at Five Point Holdings and Tejon Ranch (both long-term holdings of the Fund).

Portfolio management changes like this are oftentimes a reason for investors to give pause. For those that do, we believe that they will recognize that (i) the Fund has been in transition for more than a decade based on a well-defined succession plan and (ii) that the Third Avenue Real Estate Value Fund is a more compelling offering today than it was in its early years. In fact, the transition to a team-based approach, combined with the adoption of a more robust and repeatable process, has proven to enhance returns.

With nearly twenty years of performance, we think that the case for Third Avenue's unique approach to investing in real estate securities has been made. To wit, the Third Avenue Real Estate Value Fund is one of the top performing global real estate funds (i.e., top decile) over the past

1, 3, 5, 10, and 15 year periods as well as since the 1998 inception. Despite the long-term results, the differentiated performance seems to be becoming more apparent in conjunction with the process improvements that have been made in recent years. As a matter of fact, the Third Avenue Real Estate strategy has been awarded more Lipper Awards in the past five years (2014, 2015, 2016, and 2017) than the first fifteen (the Lipper Fund is awarded to Funds that have “excelled in providing consistently strong risk-adjusted performance relative to its peers” per Lipper’s parent company Thomson Reuters). For those that truly focus on results, we believe this is strong evidence that the strategy is adding even more value today than it did in its early years.

With that being the case, one should not expect any material changes to the strategy or process as we enter 2018, especially when considering that Jason and Ryan have worked together for more than a decade and a number of the enhancements that they set out to implement have already been reflected in the portfolio for a number of years. These include: (i) more prudent concentration, (ii) a focus on individual securities as well as thematic opportunities, (iii) a further emphasis on real estate related businesses with strong franchises, (iv) a willingness to have the portfolio “fully invested” when opportunities are abundant (i.e., cash at less than 10%), and (v) positioning the portfolio to “protect” capital in a rising rate environment and potentially even benefit from it.

There are two areas, however, where we have made further enhancements that should have an impact in 2018. One, we have continued to strengthen the “bench” of the Third Avenue Real Estate team. In that regard, we are pleased to report that Steve Bakke, CFA joined the Real Estate group in September as a Senior Analyst. Steve was previously at Surveyor Capital (a subsidiary of Citadel) and has more than a decade of experience in real estate securities, both in the US and internationally. Steve is the most experienced hire since Jason joined the team in 2004, and we are excited to have him on board as it’s a rare opportunity to find individuals who share our passion for both real estate and value investing.

Also of note, Third Avenue Management plans to launch a “clean” share class for the Third Avenue Real Estate Value Fund in the first quarter of 2018. The registration process is still underway, but the new share class is anticipated to be offered under the ticker TARZX and at a 90 basis point management fee (similar to the other two classes today) but cap non-management expenses at 15 basis points without any sales loads, 12 b-1 fees, or sub-transfer agency fees. Please contact Third Avenue’s shareholder services at 800-443-1021 if you have interest in learning more about the share class as it is rolled out in March 2018.

As we said at the onset, not all years may be as rewarding as 2017. However, by adhering to Third Avenue’s time-tested strategy of investing in undervalued real estate securities--while having an aligned portfolio management

team overseeing our proven process--we believe that the odds of achieving returns similar to the Fund’s long-term results (if not better) are stacked in our favor.

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

IMPORTANT INFORMATION

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

The information in this portfolio manager letter represents the opinions of the portfolio manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager(s) and may differ from those of other portfolio managers or of the firm as a whole. Also, please note that any discussion of the Fund's holdings, the Fund's performance, and the portfolio manager(s) views are as of December 31, 2017 (except as otherwise stated), and are subject to change without notice. Certain information contained in this letter constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue" or "believe," or the negatives thereof (such as "may not," "should not," "are not expected to," etc.) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any fund may differ materially from those reflected or contemplated in any such forward-looking statement. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

Date of first use of portfolio manager commentary: January 10, 2018

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

APPENDIX

December 31, 2017

FUND PERFORMANCE

as of 12/31/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)	22.17%	7.60%	10.41%	5.87%	11.20%	9/17/1998
TVRVX (Investor)	21.88%	7.33%	10.14%	(n/a)	10.75%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
CK Asset Holdings, Ltd.	5.9%
Lennar Corp.	5.8%
Weyerhaeuser Co.	5.2%
Forest City Realty Trust, Inc.	5.0%
Brookfield Asset Management, Inc.	4.6%
Rayonier, Inc.	4.5%
Henderson Land Development Co. Ltd.	4.5%
Land Securities Group PLC	4.5%
Five Point Holdings LLC	4.4%
Westfield Corp.	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
MANAGEMENT

www.thirdave.com

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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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