

September 30, 2018

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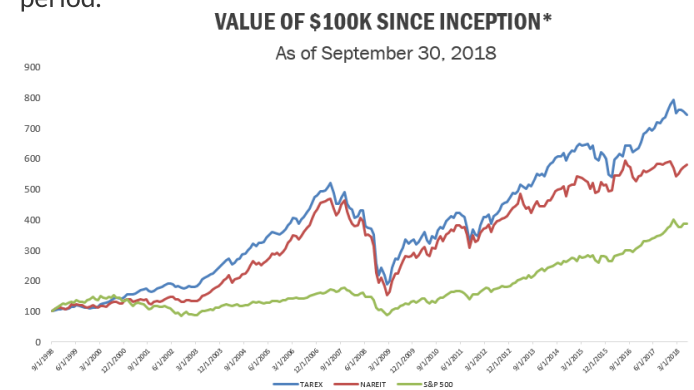
Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended September 30, 2018. Through the first nine months of the year, the Fund generated a return of -7.49% (after fees) versus +0.76% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA/NAREIT Developed Index¹.

Following solid results in 2017 (the Fund generated a return of +22.17% vs. 11.42% for the Index), recent performance has been impacted by the Fund's exposure to companies with ties to: (i) the US residential markets; (ii) the UK property markets; and (iii) Asia, in particular Hong Kong. In all three cases, Fund Management believes that the long-term prospects for these holdings remain promising and that recent performance has made the price-to-value proposition even more compelling for long-term holders.

In fact, the recent volatility has created an opportunity to add to certain existing holdings at material discounts to private market values (CK Asset Holdings, Henderson Land, Capital & Counties, Wheelock & Co.) as well as initiate positions in a select set of property companies (Berkeley Group Holdings, St. Modwen plc, Sino Land). As a result of these investments and recent price movements, the Fund is now trading at more than a 20% discount to Fund Management's conservative estimate of Net Asset Value ("NAV") when viewed in the aggregate. As close followers of the Fund are aware, this is a level that has only been reached in a few instances in recent times (e.g., late 2011 and early 2016) and has historically proven to be a very strong indicator of outsized returns in the year ahead.

Recognizing that return figures vary over shorter periods of time, Fund Management believes a superior gauge of performance is the Fund's long-term results where it has earned an annualized return of +10.33% since its inception in 1998. As highlighted in the chart below, this performance indicates that an initial investment of \$100,000 in the Third Avenue Real Estate Value Fund would have a market value of more than \$717,000 as of September 30, 2018 (assuming dividends had been reinvested), or 70% more than 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 quarter where one of the largest retailers in the US prepared for bankruptcy (Sears Holdings), it would have been Fund Management's expectation that most of the activity during the period would have been related to retail real estate. Instead, the primary activity included exiting a long-time US holding in the Fund alongside a privatization transaction and recycling the proceeds to discounted securities in high-barrier-to-entry international markets.

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.

While considerable resources continue to be spent assessing the opportunity at Sears Holdings, the Fund does not have a position in its capital structure today. In reality, the situation has been tracked closely for the better part of ten years now, thus shaping our view that some of the best opportunities in this case are more tangential in nature. For instance, there are a number of companies in the portfolio that could benefit from a Sears Holdings reorganization by putting stores previously occupied by the retailer to a higher-and-better-use (i.e., Seritage, Macerich, Vornado, Acadia) as well as by taking further market share in tools and appliances (i.e., Lowe's). Should the restructuring take an unexpected turn, though, there may be an opportunity to invest in certain debt securities of Sears at discounted prices--similar to the Fund's purchase of the Prop Co. I Loan of Toys "R" Us earlier this year when the retailer elected to pursue a liquidation.

Prior to the Sears announcement, **Forest City Realty Trust** (a long-time holding and core position in the Fund) had news of its own: it received a take-over offer from Brookfield Property Partners at \$25.30 per share in an all-cash transaction. While the offer was slightly below Fund Management's estimate of NAV, even after factoring in the tax liabilities that would be incurred in a change-of-control transaction, the bid served to surface value in Forest City Common, which had traded below \$20 per share as recently as May 2018.

With the offer being supported by a majority of the Board of Directors, and Forest City agreeing to a meaningful break-up fee, a "topping bid" seemed unlikely. Consequently, the Fund exited its stake in Forest City Common during the quarter--realizing a substantial profit on this long-held investment (the Fund's average cost basis was less than \$9 per share). The proceeds from the disposition were primarily reallocated to the common stock of some "best in class" real estate operating companies trading at substantial discounts to NAV, primarily due to an uncertain near-term outlook for their key markets.

The most significant new addition during the quarter was the common stock of **Berkeley Group Holdings** ("Berkeley"), a UK based real estate operating company that is primarily involved with urban regeneration projects in the greater London market. In these multi-year developments, Berkeley acquires brownfield sites, adds value through planning and entitlement work, and then undertakes the development of residential units and

commercial properties for-sale to maximize the value of the projects. Having established an unrivaled platform over the past two decades, the company currently controls more than 90 sites, with entitlements to build more than 45,000 homes in the UK, one of the most supply-constrained residential markets globally.

Berkeley has been held in the Fund previously (as most recently as 2012) and undoubtedly exemplifies the key pillars that Third Avenue seeks out in common stock investing. To wit, the company is incredibly well-capitalized with a net-cash balance sheet (i.e., cash exceeds debt) and is very well-managed by an aligned control group that has a proven track record of excelling as operators, financiers, and investors. Further, the common stock is currently trading at a significant discount to its "what-is" NAV (e.g., the value of the profits embedded in the existing pipeline), and the company has prospects to increase its NAV by 10% or more per year, when viewed on a per share basis, as it adds planning consents at its existing projects, opportunistically acquires additional brownfield sites, and repurchases shares at discounted valuations.

The Fund also initiated a position in the common stock of **St. Modwen plc** ("St Modwen"), a UK based real estate operating company that owns a diversified portfolio of commercial properties in the UK as well as 6,000 acres of land that is entitled for the development of an additional 17 million square feet of commercial property and nearly 17,000 residential units mostly located in the Midlands and North regions of the UK. While St Modwen has not been previously owned, Fund Management has tracked the company for more than a decade as it is one of the premier "value creators" in global real estate. Similar to Berkeley, St Modwen primarily utilizes its excess cash flow to acquire brownfield sites, remediate the land, add value through the planning process, and unlock that value through the development of commercial and residential properties.

In 2016, St Modwen underwent a management change, adding Mark Allen as CEO (previously of the Unite Group). Under his leadership, the company has streamlined its business by divesting of smaller non-core assets and also reduced debt levels in the process (the net debt to asset ratio is now approximately 20%). Despite this progress, the company's common stock remains at a discount to its NAV while over the next three to five years it seems likely that the company could (i) further increase its NAV by activating development projects on its underutilized land

assets, particularly by building out highly sought after modern logistic facilities and (ii) potentially surface value by splitting off the residential business from its core commercial properties and development projects.

The Fund also increased its stake in **Capital and Counties plc** (“Capco”) during the quarter. As outlined in previous letters, Capco is a well-financed real estate operating company based in the UK that controls two prime locations in central London (Covent Garden and Earl’s Court). The company recently disclosed that it is exploring strategic alternatives, which could include selling its Earl’s Court development site, or splitting it off into a separate publicly-traded company. Should a transaction materialize, such a move could serve to unlock value from the estate, which is not currently income producing but entitled for nearly 8,000 residential units and more than 100,000 square feet of commercial space in a highly desirable sub-market. In the process, Capco would be left as a more streamlined business squarely focused on Covent Garden—one of the leading shopping and entertainment destinations globally.

Following these recent additions, the Fund had approximately 18% of its capital invested in the UK through a strategic group of well-financed companies that are mostly London centric that have been trading at material discounts to NAV since the UK elected to leave the European Union in the 2016 “Brexit” Referendum. While the final details of the process are yet to be finalized, Fund Management “signs off” on the idea that London will remain a highly sought-after location for decades to come and believes the recent narrative around financial services related activities migrating away from London fails to acknowledge the significant expansion of technology and media tenants in the market. Continued volatility leading up to the March 2019 “Brexit” deadline could create further opportunities for the Fund to increase its exposure, as well as present opportunities for the underlying holdings to make value-enhancing acquisitions.

Outside of the UK, the Fund initiated a position in the common stock of **Sino Land**—a Hong Kong-based real estate operating company that owns a diversified portfolio of commercial properties primarily comprised of office and retail assets that are essentially fully-leased (96% occupancy rate) and located in Hong Kong. In addition, the company is engaged in residential and commercial development in Hong Kong and tier-1 cities in Mainland

China with a pipeline of more than 9 million square feet of residential and commercial projects. Sino Land also controls some incredibly well-located hotel properties including the Conrad in Hong Kong and the Fullerton Hotel in Singapore.

Since the company was founded by the Ng family of Singapore in the early 1970’s, Sino Land has been conservatively managed with an eye on creating value over long time horizons. That is exactly the case today as the company currently has a net cash position of more than \$2 billion USD (25% of its market capitalization), which is expected to increase to approximately \$4 billion over the next 18-24 months as key residential projects are launched (i.e., Grand Central in the Kowloon sub-market of Hong Kong).

This leaves Sino Land in an enviable position. Should there prove to be any market dislocations, the company will have ample cash resources to make meaningful investments at prices that could prove quite attractive with the long-term in mind. However, if such a scenario doesn’t materialize, and Sino Land’s stock price were to remain around existing levels (60% of book value), the implied discount for the company’s real estate investments would be close to 75% after accounting for the expected cash balances that should accrue alongside anticipated property sales. This sort of discount would be unprecedented and could lead to a resource conversion event given the excess capital in the business (e.g., special dividend, tender offer, privatization, etc.).

In addition to Sino Land, the Fund also increased its investments in **CK Asset Holdings**, **Henderson Land**, and **Wheelock & Co**. As a result, the Fund had approximately 21% of its capital invested in Asia ex-Japan at the end of the quarter, which is primarily comprised of “blue-chip” real estate operating companies focused on Hong Kong.

Fund Management is well aware that the near-term fundamentals for Hong Kong could be challenging given the Special Administrative Region’s close economic ties to Mainland China, where growth is slowing. Further, Hong Kong imports its monetary policy from the US, so an increase in borrowing rates could act to curtail residential activity. The Fund’s holdings seem well equipped to handle such a scenario though, as the issuers owned in the portfolio are all incredibly well-capitalized. Further, these companies’ common stocks seems to provide more than an adequate margin of safety, in our view, with discounts to

NAV approaching 50%--as well as significant appreciation potential should macro concerns dissipate and valuations return to more normalized levels.

While most of the action was overseas during the quarter, the Fund exercised **JBG Smith Properties** ("JBG") call options, thereby increasing its holding in the common stock. This US Real Estate Investment Trust ("REIT") is one of the largest commercial real estate owners in the Washington, D.C. metropolitan area with more than 18 million square feet of office, retail, and multifamily properties. JBG also controls a strategic land bank, which can accommodate another 17 million square feet of future development.

JBG common has been held in the Fund since it was spun-out of Vornado Realty Trust in 2016 as the company has strong prospects to boost its underlying value by leasing up the vacant space within its existing properties (i.e., Crystal City and Pentagon City) as well as selectively activating certain development opportunities—a process that would be accelerated should Amazon select the Washington, D.C. area for its widely publicized "HQ2" search.

Fund Positioning:

After accounting for the most recent activity, the Fund ended the quarter with approximately 45% 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, Berkeley Group, Vornado Realty Trust, Capital and Counties, Wheelock & Co., Henderson Land, Sun Hung Kai Properties, and St Modwen. Each of these enterprises is very well-capitalized, trades at a discount to our estimate of NAV, and has prospects to increase 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), 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 volumes of residential purchases in the US. While fundamentals have recently moderated, most major markets remain supply constrained (i.e., record low levels of for-sale inventory and record high multi-family occupancy rates) at the same time that household formation is normalizing, thus supporting demand for new construction and related activities as markets participants ultimately adjust to the recent increase in mortgage rates.

An additional 17% of the Fund's capital is invested in special situations such as Macerich, Toys "R" Us, and Trinity Place Holdings in the US; Millennium & Copthorne in the UK; and Wharf Holdings in Hong Kong. The remaining 6% of the Fund's capital is in cash & equivalents (e.g., short-term US Treasuries). The Fund also maintains certain hedges, most notably relating to its exposure to the Hong Kong Dollar.

ALLOCATIONS AS OF SEPTEMBER 30, 2018

(allocations subject to change)



Fund Commentary:

Twenty years ago, the Third Avenue Real Estate Value Fund was launched with the view that, in many cases, real estate could be purchased a lot cheaper on "Wall Street" than "Main Street." Fast forward to 2018, and the same concept still holds true—particularly for those companies with ties to retail, US housing, Asia, and the UK.

If the past two decades have proven anything, it is that trying to predict the timing of when value will be recognized is an impossible endeavor. On the other hand, buying in at prices that represent discounts to conservative estimates of NAV in well-capitalized businesses (that can withstand the cyclical nature of real estate) and patiently waiting for value to be recognized can be incredibly profitable for an enterprising investor.

Fund Management acknowledges that sitting idly and waiting for value to be recognized on its own is not always the best path, however. In certain cases, taking a more active approach with management teams and control groups is necessary to assist in implementing changes to highlight value when there seems to be a structural disconnect between the public market price and the private market value. While wide ranging, this has included Fund Management engaging in efforts to implement improvements to corporate governance, enhancements to disclosures, refined business strategies, realigned incentive programs, revised capital allocation policies, and change-of-control transactions.

At Third Avenue, our preferred method for these types of discussions has always been to engage behind the scenes and in a mutually constructive manner. When necessary, though, the Firm has gone public with its requests to expedite the process of implementing change (e.g., filing a 13-D relating to Forest City in 2011 when the stock was at \$8 per share). While not the ideal path, this route remains a tool that Fund Management will exercise in cases where reasonable best practices are not being adopted, although clearly in the interests of long-term shareholders--including the Fund.

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

Sincerely,

The Third Avenue Real Estate Team



Jason Wolf, CFA



Ryan Dobratz, CFA

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 June 30, 2018 (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: October 24, 2018

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

APPENDIX

September 30, 2018

FUND PERFORMANCE

	as of 9/30/18	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)		-1.54%	6.60%	6.25%	7.43%	10.33%	9/17/1998
TVRVX (Investor)		-1.87%	6.32%	5.97%	(n/a)	8.79%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
CK Asset Holdings, Ltd.	6.4%
Lennar Corp.	5.8%
Weyerhaeuser Co.	5.5%
Brookfield Asset Management, Inc.	5.4%
Macerich Co.	4.7%
Henderson Land Development Co. Ltd.	4.6%
Rayonier, Inc.	4.3%
Five Point Holdings, LLC, Class A	4.0%
Wheelock & Co. Ltd	3.9%
PNC Financial Services Group, Inc.	3.6%

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, investor and z share classes is 1.11%, 1.36% and 1.01%, respectively, as of March 1, 2018. 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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