THIRD AVENUE
MANAGEMENT

REAL ESTATE VALUE FUND

AS OF MARCH 31, 2021

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

PORTFOLIO MANAGER COMMENTARY

JASON WOLF, CFA | RYAN DOBRATZ, CFA

Dear Fellow Shareholders:

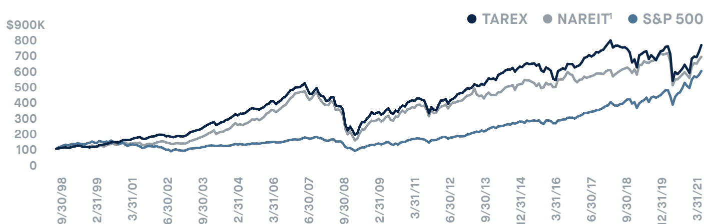
We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the period ended March 31, 2021. During the first quarter of the calendar year, the Fund generated a return of +10.70% (after fees) versus +6.11% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index.[1]

Notable contributors to performance during the period included the Fund's investments in the common stocks of certain U.S.-based real estate operating companies, which are in varying stages of surfacing value from extensive non-income producing assets (Lennar Corp., Five Point Holdings, and AMERCO). Detractors to performance were limited but included certain holdings in Europe (Patrizia Immobilien, Berkeley Group, and Grainger plc) as well as the Fund's more recently initiated holding in the Federal National Mortgage Association ("Fannie Mae")—providing the opportunity to establish a more meaningful position during the quarter (see ensuing Activity section).

Recognizing that security prices can fluctuate from quarter-to-quarter, and that true value-oriented investments can oftentimes take years to materialize, Fund Management maintains the view that the Fund's long-term results are a superior gauge of performance. Since the Fund's inception in 1998, it has earned an annualized return of +9.43% (after fees). As highlighted in the chart below, this performance indicates that an initial investment of $100,000 in the Fund would have a market value in excess of $760,000 (assuming distributions had been reinvested), or more than the same $100,000 would be worth had it been placed into a passive fund tracking the Fund's most relevant benchmark (as well as the S&P 500).

VALUE OF $100,000 SINCE SEPTEMBER 1998

As of March 31, 2021



Hypothetical Investment since September 30, 1998 (Fund Inception Date September 17, 1998). **Past performance does not guarantee future performance results.**

ACTIVITY

For the better part of three decades, Third Avenue Management has adhered to a buy-and-hold approach when investing in common stocks. Put otherwise, Funds managed by Third Avenue have historically operated with much lower levels of turnover (i.e., the percentage change in the underlying holdings each year) than most other actively managed funds. In fact, the Third Avenue Real Estate Value Fund's turnover has averaged less than 20% over time—implying a holding period of more than five years for its investments, on average, with its peer group trading more than three times as often, on average (per Morningstar data).

Insofar as Fund Management is concerned, a more patient approach to investing in publicly-traded real estate securities best serves the Fund's objective of seeking long-term capital appreciation by (i) reducing transaction costs and (ii) allowing capital to compound in a tax-efficient manner (e.g., approximately 80% of the Fund's investment returns have been derived from capital appreciation). Not only that, but an emphasis on allocating capital to securities that are backed by significant real assets and issued by enterprises with aligned managers offers other advantages. Most notably, the proposition to quasi partner with like-minded control groups well versed in wealth creation methods overlooked by most market participants.

To wit, the vast majority of the investment community relies exclusively on reported (or expected) earnings to estimate corporate value. On the other hand, Third Avenue is much more focused on the quantity (and quality) of a company's asset base. Furthermore, it has been our experience that value is a dynamic concept and that there are means to create wealth outside of reported earnings, including corporates (i) profitably redeploying free cash flows[2], (ii) engaging in resource conversion activities such as mergers, acquisitions, spin-offs, tender-offers, et al, and (iii) accessing the capital markets on a super attractive basis.

These types of actions might even be considered by some as the preferred source of value creation (especially in the more tax-sensitive private markets) and were on full display throughout the period in a number of the Fund's key holdings, including:

- **Lennar Corp.** (the leading homebuilder in North America, which also has substantial interests in related businesses such as multi-family development, "PropTech" ventures,

land development, and financial services) announcing that it anticipated spinning-off a number of its ancillary businesses into a separate publicly-traded company later this year. Through this transaction, Lennar's forward thinking management team (headed by Executive Chairman Stuart Miller) would surface an estimated $3-5 billion of asset value that is not currently generating substantial profits by placing the related business lines into a new entity (or $10-16 per share of value). Moreover, this transaction is not expected to compromise the earnings from its incredibly-efficient homebuilding operations, which generated more than $8 per share of profits in the most recent 12 month period (implying more than $96 per share at a 12 times multiple) while selling more than 52,000 homes during the year (or roughly one home every 10 minutes).

- **Brookfield Asset Management** (a Canadian-based alternative asset manager with leading positions in property, infrastructure, renewable energy, private equity, and credit) announcing that it had agreed on terms to acquire the remaining 40% of its publicly-traded real estate subsidiary (Brookfield Property Partners) that it didn't already own for a mix of cash, stock, and preferred equity. Should the deal close later this year, Brookfield's management team (which is led by one of the preeminent capital allocators CEO Bruce Flatt) will expand upon its esteemed track record of contrarian investing by increasing its exposure to premier office and retail assets at a time when both property types are out-of-favor. In addition, the company seems likely to enhance its ability to extract value from the properties through active management, non-recourse financings, and densification efforts with the platform fully-controlled and placed alongside some of its other verticals (e.g., Brookfield Residential).

- **CBRE Group, Inc.** (the largest commercial real estate services firm globally with leading brokerage, facilities management, consulting, and asset management offerings) revealing that it had agreed to acquire a 35% stake in Industrious—one of the largest networks of coworking and private office spaces in North America. Alongside the investment, CBRE's management team (headed by CEO Bob Sulentic) has created a unique structure whereby it will also contribute its existing shared workspace portfolio (i.e., Hana) thus positioning the combined platform to take significant market share in the rapidly expanding "flexible workplace" market given CBRE's reach (the company operates in more than 100 countries and counts 90% of Fortune 100 companies as clients) and a coworking model that could be viewed more favorably by property owners (e.g., revenue share agreements in lieu of fixed-cost leases through special purpose vehicles).

- **JBG Smith Properties, Inc.** (a U.S.-based real estate investment trust that is among the largest commercial real estate owners in the Washington, D.C. area with more than 25 million square feet of office, multifamily, and retail space including future developments) converting a portion of its extensive land holdings to a more productive use by commencing construction on a residential tower in the National Landing sub-market, as well as beginning infrastructure work on the Virginia Tech Institute in the adjacent Potomac Yard division. Through these activities, JBG Smith's thoughtful business plan is being carried out at the direction of CEO Matthew Kelly by investing capital at compelling yields on its development spend due to a low-cost land position, as well as further strengthening the appeal of the area that will serve as Amazon's "HQ-2" where the company not only controls roughly 9 million square feet of existing space but land that can accommodate an additional 8 million square feet of development opportunities.

- **Prologis, Inc.** (a U.S.-based real estate investment trust that is the largest owner of modern logistic facilities with a platform that expands more than 950 million square feet of space in 19 countries globally) completing $2.0 billion USD of debt placements at a weighted average interest rate of 0.9% with an average term of more than 13 years. In the process, the company has further solidified one of the most compelling capital structures in the real estate industry with a prudent loan-to-value ratio of approximately 25% that is primarily comprised of fixed-rate debt at an average cost of 1.8% for a term that exceeds 10 years. As a result, the long-tenured management at Prologis (including one of the true leaders in the real estate space CEO Hamid Moghadam) have set up the company for what could be a very rewarding period ahead as incremental rental income and asset management fees seem likely to accrue disproportionately to shareholders on the "bottom-line" with its interest costs locked-in.

While the bulk of the "action" occurred at the corporate level this quarter, the Fund did engage in modest changes during the period. Most notably, the Fund trimmed back its positions in the common stock of **AMERCO** (the leading provider of self-moving equipment and self-storage facilities in the U.S. through its U-Haul subsidiaries) and **Segro plc** (the largest owner of industrial real estate in the U.K. and continental Europe).

The Fund also sold "covered calls[3]" relating to a portion of its position in the common stock of **Lennar Corp.** (and thus collected "premium income" in the process). Should the call option be exercised, the Fund's position in Lennar common will be reduced to approximately 7.0% of net assets and be mostly comprised of Lennar B shares—which remain at prices that represent more than a 20% discount to the A shares despite equal economics, a discrepancy that might narrow alongside the aforementioned spin-off of Lennar's ancillary businesses later this year.

The proceeds from this activity were primarily allocated to increasing the Fund's more recently established positions in **National Storage REIT** (the leading owner and manager of self-storage facilities in Australia and New Zealand) and the preferred shares of **Fannie Mae** (a leading provider of liquidity to the U.S. residential mortgage market).

Consequently, the Fund had approximately 3.8% of its capital invested in the common stock and preferred equity of Fannie Mae at the end of the quarter. As outlined in greater detail in the Fund's previous shareholder letter, Fannie Mae is the most profitable real estate company globally (when measured by operating profits) but its securities trade at fractions of their underlying value, in Fund Management's view, as the entity has operated under conservatorship since 2009 (with the Federal Housing Finance Agency acting as conservator). Notwithstanding, Fund Management continues to believe that the enterprise will ultimately exit this framework while further rebuilding capital as outlined in its Strategic Plan—a process that should be expedited once legal opinions are rendered addressing controversial changes to its Senior Preferred Stock Purchase Agreement with the U.S. Treasury (i.e., the "Net-Worth Sweep").

POSITIONING

After incorporating the aforementioned activity, the Fund has 44% of its capital invested in **Residential Real Estate** companies that have strong ties to the US and UK residential markets, where there are serious supply deficits after years of under-building. In conjunction with record-low inventory levels, there is now very substantial demand for new product at an affordable price point (both for-sale and for-rent). Therefore, these holdings seem poised to benefit from a further recovery in residential construction, sales, and ancillary activities. At the end of the quarter, these positions included a diversified set of businesses including homebuilding (Lennar Group and Berkeley Group), timberland ownership and management (Weyerhaeuser and Rayonier), land development (Five Point Holdings and St. Modwen Properties), the ownership and development of rental properties (American Homes 4 Rent, Grainger plc, and Essex Property Trust), as well as other ancillary businesses (Lowe's and Trinity Place Holdings).

The Fund also had 37% of its capital invested in **Commercial Real Estate** enterprises that are involved in long-term wealth creation. These holdings are largely capitalizing on secular trends within property, including structural changes that are driving more demand for industrial properties and self-storage facilities (Prologis, Segro plc, First Industrial, U-Haul, Big Yellow, and National Storage) as well as the further densification and improvements taking place in select urban corridors (JBG Smith Properties, Derwent London, CK Asset Holdings, Vornado Realty Trust, Henderson Land, and Wharf Holdings). In Fund Management's view, each of these enterprises is very well-capitalized, their securities trade at discounts to private-market values (especially in light of the prevailing interest rate environment), and they seem capable of increasing Net-Asset Value ("NAV")—primarily by undertaking additional development and redevelopment activities, as well as by making opportunistic acquisitions.

An additional 17% of the Fund's capital is invested in **Real Estate Services**. These businesses are generally less capital-intensive than direct property ownership and as a result have historically offered much higher returns on capital—provided the business has a favorable competitive positioning within the real estate value chain. At the present time, these holdings primarily include franchises involved with asset management (Brookfield Asset Management and Patrizia Immobilien), brokerage and property management (Savills plc and CBRE Group), as well as mortgage and title insurance (Fannie Mae and FNF Group).

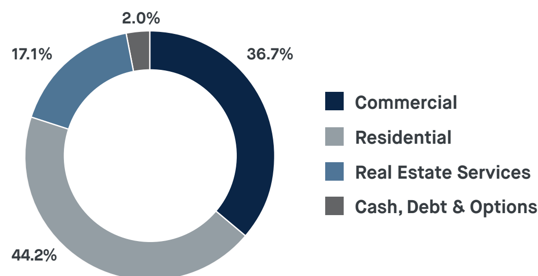
The remaining 2% of the Fund's capital is in **Cash & Equivalents**. The Fund also has certain hedges in place, primarily relating to its foreign currency exposures (Hong Kong Dollar).

The Fund's allocations across these various business types are outlined in the chart below. In addition, Fund Management reports the Fund's exposure by *geography* (North America, Europe, and Asia-Pacific) and *strategy* (Core/Core-Plus, Value-Added, Opportunistic, and Debt) for comparison with institutional reporting standards for direct real estate allocations.

ASSET ALLOCATION AS OF MARCH 31, 2021

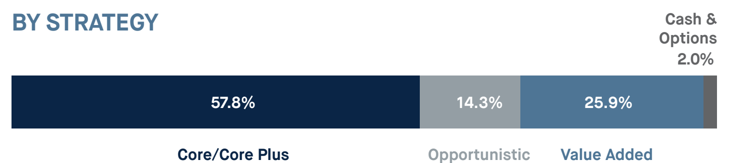
(allocations subject to change)

BY BUSINESS TYPE



BY GEOGRAPHY

BY STRATEGY



FUND COMMENTARY

Avid readers of legendary investor Sir John Templeton's work likely recognize that there are few who have shared so many investment lessons that have withstood the test of time. One that has always resonated with Fund Management, in particular, was spelled out in *The Templeton Touch*, by William Proctor, where Templeton observed that "in most instances of inflation throughout history, the ownership of real estate was the biggest single way to protect yourself."

This concept is not lost on those who have studied the 1970's, a decade when inflation averaged more than 6.0% (as measured by CPI) and publicly-traded real estate securities were amongst the leading equity strategies (alongside "Value" and "Small-

Cap" per BofA Global Research). It is a proposition, though, that seems to be of greater importance today when considering that (i) the U.S. monetary base has expanded by more than 25% on a year-over-year basis (as measured by M-2 and reported by the Federal Reserve through February 2021) and (ii) escalating input costs are rampant across a wide-range of industries (please see the Third Avenue Value Fund shareholder letter for more on this).

Not all real estate is created equal, however. As Templeton also wisely noted, there have been cases in history with rapid inflation where real estate failed in this objective because of price controls (e.g., particularly government intervention in rental housing). It is therefore imperative for those seeking to safeguard one's capital from inflationary forces to focus on property types within real estate space that maintain elements of pricing power or have distinctive operating leverage tied to unique supply and demand drivers. Companies that seemingly exhibit these attributes, and also represent significant components of the Third Avenue Real Estate Value Fund, include:

1. Sought-after income-producing properties with shorter-duration lease structures. The vast majority of the Fund's investments in income-producing properties are focused on property types exhibiting more favorable demand dynamics such as industrial, self-storage, modern-office, and single-family rental portfolios. In addition, the portfolios are primarily concentrated in sub-markets possessing meaningful supply constraints or experiencing significant transformation alongside infrastructure improvements or population growth. Further, these portfolios have a weighted average lease-term of 4.0 years, providing the companies with an opportunity to capture the economics of these supply and demand drivers by resetting approximately one-quarter of rental rates each year. It is also by design that the Fund has largely eschewed investing capital in property types where the supply-demand dynamics seem less favorable (e.g., commodity office, less strategic retail, and colocation data centers) or in property types with longer-duration lease terms or significant ground-lease components (e.g., net-leased assets, healthcare facilities, and towers).

2. Strategic land positions representing some of the key sources of new residential housing in supply constrained markets. As those well-versed in the economics of residential construction are aware, home price appreciation creates an interesting proposition for strategic land owners as finished lot prices are generally a residual of home prices and tend to increase (or decrease) at a factor of two to three times the final selling price. For instance, if Five Point Holdings sold residential lots in its Valencia community in 2020 for $240,000 per lot (i.e., 35% of the average selling home price of $685,000 in the area) with net margins of $72,500 per lot (i.e., approximately $155,000 of improvement costs per lot), one could infer that the net margins per lot could increase to $84,500 and $96,500 with a 5.0% and 10.0% increase in the average selling price, respectively, assuming the same lot-to-sales ratio and improvement costs. In all reality, home price appreciation has been much more significant though, as the average price of existing home sales in the U.S. increased to $313,000—or nearly 16% above the level one year prior (per the NAR®). As Five Point (and other Fund holdings that control substantial land banks in supply constrained markets such as Berkeley Group, CK Asset Holdings, St. Modwen Properties, and Henderson Land) undertake additional lot sales, the unrealized value that is accruing alongside significant home price appreciation should ultimately be recognized in higher net margins, Net-Asset Values, and security prices, in our view.

3. Asset managers with leading real estate and real asset franchises. As noted in Preqin's Special Report: the Future of Alternatives, more than 50% of institutional investors anticipate increasing allocations to real estate by 2025. Asset managers with accomplished track records, capacity in compelling property strategies, and the ability to co-invest alongside partners seem poised to accommodate these additional mandates—thus boosting their fee-bearing assets without significant incremental operating costs. For instance, if Patrizia Immobilien, a German-based fund manager and Fund holding, were to hit its medium-term target of €70 billion ($82 billion) of assets under management, the company's operating income would likely approach €150 million ($175 million) relative to the €117 million ($137 million) reported in 2020 (or more than a 25% increase) given the operating leverage inherent in the fund management model (e.g., operating margins of +40% with further scale relative to the high-30% range more recently). Other Fund holdings with industry-leading asset management platforms and opportunities to further expand fee-bearing assets include Brookfield, CBRE, and Savills.

4. Real Estate resources that serve as the chief inputs in the residential construction process. This portion of the portfolio primarily relates to highly-productive tracts of timberlands where 3-4% of the merchantable inventory (e.g., standing trees) are being harvested each year and converted to lumber, oriented strand board, plywood, and other uses critical in the residential construction process. One area of significant interest is the Fund's exposure to the U.S. South where Southern Yellow Pine ("SYP") is the predominant species and log prices currently sit at *century-low* levels (when viewed on an inflationary adjusted basis). In certain wood baskets, however, there are signs of price tension for the first time in more than a decade alongside recent capacity expansions and an emerging export market—a development that could be significant for timberland owners such as Weyerhaeuser and Rayonier. For instance, Rayonier is currently selling SYP logs at approximately $25 per short ton—or $16 below levels realized prior to setbacks in residential construction starting in 2008. Should those previously-achieved prices for SYP be attained once again (in coastal markets), the cash flows from Rayonier's Southern timberland segment would increase by nearly 30% even assuming that the price for lower-priced pulpwood remained constant.

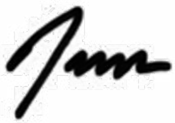
With significant capital allocated to real estate enterprises such as these, the Third Avenue Real Estate Value Fund seems uniquely placed in the real estate space. That is to say, not only is the Fund comprised of securities that offer compelling price-to-value propositions in Fund Management's view, but the portfolio also seems to be positioned as a real estate alternative that can

guard against the prospects of inflation over time. While these types of allocations may leave the Fund with exposures that vary from more widely-recognized real estate indices (i.e., the Fund's "active share[4]" exceeds 90%), it was Templeton who observed that "it is impossible to produce a superior performance unless you do something different from the majority."

We thank you for your continued support and look forward to writing to you again next quarter. In the meantime, please don't hesitate to contact us with any questions, comments, or ideas at realestate@thirdave.com.

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 March 31, 2021 (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: April 19, 2021

1 The FTSE EPRA/NAREIT Developed Real Estate Index was developed by the European Public Real Estate Associa on (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 Source Investopedia - Free Cash Flow - Free cash flow (FCF) represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets. Unlike earnings or net income, free cash flow is a measure of profitability that excludes the non-cash expenses of the income statement and includes spending on equipment and assets as well as changes in working capital from the balance sheet.

3 Source Investopedia - Covered Call - A covered call refers to a financial transaction in which the investor selling call options owns an equivalent amount of the underlying security. To execute this an investor holding a long position in an asset then writes (sells) call options on that same asset to generate an income stream.

4 Source Investopedia - Active Share - Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

THIRD AVENUE
MANAGEMENT

REAL ESTATE VALUE FUND

AS OF MARCH 31, 2021

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

FUND PERFORMANCE

As of March 31, 2021

	3 mo	1 yr	3 yr	5 yr	10 yr	Inception	Inception Date
Third Ave Real Estate Value Fund (Inst. Class)	10.70%	42.75%	0.22%	5.06%	6.53%	9.44%	9/17/1998
Third Ave Real Estate Value Fund (Inv. Class)	10.65%	42.42%	-0.05%	4.79%	6.26%	7.31%	12/31/2009
Third Ave Real Estate Value Fund (Z Class)	10.72%	42.84%	0.30%	N/A	N/A	0.78%	2/28/2018

TOP TEN HOLDINGS

Allocations are subject to change without notice

	TAREX
Lennar Corp.	7.9%
Five Point Holdings, LLC, Class A	7.1%
Brookfield Asset Management, Inc.	6.2%
Weyerhaeuser Co.	4.9%
CK Asset Holdings, Ltd.	4.8%
Prologis, Inc.	4.7%
Rayonier, Inc.	4.4%
AMERCO	4.3%
Berkeley Group Holdings PLC	4.3%
Lowe's Companies, Inc.	4.0%
Total	**52.6%**

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 1.18%, 1.47% and 1.08%, respectively, as of March 1, 2021. TAM has agreed to waive all accrued entitlements related to the fiscal periods Oct 31, 2017 and Oct 31, 2018, which would have been subject to repayment until Oct 31, 2020 and Oct 31, 2021, respectively.

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 website 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.

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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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