REAL ESTATE VALUE FUND

AS OF JUNE 30, 2021

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

PORTFOLIO MANAGER COMMENTARY

JASON WOLF, CFA | RYAN DOBRATZ, CFA

Dear Fellow Shareholders:

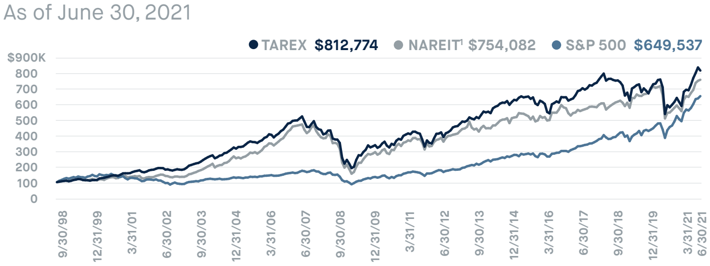
We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the period ended June 30, 2021. Through the first half of the calendar year, the Fund generated a return of +17.71% (after fees) versus +16.11% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index.[1]

The most notable contributor to performance during the period was the Fund's investment in the common stock of St. Modwen Properties plc—a unique U.K.-based real estate operating company that has been held in the portfolio since 2018. The primary detractors during the quarter included the Fund's investments in the preferred equity and common stock of the Federal National Mortgage Association ("Fannie Mae")—a leading provider of residential mortgage financing in the U.S. Further details on these holdings, as well as the Fund's recent investment in Stratus Properties Inc., are included herein.

Recognizing that security prices can fluctuate from quarter-to-quarter, and that true value-oriented investments oftentimes take years to materialize, Fund Management maintains the view that the Fund's long-term results are the most relevant gauge of performance. Since the Fund's inception in 1998, it has earned an annualized return of +9.63% (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 $810,000 (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 June 30, 2021



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

ACTIVITY

One of the most insightful publications for global real estate professionals each year is Emerging Trends in Real Estate®. Published by PwC and the Urban Land Institute (ULI), the *2021 Report* canvases a number of key trends within global real estate including "the shift of capital into sheds and beds being turbocharged during the pandemic."

To paraphrase, institutional capital is increasingly targeting investments in industrial real estate and residential businesses given the favorable supply-and-demand dynamics for these sectors (and where the Fund has more than 50% of its capital invested). It is also a trend that seemed to be the driving force behind the Blackstone Group's ("Blackstone") bid to acquire **St. Modwen Properties plc** ("St. Modwen") during the quarter.

Held in the Fund since 2018, St. Modwen is a U.K.-based real estate operating company primarily focused on industrial real estate ownership and homebuilding in the Midlands and Northern regions. The company's key assets include (i) a 7.6 million square foot commercial real estate portfolio that is industrial centric and benefiting from significant demand alongside e-commerce and last-mile fulfillment and (ii) a homebuilding business that delivers nearly 1,000 units per year with accelerating demand given its focus on the regions at affordable price points. Notably, the company also controls a land bank that can accommodate an additional 19 million square feet of industrial real estate and 26,000 homes.

While St. Modwen's management team had undertaken a significant transformation in recent years, and wisely refocused around the core logistics and residential platforms, the company's stock price remained at a significant discount to its Net-Asset Value ("NAV"). Insofar as Fund Management can gather, this was largely due to its diversified nature (the public markets tend to place a premium on "pure play" entities focused on a single property type) and lack of a substantial dividend (real estate operating companies tend to retain their earnings and reinvest in the business as opposed to REITs which distribute the vast majority of their earnings via dividends). Regardless, when the public markets fail to recognize value for a company with such a strategic set of assets, the private markets often do.

In this case, Blackstone's offer to acquire St. Modwen in an all-cash deal for $1.7 billion USD and a 30% premium to the "undisturbed price" served to surface value. As a result, the Fund began to pare back its position (which exceeded 4.0% after the offer) and is expecting to exit the remaining portion alongside the closing of the transaction in July 2021. Through the end of the quarter, the Fund's investment in St. Modwen common had generated a 13.6% internal rate of return (IRR) over the three-plus year holding period.

Fund Management anticipates additional privatizations in the quarters ahead. To wit, Real Estate Private Equity Funds were estimated to have more than $300 billion of available capital at the end of the most recent fiscal year (per Preqin's *2021 Global Real Estate Report*). Further, as observed in the 2021 Emerging Trends in Real Estate® report: "If you look at the global themes of a negative interest rate, low return environment and challenges in fixed income, fundamentally every investor around the world that you speak to wants to increase their allocations to alternatives, whether that's infrastructure, debt or real estate."

A portion of the proceeds from St. Modwen were utilized to establish a position in the common stock of **Stratus Properties Inc.** ("Stratus"). This U.S.-based real estate operating company was spun-out of Freeport McMoran, Inc. in the early 1990's and subsequently sold its oil and gas assets to primarily focus on unlocking value from its extensive land holdings in Austin, Texas.

Since that transformation, Stratus has (i) built out a diversified portfolio of income-producing properties with more than 600,000 square feet of primarily grocery-anchored retail centers and 1,000 multifamily units in central Texas, (ii) undertaken the development of residential-led master planned communities including the sale of more than 4,000 lots in its Barton Creek and Circle C projects in the Austin area, and (iii) delivered a prominent mixed-use location in downtown Austin anchored by the 251-room W Hotel and 3,000-plus seat Austin City Limit (ACL) Live Amphitheatre known as "Block 21."

Stratus was, however, undoubtedly hard hit by measures taken to stem the spread of the Covid-19 pandemic, including "stay-at-home" orders and restrictions on travel and live events. Not only did this lead to a meaningful reduction in the company's revenues in the ensuing period, but its previous agreement to sell Block 21 to Ryman Hospitality, Inc. for $275 million in gross proceeds fell through. As a result, Stratus has been required to utilize Ryman's forfeited purchase deposit (as well as other cash proceeds) to cover lost hotel revenues and foregone tickets sales at Block 21 in recent quarters.

Having managed through this challenging period, Stratus has reported substantial progress in recent months. Most notably, the company has sold its Saint Mary multi-family complex thus stabilizing its liquidity profile, received planning permissions for the final phase of its acclaimed Barton Creek project, and reported an uptick in activity at Block 21. Despite these improvements, the price of Stratus common stock has remained well below pre-pandemic levels, granting the Fund the opportunity to initiate a position at a significant discount to the company's published NAV estimate—which could be viewed as a conservative figure when considering the recently announced plans at the Holden Hills phase of Barton Creek are yet to be factored in. It is also Fund Management's view that the discount could narrow with a further improvement in fundamentals and potential resource conversion activities (e.g., selling Block 21 to a live-event operator and converting to a REIT following anticipated land sales).

With this addition, the Third Avenue Real Estate Value Fund seems to have a distinctive exposure in listed real estate with investments in some of the largest residential land owners and homebuilders in Austin, TX through Stratus Properties, Brookfield Homes (a subsidiary of Brookfield Asset Management), and Lennar Corp. As our on-the-ground due-diligence efforts support, all three entities seem well-placed to capitalize on the need for more housing in this metropolitan area given the outsized population growth (more than 140 people moved to Austin, TX per day last year) and anticipated job growth stemming from corporate investment and relocations (e.g., Tesla's "Gigafactory", Apple's "HQ-2", a potential Samsung chip factory, Oracle's relocation, expanding venture capital, et al).

The Fund also adjusted its holding in the **Federal National Mortgage Association** ("Fannie Mae") during the period. As noted in previous shareholder letters, the Fund established a position in the preferred equity and common stock of Fannie Mae in 2020. It was Fund Management's view that this enterprise (along with the Federal Home Loan Mortgage Corporation or "Freddie Mac" and collectively the government-sponsored entities or "GSEs") was (i) a critical source of financing for sustainable homeownership and affordable rental housing in the U.S., (ii) among the most profitable real estate firms globally when measured by operating profits, and (iii) had securities trading at fractions of their underlying value due to the GSEs having operated under conservatorship since 2008.

Further, it was Fund Management's opinion that the GSEs would ultimately exit this framework while further rebuilding capital as outlined in the Federal Housing Finance Agency's ("FHFA") *Strategic Plan*—a process that could be expedited once legal rulings addressed controversial changes to its Senior Preferred Stock Purchase Agreement (i.e., the "Net-Worth Sweep"). However, given the significant "process risk" associated with such a substantial repositioning, the Fund would limit the amount of capital invested in the entities despite an unrivaled price-to-value proposition.

During the quarter, the Supreme Court of the United States ("SCOTUS") issued orders relating to two of the legal challenges outstanding. In *Collins v. Yellen*, SCOTUS upheld the plaintiffs' claims that the conservatorship was unconstitutionally structured, remanded the case to the Fifth Circuit of Appeals for potential "retroactive relief", but declined to deem the entire Net-Worth Sweep void through this particular constitutional claim. While this order fell short of providing outright relief, other challenges relating to "The Implied Covenant of Good Faith and Fair Dealing" and a "Takings, Illegal-Exaction, and Breach-of-Implied Contract Claim" remain ongoing in District Court and Federal Claims Court, respectively. These cases have yielded important discovery and will progress through the remainder of 2021.

Notwithstanding a more extended timeline, Fund Management continues to hold the view that administrative action would be the most prudent path forward. Put otherwise, recapitalizing the entities and releasing them as quasi-utilities with enhanced capital ratios accomplishes key objectives. This primarily includes (i) moving the U.S. taxpayer out of the "first loss position" for the $6.5 trillion of mortgages the entities guarantee, (ii) providing more stability and capital for the enterprises to pursue their mission of promoting affordable housing, and (iii) respecting property rights while also preserving value for GSE stakeholders (including the U.S. Treasury).

Such a plan has recently been populated in the Brookings Institute Report: *Government Sponsored Enterprises at the Crossroads*. It is also one that has been carefully assessed by the Congressional Budget Office (CBO) in its *Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions*. As noted within this analysis, "CBO's model incorporates the judgment that in scenarios in which the GSEs' common-stock sale did not raise enough funds to redeem the full face value of both the senior preferred and junior preferred shares, the Treasury would take a reduction in the value of its senior preferred stake before requiring junior preferred shareholders to do so."

When factoring in all of these items, as well as the pricing anomalies throughout the capital structures, the Fund's remaining investment in the GSEs is now exclusively focused on the preferred equity. At the end of the quarter, these holdings accounted for approximately 2.0% of the Fund's capital and the securities traded at prices that represent less than 10% of their Liquidation Preference (e.g., "par value"). Meanwhile, the entities remain quite profitable and are rebuilding significant capital while the matters are addressed.

The Fund's other activity during the period was modest in nature and included (i) participating in a capital raise for **National Storage REIT** (the leading owner and manager of self-storage facilities in Australia and New Zealand), (ii) selling "covered calls" relating to a portion of its position in **Lennar Corp.** A shares (while retaining a more meaningful investment in the B shares that remain at a 20% discount to the A shares despite equal economics), (iii) exiting **BAM Re** upon its distribution from **Brookfield Asset Management**, and (iv) trimming back existing positions in the common stock of **Prologis**, **Lowe's**, and **Seritage Growth Properties** for portfolio management purposes.

POSITIONING

After incorporating the activity in the period, the Fund had 44% of its capital invested in **Residential Real Estate** companies that have strong ties to the U.S. and U.K. residential markets, where there are serious supply deficits after years of under-building. In conjunction with record-low inventory levels, there is also 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 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 Stratus 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 38% 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, 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 (CK Asset Holdings, JBG Smith Properties, Derwent London, Henderson Land, Wharf Holdings, and Vornado Realty Trust). 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 NAV—primarily by increasing rents, undertaking development and redevelopment activities, as well as by making opportunistic acquisitions.

An additional 16% 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 (CBRE Group and Savills plc), as well as mortgage and title insurance (FNF Group and the GSEs).

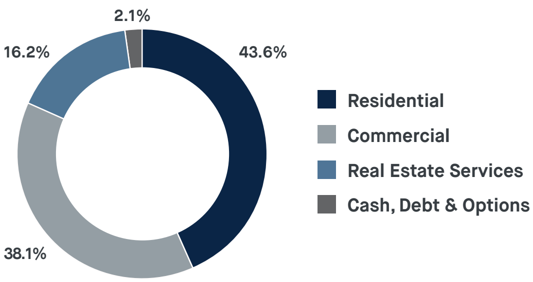
The remaining 2% of the Fund's capital is in **Cash & Equivalents** and expected to increase to approximately 4% following the closing of the St. Modwen transaction. The Fund also has certain hedges in place, primarily relating to its foreign currency exposures (Hong Kong Dollar) and individual holdings (Lennar Corp. A shares).

The Fund's allocations across these various business types are outlined in the chart on the following page. 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 JUNE 30, 2021

(allocations subject to change)

BY BUSINESS TYPE



BY GEOGRAPHY

BY STRATEGY

FUND COMMENTARY

In May 2021, the investment community lost one of its most influential members: David Swensen. The long-time Chief Investment Officer of Yale University's Endowment, and author of *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, had a remarkable impact on the profession during his career.

While Swensen's professional and philanthropic contributions are vast, he is most widely credited with transforming the conventional asset allocation framework to include alternative investments that historically resided outside of the more traditional "60-40" model (i.e., 60 percent stocks and 40 percent bonds). In the process, Yale's Endowment generated industry-leading investment returns and provided its constituents with substantial resources to pursue various endeavors.

This more modern-approach to asset allocation is known within the industry as the "Yale Model" and has been widely adopted by other endowments over recent years. It has however gained significant traction in other segments of the investment management field more recently, including pensions and wealth management. Reason being, the return prospects for more traditional equity and fixed-income allocations don't necessarily seem to satisfy targeted return requirements for its beneficiaries—as already referenced within the Emerging Trends in Real Estate® report and dissected in greater detail within the Third Avenue Value Fund's shareholder letter.

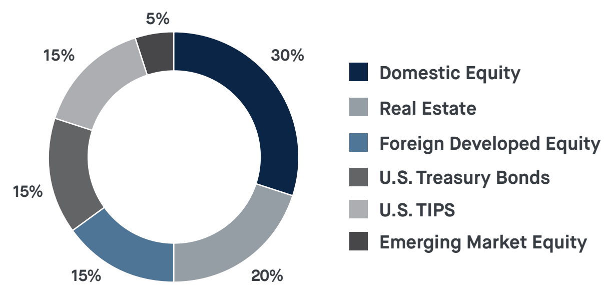
Within that context, it is worth expounding on two areas where Swensen's expertise is nearly unmatched.

1. **The Role of Real Assets Within a Portfolio**

As described in detail within *Pioneering Portfolio Management*, "real assets consist of ownership interests in investment vehicles that exhibit a high correlation to inflation and include Treasury-Inflation Protected Securities ("TIPS"), Real Estate, Timberlands, and Oil and Gas." Furthermore, "real assets play an important role in portfolios, particularly for investors who seek to satisfy inflation-sensitive liabilities."

While more traditional model portfolios may have historically called for a 5-10% allocation to real assets, the Yale Model went much further. In fact, within Swensen's other widely recognized book, *Unconventional Success: A Fundamental Approach to Personal Investment*, he outlines "policy targets" of 35% to such holdings—the largest of which is real estate at a 20% allocation as included in the chart below.

UNCONVENTIONAL SUCCESS: POLICY TARGETS



Source: *Unconventional Success: A Fundamental Approach to Personal Investment* by David Swenson

2. **The Selection of Investment Managers**

Swensen, and his highly regarded team, are also considered to be one of the premier groups when it comes to manager selection. Three areas heavily emphasized within the manager selection portion of the "Yale Model" seemingly include manager specialization, investment process, and an alignment of interest.

While not all-inclusive, some of the key factors Swensen's team has sought out in managers over the years include those that are (i) grounded in a disciplined framework and supported with a rigorous investment process, (ii) specialists within a field and especially those exhibiting contrarian behavior, and (iii) meaningfully aligned with clients through co-investments, with an emphasis on those at boutique firms who are more tied to the success of their individual strategies.

When viewed in this framework, Fund Management is of the opinion that the Third Avenue Real Estate Value Fund is a compelling vehicle in which to gain exposure to the real estate (and timberlands) portion of a real asset allocation. That is to say, not only is the Fund positioned as a real estate alternative that can guard against the prospects of inflation over time as outlined in the Fund's previous shareholder letter, but the strategy is also overseen by a Portfolio Management team that specializes in real estate centric enterprises and has meaningful personal capital invested in the strategy.

This comparison is not meant to imply that the Fund (and other listed real estate strategies) is without shortcomings. As Fund Management has noted numerous times over the years, one of the major drawbacks to investing in real estate securities is the lack of "control" that one has in terms of decisions at the property and corporate level. Further, publicly traded real estate securities tend to exhibit more volatility than direct property ownership given daily fluctuations in security prices for what is otherwise a very long-term asset class. Sometimes these price-to-value disconnects can be substantial and long lasting.

However, as Swensen has also observed, "discrepancies between market price and fair value create opportunities for investors to build portfolios using relatively attractively priced assets." It is here that the Third Avenue Real Estate Value Fund also seems to be aligned with this pioneer's framework. For this has been the modus operandi of the Fund since its inception in 1998.

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 Value 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, 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: July 15, 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.

REAL ESTATE VALUE FUND

AS OF JUNE 30, 2021

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

FUND PERFORMANCE

As of June 30, 2021

	3 mo	1 yr	3 yr	5 yr	10 yr	Inception	Inception Date
Third Ave Real Estate Value Fund (Inst. Class)	6.33%	36.81%	2.79%	5.97%	6.98%	9.63%	9/17/1998
Third Ave Real Estate Value Fund (Inv. Class)	6.23%	36.51%	2.52%	5.70%	6.71%	7.71%	12/31/2009
Third Ave Real Estate Value Fund (Z Class)	6.34%	36.97%	2.88%	N/A	N/A	2.59%	2/28/2018

TOP TEN HOLDINGS

Allocations are subject to change without notice

	TAREX
Lennar Corp.	7.6%
Five Point Holdings, LLC, Class A	7.5%
Brookfield Asset Management, Inc.	6.8%
CK Asset Holdings, Ltd.	5.3%
Prologis, Inc.	4.9%
Rayonier, Inc.	4.8%
Weyerhaeuser Co.	4.6%
Berkeley Group Holdings PLC	4.3%
Segro PLC	4.1%
AMERCO	4.1%
Total	**54.0%**

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.

THIRD AVENUE
MANAGEMENT

/third-ave-management

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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