THIRD AVENUE VALUE FUND

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX

March 31, 2017

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Dear Fellow Shareholders:

It has been an eventful quarter and we thought we would begin our discussion of the Fund's performance and activities by answering the question we were most frequently asked this quarter.

Q: "Isn't the market too expensive?"

Over the course of our conversations with clients this quarter, we were consistently asked the question of whether the U.S. market is too expensive. After all, post the U.S. presidential election, all the major U.S. indices rallied by double digit percentages. Expectations for the market seem elevated, with strong optimism on potential tax reforms, potential infrastructure spending, potential for higher defense spending and the potential for more restrained government spending in other areas. Investor optimism has improved with continued strong flows into the market (mostly ETFs), and continued increases to new record levels of margin debt on the New York Stock Exchange.

A: We don't own the market.

While it would be nearly impossible for all of these investor expectations to come true, we are also of the opinion that over time there likely will be positive movement on several of these issues. Additionally, the fundamentals of the economy continue to improve, with consumer confidence rising, unemployment falling and final estimates of 4Q 2016 GDP rising to 2.1%. That said, we make no call on whether investors will be pleased with the final results versus the expectations they currently hold.

Our answer to this question comes down to our investment philosophy of not trying to predict the macro and certainly not trying to build any of our investment cases off of macro predictions. Our portfolio consists of 35 well-researched companies which share the attributes of strong creditworthiness, the ability to compound book value growth over at least the next 3-5 years and that trade at a significant discount to our estimate of Net Asset Value (NAV). Further, we have a global "go-anywhere" mandate providing us a broader set of opportunities than just the U.S. markets. Said differently, we simply do not own the market as most people perceive it. As of March 31, 2017, the Third Avenue Value Fund ("the Fund") traded at 1.4x book value compared to 2.3x for the MSCI World Index[1] and 3x for the S&P 500[2]. Our concentrated portfolio has an Active Share of almost 98% vs. the MSCI World Index, meaning that 98% of the price movement in our portfolio is not explained by the index's price movement. Thus, our results may look substantially different than the market over any given period, with our goal, of course, to outperform significantly over the long term. While some will ask about our volatility vs. our benchmark indices, we take a different view in that we see the market to be quite volatile. And we believe our portfolio has potentially less relative risk than the market due to our portfolio companies' strong balance sheets, with greater upside potential than the market that in places does not look undervalued.

Q: "Are you still able to find value in this market?"
(Of course, this is the underlying query.)

A: Yes.

We believe the best way to illustrate our answer is to discuss Bank of New York Mellon. At over 6% of Fund assets, the common stock is a high-conviction top holding and a good example of value that we believe is being overlooked in the market.

BANK OF NEW YORK MELLON

Our investment premise for Bank of New York Mellon (BK) is that it is a strong book value compounder that is substantially "under-earning" its profitability potential. The Company has undertaken significant cost savings initiatives, which combined with market-leading digital platform investments, should drive future growth and market share gains. The Company's balance sheet is strong with significant excess capital enabling a sizable return of capital to shareholders through both dividend and share buybacks. Lastly, with activist interest still high, any loss of momentum could lead to renewed calls for a break-up of the company to accelerate closure of the discount to NAV.

BK's book value and tangible book value growth both inflected positively in 2016 over its three-year trailing averages, over and above strong buyback and dividend activity, and we see this growth as set to accelerate with stronger earnings. Earnings Per Share (EPS) growth finally reaccelerated in 2015 and 2016, to $2.85 and $3.17, respectively, after languishing in the low-$2 per share range from 2011 to 2014. Management, spurred by activist pressure and new board members in 2014, has accelerated its cost reduction efforts and has committed to positive operating leverage regardless of the revenue growth environment. The results of this focus are clearly seen in 4Q

1 The MSCI World Index is an unmanaged, free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 of the world's most developed markets.

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.

2016 earnings where non-interest expenses fell 2.1% while revenues grew 1.7%, generating 351 basis points of positive operating leverage. This cost-cutting focus is a key tenant of our investment case and an underlying pillar of why we believe BK shares can outperform regardless of the broader market environment. Further, while this cost reduction focus was started in 2014 when falling interest rates and meager corporate activity were suppressing revenues, we think the current tailwinds of higher interest rates and better corporate activity should also accelerate revenue growth, providing even stronger earnings leverage over the next few years that could push 2018 EPS to the $4.00 per share level.

More compelling to us is the fact that BK's cost reduction efforts are not just aimed at rote headcount reductions. BK has been aggressively investing in its new Nexen platform, an open-source, cloud-based technology platform aimed at improving client efficiency and flexibility. This platform will both help to drive revenue growth and likely share gains through its forward looking client-responsive features, and also dramatically lower costs as it is replacing legacy server based systems and consolidating multiple client access points to just one.

BK's strong balance sheet metrics continued to improve in 2016 (Common Equity Tier 1 ratio of 12.3%, up from 11.5% year over year), over and above its substantial return of value to shareholders in dividends ($778 million) and share buybacks ($2.4 billion). Management has committed to continued strong dividends (90%-100% payout ratio) and share buybacks for 2017. The buybacks are having a dramatic effect on the company, as the fully diluted share count declined 3.6% in 2016 and fell 12.3% over the last 5-years.

Despite the strong credit and earnings metrics at BK, its shares underperformed the S&P 500 post-election, up 7.6% through March 31, 2017 vs. 10.4% for the S&P 500. Moreover, BK is currently trading towards the lower end of its price-to-book and price-to-earnings ranges for the last 10 years. While we continue to take a 3-5 year view on BK, even a near term price target for 2018 at a 15x price earnings ratio on $4.00 EPS would yield a $60 stock price, which is more than 26% above current levels. Clearly we see significant value in Bank of New York Mellon, regardless of overall market levels currently.

PERFORMANCE

The Third Avenue Value Fund returned 5.16% for the first-quarter compared to 6.53% for the MSCI World Index and 6.07% for the S&P 500[3]. The Fund remains very concentrated at 35 positions and our net cash position for the quarter increased to approximately 7%.

Weyerhaeuser was the top contributor for the Fund in the quarter, bouncing back from 4Q 2016's sell-off, as strong housing start activity supported the shares. Cavco Corporation (CVCO) was the second strongest contributor, as it again turned in solid earnings results and announced a tuck-in acquisition of Lexington Homes towards the end of the quarter. Wheelock rounded out the top-three contributors, as investors embraced its announcement that its subsidiary, Wharf Holdings (of which Wheelock owns 58%), would consider monetizing some of its Investment Properties in a resource conversion effort that highlights the continuing discount of the shares vs. its NAV. The top detractor was Tejon Ranch (TRC), which pulled back somewhat post its strong 4Q 2016 move, which we used to trim a small portion of our position. Devon International and Apache pulled back with the broader energy group on the decline in oil prices in the quarter.

PORTFOLIO ACTIVITY

We added two new positions in the quarter, EOG Resources (EOG) and Avnet (AVT) taking advantage of price weakness in these two names that we have long known as strong compounders. We exited Harman International (HAR), as Samsung completed its acquisition of the company. We exited Agco Corporation (AGCO) as it reached our price target. We sold Apache Corporation (APA) on strength and on our belief that EOG Resources represents a much more compelling risk vs. reward tradeoff at current levels. Further, we continued to build positions in Lennar (LEN) and Ralph Lauren (RL), while we trimmed several other positions as they approached our estimates of NAV.

EOG Resources

We initiated a position in EOG Resources (EOG), a $56 billion independent Energy and Production company with a North American focus on oil shale drilling. EOG is a high quality compounder and has industry leading acreage positions in the most prolific, lowest cost and geographically desirable basins--the Permian, the Eagle Ford and the Sanish/Parshall in the Bakken. As a leader in shale drilling, EOG has foreseen the problems facing the industry in fracking sand availability (it owns its own sand company) and take-away and processing (the Company is invested in core areas and is a leader in oil by rail, which today is a call option on tight markets). EOG has low cost acreage as it has grown organically, with the exception of the Yates acquisition in 2016, where it paid "for the best" and accumulated core acreage in the Delaware Permian at a time of distress in the industry. This deal should pay off for EOG as it develops deeper zones, which is in line with our thesis that "big fields get bigger". Additionally, EOG's timing on the deal looks prescient, near the end of recent oil price declines and just ahead of OPEC cutbacks.

EOG has a highly visible path to continue its strong book value growth. EOG is only allocating drilling capital to wells that produce at least a 30% return at $40 per barrel for oil, where it has 10+ years of drilling inventory, a figure that is likely to grow with further delineation of its acreage and continued drilling efficiencies. While every E&P company will be subject to oil price volatility, we feel EOG is best positioned to add value in the strong times and survive the lean times as it has a strong balance sheet and industry leading returns.

3 **Please see Appendix for performance table and information**

EOG's 2017-2020 production growth target of 15%-25% compound annual growth rate (CAGR) is highly visible and supported by a strong balance sheet and within cash flows. EOG did not raise equity in the oil bust of 2014-2016, and continues to budget capital expenditures within operating Cash Flow with a target $40 per barrel price. EOG's strong balance sheet has allowed it to raise its 2016 capital expenditures by $200 million, to $2.6-$2.8 billion.

We initiated our position in EOG at over a 20% discount to our estimate of EOG's NAV, which conservatively does not assume a significant increase in oil prices over $50-$55 per barrel, and we will look to increase the position opportunistically as the oil sector has been and likely will continue to be volatile. Aside from continued upside from production growth and strong operational execution, we see a likely path to added value for EOG from resource conversion of assets that do not meet their strict "core" criteria, but would be very attractive for less well positioned peers. EOG has over 30 years of reserve life at current production rates, and they have indicated they would look to sell some of their 1 million non-core acres opportunistically.

Avnet

Avnet (AVT) is a leading electronic components distributor. It distributes semiconductors, passive and electromechanical devices and embedded products, acting as an intermediary between components suppliers and end customers. Its services help customers evaluate, design-in and procure electronic components throughout the lifecycle of a customer's product, thereby enabling faster time to market as well as cost efficiencies in both the design and manufacturing processes for its customers. Continued innovation and increasing electronics in all types of industries (industrial, automotive, consumer, etc.) should spur demand for Avnet's services over the longer term.

What intrigued us about Avnet recently is that the company is in the process of transforming itself to focus on higher value-add and higher margin design and supply chain services. As part of that effort, it sold its lower-margin technology solutions business and acquired a U.K. company, Premier Farnell, to broaden its customer reach and provide it an earlier entrée in the design cycle. Products go through various phases in their life cycle: idea generation to design to production. By getting involved earlier in the design process, Avnet can take a larger role, providing it an opportunity for servicing greater volumes, particularly if and when the product goes into mass production. Avnet received approximately $2.6 billion from the sale of its technology solutions business, of which it plans to use around $1.5 billion to pay down debt. Thus, Avnet's pro forma balance sheet as of year end 2016 was in a net cash position. It also recently increased its share buyback program by $500 million. The Company is cash generative and has opportunities for margin improvement both from revenue and cost synergies related to Premier Farnell as well as other ongoing cost reduction improvements and the completion of an enterprise resource planning (ERP) implementation. We were able to purchase shares of Avnet common stock at an attractive valuation of approximately 1.05x pro forma book value and a discount to estimated NAV.

CONCLUSION

Clearly, the market in general has traded positively since the election, and expectations are elevated. As we review existing holdings and perform due diligence on potential new ideas, we are cautious about elevated expectations and current trading levels. But, we have always been cautious, perhaps even skeptical, as value investors tend to be. In evaluating any investment case, we generally take a "glass half-empty" approach, i.e., weighing more heavily our reasonable worst case scenarios and conservative views on valuation. More importantly, regardless of broader valuation levels, we consistently review numerous candidates for purchase and keep track of desired purchase levels for those that have strong investment drivers, but where the current valuation does not meet our standards. In our patient buying approach, we add these names to our bullpen list and thus are prepared to quickly revisit the company should valuation levels improve in our view, or as we said last quarter, Carpe Diem, patiently.

We thank you for your trust and support and look forward to writing again in July.

Sincerely,

The Third Avenue Value Team

Chip Rewey
Lead Portfolio Manager

Yang Lie
Portfolio Manager

March 31, 2017

FUND PERFORMANCE

as 3/31/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAVFX (Institutional)	18.26%	4.35%	8.89%	2.37%	11.07%	11/1/1990
TVFVX (Investor)	17.99%	4.09%	8.61%	(n/a)	6.16%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Weyerhaeuser Co.	6.3
Bank Of New York Mellon Corp.	6.1
Comerica, Inc.	4.8
PNC Financial Services Group, Inc.	4.8
Brookfield Asset Management, Inc.	4.1
White Mountains Insurance Group, Ltd.	4.0
Total S.A.	3.9
CK Hutchison Holdings, Ltd.	3.9
Cavco Industries, Inc.	3.8
Alleghany Corp.	3.8

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 1.15% and 1.40% respectively, as of March 1, 2017. Risks that could negatively impact returns include: fluctuations in currencies versus the US dollar, political/social/economic instability in foreign countries where the Fund invests lack of diversification, and adverse general market conditions.

IMPORTANT INFORMATION

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Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

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THIRD AVENUE 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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