THIRD AVENUE VALUE FUND

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX

December 31, 2017

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Dear Fellow Shareholders,

For the three months ended December 31, 2017, the Third Avenue Value Fund (the "Fund") returned 2.46% as compared to MSCI World Index, which returned 5.62%[1]. For the calendar year 2017, the Fund returned 14.15% as compared to 23.07% for the Index[1]. The Fund's relative performance has lagged world indices over those periods largely as a result of the Fund's large allocation to U.S. companies in a year in which the U.S. dollar was relatively weaker than many foreign currencies. Additionally, the Fund does not participate in richly-valued technology stocks that have been key drivers of U.S. and world indice returns.

STRATEGY UPDATE

Following the Fund's portfolio management changes announced in September and discussed in our previous quarterly letter, we have several points of progress upon which to report. Our newly constituted team is functioning well and making a variety of enhancements to our investment process. In a short period of time, we were successful in significantly reducing the size of the Fund's realized tax gains prior to the Fund's fiscal year-end. Most importantly, the team has been successful in identifying what we believe to be a number of promising investment opportunities, which are the feedstock for future Fund returns. Two positions initiated during the quarter, Lundin Mining and Warrior Met Coal, were among the Fund's largest positive contributors to performance during the quarter. We discuss both investments in detail below.

In our previous quarterly letter, we alluded to areas appearing to offer value, including: oil services, mining of certain base metals, and lumber producers. In each case, the evolution of supply gluts into supply deficits are helping to create recovery of operating performance, while securities prices do not yet reflect those developments. We also referenced several special situations opportunities we were investigating that were thematically related in the sense that each had recently been financially restructured in a bankruptcy process. At the time of that writing we had recently initiated a position in Tidewater Inc. shortly after the oil services provider exited bankruptcy with a net cash balance sheet and reduced cost structure. We continue to add to our Tidewater position.

Both the base metals mining industry and the North American lumber industry continued to be an area of focus for our team throughout the quarter and ultimately resulted in the initiation of several new investments for the Fund. We also initiated a new investment in a metallurgical coal producer, which recently exited the bankruptcy process. Highlights are as follows:

BASE METALS MINER

Lundin Mining Corp. ("Lundin") - Our thesis is that various industrial metals, most notably copper and to a lesser extent zinc, have for several years been incorrectly described as being in a state of significant oversupply. Those erroneous headlines have largely faded into memory at this point with supply and demand for copper having proved to be largely in balance during the last few years, possibly in a state of very small oversupply. With copper demand continuing to grow globally, as has been the historical pattern for many decades, including those decades long pre-dating the beginning of China's economic liberalization and strong growth, and with little in terms of available supply response, it appears more likely than not that we will see higher copper prices in the future as shortages begin to develop. Higher prices than those present today are also required to produce the economic incentive to develop meaningful additional supply. For a much more in depth discussion of these topics, please refer to the Third Avenue International Value Fund letter dated June 30, 2017. Furthermore, recent regulatory developments by a variety of countries strongly encouraging electrification of passenger vehicles, as well as a number of large-scale capital commitments by several auto manufacturers to develop high-volume electric vehicle production capabilities have, in our view, significantly increased the probability that high-volume production of electric vehicles will become a reality. Electric vehicles are typically two to three times as copper intensive as combustion engine vehicles. Related charging stations and likely necessary upgrades to electrical infrastructure would also consume large incremental quantities of copper, which appear increasingly hard to come by.

While increasing tightness in copper and zinc markets have developed largely as expected, the securities prices of companies that mine those materials have lagged those realities. During the quarter, the Fund initiated a position in Lundin Mining, a copper and zinc producer headquartered in Canada but with operations in the Americas and Western Europe. In the spring of 2017, Lundin completed the divestiture of a jointly-controlled mine in the Democratic

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

Republic of Congo to a consortium of Chinese buyers at what we deemed to be a very decent price. In so doing, Lundin de-risked its operations from a jurisdictional perspective and simultaneously turned itself into one of the best capitalized companies in any segment of the mining industry. Lundin, which has long established itself as one of the best operators and investors in the mining sector, suffered an uncharacteristic stumble at the end of November when a pit wall in its flagship copper mine experienced sliding. With long-term results in mind, Lundin opted to make the best of the situation by choosing a solution to the problem which incorporates a broader rework of its mine plan in such a way that will increase the asset's long-term output, albeit with negative production implications for the next two years. It is our view that the negative stock price reaction to this event was well overdone, particularly for a best in class operator with a best in class balance sheet operating in an industry which we deem to be in an increasingly favorable position.

NORTH AMERICAN LUMBER PRODUCER

Interfor Corp. ("Interfor") - We expect that U.S. single family housing construction will continue to normalize towards historical averages over time. It is fair to say that this thesis is represented thematically within the Fund. However, we find few investment opportunities as uniquely well positioned to benefit from that gradual progression or as attractively valued as Interfor Corp., a holding initiated by the Fund during the quarter.

In order to understand the merits of an investment in Interfor, North America's fourth largest lumber producer by volume, one must grasp several facets of the North American lumber market. Two critical aspects have changed in recent years. First, large volumes of lumber production capacity located in British Columbia have been curtailed by a decade-long pine beetle epidemic that has devastated British Columbian forests and reduced lumber output from one of the largest sources of lumber supply to the United States. Further, the Pacific Northwest United States, one of two primary lumber regions within the United States, has seen increasing demand for its lumber from Asian export markets. These two dynamics create an increased reliance upon the U.S. South, the other primary lumber producing region in the United States, to accommodate the bulk of the demand growth created by gradually increasing housing starts. While housing starts continue to grow modestly, the lumber demands being placed on the U.S. South are large. During the last five years the North American lumber market has clearly shifted from a position of oversupply to one of undersupply, a common pattern in successful contrarian investing in cyclical businesses. However, for the U.S. South in particular, unique to this time period is that the dearth of timber harvesting during the long cyclical downturn has left an excess of standing timber (trees to be harvested to make wood products like lumber). This oversupply actually continues to get larger even today in the markets in which Interfor operates, notwithstanding growth in consumption of timber by lumber mills. Said another way, the trees continue to grow faster than they are being consumed. The ample supply of timber has put a ceiling on the price of sawlogs (the primary input for a lumber mill) in most inland markets, where a number of mills are located including Interfor's. We appear to be in for an extended period in which lumber prices may remain high due to strong demand growth and supply constraints while timber prices remain low (at least in the U.S. south) due to supply excess. The net of all of this is very high levels of profit for lumber mills, particularly in the U.S. South.

What may not be fully appreciated about Interfor specifically is that, while it is a Canadian company headquartered in British Columbia, it spent a considerable amount of capital over several years during the downturn consolidating lumber mills in the U.S. South at attractive prices. Today the company derives two thirds of its production volumes from the United States. Meanwhile, high lumber prices and strong cash flows have allowed Interfor to financially deleverage from the debt incurred in acquiring those U.S. mills. Interfor has rarely been more strongly capitalized than it is today and is likely facing a prolonged period of strong profits which will allow the company to begin to return capital to shareholders because there are so few decent mills left to acquire in the U.S. South and prices for those assets have levitated. Which brings us to our last point - with few mills left to acquire in private markets and the favorable dynamics for the U.S. South taking hold, it appears increasingly likely that further consolidation of the industry via combinations among public companies may be in our future. Interfor appears to be a particularly desirable property for several peers given its strategic focus in the U.S. South, excellent financial position and smaller size relative to several larger companies.

RECAPITALIZED METALLURGICAL COAL PRODUCER

Warrior Met Coal, Inc. ("Warrior") –In recent years, stress on a variety of commodity producers, and the varied industries which serve them, has culminated in a slew of financial restructurings. Some of these financial restructurings have entailed the bankruptcy process, others have been done out of court. Prior to restructuring, some of these companies would have been described as having very high quality businesses but capital structures inadequate for enduring the severity of the downturn. In those cases, a thorough financial restructuring can be cathartic. This plot line, falling under the umbrella of special-situation investing, is thematically of interest to our team and was historically an important part of the Fund's activities.

Both Tidewater (discussed last quarter) and Warrior Met Coal, perfectly fit the narrative described above. Warrior is a newly formed company created to house the crown jewel assets of coal producer Walter Energy, which filed for bankruptcy in 2015. For those not familiar, metallurgical (or "met" or "coking") coal is utilized as one of the primary ingredients in the steel making process, as opposed to thermal coal used in power generation. Walter Energy had owned several unusually good met coal mines located in Alabama that are large and produce very high-quality coal. Through Walter Energy's bankruptcy process, its prize assets, mine #4 and mine #7 along with large-scale untapped resources in an adjacent location, were acquired by Warrior. Warrior was also blessed with the benefit of a pristine balance sheet and nearly $2 billion of tax loss carryforwards per a recent private letter ruling from the IRS. Warrior was publicly listed earlier in 2017. There remains a considerable amount of public skepticism with regard to the current price of met coal. At the time of our purchase we made a variety of estimates related to future movements of met coal prices from the $180 per tonne level at that time. We concluded that Warrior would remain a genuine bargain even if benchmark prices were to stabilize at much lower prices around the $130 per tonne level, which is a level that would cripple a large swath of the global met coal industry. Walter Energy's bankruptcy proceeding provided the opportunity for management to materially reduce many elements of its cost structure and make them variable, further fortifying its competitiveness on a global stage. The advantaged location of its assets- a short distance from access to the Port of Mobile- are also helpful.

Shortly after our initial purchase, with free cash flow piling up very quickly as a result of its profitability, lack of taxes and limited spending requirements, the company announced that it would pay a special dividend amounting to roughly 40% of its market cap at that time. Shareholders including the Fund have since received that dividend. Meanwhile, met coal prices have continued to strengthen in recent weeks. Today Warrior's share price is at roughly the level we paid a couple of months back, notwithstanding the dividend received amounting to roughly 40% of our cost. We continue to take a conservative stance with regard to future met coal prices yet it is worth noting that in the event current met coal prices persist, in the not too distant future Warrior would again be faced with the conundrum of what to do with its deluge of free cash flow.

LOOKING FORWARD

As we proceed into 2018 and far beyond, shareholders should expect that we will continue to view the safety of our collective capital and avoidance of permanent impairment thereof as our first priority. Shareholders should also expect that we will source deep value investments in unconventional and out of favor areas, such as the post-bankruptcy special situation opportunities and cyclically depressed businesses described above as they offer great long-term value. Finally, as a result of these priorities, it should be expected that the Third Avenue Value Fund will be distinct in its portfolio composition and for this reason its returns are likely to offer reduced correlation to world indices.

Thank you sincerely for your confidence and your loyalty. We look forward to writing again next quarter but welcome all interest in the Third Avenue Value Fund in the meantime.

Sincerely,

Matthew Fine & Michael Fineman

IMPORTANT INFORMATION

Date of first use of portfolio manager commentary: January 16, 2018

FUND PERFORMANCE

as 12/31/17	**1 yr**	**3 yr**	**5 yr**	**10 yr**	**Since Inception**	**Inception Date**
TAVFX (Institutional)	14.15%	5.85%	8.13%	2.95%	11.09%	11/1/1990
TVFVX (Investor)	13.87%	5.58%	7.86%	(n/a)	6.63%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Weyerhaeuser Co.	5.5%
Brookfield Asset Management, Inc.	5.1%
CK Hutchison Holdings, Ltd.	4.5%
Total S.A.	4.2%
Bank of New York Mellon Corp.	4.1%
Investor AB	3.5%
Cavco Industries, Inc.	3.4%
Alleghany Corp.	3.4%
Lennar Corp.	3.4%
Johnson Controls International PLC	3.3%

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.

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.